Foreign multinational banks in China:

Are their entry strategies different?

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ABSTRACT  Do foreign banks have different entry strategies in China? This paper tries to answer this question through the study of strategic entry behaviour of the foreign multinational banks (MNBs) investing in the Chinese banking sector. The study is grounded in the eclectic theoretical paradigm based on which a conceptual framework is developed. Using case study method and content analysis of interview data, the findings show that indeed under the centrally imposed regulatory conditions and the underdeveloped market conditions, the strategic entry behaviour of the foreign MNBs have tended to converge. However, the argument that the foreign MNBs have similar entry strategies cannot be fully supported. The study focuses on identifying the differences in entry strategies of the foreign MNBs in China.

KEY WORDS: multinational bank, entry strategy, eclectic paradigm, resource-based view, institutional theory, China

JEL Classification: F21, F23, F36, F42, M16, M21, M38
Introduction

Since the economic reform of the People’s Republic of China (China) in 1978, foreign multinational banks (MNBs) (hereinafter also referred to as foreign banks) have re-entered the Chinese banking market. However, foreign banks have penetrated into the local Chinese banking market only in a gradual way. Over the years, their total assets have been around only two per cent of the total assets of the whole Chinese banking sector (CBRC, 2004; Leung and Chan, 2006).

A general view shows that the practice of foreign banks in China is still highly constrained by regulations. For example, foreign banks have limited choices of entry mode. The incorporation conditions and capital requirements are stringent. For a long time, their customers have been limited to foreign-invested enterprises (FIEs) and foreign individuals. In tapping into local businesses, foreign banks are restricted not only by regulations directly imposed on them, but also by those indirectly imposed on their potential customers (Leung and Chan, 2006).

The underdeveloped banking market in China also creates additional challenges difficult to be overcome by foreign banks. One obvious challenge stems from the high concentration of the market structure. The dominance of local state-owned commercial banks (SOCBs) leaves foreign banks little chance of expanding their business in the short-term. Along with many other challenges, such as the imperfect credit culture or the less transparent information, foreign banks have to bear additional costs due to their unfamiliarity with the specific market conditions.

As a result of the impact from both the regulatory and market structure, most foreign banks tend to behave similar to each other. Because of so many uncertainties and potential changes, they are more liable to provide banking services at lower risks with a lower return that may not be sufficient to cover their expenses. The differences in their intended entry strategies are less marked after the strategies are justified against the emergent local conditions. Anecdotal evidence, therefore, seems to support the view that foreign banks have adopted very similar entry strategies.
However, we argue that industry-level observation is too general to present a complete picture. The question of whether foreign banks in China have adopted similar or different entry strategies has not been fully investigated. We assume that since foreign banks have different bank-specific resources and global strategies they are less likely to form the same entry strategies for the Chinese banking market. Against this assumption, this paper aims to identify a mechanism that governs the formation of entry strategy. Through comparative case studies we attempt to demonstrate that foreign banks have adopted potentially very different entry strategies.

The rest of the paper is organised as follows. First, a sector overview is presented to highlight similar characteristics of the strategic behaviour of foreign banks in China. Then, a conceptual framework is established based on the eclectic view in order to explore the embedded differences in each dimension of entry decision. Following the conceptual framework, an empirical case study approach is presented which generates the findings and our re-interpretation of the sector overview. Finally, the paper is concluded with a discussion of implications and limitations.

**Converged Entry Behaviour – A Sector Overview**

Despite many studies on the entry strategy of multinationals the concept of entry strategy has not been defined in a conclusive way. This paper supports Root’s (1982, 1994) idea that entry strategy concerns all the crucial decisions concerning the “why”, “where”, “how”, and “when” issues of the foreign direct investment (FDI) process. These crucial decisions form the content of entry strategy and also provide guidance to the following sector overview on the entry behaviour of foreign banks in China.

