



# An Analysis of Internationalisation Strategies Adopted by Diversified Banks: The Case of BNP Paribas

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Dissertation written under the supervision of Professor Pedro  
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Dissertation submitted in partial fulfilment of requirements for the MSc in  
Business, at the Universidade Católica Portuguesa, 5.4.2023.

## **Abstract**

**Title:** An analysis of internationalisation strategies adopted by diversified banks: The case of BNP Paribas

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**Keywords:** Internationalisation, Internationalisation of banks, Mergers and acquisitions, Diversified banks, Market entry

Through globalisation it has become increasingly important for banks to develop effective internationalisation strategies to remain competitive in the global market. Therefore, it is important to look at the drivers behind bank's internationalisation strategies and their effectiveness. This thesis analyses BNP Paribas' internationalisation strategy through qualitative methods to provide an understanding on how banks expand to new foreign markets. Primary data was acquired by interviewing senior managers from BNP Paribas and further secondary data was used to validate the findings. The thesis studied differences in strategy between well-diversified banks and traditional retail banks, with the aim to understand the drivers behind BNP Paribas' success in its internationalisation. Specifically, the study finds that cultural similarity of target markets diminishes when studying more diversified banks, shifts in the home market affect foreign expansion, and building home market capabilities is essential before beginning foreign expansion. These findings have important managerial implications and provide practical insights for banks planning to expand internationally and contribute to the academic research on banks' internationalisation strategies. By carefully considering their unique strengths and weaknesses when developing their internationalisation strategy banks can achieve greater success in the global market.

## **Resumo**

**Título:** Uma análise das estratégias de internacionalização adotadas por bancos diversificados: O caso do BNP Paribas

**Autor:** Jonna Linnéa Nuutinen

**Palavras-chave:** Internacionalização, Internacionalização de bancos, Fusões e aquisições, Bancos Diversificados, Entrada no mercado

Graças à globalização, a necessidade de os bancos desenvolverem efetivas estratégias de internacionalização no mercado global, a fim de garantirem a sua competitividade, tornou-se um imperativo cada vez mais crescente. Esta tese analisa a estratégia de expansão internacional da Instituição BNP Paribas através de métodos qualitativos que proporcionam uma compreensão acerca de como os Bancos se expandem em novos mercados estrangeiros. Para isso, estudaremos diferenças de estratégia entre bancos bem diversificados e bancos de retalho tradicional com vista a entender as causas que levaram à internacionalização bem-sucedida em particular do BNP Paribas. A tese utiliza informação adquirida através de entrevistas realizadas diretamente a gestores executivos da instituição em análise, num primeiro nível, sendo validada e corroborada com informação secundária. Especificamente, o estudo revela que a similaridade cultural dos mercados alvo diminui quando estamos perante bancos com portefólio diversificado, mudanças no mercado interno afetam a expansão internacional e que a construção de capacidades no mercado doméstico é fulcral antes de se dar início a qualquer processo de internacionalização. Estas descobertas têm importantes implicações no processo de gestão e providenciam conhecimentos práticos a bancos que pretendam dar início ao seu processo de expansão internacional, bem como a contribuição para a pesquisa académica alusiva a Estratégias de Expansão Internacional bancária. Considerando analiticamente e criteriosamente as suas maiores vantagens bem como fraquezas aquando do desenvolvimento da sua estratégia de internacionalização, os bancos exponenciam a sua probabilidade de sucesso no mercado global.

## **Acknowledgment**

*I would like to thank my supervisor Professor Parada for his continued support and availability throughout the process.*

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## **Table of Abbreviations:**

BBVA – Banco Bilbao Vizcaya Aregntaria SA

BNCI - Banque Nationale pour le commerce et l'industrie

BNL – Banca Nazionale del Lavoro

CIB – Corporate and Institutional Banking

CNEP - Comptoir National d'Escompte de Paris

IPS – Investment and Protection Services

M&A – Mergers and Acquisitions

MNC – Multinational Corporation

TEB - Türk Ekonomi Bankası

## **1 Statement of the Problem**

The current state of banking is marked by a fast-changing landscape due to technological innovation and rising competition. The financial sector has experienced a substantial transition over the past decade, and banks today face several problems in the rapidly changing financial landscape, as the world increasingly globalises banks have greater pressure to maintain their competitiveness. Today one of the leading banks in the world is BNP Paribas (S&P Global 2022), a group that has a strong presence in Europe, North America, and Asia. The bank has undoubtedly succeeded in its diversified business strategy and internationalisation, by building on their diversified strategy in three main business lines. Namely, Commercial and Personal Banking, Investment and Protection Services, and Corporate and Institutional Banking (see appendix A). However, parts of this field remain unexplored as previous literature has focused on the internationalisation of more traditional firms, with writers such as Johanson and Vahlne (2009); Johanson and Wiedersheim-Paul (1975); Welch and Luostarinen (1988); Piercy (1981) all contributing to the academic literature on the process of internationalisation for firms that have the capability to export their products. Nevertheless, limited attention has been paid to address the research gap by examining the internationalisation of service firms. The increase in previous research on the service industry's foreign market entry has been quite industry specific, the research has seen focus on the tourism industry, retailing and consultancy. Thus, many questions about the service industry's foreign market entry remain to be addressed. (Deo Sharma and Blomstermo 2003)

Parada, Alemany, and Planellas (2009) in their paper endeavour to examine the internationalisation of the retail bank Banco Santander. Their work provides a foundation for understanding the methods used by financial institutions in their foreign expansion, and how these techniques differ when there is no physical product to export. Despite this progress there is much space to explore the internationalisation strategy of a bank which has a very different composition to a traditional retail bank, and which has a different origin and history to previously studied subjects. As BNP Paribas has especially differentiated itself through the development of their Corporate and Institutional Banking business line. Furthermore, the bank has a remarkable heritage, and has despite challenges managed to expand to all the key markets in the world during its long history. The rising significance of international financial institutions in a world of deregulation and increased competition warrants further research in this area.

## **2 Research Question**

The method which a firm uses to identify new business opportunities abroad is a complex process of multiple steps (Slager 2005; Deo Sharma and Blomstermo 2003). Until now the existing literature on the internationalisation of financial institutions has largely been geographically limited and focused on distinctly classified banking operations (Fung et al. 2002; Ursacki and Vertinsky 1992). These limitations have led to a lack of comprehensive overview on the topic. Thus, this thesis will strive to understand the success of BNP Paribas' internationalisation strategy and how this strategy differs from the internationalisation strategies employed by traditional retail banks. The thesis seeks to build upon the previous limited research on the internationalisation of service firms by exploring the unique characteristics of BNP Paribas' approach to foreign expansion. By examining the bank's strategy in the context of a rapidly changing global market that drives the decisions to expand abroad in the banking sector and pushes banks to remain competitive.

Additionally, this research will also contribute to the broader academic literature on service firm internationalisation by examining the differences between BNP Paribas' strategy and the strategies employed by traditional retail banks. The analysis will help shed light on the challenges faced by service firms in the process of internationalisation and will aim to provide valuable insight for the organisations looking to expand globally. The relevant questions which this thesis aims to approach are: Is there a difference in the internationalisation strategy of a retail bank compared to a well-diversified bank and what are the key factors driving the success of BNP Paribas' internationalisation strategy in the competitive banking industry?

## **3 Literature Review**

### **3.1 Internationalisation**

The phenomenon of internationalisation of firms has received significant attention from academic researchers over the past several decades, and various definitions of the concept have been put forth in literature. Piercy (1981) describes internationalisation as the transfer of an organisation's activities abroad, this however, lacks a functional definition for the term.

Welch and Luostarinen (1988) describe the process of internationalisation as “the process of increasing involvement in international operations”, they further develop to describe it as adjusting the business to fit demands and expectations of the global market, necessitating an adapting in business strategies, processes, and systems to adapt to cultural, legal, and economic differences of the target region. While Welch and Luostarinen (1988) provide some insight on the aspects firms consider, when expanding their business abroad Johanson and Vahlne (1977) and Johanson and Wiedersheim-Paul (1975) provide a more comprehensive approach with the Uppsala model. They suggest the firm pursues a strategy of incremental internationalisation, to gain knowledge of the foreign market, and this move to new markets will eventually lead to the identification of new opportunities (Johanson and Vahlne 2009). Reinforcing the notion that firms go international to follow the customer, pursue new markets, seek strategic assets, and to enhance profits. (He, Boateng, and Ring 2019)

In accordance with the Uppsala model Slager (2005) maintains that the process of internationalisation is not a single process, but a chain of linked processes. The end of a chain represents the beginning for the following one. With global markets continuously adapting and regulations lessening, it must be considered that the process of internationalisation does not finish once the firm has set up operations abroad, the presence in the foreign country has the possibility to become stronger or weaker depending on its success. Sharma and Blomstermo (2003) hold that it is the process of experiential knowledge which in large explains the firm’s decision to go international. Learning is ingrained in the established procedures, customs, and beliefs of the organization. As such, taking us back to Slager’s (2005) proposition of a linked process, whereas Sharma and Blomstermo (2003) speak of a process of experiential learning. The change of the global market has made it crucial to acquire new knowledge, which is discussed by previous writers, but Levitt (1983) elaborates on the trend of globalisation and how the landscape for businesses has changed, he means there is a homogenisation of consumer’s preferences and a rise of a global market for standardised products is arising. Levitt (1983) continues that companies need to adapt to this global mindset and a tailoring of strategies to succeed and remain competitive. However, Berry, Guillén, and Zhou (2010) contend that the choice of entry modes can be influenced by the cultural differences between the domestic and target markets, suggesting a lack of homogeneity in consumer preferences.

The recent shift in the global market has required a more thorough examination on the process of globalisation, as discussed by previous authors. It has become evident that international

expansion is not simply a singular, abrupt action, but rather a multi-faceted endeavour (Slager 2005; Deo Sharma and Blomstermo 2003). In considering potential business prospects, firms consider the cultural proximity of the markets they are evaluating (Johanson and Vahlne 2009). It becomes important to delve deeper into the subsequent developments that occur after the initial steps of internationalisation have been executed and foreign operations have been established.

