STRATEGIES IN EMERGING COUNTRIES :

THE CASE OF THREE EUROPEAN BANKS

<u>CONFERENCE THEME</u>: MARKET ENTRY & LOCATIONAL STRATEGIES

WORKSHOP PAPER:

Eric Bouteiller, Deputy Director, HEC Eurasia Institute

and Bernard Marois, Professor of Finance, HEC School of Management

ABSTRACT

The aim of this research is to identify and explain the main strategies conducted by three major European banks in emerging markets. What are the similarities and the differences between these European banks concerning, first, their entry into developing markets and, second, the level of integration of the local units in the global organization of these banks?

This survey examines in particular three essential aspects of establishing operating units in emerging markets: corporate strategies regarding entry into new markets (long-term objectives, geographical presence, modes of entry), the organizational process (degree of integration of new units, reporting) and human resources policy (recruitment, training and development of corporate culture in the local entities).

This research encompasses (1) a review of the literature on bank internationalization and strategies in emerging countries and (2) an empirical survey, completed through interviews with three major European banks: ABN Amro (The Netherlands), Barclays (United Kingdom) and Société Générale (France).

The findings are that bank strategies in the emerging countries greatly vary according to the basic international strategy of the firm. Two patterns have been identified: (1) retaining a “foreign status” by focusing only on the high end value of the market, (2) striving to obtain “domestic status” by entering retail or consumer banking.

Keywords: emerging countries, banking, strategies, international.

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The Asian financial crisis has been very costly for most European banks. According to Gemini Consulting, Asian syndicated lending was down 70 per cent and even more for China–related deals in the first half of 1998 compared with the first half of 1997, while debt-bond and equity issues fell 60 per cent[1]. More generally, banks have been hurt by the economic and monetary upheavals that affected emerging markets, from Southeast Asia to Russia and to Latin America. This led us to wonder whether strategic moves initiated by banks with regard to emerging markets, in particular European banking institutions, are similar whatever the bank concerned.

In fact, emerging countries, while largely heterogeneous, manifest several common themes when considered from the standpoint of strategic management:

- current or potential growth rates significantly higher than in more developed markets;
- sizeable domestic markets and changes in banking regulations;
- the nature of competition is different than in developed countries. Market shares are not well established due to the absence of global players but also to the emergence of new domestic players ;

- low-cost labor and the possibility of using local subsidiaries as a link to a global network of supply and production...

The aim of this article is to identify and explain the main strategies conducted by international banks in the emerging markets.

In order to be feasible within limited means, we restricted the scope of this empirical survey to the behavior of three major European banks in ten emerging countries.

Following a review of the literature on bank internationalization, this survey examines in particular three essential aspects of a corporate strategy in emerging markets: the modes of entry on new markets (long term objectives, cooperative policies...), the organization and structures of the firm (degree of integration of new units, reporting...) and the management of international human resources (expatriate assignments, development of a corporate culture...).

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Our research was launched at the beginning of 1997, when the “emerging countries mania” was at its height. We wanted to look behind the smoke screen of advertisements such as “the real global bank” or “the network bank”, by collecting evidence on the presence in the emerging countries of the three banks under review. The situation has now totally changed due to the Asian financial crisis, followed by those of Russia and Brazil. Emerging markets have become the weakest link in the global business of leading banks and they are now retrenching. Nonetheless, we have continued to focus on this topic as we strongly believe that development in emerging countries is in the long term interest of any international company.

During the process of our research, we have also been “caught up” by the new trend of mergers and acquisitions in the banking sector. One of the selected banks sold some of its activities in the emerging countries (Barclays). Another one has grown through with many acquisitions (ABN Amro). A third one has recently been the target of an hostile take-over (Société Générale). However, we have not modified our panel in order to follow a more fashionable trend...

THE LITERATURE ON THE INTERNATIONALIZATION OF BANKS AND THEIR STRATEGIES IN EMERGING MARKETS IS SCARCE

The literature on the strategies of international banks in emerging countries is a subset of the literature on bank foreign direct investment and internationalization. The economic literature provides a number of theoretical attempts[2] towards understanding the existence of international banks, namely theories (1) focusing on efficiency considerations, (2) pertaining to strategic considerations, (3) developing the well-known “eclectic” paradigm applied to banks[3].

So far, literature written specifically on bank strategies in emerging countries has been rare. Some publications deal with emerging countries in general : their economic situation, their developing path, various typologies of emerging countries, or insight into the strategic moves initiated by companies towards these countries without specifically focusing on the bank industry (Bouteiller and Larçon, 1997). Other articles refer to international portfolio management or investment in emerging markets : for instance, Errunza (1983) and (1997) focuses on the possibility of improving global portfolio performance in investing in emerging countries stocks. Some articles examine the internationalisation process of banks of leading countries (cf. Buch (1999) for German banks or Goldberg & Johnson (1990) for US banks).

