What Motivates Malaysian Banks To Go International? A Case of Islamic Banking Products

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The internationalization theories of banking emerged from the internationalization of services. The extension of the theories to explain the internationalization process was done on the basis that that the services do not implicitly differ from the manufacturing firms. The study of internationalization of banks was done previously in various parts of the world including Europe, Asia, South America and Australia. The comparative advantage, industrial organization, international investment theory, internalization and Dunning's eclectic theories have been analyzed before. The researchers uses the case study approach and in depth interviews in order to capture and observe the internationalisation phenomenon from the perspective of the respective banks. Triangulation helped the researchers to see the findings from different sources by using different methods. The findings shows the current internationalization theories of Malaysian banks and their Islamic banking products as compared to motivation and location choice follow their perspectives in any internationalization theories. The findings provided the much needed guidelines in adopting contemporary and dynamic views of emerging markets advocating a colonized emerging market countries such as Malaysia in its banking and financial services abroad.

Keywords: Internationalization process, Markets Entry Modes, location–specific advantages, Islamic banking products, motivations for international expansion

Motives for banking internationalisation

It is widely believed that banks with unique capabilities to produce certain banking products more efficiently than their competitors (local as well as foreign) are more likely to go overseas to expand the client base in order to exploit their competitive advantages more economically. Such competitiveness arises from the bank's possession of unique banking techniques, extensive banking experience, skilled personnel, organisation skills, and a large domestic capital and deposit base Aliber (1984), Cho (1986).

Casson (1990) argued that the economic theory of the MNB is a special case of a general approach to economic theory. The emphasis is on the selection, through competition and rational evaluation of alternatives, of the most efficient organisational form for coordinating a division of labour between related activities. This approach, when applied to banking, helps to identify a small number of possible motives for multinational banking which are analogous to similar motives operating in manufacturing, but which manifest themselves

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differently because of the importance in banking of local rather than global monopolistic advantages and two-way rather than one-way network flows.

Competition for resources (Barney, 1986) and competition for strategic asset-accumulation (Dierickx and Cool, 1989) are also rare motives in banking. The only relevant evidence is that banks attempt to acquire a local bank in a new market with particular product expertise or client resources, or have direct access to indigenous supplies of key currencies. However, both attempts should be regarded as a means of market seeking. Erramilli (1990) identified two general types of foreign market entry situations among service firms including banks: the following the client entry and the market seeking entry.(see Table 1) The following the client entry stands for the case where a service firm follows and continues to serve its home market clients abroad. The market seeking entry refers to the case where a service firm enters foreign markets primarily to serve foreign customers. The following sections discuss more specific motives that are relevant to banking industry.

Following the client motive

The bank-client relationship is of central importance in banking strategy. The existence of market imperfections in banking and the nature of banking products as argued in previous sections have suggested that it is the fear of losing existing bank-client relationship to a competitor bank that results in banks accompanying their clients abroad (Williams, 2002). A long-term based trustworthy relationship would benefit banks as well as clients since both sides would suffer high transaction costs for changing the partnership (Caves, 1971).

In literature, following clients abroad is often considered as the defensive expansion approach. The original approach of the defensive expansion hypothesis was introduced by Brimmer and Dahl (1975) in their study of the impact of special regulations on the incentives of US banking activities abroad. Policy restrictions are the major reasons that prevent banks from fulfilling offshore requirements of existing clients. As a result, banks need to accompany their clients to establish branches in host markets. Kindleberger (1983) further argued the defensive expansion of banking and asserted the ‘follow the customer’ approach. He pointed out that the defensive expansion is not necessarily aimed at generating profits in a new region, but is instead aimed at preventing losses at a pre-existing location. Therefore, manufacturing MNEs often pulls FDI in services.

Large volume of empirical research has been conducted to find the supporting evidences for defensive expansion hypothesis. Brealey *et al* (1996) suggested that the growth in foreign largely paralleled the increase in trade and FDI. They found a significant relationship between the pattern of bank location, trade and FDI. Nigh *et al* (1986) studied location-related factors in the US banks involvement abroad. They found that the US business presence in a foreign country has a strong positive effect on US branch banking activities in that country. In contrast, the local market opportunities appear to have no significant effect. There is a learning curve at the firm level, experienced by both provider and buyer of the banking service, and by establishing a long-term relationship, both sides are able to reduce uncertainty (Engwall and Johanson, 1990), thereby minimizing transaction costs (Grubel, 1989).