### **3.2 The Service firm**

Given the established framework for the internationalisation process it is important to understand the differences regarding firms that do not have a product to export, i.e., service firms. Although there is a substantial body of literature examining the internationalisation strategies of various types of firms, only recently has there been a concerted effort to close the gap between these theories and their practical application in the service sector by conducting a more comprehensive analysis of the internationalisation strategies of service-oriented businesses (Erramilli and Rao 1993). Service firms are differentiated from production firms through the low capital intensity and inseparability of production and consumption, prompting a difference in entry mode strategies for respective firms (Erramilli and Rao 1993)

The removal of investment restrictions and institutional hindrances that interfere with the circulation of capital has led to a marked growth in the global capital movement over the past three decades (Mulder and Westerhuis 2015). These changes have altered the competitive landscape for businesses and made foreign expansion a crucial strategy for firms to remain competitive. A prerequisite for international firms to remain competitive is the running relationship between its different business units. As analysed by Lindsay et al. (2003) the flow of information from subsidiary to parent provides us with a deeper understanding of the process past the initial steps within the service firm. Lindsay et al. (2003) argue that the need for adaptation is indeed greater for service firms, than for firms selling goods and needs higher involvement from the parent company. Thus, there is an undeniable importance on the individual in the firm's flow of knowledge. It is a distinct type of knowledge which should be attained to succeed in foreign expansion. Managers play a crucial role in the flow of information from parent to subsidiary, promoting successful internationalisation (Lindsay et al. 2003).

Literature not only suggests that the need for adaptation is greater for a service firm, but also it is argued that if the costs are low or the ability to integrate is high, then high-specificity companies are likely to create ventures with full control. However, as costs increase or ability to integrate decreases, low-specificity firms will be more inclined to pursue ventures that are shared-control. This suggests that firms may adapt their business strategies based on the current market conditions and may opt for a different approach depending on the specific circumstances at play (Erramilli and Rao 1993). However, this argument further shows that not only are service firms different from traditional retail firms, but differences between service firms depending on specificity can also affect strategy.

It should be noted that government support and policies can serve as a significant factor in shaping the international expansion behaviour of firms through cross border mergers and acquisitions (Boateng et al. 2017). This is further demonstrated by Parada, Alemany, and Planellas (2009) that show the deregulation of the Spanish financial market played a significant role in the initial growth of Banco Santander. Therefore, research suggests the environment in the home country can encourage cross border expansion.

Johanson and Vahlne (2009) present a theory that explains the direction of these expansion decisions. They suggest that companies expand to countries they perceive to be culturally and psychologically closer to the home market, and only expanding further once experience is gained. The lack of knowledge and risk aversion relates back to the study of the importance of managers and the individual (Johanson and Vahlne 2009; Lindsay et al. 2003). The cultural aspect of the target market is highlighted by Parada, Alemany, and Planellas (2009) as they consider it a crucial factor in the retail bank's decision-making process. The authors further develop a three-step internationalisation strategy based on Banco Santander. According to the study the first step is about developing capabilities and achieving domestic market leadership, this then leads to the second step where the bank creates options and explores new opportunities. The last step is where the large-scale entries and integrations happen. The authors claim it is this process that has led Banco Santander to its financial success.

As seen globalisation has made foreign expansion crucial for firms to remain competitive (Mulder and Westerhuis 2015). Service firms require adaptation in their internationalisation strategies and may adapt based on market conditions (Erramilli and Rao 1993; Lindsay et al. 2003). Government support and policies can shape international expansion behaviour, and

cultural proximity plays a role in target market selection (Parada, Alemany, and Planellas 2009; Johanson and Vahlne 2009). These conclusions distinct the service firm from a production firm and provide a ground to further develop the understanding in terms of financial institutions.

### **3.3 The internationalisation of financial institutions**

Previous research suggests that through the four organisational options available for banks looking to expand abroad, representative offices, agencies, branches, and subsidiaries, they leave the bank with two strategic choices for foreign market entry, namely it can open a new branch, or it can buy an equity share in a bank that is already operational in the target market (Focarelli and Pozzolo 2001). The distinction between branches and subsidiaries needs to be addressed as the more rigorous regulatory restrictions for banks impose a challenge (Focarelli and Pozzolo 2001). A subsidiary is a separate legal entity that is licensed and supervised by local regulators, with no legal obligation for the parent to support it if it falls into distress. In contrast, a branch is legally inseparable from the parent, which is fully responsible for its financial commitments (Cerutti et al. 2005).

As previously discussed, there is significant literature suggesting shifts in the home market, such as deregulation or policy changes can affect a firm's expansion decision (Parada, Alemany, and Planellas 2009; Boateng et al. 2017; Mulder and Westerhuis 2015) The authors Antonsson and Arrhenius (2011) further highlight the importance of the establishment of a common currency in Europe and the European Union as a catalyst for the internationalisation of banks. The less rigorous financial environment has significantly increased internationalisation and concentration of banks. It has transformed the banking industry and increased competitiveness, leading banks to considering improving strategies and products offered to their customers.

Focarelli and Pozzolo (2001) explore the hypothesis that cross-border banking M&As are less frequent than similar operations in other sectors. M&As in the banking industry are less intense than in non-financial sectors due to the non-tradability of many banking services. The article also finds that more rigid regulatory restrictions make cross-border mergers by banks more complex than those by non-financial firms. This finding highlights the need for a more in-depth study of the factors affecting banks decisions to acquire a foreign equity holding, especially considering the future evolution of international banking.

The literature on foreign entry strategies in banking has heavily focused on specific markets, rather than studies focusing on a larger view to obtain more generally applicable results. Ursacki and Vertinsky (1992) analyse the operations of foreign banks in Japan and Korea to expand the literature, their research finds that key factors in determining the timing and scale of market entry is most influenced by size and existing level of geographical diversification. Other authors have addressed related findings, as Fung et al. (2002) approach the internationalisation strategy of an Australian retail bank, highlighting the choice to expand through the retail banking business line, noting that there is little reason to expect foreign banks to have a particular advantage over domestic banks that are already familiar with their local environment. As the retail banking industry operates differently to other forms of banking. Despite these efforts to broaden the literature on the factors determining the timing and scale of market entry further research on the subject is warranted. Particularly analysis on how the internal differences of the bank can affect strategy.

Slager (2005) makes an unexpected notion about the profitability of banks that have gone international. First banks that have adapted to the globalized markets are categorized into four groups: A. retreating and B. established banks, categories A and B have generated the highest shareholder returns. The two remaining categories are C. moderate and D. accelerating banks. The research implies that overall, internationalization has not led to improved profitability and shareholders have not seen benefits from investing in banks with a greater international presence, rather A. retreating and B. established banks have seen the highest returns. The author claims banks face more costs than benefits during internationalisation, until significant experience is earned. This means that there will be a period of performance decline before they can achieve higher levels of success. However, this process takes time and banks must significantly increase their international commitments before reaching a turning point where the benefits outweigh the costs. This view Slager holds is contradicted by other authors that have made findings implying a rapid pursuit of international opportunities prompts heightened entrepreneurial behaviour and confers a growth advantage (Autio, Sapienza, and Almeida 2000). Similarly, Ball and Tschoegl (1982) showed that banks which had stronger commitment to the foreign market in the form of a subsidiary were larger than those with a branch. Further findings also explain that international expansion based on knowledge and specific experience has shown a higher rate of success and contrary to established beliefs, enterprises equipped with more easily replicable technologies exhibit a higher rate of growth. In the literature it has also

been shown that technology is a key factor in new product development, while market size and structure exert a decisive influence on the scope and classification of international trade (Ursacki and Vertinsky 1992). These developments make communication and international business less complicated and contribute significantly to global banking competition. (Morgan and Katsikeas 1997; Antonsson and Arrhenius 2011)

As discussed, the existing literature on the internationalisation of financial institutions has largely been geographically limited and focused on distinctly classified banking operations (Fung et al. 2002; Ursacki and Vertinsky 1992). These limitations have led to a lack of comprehensive overview on the topic. The literature has however contributed to the identification of these various foreign entry modes. Making the distinction between the strategic choice of subsidiary or a branch when expanding operations abroad (Focarelli and Pozzolo 2001; Cerutti et al. 2005; Ball and Tschoegl 1982). Therefore, it is necessary to shift the focus to developing a broader understanding of the types of strategies adopted by different banks and service firms, and to investigate any possible variations between them. The rapidly changing business landscape will likely lead to evermore innovative ways and thus it is important for firms to understand these nuances, to make informed decisions about their business strategies.

This chapter has provided an overview to the current literature in the internationalisation of firms. As suggested the existing literature is only beginning to endeavour in the internationalisation of service firms, which has also prompted some deeper research into the domain of financial institutions. Hence research suggests that the process of internationalisation is an incremental process of building knowledge and building trust (Johanson and Vahlne 2009) in target markets that are culturally proximate to the parent company (Berry, Guillén, and Zhou 2010; Johanson and Vahlne 2009). This gives importance to the role of the managers and their experiences in building a successful transition to the foreign location (Lindsay et al. 2003) and more so that the de-regulation of the markets may be an accelerator for the foreign expansion of financial institutions (Parada, Alemany, and Planellas 2009; Antonsson and Arrhenius 2011). While Focarelli and Pozzolo (2001) show that M&As are less common when speaking of financial institutions due to the non-tradability of financial services, but further research into the overall scale and timing of foreign entries, within different forms of banking is still called for.

## 4 Methodology

This chapter outlines the methods used to find answers to the research questions. The study focuses on (1) the internationalisation of service firms, (2) differences in retail and corporate banking strategies, (3) drivers of international expansion and (4) main characteristics in the internationalisation of a financial institution. As previous literature has shown there is a strong geographic focus in research regarding the internationalisation of financial institutions and no significant research exploring the differences between retail banking and corporate banking, which is what this thesis aims to explore.

The purpose of this thesis is to expand upon current knowledge on the internationalisation of financial institutions and explore the theories relating to this subject. In such, the thesis is built on primary data from four expert interviews inside BNP Paribas, along with secondary data collected from industry reports, public company documents and public interviews with company professionals. This included industry reports, company annual reports, and other relevant documents such as marketing materials and press releases. The secondary data was used to supplement the expert interviews and provide a broader context for the study (Hox and Boeije 2005). Google Scholar was used to search for relevant articles, books and studies that were peer-reviewed and relevant to the topics of study. Key words such as “internationalisation”, “internationalisation of financial institutions”, “banking foreign expansion” were used to narrow down search results. The papers chosen for this thesis were reviewed using an evaluation process which involved analysing the content and findings of the papers. Only relevant, credible and papers of sound quality were selected for inclusion in this thesis, ensuring the thesis is based on robust and reliable sources. In addition to Google Scholar, the bank's own websites were also consulted to gather supplementary information for this study. The BNP Paribas Online Historical Archives were also utilised to gain a deeper understanding of the bank's origins and history.

Furthermore, the thesis used a comparative approach to analyse the data by comparing the unique characteristics of BNP Paribas to that of a more traditional retail bank, Banco Santander (Parada, Alemany, and Planellas 2009). The comparative case study approach allows for the examination of differences and similarities across a case, providing a more comprehensive understanding of the phenomena being studied (Bartlett and Vavrus 2016). The case was chosen due to its relevance to the research questions and the extent to which they provided insight into the internationalisation of banking.

