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Foreign multinational banking in Malaysia: trends, motives and activities

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Abstract

Purpose – The aim of this paper is to analyse and examine the factors affecting the international expansion and market entry of foreign multinational banks (MNBs) in Malaysia. While relevance of the theoretical perspectives is highlighted, the purpose of this paper is to contribute to the understanding of the present-day phenomenon of emerging multinational banks.

Design/methodology/approach – The paper employs multi-method approaches combining both questionnaires survey data and qualitative interviews.

Findings – The findings reveal the fact that profitability, trade financing, following the customers, diversifying the risk and pursuing new market opportunities are among important factors for the presence of foreign banks in the country.

Research limitations/implications – The paper highlights relevance of further research on multinational banking and outlines research avenues.

Practical implications – The paper offers important insight and practical implications for local regulators and policy makers and bankers to understand the behaviour of foreign multinational banking in emerging markets.

Originality/value – The objective of this paper is to fill in some gaps in the literature regarding this research area. The paper provides preliminary research evidence and a framework to suggest hypotheses for further research.

Keywords Multinational foreign banks, Internationalisation, Entry mode strategy, Malaysia, Service sector, Banking, International banks

Paper type Research paper

Introduction

Over the last decade there has been a significant increase in the expansion of economic activities or cross-border foreign direct investment (FDI) by multinational banks (MNBs), spurred by saturation in home markets, financial integration, diversification of business activities in spreading risk, reducing pro-cyclical characteristics, continually seeking new business opportunities and growth, and the relaxation of regulations in the banking system and financial industries in many host nations (Bang Nam *et al.*, 2011; Wu *et al.*, 2010; Claessens *et al.*, 2008; Yildirim and Philippatos, 2007; Vrontis and Kitchen, 2005; Bikker and Metzemakers, 2005; Gelos and Roldos, 2004). Unprecedented developments in communication infrastructures, particularly those dependent on information technology and the internet, also provided an unprecedented opportunity for banks to become international players (Grosse, 2004; Tschoegl, 2003). The MNB has viewed international expansion as a way to enhance profitability by exploiting their skills more fully. In order to seek to strengthen their market position on a global stage, MNBs' choice of entry strategies varies from setting up branches, representative

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offices, subsidiaries, merger and acquisitions, to establishing foreign affiliates aimed at serving niche market segments.

Despite these recent advancements, the literature on multinational foreign banks[1] still offers somewhat limited guidance in understanding and explaining the phenomenon of the international expansion of the service sector. The research efforts in this sector have not kept pace with the growth (Berger *et al.*, 2000). Ahmad (2012), Meng (2009), Netland and Alfnes (2007) and Javalgi *et al.* (2003) are among the many scholars that have noted that the internationalisation of services firms has remained largely under-researched. Furthermore, existing research of MNB mainly focuses on developed countries (Goldberg and Saunders, 1980; Hultman and McGee, 1989; Nigh *et al.*, 1986; Ursacki and Vertinsky, 1992; Heinkel and Levi, 1992; Goldberg and Johnson, 1990; Fuentelsaz *et al.*, 2002), and little light has been shed exclusively on developing countries. Internationalisations of MNBs in developing countries have remained a largely unexplored area and it is still in its infancy (Domanski, 2005). Few empirical studies in the area of banking in Malaysia have been carried out (Abdul-Majid *et al.*, 2011; Abdul-Majid and Sufian, 2006; Sufian, 2009) and certainly fewer in the area of international banking. Ahmad (2012) pointed out that studies on internationalisation of MNB have mainly focused on theoretical issues and the empirical works have relied mainly on the analysis of descriptive statistics rather than rigorous statistical estimations. To date, there seems to be no evidence of any research exclusively undertaken on internationalisation of foreign multinational banking in Malaysia although foreign banks have operated in the country since before independence in 1957, and have a deep knowledge of the local market (Detragiache and Gupta, 2006). The country also is adopting liberal policies to attract more FDI in the economy by making the policy environment more favourable towards foreign investors. Since then, the number of foreign MNBs in Malaysia has increased steadily and has attracted many foreign banks from developed and developing economies to establish their presence in the country. The penetration of foreign banks, their modus operandi, the focus of their business, and their motives is a phenomenon that demands greater attention from both academics and practitioners as Malaysia's economic status further strengthens. In the light of these knowledge gaps, this paper seeks to provide for the first time empirical evidence to analyse the presence of foreign banks in Malaysia and examine the determining factors which have contributed to the growth of foreign MNBs in the country and their implications. Specifically, this paper intends to address the following research questions:

RQ1. What factor determines foreign MNBs' choice of international market, particularly in Malaysia?

RQ2. What influences the entry mode strategies of foreign MNBs in the country?

The main objectives of this study are:

(1) to investigate some of the aspects of foreign MNBs in Malaysia;

(2) to examine the internationalisation motivations of foreign MNBs in Malaysia in the context of existing theoretical strands;

(3) to examine their modes of market entry;

(4) to develop an insight into the foreign MNBs' activities in the country to form the basis for future research; and

(5) to point out practical implications for the regulator and international executive.

Hence, this study hopes to make a contribution to address the neglect area mentioned above. The presence of foreign MNBs in Malaysia and their financial involvement in terms of FDI in banking reflects the dynamism in the economy. The Malaysian Government has already announced that by 2013, the services sector will be fully liberalised. With the anticipated liberalisation and opening of the Malaysian financial market, the study of the determinants of foreign banking presence in Malaysia is timely and expected to bring insights to the existing literature. The empirical results provide a basis for a discussion of the implications for the business strategies of entrants in this rapidly changing banking market. In connection with this, apart from the theoretical discourse, recommendations are made at the end of this paper for practitioners and policy implementers to strengthen the industry.

