Investment and Divestment Dynamics of European Banks in Emerging Markets[1]

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Abstract

Retreating from foreign operations has been a notable component of large European banks' recent transformations under the forces of changing regulations and market pressures in the aftermath of the global financial crisis (GFC). However, the existing literature focuses almost exclusively on growth and expansion of international operations of banks, ignoring their exits from foreign operations. Therefore, this study aims at contributing to the debate on international divestment activities of global banks within the broader context of their international operations by examining investment and divestment strategies and patterns of European retail banks in an emerging market, Turkey.

Keywords: International retail banking, divestment, emerging markets, Turkey
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1 Introduction

Advance of globalization, financial liberalization and technological developments contributed to the radical increase in internationalization of banks from the 1990s and up until the onset of the GFC (Claessens, 2017). Several advanced country banks chose to pursue commercial and retail banking internationally in addition to operating in wholesale international financial markets. Banks were both reacting to limited growth and profit opportunities at home due to higher competition but also taking advantage of the future prospects in new markets which were opening up to foreign entry (Guillén and Tschoegl, 2000; Larson et al., 2011). Numerous European banks, in particular, adopted strategies to become global and universal in pursuit of greater size and efficiency (Larson et al., 2011).

In the aftermath of the GFC the global banking industry continues to restructure itself under the forces of changing regulations, technological advances and increasing competition from non-bank financial institutions and tech firms. A substantial regulatory overhaul rendering international banking more costly, specifically, led crisis-affected banking groups from advanced economies to retrench from non-core foreign markets where they did not have scale and expertise while banks from emerging markets continued to expand their geographic reach (Schoenmaker, 2017; Claessens, 2017).[3] The existing banking literature, however, has focused almost exclusively on internationalization of banks and its performance implications and overlooked international divestments regardless of the on-going strategic adjustments in the global footprints of several leading banking groups[4]. This paper aims to address this gap in the literature.

This study examines European retail banking penetration in Turkey from 2001 to 2018, and discusses host institutional context and firm characteristics as drivers of foreign banks' performance and withdrawals. The paper adopts an exploratory study approach and examines in a longitudinal framework strategies and patterns of investment and divestment by European retail banks in an emerging market, Turkey. The country's idiosyncrasies due to its geographical location as a bridge between East and West, its close relations with the European Union, and its dramatic institutional and economic transformations of recent years render it a valuable research setting. Identified as a strategic priority by many large global as well as regional European banking groups, the country experienced several entries before the GFC and in its aftermath continues to attract global interest including investors from Europe, Middle East and Asia despite some divestitures from major European and global banking groups.

International divestment has received relatively little attention in the literature despite its important implications (McDermott, 2010). Recently, though, within the growing international retail research, divestment has gained interest. Economic geography literature, especially, has contributed substantially towards understanding international retail divestment (e.g. Burth et al., 2019; Coe et al., 2017). Retailing, however, is not a homogenous economic activity. As noted by

[3] The recent global retail closures by Citi and HSBC have been noteworthy. It is reported that between May 2011 and July 2014, Citi and HSBC exit from 19 and 21 countries, respectively (Financial Times, 2015a).

[4] On internationalization of banking see, e.g., Parada et al. (2009); Tschoegl (2005); Hellman (1996); Engwall and Wallenstål (1988).

Burt et al. (2017) there exist differences between retail sectors, retail formats and governance models, as well as interactions between the institutions, markets and the firm, necessitating further studies across many retail sectors and contexts.

Retail banking occupies a special position in the wider context of services industry due to its inherent characteristics: It is information intensive, involves mostly “soft services” and heavily regulated. Combined with differences in regulations and customer demand characteristics across markets, these specific features are found to create varying internationalization patterns and paths as well as performance outcomes in cross-border retail banking (Petrou, 2009; Venzin et al., 2008). Different to existing studies, this paper discusses international divestments as an integral component of global banks’ strategies to achieve international competitiveness (Benito and Welch, 1997). We contribute to the literature by taking a comprehensive perspective on a particular country and analysing in a longitudinal framework the changing contextual drivers for foreign bank entry, expansion and exit such as the level of market competition and regulations (Burth et al., 2019; Gersch and Franz, 2018).

The rest of the paper proceeds as follows: Section 2 presents a review of the literature on foreign divestment and its drivers in global retail banking; Section 3 outlines the methodology; Section 4 provides an overview of international banking expansion and retreat in Turkey to provide the context to the study; Section 5 presents the empirical findings on entry, performance and withdrawal drivers of foreign banks in Turkey. Finally, Section 6 provides a discussion of the study’s conclusions.

2 Conceptual background

2.1 International banking

A wide literature investigates empirically the factors that motivate banks to internationalize and determine the ability of banks to operate profitably in foreign markets. Banks that are larger, more profitable and originating from larger countries with developed financial systems are found to be more likely to internationalize in search of additional profits (e.g. Focarelli and Pozzolo, 2001; Magri et al., 2005). Location decisions of international banks, in turn, are found to be affected by the degree of economic integration between home and host countries, and the banking market conditions in host markets. It is reported that international banks not only follow their customers abroad but also enter markets that give them better growth prospects and opportunities to exploit fully their competitive advantages (Seth et al., 1998; Magri et al., 2005; Qian and Delios, 2008). Geographical as well as formal (legal and regulatory) and informal (cultural) institutional proximity is found to be influential in the international banks’ location choices suggesting that informational problems and hence internationalization costs decline with proximity (Focarelli and Pozzolo, 2001; Magri et al., 2005).

