Understanding the Motivation for and Process of ODI in the financial Sector: based on the case of Chinese multinational Banks

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Abstract: Financial globalization and internationalization nowadays may stimulate the outward direct investment of the financial sectors. In the internationalization process, China, as an emerging market, is developing rapidly in economic terms; Chinese banks conduct different cross-border activities to enter into the world market. The purpose of this research is mainly to investigate the internationalization process and pattern of Chinese multinational banks; the analysis will also refer to the motivations and experiences of multinational banks overseas. Thus, choosing a representative bank - Bank of China - as a case study will be beneficial to analyse and summarize the ODI pattern from the specific to the general. Based on the findings that have been evaluated from the data and analysis, traditional theoretical statements on an MNE's outward direct investment could be argued and confirmed ultimately.

Keywords: Outward direct investment; Multinational banks; Motivation; Internationalization process

1. Introduction

1.1. Rationale behind choosing the topic and past research

Past research in the area of the outward direct investment (ODI) of multinational enterprises (MNEs) has largely been theoretical, although there are some relevant papers and literature which focus on ODI in the Chinese banking industry[22, 14, 24]. These studies mainly investigate the general environment of Chinese banks' ODI but are a little weaker in analysing a particular dimension of ODI with a specific bank. The main reason for chosing this topic is, therefore, to conduct an empirical piece of research and enrich the theoretical framework relating to ODI in the financial sector.

1.2. Institutional changes to and reforms of the Chinese banking industry

Over the last decade, the Chinese government has concentrated on banking sector reform. This reform and progress include strengthening regulations, reconstructing state-owned banks, improving capital adequacy and so on. This section will review these aspects.

There is no doubt that the domestic environment and institutional changes in the Chinese banking industry have influenced Chinese banks' outward direct investment; the opening up of the Chinese financial sector to the world market has stimulated the banks to expand overseas[39]. Before China's reform in 1978, the domestic banks were, however, still young and policy and regulation needed to be reformed to coordinate Chinese banks' ODI. After 1979, and in hand with China's "reform and opening up" policy and "going out" strategy, government encouraged ODI as an efficent way to integrate China into world economic market. In particular, China's entering into WTO requires openning to foreign investment; China must intend to reform and strengthen its banks. Firstly, the centralized power banking system was reformed. The previous system caused large amounts of capital to be centralized by the government, which acted against banks transferring capital for ODI activities. Thus, this reform provided a good platform for Chinese banks' ODI. Following the Revolution, the Communist government nationalized all banks and assumed responsibility for directing funds to state-owned enterprises through the People's Bank of China (PBOC). While Chinese banks are smaller in size and total assets, in the 1990s the Chinese government launched a variety of reforms to support the Big Four (ICBC, BOC, CCB and ABOC) restructuring and offering government bonds for 27,000 million yuan of the national debt to replenish the commercial banks' capital funds. In particular, in 2003, Beijing used around $45 billion to boost the capital-adequacy ratio in the Bank of China (BOC) and China Construction Bank (CCB)"[3]. This restructuring and government capital injection provided sufficient external assistance to the banks' ownership when expanding overseas. With the full liberalization of the Chinese market and accession to the WTO, RMB internationlization may stimulate Chinese banks to conduct ODI in foreign markets.

In the post-WTO period, another new bank regulator, the China Banking Regulatory Commission (CBRC), was established in April 2003 and was expected to operate independently of the PBOC. Chinese banks' ODI activities are under the supervision of the CBRC, whose main functions are to govern banking operations, supervising the boards of state-owned banking institutions. Chinese banks' overseas institution buildings must be approved by the CBRC so that they can prevent blind and duplicate overseas investment. Actually, the establishment of the CBRC reflected the new Chinese financial regulatory system. Between 2003 and 2004, with the support of the Chinese government, BOC and China Construction Bank (CCB) were selected to pilot the feasibility of transforming all major domestic commercial banks from having state-ownership to joint-stock ownership.

1.3. External environment of Chinese banks' outward direct investment

For the external environment of Chinese banks' ODI, the international market provided excellent opportunities. Furthermore, most developing and developed countries suffered in the financial crisis of 2009. China's financial sector was also not unscathed by the global financial crisis as demonstrated by the inconvertibility of the RMB, restrictive regulations and slower growth of economy. By contrast, financial crisis accelerated the financial liberalization and internationalization of Chinese banks. In particular, some European and American banks scaled back business in the world due to the financial crisis and the European debt crisis. Most developed countries were affected extensively and implemented deregulation; developed countries lowered the threshold for market entry. After 2007, large numbers of Chinese banks grasped the chance to invest in leading markets, such as Europe and America, and Association of Southeast Asian Nations (ASEAN) countries' markets. At the same time, because of the depreciation of the US dollar and the strong momentum of the RMB, Chinese banks exploited their liquidity advantage to fill the global financial market's capital gap.

2. Literature Review

2.1. General theory of banking internationalization

In recent years, the research and expansion of service FDI has stimulated the theoretical contribution of multinational enterprises in the service sector. Some researchers argue that the foundations of service firms are the same as those of manufacturing firms[20, 11, 36]. Therefore, some theories that relate to manufacturing firms have been applied in the investigation of service firms. Undoubtedly, international production systems of service have been established and service functions are increasing globally in the same way as manufacturing. Thus, it is necessary to review a variety of theoretical frameworks for manufacturing MNEs and service internationalization. These will provide a foundation for investigating Chinese multinational banks.

2.2. Multinational banks as service MNEs

Theories that link with manufacturing MNEs have been applied to explain service internationalization, but the strategies of service MNEs may be a little different from those of traditional manufacturing. It is evident that banking is a significant sub-sector of services which are heavily reliant on human skills and knowledge. Ekeledo and Sivakumar (2004) have asserted that the location and entry mode of service delivery are determined by the non-tradability of banking products. As mentioned in the knowledge- based approach, soft technologies like experience, management and technical know-how are the main types of knowledge transfer in multinational banking.

Documentation[18] have argued that "delegated monitoring and the need to protect the knowledge of the client and product lead banks to high levels of internalization with preference for wholly owned operational modes over exporting etc". Documentation[5] insists that MNB expansion is quite different from non-bank ODI; multinational banks usually internalize existing long-term client relationships to exploit their competitive advantage. In order to acquire this bank-client relationship, information and knowledge are important factors that may influence their service for clients overseas.