The overview starts from the study of the entry mode choice. By the end of 2004 there were altogether 62 foreign banks invested in China from 19 countries and regions. These foreign banks have established 204 branches and sub-branches as well as 223 representative offices and 14 locally incorporated foreign banks (Financial Services in China, 2005:112). Some foreign banks started by making investment into the local Chinese banks through minority share purchase. Evidently, branch is the dominant
operational form chosen by foreign banks. Shen and Park (1999:25) comment that in fact most foreign banks wish to take advantage of maintaining a presence in China in order to “closely monitor the market, observe business risk, obtain credit information, and develop business opportunities”.

Operated mainly through branches, foreign banks share many common characteristics in their conduct of business in China. In terms of customers, foreign banks tend to target the FIEs from their respective home countries as their main and direct customer. Trade-related services have been the main business of foreign banks in their earlier entry period. This opinion is indirectly supported by Lardy (1995:1076) who finds that export performance by FIEs expanded from only a modest portion of the total export value in the early 1980s to around one-third of the total export value in the mid-1990s in China. In a similar period, the presence of foreign banks increased quickly indicating the expansion of their trade-related services for the FIEs.

In terms of timing of entry, foreign banks have intensively expanded their branch networks since 1978. As shown in Figure 1, the first period was in the mid-1980s when the Chinese banking industry was liberalised and financial reform started. The second period was in the mid-1990s when the “entry approach” to reforming the banking industry was established. The third period of fast growth started after China successfully joined the WTO in 2001. In each expansion period foreign banks have tended to follow each other to deepen their participation into the local market.
As more geographical areas are opened for foreign banking in China, the decision on where branches should be established is strategically important. By the end of 2004, eighteen cities have been opened to foreign banks. Most foreign banks have tended to set up their presence in at least one of the main “opened” cities. As shown in Figure 2, Shanghai, Beijing and Shenzhen are the most popular locations for the establishment of foreign bank branches. Of the three cities, Beijing was opened most recently but has quickly become an attractive location because of the convenience to provide information, in particular the regulatory information to the foreign banks.

Source: Registered List of Names of Foreign Banks in China (CBRC, 2005); The People's Bank of China Quarterly Statistical Bulletin (PBOC, 2005b).
In summary, the sector overview shows that the strategic entry behaviour of foreign banks has tended to converge in several ways. First, the branch form of entry provides the main operational vehicle for foreign banks to conduct business. Although it does not provide legal identity it potentially provides a safe platform of control by the parent bank over the practice in China. Secondly, following the existing clients invested in China is the main approach for the foreign banks to expand their business and to survive at the earlier age of entry. In this respect, trade-related business has been one of the main business segments. Thirdly, the entry timing shows foreign banks tend to mimic each other in deciding the time of expansion.
Developing a Conceptual Framework

Assumptions behind the concept of entry strategy

The sector overview suggests entry strategy is constituted by several key decisions which may include: 1) the entry motive decision (why foreign banks enter into the Chinese market); 2) the entry mode decision (how branch entry mode and other options are considered); 3) the management control decision (how risk control is implemented); and 4) the marketing orientation decision (how banking services are provided and developed). To identify the relationship between these decisions we have established the following assumptions of the concept of entry strategy.

First, we assume the role of entry strategy is to realise competitive advantage in the host market since the foreign investor may be exposed to competitive disadvantages compared with the local firms in the host market (Hymer, 1960; Kindleberger, 1969; Zaheer, 1995). To sustain and develop competitive advantage, entry strategy needs to be adjusted in terms of internationalisation processes – “a process of increasing involvement in international operation across borders” (Welch and Luostarinen, 1988, cited in Melin, 1992:101).

Second, we assume entry strategy is both formulated and formed. The former suggests what can be predicted in the strategy process, the latter indicates how emergent factors can be taken into consideration. This assumption is in line with the argument of Mintzberg et al. (1998:9) that “strategy is a pattern” and “consistency in behaviour over time” formed under some sort of contingency.