The remainder of the paper is organised as follows. First, some explanation of MNBs in Malaysia in a FDI context will be discussed. Then, the main findings of literature on MNBs are reviewed. Thereafter follows a methodology section in which the research strategy is discussed and the findings of the study are presented. The paper will end with conclusions on future researches, and implication to practitioners and policy makers.

Rapid growth but limited role: an overview of foreign MNBs in Malaysia

Foreign banks were operating in Malaysia from as early as 1875 with the establishment of the Standard Chartered Bank. However, Salina (2007) argues that the pioneering foreign commercial bank operating in Malaysia was the Chartered Mercantile Bank of India, London and China which was established in 1823. Since 1966 Central Bank of Malaysia or Bank Negara Malaysia (BNM) has prohibited the expansion of existing foreign MNBs in the country to protect the growth of domestic banks and to allow them to strengthen their position in order to compete with foreign banks (Central Bank of Malaysia, 1989). However, foreign MNBs are free to set up their marketing and representative offices in the country. In addition, from 1974, foreign banks were not allowed to establish branches in Malaysia. The progressive decline of foreign banks was the result of a deliberate government policy of developing the domestic financial sector, under which the foreign MNBs have been prohibited to open new branches since 1971 and the last license to a foreign institution – Bank of Nova Scotia – was granted in 1973. In 1989 the government passed a law that required all foreign banks to convert their branches into domestically incorporated subsidiaries within five years. The government also limited foreign shareholdings in individual domestic banks to 10 per cent for an individual and 20 per cent for a corporation, and aggregate ownership to 30 per cent. The government has higher capital requirements for foreign banks, restricts them from opening branches (including automated teller machines (ATMs)), and prohibited them from doing business with state-owned enterprises.

Under the Financial Sector Master Plan (FSMP) issued in 2001 to develop a resilient, diversified and efficient financial and banking sector, BNM in the year 2009 announced a liberalisation plan with aims to pursue opportunities that would bring net benefits and contribute to the development of the Malaysian financial sector and the economy as a whole, while ensuring that overall financial stability and soundness is preserved (Central Bank of Malaysia, 2009a, b). Therefore, the existing institutional arrangements that have been put in place to ensure a continuous supply of talent into the financial system will be enhanced further. Among the elements of the liberalisation package are:

- Issuance of new banking licences, where in the year 2009, two new Islamic banking licences were offered to foreign players to establish new Islamic banks with paid-up capital of at least US$1 billion to enhance global inter-linkages, leverage on global developments in Islamic finance and reinforce Malaysia's position as an international Islamic financial hub. In addition, up to two new commercial banking licences were offered in the same year to foreign players that will bring in specialised expertise to address gaps in the financial sector and spur the development of targeted economic sectors. The Central Bank also announced three new commercial banking licences in 2011 to world-class banks that can offer significant value propositions to Malaysia, and two new family takaful licences were granted in 2009 to players that could offer significant value proposition to Malaysia to spur the development of the takaful industry and reinforce Malaysia's position as an international Islamic financial hub.
- Increase in foreign equity limits, where with immediate effect, existing domestic Islamic banks that wish to scale up their operations and expand into global markets are given greater flexibility to enter into strategic partnerships with foreign players through an increased foreign equity limit of up to 70 per cent. These banks will be required to maintain a paid-up capital of at least US$1 billion. In addition to that, investment banks are given flexibility to enter into foreign strategic partnerships to enhance international linkages and business opportunities. In this regard, the foreign equity participation in investment banks will be increased to a limit of up to 70 per cent. To further strengthen the resilience and competitiveness of the insurance and takaful industry, insurance companies and takaful operators are given greater flexibility to tie up with foreign partners. Accordingly, the foreign equity participation in insurance companies and takaful operators will be increased to a limit of up to 70 per cent. Finally, a higher foreign equity limit beyond 70 per cent for insurance companies will be considered on a case-by-case basis for players who can facilitate consolidation and rationalisation of the insurance industry. Existing foreign insurers that participate in the process will be accorded flexibility in meeting the divestment requirement.
- Operational flexibility, where in order to enhance the opportunity for locally-incorporated foreign commercial banks to increase their potential to provide financial services to the underserved sectors of the economy, with immediate effect, locally-incorporated foreign commercial banks can establish up to ten microfinance branches. Further branches will be considered based on the effectiveness of these branches in serving microenterprises. To promote greater financial inclusion and enhance the ability of the locally-incorporated foreign commercial banks to have a more effective intermediation role in the domestic economy, locally-incorporated foreign commercial banks in Malaysia were allowed to establish up to four new branches in 2010 based on a distribution ratio of one (market centre): two (semi-urban): one (non-urban). With immediate effect, to improve insurance and takaful penetration in the country, locally-incorporated foreign insurance companies and takaful operators are allowed to establish branches nationwide without restriction. Also, to enhance insurance and takaful penetration in the country, the restriction for locally-incorporated foreign insurance companies and takaful operators to enter into bancassurance/bancatakaful

arrangements with banking institutions is now uplifted. To enhance the competitiveness, banking institutions, insurance companies and takaful operators will be accorded greater flexibility to employ specialist expatriates that have expertise to contribute to the development of the financial system in Malaysia. To provide a more flexible operating business environment, offshore banking institutions licensed by the Labuan Offshore Financial Services Authority that meet the predetermined criteria will be accorded flexibility to have a physical presence onshore from 2010. Similarly, offshore insurance companies licensed by the Labuan Offshore Financial Services Authority that meet the predetermined criteria will be accorded flexibility to have a physical presence onshore from 2011. This flexibility will be complemented by a strengthened regulatory and supervisory framework that will govern these players.