After studying foreign banks' market entry into Japan and Korea, Ursacki and Vertubsky (1992) suggested that FDI and trade ties to a home country are generally unrelated to entry. Banks enter these countries largely because of the characteristics of their internal markets including specialized technological capabilities, capitalization, and the presence of groups or market segments similar to those in their home markets.

Further, the decision to enter a new market is found to be negatively related to the bank's distance from the market and to any cost advantage in the production of financial services the home market may offer over the prospective host market.

Market seeking motive

The market-seeking motive is a very general term to describe international banking activities. The market seeking entry contains much broader and more specific motives than serving domestic client that has invested in the foreign market as defined by Erramilli (1990). Economic historians such as Jones (1993) observed that British multinational banks were formed exclusively to provide banking services outside Britain in nineteenth century, with no equity links to domestic British banks and no domestic banking business. The initial motive for multinational banking was to seek geographical diversification. Tripe (2000) argued that the essential reason that banks choose to expand internationally is profitability; i.e. revenues generated as a result of international expansion will exceed the costs of expanding.

Diversification cannot build shareholder value if the cost of entry into a new business eats up its expected returns (Porter, 1990). Williams (1997) argued that the increase in profitability sought might be for the banking group as a whole on a global basis rather than just in a new foreign market. Other than that, Lensink and Hermes (2004) concluded that motives for expansion include following the clients (defensive expansion), attractiveness of the host markets, imitation of competitors, reduction of capital cost, and risk diversification.

The internationalisation theory recognises the market imperfections which prevent an efficient operation of international banking and suggests that a bank expands internationally in order to overcome market failures in externalities, including those resulting from government induced regulations and controls. International expansion also occurs to enable the bank to take advantage of externalities in the host market or to minimise the impact of externalities at home.

Cho (1986) suggested that the external factors include tax system, interest rate differentials across country, governmental regulations and entry barriers, imperfection of host country, financial market, size and structure of host economy, host country level of economic development, home country economic presence in the host country markets, and the availability of local skilled personnel. A major cause of external imperfections is government-imposed distortions in the form of regulation. According to Walter and Gray (1983) differential regulation is the primary factor in the expansion of offshore financial centres.

Goldberg and Saunders (1980) found differential regulation to be a major determinant of US bank expansion to the UK. Even culture distance is identified by Mutinelli & Piscitello

(2001) and Li & Gusinger (1992) as factors affecting the entry decisions. All these factors create potential location that banks can internalise and exploit via direct investment.

Goldberg and Saunders (1980) argued that MNBs could source funds in lower interest rate markets and lend them in higher interest rate markets, which purely indigenous banks cannot do competitively. Multi-country diversification may reduce the variability of the overall profit rate. This is quite similar with the portfolio theory suggesting that international expansion is a risk diversification decision.

Table 1 Motives for internationalisation of banks

Theories	**Motives for expansion in the banking sector**	**Theoretical studies**	**Empirical research**
Comparative advantage theory	Differences in interest rates	Aliber (1984)	
Oligopolistic model	Defence against competition Possession of entrepreneurial skills (technology, management expertise) or access to them	Brimmer and Dahl (1975) Grubel (1977)	Goldberg and Saunders (1981)
Internalisation theory	Risk diversification Contact employee "Following the domestic client"	Casson (1990) Casson (1990) Rugman (1992); Casson (1990); Kim (1993)	
Eclectic theory	Size "Following the domestic client" Multinational experience Geographical distance between the home country and the host country Other location advantages in host markets commercial rights, regulation	Yannopoulos (1983); Tschoegl (1987) Gray and Gray (1981) Yannopoulos (1983) Yannopoulos (1983) Yannopoulos (1983)	Ball and Tschoegl (1982); Ursacki and Vertinski (1992) Miller and Parkhe (1998) Ball and Tschoegl (1982); Ursacki and Vertinski (1992); Cho (1986) Ball and Tschoegl (1982) Cho (1986); Nigh *et al* (1986))
Sequential stages model	Cultural distance Multinational experience		Ball and Tschoegl (1982) Ball and Tschoegl (1982); Ursacki and Vertinski (1992)