The semi structured interview process was chosen as it allows the interviewed party to share information in a freer way. According to Mason (2007) semi-structured interviews are flexible in nature and allow interviewees to shape the interview based on their own comprehension. This can lead to the emergence of unexpected themes and innovative approaches. In this case some pre-defined open-end questions were used as a guide for the interviews (see appendix D for detailed questions). The guidelines were organised around questions based on the literature to provide an extension to previously attained understanding of the concepts (Wilson 2014). The interviews were conducted in person and were recorded and transcribed for analysis (see Appendix E for example of a transcript). The experts chosen were all senior managerial level to ensure adequate knowledge and experience within the company. The subjects were all based in Lisbon, Portugal at the time of the interviews and had previous international experience within BNP Paribas. It should also be noted that three out of four subjects had worked for one of BNP Paribas' predecessors, thus providing important insights into BNP Paribas development.

Overall, the study used a mixed methodology to gather and analyse data, combining qualitative expert interviews and archival research with a comparative case study analysis. The validity of the findings was triangulated between the different sources. This approach allowed for comprehensive research of the internationalisation of corporate banking and the drivers behind it. The different findings and observations are presented in the following sections.

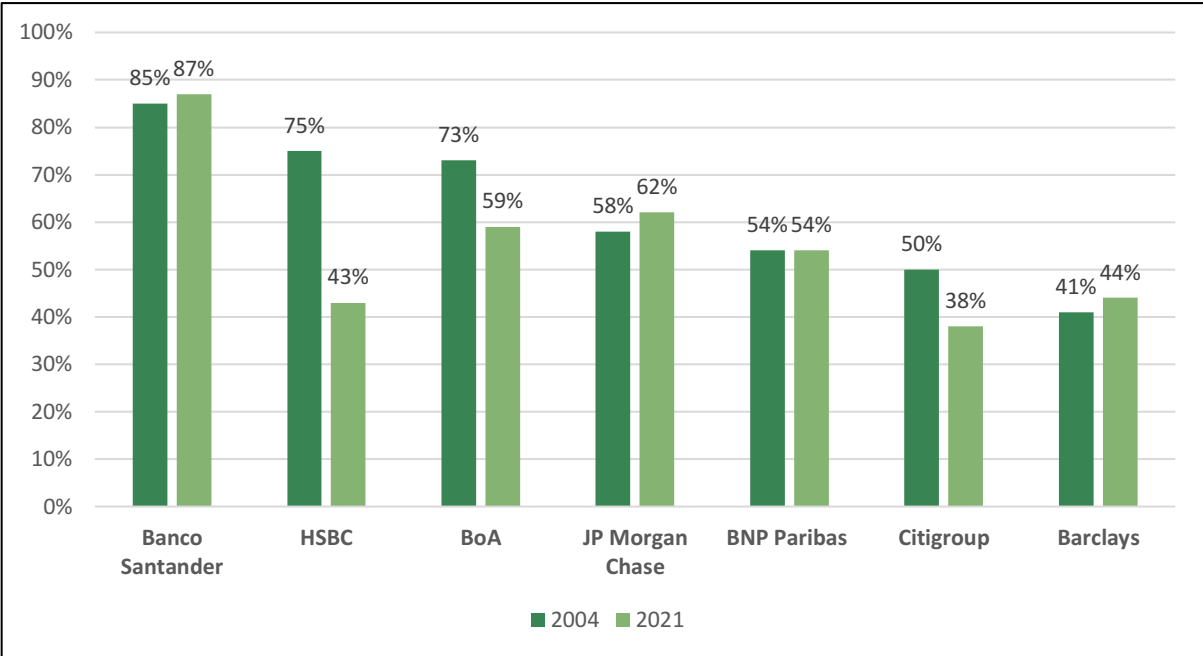
## **5 Analysis**

### **5.1 The corporate business line**

BNP Paribas has through its bold strategy been able to expand to the largest economic centres in the world. The group's success has allowed it to intensify the concentration on its primary objectives of technological innovation and sustainable development (BNP Paribas 2021). An essential part of the bank's achievements can be traced back to its corporate business division, which serves corporate clients in more than 65 countries by offering a comprehensive range of products that support corporations with a global and cohesive approach, thereby facilitating the success of its clients' businesses (BNP Paribas 2021). BNP Paribas has been recognised with international awards for its capabilities, such as the Euromoney award for excellence – World's Best Bank for Corporates 2022 (Euromoney 2022) and recognition as one of the top banks in

Asian Large Corporate Banking and Cash Management (Coalition Greenwich 2021). The importance of the corporate business line is further supported by the analysis of the retail revenues as per total revenues of the group, as seen in figure 1. BNPP has consistently relied on a very diversified business strategy, where just over half of their revenues are derived from retail banking, the remaining 32% from CIB and 14% from IPS business lines. The diversification of business lines is seen as a common denominator for international banks. In contrast, Banco Santander stands out from the group as they derive a higher proportion of their revenues from retail banking (Parada, Alemany, and Planellas 2009). The consistent focus on retail banking has further increased by 2%, from year 2004 to 2021 for Santander.

Figure 1: Percentage of Retail Banking of Total Revenues by bank



Source: Author, combined using data from respective banks’ annual reports

In fact, BNP Paribas has since the beginning of the bank focused heavily on its corporate branch. This is further backed up by Renaud-Franc Falce, the Head of Capital Markets in EMEA for BNP Paribas, in his interview with the Banker he explains “it is the highly integrated model and connectivity between the CIB and the rest of BNP Paribas which really has created the winning formula for the bank.” (The Banker 2022)

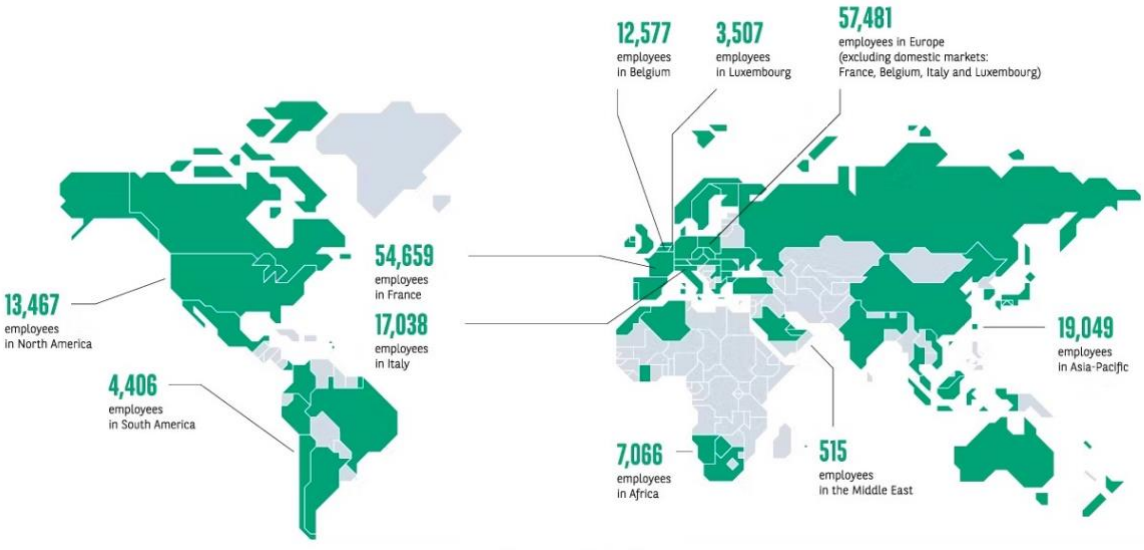
The forerunner of BNP, Comptoir National d’Escompte de Paris (CNEP) was founded after the French revolution in 1848 and its initial primary task was to save Parisian industries in the aftermath of the financial crisis. While the bank’s domestic focus laid in Parisian industry, the

bank also expanded abroad. They established themselves in China, India, Hong Kong, and Australia and maintained a reputation as an integral part in financing international trade. The expansion was rapid and among other ventures it helped secure new trade routes for cotton into Europe and financing the Beijing railway (BNP Paribas 2022a). Thus, the corporate and institutional banking side of BNPP has through its history been an integral part to the business. BNPP's choice to continue operating based on its founding principles the CIB branch, has been key in its ability to expand to markets of cultural differences. As a manager from BNPP stated: *In CIB I think the cultural differences are not so important. I mean, it's easier to work with investment banking by its nature, it's already a mix of cultures and a mix of people with very different backgrounds. So, I mean, I don't think it's so difficult.* (Respondent One) Retail banking can vary from country to country, and even within countries there can be regional differences. The customers have their own saving habits, need for different services and varying financial goals. *Corporate banking on the other hand deals with a more standardised customer, often a commercial corporate which operates in a harmonised way worldwide.* (Respondent One) This element reduces the barriers and risk from expanding to culturally distant markets. As in literature presented by Levitt (1983) the homogenisation of the markets will lead to firms needing to adapt by offering a more global product. In case of corporate banking the path of globalisation has led to a market in which BNPP has captured market share and created a suitable balance in both strategy and geographical locations of activity. This is further demonstrated in the current understanding in literature that FDI in retail banking is more complicated and requires better understanding of the target market (Tschoegl 1987; Fung et al. 2002).

The historic expansions outside of the domestic market in the 19<sup>th</sup> century undoubtedly shaped the DNA of the bank, where the diversification of its business lines is still today one of its main focal points and provides the bank with over €16 million in revenues yearly (BNP Paribas 2023a). As respondent 1 recognises, *the diversification of BNPP's business is really what sets it apart from many of its competitors. The bank occupies a central position in terms of its expertise and relationship offerings to its corporate clients, despite not having the same level of expertise as some of its larger investment banking competitors. In contrast, the bank provides a personalized approach to its corporate clients that is often absent in the services offered by these larger banks. So, when competing with smaller European actors, the bank's expertise outperforms its smaller competitors, even though the latter may be better positioned to establish closer individual relationships with their clients.* While the international expansion

undoubtedly created new business opportunities for BNPP, it has in selected markets been conducted in the incremental fashion as suggested by the Uppsala model, but contrary to the model these foreign expansion locations bear no cultural similarity to France (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 2009). Many of the early expansions of BNP and Paribas were in non-European countries, such as China, India and even in parts of Africa (BNP Paribas 2015). A distinction can be made regarding Banco Santander, which in its expansions focused on creating options and learning about the new markets in depth before making the entry decision and has clearly followed a more traditional approach regarding cultural proximity (Parada, Alemany, and Planellas 2009). In its early days we can see BNPP mainly followed French businesses in its endeavour to help them financially, foster international trade, and their relations with France. The branches that were opened in the early days all followed previously identified business opportunities, whether it was supporting the construction of infrastructure or establishing trade routes into Europe. The bank has a long legacy that has stretched borders since the inauguration, while Santander can be described as a small local Spanish bank for most of its early years (Parada, Alemany, and Planellas 2009). We can see that banks make different entry decisions based on their business focus, and while Santander has prioritized cultural proximity as a crucial aspect of their strategy and success, BNPP has overlooked it due to their diversification, which has led to BNP Paribas worldwide presence, as seen in Figure 2. The diversification of BNP Paribas has enabled it to offer *global products to their clients. The bank has clients that are managed from one single location.* Respondent 2 explains: *as an example, we have a client who manages all their accounts from Asia to America from Portugal. They do not have offices in Asia or America, but everything is managed from Lisbon, they pay salaries and taxes all from here. This integrated model is a great example of the bank's success.* This early focus on corporate clients can be seen as one of the key factors contributing to the success of BNP Paribas and one of the main differences in strategy between its rivals. Respondent 3 follows the same reasoning, *there is a focus on the clients. Instead of continuously expanding we are now focusing on attaining profitable clients and helping them and managing all their needs within BNP Paribas by offering our services centrally.* As the core of their business has now been established it is important to investigate the entry strategies employed by BNP Paribas in their internationalisation.

