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Havovi JOSHI
Singapore Management University, havovijoshi@smu.edu.sg

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HAVOVI HEERJEE JOSHI

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by
Havovi Heerjee Joshi

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Dissertation Committee:

Philip Zerrillo (Supervisor/Chair)
Professor of Marketing (Practice)
School of Business
Singapore Management University

Rajendra Srivastava
Dean and the Novartis Professor of Marketing Strategy and Innovation
Indian School of Business

Saumya Sindhwani
Senior Lecturer in Strategy
Singapore Management University

Singapore Management University
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Abstract

Multinational firms play a significant role in the world economy, accounting for over 30% of the world stock market value. In the past decade or two, these firms have demonstrated a renewed wave of interest in the Emerging Asian markets. This is not surprising, given the attractive demographics, growing middle class and leapfrogging technology of these markets. But the optimism of these western firms heading eastward often gets quickly subdued by the realisation that these emerging Asian markets are far more complex—or at the very least, different—than western ones. They are more volatile, there is frequently a lack of institutional frameworks, market awareness is low, customer preferences are not well-defined, and distribution channels are not well established. And today, with the world becoming flatter, increasing protectionist policies and business models facing huge digital disruption, established multinationals across many industries are facing significant competition from their domestic counterparts.

Despite considerable research on internationalisation strategies, there are only a small number of studies that are focused on developing strategic direction in an emerging market context. Additionally, there is minimal in-depth research to examine the causes of under-performance of the global firm from the developed world in an emerging market as compared to its domestic counterparts, particularly when the industry it operates in is undergoing severe disruption. And yet, this trend of locals outperforming their multinational competitors has been observed to be particularly true in emerging markets. This research study aims to look deeper into this phenomenon, and understand the competitive advantages and disadvantages that foreign and domestic players experience. It focuses on the Banking Industry in India as a test case, where the new private domestic banks that started operations in the mid-90s have today captured over

20 percent of the country's banking market share; while that of foreign banks has stagnated at around 5 percent. It delves into the activities and strategies undertaken by both sets of firms, and provides insights into the research question: **"*Why are the western multinational banks operating in India struggling to reach the growth performance of their domestic private counterparts?*"**

The study used a discovery-oriented grounded theory approach that first identifies the key variables that contribute to the success of a banking institution. Thereafter it contextualises these variables specifically to the Indian market, and then delves deeper into understanding where the most significant gaps exist between the competitive advantages of foreign and domestic bank. On the basis of the overall empirical findings obtained, it develops a comprehensive conceptual framework for the firm-specific *disadvantages* that a foreign bank deals with in an emerging market such as India, and provides recommendations to enable successful growth performance. The research process followed comprises qualitative and quantitative methodology that includes in-depth interviews from the C-suite of foreign and domestic banks in India, along with a survey that was conducted across senior management in these banks.

I believe this research would be of great managerial and academic significance as it takes place at a time when the winds of change are running countercyclical to the globalisation trend that had become the buzzword over the past two decades. It also sheds light on the inherent advantages that local businesses bring to the table, which should be useful in developing public policy papers that advocate protectionism.

There are very few empirical studies on this subject, and to my knowledge, there has not been any research similar to this one. By developing a conceptual model that is based on an entire range of factors that are at interplay in the Indian banking industry, the findings from this research should add significantly to the literature on the theories of internationalisation and disruption. It would also enable practitioners across the globe to develop suitable go-to-market approaches that have a strong strategic fit with the ground realities in the emerging markets, thereby enabling the successful growth of multinationals in these markets.

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Chapter 1

Introduction

Organisational growth as a focus of entrepreneurship, marketing and strategy studies has attracted sizable attention for a number of decades (Collings and Porras, 1994). A key strategy adopted by firms to address the growth issue is internationalisation, or expansion overseas (George, 2016). Internationalisation refers to the degree to which a firm's sales revenue or operations are gained from outside its home country, and is believed to offer significant benefits for a firm such as new market opportunities and risk reduction (Elango, 2004).

With the advent of globalisation, companies that dominate today are almost never single-location firms, but multinationals operating across the globe (Moran, 2013). These multinationals, which have been defined as business organisations whose activities are located in more than two countries (Lazarus, 2001), dominate world business. They account for a third of the world's stock market value and coordinate supply chains that make up over 50 percent of all global trade (The Economist, 2017).

There are three key sets of benefits that multinationals exploit: the competitive advantage that ownership or rights to proprietary technology, brands, or processes brings about; localisation advantages; and internalising the benefits rather than attempting to enforce difficult international contracts (Contessi & El-Ghazaly, 2010).

The traditional Theory of Internationalisation is based in a large part on the classical Theory of the Firm. In essence, it states that multinationals come in play because of market imperfections, and the recognition that the firm may "earn higher economic rents by internalizing transactions rather than having arm's-length transactions across borders" (Madsen & Servais, 1997). Commenting on when and how the expansion takes place, the Product Life Cycle Theory argues that the internationalisation process of a firm is linked to the development of the product

Life Cycle, new products are first introduced in the home market, and only at the product maturity phase do they expand overseas (Vernon 1966, 1971). Another traditional stream of research on the theory of internationalisation is "The Uppsala Internationalization Model", which notes that a firm's internationalisation processes is based on the organisational learning process over time (Vahlne & Johanson, 2017). This contends that a firm goes international "in a slow and incremental manner, which may be due to lack of knowledge about foreign markets, high risk aversion, high perceived uncertainty, or similar factors" (Madsen & Servais, 1997). Banking has generally followed this traditional stage theory of innovation.

But while international expansion has been a key strategy for several decades, and more so since the 1990s (The Economist, January 2017), it is more recently, particularly post the financial crisis of 2008, that there has been a renewed wave of interest in the Asian emerging markets. Given their attractive demographics and growing middle class, it is not surprising that there are reports talking of an "unprecedented gravitational shift for Western firms, where the share of global revenues coming from Asia continues to rise at staggering speed" (The Economist, 2013). Additionally, the impact of digital disruption that is happening across the globe today is particularly dramatic in the emerging markets, which are leapfrogging technology and offering unprecedented opportunities for growth to these global firms that are often struggling in their home markets. With their potential earnings growth from the developed markets coming under greater stress, global firms from the developed markets are looking increasingly toward Asia, and its emerging economies, in particular.

But these western firms often find that the Emerging Asian markets are far more complex, or at the very least, different, than the western ones. They are more volatile, there is a lack of institutional frameworks, market awareness is low, customer preferences are not well-defined, and distribution channels are not well-established (Srivastava, 2015). Additionally, regulations and protectionist government policies play a key part. Another challenge is that it is not possible to define the Emerging Asian markets as a cohesive whole. Even within each country, there are wide differences across macro-indicator metrics, allowing for fresh and varied approaches across different segments in the same country (Khanna et al, 2005). The lack of infrastructure and reliable customer data are some other factors that aggravate the challenge for multinationals to succeed, and has often resulted in the reach of their business being largely restricted to a few brick-and-mortar outlets in metro areas that target the high net worth individuals and corporates. There are hence unique challenges of operating in emerging markets.

There have been some studies that provide explanations for the failure of the multinationals to succeed in emerging markets. Santos & Williamson (2015) have proposed three key factors to explain this phenomenon, which include “globalisation, which has evened out the playing field and so enabled the local firms to leverage global technology and knowledge; a lag effect on the multinationals’ part to adapt to developments in the local market as compared to the locals; and their inability to integrate locally to the level that the local firms can”. Other reasons include the presence of institution void - that is the lack of regulatory framework, contract enforcement mechanism, and specialised intermediaries (Khanna and Palepu, 1997); and vacillating commitment of the head office to internationalisation in these markets (Perchthold, 2016).

However, literature search reveals that minimal research has been conducted on the significance of developing proper strategic direction in an emerging market context (Zhou et al, 2005). Rugman and Verbeke (2005) argue that the scope of geographic expansion is dependent on the multinationals ability to link its firm-specific advantages (FSAs) with location advantages abroad. In their view, “international success does not follow from proprietary knowledge in, say R&D or marketing but, from their ability to successfully adapt the deployment of existing FSAs to the specific circumstances of foreign markets, i.e., by better aligning FSAs and its country-specific advantages (CSAs)". In fact, this research study would focus on understanding the Firm-Specific Disadvantages (FSDs) that are hindering the multinational's growth in the market. It will go on to propose that it is these FSDs that are seeing local players beat the multinationals across several industries in the emerging markets.

A BCG research study found that 73% of executives' at large multinational companies considered local companies to be more effective competitors than other multinationals in emerging markets (Chin & Michael, 2014). This trend of the domestic players out-performing their multinational competitors has been observed to be particularly true in emerging markets; and across several industries, such as internet retail and consumer appliances, there are examples of the local champions capturing larger shares of the market than their multinational competitors — even if the latter had been operating in that market for decades (Santos & Williamson, 2015). These findings were corroborated by The Economist (January 2017), which provided interesting insights into the performance of the multinationals versus the local players. Based on research of the top 700 or so multinational firms in the rich world, it was found that the profits of these firms had dropped by 25% over the past five years, while those of the local firms increased by 2%, according to FTSE.

There are several possible explanations for the above. The first is the deep knowledge that the local firms have of their market. But while knowledge of the emerging market is clearly a key factor for success - along with knowledge, there must be agility and flexibility in response. And this is particularly true in Asia – where there is not only rapid growth, but also rapid deceleration - and hence the ability to scale up and down becomes quite important (Srivastava, 2015). It is important to note that in the developed markets, the business model typically adopted by the western firms is to innovate and introduce a product, and then when a new one comes to the market - they would migrate downwards, by say, removing some features and lowering the price, and selling to other markets to gain market share. But even if they find initial success in those markets, they often do not experience growth - and this is due to several factors such as not adapting their products or branching out to the channels beyond the major metros. However, in the developing Asian markets, domestic firms' first look to capture market share – that is, their business model is focused on volume - and only then move up the differentiation and price curve.

Another point to note is that multinationals, for some time now, have been outsourcing and offshoring the lower value activities to emerging economies. The development of modular designs and open collaborative business models has benefitted the local firms too. The search for talent too has become more of an even playing field, and with globalisation, experienced expatriates' are no longer a rare phenomenon outside the multinationals in the emerging markets (Santos & Williamson, 2015).

The above situation becomes more complex when the industry these firms are operating in is undergoing severe digital disruption. At this stage, the ability to be flexible and respond with agility is of great import. Literature search revealed that there is negligible research that has examined the causes of under-performance of the global firm from the developed world in an emerging market as compared to its domestic counterparts when they are being affected by massive disruption.

Based on the above gaps, this proposed study focused on two related research questions—the first is on the growth performance of western multinationals in emerging markets as measured against their domestic counterparts; and the second is the specific influence of massive digital disruption that is taking place across the globe on this performance. It addressed questions such as: What determines the success of a multinational from the western world in emerging Asian markets, particularly at a time when macro trends are moving counter-cyclical to globalisation? How can the MNC scale and grow in an industry that is being massively disrupted? The study goes on to develop a conceptual model that enriches the literature on the theory of internationalisation and disruption; and also contributes to practice by recommending strategies that these MNCs can adopt to enhance their performance and growth in emerging markets.

1.1 The Research Scope

The present study is an attempt to build on the existing literature and widen the scope of research on internationalisation by understanding the key set of competitive advantages and disadvantages that the foreign and domestic players deal with, and thereafter, developing a model that offers prescriptive advice in strategic decision making.

The sources of value for the firm are said to be embedded in the strategic position it adopts vis-à-vis its competitors, implying that a firm's performance is dependent on the structure and competition in the industry within which it operates (Schendel 1994). Based on this understanding, this study will focus on one industry only, which is also perhaps one of the most disrupted industries today—banking.

There were three key reasons for selecting the banking sector to show how MNCs enter and expand in emerging Asia. First, banking is the very foundation of most modern trade. Second, this sector is highly regulated, which adds an important dimension to the set of challenges a foreign player has to work within. And third, banking as an industry is particularly interesting today, as it undergoes disruption at a rate that has probably never been witnessed.

To control for the key variable of legislation across countries, this study has been limited to the banking industry in India. India also offers a text-book example showcasing a situation where the young domestic banks have been recording double-digit growth, which the older more well-established foreign banks are struggling to match. Additionally, the researcher has strong contacts with the top echelon of several banks in this space having worked in this industry for over a decade.

1.2 The Research Plan

To build a framework of key firm-specific disadvantages of a foreign bank as compared to its domestic counterpart on the basis of relevant and contextual variables, this study began with a comprehensive literature review as well as an exploratory study that included six in-depth informal interviews with experts from industry and academia.

On the basis of insights availed from the literature review and exploratory analysis, it identified a key set of variables that determined the success of a bank (also ensuring that these were contextualised to India), and then developed hypotheses for the stated objectives. This was followed by research that included two phases conducted sequentially, and thereafter in parallel.

Phase 1 comprised qualitative research through in-depth interviews with the C-Suite (CEOs, Managing Directors, etc.) of the top foreign and domestic banks in India. Phase 2 involved the development/adaption of scales to measure the relative importance of factors that contributed to the success of a bank in India, and then measure whether the foreign or domestic player had a greater advantage across these variables. These scales were then distributed through a survey to senior management in the foreign and domestic banks in India, to empirically validate the relationships hypothesised.

Analysis of the qualitative and quantitative data collected from the respondents was then analysed to find support/reject the hypotheses.

1.3 Significance of the study

I believe my research will contribute to the theory of internationalisation, and specifically, the theory of competitive dynamics that draws heavily from the internationalisation theory of industrial organisation design, and elaborates on the direct competitive rivalry between specific firms in the competitive environment, as well as takes into account the boundary relationships between the firm and its environment (Chen, 1996).

Additionally, it will add to the growing knowledge on the theory of disruption. McKinsey research (Chen et al, 2014) suggests that "the advent of digital banking will create as well as destroy significant value, with 30 to 50 percent impact on profits or losses, depending on the bank's starting point and how it responds to these digital trends". In addition, it observes that one of the key changes that is affecting banking is that "the consumer decision journey has become increasingly multichannel, and the number of potential digital-banking consumers in Asia is estimated to grow to approximately 1.7 billion by 2020." I expect my research to provide recommendations on how banks can successfully harness digital technology to develop new and disruptive business models in emerging, high-growth Asian countries, which should have considerable practical relevance and applicability.

On the theoretical side, there is considerable interest in the role of foreign banks in emerging markets. However, the work done on this topic in emerging Asian markets has been minimal. The literature on the role of foreign banks is dominated by studies about the US, and to a smaller degree European, banking industries, while the research on developing and emerging markets is minimal (Havrylchyk, 2006; Kosmidou et al, 2004).

Also, while it is generally acknowledged that banks as financial intermediaries are an important element for growth in emerging economies (Aghion & Tirole, 1997), there has been little research on the strengths and weaknesses of different types of the three dominant types of banks in emerging markets - government, private domestic, and foreign (Mian, 2003).

How will the business model of these multinational firms change? And can these innovative, low-cost and high-quality products/services and business models originating in developing countries be replicated in other developing countries or even the developed world? These emerging markets are indeed often late movers – but as seen in the case of the mobile industry – they do also offer opportunities to leapfrog technology given that they are not fettered by legacy assets.

I believe my research should be replicable across other industries too, especially in terms of the evolution of an institutional ecosystem and collaborations. For instance, in India, the organized retailers and the local 'kirana' (mom-and-pop) store are now collaborating – which has dramatically changed the playing field for both. The former can now exponentially improve their distribution and reach, while the latter have to come up with a new set of defensive strategies (Roberts et al, 2015). The strategies that these banks adopt in emerging Asia should also provide some scope for discussion on reverse innovation.

1.4 Thesis Structure

This thesis has been written as five chapters as described below:

Chapter 1 Introduction: The first chapter gives an overview of multinationals expansion overseas, and in particular to emerging markets, and highlights the relevance for understanding the challenges they face in these markets. It also defines the scope of this study and presents the research process followed.

Chapter 2 Literature Review: The second chapter gives a review of literature, establishes the need for the study, and presents research questions and objectives.

Chapter 3 Research Methodology: The third chapter details the research methodology used in the study. It includes the explanation of the techniques used and their suitability along with the methodology of data collection and analysis. It discusses the development and validation of appropriate scales, and explains the methodology followed while developing the scales and design of data collection instruments.

Chapter 4 Data Analysis: The fourth chapter presents the data analysis for each hypothesis. It combines the findings of both, the qualitative and quantitative research to support/reject each hypothesis.

Chapter 5 Conclusion and Recommendations: The fifth chapter presents the discussion of the results, implications, recommendations for academics and managers, limitations of the study, and directions for future research.

Chapter 2

Literature Review

This chapter explores the literature on the Banking industry globally, and specifically in India, to get an in-depth understanding of the environment and unique challenges that face this industry. This review helps in establishing the context of the research study, and also showcases the research conducted over the years.

Based on the literature review, key factors that determine the success of a bank were identified. This was further validated for comprehensiveness and relevance through expert interviews. Thereafter, the hypothesis was framed for each of these variables in accordance with the research objectives.

2.1 The Global Banking Industry

As at 2016, banking globally was a $134.1 trillion industry (MarketLine, 2017) - but a weak global economy, regulations and rapid digital disruption was threatening to significantly lower its profits over the next three years or so (Bugrov et al, 2017).

Alternative banking services are steadily chipping at the profit model of the traditional mainstream banks. Cryptocurrencies and blockchain technologies are words that have made their way to the business lexicon. While this puts great pressure on all the traditional banks to urgently rethink the way they do business – it also implies that there is a great opportunity for them to capitalise on the opportunities offered by the disruptive changes taking place. And given the wide and rapidly growing proliferation of mobile devices and leapfrogging of information technology in the emerging Asian markets, these markets would be perfect for these players to get the reach and scale that they were struggling to find.

And with this development comes an added possibility – these foreign banks may now also find it easier to compete with the domestic players to reach out to an altogether new set of customers—a set that are not necessarily at the top of the pyramid—but rather the middle and the bottom of the pyramid. In the past, regulations, the high cost of doing business, and the lack of knowledge about these customers, accompanied by a wariness about their low income and ability to repay, made this segment one that they were not willing to touch. It was simply not economically viable. Thus they left the arena open for players from the telecom and Internet companies to enter, and today, these firms are some of their largest competitors – especially in certain areas such as payments and funds remittance, where they are not bogged down by high compliance and operational costs of cross-border transfers.

Since the late 1990s, there has been an increase in FDI in the banking sector of developing countries on account of several factors such as the easing of rules governing the establishment of branches and subsidiaries by foreign banks (Van Horen, 2007). Additionally, multinational banks were also following their clients who were doing increased business in these markets. Consequently, the global banks were attracted to the prospect of improved profitability in these developing markets, within an acceptable risk profile (Focarelli and Pozzolo, 2000). Today though, we find that higher capital and pressure from governments to conserve capital in their home markets have resulted in inhibiting the international growth story of these global banks. The Economist in early-2014 reported, "After being bailed out, some firms such as ING and Royal Bank of Scotland have largely retreated from the developing world. Bank of America has sold out of its Chinese affiliate. But even big, successful firms which are dedicated to emerging economies are trying to boost returns by trimming back. HSBC has got out of 23 emerging-market businesses."

Existing research on the performance of foreign banks versus domestic banks show conflicting conclusions (Sensarma, 2006). It was found that "foreign banks tend to outperform domestic banks in developing countries, countries with weak institutions and where foreign banks do not play a major role. In addition, being from a geographically close home country increases the profitability of foreign banks." (Claessens & Van Horen, 2013). Research conducted on the banking industry in Thailand finds that "MNCs and domestic organisations can co-exist as separate strategic groups within an industry. In particular, when small, potential domestic firms have access to idiosyncratic resources that are less available to MNCs, these smaller entrants were successful in overcoming strong MNC entry barriers. The results indicate less predictable competitive dynamics than previous research would suggest, especially in the context of emerging markets" (Droege et al, 2013).

