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The Internationalisation of Banks : A Multilevel Analysis of Positive Effects in Regard to Competitiveness

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The Internationalisation of Banks: A Multilevel Analysis of Positive Effects in Regard to Competitiveness

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The objective of this paper is to analyze the nature and characteristics of the relationship between internationalisation and competitiveness and to analyze the impact and potential limits of this relationship on the development of the banking system as a whole and on single banks in particular.

The study is based on secondary data derived from EU legislative acts, official state statistics of Ukraine, Germany, and the European Union. The paper employs the following methods: critical analysis method, statistical analysis, the method of ratings, and the case study method. Multilevel analysis was conducted on the EU, country level (Ukraine and Germany), and company-level (Deutsche Bank).

Internationalisation is an important factor that leads to the increase of the competitiveness level. The study results suggest that internationalisation increased competition, which in turn influenced the activity of the banking system as a whole in both Ukraine and Germany positively.

The study suggests that internationalisation processes contribute immensely to the raising of the competitiveness level of banks. Yet, it also identified the problem of the limits of internationalisation up to which the said activity brings the company profits, but after crossing of which, the company is overloaded with too many branches abroad or foreign market segments, where it functions.

The originality of this work lies in studying the nature and relationship of competitiveness and internationalisation of banks and in comparing the impact of the mentioned concepts on the development of the banking system on three levels of analysis.

Keywords: internationalisation, competitiveness, transnational company, banking system, market.

Umiedzynarodowienie banków: wielopoziomowa analiza pozytywnych efektów związanych z konkurencyjnością

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Celem artykułu jest analiza natury oraz charakterystyki związków pomiędzy umiedzynarodowieniem a konkurencyjnością oraz analiza wpływu i potencjalnych granic tych związków w przypadku rozwoju systemu bankowego jako całości oraz pojedynczych banków w szczególności.

Opracowanie oparte jest na danych wtórnych z aktów prawnych UE oraz oficjalnych danych statystycznych dla Ukrainy, Niemiec i Unii Europejskiej. W artykule zastosowano następujące metody: analizę krytyczną, statystyczną, wskaźnikową oraz studium przypadku. Wielopoziomową analizę przeprowadzono na poziomie UE, państw, tj. Ukrainy i Niemiec oraz firmy Deutsche Bank.

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Umiejdzynarodowienie to istotny czynnik prowadzący do wzrostu poziomu konkurencyjności. Wyniki badań sugerują, iż umiejdzynarodowienie zwiększa konkurencyjność, która ma pozytywny wpływ na działalność systemu bankowego jako całości tak na Ukrainie, jak i w Niemczech.

Procesy umiejdzynarodowienia wpływają również na rosnący poziom konkurencyjności banków. Jednocześnie, zidentyfikowano problem granicy umiejdzynarodowienia, gdzie dana działalność przynosi firmie zyski, a po przekroczeniu której firma staje się przeciążona nadmiarem filii zagranicznych lub zagranicznych segmentów rynkowych tam gdzie działa.

Artykuł w sposób oryginalny bada naturę oraz stosunki konkurencyjności i umiejdzynarodowienia banków, a także porównuje wpływ określonych koncepcji na rozwój systemu bankowego na trzech poziomach analizy.

Słowa kluczowe: umiejdzynarodowienie, konkurencyjność, firma ponadnarodowa, system bankowy, rynek.

JEL: D22, F23

1. Introduction

In order to function successfully under the conditions of global competitiveness, every company, regardless of size or sector of activity, should increase its competitiveness level. This is why an important objective today is the creation and development of dynamic, flexible, and efficient companies that can produce high quality goods and services while providing jobs. One of the ways to achieve such goals is the internationalisation of the company's activity, which leads to an increase in its competitiveness level, allows the expansion of its activity spheres, and makes possible the entering of new markets. Therefore, the problem of a company's competitiveness, be it a transnational or a local company, is very important for the successful economic development of both domestic and international markets.

A high level of competitiveness is a necessary condition for the successful functioning of any company on both the domestic and foreign markets. It is important not only to analyze the essence of the notion of competitiveness, but also to try to find the best ways to improve its level. An important way to increase the competitiveness level of a company is the internationalisation of its activity. This paper examines this assumption by looking at the banking sector.

The objective of this article is to analyze the nature and characteristics of the relationship between internationalisation and competitiveness and to look at the impact of this relationship on the development of the banking system as a whole and on singular banks in particular. The following general scientific and specific economic methods were used in the article: statistical analysis methods, the method of ratings, information-computer methods, critical analysis method, monographic method, case study method, and graphical method as well as others.

This article takes a three level approach to the analysis of internationalisation processes within the banking industry. It starts with a short review

of literature focused on the core concept of this paper – competitiveness. Next, it looks at the indicators of the bank activity in Ukraine, showing their dynamics over ten years presented so as to identify the main problems of the banking sector in the country. The analysis then turns to the European Union in order to observe the trends seen in the banking system over recent years. Successively, the paper investigates the dynamics of the banking sector development in Germany in order to identify the main reasons of such a variant of German banking sector development. Finally, the study analyzes the market position, dynamics, and characteristics of Deutsche Bank development as an example of a successful transnational bank whose activity is consistently aimed at internationalisation.