Figure 2: BNP Paribas' international presence



Source: BNP Paribas (2023a)

**5.2 Building home market capabilities**

Marquardt (1994) suggests that when a bank enters a new market, various factors such as experience, network relationships, and cultural aspects need to be taken into consideration. The bank's positioning plays a crucial role in determining the conditions for the selected bank in its new location. These foreign entry decisions have also been shown to be affected by the environment in the home country (Tolentino 2010; Boateng et al. 2017). To better understand the positioning in relation to the legacy of BNP Paribas we must look at the bank's domestic market and how the regulatory changes in France prompted the merger into BNP, strengthening their market position. The predecessors of BNP - CNEP and BNCI, (see appendix B) were nationalised after the second world war, when the French government designed a recovery plan for the country's economy. The war financing had significantly changed the credit system and greater government control was seen as necessary to boost the war-torn country's economy (BNP Paribas 2015) . While the second pillar of BNP Paribas, namely Banque de Paris et des Pays-Bas, later to be known only as Paribas, managed to avoid nationalisation due to its extended foreign connections, the French government saw it best to not cause foreign legal trouble by an act of nationalisation (Myers 1949). Later, in 1960 the French government aimed toward modernising the banking system. Banking regulations were loosened, and banks started to de-specialise, diversifying their products (Huyck 1968). It was through this change in environment which led to the merger of CNEP and BNCI, and through which BNP eventually was born in

1966. The restructuring led to a more concentrated banking industry, and the phenomenon was not just local in France, but instead a wider European phenomenon along with the building of the European Monetary Union (Granier and Bedu 2019). It was the French minister of finance at the time, Mr. Michel Debré, who initiated the merger of CNEP and BNCI, the idea was to improve the robustness of big banks to enhance their ability to provide credit domestically and internationally (BNP Paribas 2015). Mr. Michel Debré proposed liberalisation with the aim of achieving three objectives. Firstly, to enhance the relations between the financial market in Paris and the international financial market. Secondly, to provide more opportunities for growth and expansion for the French industry. And thirdly, to enhance the operations of French banks (Huyck 1968). Following the policy changes from the year 1966 to 1974 account openings more than doubled, from 2 million to 4.5 million in only eight years, and through the merger BNP now had a significant foreign reach at its hands (BNP Paribas 2015). As suggested by previous literature the balance of the home market can influence the firm's decision to expand abroad. The author Tolentino (2010) speaks of the importance to consider country-specific factors when explaining the growth of MNCs. As Boateng et al. (2017) further develop the literature regarding the topic, by concluding that the economic policies at home do spur the investments abroad. Through the merger BNP had now become the largest bank in France, second in Europe and seventh largest in the world. (BNP Paribas 2015) The bank had a steady ground in France, enabling it to seek further possibilities in foreign markets. Much like the case of Santander, we can see the first step was to develop home market capabilities, building a strong financial position in Spain to undertake expansion (Parada, Alemany, and Planellas 2009). As we have established in this section the first step in the internationalisation strategy of BNP Paribas has been building the home market capabilities, thus next we will turn our attention to the chosen target markets where BNP Paribas has established itself, and the entry modes which it has used to gain significant market share in these regions.

### **5.3 Organic Growth to M&A**

This important moment of financial restriction easing, and the after-war period prompted an increased interest in the US as a market. The initial entry in the US had however been decades earlier in 1919, when CNEP founded the French American Banking Corporation (FABC) as a partnership with the First National Bank of Boston and National Bank of Commerce (Torres 2000; BNP Paribas 2022b). The bank grew through partnerships with French companies in the

US, again, highlighting its key position in fostering French trade relations and businesses. After the initial merger BNP went on to open a branch in San Francisco in 1969, some 50 years after the initial market entry of CNEP. BNP grew organically in the coming years as the business was not only localised to the west coast, but further branches were opened in Chicago, Dallas, and Miami (BNP Paribas 2015). FABC was absorbed into these new operations as California was experiencing significant economic growth at the time. The growth was promoted through the support of French businesses in the US.

The turning point for the US operations would only come in 1972 when BNP established its first subsidiary, the French Bank of California, achieving success by benefiting from the economic growth of the area (BNP Paribas 2023b). The choice for BNP to initiate relations in the US through branches instead of subsidiaries, and only later opening the subsidiary in 1972 can be explained by the different risks associated with both forms of business model. The use of branches is a cohesive system of organisational and risk management where it is employed to ensure unrestricted movement of capital and liquidity within the group (Fiechter et al. 2011). This approach involves managing the parent company and all affiliated business units in a unified manner, with centralised funding, asset allocation, and risk management to optimise overall returns. Moving assets in case of liquidity issues is more troublesome in a subsidiary structure (Fiechter et al. 2011). Thus, branching in the initial stages of expansion may create better security for the parent company, as the advantage of a branch model for a global universal bank is reduced counterparty and liquidity risks through internalisation of clearing and settlement of securities. When it comes to retail banking the subsidiary structure might provide an advantage as the local management team is accountable for the performance and retail operations (Fiechter et al. 2011). By 1977 the subsidiary the French Bank of California encompassed five of its own branches on the West Coast (Torres 2000). The initial years of the US presence were marked by organic growth, BNP expanded through the opening of its own branches and later the subsidiary the French Bank of California. The more careful strategy is also highlighted in the conducted interviews, *BNP Paribas is a rather careful bank, it has not made decisions without having the other foot right behind the first one* (Respondent 2, Respondent 4). Guth (2016) describes organic growth as the expansion of a firm's operations based solely or at least primarily on its internally generated resources. The US expansion would however not only rely on their own organic growth, but in 1979 BNP made the acquisition of Bank of the West. A bank with a century long history of serving large businesses and international trade (BNP Paribas 2022b). Observing the case of BNP in the US we can

determine it is of a mixed model, the journey was initiated through organic growth, and later expanded through mergers and acquisitions. The French Bank of California was merged into the operations of Bank of the West, and another addition to the pool was the First Hawaiian Bank in 1998, which resulted in the conglomerate becoming the BancWest Corporation. Both these banks have histories reaching back hundreds of years (BNP Paribas 2023b). Displaying a tendency for BNP to prefer acquiring banks with long legacies, avoiding more recent banks that do not have the established reputation and stability of a more historical bank, as in the case of Banco Santander that largely focused on small to medium sized banks, often with less experience than the strategic choices of BNP (Parada, Alemany, and Planellas 2009).

However, in December 2021 it was announced that BNP Paribas would be selling off its subsidiary Bank of the West to the Canadian banking group Bank of Montreal (Financial Times 2021). The intention of selling off the US retail banking division shows BNPP's further commitment to its corporate and investment activities and a focus on more innovative and faster growing areas such as Europe (Financial Times 2021), *while still retaining their presence in the US market, particularly as the CIB branch is well established on the East Coast* (Respondent 1). *The move aims to unify the business in the US, as the previous strategy with a retail focus on the West Coast and CIB headquarters on the East Coast led to an unclear situation. BNP Paribas aims to retain its presence in the market despite the disinvestment, but the focus will be maintained on its Corporate and Investment Banking branch rather than Retail* (Respondent 2). *The USD market remains strong and many of the clients that are managed by us in Europe are located in North America, making the presence of CIB strategically important to retain corporate clients* (Respondent 2). The decision to sell off the retail banking branch in the US further shows BNP Paribas commitment to Corporate and Investment banking as discussed in the previous section. *Cash management and corporate finance are the most appealing mandates for BNP Paribas, and the bank is consciously moving away from transaction banking as part of their current outlook on the future, and bringing in a sort of intentionality and selectiveness when it comes to the banks business and target customers and markets.* (Respondent 2, Respondent 3) This chapter has shown that BNP Paribas' presence in the US was marked by a mix of organic growth and strategic acquisitions. While the recent disinvestment of its retail banking division in the US shows a continued focus on corporate and investment banking. The decision reflects the bank's strategy to optimise its returns and concentrate on more innovative and faster-growing areas. This is also reflected upon by Renaud-Franck Falce, Head of Capital Markets in EMEA "the main point is to remain the

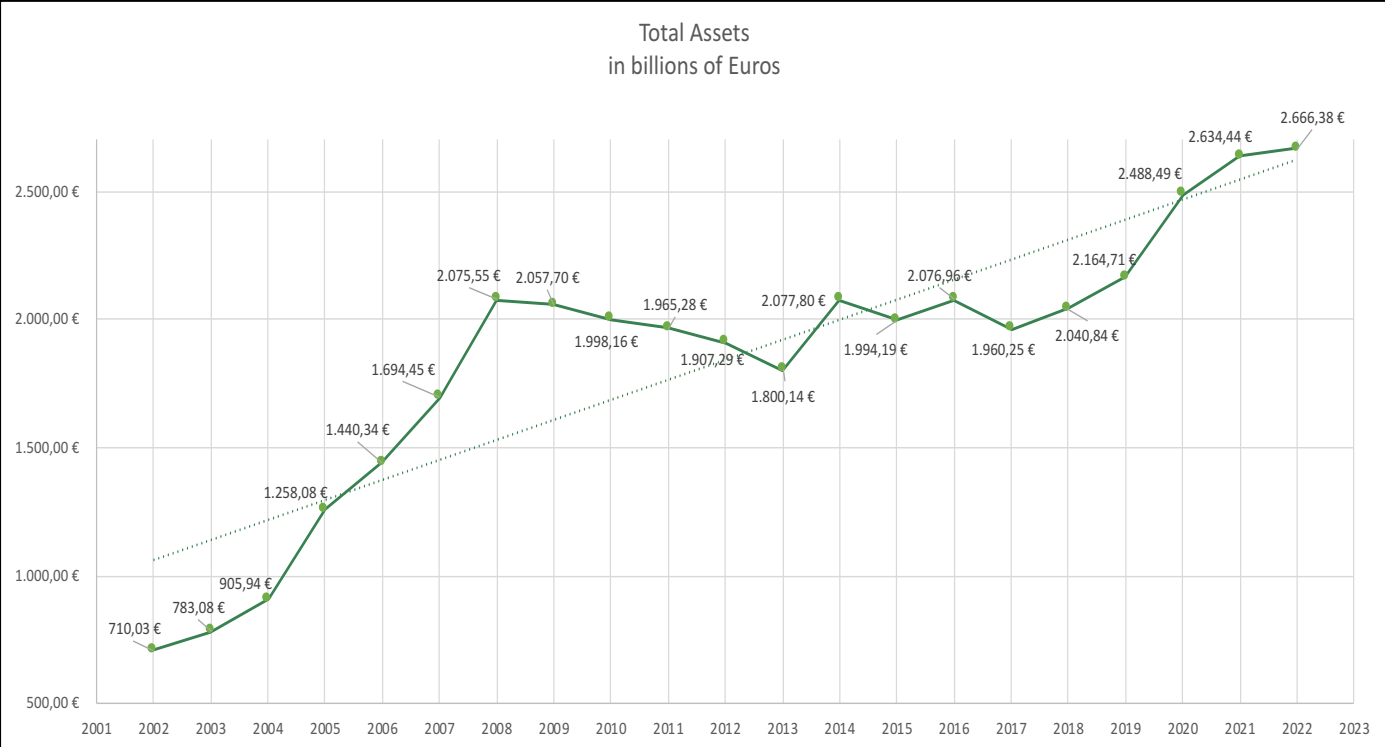
Europe based partner of choice for the corporate and institutional clients, and to keep working with this highly integrated model which has proven successful.” (The Banker 2022)