Source: The Authors (2010), from the literatures

Based on the above arguments, several implications emerge. First, various motives may be associated with market entry of banks. It is not only essential to identify each specific motivation relating to entry decisions, but more importantly, to examine evolutionary each motive in the whole process of the market entry. i.e. do motives sustain over time? Second, if motives switch, it is important to examine the factors stimulating the switch and dictating the timing of change. Third, it is implied that a more dynamic approach should be adopted to study market entry of banks. The methodological implication is that a more thorough study and a longitudinal approach need to be employed.

Location choice selection for Bank Internationalisation

Casson (1990) argued that FDI in banking is assumed to be a market-determined (market oriented) process. What factors determine MNB's entry choice and how MNBs cope with fast-growing competitive markets are often in the centre of discussion. The key issues relating to the market entry are the degree of control and the choice of location. Existing literatures suggest that banks prefer direct investment to exporting or licensing. It is largely determined by the nature of the banking products and the competitive advantages of banks.

Internal and External Factors

Miller and Parkhe (1998) argued that the organisational form of foreign banks is dependent on regulatory, economic, and financial market factors. Erramilli (1992) identified several external and internal factors that affect service firm's entry mode choice. External factors include restrictions on foreign ownership by host country government, uncertainty of host country market, market size and the availability of acceptable partners and associates in the host country. Internal factors are identified as attitude of the firm, internal resources and corporate policy. His research further suggested that the internal resource is the major reason causes service firms such as banks differing from manufacturing firms in choosing market entry mode.

Gross *et al* (1998) found that foreign ownership of service firms is significantly greater than that of manufacturing firms. Cho (1986) studied the growth of multi-nationalization in the commercial banking industry by identifying determining factors of their growth under different market conditions. He argued that FDI by MNBs implies the transfer of capital, managerial and technological assets of a bank from one country to another by the same bank. The less use of licensing or other contractual involvement in foreign market is due to certain unique characteristics of the banking industry – absence of an extensive patent system, ease of product imitation, and limited product differentiability.

Theoretical explanation on some location choices

Internalisation theory emphasizes on the cost of internalisation in the growth of the firms (Buckley and Casson, 1976). Buckley & Casson (1985) and Buckley (1988) argued that transaction costs is particularly high in vertically integrated, knowledge-intensive, quality-assurance-dependent and communication-intensive industries such as banking. Casson (1991) further suggested two types of market-related costs. The first type of cost is a set-up cost incurred in bringing buyers and sellers together. The second type is a variable cost associated with negotiating and enforcing each transaction. Gray and Gray (1981) argued that the evidence of the importance which MNBs attach to the local market at a minimal presence is provided by the large number of representative offices, joint ventures and minority equity participations. However, market entry into transitional economies may often show some exceptional cases.

Foreign entrants sometimes have to seek alliance with local partners for the purpose of risk sharing, resources pooling, asset protecting, and the ability to react quickly to market changes (Pan and Tse, 2000, Pan, 1996). The reasons quoted in support of strategic alliance are mainly local government restrictions, operating costs and lack of experience (Anderson and Gratignon, 1986). Anderson and Gratignon (1986) argued that experience should lead to more control. However, this conclusion is not without controversy in the literature and is problematic in explaining market entry of services and banking.

Erramilli (1991) argued that that service firms demand high-control modes in the early and late stages of their international evolution. Inexperienced banks demand higher ownership levels than the more experienced banks. It is suggested that there is a kind of relationship between entry mode choices and the experience and knowledge possessed by the entrants. However, the relationship is still unclear.