To understand what is happening in the banking sector though, it would be useful to step back a couple of decades in time. Historically, commercial banks played a key role of an intermediary in the financial system, performing three core functions: accepting deposits from its customers and paying interest on it; issuing personal and corporate loans and earning interest on that; and being largely responsible for the payments system. Thus the key sources of income for a bank was net interest margin, and commission received on services such as credit cards and remittances. Over time, and particularly leading up to the 1980s, the banks extended their role to performing a variety of other activities, such as assisting in mergers and acquisitions or transacting in derivative instruments. Today large commercial banks have typically four key businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

2.1.1 The impact of the regulators heavy hand

While banks were always under high scrutiny from the regulators given the potential risk impact they could have on the economy in case of financial trouble, the pressure increased in 1997-1998, when the Asian Financial Crisis that originated in Asia and Russia spread to other Emerging Market economies. Thereafter, came the 2008 global financial crisis, when economies around the world reeled. This was triggered by a massive mortgage loan defaults by US households (Kollmann & Malherbe, 2011). The Basel III regulations were subsequently introduced with a view to shoring up the banks' capital, and ensuring adequate protection from future economic shocks. Among other requirements, it ruled that from 2010, banks were required to hold 4.5% of common equity (up from 2% in Basel II) of risk-weighted assets (RWAs). These regulations were perhaps more relevant to the developed markets, where banks on average had lower capital levels relative to those in emerging markets—but the impact was felt across the globe and lending came under pressure as the banks moved to preserve scarce capital by reducing leverage and shedding risk assets (Rudra, 2014). One outcome of this was that corporates (particularly small/mid-size) began shifting their borrowings to capital markets, and individuals to other sources such as peer-to-peer lending, thereby creating an opportunity for other lenders to enter the market.

Another impact of ensuring compliance standards are met is altogether closing some businesses. HSBC closed all of its remittance services in 2012 after it was fined $1.9 billion by the US authorities for money laundering at its Mexican subsidiary; and Barclays, the last major bank offering remittance services, announced in 2013 that it was closing 250 money-service businesses (Williams-Grut, 2014).

Meeting the cost of managing the increased regulatory requirements was just another blow to the high cost to income ratios that banks had been battling with further to the downward trend in margins, and the holding cost of legacy assets such as aging properties or outdated technology systems. In fact, the 2013 Capgemini, RBC Wealth Management and Scorpio Partnership Global HNW Insights Survey report stated that wealth management firms had seen their cost to income ratio increase from 63.7% in 2007 to 80.0% in 2011, and a key driver had been the increase in costs due to hiring new compliance staff and training employees to meet the additional regulatory requirements.

The regulatory environment of the host and source country is thus perhaps the single-most critical element of a bank's global growth strategy. Therefore to control for these variances that would otherwise arise in a cross-country analysis, this study focused on a single country in Emerging Asia, namely India. It compared the in-country growth of foreign banks (defined as having at least 50% foreign ownership) from developed countries with domestic private banks in India to understand the differences in their strategic motives; and the impact on performance of their response to the disruption taking place. Nationalised banks, which operate with a high social agenda, were excluded from this study. Furthermore, to control for service industry differences, the study focused on the B2C retail services sector and core corporate banking services.

2.1.2 Disruption in the banking industry

Regulatory constraints and the cost of doing business had lowered the appetite of the banks to go out and find new customers—particularly at the lower end of the income profile. Consequently, despite the growing income levels and spending/savings capacity of the erstwhile unbanked and under-banked people, there was not much headway made into these new customer segments. However, then came the mobile revolution, particularly in emerging markets, and in April 2015, 'The Global Findex Database 2014 Measuring Financial Inclusion around the World' published by The World Bank reported that,

> *62 percent of adults worldwide have an account at a bank or another type of financial institution or with a mobile money provider. Between 2011 and 2014, 700 million adults became account holders while the number of those without an account—the unbanked—dropped by 20 percent to 2 billion. What drove this increase in account ownership? A growth in account penetration of 13 percentage points in developing economies and innovations in technology—particularly mobile money (which have been defined as services that can be used without an account at a financial institution), which is helping to rapidly expand access to financial services in Sub-Saharan Africa. Along with these gains, the data also show that big opportunities remain to increase financial inclusion, especially among women and poor people. (Demirguc-Kunt et al, 2015).*

Thus it becomes clear that for new players, particularly those who were unencumbered by legacy issues and not as focused on high margins as much as scalability (which mobile technology made possible) – this customer segment had become an attractive opportunity waiting to be exploited. Additionally, while computers had been around for decades, it was the explosive growth and use of smart phones, particularly in the developing countries, that changed the way banking business could be carried out. A SWIFT white paper in May 2012 argued of the necessity for banks to make mobile payments a top priority, given that, "There are now five billion phones in use worldwide, but only two billion people have bank accounts… by 2015 there will be a total of 900 million users transacting on their mobile device creating a market value of US$1 trillion in transactions." (SWIFT, 2015).

In addition, the combination of "Big Data" and increased storage capacity, along with the ability to almost instantly access and transmit deliver information on smartphones, provided a great platform for firms looking to enter this space (Malhotra, 2014). The time was thus ripe for a disruption in the banking business model, which began taking place rapidly.

The theory of disruption states that the incumbent's strategy to defend their position by improving and upgrading their products would typically only work as long as the customer wants those added features enough to continue paying higher prices—otherwise the established companies tend to over-engineer their products, and create a vacuum for simple, easy-to-use, and low-priced products (Christensen et al, 2015).

This appears to hold true for the banking sector, where particularly the global banks had shifted focus to eschew simple remittance-type products in favour of chasing fewer high value complex cross-border transactions. Additionally, with a focus on value rather than volume, their target customer was typically at the top of the pyramid. The domestic private banks though had historically played more of a volume game, and so could take advantage of this space lower down the pyramid with far more agility than the foreign banks. But now the disruptive forces of technology had brought both the multinational banks and the domestic private banks to an inflection point where they can choose to redesign their future strategy.

This research study examines the response of these banks, both the western MNCs and the domestic private banks, to the disruption taking place, and sheds light on differences in their response along with its potential impact on future performance.

2.2. A snapshot of the Banking Industry in India

The Indian banking sector has been dominated by the public sector banks (PSBs) for decades. It was in 1991 that the environment changed, when the Indian government undertook a series of economic reforms and steps to liberalise the banking sector. Private sector participation was encouraged, and the establishment of new large private sector banks to enhance competitiveness was a dramatic shift in this period (Banerjee & Velamuri, 2015). At that time, 95% of the Indian banking system was PSBs along with some small private sector banks, and 5% was with the foreign banks.

From the mid-90s, the private sector banks began growing rapidly. By end-2016, the share of the PSU banks had shrunk to about 70%, while the private sector banks had grown to over 20%, and the foreign banks had remained about 5% (refer to **Exhibit 1** and **2** for an overview of the liabilities and advances data respectively for banks in India).

PSBs in India today compete with three other groups of banks: old private banks, new private banks, and foreign banks, where all are subject to the same prudential norms and regulatory requirements (Banerjee & Velamuri, 2015). The old private sector banks have typically been around for close to a hundred years and largely cater to the different business communities that have promoted them; however, the interesting development has been the new private banks, which are large, modern, and technology-oriented with a sizeable branch network (Banerjee & Velamuri, 2015). The foreign banks operate as subsidiaries created by the parent bank in the home country (to get a perspective of the developments in the banking industry, refer to **Exhibit 3**). As at December 31, 2015, there were 46 foreign banks in India with a total of 325 branches (Reserve Bank of India, 2016).

2.2.1 A banking sector poised for disruption

Commenting on the general macroeconomic landscape of banking in India today, a senior director of a domestic bank explained,

> *"In most other markets, especially in developed markets, most companies have themselves externally rated and fund themselves of a market curve with their debt tradable in the market. But in India, businesses typically financed*

themselves by taking loans from banks, and that debt side never existed. Everything was bilateral loans and how a bank bilaterally assessed you. So that jammed up the balance sheets of the big and mid-sized nationalised banks with NPAs (Non-performing Assets).

The second point is there is a social cost of banking in India. On the liability side, you have to maintain CRR and SLR, which are 22-27% of your deposits, which you would want to lend but instead have to put away into stack assets. And on the lending side you are being forced to give 40% towards priority sector obligations. So the social cost of banking just drives your costs up.

Another key point when you compare the foreign banks versus the domestic player is that everything for a domestic bank is an AAA category domestically. But anybody foreign who puts money here first says everything has a cap of BBB minus, which is India's country rating - so the capital charges and returns that you require to call yourself successful are very different.

Now what has happened in the industry is that because nationalised banks have got capped out, they need massive amounts of capital to come back into the lending grid. On the other side, they are also facing cost pressures because they are being listed in markets. So they do have to exit certain segments in lending because they do not find it cost efficient to lend to those segments. So they have hence started to decrease small SME loans, and even begun to exit the mass consumer market because they are not finding it financially viable to lend there.

Additionally, events like demonetisation has come in and pumped in liquidity into these nationalised banks. But it is at a time when economies are benign, no major investments or capital expenditure are happening anywhere - so they are *using that liquidity to repay the term deposits. What has happened therefore? Their interest rates remain very low, there has been no massive credit offtake, they are flushed with liquidity, and they are returning higher cost deposits. This is where the domestic private sector banks have stepped in and are beginning to take that market share away. They have telling customers who are savvier and want to put money in term deposits to give it to them, because they don't have this massive amounts of demonetised money that has come in. They've only got some part as they have limited number of branches. So they have started to grow on that basis and taken market share away." (R7[1])*

McKinsey reports three key things developments in the banking sector today: first, NPAs and distressed loans continue to rise; second, retail consumers and corporates are getting more digital savvy and hence potentially disrupting the traditional business models; and third, the regulatory landscape is evolving to enable a far more open and competitive banking landscape (McKinsey 2017). Additionally, it is a very fragmented industry – even a large private domestic bank like Axis has about 5-6% market share on the asset side and 4-5% on the liability side.

2.2.1.1 Distressed loans are burgeoning

As one CEO elaborated,

"Foreign banks have not been so materially impacted by the credit cycle, they have been a little more cautious, running their risks a little better, apart from one well-known name that has got thoroughly burnt. But there has been a credit cycle as well going through where the mid-size corporates and SMEs have really borne the brunt, and banks that have had an exposure to these have had a lot of

[1] R7 refers to Respondent 7. Such numbering has been used through the dissertation. The quotes may have been edited to ensure confidentiality and/or enhance readability.

problems. A bulk of that pain has flown through to the nationalised bank, not even the domestic private sector banks." (R9)

2.2.1.2 Disruption of traditional model

Today the B2C landscape is changing with completely different new format banks coming up. The real transformation is happening at the bottom of the pyramid where micro financing companies are getting a micro finance bank licence and transforming the largest bucket of a largely unpenetrated market, which even the nationalised banks were wary of as the costs were supposed to be extremely high, and they did not understand this segment.

Another significant change that is happening, which cuts across all segments, but certainly much more in the lower segments, is the payments bank. No longer is a bank required to be able to transmit money back and forth. Hence telecom companies like Vodafone, which are large distribution-led entities, have applied for and been given a license, because they have both the character and the distribution wherewithal to go down that route. As one foreign banking head (R1) remarked, "This could change the Indian banking landscape, as both private sector banks and foreign banks will need to reinvent themselves and figure what their core competencies are, rather than keep putting the same ticks on the board and continuing."

Commenting on the disintermediation that has happened with the non-bank companies that have proliferated, one managing director a local bank explained,

"These non- bank financial institutions are growing at 21-22%, taking share away from the domestic banks and even private sector banks because they are beginning to fund themselves by securitising assets – that is, by buying securities and everything else from the market much cheaper because those are rated instruments, not bilateral loans. As their balance sheets remain flexible, they can counsel them at any point in time and are using all that money to fund education

loans, housing refinance, SMEs and the works. So that's where the transitions have begun to happen, that the MEFIs have begun to proliferate into the retail segment, and that's why even the multinational banks are feeling the pressure because these guys are raising money of the market through rated instruments. They are savvier, they have got lower cost distribution reach, and they are not hamstrung by SLR/CRR costs because as MEFIs they don't need to keep it. They have no obligation to priority sector lending - so their cost of capital, cost of operation is far lower. That is why most people seem to be vacating what was considered to be a massive retail banking space, and even the big foreign banks have sprung a hasty retreat out of their massive expansion plans in India because there is no money to be made, given their capital costs." (R7)

2.2.1.3 Easing of the regulatory constraints

In November 2013, the RBI had proposed a new policy of incentivising foreign banks to move from a branch franchise to a subsidiary, 'WOS' or the 'Wholly Owned Subsidiary' route, such that if foreign banks convert their India branches into subsidiaries, it would be treated on par with the Indian banks. They would be given capital gains tax and stamp duty benefits and allowed to acquire local private banks.

However, along with lack of clarity in understanding parts of the new policy, changes in priority sector lending norms have been a stumbling block. The central bank had added that as was the case with their Indian counterparts, such foreign banks would have to offer 40 per cent of their loans to priority sectors. Of this, 18 per cent have to be offered to the farm sector. Currently, the cut-off for foreign lenders in the PSL segment is 32 per cent (for foreign banks with more than 20 branches, it is 40 per cent). But they would have to adhere to the 40 per cent norm within five years of setting up wholly-owned subsidiaries.

2.3 Research Objectives

Based on the review of extant literature, the research questions for this study were: **Why are the western multinational banks that operate in India struggling to reach the growth performance of their domestic private counterparts? And how can they best manage the disruptive changes in the industry by rethinking their business model?**

Given the relatively sparse literature on the subject, a discovery-oriented, grounded theory approach was used. Depth interviews were conducted to tap into the experiences and insights of senior leaders in the banking industry.

As a start, the first objective of this research was to develop an understanding of the key variables that drive the success of a foreign and private bank in India. Thereafter findings were expected to shine light on questions such as: What are the reasons for success? What would be a sustainable and scalable approach for these foreign banks from developed countries to adopt in emerging markets? What should their behaviour be? How best can they leverage the new digital technology available to succeed in these countries? How important will it be to establish collaborations and development a suitable ecosystem? In addition, given that the regulator (government) is a key player in this space, what mechanisms should be used to co-opt them?

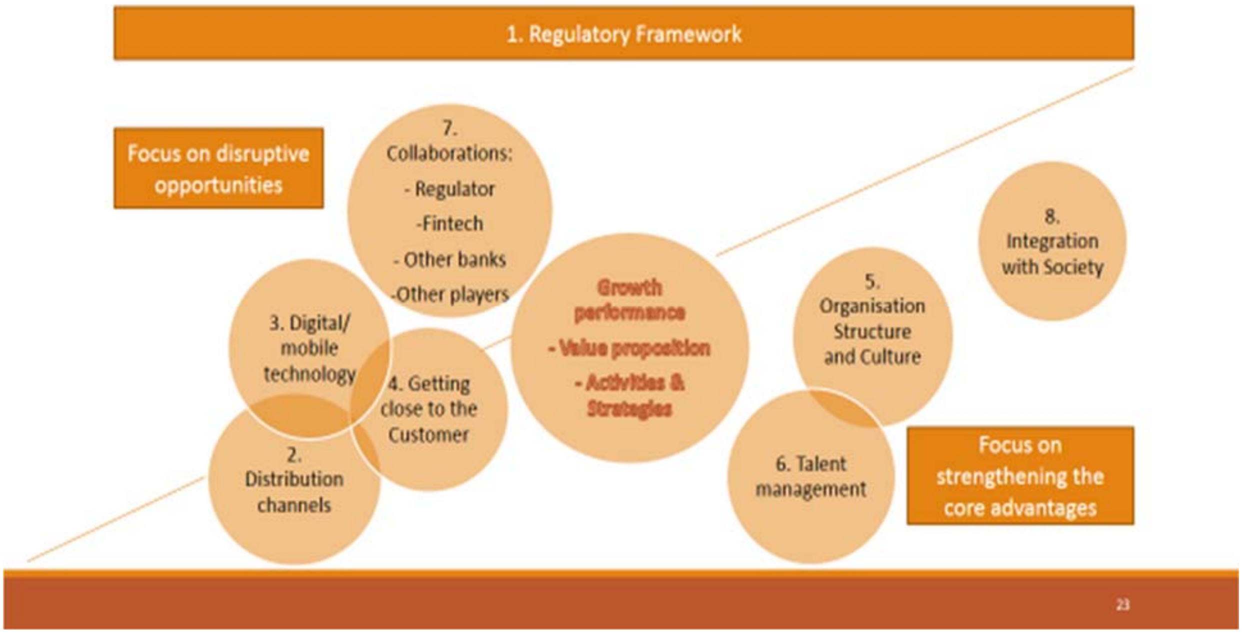
2.4 Development of a conceptual model

Along with conducting a review of the literature, open-ended depth interviews were held with six experts from industry and academia. These experts included three chief executive officers and managing directors of leading foreign and domestic banks in India, a senior partner in a top consultancy firm, and two leading academics from the Finance and Strategy areas based in Singapore and India. All contacted agreed for an interview on a condition of confidentiality.

In the expert interviews, the focus was to understand the factors that led to the development of hypotheses for the stated objectives of the study. Content analysis of the expert interviews supported the key themes that had been developed to explain the construct of what factors contribute to the "growth performance of banks".

The following model was developed to show the key variables that bankers need to grapple with to succeed in the rapidly changing Indian environment dominated by regulations and digital disruption.

Figure 1: Key Factors that enable the Successful Growth Performance of a Bank in India



Source: Author's representation

2.5 Development of themes and hypotheses

Based on the above literature review and content analysis of the expert interviews, themes were developed as below.

2.5.1 Impact of the regulatory environment

The regulatory framework of a country has a massive impact on the operations of both, the foreign and domestic players. This has been discussed at length in the previous chapter, and leads up to propose that:

H1.1: Greater the regulatory constraints, lower is the relative growth performance of the multinational bank in an emerging market.

2.5.2 Deep engagement in a wide and innovative distribution network

Banks rarely viewed delivery as a cohesive strategic requirement, but now customers are demanding a seamless experience across channels, ranging from the branch and online to mobile and even social media (Shingrupe, 2011).

The impact of disruptive technology holds true not only for the disruptor, but also the disrupted. Banks, particularly the international ones, operating in developing markets have been historically constrained in the number of outlets they could open based on the requirements placed by the regulator. But the widespread proliferation of digital technology, especially mobile technology, has completely changed the game. These banks, which have struggled to understand and navigate complex retail networks that often rely on a nexus of strong customer relationships, can now exploit the Internet boom, e-commerce platforms and mobile technology that are mushrooming in these countries to potentially step out of their traditional brick-and-mortar outlets and reach a whole new set of consumers.

With the advent of disruptive digital technology and exponential mobile usage, they can now leverage on their technological expertise and global talent to develop innovative strategies that could potentially narrow the gap between them and the domestic players, and also reach out to a hitherto untapped set of customers.

There is also a need to imagine different service/channel combinations: for instance, a straightforward transaction or customer acquisition could be completed on an online channel, but a more complex one could require visiting the branch or agent.

Hence those banks that invest in Design Thinking, to understand what the end-user wants from existing outlets, products and services, are expected to find this a sound strategy to re-incentivise customer loyalty and regain competitive advantage.

H2.1: Greater the reach of brick-and-mortar channels offered by the bank, the higher is the relative growth performance in an emerging market.

H2.2: Greater the reach of digital channels offered by the bank, the higher is the relative growth performance in an emerging market.

2.5.3 Investment in technology

For a firm to succeed in complex emerging markets, flexibility and market knowledge is critical, and information technology and the development of effective MIS systems would be a great enabler (Srivastava, 2015). Banks across the globe are attempting to adopt new technology to keep up with the competition.

There are also those banks that are actively upgrading their technology—and it has paid off, as research shows that banks running modern core banking systems have materially higher profitability metrics (Deloitte, 2014).