2.3. Entry mode choice

It is clear that banks prefer to conduct FDI by one or two of four organizational forms: representative offices, agencies, branches and subsidiaries. Documentation[20] assert that these forms could reflect increasing qualitative integration with the local market. Documentation[30] support this opinion and argue that a representative office is the simplest form and does not run a major banking business; it deals in some advisory capacity for foreign customers. Miller and Parkhe compare the four typical forms and insist that a subsidiary is incorporated in the host country and is a separate legal entity; overseas branches are supported by the resources of the entire organization and mandated by the parent bank. Documentation[12] have also criticized the choices and reasons for firms' expansions with branches and subsidiaries; they insist that "Branch banking is a more efficient organization form; it increases the availability and convenience of

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services to customers, enables banks to achieve economies of large scale operation and lower risk of failure through diversification".

In general, from these authors' opinions and arguments, it seems that each mode of entry has its own characteristics and scope of business. Previous studies by the above authors have demonstrated and analysed the main functions and business of these forms; however, no one could say which entry mode was good or bad. So, these pieces of literature seldom link a specific entry mode with a particular MNB, as it depends on the MNB's real situation and competitiveness. Thus, the literature is a little weak in empirical studies on testing the mode applied by a specific country's MNBs.

As agreed by Sanchez-Peinado and Pla-Barber (2006), international risks play a crucial role in entry strategy decisions. A multidimensional perspective of risk yields a more complete understanding of risk impact on entry strategy decisions. In order to predict and reduce these risks, firms must have the ability to control them. Sanchez-Peinado and Pla-Barber (2006) admit that the ability to control internal production and external economics will determine entry modes overseas. Documentation[1] argue that customized businesses such as banking tend to be dominated by high-control entry modes because high-control entry modes are more efficient for products customized to the user. Therefore, to combine Sanchez-Peinado and Pla-Barber's with Anderson and Gatignon's arguments, market risks and control capabilities may influence the entry strategy decisions of multinational banks. Using these concepts, our research proposes the following:

Proposition 1: As service firms, Chinese multinational banks may tend to use a high- control entry mode like (wholly-owned) subsidiaries in foreign markets.

2.4. Location choice

Documentation[10] have insisted that "Developing countries firms invest preferentially in psychically and geographically close location where relational assets can be exploited most effectively". At the same time, other authors have also proposed that FDI occurs in culturally and geographically close countries. In one empirical study of Asian firms, it was found that firms prefer to invest in markets geographically close to home.

In conclusion, these authors have examined cultural and geographical influences on entry location selection; the argument by Documentation[10] in particular is based on research of developing countries' ODI behaviours. However, they only emphasize cultural and geographical elements as determining factors of location choice in ODI. Based on Buckley and Lau's arguments of ODI in developing countries, Asian firms, especially emerging countries' enterprises, prefer to invest in markets geographically and culturally close to the home country. They will then select other regions based on the distance factor. This study will put forward a proposition regarding location choice. As our research refers to Chinese banks, these banks may invest in different regions, especially Asia, which are culturally and geographically closer than others, such as America or Africa. Similarly, the following proposition may be derived:

Proposition 2: Chinese multinational banks prefer to invest in regions which are culturally similar and geographically close to the home region.

It is obvious that the location of financial centres is found to be closely related to a bank's location choice in foreign markets[13, 25]. Documentation[10] have argued that developing countries over time have increasing target investment opportunities in more advanced countries. However, these authors' arguments seem to be a little weak in representing relevant rationales for investing in global financial centres in advanced countries. Following the argument above, the following proposition will be raised and tested:

Proposition 3: Chinese multinational banks prefer to enter into the global financial centres in advanced countries and invest on a large scale.

2.5. Strategic motives

Documentation[16,17] identified four main types of motivation that could explain why enterprises prefer to invest abroad. These motivations are as follows: market seeking, efficiency seeking, strategic asset seeking and resource seeking. However, the characteristics of the banking sector determine that the motives of a bank are quite different from those of manufacturing enterprises. Documentation[19] argues that market-seeking entry refers to the situation where a bank invests to seek business opportunities. Furthermore, market-seeking entry is more specific than the desire to serve foreign customers proposed by Erramilli. Documentation[31] found that the key motivation for Russian MNE ODI is market potential. Documentation[21] have criticized the fact that a number of large Chinese companies have engaged in overseas investment for market seeking; these companies' expansion abroad was mainly encouraged by the government with the anticipation of entry into the WTO.

Documentation[21] also support the idea that resource seeking has been a key consideration for China's ODI since the very beginning. In particular, companies may establish foreign subsidiaries to exploit resources in order to acquire raw materials for their own industrial operations. Competition for resources[4] and competition for strategic asset accumulation[15] are also occasional motivations for banks.

Apart from the above-mentioned motives, there are other motivations that reflect the wider context of business activities, such as risk diversification and seeking profitability. Documentation[34] argues that profitability is a significant reason for banks choosing to expand overseas. This means that revenues generated as a result of international expansion will exceed the cost of expanding. Documentation[36] shares the same opinion as Tripe and has added the following point: "The increase in profitability sought may be for the banking group as a whole on a global basis rather than just in a new foreign market."

To sum up, the strategic motivations proposed by different researchers are likely to be an efficient theoretical guidance for MNEs' motives in expansion. In particular, these pieces of literature could support the rationales behind MNE mutinational investment from developed to less-developed countries. In fact, there is a lack of adequate empirical research to confirm these arguments regarding firms' motivations overseas, especially in the banking sector. Particularly, our research object is MNBs in emerging countries; whether these motivations of MNEs in developed countries could generate the pattern for developing countries' firms really needs to be argued. Following the arguments made in the literature above, the two following propositions will be tested:

Proposition 4: Similar with traditional strategic motives of MNEs' ODI in developed countries, Chinese multinational banks enter into foreign markets for resource, asset and market seeking reasons.

Proposition 5: Similar with traditional strategic motives of MNEs' ODI in developed countries, Chinese multinational banks may enter into foreign markets for profitability seeking.

In addition, in Aliber's (1984) research, the motivation for bank internationalization is to provide services for domestic enterprises' FDI. Similarly, Kindleberger (1983) argues that banking internationalization acts as both the "follower" and the "leader". In real-life situations, in the late 1960s and early 1970s, US banks expanded rapidly abroad and followed US firms into overseas markets. So, following-the-client theory assumes that banks expand across borders to serve domestic customers who have moved abroad. In developing countries, commercial banks usually set up branches in world financial centres in the early stage; this could be a reflection of multinational banks on their domestic customers' business internationalization. Otherwise, domestic customers overseas will seek financial services in overseas banks. Documentation[37] admits the importance of the following-the-client strategy for a bank. Market imperfections suggest that it is the fear of banks losing existing bank-client relationships to competitors that result in their accompanying their clients abroad.