Publications related to banks in emerging countries are even more scarce. We may mention several business oriented articles like those of Ogden (1998a and 1998b) in *Global Finance*. According to this source (1998a), Citibank won the title of best emerging market bank in the world in 1998. Citibank[4] was also judged best in Latin America in five other, more specialized categories, including project finance in Asia and corporate finance in Central and Eastern Europe. HSBC was rated best bank in Asia and Merrill Lynch won the title for Europe, Africa and the Middle East.

Many recent articles, such as the special issue of *the Journal of Applied Corporate Finance* (1998), deal with the Asian crisis and its effects on the banking industry or with the difficulties met by emerging countries to attract foreign banks (see Frankel, 1998).

However, the most interesting publication concerning the multinational banks in the less developed countries (LDC) is the seminal work of Sabi (1988). This author states that "57 % of the variation in Multinational Bank (MNB) assets in LDCs can be explained by market size, the presence of multinational corporations from the home country, the extent of economic development, the balance of payments and to some extent the tightness of the local banking system". This study suggests that "both supply and demand factors influence the geographic distribution of MNB assets" and mentions, that "the variable pertaining to regulation does not have a constraining effect" as, confirmed by Kane (1995). However, all this work does not end up with definite theory with regards to investing in emerging countries.

RESEARCH METHODOLOGY

We adopted an empirical approach through the survey of a small panel of European banks investing in a selection of emerging countries. The time framework of the survey is short (1993-1999), but in certain cases we will draw examples from a longer perspective, when needed.

The panel of the banks is very small in order to ensure a deeper understanding of their behavior in emerging countries. It encompasses ABN Amro (The Netherlands), Barclays (United Kingdom) and Société Générale (France). They were selected on the basis of their exemple in terms, first, of their international strategies (whether truly global like ABN Amro or Barclays or in the process of internationalization like SG) and second, of their presence in emerging countries (whether explicitly stated as an objective like ABN Amro or not, like Barclays). They were also selected according to their very specific home base culture.

Ten emerging countries were chosen to ensure a field of observation sufficiently vast to account for the diversity and complexity of emerging market phenomenon. They are Argentina, Brazil, China, India, Indonesia, Mexico, Poland, Russia, Thailand and Turkey.

ABN Amro is a very interesting organization, because of its youth (the actual organization was born in 1991 out of the merger of the two largest Dutch commercial banks Algemene Bank Nederland [ABN] and Amsterdam-Rotterdam Bank [Amro]), and also because of its historical depth through several of its components (for instance, the R. Mees & Zoonen Bank was established in 1720). The bank has been devoted to foreign trade since the very beginning of ABN, which was created in 1824 by royal decree (under the name Nederlandsche Handel-Maatschappij). It was founded to resuscitate national trade and industry in the wake of the period of French rule (1795-1813) and played a major role in developing trade between the Netherlands and the Dutch East Indies.

Barclays Bank is an old bank, initially having its origins in the 18th century. Its overseas activities started in South Africa (establishing the National Bank of South Africa in 1885) and then in Europe (The French branch was created in 1915, to pay the English soldiers during World War I). Branches were developed in Egypt and the West Indies. Its overseas activities were merged into Barclays DCO in 1925. Representation in Israel started in 1935 through the Agricultural Mortgage Corporation. The bank also lent to agricultural co-operatives in Cyprus, where it had opened a branch in 1937. After World War II, Barclays established a development corporation to undertake medium-term lending in Africa. In the early 1970s, Barclays consolidated most of its foreign interests into Barclays Bank International. By then representation in the US was widespread, particularly in New York and California. In 1990, it purchased a German private bank, Merck Finck. See G. Jones (1992) for more details on British multinational banking strategies [5].

As for Société Générale, it is one of the oldest French Banks, set up in 1864, as a merchant bank, then evolving toward a universal bank with many agencies in France. The bank was nationalized in 1945, then privatized in 1987. Although its international network was first set up at the end of the 19th century, most of the foreign outlets were opened after World War II, in particular, in Japan and the United States. Furthermore, Société Générale has a large stronghold in Germany and Austria, through a subsidiary, the SOGENAL. In 1996, it bought a retail bank, The Crédit du Nord, which is very strong in Northern France and with a subsidiary in Belgium. A description of the European strategies of French banks can be found in Marois (1997).

Each of these banks is a major actor on its domestic market[6]: Société Générale encompasses 9 % of the French market; Barclays, 11 % of the British market and ABN Amro, 21 % of the Dutch market.[7]

Table 1 depicts the evolution of the three selected banks, between 1993 and 1999. It shows that the net profits of ABN Amro and Barclays are almost twice those of the Société Générale. Moreover, return on equity[8] is more than 21 % in the case of Barclays and ABN Amro, versus only 15 % for Société Générale. As a result, the 1993-1998 total shareholder return amounted to 38,3 % for ABN Amro, 37,4 % for Barclays and only 19,7 % for Société Générale. As far as assets are concerned, the evolution is very close for each of the three banks. Similarly, the Cooke ratios (either tier 1 or tiers 1 and 2) evolve in the same manner, Société Générale faring better than Barclays and much better than ABN Amro. International presence is strongest at ABN Amro (42 000 employees in foreign countries, versus only 9 400 for société Générale; in percentage, 55 % for the Dutch bank, versus 17 % for the French bank). Barclays foreign workforce is smaller. In terms of market value, in July 1997, ABN Amro reached 34 billion USD versus 31.5 for Barclays and 12.2 for Société Générale.