Third, we assume it is less likely for the foreign banks to formulate an explicit entry strategy in advance. Strategy as a pattern of decisions needs a process of formation. This assumption is explicitly argued by Whittington (1993) suggesting that strategy contents and processes can be viewed together with different degrees of agreement to either dimension. In consideration of the changing and uncertain regulatory and market conditions in the Chinese banking sector we assume further that entry strategies are
shaped more by a formation process than by a formulated plan.

Fourth, for strategies formed in an environment of uncertainty and frequent changes, we assume that the implementation of strategy at the business level is important. This assumption is supported by Gupta and Govindarajan (1984:25) who state that, “strategy formulation and implementation take place not just at the level of the diversified firm as a whole, but also at the level of the divisions/strategic business units (SBUs)”.

*The role of eclectic paradigm*

Eclectic paradigm (Dunning, 1977) provides the theoretical base to develop the conceptual framework since it offers multifaceted perspectives to explain the “why”, “where” and “how” of FDI. Grosse (2004:83) comments that the eclectic framework has provided “the most useful approach to understand the activities of MNEs”.

Grounded in economic and organisational theory, the eclectic view (also known as the OLI paradigm) consists of three enabling factors for foreign production and competitive advantage. They are the ownership-specific advantages (O) (i.e., rent-producing firm skills), the location-specific advantages (L) (i.e., environmental differences) and the internalisation-specific advantages (I) (i.e., transaction-related concerns). These three sets of advantages determine the “the extent, pattern, and form of IB (international business) activity” (Dunning, 2001:276).

Each set of advantages forms a sub-paradigm supported by certain theories respectively. For example, Wilkins (2003) explains that the sub-paradigm of ownership-specific advantages is derived from theories of industrial organisation and resource-based theories of the firm. The sub-paradigm of location-specific advantages is attributed to location theory and institutional theory. Grosse (2004) reinforces that the resource-based view (RBV) and the institutional theory as well as the internalisation theory underpinning the three sub-paradigms of the eclectic framework respectively can be called a three-dimensional theory of the multinational enterprises. The following literature review discusses the application of the eclectic paradigm to the development
of theories of multinational banking.

In the O-sub-paradigm, Gray and Gray (1981) support the existence of ownership-specific advantages and argue that for a bank to enter into a foreign market, it must be able to provide some specialised services or have certain advantages to enable it to profit from an extension of its operations into the supranational or other national market. Furthermore, Cho (1985) presumes that banks possess and exploit a bundle of unique resources and capabilities in foreign investment. Such a resource-based view has been used to explain the entry motive decisions (e.g. Dunning, 2001), the entry mode decisions (e.g. Hill et al. 1990, Luo, 2000) and the entry timing decisions (e.g. Rivoli and Salorio, 1996, Chang and Rosenzweig, 2001).

In the L-sub-paradigm, Cho (1985:57) argues that a bank acquires benefits stemming from the differences in location-specific endowments between countries. These benefits can generally be found in a number of areas such as different national regulatory frameworks, effective interest rate differentials, different economic situations, nationality of banks, and general socioeconomic differences. Davis and Lewis (1982) highlight that banks enter into transition economies usually encounter high government involvement. The location-specific advantage, in particular institutional theories have been adopted to explain the location choice decisions (e.g. Henisz, 2000), the entry mode choices (e.g. Gatignon, 1986; Davis et al., 2000; Lu, 2002) and the management control decisions (e.g. Scott and Meyer, 1983).

In the I-sub-paradigm, internalisation advantages are categorised into five groups (Cho, 1985, cited in Williams, 1997:82), namely: i) availability and cost of fund transfers within the multinational banks; ii) efficient customer contacts; iii) transfer pricing manipulation; iv) improved networks for information gathering; and v) potentially reduced earning variability. Comparing these advantages, Williams (1997:81) argues that “internalisation in banking is largely sourced from the role of information”. Theories on internalisation-specific advantage are particular powerful in explaining the entry motive decisions (e.g. Dunning, 1988), the entry mode decisions (e.g. Anderson and Gatignon, 1986), and different management decisions (e.g. Buckley, 1993).
Developing a conceptual framework

Developed from the existing models cited in the literature (e.g. Tallman, 1992; Root, 1994; Fu, 1998), a conceptual framework is built up which is shown in Figure 3. The framework is made up of five main postulated constructs; these are: i) the formation of the entry motive decision; ii) the formation of the entry mode decision; iii) the formation of the management control decision; iv) the formation of the marketing orientation decision; and v) the Parent-Foreign Business Unit (FBU) context.