After a comprehensive analysis, following-the-client theory has undoubtedly been investigated in some empirical studies. However, most researchers have evaluated the motivation for manufacturing enterprises' ODI based on the cases of developed countries. In some research on banking internationalization, banks' ODI will follow customers and provide clients and MNE services. However, this phenomenon and pattern may not fit less-developed countries. The motivations for emerging countries' ODI in developed countries will be addressed. Using this concept, this research has derived the following propostition:

Proposition 6: Chinese multinational banks expand overseas to follow their existing domestic customers abroad.

3. Methodology

This study will investigate the internationalization process and motivations of Bank of China's overseas expansion based mainly on MNE ODI theories; specifically, this research will raise particular propositions under different patterns, which may include the bank's entry mode selection, location decision, timing and motivation. These propositions will be confirmed and tested by data collection and analysis.

In this study, it is required to establish the reasons why Chinese banks enter foreign markets. After studying a bank's ODI patterns, there seems to be a relationship between overseas expansion and the bank's seeking motivations and competitive advantages. Finally, it will be necessary to confirm and further develop relevant theories.

The types of research questions mentioned above deal with operational links which the investigator should trace over time. In this study, the aim is to know "why" the act occurred. The reasons for Chinese general banks or Bank of China entering a foreign market should be studied; the research will also explore how Bank of China has realized its internationalization by investigating over time. This research outlines different propositions regarding Chinese banks' ODI patterns and motivations based on a theoretical framework.

This research chose an in-depth case study: Bank of China. The rationales behind choosing this Chinese commercial bank are presented as follows. Firstly, BOC enjoys comparative advantages in assets and overseas profits. Secondly, Bank of China is the mainland's leading foreign-exchange bank, conducting most of the currency trading for the central bank and other state agencies. In addition, Bank of China has a higher international profile than any other Chinese financial institution, with offices around the world and a Hong Kong subsidiary listed in that city. Therefore, Bank of China enjoys the highest internationalization level among Chinese multinational banks. BOC also conducted ODI much earlier than any other Chinese bank and highlights the extremely high level of the Chinese banking sector. It seems that BOC is a crucial and representative case from which to generate the multinational behaviours of Chinese banks.

The research methods in this study are also worth considering. A single case study relies on multiple sources of evidence. Multiple sources are preferable to single cases because a single case needs to have strong justification. The data collection techniques are often used in combination and, therefore, both primary and secondary research will be used. In the case of Bank of China, the research relies on many of the same techniques as a history, but will add two sources of evidence: the direct observation of events and interviews with the persons involved in the events. For the secondary data in this research, these are collected from documents such as supporting financial textbooks, journals, Bank of China’s website, the bank’s databases and so on. For the primary data, the interviews will appear to be guided conversations rather than structured queries and are usually adopted in single case studies. This study will conduct semi-structured interviews with different branch managers of Bank of China. A list of themes and open questions will be covered which will guide the specific context of Bank of China’s ODI motivation and internationalization process. The interview questions can be seen in Appendix A.

4. Data Analysis and Findings

In this section, the study will mainly focus on investigating the internationalization pattern and motivation of Chinese multinational banks’ ODI. In order to establish the results and test the propositions outlined in the literature review section, this research will use Bank of China (BOC) as a single case; through analysing the data for BOC’s ODI behaviour, the aim is to use these findings to prove and generate the generic pattern of Chinese banks. Relevant theories and literature will then be tested and confirmed. The data analysis and findings will be presented from several dimensions: entry mode choice, location selection, and entry motives.

4.1. Data presentation and findings on entry mode choice

The entry mode choice is meaningful and crucial for a bank's internationalization process and performance. One task here is to test the proposition put forward in the literature review.

Proposition 1: As service firms, Chinese multinational banks may tend to use a high- control entry mode like (wholly-owned) subsidiaries in foreign markets.

In order to test this proposition, this study will analyse a single case: Bank of China's basic entry mode pattern.

Firstly, BOC adopts the newly-built as its approach to entry into foreign markets. It is clear that most multinational banks usually conduct ODI by choosing newly-built overseas institutions; they usually invest overseas in four newly-built organizational forms: agencies, representative offices, branches and high-control (wholly-owned) subsidiaries. There are also still some banks which treat mergers and acquisitions (M&A) as a less costly way to expand overseas, as newly-built overseas institutions may be restricted by the host country's financial regulations and laws. Newly-built institutions also have a high level of capital and asset requirements from the parent bank.

The Former Chairman of Bank of China - Mr. Xiao - once summarized the bank's strategic target in a public media interview: As China's foreign-exchange bank, Bank of China is the most exposed to foreign markets of the country's major financial institutions, we want the bank to grow aggressively overseas but aren’t interested in acquisitions and we don't have any plan or intent to make either foreign or local acquisitions…Our overseas expansion plans will rely on our own strengths, such as relying on newly-built branches or subsidiaries overseas.

Secondly, it is evident that establishing a branch is the most frequent form that BOC has chosen; this can be supported by observation and data collection from BOC’s website and other materials. In particular, this research arranged a face-to-face interview with the Manager of the Business Department - Miss Wang - in BOC’s sub-branch and she charted the entry mode selection of BOC. She reported the following: Establishing branches might be the primary method for BOC’s expansion overseas until now. Especially, Bank of China has opened up a large amount of branches in capital markets such as Paris, Brussels, Frankfurt and Luxembourg.

The data presented in the graphs below may also demonstrate that branches are the main type of overseas institution of Bank of China. This research has counted and clarified all the newly-built overseas institutions of BOC since 1929, as that was the year BOC established its first overseas institution in a foreign country. Figure 1 below illustrates the entry modes for BOC in foreign markets and the percentage of each entry mode selection.

The above graph provides basic information regarding BOC’s 552 overseas institutions in foreign countries from 1929 to June 2018. It is obvious that Bank of China has chosen four major newly-built entry modes overseas, as follows: representative offices, branches, sub-branches and subsidiaries. In addition, the figures above can be reflected as a percentage of each organizational form. BOC has established branches in foreign markets during this period, which accounts for 69% of its total overseas institutions. Thus, it is clear that branches are the most frequent form of BOC’s overseas institutions.