Literature Review

No transnational company would ever have been able to operate successfully on the markets of different countries without a high level of competitiveness. The founder of the notion of competitiveness is considered to be Michael Porter. Porter wrote that the competitiveness of a company is largely determined by its economic environment, which depends on the basic conditions and competition within the cluster. He also developed a method for analyzing competitiveness – the five forces analysis (Porter, 2005, pp. 43–52).

The five forces are:

- the threat of substitute products or services,
- the threat of established rivals,
- the threat of new entrants,
- the bargaining power of suppliers, and
- the bargaining power of customers.

Porter also pointed out that this method works best when applied to companies operating in the same industry. If a company has several directions of activity, Porter's five forces analysis should be made with respect to each activity (Porter, 2008).

Despite Porter's enormous contribution and the importance of his five forces analysis, some researchers, such as Stewart Neill, believe that the method has several significant drawbacks. Firstly, customers, competitors, and suppliers are not connected with each other. They neither cooperate nor consult with each other. Secondly, the source of value is a structural advantage. Thirdly, the situation on some markets is so stable so as to allow participants to plan and respond to the behavior of their competitors (Porter, 2014).

Adam Brandenburger and Barry Nalebuff put forward a suggestion regarding the existence of a sixth force. Scientists agree that this force is the government or public competition (Ehrhardt, 2000, p. 171). The enriched Porter model is presented in Figure 1.

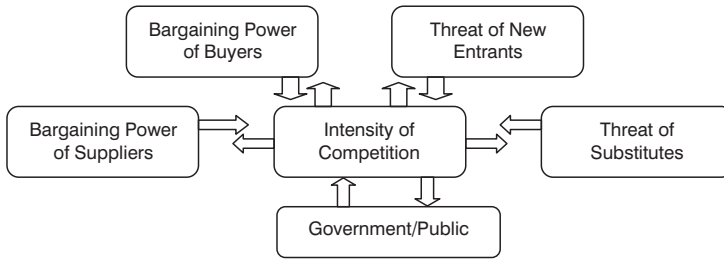


Fig. 1. Six Forces Model. Source: developed by the author on the basis of Porter (2008).

The main criticism of the notions of competition and competitiveness, especially of where these ideas took on life in today's society, comes from Nobel laureate Paul Krugman. According to Krugman, such a notion as "the competitiveness of a nation" is illusory (Krugman, 2011). When we talk about the results of a company's activity, it is only the result of its activity. That is, if the company is not able to pay wages to its workers, pay its suppliers, and pay its shareholders, it simply ceases to function. Thus, when talking about a non-competitive company, what is meant is that its position on the market is unstable and it either improves its results or ceases to exist. As for countries, they cannot just stop existing. Countries may be satisfied with the results of their economic activity or not, but they do not have any extreme limit. Some scientists consider the trade balance to be the extreme limit of a country's activity, where a country's competitiveness can be measured by its ability to sell more than it buys. In the case of a company, the main indicator of successful functioning is increase in profits. In the case of a country, the side effect of profit increase is sometimes an increase in unemployment.

It is difficult to agree with Krugman since some years now competitiveness is the watchword in the economics and politics of the European Union. In March of 2000 the European Council adopted the Lisbon Strategy that is intended to make the European Union the most dynamic and competitive economy in the world. The legal basis behind the fact that the EU attaches such importance to the problem of competitiveness is Article 173 of the Consolidated Version of the Treaty on the Functioning of the European Union. It states that "the Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist."¹ Moreover, the World Economic Forum has been making a detailed assessment of the productive potential of nations worldwide for over thirty years. According to the definition of the World Economic Forum, "competitiveness is a set of institutions, policies and factors that determine the level of a country's productiveness."²

Edmund Thompson focuses strictly on the business aspect of the concept of *competitiveness*, despite of its obvious economic component. He defines this notion as "... the complex of institutional and systemic factors related to the matters of policy and macroeconomics and the way they affect the activity of a firm on the microeconomic level within its competitive environment" (Thompson, 2004, p. 198).

For the use of this study, a competitive company is considered to be the one that has the ability to compete, grow, and be profitable. The basis of a company's competitiveness is its ability to consistently produce goods while generating profit. At the same time, those goods should meet the requirements of an open market in terms of price, quality, and other features required by the market. Every company must meet the requirements mentioned above if it wants to continue functioning successfully. Furthermore, the more competitive the company is in relation to its competitors, the higher its ability to conquer new market segments. Correspondingly, with respect to everything stated above, non-competitive companies will sooner or later cease to function, with the exception of those provided with "artificial" support or protection.

