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The determinants of banks' foreign expansion in Southeast Asian countries

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Introduction

- Banking is one of the service industries which are high internationalized, and highly interdependencies with world business and economic development (Caiazza, Pozzolo, & Trovato, 2014). Prior studies that sampled well-developed Western markets have investigated the factors influencing large banks' foreign expansion
- Research gap
 - There are small and medium-sized banks with limited capabilities to undertake foreign expansion, but prior research neglected to investigate the small and medium-sized banks' foreign expansion.
 - Prior studies have focused on the banks' market location in developed countries, but few studies investigate the banks' market decisions in emerging countries.

Research aim

- Examining the factors affect a bank's foreign expansion
 - Operational capabilities, in terms of the percentage of corporate customers, affect a bank's decision to enter a country in Southeast Asia.
 - The country-specific experience in the country would be helpful for a bank to enter the country sequentially. Country-specific experience positively moderates the relationship between operational capabilities and whether to enter a country in Southeast Asia
 - Regional experience negatively moderates the relationship between operational capabilities and whether to enter a country in Southeast Asia.

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Hypotheses development

- Factors impact a bank's expansion
 - Host country environment, such as economic and political development in the host country, and the commercial relationship between home and host country
 - Follow the competitors to safeguard their important client relationships from rivals in taking on new foreign markets (Kindleberger, 1983).
 - Follow customers (i.e., Cardone-Riportella et al., 2003).
 - Banks' characteristics and capabilities are relevant to their foreign expansion. i.e., percentage of corporate customers (Chou & Shen, 2014).
- The effect of a bank's operational capability on foreign expansion
 - Serving such customers can obtain more information from the host country
 - Maintain the relationship and lower the uncertainty
 - Ethnic linkage contributes to accessing local information and sharing expedience among firms from the same country

H1: When entering an emerging market, a bank's operating capability is positively related to its tendency to enter a country.

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Hypotheses development

- The effect of a bank's country-specific experience on foreign expansion
 - Organizational learning from experience helps the firms accumulate a country-specific advantage, provide localized products and services to the local market (Bhaumik, Driffield, & Zhou, 2016), and facilitate the firms' sequential foreign entries (Davidson, 1980).
 - Prior expansion experiences to overcome the difficulties of subsequent investment and then to accelerate the decision-making process of subsequently investing in the host country (Chang (1995).

H2: When entering an emerging market, a bank's country-specific experience positively moderates the relationship between operational capability and the tendency to enter a country.

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Hypotheses development

- The effect of a bank's regional experience experience on foreign expansion
 - Large differences from each other in emerging markets. Even within the same region, the capability and experience accumulated in one country may be difficult and costly to apply to another country within the same region. The diversity of the countries makes it hard for the banks to accumulate relevant experience in a specific country.
 - The distance between parents and foreign affiliates might bring higher management costs to the banks and distract their focus on sequential entry in a specific country (Fang & van Lelyveld, 2014). The resource distraction also leads banks to have regional expedience but a lower tendency to enter a specific country.

H3: When entering an emerging market, a bank's regional experience negatively moderates the relationship between operational capability and the tendency to enter a country.

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Sample and Data

- Data
 - Taiwanese banks investments in Southeast Asian countries between 2010 and 2018. We obtained 18 Taiwanese banks information and their foreign entries in 10 Southeast Asian countries.
- Variables
 - *A tendency to enter a country*, is a binary variable measured by whether a bank established branches or subsidiaries in a host country j or not.
 - *Operation capability* is measured by the percentage of the sales generated from corporate customers to the total sales of the bank during a given year.
 - *Country-specific experience*, is measured by the total number of investments the bank i has invested in the host country j before it establishes a new investment in the host country j in the given year t.
 - *Regional experience*, is measured by the total number of countries that the bank has invested in Southeast Asian countries but outside the country j before it establishes a new investment in the country j in the given year t.
 - *Country level control variables* :law and regulation distance, demographic distance, economic freedom
 - *Company level control variables*: bank size, Bank management resources, bank performance, year dummy