Figure 3   Conceptual Framework: the Formation of Strategic Entry Decisions of the MNB

First, the conceptual framework treats the establishment of the strategic motive as one key element of entry strategy formation. Bank-specific resources (BSRs), global strategy, and location factors are addressed in the framework for the formation of the entry motive decision. In particular, the global strategy influences the overall view of how BSR is allocated. In the meantime, the aggregate resources deployed globally may change the view of the global strategy (denoted as [1]). The strategic motive decision
for a particular host market is directly determined under these two firm-specific factors (denoted as [2]). Importantly, strategic motive is determined alongside consideration of particular market and regulatory conditions (denoted as [3]).

Second, BSR combined with strategic motive and the location factors are considered for the formation of the entry mode decision. An entry mode with a higher level of control indicates that more resources are dedicated to the host market. The entry mode decision is directly determined by the strategic motive (denoted as [4]). The BSR only implies the potential for resource commitment; but its determining force on the selection of entry mode depends on the decision of entry motive (denoted as [2] to [4]). The entry mode selection is directly impacted by the host transition economy (denoted as [5]). Both the market and regulatory conditions impact the selection of entry mode.

Third, when entry motive and entry mode are decided, they generate the decisions for the management control system (denoted as [6a]). The management control system includes three measures of control as suggested by the literature: structural control, authority control and personal control. The management control decision is also impacted by local conditions including both the market and regulatory structure (denoted as [7]).

Forth, when entry motives and entry mode are set accordingly, they generate appropriate marketing orientation decisions (denoted as [6b]). The marketing orientation in the host market could either be to adopt the “following the client” approach, or the “searching for the clients” approach or maybe both. Similarly, the marketing orientation decision is also impacted by the local conditions including both the market and regulatory structure (denoted as [7]).

Finally, the Parent-FBU context indicates that only those bank-specific resources that are compatible with the characteristics of the market may sustain economic rents. The parent-FBU context suggests that under a selected entry mode, no matter whether by a branch entry mode or by acquisition, the local FBU has to achieve a balance between control and development. This argument is reflected more in terms of the
A Comparative Case Study Approach

For the purpose of exploring the potential differences of entry strategies of individual foreign banks, a case study method is adopted. In the context of multinational banking, case study methodology is attractive because it provides insights into bank behaviour and performance that cannot be captured through other methods (e.g. Rhoades, 1998; Cattani and Tschoegl, 2002).

Despite the benefits of using the case study method, it is a fact that detailed case studies as applied to the MNB are still rare. Thus a rigorous case study design is needed to ensure the validity and reliability throughout all phases of the research. In this study, each case is carefully selected so that it either “predicts similar results” or “predicts contrasting results but for predictable reasons” (Yin, 2003:47). The contrasting results are anticipated so that the mechanism/conceptual framework of the formation of entry strategy can be examined and tested in different situations.

The key principle that dominates case selection criteria is to select cases with as many different characteristics as possible. Several criteria are considered to differentiate the foreign banks based on the indicators of the ownership-specific factors such as bank size, multinationality, and product differentiability (e.g. Cho, 1985). A problem with these criteria is that they do not remain constant across cases. For example, bank size can be classified in different ways such as by equity, assets, profits or total number of employees. The judgment of the size depends on the adoption of specific measurement. Similarly, it is complex to judge a bank’s multinationality; most of the MNBs are already very multinational. Product specification provides extraneous variations that can cause confusion. Therefore, none of the above listed criteria can provide definite criteria or “constant criteria” across different cases.