Regarding relative performance of foreign-owned banks, the studies showed that home and host country characteristics as well as bank-specific characteristics impact the relative performance of foreign-owned banks (e.g. Claessens and Van Horen, 2012; Havrylchyk and Jurzyk, 2011). Several studies examined empirically the impact of cross-border diversification on global bank profitability and risk, and reported that diversification effects vary depending on home and host country factors (e.g. Garcia-Herrero and Vázquez, 2013; Gulamhussen et al., 2017).

Decline or exit from foreign operations of global banks in this context has received little attention despite the growing and high relevance of foreign divestments of global banks. Hryckiewicz and Kowalewski (2011) is the only study to our knowledge that empirically examine causes of multinational bank exits from other countries. Covering pre-GFC period, they find that while the multinational bank decision to divest an international subsidiary is largely motivated by problems in the home country, in the case of developing countries, the weak performance of the subsidiary can be an additional contributing factor to the parent's divestment decision.

2.2 International retail banking

Retail banking has been at the core of financial services firms' dynamic internationalization in the two decades preceding the GFC. The few studies that focus on cross-border retail banking have noted varying internationalization patterns and paths as well as performance outcomes. Tschoegl (1987) is one of the earliest contributions assessing the viability of an explicit strategy of international retail banking. He notes that retail banking involves providing small customers with transaction, savings and consumer financial services which are produced and consumed simultaneously. This explains the need for proximity to the customer and renders an organizational presence essential. Discussing competitive advantages of banks in establishing retail operations abroad, however, he concludes that there is no reason to expect foreign banks to have any particular advantages over local banks in unfamiliar environments.

In this context, expansion of Spanish banks into retail banking markets globally and in particular throughout Latin America in the 1990s have been examined in the literature. Guillén and Tschoegl (2000) and Parada et al. (2009) identify existence of asset seeking as well as asset exploiting motives: Spanish banks were found to enter markets that allow them faster growth and higher margins relative to levels available at home and where they can leverage their competencies developed at home: operational, technological and marketing. Discussing the internationalization of Banco Santander, Parada et al. (2009) find that while centralised back office functions travel well in retail banking, front office does not travel so well: being local by its very nature, retail banking requires development of points of sale and customization of products to meet local culture or specific needs in each market. Similarly, Grant and Venzin (2009) state that in retail banking, the distinct characteristics of national markets with respect to regulations and customer demand features lead to high adaptation needs and hence are a significant barrier to exploiting cost economies from international integration of functions and activities. This, in turn, renders local services, local distribution channels, and critical mass in the local market crucial for competitive advantage.

Implications of the distinct characteristics of the retail banking for the choice of entry mode have also been discussed in the literature. Petrou (2009) argues that retail banks face a trade-off: whereas information intensive nature of the industry and the need for internalising firm-specific proprietary assets motivate foreign entrants towards entry modes involving higher control, resource needs in the foreign markets constrain their choices of entry modes. Petrou (2009) discusses three key resource needs a retail bank face when entering a foreign market and seeking local adaptation: (i) reputation as retail banking products are intangible and trust based,

(ii) customer base, and (iii) local market knowledge. These needs, in turn, can be accessed instantly via a joint-venture with a local partner and foregoing some control or if possible acquiring a local firm. Especially when the differences between home and host countries are substantial, a joint-venture might be an attractive option. Grant and Venzin (2009) also note that the need for extensive distribution networks which makes organic growth difficult render acquisition-based internationalization in retail banking attractive. However, foreign entries via acquisition intensify the challenges faced by banks in creating value through international expansion as synergies created must exceed the acquisition premium paid for the target (Parada et al., 2009). Accordingly, Venzin et al. (2008) conclude that multinationality-performance relationship in retail banks varies significantly depending on firm characteristics, banks' strategic decisions (e.g. regarding branch network configurations and product portfolios) and institutional contexts.

2.2 Foreign divestment

Divestments represent reconfigurations of a firm's ownership and business portfolio in order to achieve optimal structural arrangements within the firm and adapt successfully to suboptimal external environment conditions (Kolev, 2016). These adjustments can be via "the sale of part of the assets, product lines, subsidiaries, or divisions of a company" (Chow and Hamilton, 1993, 9). Divestment has been studied from a number of perspectives including industrial organization, finance and corporate strategy (Chow and Hamilton, 1993). The industrial organization approach discusses exit decisions as a function of incentives to exit and barriers to exit. While divestment is a rational response to changing market or competitive conditions due to, for example, lower demand and changing technology, several factors act as obstacles to exit such as asset specificity, intangible assets and management attitudes (Chow and Hamilton, 1993; Benito and Welch, 1997). Financial studies concern with the effects of divestments on the financial performance of the firm (e.g. Owen et al., 2010). Under corporate strategy perspective, a company can be regarded as a portfolio of assets and activities, and both operational unit and corporate level performance impact on divestment decisions (Benito, 2005; Depecik at al., 2014). International business-management perspectives, on the other hand, stress factors and conditions affecting reversals in internationalization and foreign divestment decision process (Boddewyn, 1983a; Mohr et al., 2018).

International divestments can be broadly defined as "any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities" (Benito and Welch, 1997, 9). A number of contributions discussed factors and motives leading to divestments. Hamilton and Chow (1993) find as the dominant motive the need to convert unattractive assets into liquid form for either to boost the balance sheet or reinvesting in core business or new areas. Kolev (2016) proposes that divestment antecedents can be classified into four broad categories: corporate governance, firm strategy, performance, and industry environment determinants. Benito and Welch (1997), on the other hand, develop a conceptual model where international expansion and withdrawal moves are considered to be as potential outcomes of the same set of influences. More specifically, international divestment is seen as the outcome of a set of factors related to past international operations and commitments as well as factors related to current developments within and external to company.