#### **5.4 Strengthened Strategy and Italian Expansion**

We have now identified the similarities between the strategies of Banco Santander and BNP Paribas when it comes to their first step in the expansion process, namely building the domestic capabilities and achieving domestic market leadership, but there is still much to be said about the BNP Paribas expansion steps in their ambitious venture to expand their domestic markets from just one to four. Market leadership in France was established early and the merger of BNP and Paribas in 1999 secured the bank’s position as a strong financial force in Europe. The merger of the banks proved very fruitful, as the corporate culture and long history of both BNP and Paribas were similar in that both banks had been active since the 19<sup>th</sup> century and built extensive business networks both domestically and abroad (Pohl 1994). However, the differences had a key impact on the successful merger of BNP and Paribas. Paribas had been especially successful at creating a foreign reputation in corporate financing, due to the bank avoiding nationalisation from the French government, unlike BNP that was only privatised in 1993. Paribas had focused on business clients, rather than retail clients which had been the effort of BNP (BNP Paribas 1999). These two different business strategies complimented each other. As Respondent 1 who experienced BNP before the merger in 1999 recalls *“I think the main point [of the strategy] was the merger between BNP and Paribas and I think this was the key for the international strategy. Because they created an investment banking division, which became CIB. That oversaw all the countries where we were not on the retail market, and they only wanted to enter new markets when they were leaders or amongst the leaders. It proved to be very successful and made it possible to survive the 2008 financial crisis quite unharmed. The financial success of the bank can be seen in the growth of its total assets in the past two decades (see figure 3), where the current total assets of BNP Paribas were over 2 trillion euros at the end of the financial year 2022 (BNP Paribas 2023a). The expansion of BNP Paribas into multiple domestic markets was facilitated by its merger with Paribas and the complementary business strategies of the two banks. By focusing on corporate financing and business clients, Paribas added a valuable dimension to BNP’s existing offerings. The strong commitment to cash management and investment banking has led to BNP Paribas successfully winning many mandates, and as concluded by CEO Jean-Laurent Bonnafé, the most loyal clients he’s had*

were the ones with cash management with the bank. Leading to strong support for the corporate cash management business line (Respondent 2). One of the fundamental steps in the bank's history and one of the keys to its success was the merger between BNP and Paribas, two different banks coming together to one strong force (Respondent 4).

Figure 3: BNP Paribas Total Assets in billions of Euros



Source: Author, BNP Paribas Annual Reports 2001-2022

The European market demanded a consolidation of the banking industry following the introduction of the Euro and cross-border mergers enabled groups to benefit from the effects of diversification in geographical terms and giving larger banking conglomerates a stronger stance against foreign groups, making it possible to preserve sovereignty in banking and access to international investment markets (Gabrieli, Marionnet, and Sammeth 2021). The first of the European acquisitions BNPP endeavoured on was the takeover of the Italian bank Banca Nazionale del Lavoro (BNL) in 2006. The Italian financial market went through a liberalisation in the 1980's which saw an increased interest from foreign financial institutions in the country. BNP's representative office had been opened in Milan in the 1970's, but through the liberalisation of the market in 1979 BNP was allowed to open branches in Italy and expand their service offering (Banque National de Paris 1980). This was an important change as it allowed BNP to compete with local banks and capture market share. We can again see that the

changes in financial regulation preceding stronger foreign market commitment similarly to the deregulation of the French banking landscape. Figure 4 provides us with an overview of how BNP Paribas responded to the different market shifts in different regions overtime. We can observe the French market liberalisation and attractiveness of the Californian market strengthening BNP Paribas' positioning leading to stronger commitment in the US. A similar response can be identified in Italy, where the consolidation of the European banking scene and changes in the Italian political scene led way to the acquisition of BNL. Previous research has also shown a positive correlation between the size of banks and the degree of their internationalisation (Focarelli and Pozzolo 2001). As BNP had grown in its domestic market it follows the literature that as the size of the bank grew, the commitment in Italy grew correlatively. BNL was one of the better-known banks in Italy at the time and the Italian banking market was lucrative for many foreign banks as Italian households held more savings than their neighbouring countries (Tarantola 2009). This attractiveness of the market increased the interest of other foreign banks to invest in Italy, with BBVA leading the initial bid for BNL in 2005. It was an effort to consolidate the fragmented European banking system (Perez and Clark 2005). The Spanish bank faced competition from the Italian insurer Unipol and the governor of the Bank of Italy, Antonio Fazio, was generally very opposed to a foreign takeover of domestic banks (Kahn and Taylor 2006). Despite previous research indicating positive effects on the efficiency of the domestic market as the foreign banks entering the market tend to be the most efficient in their home markets, thus extending their expertise (Focarelli and Pozzolo 2005). Antonio Fazio resigned in 2005 after harsh criticism leading to Mario Draghi taking over his position as governor. Draghi eventually promoted more favourable conditions for foreign bank entry in Italy and along with other significant changes in the financial market BNP Paribas acquired BNL in a deal worth € 9 billion in 2006 (Kahn and Taylor 2006; Mulligan and Michaels 2005; BNP Paribas and BNL 2006). Literature on the topics finds that banks prefer to acquire equity interests in countries where either regulatory restriction on banking activities are lower or the market is less concentrated (Focarelli and Pozzolo 2005). The fragmentation of the Italian market was evident at the time, and the merger increased the Herfindahl-Hirschman index for the top five groups from 505 to 711 between the years 2006 and 2007. (Banca d'Italia 2007) Portraying the fragmentation of the Italian market pre-merger.

Figure 4: Market shifts and entry decisions in various countries

<b><u>Market</u></b>	<b><u>Market shift</u></b>	<b><u>Entry Decision</u></b>
<b>USA</b>	French market liberalisation and Californian market boom	Expansion through subsidiaries and branches (1980's)
<b>Italy</b>	Consolidation of the European Market and shift in Italian political scene	M&A of BNL (2006)
<b>Turkey</b>	Turkish market liberalisation	Joint venture move (2005)
<b>Luxembourg &amp; Belgium</b>	Financial crisis leads to government intervention	M&A of Fortis (2009)

As articulated by respondent 1, *BNP Paribas' strategic objective was to extend its presence in the retail banking sector solely in those geographical regions where it could attain a leading market position.* Considering this, the acquisition of BNL, the sixth largest bank in Italy, gave BNP Paribas a significant advantage in the European market, which was undergoing a continual process of consolidation. By joining forces, BNL and BNP Paribas united their market power and emerged as a formidable force in the European banking landscape (BNP Paribas and BNL 2006). The strategy in Italy relates to the literature on the topics, as both the Uppsala model and the process of experiential learning are closely related. Both emphasize the importance of gaining knowledge and experience in the foreign market before increasing commitment to the market (Deo Sharma and Blomstermo 2003; Johanson and Vahlne 2009). BNP had incrementally increased its involvement in the Italian market from a representative office to branches, and later making the acquisition. Banco Santander has similarly avoided large scale acquisitions as their entry-strategy. Banco Santander has however focused more consistently on acquiring small to medium sized banks rather than greenfield investments in their strategy. Even if not unheard of, the exploration in new markets has focused on understanding the market rather than growing organically (Parada, Alemany, and Planellas 2009). *BNP Paribas had grown organically in Italy prior to the acquisition of BNL and was one of the few foreign banks with significant presence in the country* (Respondent 4). In its expansion to new retail markets BNP Paribas has emphasized the significance of incorporating local employees and their expertise in achieving a successful merger in new markets. Respondents also remarked that *in*

*retail banking the structures are more or less maintained. Despite the leadership of the bank still being very French, there is an effort to utilise the local knowledge and to mix staff* (Respondent1, Respondent 3, Respondent 4).

### **5.5 Domestic Market Expansion in Belgium and Luxembourg**

BNP Paribas has through its expansions focused on banks with similar history to its own. BNL had been nationalised for many years prior to becoming part of BNP Paribas, likewise, Bank of the West and the First Hawaiian Bank both shared long legacies prior to joining the group. Fortis, which had its roots in Belgium, Luxembourg, and the Netherlands, was BNP Paribas' second European acquisition. Similarly, to BNP Paribas, Fortis was the product of a series of mergers involving multiple European banks (BNP Paribas Fortis 2023). In 1999 during the wave of consolidation of the European financial market Fortis bank was born through mergers of multiple Dutch and Belgian banks. The bank continued to grow and invest in Turkey and Poland among other regions and in 2007 it took over the Dutch bank ABN AMRO (BNP Paribas Fortis 2023). Through this acquisition Fortis had significantly lowered its financial flexibility and in the wake of the financial crisis in 2008 it led to Fortis' financial stance and confidence in the bank deteriorating and the only option left was to start a government led rescue operation. Through a lengthy process in May 2009 a deal was closed, and BNP Paribas took over Fortis' operations in Belgium and Luxembourg, along with their international banking franchises in Poland (National Bank of Belgium 2009). The merger was significant for BNP Paribas as their domestic markets doubled from two to four, the current domestic markets thus becoming France, Italy, Luxembourg, and Belgium (BNP Paribas 2015). Figure 4 consolidates the market shifts that prompted BNP Paribas' response into a single table. Notably, the financial crisis provided an opportunity for BNP Paribas to acquire Fortis, and *without this shift, it would have been unlikely for the company to establish a foothold in Belgium and Luxembourg as domestic markets* (Respondent 1, Respondent 4). The merger also increased BNP Paribas' presence in Eastern Europe, where they had not managed to acquire a large market share before. BNP had initially entered the Polish market through its predecessors in the 1920's. Fortis and Paribas had also been involved in the industrial development of the country by supporting the transport, oil, mining, and chemistry sectors. Further in 1990 Banque National de Paris opened a representative office in Warsaw, which later developed into a joint venture with the German bank Dresdner Bank AG (de Lassus and Klusek 2016). The bank that emerged through this

joint venture became fully owned by BNP Paribas through the merger of Fortis in 2009, thus strengthening the footprint in Poland where the bank now also provides retail banking, along with its other business lines (BNP Paribas 2021). *The merger between BNP Paribas and Fortis was one of the most important mergers in the bank's history and not only strengthened the footprint in Eastern Europe, but also provided BNP Paribas with important back-office software used for their operations* (Respondent 1, Respondent 2). Highlighting the active process to consolidate all BNP Paribas' business regions and enhance effectiveness in operations. The respondents identified the optimal approach for integrating these new groups into the operations by understanding the underlying strengths which can be utilised for the functions of the bank. This is in line with previous literature which highlights the importance of managers and flow of information in operations when transitioning to new markets (Lindsay et al. 2003).