TABLE 1 : THE COMPARATIVE EVOLUTION OF THE THREE BANKS 1993-1999

COMPARATIVE EVOLUTION	**ABN AMRO**		**BARCLAYS**		**SOCIETE GENERALE**	
MAIN DATA : (end of year)	**1993**	**1999**	**1993**	**1999**	**1993**	**1999**
1) **ASSETS** (total) (in billion USD) Δ :	253	460 (+ 82 %)	241	412 (+67 %)	260	412 (+ 58 %)
2) **EQUITY** (total) (in billion USD) Δ :	10.4	12.1 (+ 16 %)	8.87	21.7 (+ 113 %)	8.20	13.9 (+ 69 %)
3) **NET PROFIT** (in billion USD) Δ :	1.08	2.72 (+ 152 %)	0.56	2.93 (+ 423 %)	0.66	2.04 (+ 209 %)
4) **RETURN ON EQUITY** (in %) Δ	11.3	22.5 (+ 99 %)	6.39	20.9 (+ 227 %)	8.55	14.7 (+ 72 %)
5) **COOKE RATIO/Tier 1** (in %) Δ	6.9	7.2 (+ 4 %)	6.0	7.5 (+ 25 %)	5.02	7.61 (+ 51 %)
6) **COOKE RATIO (total)** (in %) Δ	11.2	10.86 (- 3 %)	9.8	11.3 (+ 15 %)	8.1	11.94 (+ 47 %)

Source : Annual reports, 1993 and 1999.

WHY TO INVEST IN EMERGING COUNTRIES

At first glance, extreme diversity caracterizes the emerging countries. For example given that the level of economic sophistication and cultural backgrounds are totally different, what draws Argentinean and Chinese banking sectors together? However, the dynamic of economic development and the dilemma of opening up the banking sectors to foreign banks suggest some common ground. There follows a general outline of the banking industry in the selected emerging countries.

The banking industry has many <u>similarities within emerging countries,</u> though they follow different patterns of evolution. They emerged from an era of underdevelopment with little capital, a large portfolio of non performing loans, no meaningful system of accounting, little recourse for lenders in the event of default, technologically backward operations and inadequately trained staff... Prudential regulatory and supervisory capabilities to address moral hazard incentives and corruption are almost nonexistent.

As in the developed markets, the banking industry is a very heavily regulated sector. In most of the cases, it is seen as a strategic area[9]. Then, r<u>egulators face a dilemma</u> between the global trend of opening up of the sector and the protection of local banks (either state or private owned). They fear that domestic institutions will be unable to compete effectively and that foreign banks will dominate the local banking system. One of the executives the authors met said, “banking is a very emotional industry and it is one of the last sector to be opened up”.[10]

The study of the ten selected emerging economies[11] shows that the <u>opening up of the banking sector is mainly motivated by the following three reasons</u>:

- to attract foreign capital, especially after a crisis which drained the local capital (for example Argentina or Thailand),
- to enhance the quality of the financial services offered to the public and the sophistication of the financial intermediation by a stronger competition, and also the entry of modern technology and management techniques (China),
- a condition of entry to an international organization (OECD for Poland in 1996).

The banking policy of the People's Republic of China is one of the clearest examples of a tightly controlled process in order to limit the "secondary effects" of an opening up... (1) At the early stages of the reforms, China first authorized the opening of representatives offices. (2) It was followed by the opening of one branch per foreign bank in the Special Economic Zones and with a scope of business limited only to forex for foreign invested companies (first case in July 1981 by the Nanyang Commercial Bank in Shenzhen). The scope of business was then progressively broadened to encompass local corporate clients, although only for forex business. (3) Foreign banks were authorized to open up a second branch outside the Special Economic Zone, first in Shanghai (first case Bank of East Asia in December 1990), followed by Dalian (first case Bank of Tokyo-Mitsubishi in August 1992) and then other major cities. The first branch of a foreign bank in the capital city dates back only to June 1995 (Bank of Tokyo-Mistubishi). (4) Foreign banks have been allowed to enter the local currency market on a trial basis in Shanghai since February 1997, through the interbank market...

On the domestic side of the Chinese banking system, the government tried to foster some competition by (1) blurring the line between the "Big Four" state-owned banks and (2) issuing new licences to domestic operators. In most cases, these are only joint stock companies between governmental organizations, either at the central or at the local level. At the moment, there are only two non government banks (one with private shareholding and one listed company).