Uiboupin and Sörg (2006) argue that the liberalisation of the economies provides great opportunities for foreign banks to enter in the emerging markets, where the level of the financial restrictions (minimum capital requirements) and the privatisation process of the banks constitute the major variables of selecting the country of entry. Based on this argument and the above development and implementation made by the Central Bank of Malaysia, in recent years multinational foreign banks have rapidly stepped up their operations in Malaysia. Therefore, since 2009, BNM has issued seven new locally incorporated foreign MNBs licences (The Star, 2011). Of these, five were to Asian-based banks (Table I).

In 2011 there were 25 foreign MNBs with more than 220 foreign-owned banking facilities (i.e. branches and representative offices – locally and internationally incorporated) in the country, from approximately 18 countries around the world across cities throughout Malaysia (Table II). The table shows foreign MNBs in Malaysia based on their country of origin as of December 2011, with their number of branches and year of establishment. The table shows that the United Overseas Bank (UOB) ranked first in terms of number of branches, followed by the Hong Kong and Shanghai Banking Corporation (HSBC) and The Standard Chartered Bank ranked third with 32 branches. Interestingly, although Al-Rajhi Bank which was established late in the year 2006 has aggressively expanded with 20 branches throughout the country, and is planning to have more branches in the near future. It follows that there are plenty of business opportunities for these foreign MNBs which provide trade financing and loans to investors from their countries. As illustrated in Table II, most of the foreign banking

Name of the bank	Country of domicile
Industrial and Commercial Bank China	China
Consortium of Indian Banks: Bank of Baroda, Andhra Bank and Indian Overseas Bank	India
National Bank of Abu Dhabi	United Arab Emirates
P.T. Bank Mandiri	Indonesia
Mizuho Corporate Bank	Japan
Sumitomo Mitsui Banking Corporation	Japan
BNP Paribas	France

Source: Data from Central Bank of Malaysia (2011)

Table I.
New foreign MNBs that have obtained licences from Central Bank of Malaysia

Table II.
Distribution of foreign MNBs in Malaysia, 2012

Foreign MNBs	Country of origins	Number of branches	Status of operations[a]	Year established
United Overseas Bank (Malaysia) Berhad	China	45 branches	FQFB	1966
J.P. Morgan Chase Bank Berhad	USA	1 branch	OF	1964
The Bank of Nova Scotia Berhad (Scotiabank)	Canada	4 branches	FQFB	1973
Standard Chartered Bank Malaysia Berhad	UK	32 branches	FQFB	1875
Overseas-Chinese Banking Corporation (OCBC) Bank (Malaysia) Berhad	Singapore	29 branches	FQFB	1932
HSBC Bank Malaysia Berhad	Hong Kong	40 branches	FQFB	1884
Industrial and Commercial Bank of China (Malaysia) Berhad	China	1 branch	OF	2010
Deutsche Bank (Malaysia) Berhad	Germany	1 branch	OF	1968
Citibank Berhad	USA	11 branches	FQFB	1959
Bank of China (Malaysia) Berhad	China	5 branches	FQFB	(since 1939 – ceased operation in 1959 and re-commenced business in year 2001)
Bank of America Malaysia Berhad	USA	1 branch	OF	1959
Bangkok Bank Berhad	Thailand	4 branches	OF	1959
The Royal Bank of Scotland Berhad (RBS)	UK	2 branches	FQFB	2008
Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad	Saudi Arabia	20 branches	FQFB	2006
Asian Finance Bank Berhad	Qatar	2 branches		2005 (IIB)
Kuwait Finance House (Malaysia) Berhad	Kuwait	11 branches		1983 (IIB)
Unicorn International Islamic Bank Malaysia Berhad	Bahrain	1 branch		2008 (IIB)
Bank of Baroda Malaysia Berhad	India	1 representative office	OF	2011
BNP Paribas Malaysia Berhad	France	1 branch	FQFB	Presence since 1974. Operated as full banking licence in 2011

(*continued*)

Table II.

Foreign MNBs	Country of origins	Number of branches	Status of operations[a]	Year established
Indian Overseas Bank Malaysia Berhad	India	1 representative office	OF	Awarded a commercial banking licence in 2010
P.T Bank Mandiri Malaysia Berhad	Indonesia	1 branch	OF	Awarded a commercial banking licence in 2011
Mizuho Corporate Bank Malaysia Berhad	Japan	1 representative office	OF	1981
Sumitomo Mitsui Banking Corporation Berhad	Japan	1 representative office	OF	2011
Asian Finance Bank Berhad	Qatar	2 branches	OF	2007 (IIB)
The Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad	Japan	1 branch	OF	1957 (obtained its banking licence in 1959 – changed to current name in 2006)

Notes: [a]FQFB – full qualified foreign bank (locally incorporated foreign banks); OF – other foreign; MRO – marketing and representative office; IIB – international Islamic banks

Sources: Compilation from MNBs Annual Report, company web sites; BNM Annual Report 2009/2010, the Association of Banks in Malaysia Annual Report, 2010; www.en.wikipedia.org/wiki/List_of_banks_in_Malaysia facilities are owned by China (51), Hong Kong (40), UK (34), Singapore (29), the USA (13), Kingdom of Saudi Arabia (20), Kuwait (11), Thailand (4), Canada (4), Japan (3), Qatar (2), Germany (1), France (1), India (1), Indonesia (1) and Bahrain (1) financial institutions.