The globalisation of the world economy and the increased competition connected with it raise new challenges for modern enterprises – the ones that relate to both new threats and new possibilities of economic activity. One of the major problems is the appropriate use of all the opportunities that functioning on the markets of different countries brings – internationalisation. Internationalisation turns economic activity into an international activity. Very often, the internationalisation of activity is absolutely necessary for the enterprise because, as Porter rightly observed, the number of global and close to global economic sectors is growing and will grow in the future. This in turn requires the presence of companies on foreign markets and for them to compete on a global level (Porter, 2008).

This paper addresses the problem of challenges relating to the growing competition in the domestic banking system of Ukraine due to the increased internationalisation of the banking sector.

2. Material and Methods

The material for this study is derived from the legislative acts of the European countries, the official statistics of the State Statistics Committee of Ukraine, Germany, and the European Union as well as analytical reviews of the World Economic Forum, the National Bank of Ukraine, Deutsche Bank, Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine, and scientific literature on the topic subject to research and the personal research and observations of the author.

The research methods used in this article are based on systematic general theoretical approaches to defining the level and development dynamics of the

competitiveness of the banking sector of Ukraine, Germany, and Deutsche Bank as a separate unit. The following general scientific and specific economic methods were used in this paper: statistical analysis methods that can identify the specifics of the banking sector development and determine the level of its competitiveness as well as substantiate structural changes in the banking sphere, the method of ratings that can determine the level of the banking sector development and certain of its components compared with the others, information-computer methods for analyzing the state and development dynamics of the banking sector components, critical analysis method that makes possible the study of the influence of internationalisation on the level of bank competitiveness, monographic method that synthesizes researchers' viewpoints on the problems being researched, case study method that can study certain components of the banking sector development as a whole and some of its component parts in particular, and graphical method that can graphically represent the development dynamics of the categories being researched as well as others.

3. Results and Discussion

The internationalisation of banking is an important factor of the competitiveness level increase of banking institutions. The presence of foreign banks is an important part of the banking sector in many countries. During the 1990s, many developing countries reacted very favorably to the invasion of foreign banks into their banking sector. From 1995 to 2002, the average level of participation of foreign banks in the banking sector of developing countries increased from 18% to 33%. For example, in Latin America the presence of foreign capital in the banking sector of Peru is 95% and in Mexico it is 82%. At the same time, the share of foreign ownership in the banking sector of Europe, Central Asia, and Latin America is bigger than in East and South Asia. By 2002 the share of foreign banks in the banking sector of Estonia was 73%, Lithuania 91%, and Slovakia 82%. In 2006 the share of foreign banks in the banking sector of Indonesia was 28%, Kazakhstan 24%, Malaysia 16%, Pakistan 23%, the Philippines 1%, and Thailand 5%.³

Ukraine

Table 1 presents the indicators of the banking sector activity in the Ukraine, especially the change in the number of banks with foreign shares in their capital over recent years.

The data shown in the table point to the fact that the number of registered banks in Ukraine is constantly changing. Up to 2012 there was an upward trend in the number of the registered banks. Since 2012 this trend has reversed. The table shows a reduction in the number of registered banks by twenty-two units in 2012 or 11% if compared to the previous year. The year 2013 was characterized by the upward changes in the number of the registered banks

Indicator	01.01.2006	01.01.2007	01.01.2008	01.01.2009	01.01.2010	01.01.2011	01.01.2012	01.01.2013	01.01.2014	01.01.2015
Number of registered banks	186	193	198	198	197	194	198	176	182	182
Number of operating banks	165	170	175	184	182	176	176	175	180	162
Out of which: – With foreign capital	23	35	47	53	51	55	53	53	49	51
– Including the ones with 100% foreign capital	9	13	17	17	18	20	22	22	19	19
Share of foreign capital in bank equity capital	19.5	27.6	35.0	36.7	35.8	40.6	41.9	39.5	34.0	44.7

Tab. 1. Indicators of the Banking Sector Activity of Ukraine from 2005 to 2014. Source: author's own calculations based on the data from the National Bank of Ukraine⁴.

– six units or 3% when compared to the previous year. The successive year did not bring any changes in the number of registered banks, but the sharp decline in the number of operating banks was obvious – eighteen units or 10% if compared to the previous year. Such changeability cannot be considered a positive indicator as it testifies to the instability of the banking sector activity in Ukraine.

The dynamics of the number of the registered banks in Ukraine is presented in Figure 2.

