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The Strategies of a foreign bank in an emerging market:

A case study of Park Bank in Turkey

Abstract:

This paper attempts to explore the strategies of a foreign bank in an emerging market- namely Park Bank in Turkey. Reviewing the existing literature on foreign entry to emerging markets, this paper focuses on the three main questions that researchers have attempted to address: *Why* Park Bank entered the Turkish market, *what* strategies were employed and *how* these strategies affect the level of competition and efficiency of the Turkish banking sector. The case study, generated by documentary analysis, in-depth and semi-structured interviews with both Park Bank officials and those of the Banks Association of Turkey, evaluates the manner in which a foreign bank acts in an emerging market with high volatility by segmenting the market through revising its lines of business. The case reflects a good example of an incremental strategy formation by a foreign bank that has already established a presence in the local market and it also reveals that such strategic evolution has implications on the domestic banking sector. The strategy of business expansion towards new market segments through organic growth affects the level of competition and efficiency in the Turkish banking industry as local banks are forced to re-evaluate their own strategies.

Key Words:

Foreign bank strategies
Emerging markets
Turkey

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***Introduction**

The Turkish economy has been described by Garten (1996) as one of the big emerging markets of the World. These markets are attracting increasingly significant amounts of foreign direct investment (IMF, 2000) and are viewed as sources of future economic growth (Czinkota and Rankainen, 1997). The liberalisation and structural reforms within such economies have reflected the faith in the market as a mechanism for growth. In turn, such growth requires additional capital that cannot be satisfied from domestic sources and hence the active encouragement of multinational banks to enter such markets. Park Bank* within Turkey is one such example.

Many emerging economies have significant foreign bank participation and control in their domestic banking operations (see IMF, 2000 and Clarke et al., 2001). This is not the case in Turkey; during 1999 both control and participation were less than 2 % of the market. This contrasts with Poland, another big emerging market, where comparable figures are 52 % and 36 % respectively. The Park Bank case within Turkey is therefore of particular interest as it reflects a unique situation from that of many other banks who have chosen not to enter the Turkish market.

The case study focuses in particular on what Park Bank names ‘the Emerging Local Corporate Business Sector’ of the Turkish market and evaluates the manner in which a foreign bank acts in an emerging market with high volatility by segmenting the market through revising its lines of business.

The research methods employed to generate the case material included documentary analysis, in-depth and semi-structured interviews with both Park Bank officials and those of the Banks Association of Turkey. The objective of the research was to generate a detailed case study to provide an understanding of the strategies employed by Park Bank within the Turkish market that could be reviewed and evaluated against the current emerging markets literature. In pursuing that objective the following case provides a rich narrative of a specific organisational setting which complements the more aggregated, macro-level analysis.

It is not the objective of the short introduction to justify the case method for research. This has been argued elsewhere (Yin, 1994), however in its application Robson (1993) argues

* This is an anonymous name; the actual name of the bank is not used in this research.

that the approach has the ability to provide answers to why, what and how questions. In this particular context they are *why* Park Bank entered the Turkish market, *what* strategies were employed and *how* these strategies affect the level of competition and efficiency of the Turkish banking sector.

Although there is a substantial body of work on foreign direct investment (FDI), the studies concerning multinational banks (MNBs) in the emerging markets as a subset of this literature are few in number. Sabi (1988) applied FDI theories to multinational banking in –as he names- less developed countries (LDCs) to provide a framework in order to answer particularly the *why* question. Another study conducted by Tschoegl (1987) uses the main theories of FDI in explaining retail banking activities of multinational banks. His approach offers important insights to the question of *what* strategies Park Bank employs in the Turkish market, particularly to its strategy of ‘Emerging Local Corporate Business’. Finally, Denizler’s (2000) work on the effects of foreign bank entry on the Turkish banking sector was adapted in order to establish the key themes in answering the *how* question. The work is supported by the study of Pehlivan and Kirkpatrick (1992) as it makes significant qualitative contributions to the debate.

The literature review is followed by a brief review of macro-economic setting in Turkey and the Turkish banking system. The case study is presented after this short introduction adopting the theoretical frameworks and the paper concludes with a summary of reflections from the case and discussion points for further research.

Literature Review

This short section will be divided into three areas addressing the why, what and how themes introduced in the previous section.

Why?

Any theory of foreign direct investment (FDI), as Root (1978, in Buckley, 2000) observes, attempts to address the questions of why firms move abroad as direct investors, how they can compete with local firms in the host country, given the disadvantage of operating in an unfamiliar territory and of why they choose to enter a foreign country via FDI instead of exporting or licensing. There are many theories and arguments addressing these issues in the literature. Sabi (1988)’s research is a pioneering one as it applies general theories with regard to multinational banks and makes significant policy recommendations.

The literature suggests that studies concerning MNBs can be compared to FDI in manufacturing (Aliber, 1976; Grubel, 1977 in Sabi, 1988; Gray and Gray, 1981). Regulation of banking, the presence of MNCs from the home country, cost differential, and potential reductions in earnings variability are hypothesised as important factors in determining the presence and growth of MNBs in other countries. In addition, previous empirical studies have found the following variables as significant motivational factors for FDI in banking: the need to provide services to MNC clients (Fieleke, 1977 in Sabi, 1988; Goldberg and Saunders, 1980; Khoury, 1980), the volume of trade (Goldberg and Saunders, 1980; Terrell, 1979 in Sabi, 1988), relative interest rates (Khoury, 1979), exchange rate (Goldberg and Saunders, 1980), market size of host and home countries (Terrell, 1979 in Sabi, 1988), various proxies for profit (Terrell, 1979 in Sabi, 1988), experience of banks operating internationally and knowledge of the host country (Ball and Tschoegl, 1982).

Sabi's (1988) model encompasses these issues. His model has three dimensions- namely proxies for profit, specific advantages and follow-the-client hypothesis. The two proxy profit measures suggested for measuring the rate of return from each location are the interest rate spread (banking margin) and the ratio of loans to deposits in the host countries.