As demonstrated in Table III, the representative offices of foreign MNBs can only arrange transactions to be booked offshore, i.e. financing trade and investment between Malaysia and their home countries. These representative offices cannot accept regular deposits and only provide for the physical presence and for a listening post for the parent company. However, it offers the bank a low cost entry mode, allowing it to establish its name without requiring the capital cost and risk of setting up a branch or subsidiary. This is a particular advantage where the worth of the local market has yet to be proven or where regulatory frameworks have a degree of fluidity. For branches of foreign MNBs (Table II), they would be able to conduct commercial domestic banking as well as wholesale banking services for Malaysian branches and subsidiaries of firms whose headquarters are in their home countries. They operate strong retail offices and are treated like domestic banks and therefore accept deposits from local or foreign customers. The roles and responsibilities of these branches are similar to Malaysian banks in all aspects and subject to the same regulations. The growth of foreign MNBs in Malaysia can be explained by the "eclectic approach" developed by Dunning (1977). This approach distinguishes three forces at work: internalisation incentives, ownership-specific advantages, and location-specific advantages. Ownership-specific advantages mainly take the form of specialised knowledge and relationships with customers and government in Malaysia, whereas location-specific advantages include the extent of business opportunities and the degree of liberalisation of the Malaysia economy. As the markets for knowledge and client relationships are imperfect, due to their public good and proprietary nature, a bank has incentives to "internalise" these advantages through the establishment of a branch in Malaysia.

Generally, although foreign MNBs entry has occurred in many developing countries, the pattern has not been uniform (IMF, 2000). Countries such as Bangladesh, Egypt, and India have permitted foreign banks activities where foreign MNBs only hold less than 10 per cent of banking assets – but more than 60 per cent in Cambodia, Hungary and Turkey. Historically, foreign MNBs had over 90 per cent of the banking market in 1957, when Malaysia became independent, but by 1997 controlled only 16.7 per cent of

Foreign MNBs[a]	Country of origins	Year established
ANZ National Bank Limited	Australia and New Zealand	1971
The Bank of New York Mellon Limited	USA	2008
Credit Suisse Limited	Switzerland	-
DBS Bank Limited	Singapore	1996
National Australia Bank Limited	Australia	-

Note: [a]As marketing and representative office, all the above foreign banks are not allowed to sell its product in its own right and is not permitted to undertaken any commercial banking activity; generally, their product and services include: capital markets, advisory services and syndicated finance, and also offer a range of corporate banking services such as term financing and project financing

Sources: Compilation from MNBs Annual Report, company web sites; BNM Annual Report 2009/2010, www.en.wikipedia.org/wiki/List_of_banks_in_Malaysia

Table III.
Distribution of marketing and representative offices of foreign MNBs in Malaysia, 2012

banking assets (Detragiache and Gupta, 2006). As shown in Table IV, the total share of foreign bank assets and deposits in Malaysia has improved to about 25 per cent in 2008 (Central Bank of Malaysia, 2009a, b). Moving forward, incumbent foreign MNBs will be able to operate on a more level playing field with domestic banking institutions as the domestic market is increasingly deregulated.

Foreign MNBs perform diverse types of activities and operations in Malaysia, comprising both traditional and innovative services. Such activities and operations on the business horizon have enabled foreign MNBs to differentiate their service packages in a way that suits the business community or a special segment of consumers. The dynamics of such services and operations have been expanded and modernised depending upon present needs. According to Central Bank of Malaysia, in theory, foreign banks may undertake part or all types of business depending on their licences given. However, in practice, the scope of business available is subject to various limitations with regard to customer type, currency denomination of the business, geographical coverage of business, and the specific conditions for extending business scope. It is also restricted in terms of the customer base and currency denomination of business operation. Relaxation of the relevant rules has only occurred in a phased way. A general profile of the banking and financial activities of foreign MNBs in Malaysia are presented in the below list. The extent and scope of these activities also reflects the potential and growth of the Malaysia economy.

A general profile of banking and financial activities of foreign MNBs in Malaysia

Nature of operation of foreign MNBs in Malaysia:

- granting short-term, medium-term and long-term loans;
- taking in deposits from the general public;
- buying and selling government bonds and financial bonds, and buying and selling foreign currency securities other than stocks;
- providing letter of credit services and guarantees, invoice discounting;
- inter-bank lending, remittance, trade finance;
- corporate banking services, foreign exchange and treasury services;
- correspondent banking services;
- trading revenue, local currency bond business;
- bank credit card business;
- providing credit and financial standing investigation and consultancy services; and
- other business operations as approved by the Central Bank of Malaysia (*Source:* BNM Annual Reports (various issues)).

