The Internationalization of Retail Banking: The Case of French Banks

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This paper addresses the internationalization of retail banking based upon a study of three French banks between 2000 and 2010. It gives useful guidance for retail banking expansion abroad and confirms the necessity of benefiting from the competitive advantage of an effective domestic banking network; targeting opportunities in emerging under-banked countries or under-productive banks in cross-border transactions; integrating new acquisitions, and developing a strong head-office risk control system. Finally, it stresses the causes of certain disappointing outcomes and how to avoid them in future foreign retail banking development.

INTRODUCTION

Research into bank internationalization strategy is largely inspired by theories on the international development of industrial firms, whilst stressing the features specific to banking services. The most in-depth work was realized between 1980 and 2000, drawing conclusions from the international strategies implemented by banks during this period (e.g., Yannopoulos, 1983; Cho, 1986; Gray & Gray, 1981; Tschoegl, 1987; Sagari, 1992; Kim, 1993; Blandon, 1998; Fung et *al*., 2002; Sanchez-Peinado, 2003). These strategies were almost entirely devoted to the development of wholesale banking (Joseph et *al*., 2017) either to support their corporate clients abroad, or to offer commercial or international finance services to overseas clients.

Most research on bank internationalization has been based on the ownership advantage, international diversification, follow-the-client or beachhead arguments (Rugman, 1981; Tschoegl, 1987). However, the question remains of whether these arguments can explain the internationalization of retail banks that do not have ownership advantages to exploit abroad, do not have multinational clients or strategic internalization to follow abroad. Retail banking is different from wholesale banking, and we need to study whether the previous theoretical framework used to explain the internationalization of industrial firms, including wholesale banks, can be used to explain that of retail banking.

Nevertheless, fewer publications have appeared on the international strategy of retail banks (network banks targeting individual clients and SMEs) than that of wholesale banks. Tschoegl (1987) concludes that retail banking does not generally lend itself to foreign direct investment, and Fung et al. (2002) concede that countries tend to protect their markets against overseas competition and their depositors from bank failures. Moreover, Guillén and Tschoegel (1999) conclude that the retail banking industry is

mature, that specific banking savoir-faire is difficult to protect from imitation, and that there is no reason for overseas banks to have any particular advantage over local banks familiar with the local environment. Since this article, some authors, notably Tschoegel (2000) and Slager (2006), have analyzed the recent strategies of universal banks more globally, and empirical studies have investigated retail bank development.

However, there has been no detailed analysis of the determinants and processes behind the very significant development of cross border activity since the late 90s by many international retail banks, particularly French banks. This phenomenon, which had not previously occurred in such an organized and systematic form, was caused by globalization and the financialization of the global economy and has continued to develop in some international retail banks since the last financial crisis. Our study fills this gap in the literature and enhances understanding of retail banking internationalization. We take a qualitative approach based on the analysis of three international French banks to answer the following questions: What key factors characterized their development and enable them to benefit today from a significant retail-banking network abroad?

Since Slager's (2006) research into the internationalization of the world's largest universal banks between 1980 and 2000, to our knowledge, no other study has examined the internationalization of French retail banks. Our analysis reveals that the interest of French bank internationalization lies in their multinational strategy focusing first on corporate banking and then on expansion of retail operations at the end of the 90s. Indeed, between 2000 and 2010, the three largest French banks more than doubled the net banking income of their international retail network and the number of their international staff.

This analysis of the determinants behind the internationalization of French banks corroborates the findings of some previous work, such as the existence of competitive advantages for these banks. However, some determinants seem to have even more influence on the decision to develop retail banking abroad. These include in particular the existence of a mature, saturated local market, the desire to diversify their universal banking model, the opening-up of markets in emerging, under-banked countries with potential for acquisition and organic growth, and the emergence of new opportunities for European cross-border acquisitions resulting from national restructuration and the 2008 financial crisis. Historically, French banks have a well-established internationalization strategy (Chotigeat *et al*., 2004) but, unlike in the area of corporate banking, this study shows that the sequencing of their retail banking development abroad is mostly opportunistic and carried out in accelerated fashion. Furthermore, our findings show that implementing an international retail strategy involves adapting to the local environment, and provides few economies of scale due to aggregation and limited arbitrage.

Our article first reviews the main conclusions of previous research into bank internationalization. Then it presents the research methodology we selected to analyze the international retail strategy of French banks. The third section details the development of the three large French banks that were the most active in this field. The fourth section serves as guidance for other retail banks seeking to expand internationally by summarizing the major factors that characterized this development, and highlights the causes of certain disappointing outcomes encountered during internationalization.

LITERATURE REVIEW

Determinants of Internationalization

Based on the theory of comparative advantages developed by Hymer (1976) to explain the reasons behind corporate internationalization, Aliber (1976, 1984) was the first to understand bank internationalization via the benefits that it can bring in terms of market conditions, financial innovation and economies of scale. Grubel (1977) and Gray and Gray (1981) completed this approach by detailing the competitive advantages in terms of resources and skills and by demonstrating the low marginal costs involved. Along the same lines, Tschoegl (1987) and Fung et *al*. (2002) produced an even more detailed list of comparative advantages that influence bank internationalization. Beyond skills, these authors added capital cost, managerial expertise, the organizational process, risk management techniques, information systems and technologies, product design, and brand reputation.

A second series of studies on bank determinants focused on the concept of internalization. According to Rugman (1979, 1981), the effective presence of banks abroad can be explained by the fact that, in order to develop, banks need to internalize because of market imperfections. As an example, banks prefer to replace external financing operations by less costly, more flexible internal transactions that protect their business assets (Kim, 1993). In this line of thinking, Rugman (1981) and Casson (1990) observe three types of imperfections that encourage internalization: regulation, information and contact staff. Opening sites abroad makes it possible to reduce market imperfections relative to cross-border capital movement regulation (Sanchez-Peinado, 2003); to obtain more extensive information about corporate clients (Buckley and Casson, 1991; Grubel, 1977; Tschoegl, 1987); and to employ contact staff who are closer to clients.