Finally, Bank of China also prefers to set up high-control (wholly-owned) subsidiaries in foreign markets. Previous studies demonstrate that the banking sector selects a high-control entry mode in foreign countries so that it can customize products to users efficiently. There is no doubt that the wholly-owned subsidiary is the typical form. Relevant evidence below can confirm this argument.

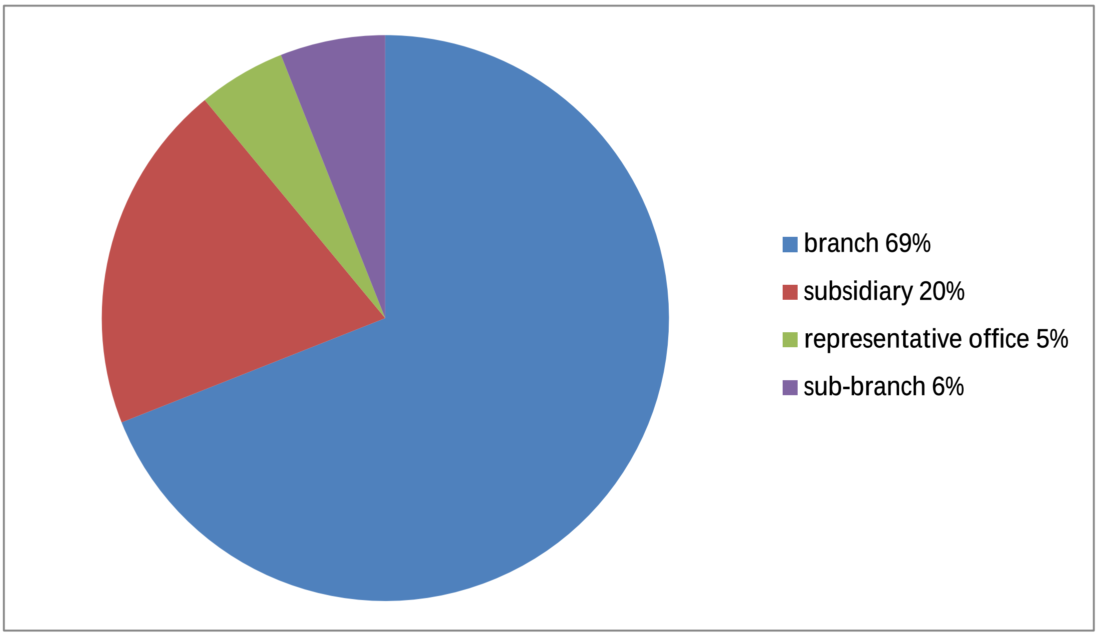

Figure 1. Organizational forms (entry modes) of BOC in foreign markets between 1929 and June 2018 (Source: Author's elaboration based on BOC's website)

From the data presented in Figure 1 above, BOC has set up nearly 110 subsidiaries during the period from 1929 to 2018. The percentage of wholly-owned subsidiaries accounts for 20% of total institutions. The development scale of wholly-owned subsidiaries is just to follow the branch. The CEO of BOC, Mr. Li Li-hui, announced the following at one press conference: "Our bank enjoys a unique advantage in establishing business overseas through its international existing network of high controlled subsidiaries"[40]. Furthermore, the Business Department Manager in BOC's sub-branch, Miss Wang, evaluated the competitive advantages of BOC in establishing wholly-owned subsidiaries in a face-to-face interview. She asserted the following:

Bank of China has built considerable wholly-owned subsidiaries, they are mainly centralized in particular regions such as Asia and Europe. Although the subsidiaries have high assets and capabilities requirements, BOC possesses relevant competitive advantages in establishing. BOC was defined as the earliest Chinese foreign-exchange bank before expanding overseas in 1929. Thus, BOC obtains competitive advantages in traditional business and enjoys more experiences than other commercial banks. At the same time, BOC started its internationalization earlier in Asia and Europe, so the bank has obtained large experience skills, knowledge and customization in these regions.

Obviously, it can be argued that establishing a high-control mode requires large resource commitment, registered capital and fixed assets. BOC is said to hold ownership advantages in establishing with competitively labor, possession of financial resource and knowledge. BOC's subsidiaries establishment reflect its accumulation of knowledge and experience because BOC must experience a long process in relation to understanding local regulations, and "know-how". Figure 2 below shows the level of control and resource commitment of entry modes. According to the figure, the level of resource commitment is higher when establishing a wholly-owned subsidiary; thus, it would be a consideration for bank in assets and transaction costs as it needs to bear all costs upon opening. Taking Bank of China as an example, this is the wholly-owned subsidiary that BOC set up in Russia. From BOC information, BOC took a long time to apply this plan, establishing itself in Russia with RUB 935 million, considerable registered capital (see Bank of China website).

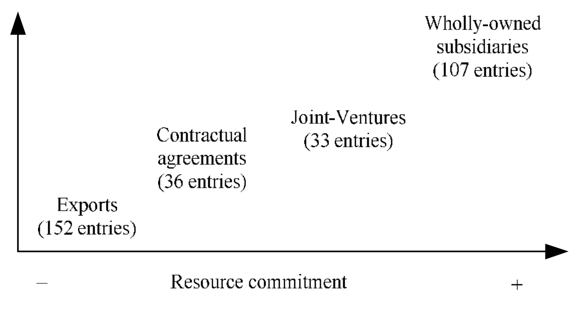

Figure 2. The level of control and resource commitment of entry modes

Source: Author's own elaboratation based on material from the International Business Review

In addition, uncertainty may influence the level of control and lead to high risks. Banks usually need to counter these uncertainties when establishing high-control modes. The uncertainty may come from different aspects, which are presented in Figure 3. These uncertainty risks mainly include the uncertainty of the host country, demand and behaviour. Thus, BOC may select a wholly-owned subsidiary in foreign markets but will proceed with caution and location advantage. This could explain why BOC set up the majority of its wholly-owned subsidiaries in Asia and Europe, where it has good understanding with local demand and lower cost labor. BOC may also examine its internal situation and try to exploit internal sources in competition. For market uncertainty, BOC reduces this barrier through personal contacts and bank-client relationships. In particular, with the "opening up" policy, large amounts of domestic enterprises have invested in Asian and European markets and BOC may follow these existing client relationships, serving individual overseas Chinese clients and MNEs that have already built cooperation with BOC.