	1997		2009	
	No. of institutions	Total assets (%)	No. of institutions	Total assets (%)
Domestic bank	22	57.0	9	75.0
Foreign bank	13	16.7	25	25.0

Table IV. Structure of Malaysian banking sector: 1997-2009

Literature review: market entry trend and characteristics

Factors motivating internationalisation of MNBs

The internationalisation of MNBs across national borders is becoming a very important issue as more and more countries open their financial systems to foreign investors. What are the factors leading to such a strategic movement? Several studies have attempted to explain this scenario. Traditional theories of multinational banking have pointed out a number of factors that motivate the entry of a bank into foreign market territories. Two main factors are the "follow-the client" behaviour and "the search for profitable opportunities" in the host country (Goldberg and Saunders, 1981; Hellman, 1996; Miller and Parkhe, 1998; Uiboupin, 2005). Investment banks and retail banks are purely driven by seeking local market development. A number of foreign banks are believed to enter emerging markets to serve multinational firms that are headquartered in the banks' home market. These foreign banks are of two types. First there are those which limit their activities to services of their multinational clients, and offer little or no service to other multinational corporations or local customers in the foreign country. They have therefore little impact on the domestic economy. Another profit motive for international expansion of MNBs is to raise abroad cheaper capital to service their domestic needs, as Goldberg and Saunders (1981) and Suechting (1981) have reported. A bank may eventually stretch its human and financial resources to a limit where one activity comes at the expense of the other. Reduced profitability in one market may then motivate the bank to shift its resources elsewhere. Some banks, which may face an already mature or an intensely competitive domestic banking and financial services sector, have chosen to expand abroad to look for growth and profit opportunities. Guillen and Tschoegl (1999), conducting interviews with Spanish bank managers, discovered, that the Latin American expansion by Spanish banks was mainly pursued due to a very saturated Spanish home banking market featuring strong margin pressure and restricted growth opportunities. Another argument for foreign MNBs' presence in other countries is to explore competitive advantages in the less efficient banking system with the hope of expanding their operation by competing with local banks (Heather, 2003).

Entry mode strategy of MNBs

The entry mode decision is made simultaneously with the choice of organisation structure, and hence the level of control (Gupta and Govindarajan, 1991, 2000). The control is based on the context of the investing firm and its presence in the host market. There is some ambiguity in the literature with respect to the categorisation of entry mode strategy. A clear distinction needs to be made between institutional forms of entry (represented by different organisational structures such as branches, affiliates and subsidiaries) and the modes of entry by foreign banks, i.e. greenfield investment versus merger or acquisition of an incumbent bank (Table V). Each entry mode suggests a certain range of business scope in which the foreign MNBs can get involved.

When deciding upon how to become actively involved in a foreign market, a bank has two intertwined organisational dimensions to decide on. For one, the bank has to choose the degree of market involvement it wants to reach (Curry *et al.*, 2003). A low level of involvement is achieved by establishing correspondent banking (cross-border services with the help of a correspondent incumbent bank in the host country) or by opening a representative office or agency. The operational activities of the representative office is

Entry choice	Correspondent banks	Representative office	Subsidiary	Branch abroad
Features	Contract between home and foreign correspondent bank Continuous communication between the partners	No foreign institutions involved Organisational form equivalent to a customer service department Not allowed to do banking transactions	Legal independent entity Subject to the supervision and political risks of the host country No direct access to financial resources from the parent bank	Completely dependent on parent bank Asset and liabilities are accounted in the parent bank's balance sheet Parent company fully responsible for risks and liabilities

Source: Compiled from Wu *et al.* (2010), Meng (2009), Williams (2002), Berger *et al.* (2000)

Table V. Mode of entry of foreign MNBs

restricted, with the bank not enabled to engage in deposit taking or direct lending in the host country (Khoury, 1998). It is the cheapest overseas banking organisational form, and it usually consists of a small commercial office designed for helping the parent bank and its customers in their financial and commercial activities. Kogut and Kulatilaka (1994) argued that representative offices act as an option to a market presence because exit expense is less. Representative offices assist and support the operation of the MNB by providing important market intelligence. This is a particular advantage where the worth of the local market has yet to be proven or where regulatory frameworks have a degree of fluidity. Should market development exceed expectations or certain lucrative deals be granted only to those banks present in the market, a representative office is a foothold. In contrast, via establishing branches or subsidiaries, foreign banks are able to conduct the full range of banking activities and actively participate in the host country banking system (Heinkel and Levi, 1992; Curry *et al.*, 2003). The difference between branch and subsidiary organisations is that the former type is not a legally independent organisational structure, whereas the latter is. The adoption of branch mode enables the parent bank to have maximum control over operations in the host country. Focarelli and Pozzolo (2000) find that banks prefer to have subsidiaries in countries where expected profits are larger, owing to higher expected economic growth and the prospect of reducing the local banks' inefficiency. According to Cho (1985), a bank usually has some degree of control over its subsidiaries in a host country with variation in the degree of ownership from the minority to 100 per cent. In general, foreign bank subsidiaries resemble domestic banks in the host market. They provide a full range of banking services and face the same regulations as domestic banks, except that they are foreign owned. Evidently, branch is the dominant operational form chosen by foreign MNBs. The branch form of entry provides the main operational vehicle for foreign banks to conduct business. The adoption of branch mode enables the parent bank to have maximum control over operations in the host country. In Meng's (2009) analysis of foreign bank expansion in China, he identified that wholly-owned remains the most preferable entry strategy in foreign markets, followed by equity acquisition, joint ventures with local financial institutions, and outsourcing. Generally, regulatory restrictions and profit opportunities may influence foreign banks' mode of entry and organisational form.