Foreign divestment in the retail sector has attracted recently the attention of economic geographers and international business academics in relation to understanding and conceptualising it (e.g. Burt et al., 2019; Coe et al., 2017; Gersch and Franz, 2018; Bianchi and Ostale, 2006). Coe et al. (2017) develop a relational theory of market divestment under which three sets of factors underpin the divestment decision: (i) home country conditions and financial drivers, (ii) host market conditions, and (iii) the dynamic interplay between home and multiple host market conditions. Regarding host market related drivers of divestment decisions four sets factors are identified as domains of resistance or host market hurdles: local competition, regulation, consumer dynamics and supply networks (Coe et al., 2017; Gersch and Franz, 2018). Burt et al. (2019) emphasise changing internal and external contextual influences over time and suggest three distinct phases of divestment can be distinguished. In the "pioneer adjustment" phase, difficulties in capturing first-mover advantages and building the required scale lead to retrenchment from some markets within a few years of market entry. The second "resistance and market consolidation" phase, refers to divestment of more established units as a result of local market hurdles limiting market expansion and intensifying local and regional competition. During the final "reconfiguring the global firm" phase, reassessment of global activities and territories became the key driver of the divestment decision. Hence, the authors conclude that "divestment is stimulated by and reflects different inter-related contextual considerations and pressures over time" (187).

The above discussion suggests that different inter-related contextual considerations and pressures over time determine international business decisions in general and divestments in particular. This, in turn, illustrates the value of undertaking longitudinal studies taking a comprehensive perspective on a particular country in exploring internationalization patterns and paths as well as performance outcomes in cross-border retail banking.

3 Methodology

The paper adopts an exploratory case study approach and employs both primary and secondary data (Eisenhardt, 1989). It undertakes a longitudinal study of dynamics and underlying factors of global bank divestments from emerging markets by examining patterns of entry and divestment of European banks in a specific country context, namely Turkey. The choice of cases originating from home markets with similar institutional and macro-economic backgrounds and entering into the same market with a similar strategic focus (retail banking) provides case boundaries for the study (Burt et al., 2019).

We compiled and recorded all the entries into and exits from the Turkish banking market by all foreign banks from 2001 to 2018 to provide the contextual framework to the analysis. Employing purposeful sampling, we selected three European entrants to perform in-depth case analyses: HSBC, National Bank of Greece (NBG), and Banco Bilbao Vizcaya Argentaria (BBVA). The three banks' entry and expansion into Turkish market as well as performance outcomes are examined by employing both qualitative and quantitative data. We combined several sources of archival data: Securities Data Company (SDC) Platinum, a comprehensive database of mergers and acquisitions (M&As), banks' annual reports available through Banks Association of Turkey (BAT) and banks' web-pages. We draw on the contemporary narratives reported in secondary sources, mainly published company documents and press releases issued as well as leading industry-specific journals in English and Turkish (See, for a similar approach, Burt et al., 2019). The fact that banking is a heavily regulated industry and that the banks analysed in the study are large and/or listed facilitated and ensured access to high quality data and detailed information on banks' financial performance as well as strategic communications with various stakeholders. Furthermore, we complemented and triangulated our data by conducting semi-structured in-depth interviews with senior bank managers and banking sector analysts from Turkish and international financial institutions. This not only allowed for a greater degree of validity but also eased the inherent problem of reaching executives for discussing international divestment (Bianchi and Ostale, 2006; Coe et al., 2017). Six interviews lasting on average 53 minutes were conducted in Turkish and English between late 2018 and early 2019. Excerpts from these interviews are employed to highlight and contextualise determinants of banks' performance and divestments.

4 Banking internationalization in Turkey

Foreign bank entry in Turkey began in earnest following the country's devastating financial crisis in 2000-2001. Prior to the crisis macro-economic imbalances and an unsatisfactory regulatory framework had kept foreign bank penetration in the country's banking sector, in particular, the retail segment, negligible. Despite their limited presence, however, foreign banks were influential in the modernization of the sector in the 1980s and 1990s as they introduced new services, advanced technology and market-oriented management techniques (Yildirim, 2015).

After the crisis a banking restructuring program was initiated within a comprehensive economic reform package. The programme aimed at improving the regulatory and supervisory framework as well as competition and efficiency in the system. New independent regulatory agencies were created, and the Central Bank and the Banking Regulation and Supervision Agency (BRSA) were granted independence under the pressure and conditionality of the International Monetary Fund (IMF) and the European Union (EU). A new Banking Act was introduced and banking regulations were aligned with EU directives and international principles and standards. State-owned banks were operationally restructured and capitalised while privately owned banks received capital support. In the process, the number of banks decreased due to the purging of the weaker banks from the system and M&As while concentration levels increased. The number of commercial banks decreased to 36 in 2003 from 62 in 1999 while the 5-bank concentration ratio increased to 62.9 percent in 2003 from 48.6 percent in 1999 (BAT).

The sector recovered rapidly from the crisis thanks to strong economic growth and availability of international funds. The start of the accession negotiations with the EU in 2005, in particular, contributed to the country's integration into global markets. Whereas Turkish banks were engaged in limited asset transformation preferring to invest in public debt securities in the pre-crisis period, in its aftermath they went back to the basics of commercial banking. Loans' share in total assets increased due to strong demand for consumer loans and mortgages. The ratio of domestic credit to private sector by banks to GDP increased from 14.16 percent in 2002 to 28.25 percent in 2007 (World Bank, World Development Indicators). A stronger regulatory and supervisory environment which also involved enhanced integration with international financial markets put increasing pressures for Turkish banks to improve efficiency and become more competitive. They invested substantially in new banking technologies, improved risk management capabilities and enhanced both the quality and the array of their services as well as branch networks.