The case of China is somehow particular because of the backwardess of its system, prior to the reforms, and the high leverage on foreign investment kept by the Chinese government. <u>The other emerging countries, though willing to follow similar a protectionist policy, have either back-tracked or accelerated their structural reforms</u>. (1) India has jeopardized the structural reforms of its banking system because of a succession of weak governments and contradiction to the opening process (cf the recent motto "reform the economic reforms" in India). On the other hand, (2) Poland, Argentina or Thailand no longer regard their banking system as a strategic area and are speeding the opening up process in order to make it extremely difficult for a future government to go back to the previous system (the Balcerowicz plan of Poland) or in order to cope with a financial crisis (Argentina in 1994-1995 or Thailand in 1997-1998).

Beside the traditional banking activities, the governments of emerging countries <u>do not try to protect new business areas so heavily</u>, such as leasing, asset management or money market mutual funds. New needs and the total absence of any local banks or financial companies leave the floor to a more direct opening up. However in the case of leasing in China, the sector is still not really opened as the foreign banks may only enter through joint-ventures.

Overall, the strategy of the three banks in the emerging countries can be summarized like this:

Barclays maintains commercial banking representations in the emerging countries particularly in Africa and the Carribean. It is quite surprising, because 70 years ago it was maybe the only real international bank of the panel surveyed. It discovered the international market in the 1870s, first through the emerging countries in Africa and only afterwards through continental Europe. Today in private banking segment, "the international business represents less than 10% of the profits". In the capital market segment, the bank has completely reorganized its activity by pulling out worldwide from the equity market (its stockbroker BZW was sold in October 1997) and focusing on specialized products for world wide customers. "For example in Australia, we will service a local company if it needs money in Europe, but not for equity in Australia. We are not a relationship organisation, but a product organization".[12]

ABN Amro has a strategy of finely targeted markets through a very flexible approach. It is a model of strength in basic principles and "opportunism" in real life[13]. The key is to enter a market by one segment and then to develop other segments later: from retail to wholesale banking (in Brazil, before 1998), from wholesale to retail (in Russia, before 1998), or both together (Poland). ABN Amro focuses on financial companies (stockbrocking, asset management and mutual fund...) as a way to get an early domestic status, before the full scale opening up of the market. The long term objectives of this bank are to become:

(1) an universal bank, in commercial & investment banking, catering to big international companies and not to local clients (wholesale banking). ABN Amro also serves large domestic companies, but local firms with only local activities are considered to be unprofitable

(2) a specialized bank in selected emerging markets, particularly in the field of " consumer financing ". ABN Amro is able to transfer its experience acquired in the mature markets to countries still underdeveloped as far as consumer financing is concerned[14].

ABN Amro has a very aggressive development in emerging countries, as exemplified by the recent moves in Asia. It is present in Asia since its creation in the beginning of the 18th century, as a tool to develop trade between the Netherlands and the Dutch East Indies. But according to one of the bank's executives, "we had a long long sleep". It awakened in 1995 by acquiring the stockbroker HG Asia (first a minority acquisition, then a majority stake and since December 1998, a wholly owned subsidiary), which gave them "a platform". From 1997 to 1998, ABN Amro has doubled the number of its employees in Asia. The current plan (1997-2002) aims to generate at least 15% of the total bank's revenue in Asia. It wants to turn ABN Amro into one of the three leading banks in Asia, alongside Citibank and HSBC[15]. The financial crisis is not a deterrent, ABN Amro, as its chairman said recently (January 1999), remains "positive about emerging markets in general as they usually reap a higher return in the long run"[16].

The Société Générale has a strategy of "global niches", without being willing to become an universal bank. SG is looking for clients who have "strong needs". For example it is interested in utilities companies who are managing equity, but not by those only looking for credit. Their ambition is to attain a return on equity of 15% for all the bank by 2000[17].

Tables 2 and 3 sums up the main features of local presence in the emerging markets, at the end of 1997 and for each of the three banks.

TABLE 2 : NATURE AND SCOPE OF THE PHYSICAL PRESENCE IN THE EMERGING MARKETS

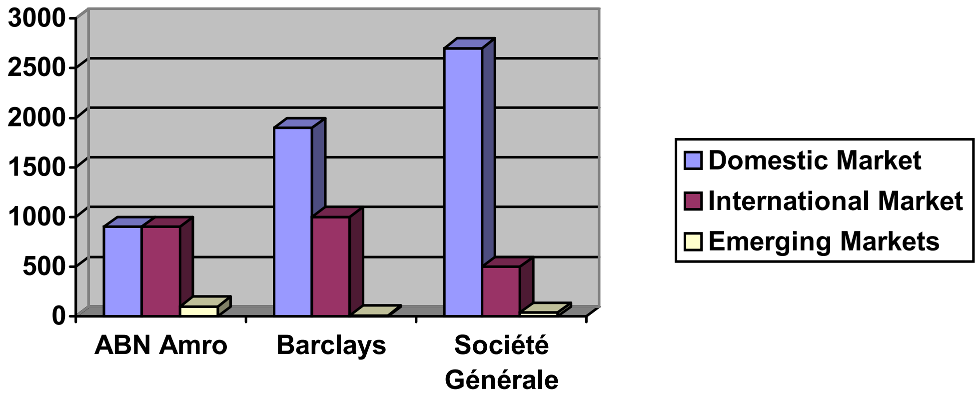
R : representatives offices
S: subsidiaries
B : branches