The third series of studies is related to the "eclectic paradigm," developed by Dunning (1980, 1993, and 2000) and applied for the first time to banking by Gray and Gray (1981) and Yannopoulos (1983). This more general approach gives the two factors mentioned above, comparative advantages and internalization, as determinants for internationalization, and adds the advantage of location, the factors of proximity and adaptation. Other authors have applied Dunning's paradigm to international banking (e.g., Blandon, 1998; Cho, 1986; Gray & Gray, 1981; Sagari, 1992). This paper relies on the eclectic paradigm approach (Dunning, 1977, 2000) which views the internationalization decision as a combination of Ownership, Internalization and Locational advantages.

Deployment Methods

Grant and Venzin's (2009) analysis of bank internationalization models is based on two sets of work. The first is Bartlett and Goshal's approach (1998), which stresses two contradictory types of advantages for internationalization: those relative to global integration, securing economies of scale, for example in technology and product design, and those relative to local differentiation. The second is Ghemawat's approach (2007), which supplements Bartlett and Ghoshal's analysis (1998), proposing a three-dimensional development model with three factors: adaptation, aggregation and arbitrage.

Adaptation aims to increase a company's revenues and market share by adapting as much as possible to local conditions. As a general rule, the company sets up autonomous units abroad that adapt to the needs of the local market and to the demands of the national economic environment in terms of demand and regulations.

Aggregation is a form of internationalization that makes savings linked to capacity transfer and resource sharing. However, the economies of scale obtained are not as significant in the banking sector as in industry, and diseconomies of scale could even reduce expected profits.

For international companies, arbitrage involves exploiting differences between national markets, generally by locating distinct parts of the value chain or supply chain in different places. Unlike in other sectors, outsourcing has not been a determining factor in bank internationalization, and is limited to IT, the back-office and call centers. Financial institutions also engage in arbitrage depending on the country's degree of development. Emerging countries are especially attractive to banks, because they can transfer to these countries products that have initially been commercialized in more developed economies.

Grant and Venzin (2009) consider it important to position international bank strategies in Ghemawat's "triple A" triangle. In the case of retail banks, since regulations and customer preferences vary from one country to another, the dominant feature is the need to adapt to national markets. The potential for achieving cost savings internationally by integrating functions and activities is limited. The key determinants of competitive advantage are linked to services, local distribution circuits and critical mass in the local market. Therefore, according to Grant and Venzin (2009), local branches should be autonomous and few processes coordinated by central headquarters. In the case of investment banks, the sector offers more possibilities for achieving saving by cross border aggregation. Whilst local knowledge remains important, local customers (often multinationals) and the similarity between services reduce the need for national adaptation.

The comparison between retail and investment banks shows that there are differences in internationalization strategies depending on the type of financial activity. Furthermore, products can differ

within each type of activity: in a retail bank, credit cards are a relatively universal product, whereas wealth management and mortgage loans vary according to local markets. The need for local differentiation also varies according to the type: wealthy individuals have similar financial needs in different countries, making private banking activities more international than those of retail banks. Similarly, the financial needs of multinational client enterprises are more homogeneous than those of small and medium-sized enterprises, which are local.

RESEARCH METHODOLOGY

This research analyzes the internationalization of retail banking activity using a case study approach. This type of approach is particularly appropriate when the aim of the study is to analyze "why" and "how" a decision is taken (Yin, 2013). The aim of this research is not to prove or test a particular explanation but to describe a phenomenon and examine the extent to which existing theories help to understand and analyze it (Eisenhardt, 1989).

To reduce the risk of errors of interpretation and to increase the validity and reliability of the data, we used a longitudinal methodology with diverse information sources. We performed a comprehensive analysis of the annual reports, reference documents and roadshow presentations of three major French banks over a 10-year period (2000 to 2010). Finally, we examined the reports of the French regulator for the same years, which analyze strategy and activity, and produce annual statistics on French banks, and studies by specialized consultants and the specialized press.

Our methodological approach is the same as that of Cardone and Cazorla (2001) and Sanchez-Peinado (2003), who studied the internationalization of Spanish banks using the case study method and focusing mainly on the analysis of archives and internal and external documents. Parada et al. (2009) also applied the same methodology to a study of the internationalization of Spanish retail bank, Banco Santander. Blankson et *al*. (2018) used the same methodologie to studie tehe internationalization of retail banking in Ghana. Ekman et al. (2014) use archive material exclusively to study the internationalization of Swedish banks. Other work also uses the same methodology, such as Ahmed (2012), who studied the internationalization of banks operating in Malaysia and Lee et al. (2014), who studied the internationalization of Korean banks.

This research covers the three largest French banks in terms of equity and international activity: BNP Paribas, Crédit Agricole and Société Générale. In March 2015, these represented nearly €5624 bn. in total assets (SNL Financial ranking) and 67.7% of the total consolidated net banking income made by French banks (Federation Bancaire Française, June 2015). We selected this sample in line with eclectic theory (Dunning, 1993), which stipulates that size is positively related to internationalization activities (Javalgi et al, 2003; Buch and Lipponer, 2007). This is consistent with previous studies, which found that large banks internationalize more than small ones (Birindelli and Del Prete, 2010). Apart from the size of their overall international activity, they were selected above all for their expertise in cross-border retail banking. The study of three banks rather than one enables comparison and increases generalizability and external validity (Yin, 2013). To understand why and how these retail banks expand abroad, we will start by presenting the case of each bank before drawing conclusions and stressing lessons to be learned.

PRESENTATION OF THE BANKS STUDIED

Case No. 1 – BNP Paribas

The BNP Paribas group (BNPP) is the world's twelfth largest bank in balance sheet terms, with €85 bn. in core capital (The Banker ranking, 2015). It has a long history, originating from two discount houses founded in 1848, and Paribas, created in 1863. These banks internationalized very quickly along with the development of international trade, and to assist their domestic customers. The first foreign branches of the future BNP were set up for corporate clients, in London and in Asia in the second half of the nineteenth century, along with a retail banking network in the French colonial empire. At the same time,

to support its investment role in foreign securities, both in France and in Europe, Paribas opened branches in Amsterdam, Brussels and Geneva immediately after its creation.

The international development of BNP and Paribas continued throughout the twentieth century. At the end of the sixties, the BNP was present in 75 countries. This expansion took place above all to facilitate the financing of BNP and Paribas corporate and institutional clients in the world's financial and economic centers, and to provide opportunities to acquire an international corporate clientele. This expansion quickened in the 1990s with the development of the world's financial markets and the ensuing product innovation. However, on the retail side, BNPP remained mainly present in France, and its ex-French speaking colonies.