Sample and research methodology

Sample and questionnaire

There seems to be no evidence of any research exclusively undertaken on foreign multinational banking in Malaysia in the context of the issue as FDI. This paper attempts to assess the extent of foreign MNBs' presence in Malaysia and analyse the determining factors which have contributed to the growth of foreign MNBs in the country. In accordance with the analytical and exploratory nature of the present research, a multi-method research approach was therefore adopted that combined both qualitative and quantitative research methodologies. The first method generated quantitative data while the second collected richer qualitative details while at the same time validating the quantitative findings. Such a multi-methods research strategy followed Miles and Huberman's (1994) research guidelines. Using the qualitative and quantitative approach in a complementary manner enabled their respective strengths to be exploited and their weaknesses mitigated. Descriptive statistics were used to analyse the data. Despite the rigour in collecting the data, the small sample population means that the findings should be treated as suggestive rather than definitive.

Questionnaire and interview data allow researcher for triangulations. The primary data for this study was gathered through self-administered mail survey and semi-structured in-depth interviews. Structured questionnaires were sent to the headquarters of MNBs that are based in Kuala Lumpur, capital of Malaysia. All questions were answered on a five-point Likert scale (1 – least important; 5 – most important). The questionnaire was sent to the head/senior managers of all the 30 foreign banks in Malaysia based on the particulars provided by the Central Bank of Malaysia. Foreign banks in Malaysia operating with different modes (i.e. representative offices, wholly-owned branches and subsidiaries) and focusing on different business scopes (foreign currency business and Malaysia Ringgit business). All questionnaires were returned. The response rate was 100 per cent.

Semi-structured in-depth interviews

Cross-sectional data for the survey was collected through in-depth interviews with ten selected foreign MNBs managers in Malaysia, based on a structured and pre-tested questionnaire. Each interview was recorded on tape (with the permission of the informants) and subsequently transcribed, thus bringing the researcher "close to the data" (Denscombe, 2003). Interview data were analysed using NUD*IST software. In the context of multinational banking, qualitative methodology such as interviews is attractive because it provides insights into bank behaviour and performance that cannot be captured through other methods (Rhoades, 1998; Cattani and Tschoegl, 2002). The findings of the qualitative data are to support the internal and external factors that drive banks' international expansion.

Various data sources and types

Fieldwork data – company documents collected: international expansion proposals; annual reports; memoranda; formal reports.

Publications about the participant organisation – reports and other press releases: publications of trade journals and newspaper articles; a wide range of publications about the banking and financial industries in general, and the foreign MNBs in particular, through a number of databases such as Science direct, Emerald, CDROM databases such as ABI/INFORM, Business Source Premier and articles in multinational banking database. These data were compared and analysed in conjunction with the findings from interviews. Despite the rigour in data collecting and validating, some might still argue that given the small sample population, the results must be treated with a degree of circumspection.

Market entry trend and characteristics

Motives for international expansion of foreign MNBs in Malaysia

This section highlights the issue of why foreign MNBs internationalised their operation in Malaysia. As illustrated in Table VI, foreign MNBs operating in Malaysia exhibit a mix of motives including both market seeking to preserve their ownership-specific and locational-specific advantages, following their international client abroad and other motives of which being driven by several factors such as pursuing new market opportunities, supporting trade finance, deregulation of banking industry, growth potential, and geographical diversification are the most important. As the banking sector becomes increasingly competitive in their home countries, foreign MNBs seek international opportunities to diversify earnings.

Foreign MNBs are also generally attracted to Malaysia due to fewer restrictions on entry and bank activity and cultural proximity. Foreign banks often simultaneously combine several strategic motives and the dominance of these motives may switch over time with the accumulation of local client base and market knowledge. Entry motives

Motives for internationalisation	Mean ($n = 30$)
Following the international customers (trade and investment)	4.89
Supporting client base	4.78
Looking for new opportunities	4.47
Supporting trade finance	4.62
Malaysia's banking deregulation	4.37
Malaysia's growth potential in the region	4.02
To tap regional market	4.01
Increase market shares in developing economies	3.98
Maturity of a bank's home market	3.96
Technological and managerial know how	3.95
Malaysia's political stability	3.78
Diversification of earning	3.74
Geographical proximity	3.66
Malaysia's excellent banking infrastructure	3.62
Product diversification	3.54
Following the competitors	3.52
Cultural links	3.32
Local market seeking	3.29
Large market size	3.22
High profitability	3.20
International risk diversification	3.15
Strong home market competition	3.01
Historical links	2.97

Note: Scale: 1 – strongly disagree, 2 – disagree, 3 – uncertain, 4 – agree, 5 – strongly agree
Source: Author's survey

Table VI. Average importance of the motives and rationale for international expansion in Malaysia may also vary across different business segments. Market-seeking motive is still the dominant strategic orientation in market entry decisions across the whole banking business segments. Investment banks and retail banks are purely driven by seeking local market development. For corporate banks, following the clients is still important. Many foreign banks consider following the clients rule as an emergent strategy during the initial entry, so as to protect their business in their home countries. This rule captures the incredibly important phenomenon in banking that is embodied in the world – relationship. During the interviews, some respondents claimed that their expansion to Malaysia market is to services of their multinational clients in international transactions, and offer little or no service to other multinational corporations or local customers in the country. In such a case they have therefore little impact on the domestic economy. However, some of these foreign MNBs have entered the market to follow major multinational corporations with which they have global relationships, and then extend their services to other multinationals and large domestic corporations in the country. As claimed by one of the officers in a Japanese bank, "bank clients with significant assets are very hard to move across banking institutions". The Japanese bank serving that multinationals firm in Japan would want to stay close to its client, and, by necessity, would want to set up operations in Malaysia. The finding is in line with those discovered by the earlier studies of Ahmad (2012), Williams (2002), Andersen (1993) and Johanson and Mattson (1988) which pointed out that this behaviour coincides with marketing strategies, where the international expansion of foreign MNBs can be seen as a way of maintaining a relationship with original clients – which are internationalising their operations now – and also as a way to search for new clients.