The second dimension, specific advantages, refers to the study conducted by Gray and Gray (1981) who first applied the Dunning's eclectic approach of international production to multinational banking. Dunning (1977, 1985, 1988) synthesised all the theories of FDI in his eclectic theory of international expansion. Despite some criticisms of being very much US oriented (Kojima, 1978); the eclectic model has given great insights into the logic and process of FDI (Sabi, 1988; Buckley, 2000). It provides answers to three key questions of FDI stated at the beginning of this chapter.

The last dimension of Sabi's (1988) model is follow-the-client hypothesis, quoted as a major motivating factor for banks in many other studies, with theoretical justification provided by Grubel (1977) and Gray and Gray (1981). Since banks cannot sell their unique knowledge, following a client becomes an internalising factor that drives MNBs to establish presence in other countries. Jeannet and Hennessey (1988) suggest that the service sector has seen expansions triggered by client moves overseas; thus, "as a firm's

customer base becomes international so will the firm's own operations if it wants to maintain its business" (p.265).

Sabi's (1988) model is helpful in understanding the reasons of Park Bank's involvement in Turkey. Its entry into that market can be explained by its assessment of the Turkish financial market where imperfections and high rates of return exist. The high interest rate spreads existing in Turkey is a major source of income not only for domestic banks but also for foreign banks. Other location characteristics include a favourable legal and regulative environment, the ratio of foreign trade to GNP, a sophisticated customer base, and qualified labour force. Park Bank can exploit these by utilising its global brand, marketing and managerial expertise in this market. Therefore, the first two dimensions of the model are evident in the case. The last dimension of the model, which is following multinational clients, is very obvious in this case as Park Bank in Turkey started its operations first to serve its large multinational clients and to fund treasury projects.

A recent report by the IMF (2000) outlines the factors that have stimulated global financial institutions to expand in emerging markets under the headings of globalisation of financial services and removal barriers. As noted by Folkerts-Landau and Chadna (1999) and Vansetti, Guarco, and Bauer (2000), the globalisation of the financial services industry has resulted in banks facing competition from a variety of non-bank resources of credit and financial services that has put pressure on interest rate margins and profits, which in turn has eroded the "franchise" value of banks.

The intense competitive pressures faced by large international and regional banks in mature markets have provided banks with strong incentives to use the comparative advantages derived from the development of new financial products and services to enter both offshore and local emerging markets (Williams, 1997). Access to foreign trade with the need to establish more efficient and stable financial systems in the aftermath of crises in many emerging markets have been major catalysts for the removal of barriers to entry of foreign institutions (Canals, 1997). In particular, a more liberal regulatory environment has made it possible to exploit complementarities in banking, securities and risk management, which has led to the emergence of new products and improvements in the distribution of these new financial products and services (IMF, 2000). Significant developments in financial services at the macro-level in addition to the location specific factors assist in understanding the reasons why foreign banks engage in emerging markets.

What?

The second question of ‘what strategies are employed by Park Bank’ can be evaluated within the framework of a research conducted by Tschoegl (1987). Taking the approach of Dunning’s eclectic theory, he attempts to grasp the strategies of foreign banks, particularly retail banking strategies. He suggests that ‘product differentiation provides a precarious competitive advantage as innovative responses by local firms may easily curtail it’ (Tschoegl, 1987, p. 77). He cites US multinational banks, which have attempted to compete by targeting neglected segments of the local retail market, who have not benefited from their own brand name or goodwill but rather their marketing ability. This is evidenced by the case of Park Bank in Turkey, as will be reflected in the case study. Tschoegl (1987) argues that in many cases retail banking developed from a presence, which permitted the bank to learn the local environment, and enabled it to acquire local retail operations when that became feasible. Park Bank’s strategic evolution from corporate banking to retail banking in Turkey is therefore based on a thorough assessment of the market from an established presence.

How?

It is crucial to understand strategic implications on the foreign bank itself and also on the domestic market. This brings us to the last question, how these strategies affect the level of competition and efficiency of the Turkish banking sector? Research conducted by Denizer (2000) can be used to provide a framework for this question. He analyses issues of foreign entry in the Turkish banking sector by testing a number of hypotheses drawing upon Claessens, Demirguc-Kunt and Huizinga’s (1999) study on the role of foreign banks in developing countries. He provides a review of banking developments in Turkey by focusing on foreign bank entry, competitive performance of local foreign banks, market structure in terms of concentration and regulatory issues. Based on comparative ratio analysis and other quantitative analysis, he assesses the performance of foreign banks in Turkey in terms of efficiency, profitability, and market share for the period between 1980 and 1996. He speculates that foreign banks in Turkey are highly specialised, serve niche areas and their profitability reflects substantial revenues from fee-based services. This is crucial in understanding the strategies they employ; however it also provides insights on the overall efficiency of the market. His work is important in this sense, however it does not encompass the recent developments in the Turkish banking sector. In the last two years, competition in the Turkish banking increased considerably. This has resulted in foreign banks adapting their strategies in accordance with the requirements of the markets.

Park Bank is a good example of such an adaptive strategic evolution. As one of initial entrant into the Turkish financial market in early 1980s, it has pursued deliberate adaptive strategies in order to ensure its future viability.

Another study, although being somewhat dated, is the one by Pehlivan and Kirkpatrick (1992), which makes significant qualitative contributions to the debate. They argue major objectives in exposing domestic banks to foreign competition were to increase the diversification and quality of domestic financial services whilst increasing the efficiency of financial intermediation of banks. Hence, they argue that foreign banks have contributed to the Turkish banking in terms of modernising the domestic sector and increasing efficiency of financial intermediation. Their main contribution can be summarised in three broad groups: planning, credit evaluation and marketing; and recruitment.

The case of Park Bank helps to illustrate the current research agendas as its strategic evolution provides insights about the manner in which foreign banks act in emerging markets. Prior to the presentation of the case study, it would be appropriate to provide a short introduction to the macro-economic setting and the Turkish banking system.

The Macroeconomic Setting in Turkey

Over the last two decades Turkey has been dominated by chronic fiscal deficits with high and variable inflation, averaging about 70% p.a., and relatively high and volatile GDP growth (Denizer, 2000). Turkey's inability to implement effective structural reforms has been argued to be the main reason for this (Celasun et al., 1999 and Denizer et al., 2000).