The rapid improvements in macro-economic and institutional environment in the country and future growth opportunities in retail banking attracted foreign entrants into the sector. Initial bank entries were via investors acquiring banks taken over by the authorities during the financial crisis, whereas market-led entries into the sector intensified in the second half of the 2000s. Foreign banks acquired controlling stakes in Turkish banks or made strategic partnership agreements with leading lenders, such as Akbank and Kocbank, which were motivated to upgrade their capabilities in the face of increasing international competition (See Table 1). By 2007, total assets share of foreign controlled commercial banks in Turkey reached 15.6 percent, up from 3.3 percent in 2002 (BAT).

< Insert Table 1 here >

According to industry observers, foreign entrants brought in improved risk and credit control management techniques and helped their Turkish partners expand their products and services, particularly in the consumer and Small and Medium-sized Enterprises market segments (Euromoney, 2007; The Banker 2007). Despite the GFC's negative impact on the country's already slowing down economy, the banking sector proved to be resilient since it was not exposed to toxic assets and had high capital levels. Turkish banks continued to register high profit levels by international standards while the GFC evolved into European sovereign debt crisis which led to several European groups to retreat from the country mainly due to parent problems and pressures to deleverage.

Nevertheless, slowing and volatile economic growth and a worsening institutional environment increasingly characterised the country in the post-GFC years. Consumption-driven and foreign-financing dependent growth made the economy increasingly vulnerable to exchange rate movements and external shocks (Özatay, 2016). Measures introduced to limit credit growth and cool down the economy such as increasing reserve requirements and tightening of regulations put pressures on bank profitability while the sector's cost of equity increased. Still, new entrants have arrived especially from the Middle East which were regional players attracted by Turkey's deepening economic and political links with the region.

5 Empirical results

5.1 Entry modes and motives

Improving economic fundamentals and institutional reforms made Turkey one of the fastest growing banking markets, especially in consumer banking, and foreign banks joined the consumer banking bonanza taking advantage of pre-GFC conditions in international markets. Motivated by the sector's high profits and growth potential together with prospects of increasing economic integration between the country and Europe, several European banking groups identified the country as a strategic priority.[5] Indeed, key indicators for banking sector development illustrate the attraction of the Turkish market for European banking groups facing limited growth prospects at home. For example, at the end of 2002 domestic credit to private sector by banks as percent of GDP was 14 in Turkey compared to 89 in the EU-15. Similarly, at the end of 2004 number of commercial bank branches per 100,000 adults was only 12.9 compared to 42.8 in the EU-15 (World Bank, World Development Indicators).

HSBC became the first foreign entry with its acquisition of Demirbank in 2001. HSBC had been present in Turkey since 1992 through its acquisition of United Kingdom's Midland Bank, which entered the country two years earlier but had only a marginal presence. Demirbank was the sixth largest private bank by assets when seized by the authorities in 2000 and hence HSBC expanded its scale significantly by the acquisition. The following year it acquired a local consumer finance services provider, Benkar Tuketici Finansmani ve Kart Hizmetleri. HSBC's expansion in the country coincided with its drive to expand further its global reach in the 1990s and 2000s by entering the emerging markets of Latin America as well as some of the mature European economies (The HSBC Group, 2013; Tschoegl, 2004).

Regional players and relatively smaller players also ventured into the country such as Portugal's Banco Comercial Portugues and Greek banks expanding rapidly in the emerging European markets, the most notable among these being NBG. NBG was the first Greek entry into Turkish market with the acquisition of Finansbank in 2006. Finansbank was the fifth largest privately-owned bank in Turkey at the time and the deal represented the largest single investment ever made by a Greek company in a foreign market (The Banker, 2012). Although Greek banks had already expanded significantly in the South East Europe (SEE), Turkey was previously considered politically risky to enter. Exhibiting an oligopolistic reaction, its rival EFG Eurobank quickly followed NBG with its acquisition of Tekfenbank in 2007. Indeed, a third Greek bank, Alpha Bank, also rapidly expanding in SEE at the time, tried to acquire a Turkish lender but the deal failed to secure regulatory approval by the Turkish authorities. NBG initially acquired 46 percent of Finansbank, ultimately increasing its stake to 99.8 percent. It paid 3.6 times its book value, a significantly higher premium relative to the previous deals in the country (The Banker, 2006).

BBVA, Spain's second largest bank, in contrast, entered the country in the post-GFC period by acquiring Garanti Bankasi, the third largest bank by assets at the end of 2010. The deal which made BBVA the largest foreign investor in Turkish banking was a departure for BBVA's international expansion strategy which had been focused on the United States and Latin America. The Bank first acquired in 2011 a 24.9 percent stake: 18.6 percent from GE and 6.3 percent from Dogus Group, the Turkish parent. In 2015 it became the controlling shareholder of Garanti Bankasi by increasing its stake to 39.90 percent through purchasing an additional stake from Dogus, and took full control by taking its stake to 49.6 percent in 2017.

Acquirers' narratives in the pre-GFC period all pointed out the country's low bank penetration level and improved bankability of its large and fast-growing population as reasons for entry. For example, NBG justified the acquisition:

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[5] According to Financial Soundness Indicators of IMF Return on Equity in Turkish banking stood at 26.6 percent in 2007 compared to 17.5 percent and 17.7 percent in advanced countries and Central and Eastern European countries, respectively.