H3.1: Greater the strategic intent of a bank to invest in technology, higher is relative growth performance of the multinational bank in an emerging market.

H3.2: Greater the speed to market in deploying new technology, higher is relative growth performance of the multinational bank in an emerging market.

2.5.4 Innovative practices to get close to the customer again

Banks are fast recognising that they have to fight back to offer that discerning customer the level of experience he can get from these niche players. They are "tearing down product-focused silos to more effectively reach and serve their best customers through a customer focus" (Klick, 2011).

The customer is also getting smarter on account of aggregators who are displaying a wealth of information on pricing and other competitive data between the players. In addition, new entrants, like the Internet companies and telecom companies, have a wealth of data available on their customers. In fact, all players in the payments industry have a far greater understanding, and own data, on the customer purchase experience as compared to banks. Moreover, Big Data is making it possible to mine this information to get even closer to the customer. But the banks too have massive customer bases and large amounts of data on the customers and their spending/savings habits, and could use this to guide their customers on future purchase decisions.

There is also a tendency to have the data distributed to IT departments rather than business managers—which could work for well-defined customer questions, but not when the problems are new and undefined.

H4: Greater the focus on the customer, the higher the relative growth performance of the multinational bank in an emerging market.

Based on existing scales and interview data (further details have been provided in Chapter 3 "Research Methodology"), the following variables were used to measure the construct of customer service: focus on customer value; understanding of the customer's requirements; speed to develop new product and service suites to meet the customers' demand; reach of the global network, reputation with overseas customers; willingness to help customers; knowledge of the employees in answering their customers' questions; and innovation in driving customer satisfaction.

H4.1: Greater the focus on the value of the customer and less on the volume, the lower the relative growth performance of the multinational bank in an emerging market.

H4.2 Better the understanding of the customer's requirements, the higher the relative growth performance of the multinational bank in an emerging market.

H4.3 Quicker the speed to market for new product and service suites, the higher the relative growth performance of the multinational bank in an emerging market.

H4.4 Greater the global network, higher the relative growth performance of the multinational bank in an emerging market.

H4.5 Better the bank's reputation with overseas customers, higher the relative growth performance of the multinational bank in an emerging market.

H4.6 Greater the willingness to help customers, higher the relative growth performance of the multinational bank in an emerging market.

H4.7 Greater the knowledge of the employees in answering their customers' questions, higher the relative growth performance of the multinational bank in an emerging market.

H4.8 Greater the innovation in driving customer satisfaction, higher the relative growth performance of the multinational bank in an emerging market.

2.5.5 Tyranny of the headquarters: Pushing the innovation mind-set internally

Srivastava et al explain, "As scanning, perceiving, and transforming take marketing and other personnel into new competitive contexts, and thereby address intellectual and relational domains new to the firm, they come directly into conflict with the firm's dominant logic (Prahalad & Bettis, 1986), underlying knowledge structures (Von Krogh, Ichijo & Nonaka, 2000) and ways of seeing the world" (Srivastava et al, 2001). The multinational banks, hammered by the regulator in both the home and host country tend to be bureaucratic, and beset by a risk adverse culture that is driven by compliance and a focus on regulations. Decisions are typically driven by top-down management, and the go-to-market for new products gets delayed due to repeated testing before being prototyped.

The other challenge with foreign banks having a more hierarchical and less flatter structure than domestic banks is that they have to rely on "hard information" in making decisions, and so often fail to utilise the "soft information" that is locally available (Stein 2002).

It is also important to note that the dominant reason of matrix management is globalisation. Most of these multinational banks have a matrix structure in place, which also could delay innovative decision making.

Johanson and Vahlne (1990) developed a dynamic theoretical model in which they argued that the present state of the firm, represented by commitment to the market and knowledge of the market, is a key factor in explaining subsequent stages of internationalisation activities. The more international you are, the greater is the complexity, and the focus could become less. Hence, for the multinational banks, it could just be that India (or other Emerging Markets) are insignificant compared to their scale of operations in other (more developed) parts of the world, and do not offer the economics that the headquarters desire.

Another important phenomenon that has been observed is "that the same product can be in different stages of the product life cycle in different countries, as well as within. This has important implications for the marketing mix which should transition from "pull" to "push" strategies as markets change from embryonic, to growth to maturity stages. It suggests that companies should focus on country-specific product-market life cycles (or even finer) rather than global product life cycles" (Roberts et al, 2015). The domestic private banks would find it easier to keep this single minded focus.

And finally, there is the concept of 'patient capital'. The multinational banks have traditionally been far more caught up with short term returns than the domestic private banks. So the focus becomes operating expenditure (opex) rather than capital expenditure (capex). However, the drive to go digital is mainly capex, and only after a period of time would it result in lower opex which would lower the marginal cost of doing business. Hence this strategy would not work well for companies that look at short term ROI. The domestic private banks though have more of 'patient capital' (very similar to the players in the telecom industry), and are willing to wait for the returns on their investment (Srivastava, 2015). In a similar vein, there is also an issue of vacillating commitment of the headquarters to growth in these markets, which has been described as another cause for lagging growth (Perchthold, 2016).

H5.1: Greater the level of commitment at the headquarters of the home country, the higher is the relative growth performance of the multinational bank in an emerging market.

H5.2: Greater the level of risk-taking mindset at the headquarters of the home country, the higher is the relative growth performance of the multinational bank in an emerging market.

H5.3: Greater the level of innovation-driven mindset at the headquarters of the home country, the higher is the relative growth performance of the multinational bank in an emerging market.

2.5.6 Acquiring and retaining talent

Foreign banks have been shown to increase the quality of human capital in the banking system by importing high skilled global talent or by training the local employees (Lensink and Hermes, 2003). This access to top global talent was a key competitive advantage they had, however, as the global talent pool became more fluid, successful local companies in emerging markets began to find it easier to acquire experts that would otherwise have been only found by the multinationals (Santos & Williamson, 2015). This has levelled the playing field in the search for talent. Additionally, there is also a factor of national pride that comes in by working for a national company.

The MNCs face a challenge in that they may find it difficult to access and develop the calibre of human capital they want in some of the emerging markets. The situation is often exacerbated by governments pushing for greater local representation. For these multinationals, recruitment, training and development takes on a completely new meaning.

Another factor to consider is the employee share compensation scheme offered by the domestic private banks, which acts as a strong motivator for growth as compared to the ones offered by the foreign banks which is based on global income.

H6.1: Greater the employee financial incentives in a bank, the higher is its relative growth performance in an emerging market.

H6.2: Greater the employee non-financial incentives in a bank, the higher is its relative growth performance in an emerging market.

H6.3: Greater the aspiration of people to work in a bank, the higher is its relative growth performance in an emerging market.

2.5.7 'Strength of weak ties' - Collaborating with the regulator /disruptor /other industry players

The construct defining the quality and the type of collaboration would depend on the form of the relationship (such as outsourcing or asset-sharing, etc.), the expectations of either side, the mindset and commitment of both partners, and the duration over which the collaboration is expected to run.

The advantage of collaborating and working closely with the regulator and other government agencies are many, most of all, that the banks need their support. Joe Tsai, executive vice-chairman of Alibaba, admitted that plans for a virtual credit card had been blocked by the central bank, as it felt that the introduction of internet competition would have hurt Union Pay, the state credit card monopoly (Financial Times, 2014).

Collaborations in the banking sector can go far beyond the traditional nostro-vostro arrangements to a bank "taking on a leadership role in setting up an ecosystem" (Williamson & De Meyer, 2012). By doing so, it would "promote cooperation over competition, amplify the impact of its investment and create potential for increasing returns to scale, and enable flexibility and co-learning" (Williamson & Joshi, 2016).

Consolidation through acquisition is one of the more traditional ways that banks have reacted in a time of crisis (along with large-scale cost-cutting). However, given the regulators alarm at the size of these very large banks that are appearing, collaboration may make for a better response. A case in point is the National Payments Corporation of India (NPCI), established in December 2008, as an umbrella organisation for all retail payments system in India. Supported by the regulator, the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA), with ten promoter banks that include foreign banks such as Citibank and HSBC, NPCI's core objective was "to consolidate and integrate the multiple systems with varying service levels into nation-wide uniform and standard business process for all retail payment systems. The other objective was to facilitate an affordable payment mechanism to benefit the common man across the country and help financial inclusion" (NPCI, 2015). By 2016, NPCI has grown to processing 20 million transactions a day, and its range of services include cheque clearing, Electronic Benefit Transfer and a domestic card payment network named RuPay to provide an alternative to international card schemes.

While recognising the benefits of adopting advanced technology, this continues to be a real challenge for most banks – and also a pain-point in managing their cost structure. While banks are aware of the importance of investing in modern banking systems rather than holding on to out-dated legacy systems, the cost implications and long-time scale, along with the complexity of it clearing regulatory requirements and meeting service standards without the slightest hitch, make them quite reluctant to do so (Deloitte, 2014). Additionally, there is a legacy issue in that many of these current banking giants were born out of M&A, which could have resulted in technological mismatches. This is where collaboration with Fintech start-ups and other disruptors could be beneficial.

H7.1: Greater the collaboration of a bank with the regulator, the higher is the relative growth performance in an emerging market.

H7.2: Greater the collaboration of a bank with other banks in the industry, the higher is the relative growth performance in an emerging market.

H7.3: Greater the collaboration of a bank with Fintech disruptors, the higher is the relative growth performance in an emerging market.

H7.3: Greater the collaboration of a bank with other players (not banks and Fintech disruptors), the higher is the relative growth performance in an emerging market.

2.5.8 Integration with society and looking beyond financial returns

"Successful local companies derive enormous competitive benefits from the fact that they are deeply integrated into local commercial networks and have built symbiotic relationships with the local society. As outsiders, multinationals start with a handicap in matching these advantages, not least because of their predilection to import and adapt what has worked elsewhere" (Santos & Williamson, 2015).

Measurement of this could be through understanding of the social agenda, measurement of CSR activities, opening of rural branches, etc.

H8.1: Greater the focus on building relationships with local society, higher the relative growth performance of the multinational bank in an emerging market.

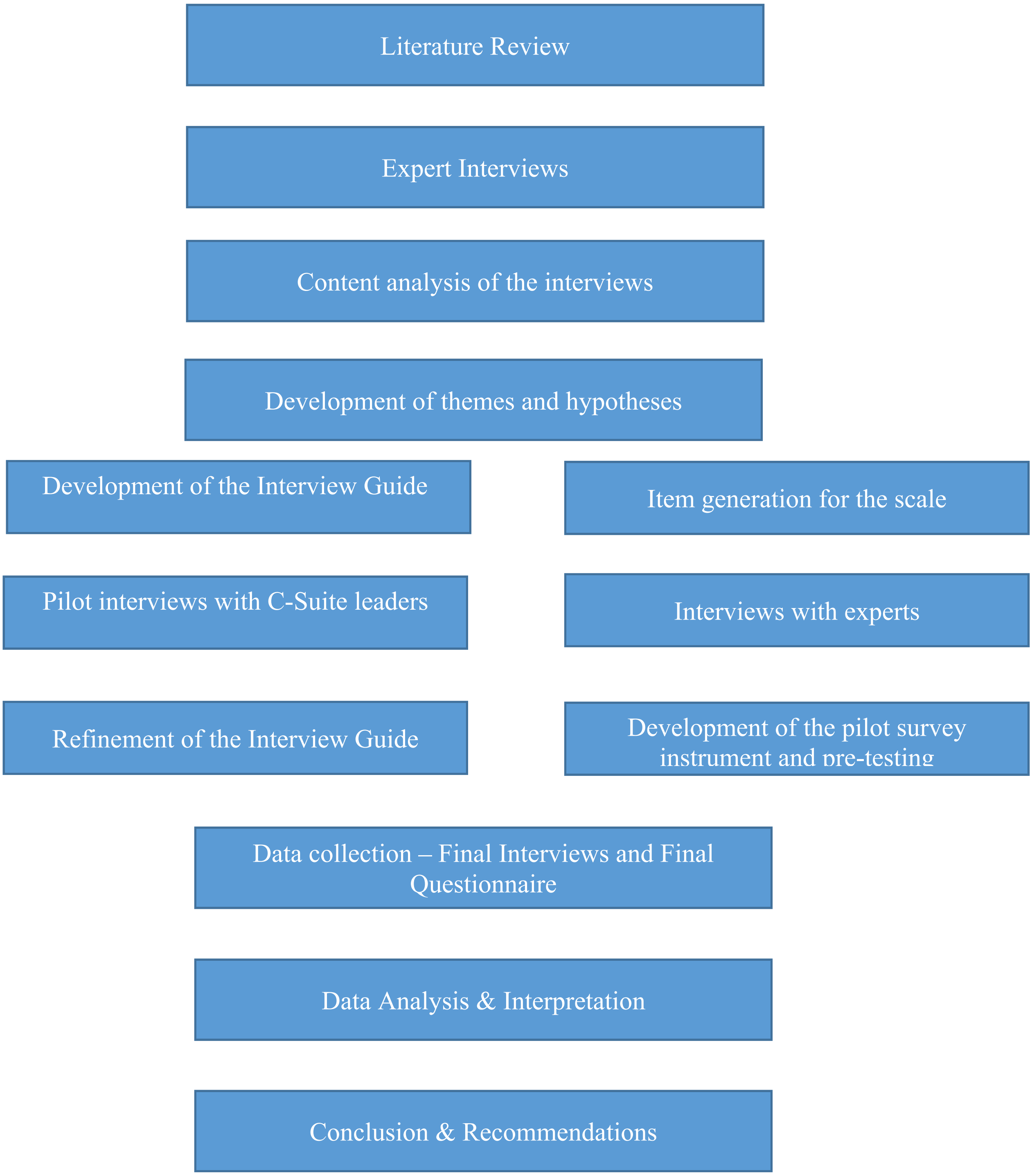
H8.2: "Greater the integration into local commercial networks, higher the relative growth performance of the multinational bank in an emerging market.

2.6 Research Process

The research process included qualitative and quantitative research. The above hypotheses were used as the basis for develop an Interview Guide. Thereafter, there was an exploratory pilot study in which data was collected through personal interviews. Key themes that emerged from these interviews were noted. Two independent judges were given the sanitised interview notes (after removing names of people/banks), and asked to confirm that the themes identified from the field data were done correctly (Tuli et al, 2007).

This was followed by the formalising of interview questions, and also the development of scales for a survey questionnaire.

Research Process



Further details of the process and methodology have been elaborated in the next chapter.

Chapter 3

Research Methodology

This chapter elaborates upon the research methodology used in the study. It includes the explanation of the techniques used and their suitability, along with the methods of data collection and analysis. It discusses the development and validation of appropriate measures, and explains the methodology followed while developing the scales and design of data collection instruments.

Having identified the phenomenon - that is the struggle that western multinational banks operating in India face to reach the growth performance of their domestic private counterparts - exploratory research was conducted to further understand the topic being researched. This included secondary data obtained from journals, online articles, business reports, company literature, etc. Thereafter there were interviews with six experts – two academics, three C-suite bankers and one senior partner of a top consultancy firm - to understand the situation, as well as ensure that this was a relevant and important issue at hand. Based on the interviews, new secondary sources were consulted and referenced to help construct and define the research objective.

At this stage the research problem was further refined, with the research objectives formally stated.

3.1 Research Objectives

The research objectives comprise the research question/s and the hypotheses. As the objective of this research was to understand the firm-specific disadvantages that a multinational faces in emerging markets as compared to its domestic counterparts, the research question was precisely defined as: ‘Why are the western multinational banks operating in India struggling to reach the growth performance of their domestic private counterparts?’.

3.2 Developing the Hypotheses

A hypothesis is a statement based on some beliefs about the existence of a relationship between two or more variables that can be tested through empirical research. Based on the literature review and interviews with experts, a set of hypotheses were drawn up (as listed in the previous chapter).

3.3 Planning the Research Design

With the research question having been defined, the next step was to plan the research design. The research design included details such as “where the information should be obtained from, the time allotted for conducting the research, the appropriate measurement techniques and the sampling process” (Sreejesh et al, 2014).

3.4 Data Collection

Data was collected using both qualitative methods (depth interviews) as well as quantitative methods (employing a survey questionnaire).

The dependent variable, which was the growth performance of the banks, was measured by growth in market share, which is a standard variable used in previous studies of this genre (Claessens et al., 2001).

3.4.1 Depth Interviews

Depth interviews are generally conducted on a one-to-one basis. In this study, all interviews were conducted by the researcher alone, and averaged an hour in duration.

As a research tool, individual in-depth interviews can be subdivided into three types depending upon the amount of guidance extended by the interviewer: unstructured interviews, semi-structured interviews and standardised open-ended interviews. Standardised open-ended interviews "contain a set of sequential ordered, carefully worded, open-ended questions that reduces the differences in responses from different individuals due to the choice of words on the part of the interviewer, and is appropriate when two or more interviewers conduct the interviews as it minimizes the variation in the questions posed by them to different interviewees" (Sreejesh et al, 2014). However, as all the interviews were being conducted by the researcher only, this was not deemed necessary, especially as it limits the flexibility and probing opportunities of the interview.

Unstructured interviews, as the term suggests, are open-ended and very flexible. This research used semi-structured interviews, which are more structured than the non-directive interviews and less so than the open-ended ones. Although it requires the same skills needed during an unstructured interview, it is based on the use of an interview guide that provides an overall direction to the process (Bernard, 2006). The interview guide for semi-structured interviews does not require an extensive detailed list of questions; but instead covers the major domains of experience relevant to the research and likely to be discussed by the participant (Given, L. M., 2008). Discretion can be used in the ordering, wording and time allocated to each question. This also enables probing techniques to be used, which encourages the respondents to provide additional details for responses that are of particular interest and relevance to the interviewer. This technique is primarily used with busy executives, technical experts and thought leaders (Sreejesh et al, 2014) – and hence considered appropriate to this research study.

The interview guide was prepared by generating questions based on the review of existing literature review, insights from expert interviews, and discussion with the thesis supervisors.

The guide comprised six sections with information sought on the competitive advantage of foreign banks versus the domestic players broadly structured across themes that appeared in the hypotheses: regulations, distribution channels, digital/technology capability, customer service, tyranny of the headquarters and the innovation mind-set, acquiring and retaining talent, and collaborations.

The guide was validated by the supervisors. As the interviewees were mostly based in India, all the interviews were conducted on Skype or the telephone, with a prior appointment. The most common number of interviews for a qualitative research has been stated as between 5 and 25 (Kvale, 1996). This research included 26 formal depth interviews, where the focus was to understand and rate the factors that influence the success of a foreign bank and domestic bank in India, and thereafter identify the competitive advantage for each set across those factors. All interviews were audio-recorded and later converted into transcripts. In all, over 1,200 audio minutes of recording were transcribed.

Depth interviews have key disadvantages in that they are time-consuming, and there is a possibility of interviewer bias creeping in. However, this technique was considered superior to using a focus group discussion or a paired interview because the information being shared was highly confidential, and these respondents may have otherwise become reticent in sharing their views and modified their responses. This concern was deemed to be great as all of the interviewees were from the same market (the Indian Banking sector) and hence in some way competitors, so focus groups or paired interviews may have resulted in compromised responses as interviewees would not freely discuss their views in the presence of competitors. In-depth interviews have also been shown to result in free exchange of information and in obtaining deeper insights (Hausman, 2000, Yu and Bastin, 2010).

3.4.2 Pilot interviews

Depth interviews were used twice in the research process. In the first phase, a set of five depth interviews was conducted as a pilot study with respondents who had worked in ***both***, foreign and domestic banks at the top management. Such pretesting that involves collecting data from a small subsample is useful to test whether the data collection plan proposed for the main study is appropriate, and minimise any potential errors that may crop up (Sreejesh et al, 2014). These interviews hence not only tested the set of hypotheses that had emerged from the literature review for completeness, relevancy and accuracy – but also served as a lead up to the more analytical questionnaire design for quantitative research.