A “constant criterion” should avoid providing multiple standards due to potentially different interpretations or applications of the criterion. Since a constant criterion gives
a clear guidance, the selection of each case becomes straightforward. A constant criterion also enables case selection to be replicable, which is important because the study requires comparison of the strategic decisions across multiple cases.

For the purpose of comparison, the study selects the most diversified cases based on the constant criteria leaving the relative “non-constant” factors to vary across the selected cases. In particular, three constant criteria are identified, namely: i) home market origin; ii) actual institutional commitment to the local market; and iii) the first entry time in the host market. Specific cases are determined through the following selection processes.

First, the selection tries to choose the cases from different geographical origins. The three main geographical origins, namely, Asia, Europe and America are selected based on the existing presence of the MNBs from these areas. Then, according to the actual commitment criteria, seven specific market origins are selected. Specifically, Hong Kong SAR\(^6\) is selected to represent the MNBs from Asia. Japan is selected, which is regarded to be distinct compared with other market origins from Asia. France, UK and Germany are selected to represent the market origins from Europe. U.S.A and Canada are selected to represent the market origins from North America. Other market origins are excluded because fewer branches have been established by the MNBs from those markets. For the seven market origins, one MNB is chosen from each market origin respectively. In addition, two more cases, one from the Hong Kong SAR and one from Germany are selected for the pilot study. One more case from Japan is selected to ensure enough access. In total, ten cases are included in this study.

The above selection approach concerning the market origin of the MNB is in line with the approach taken by Luo and Park (2001:147). In their study of MNEs in China, the same seven market origins are included. They also include Australia. In this study, Australia is excluded because of a low presence in the local market.

For each case, primary data have been collected in China through semi-structured interviews with senior managers. Interviewees were targeted based on four positions,
namely, the marketing officer in the front office, the operations officer in the back office, the risk manager including the compliance manager in the middle office, and the general managers. Interviewees were mainly based in branches located in Beijing or Shanghai because the two locations have attracted most of the foreign banks in China. In the meantime, secondary data was collected based on information in the global context including both qualitative and descriptive quantitative data. The primary and secondary data triangulate because they have been collected from different sources.

Findings

Content analysis was conducted with the use of QSR NVivo (Richards, 1999). Based on Strauss and Corbin (1998), three coding techniques including open coding, axial coding, and selective coding were adopted. In addition, grouping analysis was used to identify differences in each entry decision. The comparative analysis suggests that the ten banks differ dramatically in five specific strategic entry decisions; these decisions are:

i) The entry motive decision regarding whether or not local corporate banking is targeted;

ii) The entry motive decision regarding whether or not the local retail banking segment is targeted;

iii) The entry mode decision regarding the expansion of local branch network in terms of location, scale, and speed;

iv) The entry mode decision regarding whether or not equity investment in the local commercial banks is made;

v) The management control decision regarding whether or not a local head office is established.

Focusing on the two main strategic entry decisions, namely, the entry motive decisions and the entry mode decisions, we construct a matrix as shown in Figure 4. The entry mode decision forms the horizontal dimension in the matrix. The branching decisions and the equity investment decisions are considered together, which generates different levels of banks’ commitment to the local market ranging from a low level of
commitment to a high level. The entry motive decision forms the vertical dimension in the matrix. The market seeking motive and the marketing orientation decisions are considered together, which generates a different complexity of entry motive decisions ranging from a lower level of complexity to a higher level of complexity. Each dimension is stratified into four interrelated strategic choices available for each case.

**Figure 4** Grouping Cases by Strategic Entry Motive and Mode Constructs

Four decision patterns emerge. They are represented by Group (I) including Cases 2 and 6, Group (II) including Cases 4 and 5, Group (III) including Cases 3 and 7 and Group (IV) including Cases 1, 8, 9 and 10. Denoted by the arrowed lines, the matrix also shows the potential behavioural tendency of each case to move from one status to another. By highlighting the potential movement between decision statuses, the matrix marked as “current” has tried to capture not only the overall picture based on the decisions at present, but also to indicate the reasons for the potential changes of the
groups. The characteristics of each decision pattern are concluded in Table 1.