“The Turkish market is the largest in the region … and it is experiencing significant growth … . The growth outlook for the banking sector is particularly positive, as private sector lending penetration-to-GDP stands at 23% (compared with 83% in Greece), and private deposits-to-GDP at 38% (compared with 88% in Greece). Accordingly, we believe that penetration into the Turkish market is a strategic imperative for the NBG Group.” (NBG Announcement, Dated 30 May 2005)

Similarly, BBVA justified the deal as “BBVA wants to be in markets with the highest-growth potential and Turkey, …, is undoubtedly one of them.” (BBVA Announcement, Dated 2 November 2010)

5.2 Post entry commitment and performance

The three entrants’ post-entry performances in terms of their market shares and profitability (Return on Assets) show great variation over time as provided in Figure 1. Among the entrants HSBC stands out with its weak performance for most of the period analysed. Despite its first-mover advantages, HSBC’s market share remained about the same while its profitability fell behind its foreign peers in the post-GFC period and turned negative from 2014 to 2016. HSBC could not achieve the scale deemed necessary to compete with the top private lenders in the country in spite of having a local branch network, investment and corporate banking business and an asset management subsidiary. According to our respondents HSBC lacked focus and failed to commit enough to reach the right scale in the country: “HSBC could not decide exactly what type of banking to do in Turkey” (D1). Indeed, the country was included in the list of the growth markets of the group and the Bank attempted to acquire the GE’s stake at Garanti Bank in 2010 but it was beaten by BBVA. Additionally, it was suggested that HSBC could not keep up with the fast rate of product development in Turkey. For example, with its acquisition of Benkar Tuketici Finansmani ve Kart Hizmetleri in 2002, it got hold of Advantage Card, the largest instalment card organization in Turkey, but competitors quickly introduced similar products. Furthermore, its strategy of relying heavily on credit card business and unsecured retail and consumer lending proved costly with relatively higher share of non-performing loans. Its retail business suffered due to the regulatory changes capping interest rates on credit cards and overdrafts even though its corporate and investment banking operations were profitable.

<Insert Figure 1 here>

Most respondents commented that its weak performance was possibly due to a “mismatch between the skills and the expertise HSBC people had and what the operations in Turkey were requiring”. (F1) They pointed out the fact that bank’s top management was dominated by “expats” unlike other foreign controlled banks in Turkey. Similarly, one of our respondents commented that: “HSBC acquired the bank from the state, [the bank] had no infrastructure and the people they brought in were from different schools of thought.” (E1)

Finansbank, NBG’s Turkish unit, turned out to be one of the most-profitable cases. It had grown rapidly and profitably - more than doubling its branch network over a short period of time after the acquisition. Most respondents pointed out that unlike HSBC, NBG acquired a “right” operation ready for retail with the right distribution channels and this undoubtedly contributed to its success in Turkey.

Finansbank also operated profitably despite its parent's severe difficulties during the Greek banking crisis. Indeed, as the crisis deepened in 2010, the Group's better performing operations in the SEE and Turkey contributed positively to the consolidated results. Finansbank's loan portfolio continued its dynamic upward trend mostly driven by mortgage and consumer credit lending in Turkey. According to Omer Aras, the then-CEO of Finansbank, NBG's strategy of keeping the existing brand identity and management intact and maintaining a strict separation between the shareholder and the bank's operations paid off during the crisis, adding that: "… the only connection is that the NBG is the shareholder." (The Banker, 2012).

BBVA, in contrast, arrived in the post-GFC period by employing staged entry and gradually increasing its stake at Garanti Bankasi at a time when the sector's profitability was under pressure due to domestic imbalances. Garanti Bankasi had grown dynamically in the previous decade with a strong digital footprint. In the post-acquisition period its profit performance remained above its peers accounting for more than 30 percent of the group's pre-tax profits in 2017 (Reuters, 2018). Most respondents singled out the acquisition as one of the few creating significantly positive synergy between the two partners: "I believe that BBVA has benefited from the [technological] know-how at Garanti Bankasi. The most obvious example is that Garanti Bankasi's deputy CEO has become the CEO of BBVA. It means BBVA took the dynamism and know-how internationally, promoting several local executives internationally within the group." (C1) However, when the country experienced a sharp slowdown in capital inflows in 2018 and the lira depreciated deeply, exposure to Turkey resulted in a significant drop in profits of BBVA and European authorities raised concerns about the country's macro-financial environment.

5.3 Divestments of HSBC and Finansbank

HSBC announced in early 2015 its decision to review its loss-making Turkish subsidiary. It was part of its restructuring and refocusing strategy initiated in 2011 and involved retreat from several emerging markets (The HSBC Group, 2013: 28). Subsequently, in late 2015 it was reported to be in the process of trying to sell its Turkish subsidiary. However, disposal of the subsidiary turned out to be difficult as it "was not in a condition to sell … [due to] the losses, loss of market share, [overall] comparatively weak performance." (F2) A potential acquisition by the ING Groep failed in late 2015. News reports stated that deteriorating domestic economy and uncertainty regarding state's take-over of Demirbank caused ING Groep to reconsider its decision while others pointed out that HSBC was no longer pressed to exit Turkey after disposing its Brazilian unit (Haberturk, 2015; Hurriyet Daily News, 2015). Finally, in February 2016 HSBC announced that it decided to retain and restructure its Turkish operations since offers received for the subsidiary were found to be not in the best interest of the shareholders (Reuters, 2016). The new strategy of focusing on wholesale banking involved dropping the number of branches to 82 in 2018 from 284 in 2015 and the number of personnel from 4997 to 2205 over the same period and resulted in returning to profitability in 2017.

NBG's divestment of Finansbank, the "the crown jewel for NBG", was not a straightforward process either. A planned public offering of 25 percent of Finansbank had to be postponed in 2011 indefinitely due to adverse effects of Turkish monetary policy on bank valuations (The Banker, 2012). NBG failed a stress test in October 2014 and finally divested Finansbank in 2016 as a condition of its multiple bailouts. The acquirer was Qatar National Bank, the largest bank in the Middle East and North Africa region. The sale price was, however, below the estimated one by about 20 percent according to some analysts, with volatility in emerging markets depressing valuations of Turkish assets. Still, the markets reacted positively to the deal with NBG's share price increasing by as much as 10 percent (Financial Times, 2015b).