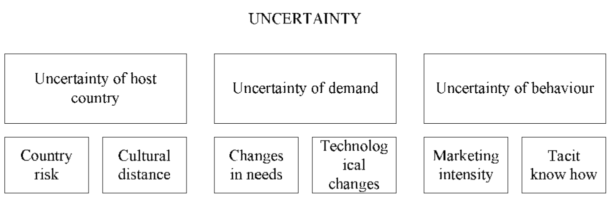

Figure 3. Uncertainty of risk

Source: Author's own elaboratation based on Documentation[29].

To sum up, from the data anlysis of Bank of China's entry mode choice, it can be concluded that BOC has expanded overseas and subsequently set up high-control wholly-owned subsidiaries in particular foreign markets. The findings regarding BOC could prove that Chinese multinational banks or state-owned banks may enjoy a high-control mode in ODI. Thus, result is consistent with previous literature and Propostition 1 can be confirmed: Chinese multinational banks prefer to use a high-control mode in foreign markets.

4.2. Data presentation and findings on location selection

This section will mainly demonstrate and test Chinese banks' ODI pattern in location choice. Identifying specific locations and markets for expansion is crucial because appropriate market choice may be a major determinant for the success or failure of a firm, especially in the early stage of internationalization.

Proposition 1: Chinese multinational banks prefer to invest in regions which are culturally similar and geographically close to the home region.

In order to test this proposition, it is necessary to evaluate the number and distribution of Bank of China's overseas institutions in different regions using the official data.

Firstly, it is evident that BOC prefers to invest in Asia region with larger scale. The data presented below may support this opinion. Figure 4 displays the percentage of institutions that BOC established in five regions from 1929 to June 2018.

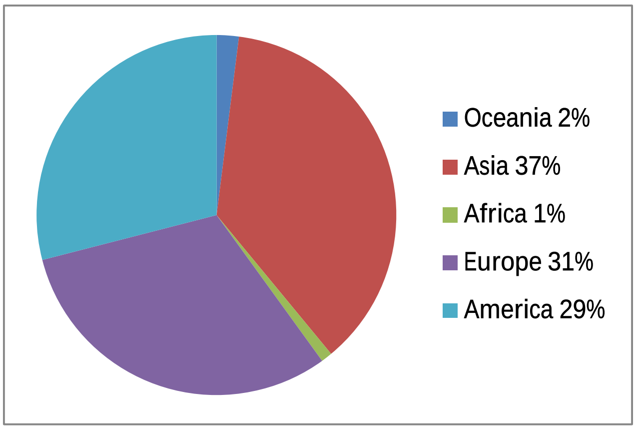

Figure 4. Percentage of institutions that BOC established in five regions

Source: Author's own elaboration based on BOC's official website

Regarding Figure 4, BOC's institutions are located in five regions: Asia, Europe, North America, Africa and Oceania. It is clear that BOC set up institutions in Asia, North America and Europe in the first ten years of internationalization. The number of institutions in the Asian region increased rapidly during 90 years, which accounts for the largest percentage of 37%; there are 138 institutions in Europe, which account for 31% of total institutions; and 29% of BOC's overseas institutions are located in the North and South America region. However, BOC began to establish four institutions in Africa and six in the Oceania region between 1989 and June 2018. As Australia is the main country in Oceania, investment in the Oceania region is on a small scale; the percentage is less than 10% of the total number.

Consequently, from the figures and data collected, it can be concluded that Bank of China invested in the Asia region at the beginning of its internationalization and there was a rapid increase in the scale of Asian distribution during this period. BOC kept a larger development scale in Asia and then expanded selectively in Europe and North America; however, it maintains operations on a small scale in Africa and Oceania.

Secondly, it is argued that Bank of China chose to invest in the Asia region as its preferred choice and on a larger scale due to certain rationales. The nature and location of selected markets affects a firm's ability to coordinate its foreign operations, so the main reason would be that BOC possesses a location-specific advantage in this region. Firstly, the cultural difference is often the main barrier for Chinese banks' ODI as differences exist in groups of clients and foreign enterprises. If investing in a foreign market long distance and expanding in a country with major differences in cultural customs, it could take a long time for BOC to adapt to the environment and this would add integration costs. Local market knowledge is more readily obtainable and could raise value of resource commitment if the host country has similar culture. Also, as part of the geographically close and "going out" policy factor, more and more overseas Chinese live in the Asian region and BOC may have followed those individual customers who have a similar understanding in culture. The Former Chairman of BOC, Mr. Xiao, has stated in China's Economics:

Our bank must adopt the geographically strategy and differ the different country risks. Especially, Asia's emerging markets have high growth and potential demands, financial institutions may enjoy comparative advantages. Thus, Chinese banks including the Bank of China may select the countries and regions with a similar cultural identity[42].

In addition, according to the Deputy President of BOC, Mr. Yue, interviewed in Country's financialist weekly, Bank of China may consolidate its Hong Kong retail operations to serve as a springboard for expansion in Asia due to its close geography, as Hong Kong is the Asian financial centre[28]. Thus, it can be confirmed that BOC enjoys location advantage in ODI.

Apart from cultural similarity and geographical closeness, BOC enjoys location-specific advantages of natural cost and skilled labour in the Asia region; especially since after the Asian financial crisis, the RMB alone did not depreciate during this event. So, Asian countries have a relevant requirement for RMB services. In addition, BOC enjoys a location advantage in political and trade policies. In addition, due to political and economic forums - APEC and ASEAN - China has built close relationships in trade and politics with other Asian countries. It can be concluded that all these factors may stimulate the banking business for Chinese banks in foreign markets; the location advantages really address and reduce market risks and potential problems.

Furthermore, BOC may adopt a selective strategy in Europe and North America, as these two regions contain global financial centres such as the UK and US and these advanced countries have resources, advanced technology and market profits which attract BOC. The US and EU are among the top ten partners of China and their requirement for financial services is great. However, as BOC's own competence is limited, it will face fierce competition from foreign competitors in global financial centres; operating in these cities requires high-level management skills and a large volume of business. BOC still does not enjoy monopolistic advantages due to lower management skills and a bad debt situation. For example, BOC once spent three years applying for branch establishment in Chicago in the US as the high requirement of risk management capability, total assets. Thus, BOC may select more suitable markets in European countries and North America in which BOC has more confidence and greater competitive advantages.