	ABN Amro	Barclays	SG
Argentina	19 B	1 R	4 B
Brazil	43 B	1 B	6 B
Mexico	1 B	1 R	1 B
China mainland	2 B + 6 R	-	4 B + 1 R + S**
China Hong Kong	7 B	1 R + 1 S	2 S
India	8 B	1 B	5 B
Indonesia	13 B	-	1 B+ 1S
Thailand	3 B	-	3 B + 1 S
Poland	2 B + 1 S	1 R	2 B + 2 S
Russia	3 B	1 R	1 R +2 S
Turkey	2 B	-	1 B
Total emerging markets	**110**	**8**	**38**
- R(epresentative offices)	6	5	2
- S(ubsidiaries)*	1	1	9
- B(ranches)	103	2	27
Total home market (B)	**967**	**1975**	**2668**
Total international (B+R)	**921**	**circa 1000**	**500**

* Either merchant banks, finance companies or stockbrokers
** joint-venture

Sources : Annual reports, and interviews by the authors.

FIGURE 1: PRESENCE OF THE 3 BANKS GLOBALLY



Domestic Market (number of branches)

International Market (number of branches + representative offices)

Emerging Markets (number of branches + representative offices)

Source : Table 2

ORGANIZATION AND STRUCTURE OF FOREIGN BANKS IN EMERGING COUNTRIES

It is no surprise that all the banks surveyed advocate a matrix organization between products lines and area lines. Without going too deeply in this very complex issue, there is a difference in terms of balance between product and area leadership, mainly because of their different focus.

Barclays, which is only looking for foreign status, with a limited range of products, has an organization built upon product lines, gives only a secondary role to area managers. For ABN Amro, there are two cases according to the type of market: foreign status with an emphasis on product lines (e.g. equity department, fixed income department, etc.) and domestic status with emphasis on area (f.i. five area managers (1) USA, Canada and Mexico, (2) Latin America, (3) Asia and Pacific zone, (4) Middle East and Africa and (5) Western and Eastern Europe plus Central Asia). When targeting the same kind of market, the differentiation between banks is low because of the importance of the local regulatory system. Most of the time, the real differentiation appears "outside the emerging market": the level of integration, the back office centralization or the existence of regional headquarters.

All the three banks focus on risk management. For ABN Amro, the reporting process in emerging countries follows the usual route: (1) annual plan translated into a budget, (2) guidelines from headquarters, (3) budget by country, (4) discussion (a full day between the country manager and headquarters), (5) a monthly budget (with reporting to the Area Manager). In parallel, there is a budget (by line of products), for investment activities. Every month, the results are discussed. If deviation is strong, there is a possible impact on annual bonuses. The Country Manager comes to the headquarters, once a year, to meet everybody during a week and takes care of his career development. The annual meeting of the country managers takes place in a different country each year (Kazakhstan in January 1999). ABN-Amro has a strong culture in terms of audit and control. Auditors from headquarters visit large countries once a year and small countries one every two years, talking to all interested parties (including external auditors)[18]. Risk assessment must be conducted with a great deal of care. For example, three executives spent three months in Kazakhstan, meeting everybody there, before opening a subsidiary[19]. In accordance with its "product organization", Barclays put the emphasis on a matrix management with double reporting (products/area) focusing on the product line. Société Générale also had a strong central control of risks. According to one of its executives, "you have to ask Paris very quickly" for an authorization, but there are less procedures than in American banks that leave us with more room to negociate".

Development in the emerging countries may also be made directly by the headquarters, through business developed with multilateral organizations like World Bank, IMF, EBRD or ADB. ABN Amro seems to focus more on that channel compared to the Société Générale. At least two buying opportunities in the surveyed countries came from multilateral organizations: in India (from IFC) and in Poland (from EBRD). ABN Amro also participated in numerous IFM funded missions to Poland and Russia. “A possible outcome of these missions is an opportunity to buy a bank; in fact it never happens, but it is nice to say it when you sign”.

Information technology is also a strong means of centralizing an organization. In Kenya, Zambia and Zimbabwe, the only emerging countries where Barclays is still present, back office work is directly carried out in Manchester through computers and satellite links. It has an impact on the number of employees (one third to one half) and all information is on-line[20]. ABN Amro and the Société Générale have not developed such an integrated system.