The statement by the Bank portrayed the divestment as a strategic action towards refocusing in the home market: "NBG's divestment from Finansbank underscores the resolve with which the Bank will pursue its goal of delivering value to its shareholders while observing its commitments. NBG … will pursue from a position of strength its strategy, consisting of three core objectives: profitability enhancement, asset quality improvement and support to the Greek economy on its return to growth." (NBG Announcement, Dated 15/06/2016).

6 Analytical discussions

The empirical facts presented in the previous section show varying entry and post-entry strategies and outcomes for the foreign entrants. The entrants displayed mimicking behaviours following each other and mostly employing acquisitions in the pre-GFC period. This early wave of entrants arguably helped improving financial structures of Turkish banks as well as increasing the competitiveness in the system. However, the Turkish retail banking market proved to be a tough one for the entrants, especially the smaller ones due to fierce competition from larger local lenders. As one of the respondents remarked: "This is one of the key differences with the Central and Eastern Europe." (F3)

The market structure dominated by well-established large banks with good brand recognitions and right distribution channels including wide branch networks rendered capturing market share difficult for the entrants. The importance of "scale" in Turkish banking due to the country's large size is summarised neatly as: "It makes a huge difference whether you have the right scale or not, … if you cannot establish a reasonable country-wide operation then most likely you can't deliver the returns necessary to be profitable in economic terms." (B1)

Larger local players are said to have the competitive advantage due to their advanced technological infrastructures and human capital as well as strong brand names: "It is quite difficult to compete with Akbank, Isbank, Garanti, YKB … your competitors have been here for many years, and hence they have awareness. … [People] prefer banks which have been around for 60-70 years. It is something to do with signalling trust." (C2)

Local banks' investments in information technology (IT) are argued to allow them offer sophisticated services which are highly valued by Turkish customers. One of our respondents highlighted the role "IT that is tailor-made to the specifics of Turkey" as a major source of competitiveness for local banks adding that: "[Turkish people] like sophisticated ATMs, internet applications, etc. … People are more technophile … Because it is a very young and dynamic population, it is quite different from what we see in the rest of the Europe. … The younger the population the more technophile they are." (F4)

Accordingly entering the market through acquiring a large and well-established bank and keeping the existing management teams and operations largely intact allowed most European entrants compete better: "The ones buying lenders with wide branch networks, Dexia, Fortis, … they came for the franchise. … They did not interfere much with the operations … Some banks had very restrictive credit policies … you cannot apply everything [in Europe] here exactly yet."

(A1)

Overall, the market structure of the sector did not change much during the analysed period despite the foreign entries and the strong growth performance of the market. Prior to the foreign entrants the sector was dominated by a small number of banks: As of end-2002 top-5 banks controlled 58.4 percent of total assets while as of end-2018 the same figure stood at 55.8 percent (BAT). The aggregate asset-based market share of foreign-owned commercial banks stagnated at around 15 percent between 2007 and 2014, before jumping to 28.3 percent only in 2015 due to the BBVA's acquisition of Garanti Bankasi's control, the fourth largest player by assets as of end-2018 (See Figure 2). Furthermore, in the post-GFC period, foreign banks' profitability has been almost continuously lower than both privately-owned and state-owned depository banks (See Figure 3).

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7 Conclusions

This paper presented the dynamic interactions between home- and host-market conditions as well as firm-level influences determining foreign banks' entry modes, performances and divestment strategies. The analysis shows that foreign-owned banks' performance levels while being lower than industry averages have displayed heterogeneity depending on their entry strategies and post-entry market commitments.

Scale and distribution channels are found to be the most important determinants of foreign bank performance in retail markets such as Turkey's which are dominated by large local players with strong brands. Hence, the successful foreign entrants have been the ones acquiring already large and successful lenders and leaving the local management largely intact, in a way following a "private equity" investing style. However, HSBC's experience shows that in markets where local competition is strong, even large entrants with a diverse global footprint may not have competitive advantages.

International divestment is manifested by our analysis to be a complex process influenced by not only international financial markets but also host market economic conditions and institutional constraints. Both host-country and firm-level factors complicated HSBC's divestment from the country and led HSBC ultimately restructure its Turkish unit by leaving the retail segment. NBG's decision to divest its profitable Turkish operation, by contrast, was a "forced" and difficult decision with potentially negative influences on the bank's future prospects.

Our contribution in this paper has been to discuss international divestment as an integral component of global banks' strategies to achieve international competitiveness which has been overlooked in the international banking literature. We aimed to address this gap in the literature by conducting an exploratory study of European bank investments and divestments in Turkey, an understudied market. Notwithstanding the divestitures from major European and global banking groups as discussed here, the growth prospects of the country continue to attract investors from Europe, Middle East and Asia. Hence, future studies should analyse entry and exit strategies of these "second wave" of entrants, especially, the ones from emerging markets, in comparison to the experiences of conventional global banks.