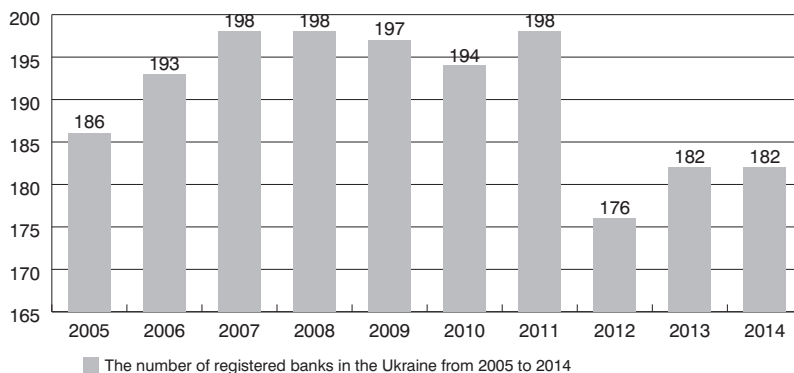


Fig. 2. The Dynamics of the Number of Registered Banks in Ukraine from 2005 to 2014. Source: author's own elaboration on the basis of the data from the National Bank of Ukraine⁵.

It is hard not to notice a similar trend for the number of banks with foreign capital in Ukraine. Up to 2012 the number of banks with foreign capital steadily increased. This fact is extremely positive as it portrayed Ukraine as a country that is attractive to foreign investors. The 2012–2014 period witnessed the opposite tendency. In the year 2013 we see a reduction of the number of the banks with foreign capital by four units or 8% if compared with the previous year. This, in turn, is a negative indicator of the functioning of the banking sector in Ukraine. Not only economic but also political factors led to the said situation. However, in 2014 this downward trend began to change and the number of banks with foreign capital operating in Ukraine increased from forty-nine to fifty-one, an increase by two units (4%). In spite of the fact that their number has not yet reached the one seen in 2010, which is when the number of banks with foreign capital was the greatest, this fact indicates the stabilization of the economic situation in the country and return of Ukraine's banking sector to normal functioning.

The dynamics of the number of the banks with foreign capital in the Ukraine may be followed in Figure 3.

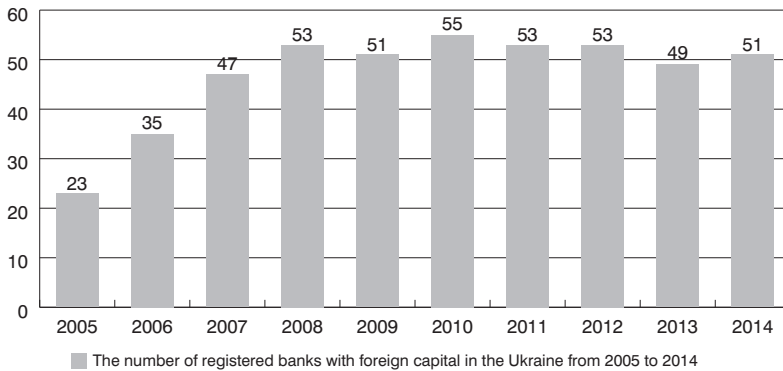


Fig. 3. The Dynamics of the Number of Banks with Foreign Capital in Ukraine from 2005 to 2014. Source: author's own elaboration on the basis of the data from the National Bank of Ukraine.

By 2011 nothing interrupted the upward trend in the share of foreign capital in the equity capital of banks operating in Ukraine. In 2012 the percentage of foreign capital in the equity capital of Ukrainian banks decreased to almost 40%, or approximately of 3%. In the next year this downward trend continued and the percentage of foreign capital declined to 34% or approximately of 6%. The year 2014 was a surprise as the share of foreign capital in the banks not only increased by 11%, but also exceeded the amount of that in 2011, which is a positive indicator of the functioning of

the banking sector of Ukraine. The dynamics of the share of foreign capital in the equity capital of banks operating within the territory of Ukraine may be followed in Figure 4.



Fig. 4. The Dynamics of the Share of Foreign Capital in the Bank Equity Capital of Ukraine from 2005 to 2014 (%). Source: author's own elaboration on the basis of the data from the National Bank of Ukraine.

The analysis of the data given in Table 1 as well as that found in the figures given afterwards allows make the conclusions that the main problems of the banking sector of Ukraine are as follows:

- 1) the significant outflow of resources from the banking sector,
- 2) deterioration in the quality of bank loan portfolios,
- 3) unprofitable activity in the case of some banks,
- 4) the instability of the national currency,
- 5) the instability of the political situation in the country,
- 6) the high inflation rate,
- 7) the instability of foreign trade conditions,
- 8) the instability of both the domestic and foreign currency markets,
- 9) the untimely adjustment of price and quantitative monetary instruments,
- 10) the sharp increase in foreign currency demand,
- 11) fluctuations in the deposit activity of depositors,
- 12) changes in the regulatory-legal base, which regulates bank operations, and
- 13) insufficient flexibility and timeliness of banking sector reaction to changes on financial markets.