Similarly, Erramilli (1990) hypothesized that on the average, compared to the market seeking entries, following the clients' entry is to be associated with higher levels of involvement. Weinstein (1977) suggested that a firm undertaking following the client entry type is expected to be more knowledgeable than the one entering a foreign market to serve foreign customers. Firms are more willing to team up with external entities, especially in the foreign markets, in order to compensate for their market knowledge deficiency. The variation among client followers and market seekers could be attributed to differences in market knowledge. However, the researcher assumes that the entry mode choice is affected by multiple factors at the same time. It is difficult to conclude which factors always outweigh others in the context of a dynamic market environment like Malaysia.

Fuentelsaz *et al*, (2002) investigated the Spanish banking activities after deregulation. They suggested that the organisational size, organisational competence and organisational experience appear as key factors in explaining the pattern of geographical diversification. Their theoretical argument is quite analogous to the resource-based view that takes a rather closer look at the inside of a bank. They also suggested that diversification takes place sequentially, first proceeding to closer locations then occupying markets further from the origin. Geographical diversification is very important in industries like retail banking, in which the consumer has a close relationship with the bank. In this type of service learning and experience are providers of key capabilities to secure successful growth.

Methodology

The research is qualitative because its theoretical orientation is consistent with the assumptions of a qualitative paradigm whereby it aims to investigate the question of how and why internationalisation of Malaysian banks occurred. Moreover, a qualitative approach is considered to be appropriate since the research questions, which are generated by the research problem, are concentrated to a few subjects that require a great deal of information on them. It is believed that this study which aims at describing a unique phenomenon and observing the extent to which existing theories help in understanding it or whether they require modification is more suitable for qualitative research method (Eisenhardt, 1995).

The researchers used the formal approach with the interviewees. This is because most of the interviewees are high ranking and top decision makers of the banks and central banks. Also, this is to show the importance of the level of research and the importance it has upon the Malaysian banks and the nation as a whole. More than 10 very senior officers from Senior General Managers to Deputy Presidents were involved in this in depth interviews..

Table 2 shows the detailed information obtained from the interviews and from secondary materials concerning the market entry motivations of the Malaysian banks.

Table 2 The motivations of the case banks

VARIABLES	BANK A	BANK B	BANK C
INTERNATIONAL EXPANSION DECISIONS			
Firm background Stages, operation and development in 10 years	Formed in1960s. Formed with Government of Malaysia's backing Mostly started with the Government's ambition. More as the Government's voice in banking. Government influence in Maybank. Maybank is 52 % owned by PNB,a Government owned investment body.	Started as a family business in Kuching, Sarawak in 1924 Merger between BCB and Bank of Commerce in 1999	Started in 1966. Started as a Chinese ethnic bank
MOTIVES FOR INTERNATIONALIZATION (Islamic Banking Products)	1. Initially to follow customer 2. More profit taking through acquisition. Mostly in regional areas. South East Asia	1. Regional banks with same business focus	1. Regional banks with intention to purchase. 2. Main concern is management control
Time of Initial internationalisation	Early 60s. In UK. Malaysian students in Britain. Singapore formerly part of Malaya	Early 70s. Investment in Singapore.	Early 1970s.
Domestic and international economic factors that influenced initial internationalisation decision	Local market also glutted by Maybank's customer. Almost one every three customers are Maybank customers in Malaysia.	Government support. Bank of Commerce is owned by UMNO (United Malay National Organization) – a politically controlled body.	Received number of awards for management control. Done very well in times of financial crisis. 1997-1999.
Other factors that influenced internationalisation decision:			
Following the clients	Very influential in areas such as China	Very good bargain for Bank Niaga. A bank that do the same retail banking such as BCB.	Very prudent banking. Choice such as Kampuchea Vientiane Branch in Laos with total management control
Attractiveness of foreign market	Indonesia. Maybank very interested in the potential of growth in that area.	Mostly where government business such as Hong Kong, London	Mostly through local retail banking.
Location advantage of host market	Mostly where it is really close to Malaysia.	Location close to Malaysia	Location close to Malaysia
Cultural distance	Mostly where the culture are almost the same as in Malaysia	Cultural distance almost the same. Especially in Indonesia	Done very prudently. Follow Chinese tradition of business.
Differences in Interest rates	Mostly used in for foreign workers back to their host countries. Not the instrumental factor in internationalisation decision.	Not stressed as much. Government intervention. Some decision may look very aggressive. E.g. purchase of PT Niaga Bank of Indonesia.	Primary concern is always management control.