BOC did not set up an institution in Africa until 1997 as a result of geographical and unstable political factors such as bilateral trade relationships and market demands. However, with the increasing trade volume between China and African countries, RMB services are becoming more and more essential in this region, especially as BOC gradually invests in this area so that it can serve the Chinese multinational enterprises in Africa. This action could complete RMB business overseas. Therefore, although the scale of BOC's ODI in the African region is smaller than in other regions, BOC is continuing to expand with a more refined service system (such as in Zambia, South Africa).

In conclusion, the findings of the above analysis can be evaluated as follows. Bank of China has maintained a rapid increase and larger scale of expansion in the Asia region because it possesses location-specific advantage in this area; especially in terms of factors of being culturally and geographically close. It may generate a pattern for Chinese multinational banks and the findings can match previous literature and confirm Proposition 2: Chinese multinational banks prefer to invest in regions which are culturally similar and geographically close to the home region (such as the Asia region). Indeed, according to the case of BOC, it can generate a generic location pattern that Chinese banks may be selective in investing in Europe and the North America region; however, they maintain exploratory expansion in the Middle East or African regions.

In the literature review section, this research put forward another proposition regarding location decision:

Proposition 3: Chinese multinational banks prefer to enter into the global financial centres in advanced countries and invest on a large scale.

Thus, the study will test this proposition with data and analysis. It is essential to evaluate the distribution of BOC's institutions in some main financial centre markets and cities through the data collected.

Firstly, it could be seen that BOC has arranged distribution in some global financial centers. Figure 5 and Figure 6 below show BOC's ODI in the main financial centre cities of advanced markets.

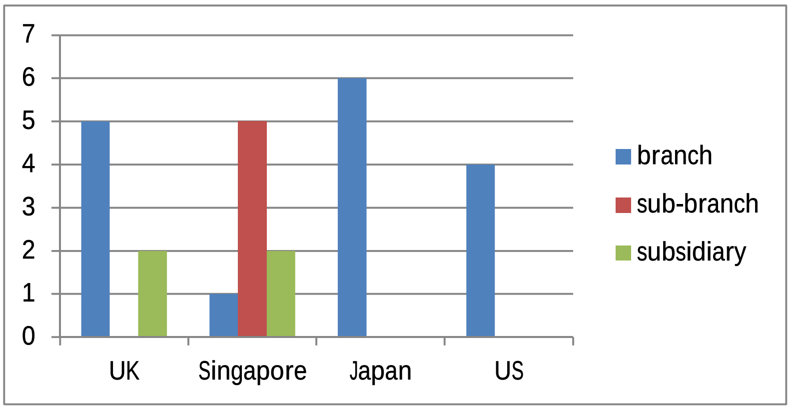

Figure 5. BOC's overseas institutions in the main global financial markets between 1929 and June 2018

Source: Author's own elaboration based on BOC's official website

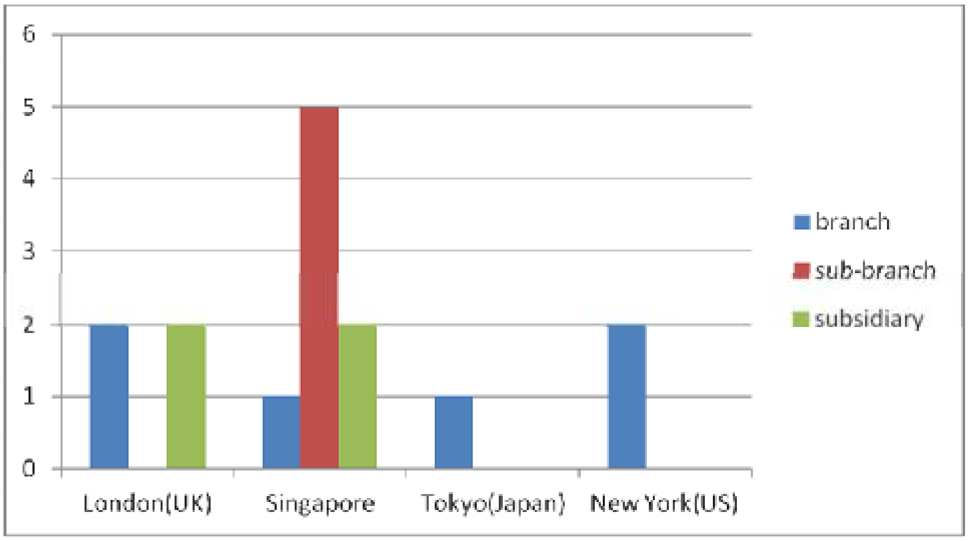

Figure 6. BOC's overseas institutions in global financial centres between 1929 and June 2018

Source: author's elaboration based on BOC's official website

Note: From the figures, BOC set up five branches and two subsidiaries in the UK with three institutions in London; it set up four branches in the US with two branches in New York; BOC established six branches in Japan with one branch in Tokyo; it also established one branch, five sub-branches and two subsidiaries in Singapore.

Combining the two graphs above, they display the overseas institutions of BOC in global financial cities in advanced countries between 1929 and June 2018; the graphs also show BOC's overseas institutions in these four more advanced countries. These are as follows: London (UK), New York (US), Tokyo (Japan) and Singapore. From the two graphs, BOC has already established different typical organizational forms in these cities such as branches and sub-branches; in particular, there are two high-control subsidiaries in London and Singapore. Compared with other Asian countries, BOC also set up a larger number of institutions in Singapore and Japan.

Secondly, BOC expanded on a large scale in these global financial centres for some historical and reliable reasons. Through the historical records of BOC and interviews with BOC's President, as a traditional global foreign exchange bank, its main business is foreign exchange and international trading. In order to develop a world market and promote foreign exchange business so that it could raise foreign capital, in the first stage of BOC's internationalization the bank set up its first overseas institution in London in 1929 and as of now this has been in operation for 89 years. At that time, China's international transfer and foreign exchange payments were operated by London banks. Setting up a branch in London promoted capital flows and raised capital for BOC. Thus, the rationale behind investing in London could be asset seeking.