One of the respondents in a locally incorporated foreign bank claimed that entry into the Malaysian market is clearly part of a broader regional expansion strategy for the foreign MNBs to the Asian market. The depth and breadth of the Asian financial markets are very attractive and the Asian market has witnessed the healthiest performance during the world financial crisis. Looking now at the future, some foreign banks see the search for new clients as the main reason for staying in Malaysia. Another respondent in the interviews remarked that some foreign MNBs entered the Malaysian market in order to take advantage of the growth opportunities in the country and the region. Indeed, to some foreign banks, they are experiencing slow growth in their home countries and search for new markets like Southeast Asia with high growth potentials and Malaysia's being one of the fastest developing markets in this region justifies the increasing appetite of foreigners for the Malaysia financial market. An official from a Japanese bank stated:

> In terms of foreign direct investments, Japan has been a leading investor in Malaysia and there are currently more than 1,400 Japanese companies operating in the country. We strive to cater the need of our clients in the country.

The desire to "follow the customer" acts as a gravitational pull effect and attracts the foreign MNBs in the country where their clients go. A presence in the Malaysia market is not only a window on Malaysia, but on the Asian region as well. One of the respondents from an Indonesian bank claimed that their operation was mainly to collect remittances from the Indonesian workers working in Malaysia. Indonesian migrant workers in Malaysia, of which there were about 1.2 million officially listed last year, contributed the most to the nation's remittance, with \$1.7 billion of the overall

$5.11 billion worldwide (*Jakarta Post*, 2012). He claimed that "the bank will initially cover millions of Indonesian workers who are working in the country by progressively extending the number of outlets". He further asserted: "the geographical proximity and the common idiosyncrasies of the country added value to the investment".

Although in the literature, technological improvement is suggested as one of the host country expectations from foreign entry, this study reveals that the reverse could also be the case. Indeed, the UK, the USA, German and Canadian banks are mentioned as being technologically stronger and more modern than their foreign partners in the country. The foreign banking institutions as a group have generally been ahead of domestic players in terms of financial performance as reflected by the higher return on equity and return on asset, operational efficiency and product innovation in the domestic market. The foreign MNBs have generally operated based on a target market, focused on high value corporate clients as against the mass consumer and corporate customers by the domestic banking institutions. Other factors contributing to the better performance of the foreign MNBs include their global network, access to talents and experience in various markets as well as their superior level of information technology. Foreign MNBs also have a competitive edge in both retail and corporate banking in the areas of financial soundness, risk management and financial innovation, and despite the restrictions on location, they have been growing in Malaysia. To some extent, the findings from the interviews to some foreign MNBs suggest that the variable pertaining to regulation does not have a constraining effect. Once an MNB has established its presence, the regulatory environment does not influence further growth. Although some foreign MNBs claimed that their investments might be partially attributed to the reasons mentioned above, especially the "follow the client" hypothesis, after the setting-up phase, these MNBs tend to develop their services using a local customer base and compete directly with domestic banks. Any attempt to explore the impact of the foreign banks' competition is beyond the scope of this paper.

Mode of entry strategy of foreign MNBs to Malaysia market

According to the survey (Table VII), the most appealing vehicle of foreign MNBs entry into Malaysia banking is through setting up an international branch office. Given that the financial industry is among the most highly regulated industries, these results should be interpreted as mirroring existing opportunities and regulations. Some respondents commented that in fact most foreign MNBs wish to take advantage of maintaining international branches presence in Malaysia in order to "closely monitor the market, observe business risk, obtain credit information, and develop business opportunities".

Entry modes strategies	Mean ($n = 25$)
International branch office	4.89
Subsidiary bank	4.36
Merger and acquisitions	4.04
Joint ventures	3.54
Subsidiaries and affiliates	3.13
Representative offices	3.03

Note: Scale: 1 – unimportant, 2 – low importance, 3 – moderate importance, 4 –high importance, 5 – extreme important
Source: Author's survey

Table VII. Average importance of the mode of entry strategy of foreign MNBs to Malaysia

Given that the Malaysian Government tends to adopt a more liberal licensing policy, branches become the most desired vehicle of entry. To some foreign banks, given their main motive for entering the Malaysian market is a search for new business, a branch network becomes indispensable. A branch network allows banks to deal with a larger number of smaller, local firms and also to operate in the retail market. In addition, since banks constitute companies that are operating in the service sector, setting up international branches seems to be the most preferred strategy for services where there is very high connection between the institution and the customer. Minority interest and representative offices appear to be less popular entry mode strategies.

Areas of business operations activities

Among several areas of business operations activities covered in the survey (Table VIII), the most important is corporate financing. Foreign MNBs are better positioned to deliver products and services that require a global platform, a considerable amount of capital, have a strong technological content, and demand sophisticated skills and experience. As a result, foreign banks tend to focus on corporate banking products which range from trade finance, project finance, syndicated loans, foreign exchange services, risk management products, cash management services to financial advisory services, while domestic banks' presence is more pervasive for the delivery of working capital and term loans. Two types of activities linked with trade services – foreign exchange trading and trade finance – also receive average grades between "important" and "very important". Retail activities are perceived as being the least important. This means that most foreign MNBs in Malaysia do not adopt a retail strategy in the markets. However, in the long-term perspective the retail market will became more and more attractive and foreign MNBs are expected to enter this area in greater numbers.