Source: The Authors; adapted from the interviews and literatures

Previous literatures suggest various motivations pursued for banking internationalisation, among which market-seeking and following-the-clients are two major motives that lead to international banking activities. Our interview data indicates that most Malaysian banks have multiple motivations during initial entry and this motivation change over time. The success of Malaysian economic especially for the last ten years suddenly increases the need to push internationally. As one of the fastest growth in developing country, Malaysia plays an increasing important role in emerging markets. Bank C indicates a pure market-seeking attention. Bank A and Bank B demonstrate a combined orientation of both market-seeking and following-the-client. However, these two banks differ in the allocation of resources in the pursuit of each objective. Bank A appear to be more focussed on serving existing clients in practice. In contrast, Bank B effectively integrates both motives and is more local market orientation.

Defensive approach of market entry of banks – Islamic banking products

Defensive approach is a motive of the bank to expand in the particular location based on the needs to preserve and protect the existing bank-client relationships that are mainly established in the domestic market. To expand this approach, the defensive expansion should include "following the competitors" as described by Mutinelli & Piscitello (2001) and Li & Guisinger (1992). They argued that service MNEs such as banks adopt following their (domestic and international) competitors abroad as a defensive strategy. The argument mainly stems from the oligopolistic reaction asserted by Knickerbocker (1973).

Aggressive approach of market entry of banks – Islamic banking products

The other approach is aggressive approach of internationalisation. The banks usually chose this approach if they wish to take advantages of market imperfections existing across the national boundaries. For instance, a multinational bank may diversify its investment portfolio geographically due to the interest rate differentials across countries. The purpose is mainly to access equity capital and allocate them efficiently in the bank's global network. However, neither the defensive approach nor the aggressive approach can accurately describe and capture the whole process of market entry of MNBs.

Sabi (1988) suggested that following the client and market seeking entries are essentially the same in nature and can be integrated. This is perfectly concluded by Bol, Lensink and Haan (2002) who argued that it is difficult to clearly distinguish between a group of variables that primarily deals with ' following the client' and 'attractiveness of the market' reasons.

Both "client following" and "market seeking" – Islamic banking products

After studying the internationalisation of Finnish financial service firms, Hellman (1994) argued that banks and insurance firms have, to some extent, elements of both client following and market seeking as regards to their internationalisation. He further assumed that the dominance of either client following or market seeking may have changed over time.

Mutinelli & Piscitello (2001) and Li & Guisinger (1992) argued that following home country client is a motive observed on early venturing abroad.

Based on the experience and knowledge of local market, new FDI seems to be more motivated by serving the local and other foreign customers in the host market. More research shows that the switch of motives may reflect the interrelationship between following the client entry and market seeking entry over time. Kindleberger (1983) and Dunning (1993) argued that FDI in banking follows and leads FDI in manufacturing. The location choices for 3 Malaysian banks were given as below:

Table 3 The Location Choices of the 3 banks

VARIABLES	BANK A	BANK B	BANK C
INTERNATIONAL LOCATION CHOICE			
How location decision was made	Only through place in regional capacity.	Choice depends on regional and stability.	
Sequence of entry into different locations	1. Earlier days mostly organic growth 2. Sought license & open branch	Still very organic. However after marriage with CIMB in 1999, Bank B starts to be more innovative.	Very management controlled type
Initial impulse	Based on government decision and management	Based on government decision and management	Family-owned control in early stage dictate the bank as a very prudent bank
Discussion phase	Not too lengthy. Government role.	Not too lengthy. Role of political decision makers in banking	Very concern in decision-making.
Decision process Country selection Country evaluation Region selection Region evaluation	Mostly has inter-government role. Easy to get license because of the inter governmental decisions	Mostly government role has an 'invisible hand' in decision – making.	Thorough decision-making. The Chinese tradition of the owner say that an indirect impact on decision-making.
Competitive advantage over local bank	Very strong government support.	Role of bank as political image. Interesting to watch Since decision making has a political leverage on public view	Very independent.
Ways of Maintaining the	Largest banks. Too much control over retail	Political connection and governmental. Merger with	Internal support of top management. Top