Regional headquarters are rather new for ABN Amro. The region management group for Latin America and the Caribbean only moved from Amsterdam to Sao Paolo in 1994, a move that created a stronger awareness of the differences among the countries[21]. For Asia, the regional headquarters were split between Hong Kong and Singapore in 1996. Today it is once more centralized in Singapore. “The Asia regional headquarters was a huge shift in mindset: from impressive bits and pieces around the region (strong retail banking in Indonesia and sizeable cash management activities in Singapore) to a business organized as a consolidated whole”.

Société Générale has a fairly centralized structure. It has three regional headquarters reporting to Paris: the America supervision (including Latin America) is based in New York, Asia is based between Paris and Hong Kong, and Europe (including Eastern Europe) is based in Paris. The three regions offer a full service of investment and commercial banking products. The product expertise is mainly based in the regional headquarters, local branches/subsidiaries assuring coverage and support. For example in Asia, Hong Kong is the center of the system, with 450 staff members for corporate banking, private banking, project financing, consumer banking, currency and rates... However some activities may have a different center, as for example regional treasury and currency which is based in Singapore. Société Générale Asset Management Asia was transferred from Paris to Singapore in January 1996. The structure is very flexible. The expert in aircraft financing for Asia is based in Hong Kong, but his colleague for China is based in Tokyo[22].

Barclays Capital has two regional headquarters, in Miami for Latin America and in Hong Kong for Asia. Compared with the two other banks, the role of regional headquarters is more important, as they are a ressource center with product managers and staff for all the regions located in London. At the country level there are only representative offices, the role of which is limited to commercial representation. For example, Hong Kong has an office of 280 people to support representative offices over the whole region with only a few people per office.

In conclusion, the fine-tuning between centralization and decentralization is directly linked to the nature and the origin of the bank. On one hand, there is the product organization, like Barclays, with a world wide net of commercial outposts driven only by capital product managers (Barclays Capital). The same principle has been applied to private banking, and only the strongest bases has been kept (in UK and some African countries). On the other hand, a "relationship bank", like ABN Amro which promotes itself as a bank which follows the customer. It contrasts with transaction-driven banking, where the relationship is the deal of the moment. ABN Amro leaves a large autonomy to the local units, but with a regular supervision of activities. Even local “names” of subsidiaries are kept when they are well-known. This kind of structure and organization has been made by a young bank (ABN Amro was created in 1991). Société Générale limits its development to a foreign status strategy but with a different tradition, arising out of centralization.

INTERNATIONAL HUMAN RESOURCES POLICY OF FOREIGN BANKS IN EMERGING COUNTRIES

In this section, two different aspects are being examined: first, the management of international executives; second, the means used to “blend” into a corporate culture.

Management of international executives

It comes as no surprise to note that, ABN Amro’s foreign workforce (we mean, people working in the foreign subsidiaries or branches) is 99 % of local origin. The other 1% consists of international managers (40 % Dutch expatriates and 60 % third-country people). The best local managers can undertake international careers. There is no difference between mature and emerging markets: e.g. the controller of the European Area is a Pakistani. There is no preference for Dutch nationals: they have to compete with other nationalities[23]. On top of this, there are about 400 people, always ready to go anywhere abroad, according to the needs of the banking group.

In the case of Barclays, the number of expatriates is limited to approximatively 100 British nationals. 20 years ago, this figure stood at 400[24]. For instance, there are only 40 expatriates in Africa (total of 6 000 employees); there is about the same number at Barclays Capital (mainly in Asia). Similarly, only one expatriate is located in the Brazilian subsidiary.

One may also mention that in the subsidiaries and branches Chief Executive Officers are British citizens, except in Ghana and Zimbabwe, where locals are in charge of the business.

Société Générale has 716 international executives, from which 581 (81 %) are from the home country. There is a new trend for third country executives to be groomed by the bank. The head of financing at the headquarters is Filipino.

Clearly, all the banks try to recruit locals for their executive positions. This trend is essentially due to the cost of expatriates and the difficulty of obtaining a work permit for a foreigner; furthermore, the final objective is to upgrade the quality of local management. In the case of Barclays, the expatriates are senior managers completing their whole career abroad. More recently, it has evolved towards a more progressive system, in which expatriates start their career in the United Kingdom, spend four years abroad, then return to England. They are assigned to various tasks such as: internal audit, credit risk management, human resources or information technology, rather than product areas (where a local employee is more appropriate).

The duration of expatriate assignments may vary according to the potential of individuals. In the case of the Société Générale, if the average duration is four years, it may be decreased to two years or sometimes increased to five years. But some very high expertise posts may last decades. Duration of expatriation also reflects the “ quality ” of the country. As an illustration, Barclays employs 35 expatriates in Hong-Kong out of 290 employees (half come from the U.K., the others from Australia, India or the U.S.A.); they stay longer in Hong-Kong than in India, Korea or Africa. One explanation derives from the lower income tax : 15 % in Hong Kong instead 40 % in the U.K. Besides, expatriates can take advantage of various incentives : education fees paid (for children), plane tickets, better retirement schemes and housing packages[25].