Using their responses, the interview guide was revised with respect to the phrasing and clarity of the questions, and the flow of topics (refer to **Exhibit 4** for the final version of the Interview Guide). Although the interview guide helped to structure the interviews, it was not considered necessary to adhere to it very strictly, and participants could share their thoughts freely during the interviews. In particular, the opening question was left completely unstructured, and respondents were requested to provide their opinion on what they perceived to be the competitive advantage of foreign banks versus the domestic banks. This was also used to ensure that the literature review and the hypotheses generated were in fact a comprehensive set of factors that influenced the performance of a bank in India.

The participants' consent was sought before the interviews, and they were assured that their responses would be kept confidential and presented anonymously.

N-Vivo was used to generate the word frequency for these pilot interviews.

There were one key finding that emerged from the pilot interviews, which was incorporated in the survey questionnaire. For testing certain hypotheses, such as the impact of the bank's distribution network on its performance, all the respondents believed that the situation was very different depending on whether this was the retail business or the core corporate banking business. This feedback was incorporated into the survey instrument, where respondents were requested to answer specifically for the retail customers and core corporate customers.

3.5 Development of the Survey Questionnaire

Researcher Kay E Cook states that "Reliance on the in-depth interview as the sole method of data collection does have its drawbacks as the participant and researcher are limited by the recall of the participant, the ability of the participant to articulate his or her experiences within the timeframe of the interview, and the ability of the researcher to ask the "right" questions to prompt more detailed discussion and aid the analysis" (The SAGE Encyclopedia of Qualitative Research Methods, 2008). Taking into account the above criticism, the qualitative research was also substantiated by a survey questionnaire.

The survey extended the sample from top management to senior management of the foreign and domestic banks. It involved developing a multi-item scale. The process of scale development adopted was broadly based on the framework provided by Sreejesh et al (2014) , who have listed the following steps:

3.6 Developing a Multi-item Scale

Initial Development of the themes

↓

Generating a number of Items

↓

Selecting a final set of items with the help of experts

↓

Adding some items for improving the validity of the scale

↓

Administering the items to an initial set of respondents

↓

Analysing the Items

↓

Optimizing the Final Scale Length

The first step towards the development of a scale is to specify and conceptualise the constructs based on a literature review (Mittal, 2017), where a construct is a conceptual term used to describe a phenomenon of theoretical interest. The second step towards scale development is to generate a comprehensive list of scale items that capture all aspects that contribute to the construct (growth performance of the bank), to ascertain the appropriateness and completeness of the items for the pilot survey (Churchill, 1979). This study has defined the construct of "performance of the bank" as dependent on several themes including regulations, distribution, digital capability, customer service, tyranny of the headquarters, talent and collaborations. There was no existing scale found in the literature review that could satisfy all these criteria.

At this stage, the focus was on generating a set of questions that could satisfactorily represent each dimension of the construct. Several existing scales were used to come up with an exhaustive list of items. For instance, to generate variables items that could measure customer service, items on the much-validated SERVQUAL multiple-item scale for measuring consumer perceptions of service quality (Parasuraman, et al, 1988) were used, and thereafter references were made to other scales that had been developed, such as the 20-item survey instrument to measure bank customer perceptions of service quality in Northern Cyprus given below (Karatepea et al, 2005).

Scale items

Service environment (SERENV)

The exterior of this bank is visually appealing

The interior of this bank is visually attractive

Employees of this bank have neat appearances

The interior of this bank is spacious

Interaction quality (INTQUAL)

Employees of this bank have the knowledge to respond to problems

Employees of this bank are polite to customers

Employees of this bank are experienced

Employees of this bank instill confidence in customers

Employees of this bank are understanding of customers

Employees of this bank serve customers in good manner

There is a warm relationship between employees of this bank and customers

Empathy (EMP)

This bank does not make its customers stand in a queue for a long time

Employees of this bank enact transactions on a timely manner

Employees of this bank always help customers

Employees of this bank provide individualized attention to customers

Employees of this bank are willing to solve customer problems

Reliability (REL)

Employees of this bank provide error-free service

Employees of this bank carry out customer transactions confidentially

Employees of this bank provide customers with precise information

This bank informs customers about its financial operation accurately

Source: Karatepea, O. M., Yavasb, U. & Babakus, E. (September 2005). Measuring service quality of banks: Scale development and validation. Journal of Retailing and Consumer Services, Volume 12, Issue 5, September 2005, Pages 373–383.

In such a manner, based on the literature review, expert interviews, as well as the in-depth pilot interviews, a list comprising 86 items that could explain the growth performance of multinational and private domestic banks in India was developed.

Thereafter, the attention shifted to editing this list. Items that appeared redundant or double-barrelled were deleted. The language was improved in several instances to make it simpler, and less prone to being misunderstood. The overall sequence was worked on. Keeping in mind that the respondents were senior management who would not spend much time answering a survey, length was a key aspect. Care was also taken that the statements should not appear 'disadvantageous' to either the foreign banks or the domestic banks.

Some of the key errors that have to be watched out for while developing a survey instrument include lack of relevance and content validity (Haynes et al, 1995), and lack of comprehensiveness and clarity (Grant and Davis, 1997). To ensure that the above potential errors in survey research were reduced, the first step was ensuring that the themes within the construct were defined on the basis of literature review, expert interviews and pilot interviews. The statements were then vetted by three experts – the academic thesis supervisor, and two industry experts. Each offered advice in terms of identifying redundant or poorly phrased items, which were then deleted. Thereafter, the survey was also distributed to five respondents (who were laypersons in that they did not have banking or academic background), who provided their feedback in terms of readability of the instrument.

The final pilot instrument thus prepared had 37 statements on a five-point Likert scale, and an additional "No Opinion" option. This was then pre-tested on 20 respondents, who were selected on a convenience sample basis. All aspects of the questionnaire were tested, including the average length taken to complete it. It was confirmed that the questions were clear and there was no issue of misleading/awkward responses.

At this stage, the research instrument (refer to **Exhibit 5** for a copy of the survey questionnaire) was ready to be used for the actual survey.

3.7 Data Collection & Analysis

3.7.1 Depth interviews

For the qualitative research data, 26 senior C Suite leaders from foreign banks and domestic banks in India were contacted through the researcher's personal network of business-school alumni and former colleagues in the banking industry. All agreed to an interview on the basis that the data would be disguised and anonymous. Each respondent had over 25 years of work experience.

The content analysis approach was used to identify categories that emerged from the text (Glaser & Strauss, 2009). Transcripts of the interviews were also entered into the NVivo software, which was used to identify potential themes that emerged. These themes broadly matched the hypotheses that had been proposed. Where there was an overlap between two or more themes (such as distribution channels and digital capability), the data was put in both categories/hypotheses. Within each category, the information was summarised and also any stand-out comment or major similarity/difference in a response was highlighted. Subsequently, the data across categories was also compared for overlaps.

3.7.2 Survey questionnaire

The survey was loaded and distributed through the Qualtrics software. It was sent to business alumni and banking circle groups. Additionally, those of the C-suite interviewed were requested to forward it on to their senior management. The only criteria listed was that the respondents should have at least 10 years of work experience in a bank. The survey link was forwarded to about 450 senior managers, and finally, 116 responses were received. Of the respondents, 45% had 20+ years' of work experience.

3.7.3 Validating and editing of the Qualtrics data set

The original data file contained 116 cases. During editing, some incomplete or unsatisfactory responses were observed, where responses on key variables were missing. In these 14 cases, the responses from participants were discarded, and the sample set was reduced to 102 responses across 51 variables.

As the survey comprised only close-ended questions using mostly Likert-scales, coding had been done prior to data entry and appropriate numerical responses had been assigned to each item (question) in the questionnaire.

The data across all the columns was sorted to detect and remove outliers. In instances where the respondent marked, "No Opinion", this specific field was excluded from the analysis by marking it as a missing field.

Chapter 4

Data Analysis

This chapter presents the data analysis for each hypothesis. It combines the findings of both, the qualitative and quantitative research, to support/reject each hypothesis.

The first part of the analysis was to ensure that all the factors that had been considered for the successful performance of a bank in India were complete, adequate and relevant. The second was to compare the performance of the foreign banks versus their domestic counterparts on these factors, to draw out where the significant differences lie.

4.1 Basic Descriptives

As mentioned in the previous chapter, 102 usable responses were received for the survey. The work experience details are given below.

How many years have you worked for a foreign bank (including stints in India and overseas)?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	3	2.9	2.9	2.9
	Less than 5 years	5	4.9	4.9	7.8
	5-10 years	7	6.9	6.9	14.7
	10-15 years	41	40.2	40.2	54.9
	Over 20 years	46	45.1	45.1	100.0
	Total	102	100.0	100.0	

How many years have you worked for a domestic private bank in India?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	63	61.8	62.4	62.4
	Less than 5 years	22	21.6	21.8	84.2
	5-10 years	6	5.9	5.9	90.1
	10-15 years	5	4.9	5.0	95.0
	15-20 years	1	1.0	1.0	96.0
	Over 20 years	4	3.9	4.0	100.0
	Total	101	99.0	100.0	
Missing	System	1	1.0		
Total		102	100.0		

As analysis of the respondents profile threw up an interesting fact that of the 102 responses, 99 had worked in a foreign bank at some stage. Only 3 had never worked in a foreign bank. The second table shows that 38 respondents had worked in domestic banks. It could be conjectured that for this set of respondents, the responses would be based on actual experience and not perception. Accordingly, for several questions, this group's responses were analysed separately.

4.2 Factors that contribute to the successful performance of a bank in India

The question raised was "In your opinion, how important are each of the following factors for the successful performance of a bank in India?", and the responses were on a Likert-scale, with Not at all important (1), Slightly important (2), Moderately important (3), Very important (4), and Extremely important (5).

	For all respondents			These have worked in ***both*, foreign & domestic**		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation
Complying with regulatory norms	4.76	99	.497	4.76	38	.490
High level of customer service	4.42	100	.713	4.44	36	.652
Effectively using a combination of physical and digital channels to reach the customer	4.49	102	.671	4.66	38	.534
Possessing effective digital capabilities to address customer needs	4.35	102	.639	4.37	38	.633
Investing sufficiently in technology for the future	4.59	102	.586	4.61	38	.495
Timely response to the managers from their top management (at the parent head office)	4.17	101	.749	4.24	38	.714
Stable long term commitment of the parent head office to developing the business	4.66	102	.652	4.68	38	.574
Acquiring strong employee talent	4.43	100	.555	4.47	36	.560
Providing strong financial incentives such as bonuses/ ESOPs	3.88	102	.787	3.82	38	.834
Providing strong non-financial incentives	3.72	101	.918	3.54	37	.869
Actively collaborating with other banks	3.45	101	.974	3.55	38	.978
Building a strong relationship with the RBI/other regulators	4.47	102	.767	4.55	38	.760
Building strong relationships with the local society	3.74	101	1.016	3.68	37	1.082

Subsequently a One-Sample 2-tailed t test was performed, with the test value set at 0 (not at all significant):

One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Complying with regulatory norms	95.295	98	.000	4.758	4.66	4.86
High level of customer service	61.972	99	.000	4.420	4.28	4.56
Effectively using a combination of physical and digital channels to reach the customer	67.572	101	.000	4.490	4.36	4.62
Possessing effective digital capabilities to address customer needs	68.754	101	.000	4.353	4.23	4.48
Investing sufficiently in technology for the future	79.051	101	.000	4.588	4.47	4.70
Timely response to the managers from their top management (at the parent head office)	55.910	100	.000	4.168	4.02	4.32
Stable long term commitment of the parent head office to developing the business	72.089	101	.000	4.657	4.53	4.79
Acquiring strong employee talent	79.800	99	.000	4.430	4.32	4.54
Providing strong financial incentives such as bonuses/ ESOPs	49.809	101	.000	3.882	3.73	4.04
Providing strong non-financial incentives	40.764	100	.000	3.723	3.54	3.90
Actively collaborating with other banks	35.536	100	.000	3.446	3.25	3.64

Building a strong relationship with the RBI/other regulators	58.869	101	.000	4.471	4.32	4.62

With a p < .001 for all factors, the results were shown to be significant at a CI of 95%.

Thereafter, internal consistency of the items of the scale were checked using Cronbach's alpha - at 0.78, this value was considered to be strong in capturing the construct that it aimed to measure, as a value between 0.70 and 0.80 of Cronbach's alpha is said to provide high reliability (Nunnally and Bernstein, 1994).

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.777	.779	13

Thereafter, exploratory factor analysis using principal component analysis was carried out. Before doing so, the Kaiser–Meyer–Olkin (KMO) indices and the Bartlett Spherical Test were analysed.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.732
Bartlett's Test of Sphericity	Approx. Chi-Square	275.327
	df	78
	Sig.	.000

The results showed KMO indices as satisfactory at 0.732, being greater than 0.5 and Bartlett's Test of Sphericity as significant, and hence made the data suitable for factorial analysis (Dugard et al., 2010).

The factor analysis of 13 statements resulted in five components. Statements with factor loadings less than 0.5 were removed. Cumulative variance explained was 66.8%, which exceeded the recommended variation minimum of 50% for social science research (Hair et al., 2010).

Total Variance Explained

Comp	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.682	28.320	28.320	3.682	28.320	28.320	2.000	15.385	15.385
2	1.554	11.953	40.273	1.554	11.953	40.273	1.849	14.220	29.605
3	1.238	9.520	49.794	1.238	9.520	49.794	1.815	13.964	43.569
4	1.179	9.072	58.866	1.179	9.072	58.866	1.736	13.353	56.922
5	1.035	7.965	66.831	1.035	7.965	66.831	1.288	9.908	66.831
6	.894	6.874	73.705						
7	.692	5.326	79.030						
8	.616	4.736	83.766						
9	.515	3.963	87.729						
10	.472	3.634	91.364						
11	.433	3.333	94.697						
12	.394	3.027	97.724						
13	.296	2.276	100.000						

Extraction Method: Principal Component Analysis.

Rotated Component Matrix[a]

	Component				
	1	2	3	4	5
Possessing effective digital capabilities to address customer needs	.859			.195	
Effectively using a combination of physical and digital channels to reach the customer	.789	.126		.188	
High level of customer service	.505	.118	.336	-.327	.252

Actively collaborating with other banks		.760	.280		.122
Building strong relationships with the local society	.207	.718		.303	
Investing sufficiently in technology for the future	.487	.537			
Stable long term commitment of the parent head office to developing the business			.836		.167
Timely response to the managers from their top management (at the parent head office)		.228	.687	.243	-.193
Acquiring strong employee talent	.169	.220	.544	.417	
Providing strong financial incentives such as bonuses/ ESOPs	.121		.204	.816	.215
Providing strong non-financial incentives	.204	.341	.113	.718	
Complying with regulatory norms					.911
Building a strong relationship with the RBI/other regulators		.461	.300	.167	.513

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 8 iterations.

The five components (taking a cut-off above 0.6):

Component 1 – Distribution & Technology

Possessing effective digital capabilities to address customer needs	.859
Effectively using a combination of physical and digital channels to reach the customer	.789
High level of customer service	*.505*

Component 2 - Collaborations

Actively collaborating with other banks	.760
Building strong relationships with the local society	.718
Investing sufficiently in technology for the future	*.537*

Component 3: Tyranny of the headquarters

Stable long term commitment of the parent head office to developing the business	.836
Timely response to the managers from their top management (at the parent head office)	.687
Acquiring strong employee talent	*.544*

Component 4 – Talent and remuneration

Providing strong financial incentives such as bonuses/ ESOPs	.816
Providing strong non-financial incentives	.718

Component 5 - Regulations

Complying with regulatory norms	.911
Building a strong relationship with the RBI/other regulators	.513

High level of customer service, although lower at 0.505, was retained as a factor as it was ranked high by the respondents. There were two other factor loadings below 0.6 (in italics above) that were moved to components where it was more logical to include.

Component 1 – Distribution & Technology

Possessing effective digital capabilities to address customer needs	.859
Effectively using a combination of physical and digital channels to reach the customer	.789
Investing sufficiently in technology for the future	.537

Component 2 – Collaborations

Actively collaborating with other banks	.760
Building strong relationships with the local society	.718

Component 3: Tyranny of the headquarters

Stable long term commitment of the parent head office to developing the business	.836
Timely response to the managers from their top management (at the parent head office)	.687

Component 4 – Talent and remuneration

Providing strong financial incentives such as bonuses/ ESOPs	.816
Providing strong non-financial incentives	.718
Acquiring strong employee talent	.544

Component 5 – Regulations

Complying with regulatory norms	.911
Building a strong relationship with the RBI/other regulators	.513

Component 6 – Customer Service

High level of customer service	.505

The above findings confirmed that the scale adequately identified the latent constructs underlying the set of measured variables.

If related to the proposed themes, it provides support that the two themes on the importance of distribution and technology respectively were closely related. In fact, this came through in the qualitative interviews too. Additionally, Theme 7, "Building strong relationships with the local society", could be merged with "Collaborations" as a theme.

4.3 Comparison of the foreign banks to the domestic banks

This section analyses the competitive disadvantages that a foreign bank faces compared to a domestic bank. The discussion is structured on the basis of the proposed hypotheses (as presented in Chapter 2).

Along with the quantitative analysis, many insights were obtained from the qualitative interviews, where the first question asked was an open-ended one on the competitive advantages that the foreign and domestic banks face. These responses typically covered three to four themes, and were also used to guide further questions. For instance, *"I would say there are broadly three reasons for the receding of global financial sector players from emerging markets, particularly India. One, to be fair, and that is most relevant for the banks, is regulation, because it limited the ability of financial sector players to expand. The second point is that the big banks never really finally took that bet. They did not have either the risk appetite or commit the capital that was required to be committed. Hence on the retail side, they have become or remained more niche players, and dominate wherever there is a cross border element involved – so capital raising by Indian companies overseas, global debt, foreign exchange currency market, etc. So in that sense, other than where they had a natural advantage because of their global presence and their global linkages, they didn't really take a bet on the market. The third is that post the global financial crisis, all banks have limited their overseas expansion and further tried to rationalise their businesses because of the demands of capital. And maybe a fourth factor is just the cost structure – because you require a completely different kind of cost structure to do well in India which needs scale.*

As far as the Indian banks are concerned, I think there are two things. One of course is that it has nowhere else to go, so it has incident risk appetite and commitment to the Indian market. But going beyond that, what has enabled its growth is that it has built scale at a much lower cost. Also, the Indian banks have delivered to customers the kind of experience of channels, products and services that are pretty much up the curve on that. So the differentiation with foreign banks is much, much narrower, if at all it is there." (R14)

Analysing the survey data, at the very start, a simple analysis of the means and standard deviations across the statements was conducted to compare the domestic private banks in India to the foreign banks in India on the following factors. All responses marked “No Opinion (6)” were excluded from the analysis.