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Table 1 Entries into and withdrawals from the Turkish banking market: 2001-2018

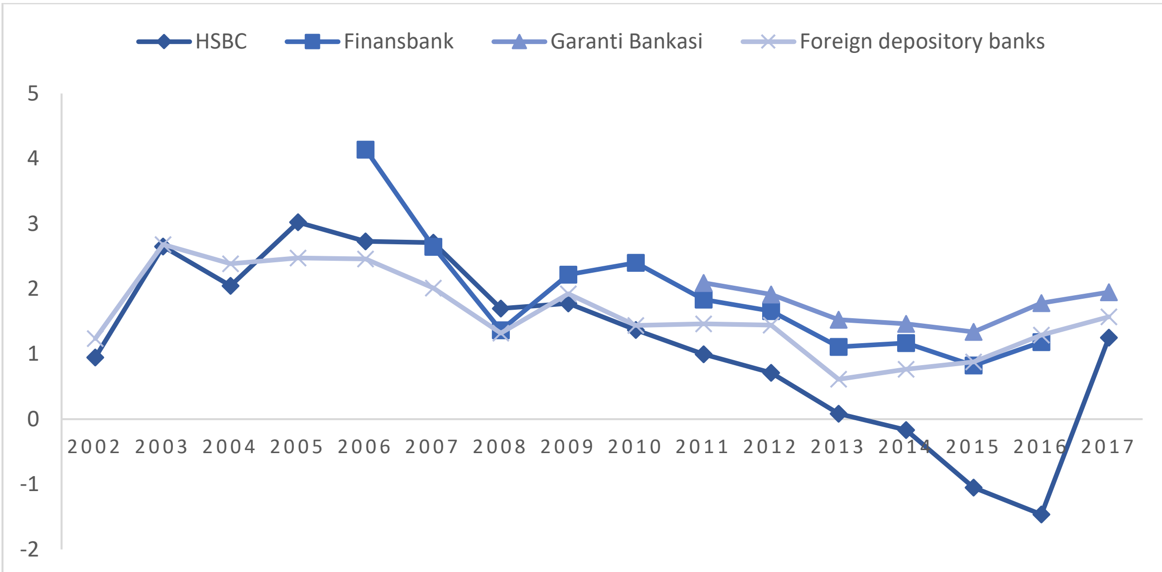
Year of entry [1]	Acquiring Bank	Home Country	Entry Mode	Target Bank	Stake acquired (in percent)[2]	Year of Divestment	Narrative for exit
2001	HSBC	United Kingdom	Acquisition	Demirbank	100		
2002	Banco Comercial Portugues of Portugal	Portugal	Acquisition	Sitebank	100	2010	Loss making local operation; refocus on priority markets and disposal of several other international operations
2002	Unicredito Italiano	Italy	Acquisition	Yapi Kredi Bank	40.95		
2005	BNP Paribas	France	Acquisition	Turk Ekonomi Bankasi	72.24		
2005	Fortis Group	Belgium	Acquisition	Turk Dis Ticaret Bankasi	94.11	2011	Merger between Fortis and BNP Paribas
2005	GE Consumer Finance	United States	Acquisition	Turkiye Garanti Bankasi	25.5	2011	To increase focus on industrial business
2006	Dexia	Belgium	Acquisition	DenizBank	99.85	2012	Result of its state-rescue due to its exposure to the Eurozone debt crisis
2006	National Bank of Greece	Greece	Acquisition	Finansbank	99.81	2016	Part of resolution plan due to Greek sovereign debt crisis.
2007	Eurobank EFG	Greece	Acquisition	Tekfenbank	70	2012	To improve capital levels due to Greek sovereign debt crisis
2007	BTA Bank	Kazakhstan	Acquisition	Şekerbank	33.98		
2007	Arab Bank & BankMed	Jordan and Lebanon, respectively	Acquisition	MNG Bank (renamed as Turkland Bank)	50 & 50, respectively		
2007	Citibank	United States	Acquisition	Akbank	20	2015	To comply with Basel III requirements, to focus on wealthier customers in fast growing

							markets, and to streamline operations
2007	ING Groep	Netherlands	Acquisition	Oyak Bank	100		
2008	National Bank of Kuwait	Kuwait	Acquisition	Turkishbank	34.29		
2011	Banco Bilbao Vizcaya Argentaria (BBVA)	Spain	Acquisition	Türkiye Garanti Bankası	49.85		
2012	Bank Audi	Lebanon	Greenfield				
2012	Burgan Bank	Kuwait	Acquisition	Eurobank Tekfen	99.26		
2012	Sberbank Rossii	Russian Federation	Acquisition	Denizbank	99.85	2019[3]	Due to new strategy of divesting overseas businesses to focus on domestic markets
2013	Bank of Tokyo-Mitsubishi UFJ Turkey	Japan	Greenfield				
2013	Commercial Bank of Qatar	Qatar	Acquisition	Alternatifbank	100		
2014	Intesa Sanpaolo	Italy	Greenfield				
2014	Rabobank	Netherlands	Greenfield				
2015	Industrial and Commercial Bank of China Ltd	China	Acquisition	Tekstil Bankası	92.84		
2016	Qatar National Bank	Qatar	Acquisition	Finansbank	99.81		
2017	Bank of China Ltd	China	Greenfield				
2018	Emirates NBD[3]	United Arab Emirates	Acquisition	Denizbank	99.9		