As for Société Générale, the policy is considered as rather “ flexible ”: expatriates are sent to the most important subsidiaries or branches, where they hold top responsibilities (administrative tasks, for instance)[26]. Whereas the Hong-Kong subsidiary will attract junior expatriates, it will be quite different in Bangladesh, where a senior expatriate (expert in export financing) will be more appropriate.

The “blending” into the corporate culture

Unsurprisingly, ABN Amro has the most striking need of developing and blending the corporate culture[27] because of its strong push in emerging countries and also because this firm is the result of a long process of progressive mergers. “It created a corporate culture that is a key in our acceptance in the emerging countries”[28]. The recent acquisitions made by ABN Amro in Thailand and Brazil are called “mergers”, with a clear pledge that the name, the culture and even the top management of the local bank will be kept unchanged. Since the “merger” with Banco Real, there is only one Dutch expatriate (Chairman of the board) and two expatriates of Brazilian origin (President and head of human resources). The membership of the board remains unchanged.

On a short term basis, acquisitions do not have a huge impact on international human resources. Acquisition of the Bank of Asia by ABN Amro or Asia Credit by the Société Générale only needed a few new assignments.

But in the longer term, it appears, that there are strong efforts to promote a corporate culture within the banking groups. Out of the 105 000 people workforce, 75 000 were not working for ABN Amro four years ago.

At ABN Amro, they are four different ways of transferring corporate culture abroad:

- training on core values (integrity, teamwork, respect, professionalism) spread around to all units,
- various Newsbriefs and Newsletters (f.i. Central & Eastern European Newsletter),
- specialized video material for new staff members,
- presence of expatriates in the management teams of local units. International careers consist of assignments abroad and at home sequentially (cross-fertilization of experiences).[29]

The key of the blending of the corporate culture is the ABN Amro Academy. This concept is build on three regional training centers: (1) Amsterdam, the former training center for the Netherlands operations, with a 40 work force, (2) Chicago, a huge training center of the USA network bought years ago, with a 80 work force, and (3) Singapore, a new greenfield center for the support of recent acquisitions in Asia, with a 15 work force. This system proposes a corporate introduction program and an entry level program for the newly recruited employees (around 500 people a year). The management of the Academy is, like the other part of the bank, very decentralized with the center only responsible for the definition of the objectives and the philosophy of the modules for a specific program. The content, the teaching materials, the trainers... are all under the responsibility of the regional training center.

On top of this, a light structure was created in 1997 that proposes training for the top management at the global level. There are two programs, both held exclusively in Amsterdam:

(1) the leadership program: for potential Vice Presidents and Senior Vice Presidents after seven years of experience within the bank, for seven days, six time a year;

(2) the senior management course: for Vice-President and Senior Vice-President, for seven days, six times a year.

The aim is to create a “corporate glue”, crossing the “ walls ” between departments and products but also crossing the borders between countries. Even at this level, integration is still very difficult, as exemplified by the Banco Real acquisition. Out of the 22 000 new people working for ABN Amro, there are only 50 executives who speak English... A fourth center maybe created for Brazil in the future, where Portuguese will be the working language[30].

CONCLUSION

The survey shows that strategy in the emerging countries varies greatly according to the basic international strategy of the firm. Two basic strategies have been be identified (see Table 4):

(1) the main target is the “foreign status”, where clients are mainly home-market and international clients as well as some of the big local companies. These kind of banks are largely specialized on the high value added end of the market and are reluctant to quit the wholesale market. There are two sub-approaches:

(1.1) the relationship logic where the bank follows its clients, first from the home-market and afterwards from the international market. Emerging countries are then only an “extension” of an overall international strategy, though higher returns are hoped for Société Générale seems to follow partly this approach.

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TABLE 4 : ALTERNATIVE MODES OF ENTRY

1) "**FOREIGN STATUS**" : . "RELATIONSHIP" APPROACH (FOLLOW THE CLIENTS)

. "PRODUCT" APPROACH (STRATEGY OF NICHES)

OBJECTIVES : . MAXIMIZING ECONOMIES OF SCALE
. MINIMIZING COST OF INVESTING

2) "**DOMESTIC STATUS**" : . FULL-SERVICE BANKING (RETAIL & CONSUMER BANKING)

. "HOST COUNTRY'S CLIENTS" APPROACH (CORPORATIONS, INDIVIDUALS)

OBJECTIVES . LOCAL FUNDING (LOCAL DEPOSITS)
. STABLE FLOW OF EARNINGS → LONG-TERM PROFITABILITY

(1.2) the product logic which drives the development of a worldwide network of commercial offices needed to maximize the economy of scale in a selection of a few global products. Barclays Bank, through its capital market subsidiary, is following this strategy of minimal implantation. In this case, emerging countries seems to be a "deterrent", as it is synonym with limited customer requirements (unsophisticated clients) and thus an unnecessary dispersion of the energy of the bank.