The rating was as follows: Strongly disagree (1); Disagree (2); Neutral (3); Agree (4); and Strongly agree (5)

	For all respondents			**Worked in both, foreign & domestic**		
	Mean	N	Std. Deviation	Mean	N	Std. Deviation
Foreign banks have a more stringent set of regulatory constraints to follow	4.00	97	1.216	3.80	35	1.208
Foreign banks are quicker in their strategic decision making	3.23	93	1.278	2.65	34	1.252
Managers at foreign banks have easier access to their top management (at the parent head office)	3.57	95	.975	3.06	33	1.116
Foreign banks are as committed to the Indian market	2.47	94	1.075	2.68	34	1.036
Foreign banks offer more attractive employee non-financial incentives	3.88	96	1.039	3.49	35	.919
Foreign banks are more likely to assume risk	3.53	95	1.109	2.54	35	1.010
Working for a foreign bank is more aspirational than working for a domestic bank	3.05	92	.976	3.89	35	.993
Foreign banks offer more attractive employee financial incentives	2.85	95	.887	3.47	34	1.022
Foreign banks are better at collaborating with other banks in the local ecosystem	2.84	96	.977	2.77	35	.808
Foreign banks are better at building a strong relationship with the RBI/other regulators	3.38	97	1.262	2.94	33	1.059

Foreign banks are better at building relationships with the local society	4.00	97	1.216	2.82	34	.869
Foreign banks are better at integrating into local commercial networks	3.23	93	1.278	2.74	35	.919
Foreign banks use digital channels more effectively than the domestic banks	3.57	95	.975	3.29	35	1.274

Sorting the above, from high to low mean:

For all respondents		**Worked in both, foreign & domestic**	
	Mean		Mean
Foreign banks have a more stringent set of regulatory constraints to follow	4.00	Working for a foreign bank is more aspirational than working for a domestic bank	3.89
Foreign banks are better at building relationships with the local society	4.00	Foreign banks have a more stringent set of regulatory constraints to follow	3.8
Foreign banks offer more attractive employee non-financial incentives	3.88	Foreign banks offer more attractive employee non-financial incentives	3.49
Managers at foreign banks have easier access to their top management (at the parent head office)	3.57	Foreign banks offer more attractive employee financial incentives	3.47
Foreign banks use digital channels more effectively than the domestic banks	3.57	Foreign banks use digital channels more effectively than the domestic banks	3.29
Foreign banks are more likely to assume risk	3.53	Managers at foreign banks have easier access to their top management (at the parent head office)	3.06
Foreign banks are better at building a strong relationship with the RBI/other regulators	3.38	Foreign banks are better at building a strong relationship with the RBI/other regulators	2.94
Foreign banks are quicker in their strategic decision making	3.23	**Foreign banks are better at building relationships with the local society**	2.82
Foreign banks are better at integrating into local commercial networks	3.23	Foreign banks are better at collaborating with other banks in the local ecosystem	2.77
Working for a foreign bank is more aspirational than working for a domestic bank	3.05	Foreign banks are better at integrating into local commercial networks	2.74

Foreign banks offer more attractive employee financial incentives	2.85	Foreign banks are as committed to the Indian market	2.68
Foreign banks are better at collaborating with other banks in the local ecosystem	2.84	**Foreign banks are quicker in their strategic decision making**	2.65
Foreign banks are as committed to the Indian market	2.47	**Foreign banks are more likely to assume risk**	2.54

At this stage, it became evident that there were some visible differences (such as those in bold above) in the means. It was decided to stratify the sample and perform a 2-tail t test twice for each statement in all future analysis conducted – one for the group of overall respondents ($n \leq 102$), and another for the set of respondents that had also worked in domestic banks ($n \leq 38$).

The null hypothesis is that the mean equals neutral or '3', implying that there is no significant difference across the various factors being testing for a foreign bank versus a domestic player. A one-tailed test will test if the mean is significantly greater than or less than x, resulting in a p-value less than 0.05. As SPSS has performed the 2-tailed t test, if required, the p value can be divided by half to obtain the p value for a one-tailed t test.

A similar analysis was conducted for the following set of statements, which had been separated across retail and corporate banking (based on feedback received from the expert interviews and pilot interviews).

An analysis of the means and standard deviations across the statements was conducted to compare the domestic private banks in India to the foreign banks in India on the following factors, with all responses marked "No Opinion (6)" being excluded from the analysis. The rating was as follows: Strongly disagree (1); Disagree (2); Neutral (3); Agree (4); and Strongly agree (5). This revealed the following across all participants:

	Retail (N=62)	**Corporate (N=57)**

	Mean	Std. Deviation	Mean	Std. Deviation
Foreign banks have a greater focus on value as compared to volume	4.10	1.00	4.19	0.85
Foreign banks have a better understanding of their (*retail/corporate)* customer's requirements	3.06	1.08	3.56	0.91
Foreign banks are quicker to develop new product and service suites to meet their customers' demand	3.06	1.20	3.33	1.07
The foreign bank's global network is a great advantage in (*retail/corporate)* banking operations	**3.23**	**1.22**	**4.44**	**0.60**
The foreign banks' reputation with their overseas customers is of great value in building a local brand	3.61	1.05	4.35	0.67
Foreign banks are more willing to help their customers	3.56	1.05	3.14	0.99
The employees of a foreign bank have greater knowledge in answering their (*retail/corporate)* customers' questions	3.20	1.08	3.47	0.87
Foreign banks are more innovative in driving customer satisfaction	3.38	1.12	3.72	0.88
The distribution channels of foreign banks are better in meeting its (*retail/corporate)* customers' needs	**2.75**	**1.18**	**3.26**	**0.95**
The digital capability of foreign banks is better than the domestic banks	3.18	1.32	3.46	0.98
Foreign banks are better at using MIS on their (*retail/corporate)* customers	3.46	1.13	3.70	0.96

A quick review of the above confirmed that again there were some visible differences in the means across retail and corporate banking (refer the statements in bold). Hence, the data from these responses was treated separately in the further analysis conducted.

As with the previous set of questions, it was decided to carry out this analysis for the set of respondents that had also worked in domestic banks (n≤38).

	Retail (N=24)		Corporate (N=16)	
	Mean	Std. Deviation	Mean	Std. Deviation
Foreign banks have a greater focus on value as compared to volume	4.08	0.97	3.94	0.85
Foreign banks have a better understanding of their *retail (corporate)* customer's requirements	2.96	1.08	3.56	0.89
Foreign banks are quicker to develop new product and service suites to meet their customers' demand	2.92	1.21	3.06	0.85
The foreign bank's global network is a great advantage in retail (corporate) banking operations	3.46	1.28	4.44	0.73
The foreign banks' reputation with their overseas customers is of great value in building a local brand	3.79	1.06	4.38	0.62
Foreign banks are more willing to help their customers	3.46	1.10	3.06	0.57
The employees of a foreign bank have greater knowledge in answering their retail (corporate) customers' questions	3.17	1.09	3.31	0.70
Foreign banks are more innovative in driving customer satisfaction	3.35	1.15	3.63	0.96
The distribution channels of foreign banks are better in meeting its retail (corporate) customers' needs	2.78	1.28	3.56	0.81
The digital capability of foreign banks is better than the domestic banks	3.17	1.34	3.31	0.87
Foreign banks are better at using MIS on their retail customers	3.29	1.20	3.38	1.02

This set of the sample respondents too had some differences in their responses as compared to those of the sample set of all respondents taken together, and it was hence decided to stratify the sample and perform a 2-tail t test twice for each statement – one for the group of overall respondents ($n \leq 102$), and another for the set of respondents that had also worked in domestic banks ($n \leq 38$).

4.3.1 Regulatory framework

"Complying with regulatory norms" had a mean of 4.76/5, and was shown to be a statistically significant factor contributing to the success of a bank in India.

In the interview, all respondents were asked a question, "How do regulations affect the competitive playing field for foreign banks as well as the domestic private banks in India?"

Other than one, all 26 respondents, answered this question in the affirmative, stating that regulatory constraints were higher for a foreign bank.

> *"The most relevant reason for the receding of global financial sector players from emerging markets, particularly India, is that they are the most heavily regulated. And regulation limits the ability of financial sector players to expand." (R14)*

> *"India is always quite tightly regulated and foreign banks were always quite particular that they don't fall foul with the regulator." (R1)*

The sole respondent who did not agree with this comment, a director of a domestic bank, commented,

> *"Private banks had a similar amount of regulatory constraints as the foreign banks, but still they have made a big, big mark here. I would say that the Indian regulatory constraints are far less and much more liberal than the kind of regulatory constraints we face when we go to the other countries. We are very good hosts but still foreign banks have not made use of it." (R18)*

These findings are in line with quantitative data obtained from the survey. There was one statement that tested this hypothesis, namely, "Foreign banks have a more stringent set of regulatory constraints to follow than the domestic banks".

The mean score of the respondents (mean=4.00) was higher than the 'neutral' score of 3.0.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks have a more stringent set of regulatory constraints to follow	97	4.00	1.216	.123

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks have a more stringent set of regulatory constraints to follow	8.098	96	.000	1.000	.75	1.25

Performing a One-Sample t-test, it was found that the regulatory score at 4.0 was statistically significantly higher by 1.00 (95% CI, 0.75 to 1.25) than a neutral score of 3.0, $t(96) = 8.098$, $p < .001$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank, it was found that even those who had worked in both, foreign and domestic, banks, responded with a mean score of 3.80, that was higher than the 'neutral' score of 3.0.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean

Foreign banks have a more stringent set of regulatory constraints to follow	35	3.80	1.208	.204

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks have a more stringent set of regulatory constraints to follow	3.919	34	.000	.800	.39	1.21

Performing a One-Sample t-test for this group, it was found that the regulatory score at 3.80 was once again statistically significantly higher by 0.80 (95% CI, 0.39 to 1.21) than a neutral score of 3.0, $t(34) = 3.919$, $p < .001$.

Thereafter, content analysis was conducted on all the responses, as were findings from NVivo, and it became evident that there were several sub-themes around which the responses were clustered.

4.3.3.1 Uncertainty due to the host country regulations

> *"We (foreign banks) have always been even more careful than an Indian entity. So we're very compliance oriented and also that much more careful because the head office is never sure what the regulators want, and if they would change their mind – and so we had to be more abundantly compliant than another entity." (R1)*

"There's a constant uncertainty that once we (foreign banks) put in capital, it is likely to get stuck. So tomorrow if the business grows and throws up enough profit, can we take the capital easily out? The answer to that is not necessarily yes, as you need to go back to Reserve Bank and take approvals, etc." (R12)

4.3.3.2 Onerous task of meeting global best practices

"The US Monitor goes to every country, which means that in every country the foreign bank has to ensure that it is adhering to US standards everywhere – how can you afford such a thing?" (R2)

"The standards that the foreign banks have to stick to have been heightened because they have had to go to the strictest common denominator. And as more skeletons have come out tumbling out of closets, it has made life worse for all the foreign banks. It's much easier to deal with one regulator than to deal with many." (R9)

4.3.3.3 Different treatment for the foreign banks as compared to the local banks

"Regulations is a key problem for foreign banks. If the domestic players skirt a little bit, they will probably just get rapped on their knuckles - whereas the global player is scared of losing their entire license and reputation." (R11)

"The regulatory bit is hurting the international banks. I am not inclined that the Reserve Bank is lenient or anything - but the regulations for a local bank is very different, the flexibility is different, and the universe is different." (R17)

4.3.3.4 Regulations impeding growth

"Foreign banks growth has got hampered due to the restriction on branch expansions." (R15)

"While foreign banks have been told that they can convert their India branches into subsidiaries and be treated on par with Indian banks, the additional requirements they would have to adhere to in terms of priority sector lending and other norms are a massive stumbling block." (R3)

To conclude, the hypothesis, *"Greater the regulatory constraints, lower is the relative growth performance in an emerging market"* finds support.

4.3.2. Distribution channels

Data analysis from the survey supported that effective distribution channels was a statistically significant factor that contributed to the success of a bank in India. The statement "Effectively using a combination of physical and digital channels to reach the customer" had a mean score of 4.49/5 for the sample that included all respondents, and 4.66/5 by those respondents who had worked in both, foreign & domestic banks.

Questions in the interviews around this theme included: How important are your distribution channels? Do you see it as a competitive advantage or a competitive disadvantage? What are the important elements you consider when you look at distribution? What are the distribution channels you are currently using to reach your customer? Do you see the focus changing with digital coming in?

There were some common themes across all 26 respondents. They all agreed that digital channels was the way forward, particularly for the mass retail customers. Equally though, they felt that the Indian consumer would like to see a physical branch, and so the brick and mortar branches were not going away in the short-term.

Early on, during the expert interviews stage, it became clear that the kinds and range of distribution channels required for retail services and core corporate services were very different. Hence, in the survey, the question was asked separately for both kinds of services. There were two questions in the survey to test this hypothesis: The first statement was "The distribution channels of foreign banks are better in meeting its (retail or corporate) customers' needs", which was tested separately for the retail and core corporate services. The second statement focused specifically on digital channels, "Foreign banks use digital channels more effectively than the domestic banks".

4.3.2.1 Effectiveness of channels separately by retail and corporate services

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The distribution channels of foreign banks are better in meeting its retail customers' needs	-1.529	61	.131	-.403	-.93	.12

Performing a One-Sample t-test, it was found that the sample mean of the retail distribution score at 2.75 (SD=1.18) was not statistically significant than the 'neutral' value of 4.0 at -0.40 (95% CI, -0.93 to 0.12), t(61) = -1.529, p = .131

This test was then repeated for a sample of respondents who had also worked in domestic banks.

One-Sample Test

	Test Value = 4

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For RETAIL BANKING SERVICES only The distribution channels of foreign banks are better in meeting its retail customers' needs	-.535	23	.598	-.250	-1.22	.72

Once again, the results were not statistically significant; the sample mean of the retail distribution score at 2.78 (SD=1.28) was not statistically significant from the test value of 4.0, at -0.25 (95% CI, -1.22 to 0.72), t(23) = -0.535, p = .598

Performing the same set of analysis for the core corporate services,

One-Sample Test

	Test Value = 4					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For CORE CORPORATE BANKING SERVICES only The distribution channels of foreign banks are better in meeting its corporate customers' needs	1.999	56	.050	.456	.00	.91

Performing a One-Sample t-test, it was found that the sample mean of the core corporate distribution score at 3.26 (SD=0.95) was statistically significantly higher than the 'neutral' value of 4.0 at 0.46 (95% CI, 0 to .91), t(56) = 1.999, p = .05

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only The distribution channels of foreign banks are better in meeting its corporate customers' needs	2.828	15	.013	1.000	.25	1.75

Performing a One-Sample t-test, it was found that the sample mean of the core corporate distribution score at 3.56 (SD=0.81) was statistically significantly higher than the ‘neutral’ test value of 4.0 at 1.0 (95% CI, 0.25 to 1.75), t(15) = 2.828, p = .01

Thus, while there was support for the distribution channels of core corporate services being superior in a foreign bank, the test results from the survey were inconclusive for retail services. Content analysis of the interviews provided a strong explanation for the above result.

To begin with, in India, the bulk of the large corporates have their key offices located in the metros – where most foreign banks have a presence. So at that level, the large pan-Indian presence of a domestic player is less of a competitive advantage. Second, and more importantly, these corporates often require cross-border services, which is the strength of the foreign banks who have a distribution reach stretching across the globe (discussed at more length in the next section on “Customer Service”). Hence it comes as no surprise that the distribution channels of foreign banks are considered better than the domestic players in meeting its corporate customers’ needs.

4.3.2.2 The importance of a branch network for retail services

However, analysing the distribution channels for retail services, while the survey results came out as statistically insignificant, across the board, all 26 interviewees responded strongly that the reach of the domestic players in terms of the physical branch network was a key competitive advantage. It enabled growth at several levels – customer acquisition, branding, lower cost of funds, etc.

> *"The customer still wants to see a physical branch, and despite the Internet and mobile, a physical branch will never die. Yes there is a shift towards digital, but people don't want only a pure digital bank. It's a matter of security, it's a matter of trust. People don't want to park it in a nameless faceless place." (R5)*

> *"It is important to have the reach because it's all a question of cost of funds. So if there is an increase in the savings value, the cost of funds is reduced to that extent, which is added to your overall margins." (R3)*

> *"Even with digital expansion, finally you need branch servicing. The customers won't be comfortable as banking is also about trust. So purely digital, like the way some banks seem to have done in Germany where the whole country is serviced by only digital – I don't think that's possible here in India yet. You do need a physical presence." (R6)*

> *"Maybe going forward it will get less, but today bricks and mortar do play a fairly big role. So as a bank CEO, I would like to position myself for digital, but I would not aggressively go and cut my branches because I would lose out." (R2)*

> *"We (domestic bank) believe that we are here forever, therefore we want to certainly participate in that India growth story and we want to go after pretty much every opportunity that is available. So therefore, to that extent, we have to*

look at our distribution. For the top three domestic banks, it's about 50-50: 50% urban, and semi-urban, rural would be about 50%." (R10)

"If you don't have at least one branch in the city, no one will bank with you." (R8)

"I think the halo effect which comes with having a physical presence, especially in the minds of the consumer, is quite high because it's a testimony to your investment and your commitment to the local franchise – and that matters today." (R26)

The importance of having a physical presence in terms of making good business sense was hence a strong theme that emerged from the interviews.

In addition, RBI restrictions on opening branches was cited as a key growth performance constraint faced by foreign banks by all 26 respondents but one. Even while issuing a license, the RBI had become very particular that a certain number of the licences had to be used towards setting up branches in under-banked places, which foreign banks were often not willing to do, and hence their distribution got very restrictive.

"The Indian regulatory environment requires every branch in every city to be licensed, as there is no uniform national licence. So in their bid to reach the wholesale client base, the foreign banks need to be present in that city. Earlier they were subsidising the cost of going to these various branches by saying they would have a massive retail there. This worked as clearing was separate for each city then, so if every city could clear your cheques, it was good for your cash management business. Now there's national clearing and there's RTGS electronic payment. The entire securities industry market, stock markets, debt

capital markets have all become electronic – so you don't need that branch infrastructure and the subsidisation of cost that used to happen by having a branch infrastructure has become a cost overhang instead." (R22)

Comparing the presence of the domestic banks to the foreign banks, a respondent replied,

"Even if you look at a 'hub and spoke' way of doing business – a core branch with a digital presence around it, or branches plus ATM presence for customers who wanted that differentiated service – I don't think a foreign bank is even a fraction of what a domestic bank is offering. So the pan-India presence is a big differentiator." (R6)

The top foreign banks though were beginning to rationalise their branch network,

"When we (foreign bank) closed some of our brick-and-mortar branches in some Tier 2 cities, we lost 15% of our base. So if I had 100 customers in the city, 15 of them closed their account and went, and 85 continued because they were anyway never walking into the branch - they were doing stuff either on the ATM or on the Internet, or their RM (relationship manager) used to come and visit them in their residence. So what we have done in such cases is to have a RM mapped to them sitting in Mumbai or Delhi, who makes a trip once a month to that city, makes a 2-day visit, meets all his clients and goes back, and they are more than happy with that." (R22)

4.3.2.3 Shift to digital channels

As mentioned, all 26 respondents believed that going digital was the way forward, especially given the macro-environment in India. Respondents commented, *"There is massive change going on, this change is irreversible and definitely the banks that are not thinking digital will not have any role in the future. They will have serious problems, there is no doubt about that." (R9)*

"There will be a shift to digital channels more from the retail side, where you will have a huge increase in online banking especially when it comes to net banking and unified payments interface." (R3)

"We (domestic bank) cut our proposed branch expansion plan numbers marginally, because we feel that going forward strategically, branches will not be that important." (R8)

"Today we (domestic bank) can have a measured growth of branches. I have technically not increased branches but yet expanded our presence because of digital." (R6)

"We (domestic bank) are looking at digital distribution quite aggressively now, because if we want to continue to build a low cost CASA, we have to leverage all the digital opportunities." (R13)

"Today 80% of our (domestic bank) saving account transactions actually happens on the Internet, mobile and phones, somewhere between 10-15% happen at the ATMs, and only 5-7% is really happening at the branch." (R14)

"We (domestic bank) took the customer channels we had out of the branches for a number of reasons – 1) it was straight through, 2) the turnaround made a difference, 3) it was lower cost of operation, 4) our analytics showed that higher adoption was leading to much greater stickiness, much greater mass, much greater wallet share – so we were pushing that all the way through." (R16)

It is also important to note that the shift to digital channels appeared to have the regulator's blessings,

> *"One of the top foreign banks had 50 branches for a long time, last year it shut down 24 - so forget about asking for more licenses, they actually went to the Reserve Bank of India and asked if they can shut down 24 branches. They were concerned that the regulator would say that this is typical of a foreign bank, you want to remain only in the metros and you are getting out of all the smaller branches (and smaller being the cities of Baroda and Surat, which are not small by any means from the Indian private sector bank perspective - HDFC probably has 20 branches in Baroda). But to their pleasant surprise, RBI said that it was glad that the bank was taking this step, and wished the other banks who keep coming to ask for licenses would do the same thing, because gone was the time when you needed to open branches to expand your business." (R22)*

Comparing the effectiveness of digital by foreign banks versus domestic banks, the survey asked respondents to rate "Foreign banks use digital channels more effectively than the domestic banks".