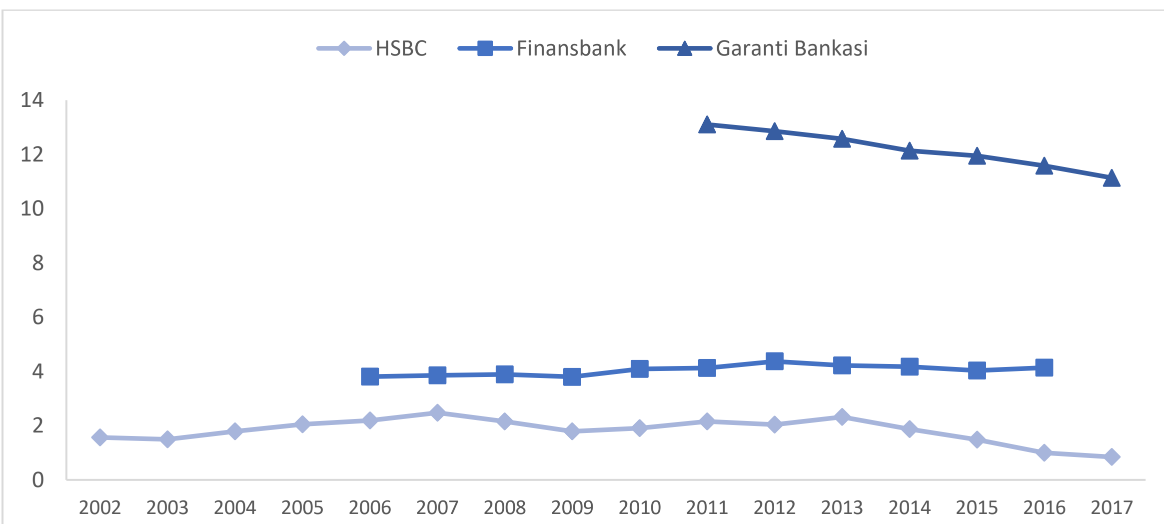
Source: Author's compilation.
Notes: [1] year of initial acquisition if subsequent purchases followed; [2] cumulative to present or year of exit; [3] pending regulatory approval as of June 2019.

Figure 1 Profitability and market share: HSBC, Finansbank and Garanti Bankasi

Panel A: Return on Assets (%)

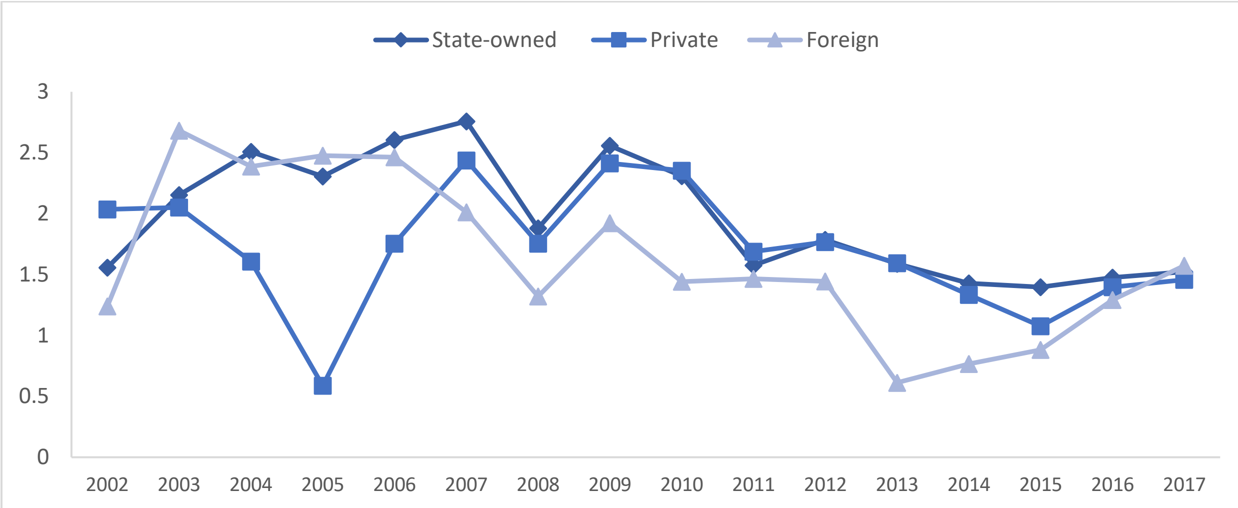


Panel B: Asset-based market share (%)



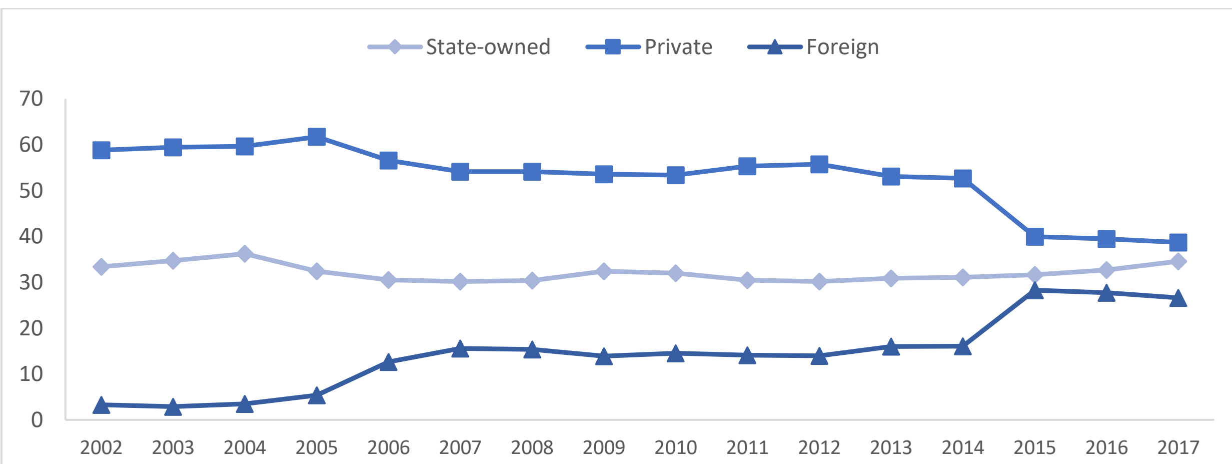
Source: Author’s calculations, based on BAT.

Figure 2 Profitability in depository banks across ownership types: Return on Assets (%)



Source: Author's calculations, based on BAT.

Figure 3: Asset-based market shares (%) of depository banks across ownership types



Source: Author's calculations, based on BAT.