The entry into the Polish market displays a significant difference between the entry modes displayed by Banco Santander and BNP Paribas. Banco Santander in its strategy has not opted for partial stakes in their target markets and has not typically engaged in joint ventures when expanding to new markets (Parada, Alemany, and Planellas 2009). After BNP's initial market entry to Poland through its representative office the market commitment was strengthened by the joint venture with Dresdner Bank AG (de Lassus and Klusek 2016). Creating a link between the strategic pattern and performance, as the internationalisation of a firm can be seen as a link of multiple processes, the engagement in a new region might be strengthened through initial market success (Slager 2005). Additional literature suggests that in retail banking there are three key factors that explain the choice of joint ventures: regulatory constraints, managers' willingness to let go control to access local resources and differences between the host and home countries (Petrou 2009). This implies that regulatory market differences may have played a significant role in BNP Paribas' decision to adopt a joint venture strategy. In China, for example, the bank has formed a strategic alliance with the Bank of Nanjing, where it offers retail banking together with its partner among other banking services. (BNP Paribas 2023c) This further suggests that when entering a market that differs significantly from the home market, a joint venture may be the preferred option. In contrast, Banco Santander has focused on markets that share cultural characteristics with its domestic market, thus generally avoiding the need for a local partner in its operations (Parada, Alemany, and Planellas 2009). Further elements supporting this can be seen in Turkey, where BNP Paribas entered the market in 2005, when BNPP formed a strategic alliance with Türk Ekonomi Bankası (TEB) as BNPP obtained

a 50% stake. The market entry of BNP Paribas in Turkey coincides with a loosening of financial restrictions in the country, which enabled foreign banks to establish operations locally (Altug and Filiztekin 2006). In such, BNP Paribas' move into Turkey is aligned with our previous findings implicating that a shift in the Turkish market prompted BNP Paribas to enter Turkey (see figure 4). The footprint was eventually increased further with the 2009 acquisition of Fortis, when BNPP also took over Fortis' Turkish operations as part of the transaction (TEB 2023a). Through the increase in ownership BNP Paribas now holds a majority stake in the bank (TEB 2023b). We can see BNP Paribas has engaged in joint venture or strategic alliances when entering new markets but has through the years increased its stakes in these ventures and has thus increased its share in markets such as Turkey and Poland. (TEB 2023b; de Lassus and Klusek 2016) As literature shows high-specificity firms, such as banks, are likely to avoid shared-control modes and the desire to avoid such situations further increases with the specialisation of the firm (Erramilli and Rao 1993). Therefore, the decisions to engage in shared-control ventures could in the case of BNP Paribas have been influenced by their lack of specialisation in retail banking, as opposed to Banco Santander which has continually focused on retail banking (see figure 1). The growth in ownership has increased incrementally over time as the markets have become more familiar, as suggested by the Uppsala model (Johanson and Vahlne 2009). In figure 5 below we can see an overview of BNP Paribas' expansion strategies in different countries, with a focus on steps taken in each market and the progression of the strategies overtime. Poland and Turkey are markets in which BNP Paribas has chosen a shared-partnership strategy. However, the other instances analysed previously have all followed a similar strategy of initiating presence by organic growth, opening subsidiaries and branches to learn about the target market and to secure opportunities. It is worth noting that step 3 has been consistent for all analysed regions in this study. BNP Paribas has taken advantage of market shifts (as identified in Figure 4) to pursue M&As, resulting in an increase in their market share when opportunities have arisen. BNP Paribas made significant investments in different regions between the years 2006-2009 which leveraged its growth. The acquisitions totalling €23.5 billion which led the bank to a leading position in Europe and leveraging its growth within the corporate and investment banking branches (Fleming, Walker, and White 2022). While Banco Santander's Latin American expansions were valued at €12 billion and similarly earned it leading positions in many regions (Parada, Alemany, and Planellas 2009). Both banks have through their mergers and acquisitions been able to leverage on significant growth and strengthened their focus on their core areas of business.

Figure 5: BNP Paribas’ internationalisation steps per country

<b><u>Country</u></b>	<b><u>Step 2</u></b>	<b><u>Step 3</u></b>
<b>USA</b>	Organic Growth through branches and subsidiaries	M&A
<b>Italy</b>	Organic Growth through representative offices, branches, and subsidiaries	M&A
<b>Poland &amp; Turkey</b>	Joint Venture	M&A
<b>Belgium &amp; Luxembourg</b>	Organic Growth through branches and subsidiaries	M&A

However, BNP Paribas has not only engaged in strategic alliances with traditional banks and has recently expanded its business ventures. *The bank has continued interest in fintechs and some of them have even become autonomous through the bank’s support. We invest in these fintechs to help them grow and we can use their solutions to help our own clients. The bank is not currently looking to expand to any new geographies and rather than expanding it is exiting some markets.* (Respondent 2, Respondent 3) Renaud-Franck Falce in his interview similarly continues, “the need to adapt with the solutions which are provided to clients and additionally to adapt regarding the markets, with funding sources, sequences and timing has been named as a focus for the bank in the future. BNP Paribas sees a need to keep developing its technological platform, with a continued focus of the client as the starting point.” (The Banker 2022) Similar answers were acquired through the interviews. *One of the main strategies over the past years has really been to focus on fewer markets and to select them carefully in order to foster growth and make sure we can grow in those markets* (Respondent 3) We can see the shift in focus, from looking to new geographies the bank is instead looking to new technologies to further develop its capabilities in this area. The expansion to work through new strategic alliances such as fintechs does not only offer BNP Paribas new business opportunities but also increases their specialisation on future technologies, which is a key for success in banking operations (Ursacki and Vertinsky 1992).

Figure 6: Strategic Comparison of Banco Santander and BNP Paribas

<b><u>Strategy</u></b>	<b><u>Banco Santander</u></b>	<b><u>BNP Paribas</u></b>
<b>First Steps Pre-expansion</b>	Building home market capabilities	Building home market capabilities
<b>Cultural Proximity to Target Markets</b>	Culturally similar markets	No significance of cultural proximity
<b>Shared Control Ventures</b>	Rarely engaged	Yes
<b>Focus on Organic Growth</b>	No	Yes
<b>Acquired Banks</b>	Small-Medium size banks	Large legacy banks
<b>Final Steps</b>	M&A	M&A

When comparing the internationalisation strategies of Banco Santander and BNP Paribas we can see both similarities and differences in the steps the banks have taken in their foreign expansions. Figure 6 combines the main points into one table with the initial steps being the key point where both banks build home market capabilities. After the initial steps the strategies diverge. Santander had a strong focus on the Spanish speaking countries in Latin America and BNP Paribas has expanded its domestic markets to support the focus on the CIB branch, now reaching to 65 countries (BNP Paribas 2021; Parada, Alemany, and Planellas 2009). While Santander has rarely relied on shared control ventures when examining a new market to enter, BNP Paribas has on several instances partnered not only with banks but more recently also with fintechs, to provide its clients technologically advanced solutions (Respondent 2, Respondent 3). Despite the types of banks involved in the acquisitions also differing, BNP Paribas has focused on large established banks. When Santander has more consistently acquired small to medium sized banks with less experience (Parada, Alemany, and Planellas 2009; BNP Paribas 2023b; 2022b). It is also notable that BNP Paribas has in most of its foreign ventures relied on organic growth, while Santander has largely focused on learning about the new market only to prepare for a larger acquisition as part of the strategy. Leading to the final commitment to a market that is made through M&A in both banks. Through the previous examination of BNP Paribas and Banco Santander’s strategies we can contrast the findings with Slager’s (2005)

assessment of the various kinds of banks. Through this we can maintain BNP Paribas as an established bank. The retreating and established banks creating the highest shareholder returns for its investors, as they have already passed the performance decline involved in internationalisation and achieved higher success (Slager 2005). As characterised for banks in this category they have not significantly lowered their foreign investments, but rather have a balanced international and domestic growth with banking activities. With BNP Paribas the deliberate shift in strategy toward corporate and investment banking and fintechs, rather than foreign expansion, and moderate consolidation of its markets suggests the position of an established bank. Through this same literature we can evaluate Banco Santander as an accelerating bank, with its features of low international investments in the 1980's and a sudden increase through its south American investments in the 1990's (Slager 2005). This rapid increase of internationalisation being a typical feature of the accelerating bank, and as it remains to be seen if Santander will develop into an established bank like BNP Paribas or engage in a retreating strategy (Slager 2005).

## **6 Conclusion**

This paper has analysed the major milestones of BNP Paribas' global expansion and business strategy, focusing on the differences in retail banking and corporate and investment banking. Through expert interviews conducted with senior management from the bank we have been able to see the bank's growth being successful by a combination of organic growth and mergers and acquisitions, resulting in BNP Paribas' current position as one of the largest banks in the world. Much of BNP Paribas' success can be attributed to the development of its corporate and investment banking business lines, which was largely acquired through the merger of Paribas with BNP. This merger launched the diversified business strategy which has been maintained to this day and has made it possible for BNP Paribas to attain its leading position globally, and the aim to build home market capabilities has further strengthened the capabilities to expand. While the expert interviews gave insight into the central position occupied by BNP Paribas in terms of its expertise and relationship offerings to its corporate clients as being what has set it apart from their competition. While the international expansion undoubtedly created new business opportunities for BNP Paribas, it has in selected markets been conducted in the incremental fashion suggested by the Uppsala model, but contrary to the model these foreign expansions have been directed to culturally distant markets from France. BNP Paribas has

through organic growth been able to learn about its target markets and through mergers and acquisitions been able to achieve positions among market leaders. Whereas traditional retail banks such as Banco Santander have chosen to expand to culturally similar markets and paid significant attention to the linguistic and psychological similarity in target markets. As the interviews conducted for this thesis disclose a lot can be contributed to the corporate banking being more international by nature, and as previous literature has proven the internationalisation of retail banking faces challenges that are not present in corporate and investment banking. Thus, the retail banking branch of BNP Paribas' has been more selective in its target markets, as explained BNP Paribas has only expanded with retail banking to markets where it has seen an opportunity to gain market leadership.