(2) the main target is the "domestic status", where the bank tries really to enter the market and is looking for retail banking or for consumer banking. This strategy anchors the bank more deeply to the emerging country by balancing the risks by local funding and a stable flow of earnings. ABN Amro follows this strategy, for emerging countries (Brazil, Hungary and Thailand) and also for mature markets (Netherlands and United States). Though there is no explicit strategy for the emerging countries, as it still seems to be a fine balance between the opportunity given by these countries (a

shortcut to global leadership) and well balanced risks (one focus country by continent).

The distinction between these two international strategies is also visible at the implementation level.

(1) In the "foreign status" case (Barclays and Société Générale), very centralized structure and human resources policies are possible. The resources from the home-market constitutes the core of the system (in terms of policy coordination or expatriates' origin and even information technology in the case of Barclays).

(2) In the "domestic status" case (ABN Amro), a far more flexible attitude is needed. First, It is impossible to fix all decisions from the center. Decentralization of decision making and empowerment are the key in order to succeed inside a given market. Second, the size and the specificities of the local bank employees make it just impossible to build an integrated human resources policy. The center can only focus on the very top management (see the ABN Amro Academy). But then, herein lies the main risk. The centrally controlled resources are stretched to a limit where formal and informal control start to be inefficient. Only time will tell if the cost of integration will not overcome the cost of acquisitions. This already well known problem for M&A is emphasized in the case of emerging countries where, for example, the quality of loan portfolio and risk management are very new concepts and may engender dangerous surprises...

Besides, we may be a little more specific :

(1) the “follow my leader” paradigm plays a significant role. As ABN Amro executives clearly state they follow the general strategy of "global" leaders , such as Citibank or HSBC. But it is done in a very pragmatic way, targeting different markets and focusing more on emerging countries than the leaders.

(2) the “comparative advantage” paradigm is even more useful in order to understand the move of the Dutch bank. This concept is two fold in this case. (1) It enjoys a comparative advantage relative to local banks, as it has already a strong experience in consumer banking due to its prior development in his home market. (2) But it also enjoys a strong comparative advantage relative to its international competitors: this is because of its distinctive decentralized and “multi-cellular” corporate culture. Because of the nature of their economies, this suits emerging countries particularly well. Though they are integrating the global market, they are still separated from it and a “cellular approach” as opposed to an integrated approach should perform best in the event of the higher volatility and different practices of these markets. This culture also suits the nature of the entry barrier to emerging markets. As we have seen, most of the governments are very sensitive to what they consider a strategic area of sovereignity. Authorizing the entry of ABN Amro is not perceived as total surrender.

These strategies and organizations in the emerging countries seem to rely directly upon the home-market structure and shareholder-value culture:

(1) Barclays Bank is tied tightly to the Anglo-Saxon concept of the bottom line, thanks in part to the “kidnapping by the financial analysts”. Long term international

development (in general and in the emerging countries in particular) is seen as secondary compared to the quarterly results of the firm and its profitability.

(2) ABN Amro benefits from a different culture where profitability is also a key to business, but with a very different capital structure, which enables the development of a kind of oligopoly. Only three banks share the home market and, more importantly, local regulations on holdings enable crossholdings between competitors and thus give a comparatively stronger foothold. Thus, thanks to the control by the management of the bank, the strategy is more long-term oriented.

(3) The development of the Société Générale is constricted by the specificities of its home market: with a low shareholder value culture (however this situation has substantially improved recently) and a rather archaic market structure (with two tiers: banks and credit cooperatives). Strong competition and systemic government meddling has stopped the development of French banks, and in the case of the Société Générale, which is seen as one of best managed, it certainly somehow explains the lack of consistency in its strategy in emerging countries.

In further research, we will be focusing on the link between the corporate culture of the international banks and their presence in emerging countries. We plan to investigate the situation of other European banks (German, Spanish and Italian) as well as also American and Japanese banks.

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notes:

[1] Vincent Boland, "Global Investment Banking", *Financial Times*, November 12, 1998, p. 6.
[2] See, for instance, Aliber (1976), Grubel (1977), Cho (1983) or Rugman & Kamath (1987).
[3] For a detailed presentation of the literature on "international banking" and "internationalization process of banks", see Marois & Lepineux (1995).
[4] Concerning the emerging markets, Citibank does not divide the world into "emerging" and "developed" countries, but sees the world as a continum, with every market at one of five different stages of financial development " (*Global Finance*, June 1998, p. 51).
[5] In particular, a long description on the Barclays Bank.
[6] *La Tribune*, February 15, 1999, p. 25.
[7] The three main Dutch banks cover 53 % of their domestic market, whereas the three main French banks own only 28 %.
[8] The total shareholder return combines dividends and capital growth.
[9] The determinants of foreign banking location, generally speaking, have been studied at length by Brealey & Kaplanis (1996).
[10] Bob Van Gessel, Head International Consumer Banking, ABN Amro, Amsterdam, 5 March 1999.
[11] More details about this point of the study can be found in Bouteiller & Marois (1999).
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