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks use digital channels more effectively than the domestic banks	97	3.38	1.262	.128

One-Sample Test

	Test Value = 3

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Foreign banks use digital channels more effectively than the domestic banks	2.977	96	.004	.381	.13	.64

Performing a One-Sample t-test for all respondents, it was found that the sample mean of the digital channels score at 3.38 (SD=1.26) was statistically significantly higher than the 'neutral' test value of 3.0 at 0.38 (95% CI, 0.13 to 0.64), t(96) = 2.977, p = .004

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks use digital channels more effectively than the domestic banks	35	3.29	1.274	.215

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Foreign banks use digital channels more effectively than the domestic banks	1.327	34	.193	.286	-.15	.72

Performing a One-Sample t-test for those respondents who have also worked in a domestic bank, it was found that the sample mean of the digital channels score at 3.29 (SD=1.27) was not statistically significant than the 'neutral' test value of 3.0 at 0.29 (95% CI, -0.15 to 0.72), $t(34) = 1.327$, $p = .193$

A deeper content analysis of the interviews corroborated the above finding - that, in fact, the domestic banks are on par, if not ahead, of foreign banks in terms of their digital offerings. All 26 respondents stated that the digital channels offered by a private bank are excellent, in fact three C-suite respondents from foreign banks replied that they would far prefer banking with a domestic bank as the channels and transfers were so seamless.

The respondents also believed that the domestic banks were at an advantage in the use of digital channels as compared to foreign banks.

> *"As for digital channels, in our (domestic bank) today, 66% of our transactions are digital, 21% are through ATMs and 13% are through the branches. But transactions are also growing. The way that I see this is it's not an 'either/or' strategy, it's an 'and' strategy so we have best in class capabilities as far as digital is concerned." (R10)*

> *"Half your retail clients, especially the high-net worth ones, have stopped walking into the branches as everything is app driven. And so if you are still there for maintaining your distribution as part physical, your costs are out of sync." (R7)*

4.3.3.4 Design thinking the branches

While the respondents were clear about the importance of physical branches in India, there was also a consistent theme that emerged about the physical aspect and nature of work at these branches changing, in terms of size, staffing, etc.

> *"Only 5-7% of our saving account transactions are happening at the branch, which means a branch doesn't need to have tellers dispensing cash or printing out pass books and stuff like that. You can reduce the number of people in the branch, and the branch staff can also go out and sell and not just sit around. So that is leading to a lot of change in the branch model." (R14)*

> *"The size of our (domestic bank) branches has halved over the last five years." (R10)*

> *"If you are looking at the model of the branch, the branches will no longer be operationally that intensive, it will be more sales and service centres." (R8)*

> *"The traditional brick and mortar branches are becoming less relevant today in the urban sectors. At one point of time, we (foreign bank) invested a lot in it, but now our branches are moving to the 2nd or 3rd floors of buildings, rather than being on the main road, and the sizes of branches are reducing because we do believe that there are fewer guys coming to the branches. Also the people coming there are not necessarily our end clients or our end users, they are drivers or service staff or staff of our customers. So all of the investment we used to do earlier, where our branches were very fancy and had a central spot, has now changed." (R24).*

To conclude, the hypothesis "Greater the reach of brick-and-mortar channels offered by the bank, the higher is the relative growth performance in an emerging market" would need to be modified to specify that this holds true for retail services, and not for corporate services. Additionally, it has to be noted that the size, layout, location and staffing of these brick and mortar branches are different from what they used to be.

The second sub-hypothesis, “Greater the effective use of digital channels offered by the bank, the higher is the relative growth performance in an emerging market” finds support.

4.3.3 Enabling Technology

Effective digital capabilities was a statistically significant factor contributing to the success of a bank in India. The statement “Possessing effective digital capabilities to address customer needs” had a mean score of 4.35/5 (SD=0.63) in the sample that included all respondents, and a mean score of 4.37/5 (SD=0.63) in the sample that included respondents who had also worked in domestic banks.

The importance of technology was corroborated in the interviews,

> *“The more you go electronic, the unit cost of production drops dramatically for a bank. Estimates seem to suggest that if a normal transaction cost is $100, if you did it electronically and with no manual interface at all, it would cost $5. So that’s the sort of paradigm shift, and also what the government and the RBI are trying to do by mooting out cash and trying to move to everything electronic. I think it will start small, but there should be a big change over the next 7-10 years, where India has the potential to become like Singapore, a fully electronic county, and leap frog.” (R7)*

> *“People will have to embrace technology pretty fast to bring down the cost of production. It will improve your distribution strength without physical distribution, it will create that last mile connectivity with your client at the very*

end, and Big Data will be available online for you to carry out significant amount of assessment and monitoring. At the same time, it will force financial institutions to focus exactly on the business area they want to operate in, and the client base they want, because they cannot create technology infrastructure platforms, physical infrastructures to bring everything to everybody." (R7)

"Investing sufficiently in technology for the future" was also statistically significant as a factor contributing to the success of a bank in India, with a mean of 4.59/5 (SD=0.59) in the sample that included all respondents, and a mean score of 4.61/5 (SD=0.50) in the sample that included respondents who had also worked in domestic banks.

This was clearly a critical success factor, and not surprising given the leapfrogging of technology that is taking place in India. As one respondent commented,

"The Asian countries are a lot more adoptive, and in India the adoption of the Internet was way faster than it was elsewhere. The Internet reached the village panchayats, and they started having e-Choupals. There was also a lot of push from the government, and being a newer phenomenon, the usage literally went from zero to 10, bypassing all the steps in the middle. At the same time, the costs of the phones came down. So mobile banking and its adoption was even faster than internet banking. What took 10 years to get IVR adoption levels up to 50%, took the Internet about four years, and mobile one year." (R5)

Questions in the interview ranged from: How do the domestic private banks compare with the foreign banks in terms of their digital capability? In your view, are you investing sufficiently in technology to meet the growth requirements of the future? Do you use Big Data that you have on your customers? Compared to the rest of the industry, how would your platform compare with competitors, both local and foreign?

In the survey, the following statement measured this theme: “The digital capability of foreign banks is better than the domestic banks”. In addition, there was a specific question on the use of technology for operations, “Foreign banks are better at using MIS on their customers”. The rationale for including this statement was that technology for the front end was to a large extent covered under the “Distribution” and “Customer Service” themes, so this statement would ascertain the competitive advantage of the foreign banks and the domestic banks in using technology for the back end. Both these statements were tested separately for retail services and core corporate services.

Similar to the results obtained in the theme on distribution, the survey results were inconclusive. If taken for the sample of all respondents, “The digital capability of foreign banks is better than the domestic banks for core corporate services”, results were statistically significant with $p<0.05$; however, if the sample was stratified to include only those respondents that had also worked at domestic banks, the results were statistically not significant.

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The digital capability of foreign banks is better than the domestic banks	.783	61	.437	.226	-.35	.80

The sample mean of the retail digital capability score at 3.18 (SD=1.32) was not statistically significantly different than the ‘neutral’ test value of 4.0 at 0.22 (95% CI, -0.35 to 0.80), $t(61) = 0.783$, $p = .437$

One-Sample Test

	Test Value = 4

	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For CORE CORPORATE BANKING SERVICES only The digital capability of foreign banks is better than the domestic banks	3.260	56	.002	.737	.28	1.19

The sample mean of the core corporate digital capability score at 3.46 (SD=0.98) was statistically significantly different from the 'neutral' test value of 4.0 at 0.74 (95% CI, 0.28 to 1.19), t(56) = 3.260, p = .002

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For RETAIL BANKING SERVICES only The digital capability of foreign banks is better than the domestic banks	.613	23	.546	.292	-.69	1.28

The sample mean of the retail digital capability score at 3.17 (SD=1.34) was not statistically significantly different than the 'neutral' test value of 4.0 at 0.29 (95% CI, -0.69 to 1.28), t(23) = 0.613, p = .546

One-Sample Test

	Test Value = 4

	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For CORE CORPORATE BANKING SERVICES only - The digital capability of foreign banks is better than the domestic banks	1.328	15	.204	.500	-.30	1.30

The sample mean of the core corporate digital capability score at 3.31 (SD=0.87) was not statistically significantly different than the 'neutral' test value of 4.0 at 0.50 (95% CI, -0.30 to 1.30), t(15) = 1.328, p = .204

4.3.3.1 Qualitative data analysis

While the results from the survey were inconclusive, content analysis of the interviews revealed strong and significant results.

Of the 26 C-suite respondents, 24 strongly agreed that the domestic banks had a distinctive edge over the foreign banks in terms of their digital capability, while two said they were on par.

> *"The Indian private sector banks used technology as the means to be able to upset the apple cart and play in the competitive market, so there they have a huge competitive advantage. Technologically they were always way savvier than anyone, and are continuing to make incremental improvements in a way that a foreign bank is finding very hard to get abreast with." (R1)*

> *"The domestic private banks definitely have a competitive advantage where technology is concerned. They are very high up the curve, and have really*

invested in technology – which is where the foreign banks are lagging in India." (R3)

This competitive advantage was said to hold true not only in the retail sector. As one respondent remarked,

"Whatever edge the foreign banks had was over the nationalised banks, because those folks hardly had any technology. But once these private banks came in, they took the lead by miles. And this is true not only for retail, but also for corporate banking. For instance, about 25 years back, this foreign bank was the market leader in cash management (which to me is the ultimate test of a technology) - but they are nowhere today in cash management in the country, it's been completely taken over. After all, technology is something which can be copied very easily." (R8)

Several reasons were cited for this gap in digital capabilities, which have been collated and consolidated under the following heads:

1. Investment strategy and appetite

"A lot of our (domestic bank) technology platforms are scalable, and they are variable in terms of cost, so it's not like a fixed cost investment. For example, when we started the bank, we did a seven year lease with Wipro under which they kind of became our mentor to set up our IT platform, hardware, all those assets – and we paid them on a transactional basis. That's been the case with ATMs and many other things which banks do on their distribution channels. So it's been an asset-light strategy, adopting the best technology and paying for it on a variable basis, and using that to scale and keep upgrading our platforms." (R19)

"As a foreign bank, if we do not know the size of the market we are going to be able to penetrate into, how can we plan how large our technology investments should be? Because these are all very high gestational technology expenditures where the costs get defrayed only if you have a very larger number of clients. So our distributional disadvantage is automatically a disadvantage for doing that." (R1)

2. Challenges of a legacy system

"When the domestic banks started, banks like HSBC and Citi were mostly on legacy systems. It's very difficult to change legacy systems and it's very expensive, it's very clunky - so it was almost always patch work. At the same time, across the globe, banking technology was improving and Indian companies like TCS and Infosys were doing a lot of stuff around banking software. So universal banking software became a lot more sophisticated and of good quality, and that allowed the domestic banks to offer much better services/products than nationalised banks and comparable to the foreign banks." (R2)

"As a new domestic bank, we could build for volume, seamlessly and rapidly, because we started off from where technology had already advanced. So while we may not have been the best Internet banking solution, we are the best mobile app solution. It's a bit like in China - a Walmart was never created, but an Alibaba happened. So you just skipped one step and went on to the next." (R6)

"The older banks are becoming very irrelevant with clients because their technology infrastructure doesn't interface with the client that well, it's far more inflexible and it needs far more work to interface. So the cost of interface is higher. That is why foreign banks love to interface its wholesale clients with them

- flat files, data transfers, protocols; whereas the domestic banks are going straight to API infrastructures." (R7)

3. Challenges of dealing with a parent head office located overseas

"Technology will probably be a lot, lot more to the advantage of the private banks because they are nimble, they are not dictated by the head office. And that was one of the biggest things I found when I left as CEO of a foreign bank to start a domestic bank. I could put together an entire bank technology at a very, very cheap cost and be very nimble with upgrades and everything else happening on a regular basis. I didn't need to look at Head Office. I was working with TCS, and every time they upgraded, they would automatically come and service it for me, and they have no restrictions on logistics." (R2)

"The disadvantage of technology in foreign banks that I faced was everything needed approval from the head office. And that head office was situated in a country which was really not in touch with the local nuances of the country you were operating in. You were also just a tab on the global map for them, so always competing with other countries while calculating the return of investment." (R5)

4. Innovation that localises the requirements

"Ironically, the best technology used in India today is in the micro finance institutions. What made them invest in technology? Necessity. They are there in villages where power is not reliable, and putting in computers would mean putting in gen sets and air conditioners – which is too expensive. So instead it goes off to a cloud and email, that's a much cheaper deployment." (R4)

“The problem with foreign banks was even if they had a great technology, it was a great technology suited for where there home base was. It wasn’t the technology tailored to the country they were operating in.” (R5)

“What I have noticed is that we (foreign bank) keep trying to customise our international or regional platforms in India, but that does not meet the Indian requirements; and the local banks are able to create something that actually meets the Indian requirements. So I believe we are now at a disadvantage on the technology front, although we keep doing different things. For instance, we launched the first biometric ATM – so we do invest in technology like this but I think we are now losing our advantage on the technology front.” (R24)

5. Recognising the importance of staying ahead – disruptive innovators

“A domestic player Yes Bank was the first bank to launch a blockchain-based product a couple of months back. Now my team (at a domestic bank) is going to launch a blockchain-based remittances product along with an American company. As far as I know, not a single big foreign bank has reached the stage of even signing a Memorandum of Association… If I use block chain as a classic example - will it make a lot of difference to our (domestic bank) business? I don’t think so. But it’s all about the mind-set. So while I am not so hot in it giving us incremental benefits, it is a mind-set saying that I don’t want to be out of that technology.” (R8)

4.3.3.2 Use of MIS

The survey results on “Foreign banks are better at using MIS on their retail and corporate customers” was statistically significant with $p<0.05$; however, when the sample was stratified to include only those respondents that had also worked at domestic banks, the results were statistically not significant.

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are better at using MIS on their retail customers	3.097	61	.003	.790	.28	1.30

The sample mean of the retail use of MIS score for all respondents at 3.46 (SD=1.13) was statistically significantly different than the 'neutral' test value of 4.0 at 0.79 (95% CI, 0.28 to 1.30), $t(61) = 3.097$, $p = .003$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only - Foreign banks are better at using MIS on their corporate customers	5.418	56	.000	1.175	.74	1.61

The sample mean of the corporate banking services use of MIS score for all respondents at 3.70 (SD=0.96) was statistically significantly different than the 'neutral' test value of 4.0 at 1.175 (95% CI, 0.74 to 1.61), $t(56) = 5.418$, $p < .001$

However, stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are better at using MIS on their retail customers	.874	23	.391	.375	-.51	1.26

The sample mean of the retail MIS usage score at 3.29 (SD=1.20) was not statistically significantly different than the 'neutral' test value of 4.0 at 0.38 (95% CI, -0.51 to 1.26), $t(23) = 0.874$, $p = .391$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are better at using MIS on their corporate customers	1.346	15	.198	.625	-.36	1.61

The sample mean of the core corporate banking MIS usage score at 3.38 (SD=1.02) was not statistically significantly different than the 'neutral' test value of 4.0 at 0.63 (95% CI, -0.36 to 1.61), $t(15) = 1.346$, $p = .198$

However, content analysis of the interview responses showed that within India, the domestic banks appeared to be far more active in using MIS. As was explained, it had to do with the size and scale of operations – which made it impossible to function unless there was excellent MIS support.

"We (domestic bank) really need solid back end processes in terms of MIS generations, early warning reports, etc. We need to keep developing that part of the business because while one part of the business is growth, you also need to have strong processes and strong control framework to support that growth, otherwise it can all come crashing down. There is an equal emphasis and focus on our risk framework. One of the things we are quite obsessed about is having the right kind of MIS to monitor how anything is moving. So MIS is something that we look at very closely, trend is another one that we try monitoring both based on internal and external data. Market intelligence is something we keep gathering from other players. There is a lot of emphasis on the whole control framework that we operate in." (R13)

"With the scale we (domestic bank) have, our processes are critical in terms of having the right MIS – so this is something we are constantly updating. We have a lot of focus on automation from transaction to the final financial statement generation. We are also automating a lot of our decision making processes, for instance all transactions which are rule based. The software is actually making a decision of putting a transaction through or not putting a transaction through, or processing the client through a particular form." (R14)

Of the 12 respondents who spoke about MIS/Big Data, there were three who mentioned that their foreign banks were also investing in MIS and Big Data, but agreed that the development currently lags a little behind the domestic players. The other 9 respondents believed that the domestic banks were ahead.

"In terms of use of MIS and Big Data, the domestic banks are way ahead of the foreign banks. Because today, all this is off the shelf. And frankly the less regulatory system you have, you can have a more comprehensive system and your MIS can be measured and its management is stronger." (R4)

"Both foreign and the domestic banks are beginning to use Big Data more, generating more accurate MIS – but it's happening in specific areas and is still sporadic." (R1)

"We (domestic bank) are well down that road of using data analytics, and are now beginning to use machine learning, etc., particularly at the back end, to ensure that we are able to kill the linearity of costs, in terms of linearity between cost and income growth." (R10)

"We (domestic bank) use big data; I would say we are at a relatively early stage. On the top sell part of it we are reasonably okay, the other part of big data which is a kind of algorithm based lending – purely analysing transaction data and looking at how you can minimise taking documents from the customer or asking questions to the customer to give a loan – that is at a relatively early stage." (R14)

To conclude, there was support for both the hypotheses, "Greater the strategic intent of a bank to invest in technology, higher is relative growth performance in an emerging market", and "Greater the speed to market in deploying new technology, higher is relative growth performance in an emerging market."

4.3.4 The 'Customer Service' theme

This theme was tested separately for retail and core corporate services using the following eight statements: "Foreign banks have a greater focus on value as compared to volume"; "Foreign banks have a better understanding of the retail customer's requirements"; "Foreign banks are quicker to develop new product and service suites to meet the customers' demand"; "The foreign bank's global network is a great advantage in retail banking operations"; "The foreign bank's reputation with their overseas customers is of great value in building a local brand"; "Foreign banks are more willing to help their customers"; and "The employees of a foreign bank have greater knowledge in answering their retail customers' questions"; and "Foreign banks are more innovative in driving customer satisfaction".

Questions in the interview ranged from: How do the domestic private banks compare to the foreign banks in terms of customer service? What is your customer strategy based on, value or volume? Are you moving away from product-focused silos to more effectively reach your customers? What do you do to make sure you understand their requirements and build a product/service suite to address that?

Of the 26 respondents, 12 said that foreign banks were on par with domestic banks in terms of customer service; 8 said that the domestic banks were superior, 3 believed that the foreign banks were better, while 2 responded that the foreign banks were better in certain niches.

Hence, it became apparent that the wide gap that used to exist between the foreign and local banks in terms of customer service was clearly no longer the case.