A major strategic change occurred at the end of the nineties, after Paribas merged with BNP, and after a relative unsuccessful alliance with Dresdner bank, as they decided to enhance their universal banking development by focusing independently on retail banking abroad. Their motive was to diversify their revenue base and reduce volatile profitability, especially from investment banking, which in 2000 became the largest contributor to its profits. The greater stability of retail banking, particularly in gross operating income, made it desirable to develop this sector, which with good risk control could balance overall profitability.

In addition to these motivations, the bank was convinced that it could leverage the retail banking knowhow of its successful domestic network and complimentary specialized services. At the end of the 1990's, its French network comprised 2200 branches and 30,000 staff, including 18,000 customer advisors focused on cross selling. Client segmentation was highly developed, with a comprehensive line of products from current accounts to more complex corporate structured financing and cash management solutions. The bank used state of the art technology: Workstations were geared to facilitate client relationship management within a multi-channel framework. At the beginning of the 2000's, the web accounted for more than 70% of remote bank transactions compared with 21% for voice-servers and 5% for call centers and sundry. They had reengineered back-offices into production and sales support for their branches. They were a European leader in retail banking services, such as consumer credit, contract hire and fleet management, not to mention their expertise in private banking, insurance (Natio-Vie and Cardif) and asset management.

But, during this period, their domestic market was almost saturated. Household bank use levels were very high. In 1996, 98% of the French population had a bank account and 36% had several accounts (BNPP annual report, 2000). Furthermore, the domestic market was highly consolidated, with the acquisition of Crédit Commercial de France by HSBC and Crédit Lyonnais by Crédit Agricole. At the end of the 1990's, only 3% national growth was forecast. Thus, it seemed easier to achieve growth abroad, in countries where there were opportunities for acquisitions or expansion.

As shown in appendix 1, at the end of the 90's, their efforts were focused on the United States. In 1993 BNPP had opportunistically acquired a share of Bancwest, initially with no real overall strategy, but was able to benefit from vigorous expansion in the Western United States banking market. In addition, it then followed its French competitor, Société Générale, by expanding in emerging and under-banked countries, those undergoing deregulation and developing a market economy. First of all, it developed its existing networks in the Maghreb, in Africa, in the Mediterranean basin (Turkey, Egypt) and finally in certain Eastern European countries (Poland, Ukraine).

In regions where BNPP was already present, it grew quickly and organically, particularly in Morocco, Egypt and Algeria. However, in the United States, in Turkey and in Ukraine, growth was mostly external, through larger scale acquisitions, although sometimes organic. Finally, the group developed joint-ventures where it was unable to acquire majority shares for regulatory reasons, such as in Vietnam and China.

From 2006, as Santander had done with Abbey National, BNPP's internationalization intensified in developed countries of Western Europe with two significant opportunistic cross-border acquisitions. The first was that of Banca National de Lavoro (BNL) in 2006 (7th biggest bank in Italy). The second, during the 2007 financial crisis, was that of the Fortis Belgian and Luxemburg operations. This acquisition made it Europe's leading bank in terms of deposits.

With all these foreign acquisitions, BNPP pursued a policy of adaptation rather than aggregation, with little arbitrage. It has sought to capitalize on its expertise in retail banking and integrated strongly to generate synergies. The examples of BNL and Fortis illustrate this policy well. For BNL, the bank rapidly set up an organization similar to that of its French network. It subdivided the branches into 5 regions and comprehensively reorganized the distribution model. It enhanced segmentation so as to increase direct contact with clients and product penetration with a revolutionary product line. The bank positioned its back-offices closer to distribution, and implemented stricter risk control. It recruited more than 700 new professionals, under the strict supervision of BNPP headquarters. For Fortis, BNPP implemented an integration plan with 400 internal working groups. The initial €500 million of synergies was rapidly revised to €900 million (including €252 million at retail branches and €260 Million at head office). These economies of scale resulted mainly from network rationalization and better technology use for client relationship management and credit card processing. More particularly, BNPP set up an 18-month project to phase out all Fortis systems and transfer its accounts and data to its own system. It integrated the Fortis team into its own organization structure and put its own staff in key roles. The bank took a top-down approach, but most Fortis staff kept their job. Table 1 summarizes the significant impact of this expansion strategy on the group.

TABLE 1
INTERNATIONALIZATION OF BNP PARIBAS AND ITS FOREIGN RETAIL NETWORKS BETWEEN 2000 AND 2010

	2000	2010
International Activity		
Number of countries with outlets	75	80
Total Staff	77000	201700
International staff (% of total staff)	28000 36.4%	136300 67.5%
Total Group Net Banking Income (NBI)in €bn	19300	43900
Total International NBI (in €bn) (% of total group)	9913 51.5%	28580 65.2 %
International Retail Network Business Line		
Net Banking Income (NBI) (in €bn)	1598	10599
% of NBI of Total Group	8.3%	24%
Net income before tax (NIBT) (in € bn)	475	1797
% of NIBT of Total Group	7.7%	13.8%

Source: Reference documents and BNPP annual reports, 2000-2010

At the end of 2010, BNPP had a net banking income of €44bn, nearly twice that of the year 2000, and nearly two-thirds of its activity was now international, as against 51% ten years previously. The growth was mainly the result of its retail banking activity abroad, which contributed 24% of total net banking income in 2010, as against 8% in 2000. The international retail network at that time included 1900 branches in 19 countries, as against 552 in 2000. BNPP is now the leading bank in Belgium and Luxembourg, the seventh largest in Italy, an important player in the Maghreb and has a significant presence in Egypt, Turkey and Ukraine. Through its development of international retail banking, it has balanced the contributions of its different divisions. In 2000, investment and domestic retail banking represented respectively 37.5% and 26% of the group’s total net banking income. In 2010 these two activities only contributed 27% and 15% of the total, thus making turnover less volatile, reducing the need for a high level of capital for the investment bank, and giving significant growth potential for the future.