When comparing BNP Paribas with a traditional retail bank such as Banco Santander, this analysis has identified both similarities and differences. Despite the different levels of diversification, the banks both practice a three-step internationalisation strategy as suggested in previous literature by Parada, Alemany, and Planellas (2009). The first step is the building of capabilities in the home market, before any international expansion. This is supported by existing literature which suggests that the balance of the home market can affect expansion decisions (Tolentino 2010; Boateng et al. 2017). The second step is the exploration stage, where the bank studies and examines the target market. In this stage the analysis finds BNP Paribas to have used varying methods in entering new markets, such as early market entry through representative offices, branches, subsidiaries, and joint ventures. The banks' organic growth in the US demonstrates a careful approach to market entry, with the establishment of a branch providing better security for the parent company in its initial stages (Fiechter et al. 2011). Similarly, BNP Paribas entered Italy, Luxembourg, and Belgium through a long process of organic growth, and changes in the market situations later led to increased commitment to the regions through mergers and acquisitions. It is in this second step that we can see the strategic differences between Banco Santander and BNP Paribas. Not only has BNP Paribas focused on banks with a similar background to its own, banks with long legacies and often significant periods of nationalisation behind them, while Banco Santander has mainly acquired small to medium sized banks.

The analysis also finds that BNP Paribas has on different occasions endeavoured in shared control alliances with partner banks. In markets such as Turkey, China, and Poland where BNP Paribas has entered the markets through joint ventures, highlighting another difference between

them and the traditional retail bank Santander. These culturally different markets have been entered through joint-ventures and the findings of this thesis propose that the decision to pursue modes of shared control was influenced by the combination of BNP Paribas' strategic focus on corporate and investment banking, rather than retail banking and the expansion being directed to more distant markets. Insights from interviews with experts suggest that BNP Paribas is not currently seeking further expansion, but instead is concentrating on strategic partnerships to enhance the technological aspects of its operations. BNP Paribas' historical focus on its corporate banking division was further highlighted by the disinvestment decision in the US. The selling of Bank of the West operations and a strategic focus on the CIB presence in the US indicates an even deeper focus on corporate banking, and an aim toward a centralised approach for clients.

### **6.1 Limitations of dissertation and future research**

Despite the valuable insights gained from the interviews conducted for this dissertation some limitations need to be acknowledged. Firstly, due to the time constraints and scheduling conflicts encountered the number of participants was limited, which may have restricted the findings and not provided the research with insights from a wider range of experts. Additionally, while the participants were experienced professionals in the field, they were all from the same region and branch of BNP Paribas. This may have resulted in a lack of diversity in the answers collected and limited the generalisability of the study. Given that the central focus of the research was to explore the differences between retail banking and corporate and investment banking, the study could have benefited from the inclusion of experts from the retail branch of BNP Paribas to provide a broader perspective on the topic. Furthermore, with more time and deeper integration in the company, the geographical scope of the study could have been broadened to include experts from other regions and countries, which could have provided a more nuanced understanding of the challenges and opportunities encountered by BNP Paribas in the internationalisation of their operations.

The dissertation was developed using a qualitative method, triangulating between primary data and secondary data from different sources, however the robustness of the study could have been enriched by quantitative data. The lack of access to data and time constraints limited the acquisition of more quantitative data. Thus, the research could be enhanced by developing the

quantitative side of the study and would have enabled a stronger process of triangulating the validity of the findings. With greater access to time and better access of resources, it would also have been possible to have a more comprehensive study of literature regarding the internationalisation of banks. Therefore, one possibility of future research would be to compare the strategies and outcomes of the internationalisation of different well-diversified banks and retail banks in the industry. Overall, the limitations of this study show that further research is warranted on this subject in the future.

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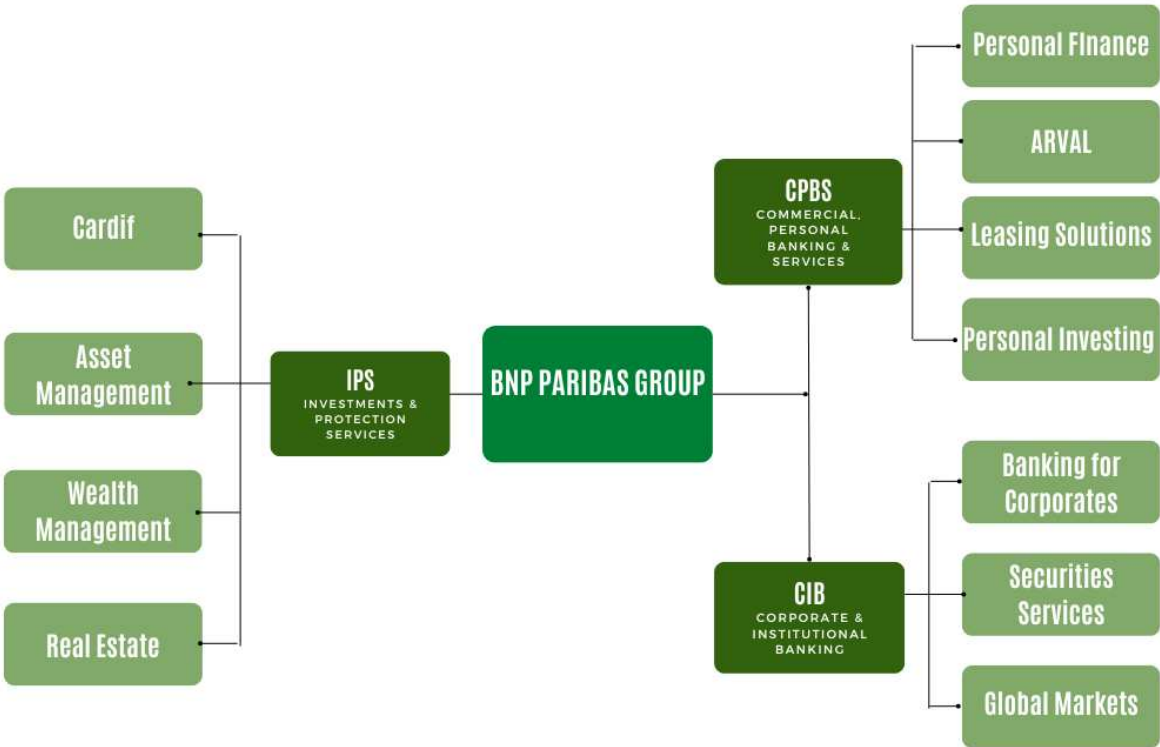
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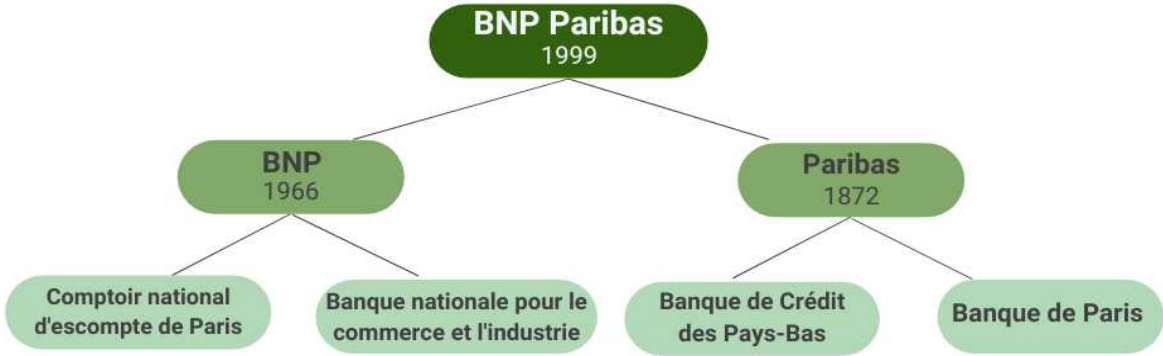
# Appendix

## Appendix A: BNP Paribas Organisational Structure



Source: Author, <https://group.bnpparibas/en/>

## Appendix B: BNP Paribas precedents



Source: Author, <https://group.bnpparibas/en/>

## Appendix C: Profiles of the interview subjects

Nr.	Experience within BNPP	Sector	Geography
1	30 years	CIB – Trade solutions	Portugal/France
2	30 years	CIB - Cash Management	Portugal
3	25 years	CIB – Corporate Coverage	Portugal
4	12 years	CIB – Corporate Coverage	Portugal

## Appendix D: Interview questions

1. Why do you believe BNPP has been so successful in its business strategy and has managed to expand to all key markets in the world?
2. How does the bank prioritise and make decisions about international expansion?
3. How does the bank manage cultural differences in its international operations?
4. How are potential target markets identified for BNPP and what is the volume at which these new markets are entered?
5. How are these expansions handled from a managerial point of view, how is the transition built on?
6. Can you discuss any initiative where an expansion has not gone to plan? Where the initial strategy must have been amended.
7. How does the bank maintain a balance between its retail, corporate and investment banking services?
8. Can you discuss any specific initiatives or projects that the bank has undertaken to expand to expand a specific business line in a specific market?
9. Can you discuss the bank's digital strategy and the importance of its digital capabilities in the bank's operations?
10. Can you discuss any collaborations or partnerships that the bank has forms and how they have contributed to the success of the bank? Initiatives meaning joint ventures or strategic alliances.
11. What factors would you attribute to the success of the CIB branch?
12. Can you identify any shifts in either the domestic markets or target markets that would have prompted BNPP to make an international move?

13. Can you explain the reasons behind BNPP's disinvestment in the US and African market?

#### **Appendix E: Example of a transcript**

**Why do you believe BNP has been so successful in its business strategy and has managed to expand 12 key markets in the world?**

Do we mean by centralizing in Portugal or, what's, what's the?

**It could be anything, but I mean, it is one of the biggest banks in the world and in Europe. So just like a little bit what you think is behind that.**

Okay. Well, I think the, the one of the major or two of the major events that made BNP became one of the biggest banks in the world for it.