The liberalization of the capital account in 1989, established a strong link between foreign and domestic interest rates, has complicated macroeconomic management. As a result, domestic interest rates have been high and, in turn negatively affected fiscal dynamics (Celasun et al., 1999).

Turkey has followed a flexible exchange rate policy since 1980. High inflation and capital inflows caused appreciation of real exchange rates during the 1990-1993 period, in turn, this led to the strong incentives for external borrowing given the high domestic interest rates and a rapid increase in the commercial bank borrowing from abroad.

As noted by Denizer (2000), further deterioration in the fiscal situation, major policy mistakes in foreign exchange and interest rate policies, led to a crisis in late 1993. The currency depreciated by almost 100 %, three small banks failed and left the system. GDP contracted by 6 % in 1994 and the ensuing financial panic, including a run on the larger banks, could only be contained when the Government bank deposit insurance coverage was raised to 100 percent in 1994.

With the contribution of a favourable environment and the large depreciation of currency, the Turkish economy strengthened in the following three years with growth averaging 7 % per annum. The Central Bank's role has been important in this context; it started to target the real exchange rate, which meant depreciating the currency in line with inflation. Given high domestic rates, the likely path of the exchange rate became predictable and encouraged foreign borrowing. High-yield government paper became an important source of banks' profit, using borrowed capital from abroad. (Cleasun et al., 1999; The Banks Association of Turkey, 1999).

The Turkish Banking System

Until 1980 the Turkish financial system developed under an umbrella of monetary and regulatory policies aimed at supporting “the state orchestrated development strategy” (Denizer, 1997, p. 1). The commercial bank dominated financial system became an instrument of planned industrialization policies and operated under a framework characterized by controlled interest rates, directed credit programs, high reserve requirements, and other restrictions on financial intermediation, as well as restricted entry. While these financial and regulatory policies contributed to the country's industrialization, they had their costs on the banking system's competitiveness and efficiency (Mayer and Vives, 1993). In this environment of inward-looking economic policies, there was extensive protection against foreign competition. During this period the state share of banking reached more than 50 % (Zaim and Taskin, 1997; Denizer, 1997). This is very similar to many other emerging economies where governments were expected to take the leading role in the development process and typically owned and operated all formal financial institutions (Sawers et al., 1999). This situation changed in the 1990s as a result of privatisation efforts, which explains the involvement of foreign banks in such economies. This, however, contradicts the Turkish case as will be explained later. Due to entry restrictions prior to 1980, Turkish commercial banks enjoyed an oligopolistic environment with almost no competition. As a result, these banks were highly profitable

which may have generated overconfidence, which in turn might have prevented a careful analysis of performance and managerial ability of their executives (Denizer et al., 2000).

In 1980, the import-substitution industrialization strategy was abandoned and a new development strategy, which aimed at freeing the market economy and promoting exports, was adopted. Over the last decades, the Turkish economy in general and the financial system in particular have been opened up and liberalized. (TBAT, 1999). Indeed, by 1998 the Turkish banking sector had minimal policy constraints on domestic and financial market intermediation. This parallels developments in other emerging economies where the dramatic increase in the influence of neo-liberal thinking and laissez-faire governance in the 1990s played a crucial role in the changing attitudes toward foreign capital (Sawers et al., 1999). This explains the liberalisation of financial markets which have taken place in such emerging financial markets and the resultant foreign bank involvement.

Denizer (1997) argues that the bank-dominated financial sector in Turkey was uncompetitive and inefficient prior to 1980 with a limited range of products. As noted by Denizer, Dinc, and Tarimcilar (2000), after 1980 the banking related component of the liberalisation reforms included the elimination of controls on interest rates, a significant reduction in directed credit programs, and the relaxation of entry barriers into the banking system in order to promote competition and increase efficiency. These were important developments considering the earlier constraints on financial markets.

Following the liberalization of financial prices and policies in the 1980s, there were marked changes in the Turkish financial sector. The Istanbul Stock Exchange was reopened and, over time, became an integral part of the financial system. Government securities began to be auctioned in 1985 and quickly became an important portion of the stock of financial assets. The inter-bank market began to operate in 1986, allowing banks to lend and borrow for overnight facilities. While these liberalisation activities were taking place, Turkey did not privatise the large public banks (Denizer, Dinc and Tarimcilar, 2000) and they still play a significant role in the banking sector, currently accounting for about 40 % of total banking assets. This is quite different from other emerging markets where the liberalisation of financial services was mostly through the privatisation of state-owned financial institutions and foreign bank participation and control in domestic banking operations.

By 1990, there were 23 foreign banks in Turkey, with 19 new entries post-1980. Due to interest rate regulation and the removal of constraints on the financial system, new domestic bank entries in general and the foreign bank entry in particular, competition in the sector has increased. Furthermore, the nature of the competition has significantly changed as a result of new products and instruments associated with foreign banks' entry to the Turkish financial system.

Table 1. The Number of Banks Operating in Turkey

	1995	1999	2000
Commercial banks	55	62	61
State-owned	5	4	4
Privately-owned	32	31	28
Banks in the Fund		8	11
Foreign banks	18	19	18
Development and investment banks	13	19	18
State-owned	3	3	3
Privately-owned	7	13	12
Foreign banks	3	3	3
Total	68	81	79

Source: The Banks Association of Turkey, 2002.

There are currently 21 foreign banks in Turkey. Park Bank has grown to be the largest foreign bank in Turkey with a branch network of ten branches within the larger cities. Park Bank is an example of where a foreign bank's presence affects the competitive structure of the market and the sophisticated, aggressive strategies implemented by it force many domestic banks to re-evaluate their banking strategies. It is therefore significant to understand Park Bank's interpretation of the Turkish financial market in order to assess its strategies.