Case No. 2 – Société Générale

Société Générale (SG) is the 24th largest bank in the world in balance sheet terms, with €57bn of core tier 1 capital (The Banker ranking, 2015). It was founded in 1864 and quickly began a policy of opening branches abroad to support its major clients and benefit from the development of international trade. It opened in London in 1871, and in central Europe (Germany, Austria, Switzerland and Luxembourg) via its Alsatian subsidiary (Sogenal).

Following colonization, it extended its network to Africa at the beginning of the twentieth century, and to the United States and Russia, where it developed a network that was later nationalized. After the reform of the French banking system in 1966, SG became more universal, intensifying its activity in the world's great economic and financial centers, particularly in investment banking, and becoming, like Paribas, an important international player in this field. At the dawn of the twenty-first century nearly one third of its turnover came from international activity, although retail banking only represented 20% of this figure (and 6% of net banking income).

Like BNP, at the end of the1990's its domestic retail banking activity was highly efficient and mature. It had close to 3000 branches, focusing on mass affluent individual clients, professionals and medium size corporate clients, with a high market share in urban areas. It had a multi-channel segmented distribution strategy (voice-servers, multi-media advisers, internet, mobile phones, etc.). The retail network developed innovative products, either itself or through joint ventures with other SG Divisions. It overhauled its support functions by harmonizing systems and processes, and centralized its back-offices to improve cost/income efficiency.

As from 1998, having been unsuccessful in its efforts to take over Paribas, and as a first mover among French banks, SG decided to capitalize on its effective domestic network to intensify its retail banking activity outside France, adapting its expertise to local market characteristics and constraints. To achieve this, it set up a dedicated department and launched an aggressive reinforcement program.

In 1999, as detailed in Appendix 2, it took advantage of the privatization and liberalization of banks in emerging countries by acquiring banks in Bulgaria and Rumania, and took control of some of its African affiliates. As of 2001, it began acquiring major banks in the Czech Republic, Slovenia, Greece, Tunisia, Egypt and the Baltic States. At the same time, it expanded the number of branches in existing or newly acquired subsidiaries and capitalized on potential synergies between its different regional entities.

In 2006, Société Générale took a major step with the progressive acquisition of Rosbank, the leading Russian privately owned bank (its share increased from 20% in 2006 to 50% in 2008 and 75% in 2010), merging with it the initial branches it had opened organically through its subsidiary SG Vostok and its mortgage financing acquisition Delta Credit.

Following all these acquisitions, SG systematically set up integration projects to ensure efficient development, appointing domestically trained expatriates with international experience as executive mangers of the entities. It implemented a standardized IT system (Sirius and then Harpe) and centralized risk control from Paris, as well as systems of detailed financial reporting to the Group Head Office.

The development of SG's foreign retail banking network was such that in 2010, it comprised 3817 branches, as against 685 in 2000. Net banking income was seven times that of 2000, representing nearly 20% of the group's total revenues. In ten years, it had multiplied the number of loans granted in this sector by eight, and deposits by seven. This development contributed significantly to the growth of net income internationally, which it had multiplied by three. In ten years, the group's net international banking income increased from 32% to more than 50%. International retail banking equity increased from 6 to 15% of the group's total capital. SG became leader in retail banking in Eastern Europe and the Maghreb. It is the largest private bank in Romania, the Czech Republic and Russia, the second in Egypt and the third in Morocco. Table 2 reviews the international expansion of Société Genérale over 10 years.

TABLE 2
INTERNATIONALIZATION OF SOCIÉTÉ GÉNÉRALE AND ITS FOREIGN RETAIL NETWORKS BETWEEN 2000 AND 2010

	2000	2010
International Activity		
Number of countries with outlets	75	85
Total Staff	71000	156000
International staff (% of total staff)	25000 (36%)	98000 (63%)
Total Group Net Banking Income (NBI) (in €bn)	13799	26418
Total International NBI (in €bn) (% of total group)	4466 (32%)	13340 (50%)
International Retail Network Business Line		
Net Banking Income (NBI) (in €bn)	827	4930
% of NBI of the Total Group	6%	19%
Net income before tax (NIBT) (in €bn)	-	492
% of NIBT of Total Group	8.15%	12.5%

Source: Reference documents and annual reports of SG from 2000 to 2010.

Case No. 3 – Crédit Agricole

Crédit Agricole (CA), the world's 11th largest bank in balance sheet terms, with core tier 1 capital of €89bn (The Banker ranking, 2015), was officially set up in 1988 following the new law concerning bank mutualism, to enable it to be listed on the stock exchange. It stems from the Caisse Nationale du Crédit Agricole combining regional and local domestic banks dating from the nineteenth century.

It has traditionally been a national high-street bank, with a small number of branches abroad. The parent company, Caisse Nationale du Crédit Agricole, demonstrated its desire to become a universal bank in 1996 by acquiring Banque Indosuez, which gave it a merchant bank division as well as a small foreign network and in 1999 by acquiring Sofinco, which significantly strengthened its consumer credit activity.

Despite a number of acquisitions, notably in Latin America in the nineties and at the beginning of the 2000's, most of which were not successful, and the acquisition of the Crédit Lyonnais in 2003, with its network in the Maghreb and in Africa, its direct intervention in international retail banking remained limited. This changed in 2006, when CA decided to intensify its international retail banking operations significantly, moving away from its policy of small partnerships, which gave it too little market influence, towards large direct investments.

As indicated in the CA Strategic Regards Project of 2006/2007, the bank considered that it had a unique competitive advantage in France, with the complementary cooperative and consumerist networks, respectively Crédit Agricole (7600 branches) and Crédit Lyonnais (1970 traditional branches and 3000 self-service stations). Overall, the two networks had the largest share of the French market (25%) in savings and current accounts, payment cards. They focussed on innovative products and productivity gains through scaling processes. They had strong competencies in specialized financing (consumer credit, housing loans, leasing, life insurance), which is already highly developed in France and to some extent abroad. They had recognized positions in Europe in corporate and investment banking, asset management and private banking. Thus, they looked to capitalize on these strengths with an international development strategy and in 2006 decided to launch a significant acquisition program (see appendix 3).

The main region for retail banking activities outside France was to be Western Europe. Its investments in this area would aim to develop value across the entire retail banking chain. Outside Western Europe, the Group would focus on targeted acquisitions in Central and Eastern Europe and the Mediterranean basin, thereby stepping up its organic growth rate.