Table 1 Characteristics of Decision Patterns

<table>
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<tr>
<th>Group</th>
<th>Entry Motive</th>
<th>Entry Mode</th>
<th>Management Control</th>
<th>Marketing Orientation</th>
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<tr>
<td>I</td>
<td>Not aiming for the local corporate or local retail banking segment; Knowledge regarding home-market customers and competitors in the local market is pursued;</td>
<td>Maintain the presence through branch entry mode to limited key areas, with small scale, and slow expansion; No intention of making equity investment in the local commercial banks;</td>
<td>Address the product line integration with the Parent Bank; No intention to set up the local head office;</td>
<td>Focusing on the “following the client” marketing orientation; Clients for lending are those of the same home market origin; Industries for lending concentrate on the manufacturing industries; Loan facilities highly concentrate on trade financing;</td>
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<tr>
<td>II</td>
<td>Put the local corporate or local retail banking segment into consideration from long-term view; Knowledge regarding local market is important but currently knowledge regarding competitors within the same strategic group is pursued;</td>
<td>Building up local branch network by co-locating with the clients, necessary sale and less aggressive but stably-expanded local network; With the intention of making equity investment but too difficult to be implemented therefore adopting gradual approach or unknown yet decision is made;</td>
<td>Address function/customer based integration with the Parent Bank; Setting up the local head office is considered and the quasi-head office function has been assigned to the local branch;</td>
<td>Focus on the “following the client” marketing orientation; Clients for lending are mainly those of the same home market origin; Industries for lending concentrate on the manufacturing industries; Loan facilities highly concentrate on working capital;</td>
</tr>
<tr>
<td>III</td>
<td>Targeting local corporate or local retail banking segment; Knowledge regarding local market is pursued not specially focus on the competitors of the same strategic group;</td>
<td>Maintain the limited presence via branch entry mode, with a small scale, and slow expansion; Making equity investment in the local commercial banks is implemented;</td>
<td>Address both product and function integration with the Parent Bank; Setting up the local head office is considered and with quasi-head office function has been assigned to the local branch;</td>
<td>Focus on the “following the client” marketing orientation; Clients for lending are those of the same home market origin; Industries for lending concentrate on the manufacturing industries; Loan facilities highly concentrate on either trade finance or working capital;</td>
</tr>
<tr>
<td>IV</td>
<td>Targeting the local corporate and local retail banking segment; Knowledge regarding the local market is crucial but necessary regarding the competitors within the same strategic group;</td>
<td>Build up local branch network with wider geographical scope, larger scale and aggressive speed of expansion; Aggressively decide to make equity investment in the local commercial banks and put into practice;</td>
<td>Address both product, function/customer and geographical integration with the Parent Bank; Nearly or have set up the local head office;</td>
<td>Focus on the “following the client” marketing orientation; Clients for lending are those of the same home market origin; Industries for lending are diversified focusing on the manufacturing industries and property industry; Loan facilities highly concentrate on trade financing, working capital and project financing and fixed assets;</td>
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The decision patterns show that foreign banks have significantly different strategic entry decisions. In particular, they are different in their entry motive and entry mode decisions. The characteristics of each decision pattern reveals that the more the decisions relate to the implementation side, the more the behaviour of different cases tend to converge. This finding supplements the findings from the industry-level observation and explains why homogeneous characteristics are reflected in the entry behaviour of the different foreign banks.

Conclusions

This paper focuses on exploring the question of whether foreign banks have similar or different entry strategies. By decomposing the entry strategy into specific entry decisions, four different patterns of entry decisions are identified. The findings show that, despite the converged entry behaviour, the argument that foreign banks have similar entry strategies cannot be fully supported.

This study provides, perhaps for the first time, a conceptual framework based on the eclectic view to explore different strategic entry decisions of foreign banks invested in China. The conceptual framework is applicable to the specific context of banking market in China. In the framework, the factors of regulatory and market structure have not been specified with specific attributes, therefore the study is exploratory in nature.