Park Bank's view of the Turkish banking system

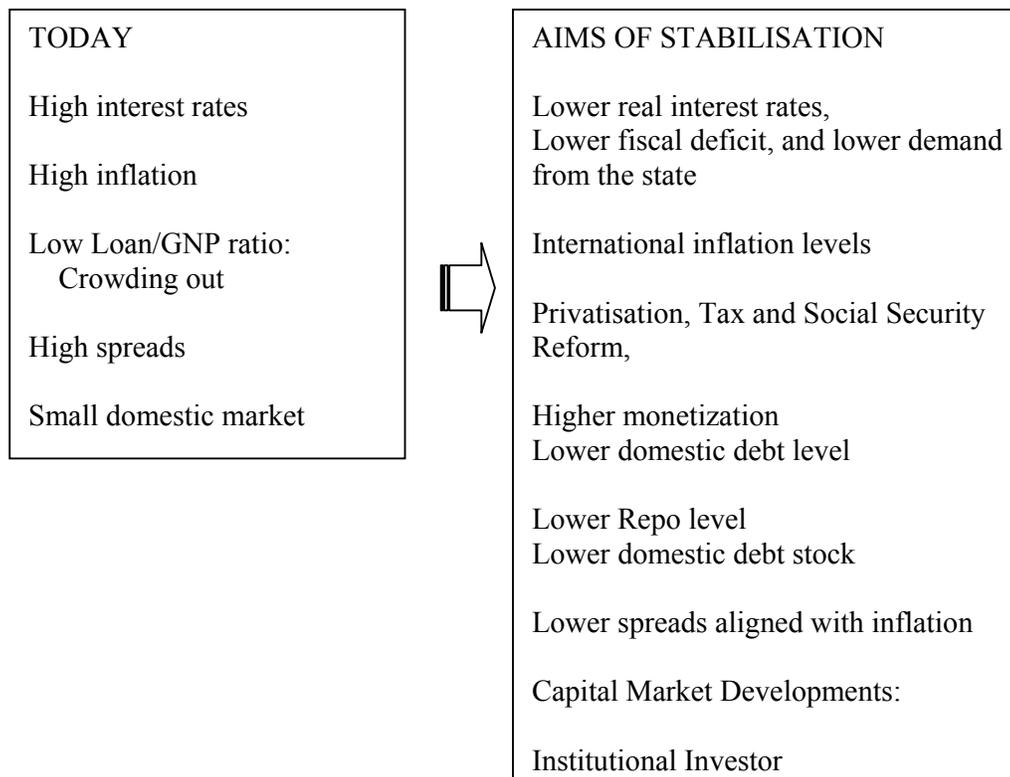
According to Park Bank officials, Turkey has a deep-rooted banking tradition that goes back to the 19th century. During the last two decades, the banking sector has played a prominent role in the Turkish financial system, and has made considerable progress

towards liberalising the economy. Turkish banks have made major changes in both their institutional structures as well as in the quality of services and products they offer. In addition, the Turkish banking system has been adopting contemporary strategies for risk-taking, modern management techniques and state-of-art technology, all of which are requirements for sustainable growth and long-term survival. Their assessment converges with Canals' (1997) arguments and IMF's (2000) analysis of emerging financial markets.

Park Bank emphasises the significance of three factors, which have significant adverse effects on the Turkish banking sector: high inflation, high public sector borrowing requirements, and the lack of an efficient legal framework. Banks adopted different strategies in a high inflation environment. As the state persisted in continuing to borrow from the domestic market, the banks turned to public sector bonds and treasury bills as a simple method of investment. This created an environment, where banks turned away from their basic function of intermediation so essential for the efficient allocation of resources.

As summarised by in figure 1, Park Bank makes a critical assessment of the recent developments in the Turkish economy and their implications on the banking industry for strategy formulation. The Park Bank officials argue that the current government appears determined to improve the Turkish economy through a series of reforms including privatisation, tax reform, social sector reform, and most importantly financial sector reform. These changes in the economic environment, according to Park Bank, will result in high monetization and thus high levels of loans to supply the demand by the real sector. There will be no more arbitrage opportunities and thus no subsidies among the products, while there will be more capital market opportunities creating institutional investors. They conclude these will change the real and financial sectors in terms of both structure and financing (tenors and spreads) leading to the dis-intermediation and globalisation in the system.

Figure 1. Park Bank's summary of the changes in the Turkish financial market



There are currently few studies on the effects of foreign bank entry into the Turkish banking system and their entry strategies. However, those few studies do not fully take into consideration of the expansion strategies of those foreign banks or the survival strategies in such a volatile system. This study, therefore, aims to fill that gap in the literature by making an exploratory case study analysis of a foreign bank in Turkey as an example of an emerging market.

Park Bank in Turkey: The Case Study

The case is presented as follows: The first section provides an overview of Park Bank explaining lines of business and organisational structure in order to provide a background for its world-wide strategy formation and implementation as a multinational bank. The second section describes its emerging markets business in more detail. The third section follows with a brief history of Park Bank in Turkey with its customer base, product and service offerings. The fourth section presents Park Bank's assessment of the Turkish financial market as well as of the banking industry to provide a background to its strategy formation in Turkey. The fifth section presents its current business strategies along with their future outlook in Turkey. The last section focuses on its new strategy of segmenting the market and developing specific strategies under the name of Emerging Local Corporate (ELC), addressing the needs and demands of that particular market segment.

An Overview of Park Bank as a Multinational Company

Park Bank was founded in the early 1800s in the USA and by the early 1900s it was an international bank providing a variety of financial services. Park Bank is now a subsidiary of one of the world's largest financial services companies, with presence in 100 countries, a broad range of products and services and assets of nearly USD 700 billion. It employs over 150,000 people in more than 3,500 offices around the world.

Park Bank names its main lines of business as global relationship banking, global consumer banking, and emerging markets. Global Relationship Banking covers its corporate banking activities in the developed countries. Park Bank's corporate banking products are broadly grouped into three categories: transaction services such as cash management and custody services; corporate finance services such as trade finance and asset based finance, and capital market services such as hedging and foreign exchange. Global Consumer Banking can be explained as its retail banking business, which basically includes three main products, which are, Park Banking (retail), credit cards and private banking. Emerging markets business is both corporate and consumer banking activities in developing countries. Therefore, emerging markets business is an integrated product, which reflects a geography-based orientation.