In 2006, CA acquired the third largest private retail network in Egypt (EAB), Index Bank in Ukraine (203 branches, 492000 clients). In the same year it also took control of Emporiki Bank, the fourth largest bank in Greece (10% market share, 1.5 million clients), and Meridian Bank in Serbia. Following the merger of San Paolo IMI and Banca Intesa, the CA acquired a 75% stake in the Cariparma/Friul Adria network, in northern Italy, with 660 branches and a staff of 7000. Finally, it increased its share in Banco Spirito Santo in Portugal to nearly 24% and purchased 24.7% of Bankinter in Spain.

For its majority owned acquisitions, CA set out integration plans with several objectives. It set up risk, financial and control standards as well as compliance functions. It shared knowhow and accelerated organic growth. It developed the franchises of acquired entities by introducing new business lines with the assistance of existing specialized subsidiaries in insurance, asset management, and consumer credit (CA annual report, 2006). In 2010, the NBI generated by retail banking abroad was close to €3bn, 8 times that of 2003. It had a significant presence in 14 countries with 2400 branches overall.

However, as early as 2008, the results of a number of its international acquisitions were revealed to be disappointing. The greatest difficulties concerned Emporiki Bank, which had been acquired for €2.2bn. After profits of €73m recorded in 2007, it posted losses of €492m in 2008, with a series of recapitalizations (including €850m in 2008, followed by €1bn a year later). In spite of restructuring efforts and a reduction of its staff by a third, Emporiki was finally sold in 2012, with an accumulated loss of €10bn for the CA group. Whilst these losses were partly explained by the critical situation of the local economy, other factors were given as causes of to the "CA Greek Drama", as it was called by the Wall Street Journal (23/06/2010). In particular, the failure was due to a problem with integration, linked to cultural differences. It can be also explained by overpayment for a bank that was considered as one of the most poorly managed in Greece, linked to political circles and very "civil servant-ish". The recruitment by CA of a first CEO who had no banking experience and who expanded the loans sector with insufficient risk control, before being dismissed 2 years later, also contributed to the failure. But the minority shareholdings CA acquired in Spain and in Portugal also made significant losses. After a series of deficits, and goodwill write-offs, the group sold its stake in Bankinter in 2012. In Portugal, following a number of impairments and recapitalizations, CA sold its 24% investment in Banco Espirito Santo in 2014, generating a loss of € 708 m in its consolidated accounts. The table 3 summarizes CA's foreign expansion.

TABLE 3
INTERNATIONALIZATION OF CRÉDIT AGRICOLE AND ITS FOREIGN RETAIL NETWORKS BETWEEN 2003 AND 2010

International Activity	**2003**	**2010**
Number of countries with outlets	60	70
Total Staff	64200	160000
International staff (% of total staff)	29%	53.80%
Total Group Net Banking Income (NBI) (in €bn)	12 513	20190
Total International NBI (in €bn) (% of total group)	4037 32%	9839 49%
International Retail Network Business Line		
Net Banking Income (NBI) (in €bn)	352	2975
% of NBI of Total Group	2.80%	14.70%
Net income before tax (NIBT) (in €bn)	237	-749
% of NIBT of Total Group	6.70%	-29%

Source: Reference documents and annual reports of Crédit Agricole from 2003 to 2010.

Although the majority shareholding investment of CA in Italy has performed satisfactorily, the dismantling and sale of Credit Agricole's other international retail banking investments, was such, that in 2009, it announced a reshaping of its overall strategy. Along with downsizing its investment banking division it announced that it would refocus its retail activity in France and Italy, to resemble once more the bank it was a decade ago.

OBSERVATIONS AND COMMENTS

French banks considerably expanded their international retail activity between the end of the 1990's and 2007, with a rapid increase in penetration, since interrupted by the financial crisis. The main determinants, the mature, saturated French retail banking market, and the desire of these banks to internalize their foreign activity and to balance out the contributions of their different activities to their overall revenues, are largely in line with the findings of previous work (Aliber, 1976; Rugman, 1981; Yannopoulos, 1983; Slager 2006). Regarding their development process, we note four key points confirming certain conditions proposed by previous research, notably by Parada et al. (2009) in their study on foreign retail expansion by Banco Santander.

The Competitive Advantage of a Successful Domestic Network, Supplemented by Expertise in other Business Lines, Backed by Strong Financial Positions

When French banks decide to orient their strategy towards international retail banking, they benefit from a major competitive advantage with their dense, mature domestic retail bank networks. They all have a strong, well-segmented marketing culture including product innovation and customer relationship, segmenting clients in narrow sub-categories (individuals, self-employed, professionals, SMEs, non-profit organizations, local authorities etc.). All the banks we studied were using well-developed multi-channel distribution, with growing internet banking activity. Product penetration was strong, with an average of 7 banking products per client. They were also rationalizing their networks, notably with the generalization of Automated Teller Machines (ATMs) and Automated Banking Machines (ABMs). They were also reorganizing their back-offices in regional processing centers to improve their "cost/income" ratio. Even if domestic growth potential is limited, their ROE was satisfactory (12-15% at SG and BNPP and 8% at CA), with little volatility. Furthermore, in addition to these domestic networks, the three banks owned specialized subsidiaries offering consumer credit, real estate financing, leasing, asset management, private banking, insurance and investment banking.

All three banks were able to self-finance their development due to their strong financial position. Like Banco Santander (Parada et al., 2009), their profitability ratios were good and they easily satisfied the appropriate regulatory requirements for equity and liquidity. Birindelli and Del Prete (2010) confirm this factor in the case of Italian banks, for which profitability is a critical variable in internationalization.

This analysis aligns with the determinants set out in the theory of comparative advantages. This theory explains banking internationalization on the basis of competitive advantage in terms of resources and skills (Grubel, 1977; Gray and Gray, 1981), in terms of innovation and economies of scale (Aliber, 1976); and technological superiority and knowhow acquired on the domestic market (Hymer, 1976; Chandler, 1990). This is in agreement with Lawton and Harrington (2006), who used ownership advantage to explain the internationalization of Allied Irish Banks. Similarly, Parada et al. (2009) found that the bank Banco Santander based its international expansion on superior organizational capabilities, even though it developed its domestic competitive advantage intentionally before beginning its acquisitions, whilst the competitive advantage of French banks was mainly historical.