The study has implications for practitioners in terms of helping them to identify the strategic position of foreign banks in the local Chinese banking market. The findings indicate that any change in one dimension of the entry strategy should be consistently considered with changes in other entry decisions. In addition, entry strategy needs to be justified along with changes that have occurred both in terms of regulatory and the market conditions. The justification is also highly dependent upon bank-specific resources and global strategies of individual foreign banks.

The study also has implications for the regulators of the banking sector in China. The existence of different entry strategies among foreign banks suggest that regulators
should not only have a macro view of foreign banking activities but that they also need to establish specific tools to examine the strategic behaviour of individual foreign banks at the micro-level. The mechanism that governs the formation of entry strategy provides a vehicle for them to understand why foreign banks may respond differently to certain rules or regulations in the future.

There are several limitations in this paper which need to be addressed:

1) The entry location decision and the entry timing decision are not focused because both decisions are presumably highly determined by the regulators rather than by the foreign banks. This does not mean that these decisions are less important, but rather that as the local market is more liberalised, both decisions are strategically crucial for foreign banks to expand their businesses in China;

2) The paper has focused on identifying the differences between strategic entry decisions, but it does not provide reasons for the differences. Using a pattern-matching technique, we have already found bank-specific resources and global strategies are the main determining factors for the differences in each entry decision. This topic requires further research.

3) We focused on the case study method which is appropriated for the purpose of this study. The ten cases represent foreign banks which have over sixty per cent of the total number of foreign-owned branches. However, there is the potential for a lack of generalisability from the selected case studies. Future studies may be conducted by combining both case studies with an industry survey or by selecting more cases to increase the richness of the data.
By 1952, most foreign banks had withdrawn from the country. Only four foreign banks, namely the Hong Kong & Shanghai Bank, Standard Chartered Bank, the Overseas Chinese Bank, and the Bank of East Asia, maintained offices in Shanghai. While these foreign banks were not allowed to do any banking business, they maintained offices in the hope that the situation would change for the better (Shen, 2000:21). In 1979, the State Council permitted the establishment of the first representative office, the Export-Import Bank of Japan in Beijing. In 1982, Hong Kong’s Nanyang Commercial Bank opened the first foreign branch in China (Nanto and Sinha, 2002).

The “Big Four” SOCBs have generally accounted for over 50 per cent of market share in terms of the total assets of all China’s banking institutions. This concentration ratio was 93.04 per cent in 1994 and has seen a gradual decrease over the years (Wong and Wong, 2001:22). Other bank financial institutions have accounted for 26 per cent of the total bank assets, of which the share of foreign banks shrank from 2.5 per cent in December 2001 to around 1.8 per cent in December 2004 (CBRC, 2004; Leung and Chan, 2006:222).

Among the 14 incorporated foreign banks, seven are wholly foreign-owned banks and seven are joint venture banks. In 1984, Zhuhai Nantong Bank Ltd. opened as the first wholly foreign-owned bank. In 1985, Xiamen International Bank opened as the first joint venture financial institution.

The branch, however, has no legal identity but provides a platform of high and direct control over the local operation by the parent bank.

The second stage of reform was promoted under the “entry approach” with the objective of instilling more competition into the sector in the early 1990s (Leung and Mok, 2000:44; Leung and Chan, 2006). In order to adapt to the rapidly growing and diversifying economy, bank institutions of different ownership were introduced to the market at this stage.

According to CBRC (2004, 2005), Hong Kong SAR is regarded as one of market origins of the foreign MNB to China.

**Abbreviations**

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>BSR</td>
<td>Bank-specific Resource</td>
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<td>FBU</td>
<td>Foreign Business Unit</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIE</td>
<td>Foreign-invested Enterprises</td>
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<td>MNB</td>
<td>Multinational Bank</td>
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<td>OLI</td>
<td>Ownership-Location-Internalization</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>RBV</td>
<td>Resource-based View</td>
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<td>SBU</td>
<td>Strategic Business Unit</td>
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<tr>
<td>SOCB</td>
<td>State-owned Commercial Bank</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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References