Business challenges of foreign MNBs in Malaysia

Table IX described the business challenges of foreign MNBs operating in the Malaysia banking market. The degree of business challenges varies from one foreign bank to another. The most cited are strict rules governed by the Central Bank. Often this regulation contained strict rules governing – and in many cases essentially banning – foreign entry to banking systems. For instance, Indonesia's Mandiri Bank has secured

Business activities of foreign MNBs	Mean ($n = 27$)
Corporate financing	4.86
FX trading	4.57
Trade finance	4.48
Project financing	4.35
Dealing in bond and securities	4.32
Other related services in corporate banking	3.85
Retail activities	3.21
Leasing	2.75
Non-finance activities	2.39

Note: Scale: 1 – not important at all, 2 – not important, 3 – important, 4 – very important, 5 – extremely important
Source: Author's survey

Table VIII.
Ranking of activities according to their importance level

a licence to operate in Malaysia, but found problems in meeting three requirements: minimum initial capital, branch limitations and ATM instalment restrictions (*Jakarta Post*, 2012).

Concluding remarks and directions for future research

The emergence of foreign MNBs in Malaysia is becoming ever more important today. Although the nature and the scope of the operations of foreign MNBs in Malaysia may have changed over time, the fundamental bases for their entry into Malaysia have not. The empirical results of the paper provide a basis for assessing the implications for the business strategies of foreign MNBs in the increasingly liberalised and competitive banking market in Malaysia. Therefore, it is important to understand the factors that relate to the internationalisation of these foreign MNBs. Taking into account the high level of foreign MNBs presence already achieved, as well as the low level of domestic capital resources, it can be concluded that foreign banks will be one of the most important forces influencing the shape of financial sectors in Malaysia. The paper makes a potentially valuable contribution to the extant literature in a number of different ways. For example, to the best of the author's knowledge, it is the only empirical study that examines the internationalisation of foreign MNBs. In so doing, it provides some interesting insights into how banks develop their cross-border investment and what motivates them to do so. These are important considerations because technological developments, the deregulation of financial markets and the emergence of global level playing fields have provided both the opportunity and the means for bank management to develop appropriate international strategies. In addition, foreign MNBs have been attracted by the growing business opportunities in the country. The paper also identified that some foreign MNBs tend to expand their operation to Malaysia on the basis of favourable regulatory conditions, historical perspectives or having cultural and social affinity with the home country. They will continue to expand, albeit at a slower pace. The world financial crisis will slow the expansion to be sure.

While the contributions of the study are asserted, there is also cognisance of a few limitations. First, additional primary data should be collected (using personal interviews, structured questionnaires and empirical observations) to observe the performance of foreign banks operated in the country. Second, a comparison of the study with some more recent information might, therefore, throw some light on the way in which the process of internationalisation has changed in recent years. The next stage of the research will, therefore, increase and update the data set and

Activity	Mean ($n = 28$)
High labour and rental cost	2.319
Restricted movement of capital	2.891
Political uncertainty	2.073
Strict regulation imposed	4.879
Limited lending opportunities	3.031
Unfair competitions from local banks	2.365

Note: Scale: 1 – strongly disagree, 2 – disagree, 3 – uncertain, 4 – agree, 5 – strongly agree
Source: Author's survey

Table IX. Factors that may discourage foreign MNBs from setting up a branch in Malaysia address these issues. The findings of this study also need to be interpreted with caution within its appropriate context to suggest both limitations and new directions for further research.

Implication for Malaysian-based banks

The emergence of new foreign players in the Malaysia banking sector has put more pressure on the existing local-based Malaysia banks to ensure that they stay relevant and abreast of market developments. In addition, the opening up of the domestic banking sector to foreign participation has encouraged some of the Malaysian-based banks to venture overseas to compensate for the loss of domestic revenue sources or more generally because they have learnt from the experiences of their foreign competitors who have entered the local market. Thus, as Malaysia's domestic banking system has become more internationalised since the 2000s, existing local banks in Malaysia have both consolidated their domestic operations and also aggressively expanded their operations overseas and have been active participants in cross-border mergers and acquisitions (Ahmad, 2012). Maybank for instance, the oldest and one of the top recognised Malaysia financial service providers, have purchased significant stakes in banks in Indonesia, Cambodia, Vietnam, and the Philippines, just to name a few. Similarly, CIMB Group, the second largest financial service provider in the country, with a vision "to be Southeast Asia's most valued universal bank", has been aggressively establishing ventures overseas in recent years. CIMB has growth consistently in the domestic market and now has an international presence in 13 countries covering Southeast Asia and major global financial centers, as well as countries with which their South East Asian customers have significant business and investment dealing.

Implication for foreign MNBs

Foreign MNBs that capitalise on specific opportunities and market growth in Malaysia need to be very clear about their corporate objectives. Based on the research findings, only a handful of foreign banks have a clear and genuine long-term strategy for the Malaysia market.

Implications for regulator

The banking industry always has the highest government intervention, and therefore the study has implications for the regulators of the banking sector in Malaysia. The existence of different entry strategies among foreign banks suggests that regulators should not only have a macro view of foreign MNBs' 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 MNBs may respond differently to certain rules or regulations in the future.

Final remarks

The empirical findings show major trends and characteristics of foreign banking institutions in Malaysia. The paper offers important insight and implications to the understanding of multinational banking in emerging markets.

Note

1. Foreign banks are defined as fully owned subsidiaries of foreign institutions or domestic banks in which a foreign institution holds a controlling share.

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