Benefiting From an International Culture and Past Foreign Retail Banking Experience

At the end of the 1990's, when BNPP and SG decided on their strategy of developing retail banking abroad, they also had a strong international history. Their international presence dates from the middle of the 19th century, with branches throughout Europe to support their clients' international trade. They had successfully developed their investment banking and consumer banking activities expansion abroad

through organic growth or acquisitions. In retail banking, they had extensive experience in French colonies or former colonies whether in sub-Saharan Africa (Ivory Coast, Senegal, Cameroun…), or North Africa (Morocco, Algeria…), and through opportunistic acquisitions, such as that of Bank of the West in the United States by BNPP, which proved very profitable.

So, when BNPP and SG decided to expand, they had foreign outlets or offices to research local markets, and assess target opportunities together with internationally experienced managers to assist with integration of their acquisitions. Credit Agricole also had an international presence, but this was far more recent, through the absorption of Banque Indo-Suez (1993) and the Credit Lyonnais (2003). The Credit Agricole group's governing body mainly comprised French regional coop executives with no international expertise, unlike its French competitors.

This is consistent with Johanson and Vahlne's (1977) model of internationalization as increasing commitment alongside knowledge, and Slager's (2006) concept, according to which banks that develop internationally are those that traditionally have such a strategy. This also applies for Banco Santander, who acquired international expertise before its expansion through initial small acquisitions and strategic alliances (Parada et *al*., 2009).

Building up Existing Subsidiaries and Seizing Large Scale Opportunities in Emerging Under-Banked Countries or in Cross-Border, Under-Performing Institutions

Their unsuccessful experiences with partnerships pushed French banks towards a policy of internalization (in the sense of Rugman, 1981). French banks had experimented with alliances in the 1980s and 1990s, but the results were inconclusive. Examples include EBIC and Société Générale, BNP/Dresdner and BNPP, and the unsuccessful experience of Crédit Lyonnais in Western Europe. They therefore looked towards autonomous development, exploiting their existing bases or developing themselves in new countries.

This mainly took the form of organic growth in areas where they were already established, and acquisitions to achieve significant presence in new countries straightaway, taking control immediately or progressively. If possible, they targeted one of the ten leading banks in the country, with a market share of at least 5% in deposits/loans. They only obtained minority shareholdings in countries where local regulations prevented them from taking control of the target banks, in anticipation of the total deregulation of the economy.

Their expansion was facilitated by the significant measures taken by the European Commission to harmonize the financial and regulatory environment and liberalizing economies (Slager, 2006). First, in 1985, it pushed for the free circulation of goods, services and capital throughout the European Union (EU). For Banks, these principles were implemented in the second Directive, in which all authorized credit institutions in an EU country could establish branches or supply cross-border services in other EU countries, provided the bank was authorized to distribute them in its home state. It also called for harmonized capital adequacy standards, the supervisory control of banks. In 1999, European Monetary Unification, with the Euro, harmonized currencies and facilitated payment and clearing mechanisms in all member states. From 1999 to 2005, the FASP (Financial Services Action Plan) included major initiatives via a legislative and non-legislative framework to ensure the integration of banking and capital markets with a single EU wholesale market, open and secure retail banking and insurance markets, and the development of prudential rules and supervision. In May 2004, the arrival of 10 new EU members (including Poland, the Czech Republic, and Slovenia) removed many existing legal barriers and, with these countries undertaking major reforms, in to prepare for joining the EU, existing European banks gained possibilities for expansion.

The opening up and deregulation of other emerging countries with low banking levels thus created retail banking opportunities and were an added incentive for French banks to adopt an internationalization strategy. With the exception of the consolidation of BNP's retail banking position in the western United States and Hawaii, prompted by its acquisition of the Bank of the West, the three French banks mainly

targeted emerging and transitional countries, where privatization and deregulation policies made it possible to acquire local banks. Development was concentrated in four main areas:

- Linguistically or culturally close countries, and notably former colonies where they already had networks, such as North Africa (particularly Morocco, Algeria and Tunisia), and central and western Africa;
- Geographically close countries and/or those liable to join the European Union (Eastern Europe, Turkey);
- Countries where they already had successful subsidiaries and where consolidation should make economies of scale possible, such as Russia, where SG already had a small subsidiary in 2006, when it acquired its first shareholding in Rosbank (SG Vostok), for which it opened branches – in the wake of the successful operation by Banco Santander in the United Kingdom with Abbey National;
- Western European countries where there were opportunities to acquire large banks such as Italy (BNPP and Crédit Agricole), or Fortis in Belgium and Luxembourg (BNPP).

Guillén and Teschoegl (2000) confirm this trend for the internationalization of Spanish retail banks into Latin America (Banco Central Hispano, Santander and Banco Bilbao de Vizcaya) and Portuguese banks into Brazil. Cultural and historical factors do indeed provide banks with many advantages. They can commercialize the same products with similar marketing techniques, which reduces the entry and selling costs of new banking services. This factor also facilitates the transfer of knowhow, limits investment and facilitates integration processes (Hernansanz and Sebastian, 2000; Slager, 2006).

Development of an Integration Process with Centralized Risk Decisions and Standard Data Processing Systems

All three banks proceed accompanied their acquisitions by integration plans with significant project management techniques for large investments (Fortis and BNL for BNP Paribas, Komercini and BRB for SG, and Cariparma in the case of Crédit Agricole). Integration plans covered notably:

- The review and completion of existing products and their segmentation, to investigate whether the products they were marketing in their domestic networks could be adapted to local markets
- The implementation of customer relationship management tools, and of multi-channel distribution, depending on the degree of accessibility in the countries concerned
- Training programs for front and back office teams
- The opening of new branches in under banked areas and the restructuring of unprofitable units.

To accomplish these measures, they seconded dedicated teams from their existing international or French retail networks. As for senior management, they most frequently seconded general managers for their acquisitions from the domestic bank, to report to central departments specifically created to supervise foreign retail banking activity. Initially however, there were exceptions, which were more (case of Credit Agricole in Italy) or less successful (Emporiki for CA or Rosbank for SG).