advantage	business.	Bank of Commerce stabilises the situation.	managers are very loyal. Decision makers have very long connection and stay for years with bank. e.g. Managing Director with 40 years with the bank.
Exploitation and exploration of the advantage in new foreign market	Too risk takers because unwise decisions may not be too burdensome to top management.	Almost like Maybank. Good government rapport. Normally, government will intervene because all rural Malays put their money in these banks. Good example in PT Niaga purchase. Short-term great income generator.	Superb in generating income or control of markets.
Barriers/limitation in international development			
Internal	Most follow the Financial Master plan as set up by The Central Bank	Government role in CIMB Bank	Too prudent. Part owner has a powerful say in company's decision makers though not said explicitly.
External	Government policy dictate direction of internationalisation	Political destiny and government shows direction of banks	Total management. Very Chinese traditional like bank.
Have there been decisions to de-internationalise	Yes. Not doing well in Uzbekistan. Government initial ignition. Close branch in Hamburg and intention to close in Papua New Guinea.	No cases of deinternationalisation yet. Yangon representative office in Myanmar is too small. Decision could be to 'make good' policy that is BCB still keep the branch, as it may look good on paper.	None.

Source: The Authors; adapted from the interviews and literatures

The paper also discussed the entry mode selection of bank internationalisation. It was shown that the choice of entry modes chosen by the banks in entering foreign markets is influenced by many factors. Since the study generally aims at answering the question of "why" and "how" the Malaysian banks go international, this discussion serve as a background to a more specific the research questions on the factors that affect the banks choice of entry mode. Among the factors discussed include the internal and external factors, information and propriety control, the location choice and the organisation forms of banks.

Motives for Going International

Based on the theoretical framework for the internationalisation of banks, there are a number of main motives driving the international expansion of Malaysian banks. The most important are “following the domestic clients” and “market seeking motives”. If the banks decide to internationalise into these markets in which their national clients have established operations, i.e. as a strategy of following the national clients, the process of internationalisation of the banks analysed responds to internalisation theory. The main theories most relevant here are Casson (1990) for risk diversification and “following the domestic clients” Rugman (1992); Casson (1990); Kim (1992). It is interesting to see whether the emerging markets follow the same motivations.

It can be summarised from the literatures that financial institutions choice of particular foreign market entry is a function of a large number of diverse factors. It varies with product characteristics such as degree of differentiation, age and technological contents (Davidson, 1984). Entry modes choice by banks may also be determined by external environment factors: host country trade and investment restrictions, host country market size, host country geographical cultural distance, and exchange rate fluctuations. (Aliber, 1971). Erramilli (1992) also identified internal sources as the attitude of the firm, internal resource and corporate policy. He suggested that the internal resource is the major reason that causes service firms such as banks in choosing market entry modes. Thus, it is a good to find out more about

The location choices of Malaysian banks in international markets.

In the light of the literatures, if banks decide to establish foreign operations, moved mainly by the location advantages close to certain geographical areas, whether in terms of information, prestige, regulation systems or commercial links, the international process of the banks analysed seems to be explained on the basis of eclectic theory. The most relevant literatures on location advantages in host market commercial rights and regulation are Yannopoulos (1983) and the empirical studies of Cho (1986); Nigh *et al* (1986). If a bank internationalise into those markets with the least cultural distance from its host country, e.g. Spanish banks to Latin America, Italy or Portugal, that involve gradual resource commitment, it could be concluded that the internationalisation process of the banks analysed fits the sequential process proposed by the Uppsala model. The Malaysian banks adopt the sequential process mentioned.

Boddewyn *et al* (1986) argued that banking is a non-location-bound activity. However, various researches have shown that tradition location theory still applies to the location choice of multinational banking. Casson (1990) argued that advances in transport and communications have significantly influenced patterns of bank location. In addition, the distribution of clients and the location of financial centres can be found to be closely related to the bank’s location choice in foreign markets (Chan and Wong, 1999).