Park Bank's vice chairman summarises the company's articulated strategic choice in the following words: 'Park Bank's strategy is to focus on customers who value our global network in the broadest sense. With these customers, our global capabilities give us a

competitive advantage. We must deliver high-quality, innovative products that address our customers ever changing needs. To a significant extent, we develop our successful products in the developed markets and then transfer them to other geographical markets’.

The emerging markets business has a strategic importance for Park Bank in a highly competitive, global world of financial services. With reference to William’s (1997) argument, Park Bank reflects a good example of a multinational bank that entered emerging markets to exploit arising opportunities under the intense competitive pressures in mature markets. To develop multidimensional and flexible strategic capabilities, Bartlett and Ghoshal (1995) argued, a company must go beyond structure and expand its organisational capabilities into other geographic areas. In an era of globalisation of financial services and the removal of barriers in many emerging markets, Park Bank has acted in an entrepreneurial way by recognising this opportunity and then adapting its strategies accordingly.

The Emerging Markets Business

The Emerging Markets Business covers all wholesale banking activities in Asia, Latin America, and the Central Eastern Europe, Middle East, and Africa regions, including support to the local franchises. It currently has its headquarters in London, but has a physical presence in 30 countries and also does business in 70 countries where they do not have offices.

The countries cover a diverse geography stretching across 13 time zones. The economies of the markets vary significantly but all are changing rapidly. Park Bank has introduced a Consumer Banking Business that will cover all consumer banking activities in Hungary, Turkey, Saudi Arabia, The Gulf, Pakistan, and India. Park Bank has strong franchises in each of these markets. In the words of a senior manager it is ‘committed to building and strengthening its position as the leading consumer-banking brand locally, regionally, and globally’.

Its Background in Turkey

Park Bank’s ties with Turkey go back to the late 1940’s when the bank was financing projects initiated by state-owned enterprises. However, its entry to the corporate banking sector with a fully equipped branch was not until the late 1970s. Park Bank currently employs almost 600 people in Turkey.

Park Bank introduced the benefits of global banking to Turkey, being the leading financial institution behind many privatisation projects. The Park Bank officials argue that ‘they want to be able to serve their customers through their whole life cycle, establishing a long term, profitable business’ and they want to be ‘embedded’ in Turkey, which means: ‘Be as big as a local bank, be the main foreign bank, be the most global bank’.

Park Bank operates four main activities in Turkey: Their main business is Global Corporate Banking. This business offers financial services to businesses, investors, issuers, the corporations, government and other financial institutions, offering tailor-made products in lending, services, treasury, capital markets, investment management, and project finance. The Global Consumer Bank is a second business line, which has around 60 million customers worldwide, and its main focus is on individual accounts, serving them anytime, anywhere, anyway during their whole life cycle. Its products currently include retail banking and credit card provision. Thirdly, Private Bank serves clients with assets over USD3 million and the ability to invest, initially, USD1 million. It covers a broad range of services, from banking to investments.

The final activity, Emerging Local Corporate Business (ELC) is the newest segment of business for Park Bank in Turkey. It started in 1997 and a full scale ELC program was launched in 1999. The objective is to serve medium sized local companies, a segment not attended by Park Bank before. According to Park Bank officials, the business is growing fast and has reached as many customers as expected in three years. ELC business implies a significant change in the multinational bank’s strategy as a response to rapid developments in an emerging market.

Park Bank’s Assessment of the Turkish Financial Market:

Park Bank made a thorough analysis of the Turkish banking sector. Their market research findings can be summarised as follows:

- There is a well-developed clearing infrastructure.
- Limited retail banking opportunities exist
- There are large investments in Treasury bills.
- Banks are volume oriented.
- There is no segregation into consumer and corporate businesses. Consumer business generates liabilities and corporate business volumes.

- Sophisticated technology:
 - ‘Young’ ATM network- latest features available
 - Security transactions through ATMs
 - Electronic Banking products available from most banks
 - Internet banking available

Park Bank’s description of customers focuses on the high level of customer sophistication. They emphasise that an average customer uses electronic banking for almost all types of banking transactions. Large corporate customers are integrated into the banks’ electronic systems. This allows the banks in Turkey to make a better evaluation of customer needs and wants. On the part of customers, it gives an advantage to recognise the banks’ revenue dynamics through continuous feedback on an electronic platform.

Based on the reassessment of the market and their customer base, Park Bank has revised its revenue structure to reflect that of the banking sector in general. Park Bank managers have argued that revenues from the loans will continue to be central but in future coming from ‘Individuals’ and ‘ELC’. As illustrated by Figure 1, above, all these changes in the economic and financial systems manifest themselves in a real change in the revenue structure of the Turkish banking industry. Park Bank predicts that the wholesale market will have access to international capital markets while the economy will improve and ELC will have a dominant role in the economy recovery of the real sector. Individuals will have more leverage once interest rates decline as a consequence of inflation reduction. Since the State will reduce its demand as a result of the reduction in the fiscal deficit, larger monetization of the economy and, consequently, larger loans out of GNP should be expected.

Further, managers strongly emphasise that Turkey is an ELC (emerging local corporate business) country with almost four million customers. Excluding ELC companies in the agriculture sector, there are around two million ELC companies. ELC business generated almost half of total revenues in the market in 1999 and this is the main market segment together with ‘Individuals’ targeted by Park Bank in Turkey, representing a key strategic opportunity for Park Bank, as will be evaluated later.

The case provides initial answers to the first question of this research, which is *why* Park Bank chose to enter the Turkish market. It offers imperfections to exploit for Park Bank.

These findings support Sabi's (1988) model in the sense that the imperfections existing in the Turkish financial market increases the rate of return for Park Bank. It is evident that Park Bank has been able to benefit from high interest rate spreads (banking margins) like other domestic and foreign banks in Turkey, since it started its operations. The second hypothesis of this model, which has its roots in the Dunning's eclectic model, finds strong evidence in this case: Park Bank's entry decision was based on an assessment that it would be able to use its firm-specific advantages such as a diversified product portfolio, managerial expertise, and marketing capabilities in the context of location-specific advantages. This manifested itself, initially, first in serving the needs of the multinational clients having operations in Turkey and of the State. It then evolved towards penetration into other markets. It is an incremental strategy formation as a response to developments and anticipated outcomes.