Usually French nationals were also appointed to supervise risk control. Credit authorization limits were fixed, and large loans had to be systematically approved by the French Head office, which received detailed monthly data on credit production. Relative to Finance, the acquiring banks also seconded CFOs, who sent monthly reports to Parisian headquarters for consolidation and performance monitoring. Because of the importance of local knowledge, Heads of Marketing were usually named from the countries concerned.

Acquisitions were also integrated by rationalizing information systems via the installation of standard tools for medium-sized entities (Atlas by BNPP and Sirius and then Harpe by SG). These standard tools not being suited for larger banks (Rosbank, Fortis, and BNL), existing systems were adapted. This was also the case for Credit Agricole with Cariparma/FriulAdria, where the two systems had to be merged so as to become functionally independent.

This process corresponds to Bartlett and Ghoshal's (1998) notion of global integration, which refers to the benefits derived from integrating overseas operations. As highlighted by Grant and Venzin (2009), the main advantages for international banks are economies related to resource sharing and the transfer of capacity.

Although economies of scope resulting from international activity have traditionally been associated with physical resources, technology, and reputation, the most important benefits of bank aggregation tend to arise from the transfer of capacity from the home bank to foreign subsidiaries. Unlike other industries, most multinational retail banks, like French ones, are primarily organized in national and regional units, so that economies of scope from centralized activities tend to be limited to the provision of common services and back-office processes.

However, even in the absence of centralized functions at international level, there may be opportunities to achieve some economies by transferring organizational capacities, as we can see by the limited rationalization of information systems by the international French retail banks. This can also be seen in the case of the internationalization of the Spanish retail bank Banco Santander, which became particularly adept at transferring IT, marketing and human capacity for resource management in its overseas acquisitions (Parada et al., 2009).

All in all, unlike investment banking activity, in which aggregation provides synergies and cost savings, in retail banking French banks had to integrate while adapting to local situations. The process chosen by French banks is very similar to that described for Banco Santander (Parada et *al*., 1999). This situation also reflects the conclusions of Ghemawat (2007) and Grant and Venzin (2009) in terms of an adaptive strategy. During their integration phase there was very limited arbitrage. Whilst some back offices were centralized in regional entities, such action was clearly limited during the period 2000/2010, and thus little synergy was developed.

CONCLUSION

While there is a large volume of research on the internationalization of manufacturing firms, less has appeared on financial services and even less on retail bank expansion abroad. To understand their internationalization, we focus on the determinants of this décision using Dunning's (1993) model as a framework. This model has been widely used to explain the internationalization of industrial companies and corporate and investment banks. Given the specific features of retail banking, we investigated whether the determinants and the motivations of retail bank internationalization are comparable to those of other types of banking activity. We were also interested in retail bank deployment methods, referring to the framework developed by Grant and Venzin (2009), who proposed a three-dimensional model based on three factors: adaptation, aggregation and arbitrage.

This article adopted a case study approach, studying three French retail banks from 2000 to 2010: BNPP, Société Générale and Crédit Agricole. Our findings show the main determinants for their international development: the existence of a mature, domestic retail market, and their desire to diversify their strategic universal banking model. In their development strategy, they capitalized on their highly efficient and innovative domestic networks. These findings are in line with the motives set out in eclectic theory (Dunning, 2000), in terms of resources and skills (Grubel, 1977; Gray and Gray, 1981), innovation (Aliber, 1976), technological superiority and knowhow acquired on the domestic market (Hymer, 1976; Chandler, 1990).

In their internationalization process, French retail banks benefited from their international culture and experience in retail banking abroad. This finding confirms that of Slager (2006), according to which banks that develop internationally are those that are historically active in many countries. It's also in line with findings by Lawton and Harrington (2006) on the internationalization of Allied Irish Banks, and Parada et al. (2009) on the internationalization of Banco Santander.

Facilitated by deregulation and privatizations, the internationalization of French banks occurred through organic growth of existing subsidiaries or large-scale acquisitions in cross-border transactions with high growth potential, or opportunities in countries that were close either geographically or culturally. Guillén

and Teschoegl (2010) found the same result for the internationalization of Spanish retail banks into Latin America and Portuguese banks into Brazil. Indeed, cultural and historical determinants facilitate the transfer of knowhow, limit investment and facilitate integration processes (Sebastian and Hernansanz, 2000; Slager, 2006). However, the concept of internalization in the Dunning model (2000) does not seem to apply as it does to wholesale banks.

The internationalization of French retail banks was systematically accompanied by integration plans, adapting domestic marketing techniques to the local environment, overhauling data systems and centralizing risk decisions. In retail banking, French banks chose an adoption strategy, unlike investment banking activity, in which a policy of aggregation provides synergies and cost savings. This situation reflects the conclusions of Ghemawat (2007) and Grant and Venzin (2009).

Certain disappointing investments provide useful lessons for future expansion: reviewing macroeconomic conditions in targeted countries carefully; making majority controlled investments where possible; avoiding strategic mimicry.

The internationalization strategies of the French banks we examined were wide-ranging, but their profitability and the level of return on investment have still to be analyzed more deeply. Such an analysis is crucial in the light of the restructuring and takeovers that have taken place since the 2008/2009 financial crisis and in the current difficult European economic context.

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APPENDIX 1

MAIN DEVELOPMENTS OF THE INTERNATIONAL RETAIL NETWORK OF BNP PARIBAS GROUP

Year	Country or continent	External growth		Organic growth	Comments
		Acquisition target	No. of branches		
1998	USA	First Hawaiian	30		
1999	USA	Sierra West			
2000	Africa	SFOM			
2001	USA	55% of Bank West + First Security Bank			
	Morocco	ABN/AMRO Network in Morocco	120		13% market share
2002	USA	United California Bank	117		
	Algeria, Middle East, Africa			Greenfield opening in Algeria	
2003	North Africa			15 branches	
	Africa				
2004	USA	Community First Bank	155		
		Union Safe and Deposit Bank	19		
	Turkey	50% of TEB	87		
	Kuwait			greenfield subsidiary	
	Egypt			5 branches	
	North Africa			15 branches	
2005	USA	Commercial Federal Bank	198		
	North Africa			36 branches	
	Turkey			26 branches	
	Egypt			5 branches	
	Senegal			2 branches	
	China	19.29% of Nanjing City Commercial	60		
	Russia			1 greenfield branch	
	Ukraine	51% of UKR Sibbank	763		5th Ukrainian Bank

Source: Reference documents and BNPP annual reports from 2000 to 2010.