Unlike the manufacturing sector, where location of production is largely dependent on transport costs and tariff barriers, location of service firms is more concerned with the closeness with customers and adaptation to customers’ requirement. Brealey *et al* (1996) found that trade and FDI have significant impact on MNBs’ location choice abroad. Yamori

(1998) also suggested that FDI in manufacturing industry is an important determinant of the location choice of Japanese financial institutions.

Findings and contribution to international business theories and practice

The research shows that Malaysian banks go international with multiple motives. Apart from the major motives identified by previous research, namely market seeking and follow-the-client, this research also concludes several other including opportunistic approach, being global, being the first, seeking ethnic proximity and competition-driven that are specific to the Malaysian market. It is often the case that a bank may pursue several objectives at the same time. This is largely resulted from both internal and external forces.

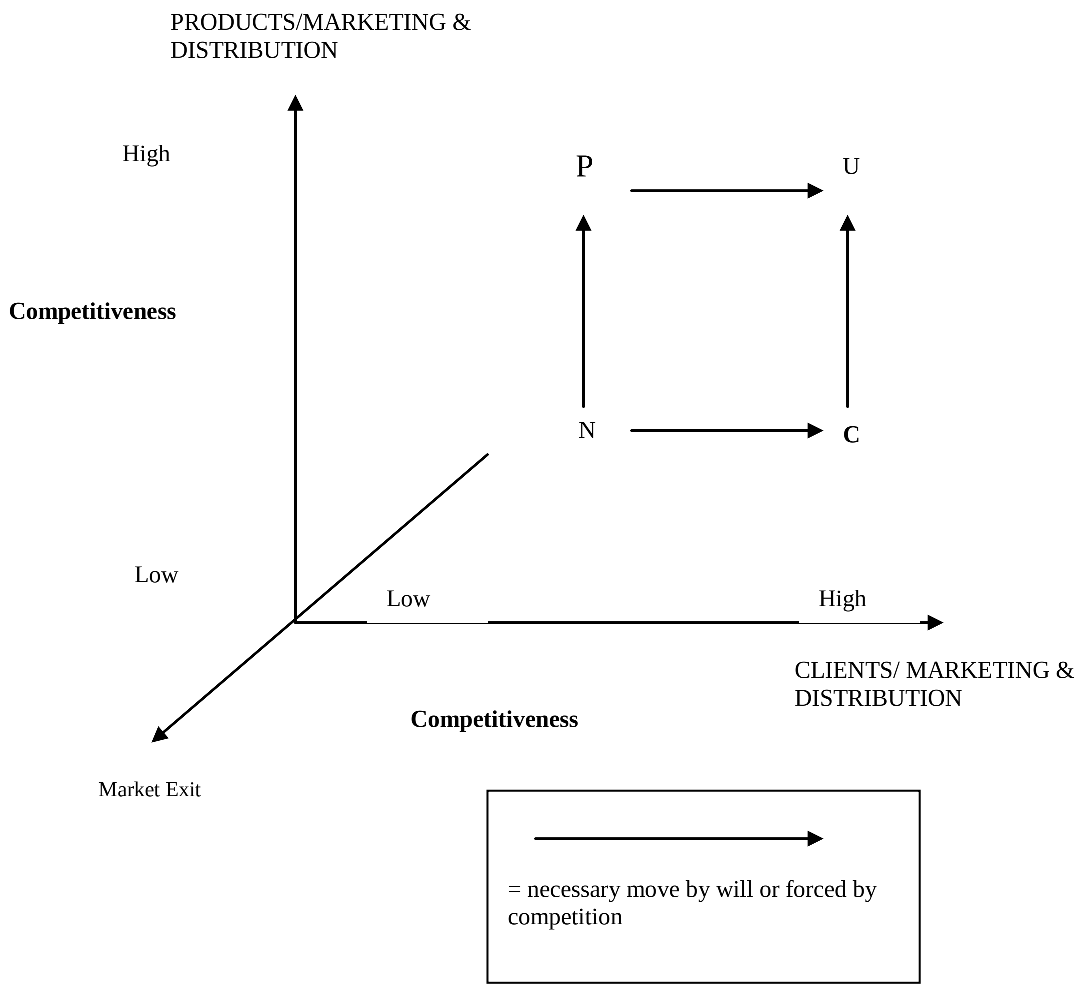
Internalisation theory is found to offer the most powerful theoretical argument in explaining the multinational of banks because of its concentration on both internal resources i.e. banking-client relationships and imperfections in external markets. Bank-client relationship as the key internal resource is central to explain the reason for bank internationalisation in Malaysia. Malaysian banks go international in order to preserve and extend their existing accounts. The findings prove that the defensive expansion approach applies to Malaysia, however, only when explaining the initial market entry of corporate banks servicing the direct investment. Following trade flows is identified as a complex motivation as there can be both aggressive and defensive intentions behind.