Park Bank's Strategic Vision in Turkey

Having assessed the market and changes in the market, a senior manager argues that Park Bank pursues 'the embedded bank strategy' in Turkey, which he explained as follows: 'Park Bank is fully embedded in Turkey as having a wide product offer, bringing the global market to the customer base, and giving valid solutions to our customer based on our capabilities'. The management, therefore, have made the business decision for the Turkish market and their main strategy is to build a customer base, which is mainly the new market segment of the ELC business, to go for organic growth, and to decrease their future expectations from the Turkish market in terms of profitability.

The selected strategy has been operationalised through a series of tactics. The first, is called the 'repositioning stage', during which Park Bank has adapted its existing corporate bank business model in parallel to the developments in the Turkish banking sector. Since its establishment in Turkey, Park Bank has focused exclusively on corporate banking, particularly on its multinational clients and other 'top-tiered local companies' until the consumer bank launched a credit card driven strategy in the mid-1990s. Park Bank's revenues and profitability have been substantially increased in the past two years through higher penetration of the corporate banking segments, an expanded product offering and increased treasury activity. The climate in Turkey has been very favourable for any foreign bank to pursue such strategies: High inflation, high public sector borrowing requirements and increased treasury activity.

The second stage is called 'embedded bank stage I' and it focuses on further developing successful asset based financing and developing a full scale ELC business in Turkey, initially launched in 1997. This stage involves focusing on consumer-banking activities with the aim of having 800,000 customers by the year 2002 using three products including a liability package supported by a utility payment system, and a limited physical distribution network backed by remote process channels and direct sales. The orientation towards 'ELC' and 'individuals' and the associated tactics can be explained by their assessment of the rapid developments in the Turkish financial markets. They expect professional market revenues (government bonds, treasury bills) to decrease due to limited arbitrage opportunities as the economy stabilises. Park Bank, hence, emphasises the main function of a bank i.e. intermediation in the financial markets through efficient allocation of resources. They forecast a decrease in the revenues from treasury activities i.e. state borrowing, with an increase in the revenues of corporate banking, and particularly a dramatic increase in ELC and consumer banking businesses; although profit margins will shrink in all businesses.

The third stage and fourth stage in Park Bank's strategic evolution are called 'balance score card' and 'embedded bank II' respectively. These stages are very much associated with an emphasis on risk management, people management, and supply and chain management. Focusing on its target market segments, the objective is to differentiate Park Bank by generating new value through a sound strategy of combining its capabilities i.e. sophisticated risk management, distribution strategies and an effective cost management. As argued by Prahalad and Hamel (1990), in the long run competitiveness derives from an ability to build core competencies. If core competence is about coordinating diverse skills and integrating multiple streams of technologies; it is also about organization of work and the delivery of value.

Having made an assessment of the opportunities and threats in the market and set their expectations; Park Bank considers its resource based capabilities, core competencies and its principal corporate strategy in Turkey can be summarised as staying in the corporate market through revising its main target segment and expanding its consumer banking business. The business expansion is decided to be through organic growth rather than acquisition.

The incremental strategic path demands a business decision to building a customer base through segmenting the market and also through organic growth mainly by opening new branches and acquiring and integrating new technology. This strategy formation can be evaluated within the framework provided by Tschoegl (1987) who explains such responsive strategies by foreign banks in retail banking. Park Bank has moved incrementally in forming new strategies by targeting neglected segments (i.e. 'ELC' market and 'individuals') and this incremental movement allowed it to search, experiment and to learn the local environment and eventually launch the business when it was necessary and feasible. Park Bank can be considered being ahead of others forming such strategies and integrating its resources and capabilities in appealing to market segments neglected by others. This is expected to allow it to gain advantages from exploiting these opportunities and to differentiate itself from other banks or even from domestic banks in the system.

ELC (Emerging Local Corporate) Business

By 1997, Park Bank had identified Turkey as a predominantly an ELC country, as a business opportunity and target market. Park Bank Turkey believes that Emerging Local Corporate Business (ELC) will establish a solid foundation for Park Bank to become what a senior manager describes as a "full relationship bank" to small and medium sized companies in Turkey, which represents 95% of the companies in the local market. The timing of this crucial decision has a strategic importance for Park Bank Turkey.

The remainder of this part of the case study will concentrate on the ELC business and is presented as follows: First, Park Bank's assessment of the market based on extensive market research, second, Park Bank's appraisal of its own resources and capabilities for this business; third, its key product development strategies and penetration strategies into the market and finally, its future outlook for ELC is presented to prepare for a concluding assessment of the bank in an emerging market.

Park Bank's Assessment of the ELC Market in Turkey

Park Bank has conducted market sizing research, covering over 500 companies, aimed at assessing the potential of the banking sector in the ELC target market, identifying and prioritising key market trends and opportunities, and determining the credit appetite of the typical company in each sector, tier and the total market.

According to the research findings; the total number of companies in their target market is around 42,000 and annual sales in this market is USD 162 billion with manufacturing and trade sector comprising 35% and 53% of the total amount respectively. Annual export and import volumes are around USD 12 billion. In export markets, manufacturing sector has an overwhelming dominance, whereas, imports are mostly done by manufacturing and trade companies in the target market.

One of the major findings of the market sizing research is that depending on the sector, nearly 45-50% of loans given to their target market companies are not secured. Table 2 illustrates the research results as to what percentage of loans are secured.

Table 2. Extent of Security by Sector

Sectors	Extent of security		
	Clean	Supported	Secured
Manufacturing	35%	10%	55%
Construction	39%	9%	52%
Trade	39%	9%	52%
Service	24%	11%	65%
Transportation	28%	11%	61%

They found out post-dated cheques, promissory notes, real estate mortgage and bank letters of guarantee are given as security by ELC type companies. Cash deposits, machinery and equipment pledges, inventory, corporate bonds are among other types of collateral given as security. As for support, banks mostly accept corporate and personal guarantees as well as inventory. All these findings justify Park Bank's tendency to have a higher supported-to-secured ratio in their total ELC portfolio not only to reduce risk but also to be competitive in the market.