MAIN DEVELOPMENTS OF THE INTERNATIONAL RETAIL NETWORK OF BNP PARIBAS GROUP (CONTINUED)

Year	Country or continent	External growth		Organic growth	Comments
		Acquisition target	No. of branches		
2006	USA			3	Total 742 branches in 20 US states
	Ukraine			222 branches	Total 985 branches 10000 employees
	Turkey			57 branches	Total 170 branches
	Italy	BNL	706		4.5% market share 7th Italian bank
2007	Turkey			103 branches	Total emerging : Middle East 55, Africa 90, Eastern Europe 950, Asia 60, DOM-TOM 55 out of Total of 1933 branches
	North Africa			50 branches	
	Middle East			13 branches	
	Libya	19% Schara Bank + option to 51%	48		2nd Libyan bank
	Vietnam	10% Orient Commercial (option to 20%)			
2008	Italy			44 branches	Total BNL 750
	Turkey			63 branches	
	Morocco			22 branches	
	Algeria			13 branches	
	Russia			18 branches	
	Egypt			10 branches	
	China			2 branches	
2009	Italy			50 branches	Total 810 branches
	USA			10 branches	Total 752 branches
	Ukraine	Purchase of 30% (total 81%)		23 new branches 197 closures with a reduction of 1344 staff	
	Belgium	75% Fortis Bank	1014		
	Luxembourg	66% of BGL	37		
	Turkey	94% of Fortis Turkey	297		
	Vietnam	OCB share increase to 15%			
2010	Emerging Europe			45 branches	2220 branches in 15 countries

Source: Reference documents and annual reports of BNPP from 2007 to 2010.

APPENDIX 2

MAIN DEVELOPMENTS OF THE INTERNATIONAL RETAIL NETWORK OF THE SOCIÉTÉ GÉNÉTRALE GROUP

Year	Country or area	External growth		Organic growth	Comments
		Acquisition target	No. of branches		
1999	Bulgaria	98% Express Bank	26		
	Romania	51% BRD (carried to58%)	185		
2000	Senegal, Morocco, Ivory Coast	Control of existing affiliates			Total International retail network 685 branches in 21 countries
	Algeria			Greenfield entry	
2001	Slovenia	100% of SBK Banca	50		
	Czech Republic	Komercini Banka	300		Total 1100 branches 25000 staff
2002	Tunisia	52% of VIB	93		Total 1232 branches 27000 staff
2003	Ghana	51% of SSB	38		
	Indian Ocean	50% of BFCOII	18		
	Russia			Greenfield entry SGVOSTOK	Total 1352 branches 27400 staff
2004	Greece	50% General Bank of Greece			7th bank in+-- Greece
	Eastern Europe			+ 77 branches ok which 33 in Romania	
	Argentina				Total 1545 branches 29500 staff
2005	Montenegro	64% Podgoricka Bank			
	Egypt	NSGB (78% owned by SG) acquires 90.7% of MIB Bank			Total 1741 branches 30750 staff

Source: Reference documents and annual reports of SG from 2000 to 2010.

MAIN DEVELOPMENTS OF THE INTERNATIONAL RETAIL NETWORK OF THE SOCIÉTÉ GÉNÉTRALE GROUP (CONTINUED)

Year	Country or area	External growth		Organic growth	Comments
		Acquisition target	No. of branches		
2006	Croatia	99.75% of Splitska Banka	112		
	Russia	20% Rosbank + option for 30 % + 1 share	700		
	Georgia	Majority control of Republik Banka	23		Total 2300 branches (excluding Rosbank) 35000 staff
	Albania	75% of Banca Popolare	+379		
	Macedonia	58% of Obrioska Banka			
	Moldavia	95% of Mobiasbanca			
	Mauritania	51% of BII			Total 2795 (excluding Rosbank) 40000 staff
2008	Russia	Increase to 58% of shareholders of Rosbank			
	Vietnam	20% of Seabank			
	China			License–1 branch Beijing	Total 3700 branches (including Rosbank) 63000 staff
2009	Russia	Increase to 65% of Rosbank			Total 3767 branches 61300 staff
2010	Russia	Increase to 75% of Rosbank			Total 3817 branches 62500 staff in 37 countries

Source: Reference documents and annual reports of SG from 2000 to 2010.

APPENDIX 3

MAIN DEVELOPMENTS OF THE INTERNATIONAL RETAIL NETWORK OF THE CRÉDIT AGRICOLE GROUP

Year	Country or Area	External Growth		Organic Growth
		Acquisition Target	Number of branches	Number of outlets
1999	Argentina	69.9 % of Banco Bisel	350	
2000	Greece	Banque Commerciale de Grèce (BCG)		
2001	Poland	Lukas Bank	100	
2003	Africa and Madagascar	International Network of Crédit Lyonnais	70 countries (Cameroun, Senegal, Ivory Coast, Gabon, Congo, Egypt)	11 branches in Morocco
	Uruguay	Increase of control Banco ACAC to 92 %		
2005	Serbia	71 % of Meridan Bank AD	70	
2006	Egypt	EAB (3rd Egyptian Bank)	36	
	Ukraine	Index Bank	250	
	Greece	Increase of Share from 7 to 72% Emporiki	373	
	Serbia	Increase of control to 100 %		
	Italy	75% Cariparma +Fru Adria +200 branches Intesa	600	Part sale of Intesa shareholding reduced to 3,6 % of Intesa
	Portugal	Increase of share in Spirito Santo to 23.84 %		
	Morocco			19 branches
	Poland			41 branches
2007	Morocco			37 branches
	Spain	15 % share of BankInter		
2008	Italy			49 branches
	Morocco			50 branches
	Africa			
	Morocco	Purchase of 24 % (up to 77 %) of Credit du Maroc		
	Spain	Increase of BankInter investment to 24,8 %		
2010	Italy	Agreement with Intesa		79 branches

Source: Reference documents and annual reports of CA from 2000 to 2010.