At the initial market entry, Malaysian banks establish representative offices and operate as new entrants (**N**) in the overseas market (see Table 4). The competitiveness of Malaysian international banks in product and clients in their international market are very low as banks can only conduct off-shore banking services. Due to the difference in bank-specific attributes, different Malaysian banks may adopt different strategies to pursue leadership in either client(**C**) or product (**P**). No matter whether the banks are client-driven or product-driven, specific marketing and distribution tactics are required.

For client-driven banks, they will gradually develop from **N** to **C** to seek diversification of client base. The majority of the client resources are used to retain existing clients. Since banking products can hardly be differentiated, a sound management of client resource is essentially important. The satisfaction of clients is not purely determined by whether the bank can offer high-order advanced banking products. More often, it is about price, efficiency and interpersonal marketing skills. Therefore, banks in stage C do not necessarily have to be strong in product innovation. Here Bank B and Bank C suits well. They will stick to standardised banking products, and still be successful if they develop a stable and diversified client base. In doing so, these banks need to stay close to their clients and improve their service delivery capability. For Bank C, being a traditional Chinese-owned prudently managed, proved to be an important strategy. In addition, it is essential to have a well-designed management of client portfolio (see Table 4)

The ultimate objective of international banking is to achieve diversification in both product range and client base. In this case, the banks are no longer rich market players but to eventually conduct universal banking service (**U**). To achieve the position U, the banks may choose to focus on either product-driven strategy or client-driven strategy in different stages. Alternatively, the banks may also adopt a multi-strategic approach to integrate both strategies at the same time. A multi-strategy-driven bank attempts to establish the leadership in both products and clients. Finally, banks that are unable to improve their competitiveness in either products or clients will eventually maintain the position N or exit the market. This is exactly what Bank A are doing in Uzbekistan and Papua New Guinea

Table 4 Evolutionary Framework Of Internationalisation Entry Modes of Malaysian banks – Islamic Banking Products



Source: The Authors; adapted from the interviews and literatures

Conclusions and Further Research

The studies show that the majority of Malaysian internationalisation of banks follows a similar entry route from wholly-owned representative office to branches or subsidiaries. Malaysian banks are found to be very concerned with their operating costs in unpredictable markets such as Vietnam and Kampuchea. Some countries ventured by Malaysian banks such as China allowed joint venture banks. However, the research finds that joint bank fails to deliver the planned corporate objectives due to the conflict in interest, aims and corporate cultures between two banks. Yannopoulos (1983) and Cho (1986) which mentioned about the geographical distance between the home country and the host country are good reference here for Malaysian banks. The studies show that Malaysian banks should combine complementary capabilities with foreign banks in niche markets rather than seeking alliances to enter mass market competition.

Further studies should emphasize the interactions among Malaysian banks, the host country banks and host governments. Possible cooperation and strategic alliance between Malaysian banks and host country banks should be given further attention, particularly the policies on acquisition. The current research focuses on examining the perspectives of Malaysian banks. With the increasing complexity and interactions taking place in international banking market, it is not possible to exclude foreign business banking partners from future research design. An integral part of expansion strategy, as suggested by the current research, in the interrelationship with local host country banks. Although the qualitative study of this research involves Malaysian banks and the Central Bank supervisory department, more in-depth research should be carried out to take them into account.

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