The results of competitor analysis also found the following trends and practises: The most striking one is the recognition of the importance of medium and small sized businesses as a market segment by other domestic and foreign banks. A growing trend of placing more emphasis on targeting medium and small sized enterprises has appeared in the market. The common objective of those banks is to equip their branches with system and abilities that would enable them to handle consumer and retail banking simultaneously. Although banks

accept that margins in the ELC business are currently very high; they expect margins to shrink eventually as more banks enter into the market. However, the majority of banks have a decentralised operational structure and have no built-in systems to calculate unit costs. Most of the competitors' employees who do not have an adequate level of experience, ability and integrity and yet they have been granted credit approval authority.

The tactics of Park Bank are designed to appeal to such inadequacies of the market and to exploit opportunities that arise based on its resources and distinctive capabilities. It is essential for an effective strategy formation and the following part presents this assessment.

Park Bank's Own Resources and Capabilities for ELC Business

Park Bank's focused approach to the development of foreign currency yielding (FCY) generating liabilities and products supported by limited cross-border allocation constitutes a feasible way of funding ELC business in Turkey. Lower FCY funding costs than those of their competitors' constitutes a major strength for their business. This would enable them to operate with higher spreads and margins.

In addition to the funding advantage, the technological platform of ELC, when in place, will provide Park Bank an indispensable positioning and competitive tool, allowing remote distribution and delivery. When coupled with an advanced customer fulfilment function, technology will be their competitive edge. Park Bank transfers its marketing know-how to its subsidiary, Park Bank Turkey through mechanisms of long or short-range plans, modern marketing departments, expatriate managers, training, marketing budgets and continuous feedback reports.

Having cited all these strengths, Park Bank's high unit processing cost is a weakness they have to overcome. Their observation is that during the initial years of the ELC operations, trade processing and cash management back office automation and customer interface will not be available. As a result, one can argue that this would impose certain restrictions on their market penetration levels.

Lack of an efficient branch network is also a weakness. Currently, Park Bank has ten branches. It is not possible to argue that they can provide a superior level of service to their ELC market in all aspects, without a branch network. Building a significant deposit

base will be a challenge and Park Bank will have difficulties to be competitive in local currency yielding (LCY) lending.

Cross-border funding might be a constraint as any failure to increase the allocation of funds to ELC business in Turkey will constrain growth. Therefore, Park Bank Turkey has to develop liability products to fund foreign currency loans.

Key Strategies for ELC Business

Park Bank's objective is to develop long-term relationships with their customers and also to be their leading bank. Their funding strategy is offshore focused until they fully develop the liability product set through which they will be able to collect local currency deposits. Their revenue from the ELC business in 1999 has been realised as almost \$6 million and they aim to increase this revenue to approximately \$40 million at the end of the fifth year. The sectors that would generate this revenue are construction, manufacturing, wholesale trade, transportation and communication, and services. The business will focus on manufacturing that is forecasted to constitute more than half of the targeted revenue at the end of five year. Then, trade and construction are given priority in revenue generation.

According to the bank officials, Park Bank has developed a unique approach by using a segment and tier basis. It segments the companies on the basis of revenues as tier groups for ELC business and Table 3 illustrates this classification. The financial results of the year 1999 indicate that the business deliberately focused on Tier 1 and Tier 2 in order to build a critical mass in the portfolio. The main focus is expected to remain on Tier 1 in the following years.

Table 3. Tier Groups

Tiers	Revenues
	(USD million)
Tier 0	0.6 - 2
Tier 1	2-10
Tier 2	10-25
Tier 3	> 25

The sector selection was based on the assessment of factors such as the number of companies, revenue potential, profitability. Agriculture and forestry are deliberately excluded because of their unorganised structures and sensitivity to government policies.

Finance and Insurance are excluded since most of the financial institutions are large in size and handled by the Corporate Banking business. All segments in the selected sectors were assessed firstly according to their local and competitive positioning to see whether the segment is a low cost producer, globally price competitive, working with up-to-date technology, innovative, displaying adaptability or not. The second criterion is segment reputation, where questions regarding delinquency rates, public confidences are asked. Sensivity to government policy changes and cash generation potential are other important factors. After the accomplishment of this grading process, twenty-five segments were selected, as shown in the following table 4.

Table 4. Selected Sectors by Segments

Sector	Segment
Manufacturing	Food and Kindred
	Paper and Allied Products
	Primary Metal Industries
	Textile Mill
	Apparel and Other Textile
	Fabricated Metal
	Rubber and Misc. Products
	Leather and Leather Production
	Stone, Clay and Glass
	Transportation Equipment
	Printing and Publishing
	Industrial Machinery and Equipment
	Electronic and Other Electrical Equipment
	Chemicals and Allied Production
Wholesale Trade	Wholesale Trade Non-Durables
	Wholesale Trade Durables
	General Merchandise Stores
	Auto Dealers and Service Stations
Transportation and Local and Inter-urban Passenger Transportation Comm.	
	Trucking and Warehousing
Construction	Heavy Construction
	General Building Construction
Services	Educational Services
	Health Services
	Hotels & Other Lodging Places

They set some concentration limits for vulnerable industries and also for each segment for an efficient allocation of resources.

Finally, they have developed a customer selection system, which is very close to a credit scoring system in the banking industries of the developed countries. Customer selection criteria will be used to screen customers into one of the risk grades established in their credit manual. In an ideal environment, criteria and levels for qualification in customer selection should be driven from a data warehouse of customer information privately owned or publicly available.

However, ELC is a new business segment and Park Bank does not have a significant information database as it cannot solely rely on the information that is publicly available. Therefore, in the absence of such information, they analyse the chosen segments and use the experience of ELC management in the local market. In addition, they employ individuals recruited from the sector, with extensive experience of lending in that market. The analysis of aggregate financials of the client companies are made and all these criteria established to select customers demonstrating experience, behaviour, character, business track record, and financial strength.