4.3.4.1 Customer value, or volume?

One-Sample Test

	Test Value = 4				
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference

					Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks have a greater focus on value as compared to volume	8.447	61	.000	1.774	1.35	2.19

Performing a One-Sample t-test, it was found that the sample mean of the retail value score at 4.10 (SD=1.00) was statistically significantly higher than the 'neutral' value of 4.0 at 1.78 (95% CI, 1.35 to 2.19), t(61) = 8.447, p < .001

One-Sample Test

	Test Value = 4					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For CORE CORPORATE BANKING SERVICES only - Foreign banks have a greater focus on value as compared to volume	11.037	56	.000	1.982	1.62	2.34

Performing a One-Sample t-test, it was found that the sample mean of the core corporate value score at 4.19 (SD=0.85) was statistically significantly higher than the 'neutral' value of 4.0 at 1.98 (95% CI, 1.62 to 2.34), t(56) = 11.037, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4				
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference

					Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks have a greater focus on value as compared to volume	5.436	23	.000	1.792	1.11	2.47

Performing a One-Sample t-test, it was found that the sample mean of the retail value score at 4.08 (SD=0.97) was statistically significantly higher than the 'neutral' value of 4.0 at 1.79 (95% CI, 1.11 to 2.47), t(23) = 5.436, p < .001

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks have a greater focus on value as compared to volume	4.615	15	.000	1.625	.87	2.38

Performing a One-Sample t-test, it was found that the sample mean of the core corporate value score at 3.94 (SD=0.85) was statistically significantly higher than the 'neutral' value of 4.0 at 1.625 (95% CI, 0.87 to 2.38), t(15) = 4.615, p < .001

Hence, there was support for the hypothesis that foreign banks had a greater focus on the value of the customer as compared to local banks. This was largely supported by the data from the interviews.

> *"A lot of foreign banks are now shedding clients, not because they are not profitable or marginally not profitable, but because they have to factor in the entire cost of maintaining that client. Whereas a private bank will not look like*

that at all. It says the more the merrier. But the foreign bank will say we don't want so many clients, we want a profitable client." (R3)

However as two heads of local banks added,

"I do not believe that it is true to say that the foreign banks are more focused on value whereas the domestic players are happy to go with volume. Finally the end result metric is return on equity. That is true for us and it's true for the foreign banks." (R6)

"Customer profitability is very, very big and an absolute differentiator for us (domestic bank). Everyone talks about it - but the MIS, the systems, the reporting, the kind of micro detailing and sharpness of matrix that we looked at - was a very, very significant factor in our success, and it really made us stand apart." (R16)

4.3.4.2 Understanding of the customer's requirements

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks have a better understanding of their retail customer's requirements	.391	61	.697	.097	-.40	.59

Performing a One-Sample t-test, it was found that the sample mean of the retail understanding score at 3.06 (SD=1.08) was not statistically significantly higher than the 'neutral' value of 4.0 at 0.097 (95% CI, -0.40 to .59), $t(61) = .391$, $p = .697$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks have a better understanding of the corporate customer's requirements	4.842	56	.000	1.053	.62	1.49

Performing a One-Sample t-test, it was found that the sample mean of the core corporate understanding score at 3.56 (SD=0.91) was statistically significantly higher than the 'neutral' value of 4.0 at 1.053 (95% CI, 0.62 to 1.49), t(56) = 4.842, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks have a better understanding of their retail customer's requirements	-.202	23	.842	-.083	-.94	.77

Performing a One-Sample t-test, it was found that the sample mean of the retail understanding score at 2.96 (SD=1.08) was not statistically significant as compared to the 'neutral' value of 4.0 at -0.83 (95% CI, -.94 to .77), t(23) = -.202, p = .84

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks have a better understanding of the corporate customer's requirements	2.513	15	.024	1.000	.15	1.85

Performing a One-Sample t-test, it was found that the sample mean of the core corporate understanding score at 3.56 (SD=0.89) was statistically significantly higher than the 'neutral' value of 4.0 at 1.00 (95% CI, .15 to 1.85), t(15) = 2.513, p = .024

Hence, the hypothesis that foreign banks have a better understanding of their customer's requirements was supported for the corporate services offered, but not retail services. In fact, this result is very much in line with the results that appeared in the "Distribution" section earlier, where there was a statistically significant score for foreign banks in terms of being better at corporate distribution channels, and not retail. It can be explained in terms of the services and products that a retail versus corporate customer would be looking for. As explained by a respondent,

> *"In wholesale banking, to some extent, foreign banks are more customer oriented, as they are looking at a very defined set of customers and have access to Indian products as well as overseas products." (R4)*

4.3.4.3 Foreign banks are quicker to develop new product and service suites to meet the customers' demand

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are quicker to develop new product and service suites to meet their customers' demand	.430	61	.668	.113	-.41	.64

Performing a One-Sample t-test, it was found that the sample mean of the 'retail new product' score at 3.06 (SD=1.20) was not statistically significant from the 'neutral' value of 4.0 at 0.113 (95% CI, -.41 to .64), t(61) = 0.43, p = .67

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are quicker to develop new product and service suites to meet the customers' demand	2.338	56	.023	.596	.09	1.11

Performing a One-Sample t-test, it was found that the sample mean of the core corporate 'new product' score at 3.33 (SD=1.07) was statistically significantly higher than the 'neutral' value of 4.0 at 0.596 (95% CI, .09 to 1.11), t(56) = 2.338, p = .023

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are quicker to develop new product and service suites to meet their customers' demand	-.490	23	.629	-.208	-1.09	.67

Performing a One-Sample t-test, it was found that the sample mean of the retail new product score at 2.92 (SD=1.21) was not statistically significant from the 'neutral' value of 4.0 at -.208 (95% CI, -1.09 to .67), t(23) = -.490, p = .063

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are quicker to develop new product and service suites to meet the customers' demand	.293	15	.774	.125	-.79	1.04

Performing a One-Sample t-test, it was found that the sample mean of the core corporate new product score at 3.06 (SD=0.85) was not statistically significant from the 'neutral' value of 4.0 at 0.13 (95% CI, -.79 to 1.04), t(15) = .293, p = .78

This particular hypothesis was linked to the Tyranny of the Headquarters theme, as it has to do with speed of innovation. While the results taken from the data set of all respondents support the hypothesis that the foreign banks were quicker to develop new products and services for core corporate services, this statistical significance did not hold when taking the responses of those who had also worked in domestic banks. Additionally, it appeared to hold true for some foreign banks only. As one respondent from a foreign bank explained,

> *"Building of products and service suites happens actively in a foreign bank like us because we are very nimble and focused on corporate services only. It will not happen with almost all the other foreign banks which are far more bureaucratic." (R3)*

The speed of foreign banks in developing products for their retail customers being faster than the domestic banks was also not statistically significant. In fact, content analysis of responses from the interviews support that domestic banks are in fact considered faster than their foreign counterparts in developing new retail products.

> *"The disadvantage for most of the foreign banks is that because the high end is not so much the retail, by the time you get your approvals and committees are formed to decide what products to use, most of them don't understand the Indian market, so they are scared about every single risk that you want to take, and your time to market is way slower than a local bank in that segment." (R1)*

> *"There was a time when the foreign banks had the most innovative types of products, but now not at all. Transactional products are the same. And wealth management products today for a foreign bank are much more restrictive than local private banks because private banks can get access to a lot more mutual funds and equity products as they have got security companies attached to them… Where we (foreign bank) could have had an advantage was if we were bringing a lot of international products - but we don't." (R2)*

"Domestic banks are way better at innovative products, not just as good. There is no doubt about it, miles ahead. Compared to their level of aggressiveness and marketing, the foreign banks are nowhere." (R9)

4.3.4.4 Global network

One-Sample Test

	Test Value = 4					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
For RETAIL BANKING SERVICES only The foreign bank's global network is a great advantage in retail banking operations	1.372	61	.175	.371	-.17	.91

Performing a One-Sample t-test, it was found that the sample mean of the retail global network score at 3.23 (SD=1.22) was not statistically significant from the 'neutral' value of 4.0 at 0.37 (95% CI, -.17 to .91), t(61) = 1.372, p = .18

One-Sample Test

	Test Value = 4					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
For CORE CORPORATE BANKING SERVICES only The foreign bank's global network is a great advantage in corporate banking operations	24.015	56	.000	2.386	2.19	2.58

Performing a One-Sample t-test, it was found that the sample mean of the core corporate global network score at 4.44 (SD=0.60) was statistically significantly higher than the 'neutral' value of 4.0 at 2.39 (95% CI, 2.19 to 2.58), $t(56) = 24.015$, $p < .001$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The foreign bank's global network is a great advantage in retail banking operations	1.580	23	.128	.708	-.22	1.64

Performing a One-Sample t-test, it was found that the sample mean of the retail global network score at 3.23 (SD=1.22) was not statistically significant from the 'neutral' value of 4.0 at 0.71 (95% CI, -.22 to 1.64), $t(23) = 1.580$, $p = .128$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only The foreign bank's global network is a great advantage in corporate banking operations	9.118	15	.000	2.313	1.77	2.85

Performing a One-Sample t-test, it was found that the sample mean of the core corporate global network score at 4.44 (SD=0.60) was statistically significantly higher than the 'neutral' value of 4.0 at 2.31 (95% CI, 1.77 to 2.85), $t(15) = 9.118$, $p < .001$

Hence, there is support for the hypothesis that the foreign bank's global network is a great advantage in their corporate banking operations, however, the statistical significance does not hold for retail operations. This result too is very much in line with the results that appeared in the "Distribution" section earlier, where there was a statistically significant score for foreign banks in terms of being better at corporate distribution channels, and not retail. It can be explained in terms of the services and products that a retail versus corporate customer would be looking for. In addition, other factors such as turf wars were cited which could explain the above phenomenon:

> *"Where the multinationals still score is cross border trade, and they have access to cheaper offshore money." (R6)*

> *"On the retail end, you don't really get any advantage because there is no real expertise that you carry globally. The only one is NRI's, and because of turf issues, I have not seen any foreign bank who could use them effectively. All of us were fighting innumerable turf issues, and out of frustration giving it up, just ignoring the network and going on our own. So that diaspora was the only place which could have been an advantage, but in the Indian context I did not see anybody, not a single bank, using that to their advantage." (R1)*

> *"It doesn't really help us (foreign bank) to have this global presence as we don't actually get products which have worked well in other parts of the world and fine tune it in India. In fact what happens regularly is that all bad experiences and all the losses you have made in another country come back*

to haunt you here. So we have lost money on similar sort of products, and then it comes back to you as a red warning." (R3)

"In some of the core corporate banking, a very small section of corporates would still like to have a foreign bank around because they have the international linkup." (R5)

4.3.4.5 Reputation with their overseas customers is of great value in building a local brand

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The foreign banks' reputation with their overseas customers is of great value in building a local brand	4.601	61	.000	1.081	.61	1.55

Performing a One-Sample t-test, it was found that the sample mean of the retail reputation score at 3.61 (SD=1.05) was statistically significantly higher than the 'neutral' value of 4.0 at 1.081 (95% CI, 0.61 to 1.55), $t(61) = 4.601$, $p < .001$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper

For CORE CORPORATE BANKING SERVICES only The foreign banks' reputation with their overseas customers is of great value in building a local brand	18.256	56	.000	2.263	2.01	2.51

Performing a One-Sample t-test, it was found that the sample mean of the core corporate reputation score at 4.35 (SD=0.67) was statistically significantly higher than the 'neutral' value of 4.0 at 2.26 (95% CI, 2.01 to 2.51), $t(56) = 18.256$, $p < .001$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The foreign banks' reputation with their overseas customers is of great value in building a local brand	3.505	23	.002	1.292	.53	2.05

Performing a One-Sample t-test, it was found that the sample mean of the retail reputation score at 3.79 (SD=1.06) was statistically significantly higher than the 'neutral' value of 4.0 at 1.29 (95% CI, 0.53 to 2.05), $t(23) = 3.505$, $p = .002$

One-Sample Test

	Test Value = 4

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
For CORE CORPORATE BANKING SERVICES only The foreign banks' reputation with their overseas customers is of great value in building a local brand	11.662	15	.000	2.313	1.89	2.74

Performing a One-Sample t-test, it was found that the sample mean of the core corporate reputation score at 4.38 (SD=0.62) was statistically significantly higher than the 'neutral' value of 4.0 at 2.31 (95% CI, 1.89 to 2.74), $t(15) = 11.662$, $p < .001$

Across both, retail and core corporate services, there was support for the hypothesis that the foreign banks' reputation with their overseas customers is of great value in building a local brand. This can also be linked to the aspiration factor that foreign banks bring to customers.

> *"I still believe, and maybe I am a little old fashioned, that in India there is still snob value, not with probably the next generation, but in our generation, it is still there that I want to bank with a foreign bank." (R17)*

> *"There was precious little that I could really take from the global landscape except to say that I am an international bank, we're a network bank, we are this big, etc." (R1)*

> *"The foreign banks still have an edge when it comes to the international reach. So if a GE or a Pepsi or a Coke were to come into India, their natural choice or preference would be Citi, and not necessarily only from an India perspective, but the head office would say I deal with Citi in the US and I am present in 30*

countries and so I deal with Citi in 30 countries. So that's their rationale for dealing with one of them." (R12)

4.3.4.6 Willingness to help their customers

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are more willing to help their customers	4.129	61	.000	.952	.49	1.41

Performing a One-Sample t-test, it was found that the sample mean of the retail willingness score at 3.56 (SD=1.05) was statistically significantly higher than the 'neutral' value of 4.0 at 0.952 (95% CI, 0.49 to 1.41), $t(61) = 4.129$, $p < .001$

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are more willing to help customers	.982	56	.330	.228	-.24	.69

Performing a One-Sample t-test, it was found that the sample mean of the core corporate distribution score at 3.14 (SD=0.99) was not statistically significant from the 'neutral' value of 4.0 at 0.23 (95% CI, -.24 to .69), $t(56) = 0.982$, $p = .330$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are more willing to help their customers	1.806	23	.084	.708	-.10	1.52

Performing a One-Sample t-test, it was found that the sample mean of the retail willingness score at 3.46 (SD=1.10) was not statistically significant from the 'neutral' value of 4.0 at 0.71 (95% CI, -10 to 1.52), t(23) = 1.806, p = .084. However, this would be a statistically significant score if a 1-tailed t test was applied, with p = .042

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are more willing to help customers	.436	15	.669	.125	-.49	.74

Performing a One-Sample t-test, it was found that the sample mean of the core corporate willingness score at 3.06 (SD=0.57) was not statistically significantly higher than the 'neutral' value of 4.0 at 0.125 (95% CI, -0.49 to .74), t(15) = 0.436, p = .669

This was an interesting finding, that the hypothesis of foreign banks being more willing to help finds support for their retail customers, and not their core corporate customers. However, it could be explained by the fact that corporate services tend to be highly regulated, and foreign banks tend to be less flexible in their willingness to accommodate their customers.

The retail bank clientele of a foreign bank though are typically high value customers, as these banks do not play in the mass market. As a result, the employees would be far more willing to help them. In a domestic bank, given the sheer scale, the willingness to help gets diluted, and there is also far less human interaction.

> *"Foreign banks do not differentiate on any level on customer service. For them the service level has to be equally high irrespective of whether you are the top notch customer of not. Whereas in an Indian private sector bank, there is a very clear differentiation – if you are a regular savings customer, no great value – then there will be no Relationship Manager attached to you, and you will be more often than not driven to a digital channel. You can't blame them – it is the sheer numbers they are dealing with." (R22)*

4.3.4.7 Knowledge of the employees in answering customers' questions

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only The employees of a foreign bank have greater knowledge in answering their retail customers' questions	1.585	61	.118	.403	-.11	.91

Performing a One-Sample t-test, it was found that the sample mean of the retail knowledge score at 3.20 (SD=1.08) was not statistically significant from the 'neutral' value of 4.0 at 0.40 (95% CI, -0.11 to .91), t(61) = 1.585, p = .118

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only The employees of a foreign bank have greater knowledge in answering their corporate customers' questions	4.072	56	.000	.877	.45	1.31

Performing a One-Sample t-test, it was found that the sample mean of the core corporate knowledge score at 3.47 (SD=0.87) was statistically significantly higher than the 'neutral' value of 4.0 at 0.877 (95% CI, 0.45 to 1.31), t(56) = 4.072, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper

For RETAIL BANKING SERVICES only The employees of a foreign bank have greater knowledge in answering their retail customers' questions	.727	23	.475	.292	-.54	1.12

Performing a One-Sample t-test, it was found that the sample mean of the retail knowledge score at 3.17 (SD=1.09) was not statistically significantly higher than the 'neutral' value of 4.0 at 0.29 (95% CI, -.54 to 1.12), t(23) = .727, p = .475

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only The employees of a foreign bank have greater knowledge in answering their corporate customers' questions	1.775	15	.096	.625	-.13	1.38

Performing a One-Sample t-test, it was found that the sample mean of the core corporate knowledge score at 3.31 (SD=0.70) was not statistically significant from the 'neutral' value of 4.0 at 0.63 (95% CI, -.13 to 1.38), t(15) = 1.775, p = .096. However, a 1-tail t test would provide a statistically significant value at p = .048

The hypothesis that the employees of a foreign bank have greater knowledge in answering their customers' questions finds support for the core corporate services, and not the retail services. Again, this could be attributed to the kind of products and services both sets are looking for.

However, responses from the interviews suggest that the employees of a foreign bank have greater knowledge in answering their customers' questions,

> *"In today's banking, you are launching products at a much faster speed, and you are opening branches at a crazy speed. So for the first 5-6 years, we (domestic bank) were opening double the branches which we had in our base, and the pressure on our system was very high. You would do the bare minimum amount of training and move on. And that is why we tried to put processes in place which made servicing a lot more dummy proof. In a domestic bank, your branch managers, unlike a foreign bank, are just glorified sales managers. Because all the operations have got centralised, so the knowledge level has moved out of them and they just know that they need to meet their target." (R5)*

> *"Today what I feel about the local banks is that the quality of people has gone down. A person selling soap and toothpaste is picked up and put into a bank, it's all about selling. Whereas even today in foreign banks, the screening process, the quality of who you want on board, they are still a bit choosy. That might be going away, but I think there is still a slight difference." (R17)*

4.3.4.8 Innovation in driving customer satisfaction

This hypothesis too had a strong link to the Tyranny of the Headquarters theme.

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper

	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For RETAIL BANKING SERVICES only Foreign banks are more innovative in driving customer satisfaction	2.910	61	.005	.742	.23	1.25

Performing a One-Sample t-test, it was found that the sample mean of the retail innovation score at 3.38 (SD=1.12) was statistically significantly higher than the 'neutral' value of 4.0 at 0.74 (95% CI, 0.23 to 1.25), t(61) = 2.910, p = .005

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are more innovative in driving customer satisfaction	6.256	56	.000	1.246	.85	1.64

Performing a One-Sample t-test, it was found that the sample mean of the core corporate distribution score at 3.72 (SD=0.88) was statistically significantly higher than the 'neutral' value of 4.0 at 1.246 (95% CI, 0.85 to 1.64), t(56) = 6.256, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper

For RETAIL BANKING SERVICES only Foreign banks are more innovative in driving customer satisfaction	1.471	23	.155	.625	-.25	1.50

Performing a One-Sample t-test, it was found that the sample mean of the retail innovation score at 3.35 (SD=1.15) was not statistically significant from the 'neutral' value of 4.0 at 0.63 (95% CI, -0.25 to 1.50), t(23) = 1.471, p = .155

One-Sample Test

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
For CORE CORPORATE BANKING SERVICES only Foreign banks are more innovative in driving customer satisfaction	2.582	15	.021	1.000	.17	1.83

Performing a One-Sample t-test, it was found that the sample mean of the core corporate innovation score at 3.63 (SD=0.96) was statistically significant than the 'neutral' value of 4.0 at 1.00 (95% CI, 0.17 to 1.83), t(15) = 2.582, p = .021

Once again, the hypothesis that foreign banks are more innovative in driving customer satisfaction find support for the core corporate services, and not for the retail services (by respondents who have also worked in domestic banks).

This finding was supported by the qualitative data from the interviews.

> *"In terms of customer satisfaction, what we offered at my (top domestic) bank was certainly not as high as what we used to offer in the foreign banks. When we*

started off 20 years back, we said that the customer is all important, the customer is king – but I say that the customer is not always king. I will offer service at different price points based on profitability. I am not prepared to go out and offer service for the sake of service. So in case the customer was unprofitable, I'd start switching off." (R16)

The following table would help capture the above findings from the survey, where '✓' represents statistically significant, and '**X**' represents not statistically significant.