Between 1931 and 1936, BOC continued to expand in Singapore and in Japan's centre, Tokyo. These two countries are close in cultural and geographical aspects; they are also two of the global financial centres in the world in the Asian region; Singapore is the largest futures trading market in Asia and Japan is one of the largest foreign exchange markets in the world. These two countries possess highly intensive financial institutions. BOC would possess location-specific advantages in expanding in these countries. Furthermore, the main task in these two global centres is to serve overseas Chinese clients. Large amounts of foreign exchange business come from these two countries. If BOC expanded its business in the Asia region, it would have to strengthen its position in these Asian financial centres as they contain most of the overseas Chinese clients. Thus, the original rationale for investing in Japan and Singapore was to follow clients overseas.

After China's liberalization, and the difficulties in the Chinese economy from 1932 to 1934, BOC lacked adequate capital preparation. US laws and regulations did not allow foreign banks to accept deposits; thus, the New York branch of BOC was not established until 1935. As a global financial centre, the US has always kept strict financial regulation of market entry. However, BOC did not give up its aim. Until now, BOC has established four branches in different locations in the US. In other words, it could be demonstrated that BOC's asset capability and risk management are accepted in the US. In recent years, the US has also modified and improved its financial regulations for overseas banks, such as by introducing the International Banking Act (IBA) of 1978 and the Foreign Bank Supervision Enhancement Act of 1999. These could provide an external opportunity for BOC’s large expansion[44].

To sum up, from the data analysis of BOC’s ODI distribution pattern, the findings are clear: this bank has invested a range of institutions in the global financial centres of advanced countries and BOC is still keeping an increasing trend in expanding in these cities such as London. Thus, the findings are consistent with Proposition 3 above: Chinese multinational banks prefer to invest in the global financial centres in advanced countries and on a large scale. What is more, the findings regarding BOC also include the reasons why this bank might have invested in particular financial centres. This will enrich and provide previous literature theories with some empirical support.

4.3. Motivations

4.3.1. General motivations

In this section, relevant propositions that based on the motivation of Chinese banks’ ODI will be explored through testing the case of Bank of China. The propositions are analyzed and tested in detail.

Proposition 4: Similar with traditional strategic motives of MNEs’ ODI in developed countries, Chinese multinational banks enter into foreign markets for resource, asset, and market seeking reasons.

Firstly, absorbing local technology and resources is one of the motivations for BOC's ODI. From the general development history of Chinese banking system, Bank of China has been set up in the unstable political environment. Due to the mono-bank system between 1949 and 1978, this lead to large gaps between Chinese commercial banks and foreign multinational banks in product innovation, management skills and profitability. As the financial systems in developing countries are weaker, if China continues introduce foreign banks only, it will make a shock for Chinese financial system. In addition, with the Chinese government's “reform and opening up “and "going put" policy, there are fewer restrictions on Chinese banks' ODI. For example, Chinese government once supported capital injection for the Bank of China's assets in reforming in 2003. It is evident that the better channel is "going out", especially setting up overseas institutions in advanced countries and global financial centers. This will ensure Chinese banks may mix into surrounding environment to learn local technology and introduce resources. For the Bank of China, the CEO of bank insisted in the Boao forum of Asia, he said that the Bank of China and general banks lack of perfect operation and management system, the internal resources are not complete; the Bank of China is still in discovered stage. As the information technology and recourses management are lagging behind, Bank of China and Chinese commercial banks have not formed core competences yet. Seeking the outward direct investment is an effective way to improve competitive advantages[43]. Consequently, these above analysis can confirm that BOC expands its ODI for technology and resource seeking. It could generate the pattern for Chinese multinational banks.

Secondly, the asset seeking is one of the ODI motivations. It is obvious that Bank of China has introduced the big four corporate partners: Royal Bank of Scotland, UBS, Temasek and the Asian Development Bank. Each may take significant states in the BOC's business and give Bank of China a range of financial know-how. It is an efficient way to share the market information and operation-related knowledge, which belong to tangible assets of foreign markets[23]. Also, the business department manager---Miss. Wang in BOC's sub-branch evaluated the one of the motivation of BOC's expansion, she insisted:

One of the BOC's rationales for expansion overseas is seeking for complementary asset and promoting brand, especially Bank of China established wholly-owned subsidiaries in foreign markets and extended its brand into those markets; such as The Bank of China International (UK) limited. This would be effective to associate local market channel.

Thus, an effective way for seeking assets is to outward direct invest or establishes new institutions overseas. So, it is proposed that Chinese banks may seek for assets in foreign markets.

Thirdly, it is argued that Bank of China is now investing abroad for market seeking reason. In other word, the bank is said to develop new market and raise brand awareness; also, in the post WTO period, Bank of China or Chinese general banks are facing dramatically competitions from foreign banks, they must seek for large market and profit space. From the face-to-face interview with the office director in BOC's secondary branch—Mr. Dai, he provided the evidence for this argument. He pointed:

Under the WTO accession to open Chinese financial market, it is inevitable that BOC may face pressures in home country. It is essential to seek for new foreign market and compete internationally. There is no doubt that BOC is exploiting its comparative advantage in low-cost labor and intensive production in particular market. One typical case is BOC's ODI in Asian markets. Some Asia's emerging countries still have potential market and profitability opportunity.

In conclusion, the primary interview data above suggest that BOC adopts a range of motives in ODI. Thus, it may prove the generic motivations of Chinese multinational banks in ODI. It is confirmed that Chinese multinational banks prefer to invest in foreign markets for market, resource and asset seeking. Results are consistent with traditional motivation of developed countries in literature, Proposition 4 can be confirmed.

Proposition 5: Similar with traditional strategic motives of MNEs' ODI in developed countries, Chinese multinational banks may enter into foreign markets for profitability seeking.

Obviously, seeking profitability and cost-reduction is another motivation for BOC's ODI. In the international market, there are some inevitable costs in operating overseas and disadvantages in host countries such as: transportation cost, information communication cost. For the Bank of China, as China is close with Asia in culture and geography factor, China also enjoys good trade and FDI relationships with Asia market. So, The Bank of China may seek for the Asian market opportunity and operate its business in Asia as preferred choice with lower-cost labor. Due to the trade agreement among countries and closer location factors, BOC may reduce relevant operation costs and achieve considerable profits. The Proposition 5 could be confirmed that profitability and cost-reduction seeking is one of Chinese banks' motivations.

Proposition 6: The Chinese multinational banks expand overseas to follow their existing domestic customers abroad.