After taking all these factors into consideration and the accomplishment of customer groupings; product groups have been determined to address the needs and wants of these segments. At the initial phase of the ELC business, product offerings were decided to be loan products, trading, and cash management. Product offering and their limits by sector, tier and risk grades are done by first grouping all products into six categories and second establishing limits for product groups by tier and risk grade, specific for sectors and as a percentage of total exposure limits. It can therefore be argued that Park Bank has developed a clear understanding of the target market for the ELC business and the resultant strategies for this particular business segment indicate a sophisticated use of marketing, financial know-how and managerial capability of planning and organising the business. Such skills are essential for a foreign bank to develop adoptive strategies in an emerging market with high volatility. The understanding of such strategies aids us to evaluate the implications on the domestic banking industry.

The Implications on the Turkish Banking Sector

This last section presents some reflections on the case in order to provide insights into the impact of such strategies on the domestic banking sector. The question of how these strategies affect the level of competition and efficiency of the Turkish banking sector requires a multivariate analysis as ‘efficiency’ itself is a complex concept to analyse. It is,

however, not the objective of the current research. We aim to present reflections from the case of Park Bank in an attempt to contribute to the existing debate.

Park Bank was one of the first entrants into the Turkish market. Denizer's (2000) suggests that the foreign banks in Turkey are highly specialised and serve niche areas and their profitability reflects substantial revenues from fee-based services. All this is evident in Park Bank which specialised its operations first on corporate banking and then on selected areas of retail banking. In serving in those areas, it has combined its marketing capabilities with its resources i.e. its technology, funding opportunities and its human capital.

Taking Pehlivan and Kirkpatrick's (1992) approach, it has been influential in increasing the diversification and quality of domestic financial services through its product diversity and marketing ability. Its marketing and managerial expertise and its worldwide network enabled Park Bank to transfer and adapt its international products into the Turkish market. Its corporate banking services, mainly its product and service offerings in financing foreign trade, in asset based financing and loan products through its offshore funding have affected the level of competition. Its penetration into the market of medium and small sized companies through 'ELC' business is a challenging strategy itself. The local banks are now facing such a competitive pressure from a foreign bank fully equipped with capital, technology, workforce as well as the knowledge of the local environment.

More specifically, the impact of such a strategic evolution of a foreign bank on the domestic banks are more evident in strategic planning, credit evaluation and marketing, as already identified by Pehlivan and Kirkpatrick (1992). To a limited extent, it can be suggested that the credit evaluation strategies-namely credit scoring techniques, have induced local banks to adapt more sophisticated credit evaluation methods with a more systematic approach to information gathering. However, mechanisms for valid and reliable information gathering are not sufficiently developed and this results in banks having real difficulties in implementing such credit scoring techniques effectively.

Conclusion and Suggestions for Further Research

This paper has highlighted that for many emerging markets, one of the most striking changes in their financial systems during the 1990s has been the growing presence of foreign banks. It can be considered as one result of the worldwide trend towards liberalisation and deregulation of the banking industry in emerging markets that has altered the environment in which foreign banks operate. Many emerging economies have therefore significant bank participation and control in their domestic banking operations (IMF, 2000). Turkey, as one of the emerging markets, has gone through a similar liberalisation movement and one result has been the removal of barriers for foreign investment. Unlike, other emerging markets, Turkey did not privatise the large public banks whilst these liberalisation activities were taking place (Denizer et al., 2000). As a result, the foreign bank participation and control have remained limited. This research was an attempt to explore the strategies of a foreign bank, which has chosen to enter the Turkish market. The research focused in particular on the 'ELC' business of the bank as it reflects a good example to an incremental strategy formation of a foreign bank that has already established a presence in the local market and recognised and evaluated on arising opportunities.

The case study of Park Bank was designed to answer three questions of 'why' Park bank entered the Turkish market, 'what' strategies were employed and 'how' these strategies affect the level of competition and efficiency of the Turkish banking sector. The first question finds answers within the case as the Turkish market reflects imperfections to exploit and to capitalise upon. Its entry decision was an international business expansion towards an emerging market where Park Bank could combine its firm-specific advantages with the location-specific advantages.

Park Bank first entered the Turkish financial market in corporate banking with a limited market segment (i.e. its multinational clients and the State) and its strategy has evolved into other businesses, to other segments as it has learned about the local environment and recognised new opportunities. Its strategic evolution from corporate banking to retail banking is, thus, based on a thorough assessment of the market that is mainly derived from an established presence.

The Turkish banking sector has undergone profound changes in the recent years and the transformation of the sector with the aim of stabilisation and efficiency is still continuing.

These developments have resulted in intensifying competition and even in failure of some of the local banks. These intense competitive pressures meant foreign banks have formed their strategies in accordance with the requirements of the market. Park Bank's responsive strategic evolution should be understood in this context.

The *what* strategies the bank has employed cannot be analysed by only looking at its own resources and capabilities. It is a 'contextual' phenomenon and it is suggested that such a strategic evolution with a particular emphasis on 'ELC' business and 'consumer banking' very much indicates this contextual nature of the investigation. Park Bank has opted for a business expansion decision of building a customer base by segmenting the market and focusing on a new line of business that are 'ELC' and 'consumer banking'. This expansion through organic growth by opening up new branches and acquiring and integrating new technology contrasts with other foreign banks who have chosen mergers or acquisitions with local banks.

The case provides insights to answer the question of *how* these strategies affect the level of competition and efficiency of the Turkish banking sector. Having advantages of being a foreign bank with cross-border funding advantages, a well-established global brand and product superiority, its strategies influence the level of efficiency of the Turkish market as local banks are forced to sophisticate their activities and re-evaluate their banking strategies. The 'efficiency' issue, however, requires further careful quantitative as well as qualitative studies of large longitudinal data that will enable researchers to analyse such a complex relationship. Regarding the recent developments in the Turkish banking industry, additional studies are required focusing upon the interaction of foreign banks with local banks-namely the acquisition or merger trends that have already started. They will affect the whole sector i.e. the manner in which foreign banks and domestic banks act in such an emerging market setting.

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