It was **the two mergers**. Well **the merger with Paribas**. That gave us let's say the, the arm of **investment banking** that previously we were not so strong. After the, the **integration of Fortis**. So, these for me were the events that made the bank to, to grow. And after, of course I think the, the **strong commitment and the investment on cash management** that led that we were able to want to win many mandates especially in Europe, but not only. Yeah. And it's, you know, when, when you are a bank, when you are doing the cash management for one client most of the times when they need something related with investment banking, they come to you. This was something that very funny when, when I was in a seminar in France a couple of years ago because Bonnafé was in that seminar. And he was saying exactly that. Because before he was CEO, he joined BNP as an account manager.

So, he was a relationship manager too and he was saying that at a certain moment he realized that the **most loyal clients he had were the ones with cash management** with the bank. So that's why when he became CEO of the bank, he strongly supported the development of the cash management business line because he knows by experience that a loyal customer it's most of the times a customer, which is a cash management customer.

**How does the bank prioritize and make decisions about international expansion? I think maybe what I'm looking for here, here is how like the markets have been decided. I know it's a bit different again, like I said, with the retail branches and with the investment banking, but yeah.**

I would say the bank right now, in terms of retail they don't want to expand further. I would say in terms of retail, **I don't think that the bank is at least for the moment aims to expand**. And the proof of that is **they sold the, the Bank of the West** in the US. Okay. I would say that they are more **focusing on CIB**. Okay. And the, the decision of opening or closing. So, BNP is a very traditional and very cautious bank. Okay. So, we can see when it was the financial crisis back in 2008, 2009 they, well one of the worst countries in terms of depth, it was Greece and we had a branch there and we decided to close it at that time. Right now, things are better and bank is already considering reopening the branch, although it's not yet decided. So, I would say, and the bank is also leaving Africa. Okay, so the bank itself, it's very cautious. But I think the

bank only moves to one economy when they, when they are sure that that economy can support the, the growth of the bank in the, in the next up upcoming years.

**Then how does the bank manage cultural differences in its international operations?**

I can tell you about my personal experience. Well, it's one of it's one of the things that, I love the most to work on in BNPP. The cultural differences and the, to be able to work with people from all over the world. One of the, of the events I like the most it's what we call the cash management convention. Yeah. Where we gather all in Paris and colleagues from all over the world are there and it's very good. We meet people from Asia to the African countries. To be honest, cultural differences, we always see it and there are people that live better with that than others. People are what they are but for me personally, it's something that I like the most. I can see already that some preconceived ideas we have sometimes from certain nationalities are not exactly the truth. I worked already with people from Germany, which I didn't like, and Germans are very straight to the point, and I already worked with the people well from Portugal and Spain where even from Greece, that are more or less considered as not so well organized and they were very, very well organized. So, it's those ideas are more or less considered ideas, but I think **when people start working on the multinational within the people tend to harmonize the behaviour.**

**How are potential target markets identified for BNP Paribas and what is the process like to decide the volume at which these new markets are entered into?**

Well, most of the times, most of the time when the, when the bank wants to at least in recent years when they decide to enter in the market, it's by acquisition. **They acquire a bank, then they migrate the bank within the, the internal infrastructure.** We take one foot at a time and we, the, it's at least what I feel. The bank is very cautious, and they only move one foot. When they feel that they have the other one right behind

**How are these expansions handled from a managerial point of view? Like how do they build this transition to these new foreign locations? Is it mostly just like local staff that's used or is there like...?**

It's funny the top management of the bank. They hate when they are called a French bank. Because they are so "we are not a French bank, we are a multinational bank." Yeah. But the point is that if you see management, well, they're all French. That's why they are called a French bank.

Yeah, and if you, if you see it in Portugal, is the same. **So top management is French. Then well below you have lots of people, lots of (local) nationals.** Okay. But especially in Portugal, we promote a lot the moving and also welcome people coming from other countries to work with us.

**Can you think of or discuss any initiatives which have not gone according to plan? So where in initial strategy must have been amended or market entry has completely been cancelled?**

More or less, we are facing right now one of these situations. So roughly 10 years ago we had a program we had a program that was called the cash management. Well, I remember the initials, but I don't recall exactly the name. The name of the program or the aim of the program was to align.

The BNP offers in each country with the other banks. The aim of the program was that there should not be excuses from the bank to onboard clients because we didn't have a certain kind

of service and we won a lot of deals because of this. Right now, they are looking at least at the less traditional means of payment or the most traditional ones, let's say like checks, cash and cards. There is a project in the bank that aims to reduce these types of payments. So, well it's not that it's not according to plan. But I think these kinds of decisions sometimes are taken without considering exactly the impact that are going to have. I know that one of the drivers was exactly to reduce these types of payments was in fact the fact that in the northern countries these means of payments don't exist anymore. Cash and checks are barely used. Barely But, well, unfortunately in the north of Europe, we are not there yet. Even in France they use much more checks than in Portugal. I think it's sometimes we have a lot of work because we need to engage in meetings and evaluations of client's products and in the end, most of the times everything remains the same. So, long story short we lost a lot of time for nothing.

**Then how does the bank maintain a balance between its retail, corporate, and investment banking services, especially ranging to so many different markets?**

Yeah. Well, a couple of years ago, the bank was more a corporate bank. Yeah. And less an investment bank. So, with the **merger, with the, with Paribas, we clearly aimed to become an investment bank.** So, transaction banking was not really a priority until the financial crisis. When the financial crisis hit the world economy there was a lot a big issue on funding and banks started to understand that one of the best ways of getting funds was exactly because of cash management. Because if the clients deposit the funds in, in the, in your institution, of course you can lend. It has been growing since then. I think the bank is moving again to investment banking. So, we see that **transaction banking, it's no longer the priority.** And more and more it's the, the investment banking. But in most of the times they walk side by side, exactly because of what I said. Cash management is most of the times sold to clients below cost, because no one is aiming to pay the real cost of doing one transfer. But at the same time, we do that to be able to get into the client real into with a client's relation and be able to cross sell other products? Namely investment banking, corporate finance, which are the most the most appealing mandates.

**Then this is maybe a bit repetitive, but can you discuss any specific initiatives or projects that the bank has undertaken to expand to a specific expand a specific business line in a new market? I mean, maybe you were here when BNP came to Portugal or,**

Probably the investment that bank did on SEPA. We are on one of the biggest, if not the biggest SEPA bank in Europe. And the bank invested a lot on that, it was clear for everyone that would be key. And I think the bank was **very successful in the investment we run, and to, to have all subsidiaries in the same platform,** which I think it's a very good initiative.

**Okay. That was great because that leads into my next question. Can you discuss the bank's digital strategy and the importance of digital capabilities in the bank's operations?**

Oh that's a funny question. Okay. Well, every, everybody speaks about digital, but you know there is a big difference between traditional banks and fintechs. Well, big banks are very slow. We change, but slow. Okay. And we are a very big bank. So, the bigger the structure the slower the changes and the fintechs are exactly the, the opposite some of them from outside they seem to be a structured company. But at the end, if you look inside, you probably see 10-20 people working there. And they are very dynamic, and they develop products which are disruptive. But well **the digital migration, let's say it's key. The bank is strongly committed on that.** Although I don't think sometimes, we are doing the best decisions on the way we are digitalizing. Because

we keep saying that we are becoming a digital bank, but still the clients need a lot to come to us to understand the transfers, to understand the movements, to understand the commission and to understand everything. It's almost intuitive, which is not the case in the... if you see the, the apps from the banks and the apps from fintechs, they are light years from each other.

**Can you discuss any collaborations or partnerships that the bank has formed and how they contributed to the bank's success? So, initiatives where it's not been an acquisition, but like a joint venture or a strategic alliance?**

We had one and I think we still have, which is it was a FinTech supported by the bank. **The bank is investing in several fintechs and some of these grow and in some cases they even become autonomous.** I think we have a cash force, so we have flow. Which are mainly fintechs, the bank is looking and when the project is interesting. We invest in FinTech and make them grow and then we profit, or they profit from our client base. They do kind of a pitch to us and then being a cash management officers or relationship officers, managers we try to sell those solutions to our clients. So, it's a good collaboration. Yeah.

**Then what factors would you attribute to the success of the CIB?**

In Portugal or just in general?

**In general.**

Well, the, the, the footprint the footprint that's clear. **The global products. We have clients that manage all their accounts in the world from one single position.** We have an example here in Portugal it's a client that have accounts from Asia to America. They don't have offices over there. So, it's, they manage everything from, from here. Yeah. So, they pay salaries, they pay taxes. They do everything from a, from a single location and even if the bank is not known as being a cheap bank, okay. It is true that we are, we are **gave tools to give tools to our clients that make them available to work from anywhere.** All over the world. As long as we are there. Yeah. Even when we are not in those locations, our tools give us the ability to integrate bank accounts from other banks and I think that's, the main point.

**Can you identify any shifts in either the domestic market or in the target markets that would've prompted BNP Paribas to make an international move?**

**Fortis was very strong in the eastern countries. Whereas we were not. So, with the fortis acquisition. We almost got the footprint in all of Europe.** SEPA also triggered that. We were already in all countries I believe. But still in Finland, we are not. So, we operate from outside and because it seems that there is no big issue in Finland that they have Euro accounts in Sweden. They are working from out from Sweden. The bank tries to profit especially in acquisitions. The best of both worlds, okay? I remember when we acquired fortis or during the fortis merger... it depends on if you tell it to a French guy, it was the, the bank acquired fortis. If you were speaking with the Belgian, it was the merger. At that time because we were two banks of the same footprint. **We looked at the systems from each other and we have chosen the best ones to be kept.** In terms of electronic banking, it was Connexis that stayed because well, fortis, didn't have exactly a solution on their own. But at the same time, we kept some of the back-office systems from fortis for instance. What is called the payment engine. So, the processing for SEPA. We kept the Belgian system or fortis system and all the banks from Europe, all BNP banks in Europe also seniors are connected to this system.

**Then last question, which we touched on a little bit, but can you explain the reasons behind BNPs disinvestment in the US market? So, the selling of the Bank of the West**

Well, I think BNP in North America that they, well, **their idea is to keep CIB.** Cause to be honest, it was a bit confusing. Okay? You had Bank of the West and you had CIB in New York, and sometimes they were more or less competing against each other. So, and right now it's clear. If you need to go to the US, you'll go to CIB. In the past it was a bit confusing because it would depend on the products or in the locations your client wanted to be. If it was more on the west part and more on the retail, it was Bank of the West, it was more on the Eastern and more on the CIB side. They would consider opening the accounts (in CIB). But yes. I think, the bank wants to, to stay and to grow in the US that's for sure.

**But mostly through CIB like retail market isn't ...?**

Yes, yes. Because the **USD market is still very strong. And it's also, it's also a very good source of clients for Europe because we cannot forget some of the major clients, we have operating in Europe are in fact north American clients** and especially coming from the US, not exclusively, but mainly coming from the US. **All right. Okay. Yeah. Thank you. That was the last question.**