Finally, the financial demand of overseas residents and Chinese state-owned enterprises is rising; following the clients is the motivation for BOC's ODI. These demands include the international settlement, trade financing and so on. The Chinese MNEs may hope that the banks could offer these financial guarantee and supports. Also, Chinese banks could provide the cross-border currency and services for overseas residents. The former chairman of Bank of China—Mr. Xiao asserted in the 'China's Finance' that serving the enterprises' going out is another motivation for general Chinese banks' ODI. These enterprises may operate the direct investment, product export and contracted project so that really need Chinese banks' comprehensive financial services and supports. Also, the deputy president of Bank of China once announced in the public interview and he pointed that Bank of China adopts the mutual benefits and double wins strategy under the situation of RMB internationalization, Bank of China is always keeping the "follow the clients and enterprises" as the basis of going out, while it excavates the overseas countries' large -scale enterprises and premium clients. (see Yunlong website). When reviewing Bank of China's overseas history, Mr. Xiao admitted in the interview that BOC focuses on RMB business and coordinates economic transition; the aim is to serve the Chinese firms "going out" better. For the Bank of China's Africa business, BOC follow these enterprises and provide comprehensive services so that could ensure firms' capital safety. In addition, the Professional Guo who comes from Central University of Finance and Economics in China pointed that Bank of China and other two Chinese commercial banks entering into America market could be a typical example of following the clients. As the Chinese firm is expanding overseas for better space and opportunity, this requires banks have institutions in local market to provide affiliated financial services[26].

Furthermore, this research holds a face-to-face interview with the employee who possesses professional knowledge about the development history and International business of Bank of China. Mr. Dai is the office director in the department of foreign exchange in BOC's secondary branch. He accepted the interview and charted about the motivations of BOC's overseas expansion. He mentioned:

In general, Chinese commercial banks are still in the early stage of internationalization, for Bank of China, it shares the similar motivation with other Chinese state-owned banks in "following the clients". Combined with Chinese history, with the "reform and opening up" policy, many Chinese enterprises seek profits and invest in foreign markets. Chinese banks prefer to pursue these existing clients and follow them to dominate the market share in foreign markets. Also, serving domestic clients enjoys comparative advantages in information relationship and reduces market risk and operation cost. The aim is to serve financial services for Chinese state-owned enterprises and overseas Chinese.

Thus, the interview data can suggest that following the clients is the motive for BOC's expansion; the same with previous literature on MNBs, we can confirm the Proposition 6 that Chinese banks may invest in foreign market to serve for existing clients abroad.

4.3.2. Special motivations

First of all, the RMB internationalization could stimulate the Bank of China to expand overseas. China as the country of RMB issue, Chinese banks are the main publishers and promoters of RMB services; with the rapid increase in international trade and FDI, the development of RMB internationalization has a promotion for Chinese banks' overseas business, it is mainly reflected in product and business innovation, risk management innovation. Thus, expanding ODI in overseas countries may provide supports for RMB overseas business. Bank of China's Former Chairman, Mr. Xiao, has stated the following in an interview:

RMB is becoming an international currency and Bank of China is a bank with a hundred-year history, our bank must act as the vanguard to expand ODI and promote RMB services in those markets. The bilateral and multilateral cooperation will promote RMB business; our bank may grasp this chance and grab RMB services through expanding ODI. Bank of China has extended in the African region such as Zambia and North Africa; we tend to serve Chinese MNEs in RMB settlement and fund-raising.

Consequently, the argument and evidence above indicate that the RMB internationlization acts as the improtant motives of BOC's expansion in foregin countries. Actually, all the Chinese commerical banks possess the function to serve the RMB service. This research may derive that:

Proposition: Chinese banks may enter into foreign markets to support RMB internationlization.

As this propostition is based on the China's specific condition and internal environment, it can repenish this special case to the previous literatures on MNEs in developed countries.

5. Conclusion and Recommendations

5.1. Review of the findings

In the analysis and findings section, this research mainly presented an analysis of Bank of China's internationalization process, entry behaviour and motivation for ODI. The results of the BOC study reflect the general patterns and behaviour of Chinese multinational banks. Consequently, in the entry mode choice, Bank of China (Chinese general banks) prefers to adopt newly-built organizations overseas, such as branches and representative offices. Through the data analysis, the branch has been shown to be the main type of institution BOC establishes in foreign markets because this form of organization can receive support from the parent bank and operate a complete banking business. In addition, it can be concluded that Chinese multinational banks may set up a high-control mode in foreign markets, such as a wholly-owned subsidiary. Banks adopt a selective attitude in building subsidiaries overseas just as BOC has considered the costs and profits issues. Through the data presentation, Chinese banks are shown to be selective in location choice and distribution. Firstly, it is confirmed that the Asian region is the main overseas distribution for Chinese multinational banks. As it is culturally similar and geographically close, this region will be more effective for the exploitation of assets. Secondly, it is confirmed that Chinese multinational banks prefer to invest in financial centres over time. What is more, Chinese banks in developing countries also enjoy ownership, location and internalization advantages derived from the home country in their ODI pattern. It can be proposed that specific knowledge can be exploited by Chinese banks to reduce market uncertainty in foreign markets. For the motivation of BOC's ODI, this shares the same general motivation with traditional MNEs' ODI, as follows: resource seeking, market seeking, assets seeking. In particular, it is argued that Chinese general banks follow clients and invest overseas. Another special rationale is the requirement of RMB internationalization.

5.2. Recommendations

To sum up, apart from internal and external opportunities for Chinese multinational banks, Chinese banks still face different challenges and difficulties in the internationalization process. Especially, Chinese multinational banks' core competences are still weaker than those of world banks. It is recommended that Chinese banks improve their risk management capability in order to reduce market uncertainty and country risk. It is necessary to enhance knowledge and experience accumulation so that this can improve the competences and advantages of MNBs. For future research, it would be meaningful to investigate the ODI of other Chinese banks which have competitive power, as future research may gain other specific achievements from these internationalization experiences; these banks' ODI behaviour may differ from that of BOC, which has enjoyed one hundred years of internationalization history. It is suggested that the ODI activities of banks in other emerging markets are also worth analysing and generating.

6. Appendices

Appendix A: Interview questions for the interviews with staff at Bank of China

Q1: "What are the characteristics and business strategies of Bank of China?"

Q2: "What might be the motivations of ODI for Bank of China?" (Why does Bank of China want to enter foreign markets?)

Q3: "What are the challenges and successful experiences for Bank of China in ODI?"

Q4: "How can this kind of foreign entry and operation of business be successful?" (With examples.)

Q5: "What might be the competitiveness of Bank of China in foreign markets?"

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