The European Union

A look at the situation in the banking sector of the European Union for comparison is most certainly of value. The number of the financial institutions in the eurozone decreased by 3% in 2010. At the end of 2010, the European Central Bank counted 7,865 financial institutions in the eurozone,

which is 211 less than in the previous year.⁶ After Estonia became a eurozone member, the number of banks in the EU increased by thirty-seven. At the end of 2010 there were 9,921 financial institutions in the EU, that is 271 less than in the previous year. The biggest percentage decrease of financial institutions was in France, by 7%, and in Greece, by almost 7%. In terms of numbers of financial institutions, their number decreased in France by ninety-two, in Ireland by thirty-one, in Luxembourg by twenty-eight, and in Italy by twenty-five. According to the European Central Bank, on the 1st of January, 2011 a quarter of all the eurozone banks were located in Germany – 1,999, that is nineteen units or approximately 1% less than in the previous year.⁷

The course of events shows that the number of financial institutions in Europe is constantly decreasing. In 2013 the number of the financial institutions in the eurozone decreased by 6% when compared to the previous year. This means that in 2013 there were 7,059 financial institutions in the eurozone, which is 474 units less than in the previous year.⁸

However, it should be noted that the fall in the number of financial institutions, including banks, does not necessarily mean the bankruptcy or closure of those institutions. In most cases it is a question of merging. For example, in Germany there was the merger of Volksbanken and Raiffeisenbanken intended to increase the competitiveness of those banks as well as to improve their effectiveness to act on the market.

There were 3,280 financial institutions in all at the start of International Monetary Fund operations. However, the tendency to reduce the number of financial institutions is quite significant and amounts to 39% since 1999. Thus, at the beginning of 2014 in the eighteen countries of the eurozone the number of banks decreased by approximately 4%, that is down to 6,790 units. The biggest decrease in banks can be observed in the countries most affected by the crisis – Cyprus (the number of banks decreased by 26%) and Greece (the number of banks decreased by 17%).⁹

The type structure of banking institutions in the eurozone in 2015 is shown in Figure 5.

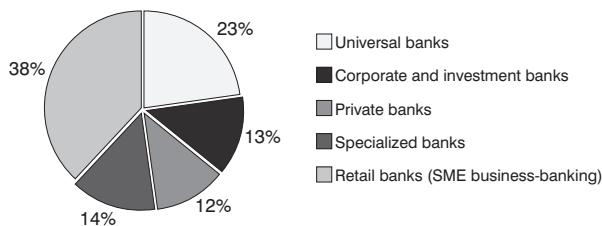


Fig. 5. Type structure of Banking Institutions in the Eurozone in 2015. Source: author's own elaboration on the basis of the data from Bankenverband¹⁰.

As it can be seen in Figure 5, the largest share (38%) of banks of the eurozone is occupied by retail banks – i.e. banks that specialize in providing banking services for small and medium businesses. The second place is occupied by the universal banks (23%). The third position is taken by specialized banks, which specialize in providing certain ranges of services such as loans, deposits, and others. Corporate banks are the fourth (13%), while private banks – banks that do business with one or more wealthy clients – are the fifth.

Germany

At present, 630 branches of foreign banks make up 10% of all the eurozone financial institutions, 18% of which are located in Germany.¹¹ However, even in Germany, foreign financial institutions play an important role. The financial institutions with foreign capital that operate in Germany employ about 30,000 Germans.¹² These institutions pay taxes into the budgets of different levels of German government and offer private customers and business entities access to a large number of banking and financial products and services. Thanks to the variety of business models and organizational forms that provide and use foreign financial institutions, Germany's financial sector takes a leading position not only in Europe, but also throughout the world. In Germany, the country in which the number of banks per capita is one of the highest in the world, competition in the banking sector is quite high when compared with the level of competition in other countries. The prices for banking services in German banks are also quite high. A possible reason for such a state of affairs in the sector is the high bank concentration. Germans believe that there are too many banks in their country, that the country is overbanked and overbranched. In the early 1990s, the reunification of Germany caused an increase of the number of banking institutions. Since the mid-1990s, however, the number of banks and branches there began to gradually decline. It is worth considering the main trends in the banking system development in Germany as depicted in the figures presented below. Examining Figure 6 it is possible to follow the dynamics of the number of banks in Germany in the period from 1995 to 2014.

The analysis of the figure allows us state that in 2000 the number of banks did not change if compared to that of 1995. The period from 2000 to 2005 was marked by a downward trend in the number of banks, where by 2005 it decreased by 1,441 units (38%). This trend also continued into the next period so that by 2010 the number of banks in Germany decreased by 223 units (10%). The next period under research was not an exception. It showed a reduction in the number of banks in Germany by 131 units (6%). The number of banks in 2014 if compared to that in 1995 was 1,795 units (48%) with a continued downward tendency.

Another indicator of the banking sector functioning in Germany that is analyzed in Figure 7 is the dynamics of the number of bank branches in Germany in the period from 1995 to 2014.

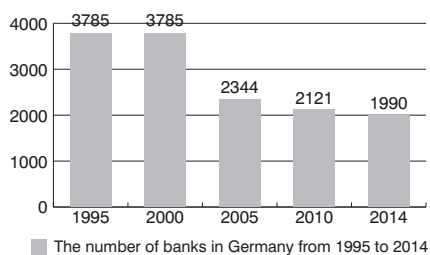


Fig. 6. The Number of Banks in Germany from 1995 to 2014. Source: author's own elaboration based on the statistical data¹³.