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Description and Correction

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1.	A tendency to enter a country	1.09	0.29	1.00										
2.	Operation capability	26.44	11.59	0.19*	1.00									
3.	Country-specific experience	0.66	2.32	0.05	-0.14	1.00								
4.	Regional experience	2.25	2.04	-0.08	-0.08	0.36	1.00							
5.	Law and regulation distance	1.07	0.61	0.06	0.00	0.01	-0.01	1.00						
6.	Demographic distance	1.23	0.73	0.03	-0.12	-0.06	-0.14	0.17*	1.00					
7.	Economic freedom	60.01	12.41	-0.04	0.03	0.00	0.04	0.01	-0.46**	1.00				
8.	Bank size	9.33	0.27	-0.25*	-0.49	0.19*	0.50**	-0.01	-0.15	0.04	1.00			
9.	Bank management resources	3.88	0.37	-0.16*	-0.50**	0.19*	0.40**	-0.01	-0.03	0.04	0.71**	1.00		
10.	Bank performance	8.44	2.77	0.04	-0.03	0.18*	0.27*	0.01	-0.13	0.02	0.04	0.16	1.00	
11.	Foreign investment experience outside Southeast Asia	9.23	12.33	-0.07	0.23*	0.15	0.36**	-0.01	-0.05	0.02	0.07	-0.15	0.28*	1.00
12.	Foreign country experience outside Southeast Asia	3.74	2.72	-0.10	0.28*	0.16	0.52**	0.00	-0.09	0.02	0.30*	0.07	0.01	0.48**

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Regression Result

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	VIF
Constant	-2.491*** (0.237)	-3.079*** (0.342)	-3.043*** (0.303)	3.205*** (0.339)	-3.207*** (0.338)	
Operation capability		0.003*** (0.0006)	0.003*** (0.0006)	0.004*** (0.0007)	0.005*** (0.0008)	3.618
Country specific experience		0.009*** (0.003)	0.019*** (0.004)	0.001** (0.003)	0.024*** (0.007)	4.446
Regional experience		0.007* (0.004)	0.005 (0.004)	0.022*** (0.005)	0.027*** (0.005)	6.275
Law distance	0.019** (0.009)	0.018* (0.011)	0.015* (0.009)	0.018* (0.011)	0.014 (0.011)	1.349
Demographic distance	-0.001 (0.011)	0.001 (0.011)	0.004 (0.011)	0.001 (0.011)	0.005 (0.011)	2.765
Economic freedom	-0.0006 (0.0005)	-0.0006 (0.0005)	-0.0005 (0.0005)	-0.0006 (0.0005)	-0.0005 (0.0005)	1.478
Bank size	-0.225*** (0.031)	-0.166*** (0.039)	-0.171*** (0.036)	-0.155*** (0.040)	-0.158*** (0.039)	3.829
Bank management resources	0.029 (0.023)	0.019 (0.023)	0.021 (0.023)	0.016 (0.023)	0.016 (0.023)	2.913
Bank performance	0.002 (0.002)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)	1.618
International investment experience outside Southeast Asia	-0.0008 (0.0005)	-0.001** (0.0005)	-0.001** (0.0005)	-0.001** (0.0005)	-0.001** (0.0005)	1.762
Country experience outside Southeast Asia	-0.0005 (0.0022)	-0.008*** (0.003)	-0.009*** (0.003)	-0.005* (0.003)	-0.005* (0.003)	2.428
Operating capability x country specific experience			0.022*** (0.008)		0.035*** (0.013)	4.348
Operating capability x regional experience				-0.001*** (0.0002)	-0.001*** (0.0002)	8.221
Year dummy	Yes	Yes	Yes	Yes	Yes	
N	1458	1458	1458	1458	1458	
Adj. R ²	0.086	0.099	0.103	0.106	0.115	
Log-likelihood	338.9	350.8	354.4	355.9	364.2	

Results and Conclusion

- These emerging markets are not only very different in terms of economic development, political, and regulatory environments, but also in terms of financial and bank supervision regulations and market openness.
- Accumulating experience from one Southeast Asian market may be limited to applying to other neighboring countries. This result also reflects the importance of establishing connections with local partners and relationships because forming and developing local networks is helpful to access specific assets, which is relevant to increasing commitment and investment in foreign markets.
- Small and medium-sized banks need to localize and develop different and specific country strategies to serve local customers when they enter such regions.
- Research limitations
 - Future research can consider other emerging markets, such as India or Central and Eastern European countries
 - Considering the influence of localized products provided by overseas affiliates for the host country market. Exploring whether the localization development strategy of small and medium-sized banks contributes to subsequent investment.