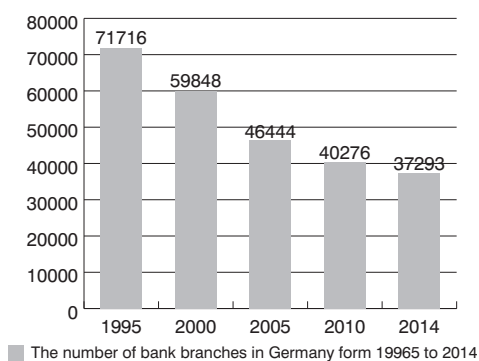


Fig. 7. The Dynamics of the Bank Branches Number in Germany from 1995 to 2014. Source: author's own elaboration on the basis of the statistical data¹⁴.

While the number of banks in Germany in 2000 remained at the same level as in 1995, the number of bank branches in that year decreased by 11,868 units (17%). The next period did not bring any surprises. In 2005 there was a decrease in the number of bank branches by 13,404 units or 22% if compared to the year 2000. What can be seen in 2010 is a further reduction in the number of bank branches – 6,168 units or 13% if compared to the data from 2005. This downward trend in the number of bank branches in Germany continued into 2014 – 2,973 units or 7% if compared to the year 2010. The change in the number of bank branches in Germany in 2014 was 34,423 units or 48% if compared to 1995 with a continuing downward tendency.

The dynamics of the change in the number of foreign banks in Germany is shown in Figure 8.

Analyzing the data in the figure given above, a clear upward trend may be seen in the change of the number of foreign banks in Germany by the year 2000, where in that year the number of such banks increased by 135 units (23%). However, starting with the year 2000 the trend changed

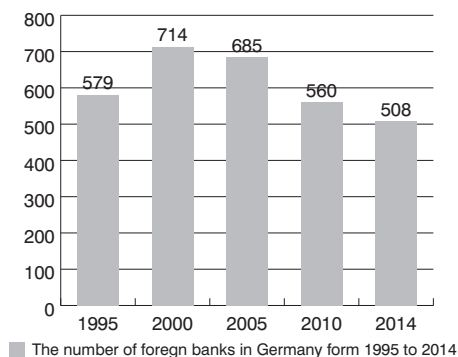


Fig. 8. The Dynamics of the Change in the Number of Foreign Banks in Germany from 1995 to 2014. Source: author's own elaboration on the basis of the statistical data¹⁵.

to become its reverse, namely downward. By 2005 the number of foreign banks in Germany decreased by twenty-nine units (4%). This trend continued up to 2010, showing a decrease in foreign banks number by 125 units or 18% if compared to that of 2005. Again, the year 2014 was not an exception with its decrease in the bank number in Germany by fifty-two units (9%). Foreign banks number in Germany in 2014 fell by seventy-one units (12%) if compared to that of 1995.

The main reasons for such a state of affairs are:

- transparency of borders within the European Union,
- merging of banks with local and foreign capital,
- the winning of new market sectors by large banks, and
- the growing use of Internet banking by the customers.

In spite of such potential advantages in the entry of foreign banks onto other country markets as new technologies, access to the capital and better workforce, wide ranges of services, and international activity experience, banking sector development towards internationalisation raises serious concerns among many researchers and practitioners. Joseph Stiglitz, for example, believes that foreign banks are interested in providing banking services only to the largest (often multinational) companies and the richest representatives of the given country.¹⁶ At the same time, prominent economists and politicians point to the fact that the internationalisation of the banking sector can have an important impact on a country's economic development and the standard of living of its citizens. Taking into consideration the reasons given above as well as other important ones, German banks began not only to consider the matter of internationalisation extremely seriously, but acted very vigorously in that direction. In the early 1960s, just behind industrial enterprises, German banks began to massively enter the markets of other countries. Since then, the creation

of an extensive international network in the banking sector has intensified dramatically and achieved significant success despite periodic slowdowns caused by changes in oil prices and the debt crisis in developing countries. What is worth noting is the speed with which German credit institutions have been entering the markets of other countries. Where in 1963 German banks had three foreign branches, by 1994 they already had 418 branches and subsidiaries and 209 representative offices.¹⁷

The Internationalisation of Deutsche Bank

Deutsche Bank has always counted on the development of its network of representative offices abroad. Even before World War II, the Deutsche Bank branch in London played a significant role in the financial life of England. Because of the influence of many factors, that branch was closed and transformed into a representative office. In 1976 a branch of Deutsche Bank was opened in London once again. The German Overseas (American) Bank, a subsidiary of Deutsche Bank, had a similar scenario. It lost its position as the leading financial institution in Latin America twice during the world wars and had to start all over again after those wars to get it back. When talking about Asia, prior to World War I, a consortium of seven banks, called the German-Asian Bank, had been established. Deutsche Bank played a leading role there. The process of internationalisation of Deutsche Bank after World War II can be divided into three periods:

- Mid-1960s to mid-1970s Deutsche Bank cooperated with correspondent banks and created representative offices,
- As of the mid-1970s Deutsche Bank began to actively create a network of branches and subsidiaries abroad, and
- As of the mid-1980s Deutsche Bank began to absorb banks in other countries and thus gained certain market sectors.

The next step of Deutsche Bank after the establishment of the BEC (a European bank for medium-term loans) in Brussels was the creation of a joint consortium bank in the United States. Thus, control was taken over the Belgium American Bank Corporation and the Belgium American Trust Company. It was then that the word *Belgium* in the name of those companies was replaced with the word *European*. In 1972 branches were created in Los Angeles and San Francisco. In 1974 Deutsche Bank absorbed the Franklin National Bank. As for Asia, the process of internationalisation started in Hong Kong in 1958, followed by Karachi (1962), Kuala Lumpur (1968), and Jakarta (1969). After the absorption of former partner banks in 1972, the Euro-Asian Bank was created. It quickly built up its own network of branches. Similar activities were carried out throughout the territories of Arab countries as well as in Canada and Australia. There were other banks that dominated European markets at that time. The only way for Deutsche Bank to gain new market segments in other countries was to absorb other banks. The first step in this strategy was the takeover of the Bank of Italy

(Banca d'Italia) by the Bank of America. As a result, Deutsche Bank began to function on the market of another European country for the first time. The next step for Deutsche Bank was the complete or partial acquisition of banks in the Netherlands, Australia, Lisbon, Austria, and Canada. The activities of Deutsche Bank directed at internationalisation within the territory of the United States were so successful that in 1989 Deutsche Bank moved into a huge building not far from Wall Street. That building has been called the Deutsche Bank Building since then. In 1998 Deutsche Bank succeeded in buying an Internet domain that included only two letters – DB.com. Thus, Deutsche Bank became one of seven banks in the world and the only bank in Germany to have such a domain. However, the process did not stop at that point. In 1989 Deutsche Bank absorbed the British investment bank Morgan Grenfell in London. The 1990s were marked by the establishment of new branches and the absorption of existing banks in Eastern and Southern Europe. The year 1998 was marked by the fact that Deutsche Bank absorbed Bankers Trust, the investment bank, in New York. After some time it was renamed Deutsche Bank. With 12,000 employees in the United States alone, the bank plays a significant role in investment banking not only on the American continent, but throughout the whole world.¹⁸

Nowadays, Deutsche Bank is the largest bank in Germany where it ranks first among other German banks in terms of the sum of total assets (Figure 9).

According to the figure, it is possible to see that the sum of Deutsche Bank total assets exceeds that of its biggest competitor in Germany, the Commerzbank, by 1,151 trillion euro as well as of the bank that is in tenth position, the Postbank, by 1,554 trillion euro.

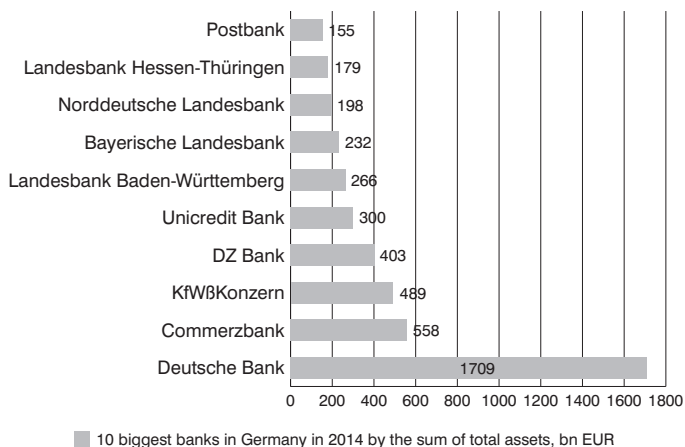


Fig. 9. Ten Biggest Banks in Germany by the Sum of Total Assets, in billion EUR. Source: author's own elaboration on the basis of the statistical data¹⁹.

Deutsche Bank also takes the first place among German banks in terms of the number of branches (Figure 10).

Having analyzed the figure given above, it can be seen that Deutsche Bank has 1,714 branches more than its closest competitor (according to the ranking), Commerzbank, and 2,614 branches more than the bank that takes tenth place, Hamburger Sparkasse. The ability to have so many branches describes Deutsche Bank as the bank that has the largest financial opportunities at its disposal in Germany for its successful operation. The large lead of Deutsche Bank from all of its competitors points to its skillfully chosen strategy of successful operation, maintaining a competitive market position, and gaining new market segments.

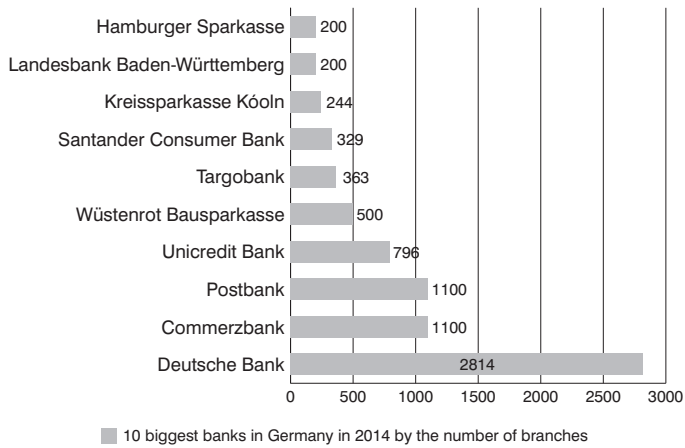


Fig. 10. Ten Biggest Banks in Germany in 2014 by the Number of Branches. Source: author's own elaboration based on the statistical data²⁰.

Taking into account the number of employees of the banks of Germany, Deutsche Bank also takes the first place in this category (Figure 11).

Analyzing the ranking of the ten largest German banks by the number of employees, it can be seen that Deutsche Bank employs 98,138 people, which is 46,035 jobs more than its closest competitor, Commerzbank, and 97,884 jobs more than the bank that takes the tenth place in the ranking, Landesbank Hessen-Thüringen. Thus, Deutsche Bank is an extremely valuable enterprise from the point of view of the people who work for it as well as from that of Germany as a state when considering how many people the bank employs.

The analysis of the data provided above allows us state that Deutsche Bank is the largest bank in Germany by virtue of the sum of total assets, the number of branches, the number of employees as well as other factors.

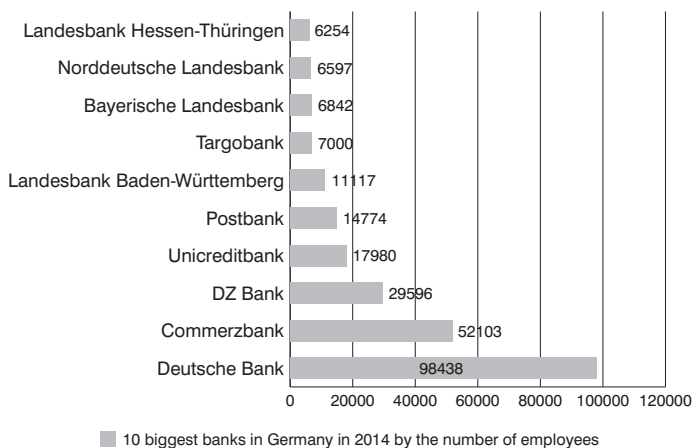


Fig. 11. Ten Biggest Banks in Germany in 2014 by the Number of Employees. Source: author's own elaboration on the basis of the statistical data²¹.

Its correctly chosen strategy for internationalisation has led this bank to occupy the first place in Germany, making it also one of the most powerful banks in Europe and in the world. However, there appears the question whether there is an upper limit of the number of branches after which its increase will only overburden the bank and make it difficult to handle. Is there a limit to internationalisation up to which the activity generates profits and influence spheres increase while exceeding it causes the opposite result? As it can be seen, the presented research has prospects for continuation as there remain important questions to be answered by the banking sector in general and separate banks in particular for them to function successfully.

4. Conclusions

The conducted study allows us draw the following conclusion: an important factor that leads to the increase of the competitiveness level in the banking sector is the internationalisation of bank activity. Another conclusion from the study with respect to the country level is that the functioning of the Ukrainian banking system is unstable. The main reasons of this instability are the instability of the currency of the country, the instability of the political situation in the country, the high inflation rate, the instability of both domestic and foreign currency markets, the sharp increase in foreign currency demand, and the insufficient flexibility and timeliness of banking sector reaction to the changes on financial markets as well as others. The functioning of the banking sector in the eurozone is characterized by a reduction in financial institution numbers. The cause of it is, in most cases, mergers not bankruptcy.

A characteristic feature of German banking system development over the period being researched is also the reduction in the number of banking institutions. The main reasons for such a state of affairs are, among others, transparency of borders within the European Union, merging of banks with local and foreign capital, winning of new market sectors by large banks, and the growing use of Internet banking by the customers.

The successful example of a transnational company is Deutsche Bank, whose chosen strategy for internationalisation was considered in this paper. This bank is an example of a company that has focused on the internationalisation of its activity since its foundation, searching for markets for the sale of its products outside its home country. Internationalisation influences the activity of the banking system as a whole and separate banks in particular in a positive way. Deutsche Bank holds the leading positions in major aspects of the bank activity in Germany and is one of the most influential banks in Europe and in the world. What is necessary to be studied is the extreme limit of internationalisation, the limit up to which the said activity brings the company profits and after crossing of which, the company becomes overloaded with too many branches abroad or foreign markets segments. These issues will be addressed by the future research.

Endnotes

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