	Retail services	Core corporate	Retail services	Core corporate
	All respondents		Also worked in domestic	
Foreign banks have a greater focus on value as compared to volume	✓	✓	✓	✓
Foreign banks have a better understanding of the customer's requirements	X	✓	X	✓
Foreign banks are quicker to develop new product and service suites to meet the customers' demand	X	✓	X	X
The foreign bank's global network is a great advantage in banking operations	X	✓	X	✓
The foreign bank's reputation with their overseas customers is of great value in building a local brand	✓	✓	✓	✓
Foreign banks are more willing to help their customers	✓	X	✓	X
The employees of a foreign bank have greater knowledge in answering their customers' questions	X	✓	X	✓
Foreign banks are more innovative in driving customer satisfaction	✓	✓	X	✓

For Retail banking services

Case Processing Summary

	N	%

Cases	Valid	62	60.8
	Excluded[a]	40	39.2
	Total	102	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.785	.781	8

For corporate banking services:

Case Processing Summary

		N	%
Cases	Valid	57	55.9
	Excluded[a]	45	44.1
	Total	102	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.715	.690	8

Cronbach's Alpha is > 7 for both retail and core corporate banking services, showing high internal reliability.

4.3.4.9 Additional qualitative analysis

Over and above the findings above, there were some other recurring themes that emerged from the content analysis of the interviews, which could enable further understanding where the competitive advantage of foreign banks lie as measured against the domestic players:

1. The scale and reach of operations of domestic banks

> *"What is important in consumer banking is not just having the product and the price, but having the scale to back it. It is the combination of the two." (R14)*

> *"For wholesale bank, you have to be on the ground to be a more realistic banker. You cannot just be in one or two cities." (R4)*

> *"The domestic bank benefit is clearly the pan-India presence. So if a bank is offering transaction cash management services to a customer who has transactions all over the country, it will be far more efficient because of the physical presence everywhere." (R6)*

2. Compliance requirements of foreign banks

> *"Today, foreign banks are less concerned about retaining the customer, because it's a fight for survival. So earlier you could say, this is good customer service, let's do it. But today if that customer service compromises with some of the rules and regulations which the US-based Monitor wants or the regulator wants, then your core licence is at stake. Licence is far ahead of customer service." (R2)*

> *"Despite having had accounts with foreign banks, most of us today are opening accounts with domestic banks and are very happy in terms of the quality of service that is being provided, either digitally or through the branches. Remember that foreign banks have to comply with global compliance issues, of which they have a pretty long list. We (domestic banks) have to deal with just the*

RBI – it's not that we are less compliant, but the complexity of that compliance is significantly lower." (R10)

3. Group company advantage of domestic banks

"As the domestic banks have got security companies attached to them, in one click transfers can be made for securities purchased." (R2)

"What is available to local banks is actually not available to foreign banks, like the equity products, mutual funds, etc. So a domestic bank can get together with seven builders and makes a property fund which they will give to their customers – but a foreign bank will never do that. Hence the range of products, the accessibility, and the ease at which you can transact the products, are all better with a domestic bank." (R2)

"In a domestic bank, the retail customer is getting a one-stop shop solutions for his financial needs, starting from loans to investments to transactions to advice, through a single source. So it's a far more 360 degrees kind of experience that a customer is getting." (R6)

4. Lack of Intellectual Property

"Earlier, you would go to a foreign bank for better quality service. But the thing about financial services is that copying of any financial service is one of the easiest things to do. You cannot sustain a competitive demand edge by launching a product, because until and unless it is rooted in technology, it is very easy to copy. So what is available for the foreign banks is available to the local banks too." (R2)

"In terms of whether the foreign banks have an edge in introducing products that have worked very well across the globe - that did not work in India as India banking required very different products. And in today's day and age, everyone knows what products are available everywhere. Today I can go on the Internet and know which bank, sitting in which country, is offering what product. As long as you know what the product is and you know what your environment is and you build your product according to that, the advantage of foreign banks has totally gone away." (R5)

5. Breaking down of product silos

"We need to move away from a product based silo to be totally integrated with the rest of the bank. Gone are transactional platforms, the need is for a near integrated offering." (R4)

"We (domestic bank) want to move away from product focused silos to target the customer as a whole. But that continues to be a challenge, because when you are a very large player, pan-India, having a little bit of a product focus gives you the start. You roll out the product in a very consistent manner and you have targets internally on pushing a product - but it is not ideal from a customer's perspective or in the long run, the bank's perspective itself. So it all starts off with a little bit of a product vertical, then a bit of a hybrid, and then finally it becomes a completely customer faced organisation. So to us it's a continuous journey." (R18)

6. Losing the personal touch

"The foreign banks have lost their zing which they had on the service that was there some 20 years back. So it's not as if customers are thrilled about the service

they get, because I think that personal touch that we got onto the table is no longer there and that it is hurting them." (R8)

4.3.5 'Tyranny of the headquarters'

There were four statements in the survey that tested this construct: "Foreign banks are quicker in their strategic decision making", "Managers at foreign banks have easier access to their top management (at the parent head office)", "Foreign banks are as committed to the Indian market", and "Foreign banks are more likely to assume risk".

Questions asked in the interviews included: Are domestic private banks at a significant advantage on account of the physical proximity of the head office? Does it affect the speed of decision making? Risk taking abilities? Innovation mind set? Are the domestic players at a competitive disadvantage to the multinational banks, which have potential access to much larger capital and network resources on a global scale? How important do you feel is commitment from the head office?

The quantitative data from the survey, as well as content analysis of the interviews, strongly supported the hypothesis that 'tyranny of the headquarters' is a statistically significant disadvantage for foreign banks as compared to the domestic banks.

4.3.5.1 Speed of strategic decision making

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are quicker in their strategic decision making	92	2.88	1.257	.131

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks are quicker in their strategic decision making	-.913	91	.364	-.120	-.38	.14

Performing a One-Sample t-test, it was found that the sample mean of the quick decision making score at 2.88 (SD=1.26) was not statistically significantly from the 'neutral' value of 3.0 at -0.120 (95% CI, -.38 to .14), t(91) = -0.913, p = .364

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are quicker in their strategic decision making	34	2.65	1.252	.215

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks are quicker in their strategic decision making	-1.643	33	.110	-.353	-.79	.08

Performing a One-Sample t-test, it was found that the sample mean of the quick decision making score at 2.65 (SD=1.25) was not statistically significant from the ‘neutral’ value of 3.0 at -.110 (95% CI, -.79 to .08), $t(33) = -1.643$, $p = .110$.

However, performing a 1-tailed t test gives a p value of .055, and can be considered statistically significant that the foreign banks are in fact slower in their strategic decision making as compared to domestic banks.

This finding was supported by the qualitative analysis of the interviews too.

> *“My view of the risk-taking mind set of the head office is that specifically in my (foreign) bank, because we had a very strong CEO, even though the business reported outside the country, as long as you were doing well, they left you to do it. In a year where the markets were a little choppy, there were a lot of questions asked. So both betrayed lack of confidence. There wasn’t any real understanding of the market or any real desire to understand it. The whole idea was that this is too complicated, let the locals understand it, and carry on and do what they want.” (R1)*

> *“Overall, decision making and head office support is quicker and better in the local banks as compared to the foreign ones. It is not only about autonomy, there is also enough delegation that has been given all the way down.” (R5)*

> *“One big challenge foreign banks have is a lack of trust from the Head Office. There is hardly any freedom that senior management have to take decisions. The speed of decision making in domestic banks is just way ahead.” (R8)*

> *“If a domestic bank sees a good opportunity, it can move very quickly on decision making. The difference is that here is somebody who has a very good*

pulse of what is happening on the ground. But people at the MNC banks don't get exposed so much to what is happening on the ground." (R13)

4.3.5.2 Access to top management at the Head Office

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Managers at foreign banks have easier access to their top management (at the parent head office)	93	3.23	1.278	.133

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Managers at foreign banks have easier access to their top management (at the parent head office)	1.704	92	.092	.226	-.04	.49

Performing a One-Sample t-test, it was found that the sample mean of the access to head office score at 3.23 (SD=1.28) was not statistically significant from the 'neutral' value of 3.0 at -.226 (95% CI, -.04 to .49), t(92) = 1.704, p = .092. However, this would be statistically significant for a 1-tail t test with p = .046

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Managers at foreign banks have easier access to their top management (at the parent head office)	33	3.06	1.116	.194

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Managers at foreign banks have easier access to their top management (at the parent head office)	.312	32	.757	.061	-.34	.46

Performing a One-Sample t-test, it was found that the sample mean of the access to head office score at 3.06 (SD=1.16) was not statistically significant from the 'neutral' value of 3.0 at .061 (95% CI, -.34 to .46), t(32) =.312, p = .757

However, a content analysis of the qualitative data provided strong support to the hypothesis that managers at foreign banks do not have easier access to their top management as compared to their domestic counterparts.

> *"Distance absolutely makes correct and efficient decision making difficult. Because we (foreign bank) were reporting to Hong Kong, which reported into London, for material decisions we were looking at a chain of command where*

there were breakdowns and gaps in understanding and communication through the entire path." (R9)

"When I (domestic banker) deal with a foreign bank here, I find that I have a lot more authority than the person I am negotiating with because they have a bureaucratic process. Second thing is the culture. If I need to cross check something, I can go into the CEO's room and check it and come back to take a position. They will first have to go to their head in Hong Kong and then ultimately refer back to London and all of that. And third I think is just proximity to the market and understanding of what is the dynamic of the market." (R14)

"Now working in a domestic bank, the head office for me as a business head is down the corridor, and my boss never takes more than 24 hours to come back to me - right or wrong decision is not the point - but never more than that. So we are seriously empowered and seriously agile in the market. You cannot even begin to imagine a foreign bank operating like that." (R16)

The matrix structure at foreign banks was perceived to be another challenge.

"There was a matrix structure in my (foreign) bank for some time, but we moved – transitioned back and forth a little bit, from local to matrix to finally for the last four years when I was heading a line, I was reporting outside the country. I actually thought there was zero value in that. I travelled to a lot of exotic destinations at a personal level, but barring that, it added absolutely no value. I embraced it knowing that anyway I had no relationships at the local level, so I would be able to get something out of this, particularly on the diaspora - but I soon figured out that with the turf issues they have, that it was of absolutely no use." (R1)

"Today you cannot breathe in a branch in a country without telling head office that you've taken the breath - it's all gone global, it's all gone vertical. The CEO, from being an all-powerful king, is now a conductor." (R2)

4.3.5.3 Commitment to the Indian market

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are as committed to the Indian market	94	3.02	.984	.101

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are as committed to the Indian market	.210	93	.834	.021	-.18	.22

Performing a One-Sample t-test, it was found that the sample mean of the commitment score at 3.02 (SD=.984) was not statistically significant from the 'neutral' value of 3.0 at .021 (95% CI, -.18 to .22), t(93) = .210, p = .834

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean

Foreign banks are as committed to the Indian market	34	2.68	1.036	.178

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are as committed to the Indian market	-1.820	33	.078	-.324	-.69	.04

Performing a One-Sample t-test, it was found that the sample mean of the commitment score at 2.68 (SD=1.04) was not statistically significant from the 'neutral' value of 3.0 at -.324 (95% CI, -.69 to .04), t(33) = -1.820, p = .078. However, this would be statistically significant lower for a 1-tailed t test with p = .039, providing support that foreign banks are not as committed to the Indian market as domestic banks.

This finding found high support in the interviews too.

> *"If we talk of the head office commitment, there are two types. I think there are some patient capital ones who have always maintained some kind of a presence, maybe four or five of them who have been there. But everybody else sort of vacillates because they are too small. So it's a very in and out market for a lot of these banks, and that is not just in India, its true for everywhere." (R2)*

> *"You need to see the CNBC effect, which is the quarterly earnings. That concept of patient capital is pretty much gone… For some banks, like HSBC, Citi, and*

Stanchart – they make good money in India, so how can they go? Group profits will be affected if it leaves India." (R2)

"In terms of commitment and patient capital, I would say that the Indian private sector banks score over the foreign banks because, first, unlike a foreign bank, they are not a branch, they have a head office. So their decision making can be faster, and their top management is on the ground. Secondly the private sector banks have stability of management, they don't keep changing. Matrix is another factor because the international bank matrix tends to be a lot more complex compared to a domestic bank." (R4)

"Level of commitment to the local business is dependent on the head office/branch country empowerment. However highly paid that CEO in India is of a foreign bank, the point is that serious decision making is still head office's prerogative." (R16)

4.3.5.3 Risk-assuming ability

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are more likely to assume risk	94	2.47	1.075	.111

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks are more likely to assume risk	-4.799	93	.000	-.532	-.75	-.31

Performing a One-Sample t-test, it was found that the sample mean of the risk taking score at 2.47 (SD=1.07) was statistically significantly lower than the 'neutral' value of 3.0 at -.532 (95% CI, -.75 to -.31), t(93) = -4.799, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are more likely to assume risk	35	2.54	1.010	.171

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are more likely to assume risk	-2.678	34	.011	-.457	-.80	-.11

Performing a One-Sample t-test, it was found that the sample mean of the risk taking score at 2.54 (SD=1.01) was statistically significantly lower than the 'neutral' value of 3.0 at -.457 (95% CI, -.80 to -.11), t(34) = -2.678, p = .011

This was supported by the interviews, where respondents said,

> *"I don't think it's true that foreign banks, because they have to abide by a much more stringent global regulations or regulations of their parent country, find it harder to take risks. That's just an excuse. The capital adequacy regulations are*

as stringent in India as they are in the rest of the world. In fact they took far greater risks in the US – that's why all that mess happened." (R6)

However, an interesting point that was raised by one respondent was that while distance from the headquarters and slow decision making was a challenge for the foreign banks, this was more on account of financial decision-making, rather than the tyranny of the headquarters.

"Most banks are listed global entities, so shareholders require a particular return on their investment. For any organisation or financial institution, it is safest for them to run in their home market because that's where you have the best credit rating. The minute you go cross border into any other country, you have a currency translation risk, you have to take into account the rating and the regulatory environment of the country you are investing in - and that's where the complexity of the decision making begins. So I don't think its tyranny of an office, it's a very practical allocation of capital and return and the risk associated with it. And when you add all that infrastructure cost of control on top of it, you begin to then value the optionality of having an investment in a particular jurisdiction and seeing what is the option cost of keeping it for a longer term benefit, versus how feasible and practical that long term benefit is going to be to you." (R7)

The next step was to calculate Cronbach's Alpha for this group, which at 0.779 (> 7) shows high internal consistency.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items

.779	.775	4

To conclude, the "Tyranny of the Headquarters" was found to be a significant competitive disadvantage for the foreign banks.

4.3.6 Acquiring and retaining talent

There were three statements included in the survey to understand the talent theme: "Working for a foreign bank is more aspirational than working for a domestic bank", "Foreign banks offer more attractive employee financial incentives", and "Foreign banks offer more attractive employee non-financial incentives".

The interview asked two key questions: Compared to the foreign (or domestic) banks, do you see acquiring and retaining talent as a competitive advantage, or are you well-positioned in the industry? And second, is there an aspirational factor in working for a foreign bank?

In an interesting outcome, the survey provided statistical support that there was an aspiration factor to working in a foreign bank and it also offered better financial/non-financial incentives – however, the qualitative interviews threw up a number of interesting nuances that in fact supported domestic banks as slowly becoming the employer of choice.

4.3.6.1 Aspiration to work in a foreign bank

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Working for a foreign bank is more aspirational than working for a domestic bank	96	3.88	1.039	.106

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Working for a foreign bank is more aspirational than working for a domestic bank	8.254	95	.000	.875	.66	1.09

Performing a One-Sample t-test, it was found that the sample mean of the aspirational score at 3.88 (SD=1.04) was statistically significantly higher than the 'neutral' value of 3.0 at -875 (95% CI, .66 to 1.09), t(95) = 8.254, p < .001

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Working for a foreign bank is more aspirational than working for a domestic bank	35	3.89	.993	.168

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper

Working for a foreign bank is more aspirational than working for a domestic bank	5.276	34	.000	.886	.54	1.23

Performing a One-Sample t-test, it was found that the sample mean of the aspirational score at 3.89 (SD=0.993) was statistically significantly higher than the 'neutral' value of 3.0 at .886 (95% CI, .54 to 1.23), $t(34) = 5.276$, $p < .001$

This provided support to the hypothesis that working for a foreign bank is more aspirational than working for a domestic bank.

However, while performing a content analysis of the interviews, it became evident that there were some caveats to this support. Of the 18 respondents who commented on this question, 12 said outright that it was no longer aspirational to work in a foreign bank. As for the remaining six, four said that it depended on the area you wanted to work in (such as treasury), or the level one was joining (preferred at the lower level). Two agreed that it was still aspirational.

> *"So now there's no real aspirational factor in working for the foreign bank. The exception is probably only the high end treasury say, where there is genuinely an advantage in the foreign banks, but in the B2C markets – none exists." (R1)*

> *"The aspirational factor of working in a foreign bank is almost gone now. In fact, people will now say that you worked for a foreign bank and it is caught in a scandal - so it's the opposite now." (R2)*

> *"Is there still an aspirational factor to work in a foreign bank? Yes for some and no for others. You will never get an outright answer if you ask. But if you want an international career, absolutely a foreign bank is the place to be in. But then*

again, only 4-5% of the employees actually end up getting an international career." (R7)

"At a lower level, people still aspire to go to foreign banks more than domestic banks because of two reasons – one is that snob value of working in a foreign bank, and secondly the salaries at the entry level in a foreign bank are much better than the domestic banks. But not at a higher level." (R8)

4.3.6.2 Employee financial incentives

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks offer more attractive employee financial incentives	95	3.53	1.109	.114

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks offer more attractive employee financial incentives	4.624	94	.000	.526	.30	.75

Performing a One-Sample t-test, it was found that the sample mean of the financial incentives score at 3.53 (SD=1.10) was statistically significantly higher than the 'neutral' value of 3.0 at .526 (95% CI, .30 to .75), $t(94) = 4.624$, $p < .001$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks offer more attractive employee financial incentives	34	3.47	1.022	.175

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks offer more attractive employee financial incentives	2.685	33	.011	.471	.11	.83

Performing a One-Sample t-test, it was found that the sample mean of the employee financial incentives score at 3.47 (SD=1.022) was statistically significantly higher than the 'neutral' value of 3.0 at .471 (95% CI, .11 to .83), $t(33) = 2.685$, $p = .011$

This provided support to the hypothesis that foreign banks offer more attractive employee financial incentives than domestic banks.

However analysis of the data from the interviews was not as strongly significant in support.

> *"I would say it's a level playing field. At the senior levels, other than say some areas like investment banking, the domestic players offer such good stock options that the foreign banks are nowhere there. In a foreign bank, you probably end up giving a higher upfront salary and more bonus, but these*

domestic ones compensate by giving ESOPs – all of which have seen really good gains." (R1)

"When I joined a domestic bank 15 years back, ESOPS were only given at a certain level and above, but because of the competition and because the number of branches being opened by the private sector are so high, it is given at an AVP level also. So in the beginning it was the first 2-3 layers, now you've gone down at least 5 layers. Obviously the amount the lower levels make is much lesser, but everyone is getting the incentive of equity participation – which however little it is, is way more than the salary component." (R5)

4.3.6.3 Employee non-financial incentives

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks offer more attractive employee non-financial incentives	95	3.57	.975	.100

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks offer more attractive employee non-financial incentives	5.684	94	.000	.568	.37	.77

Performing a One-Sample t-test, it was found that the sample mean of the non-financial incentive score at 3.57 (SD=.975) was statistically significantly higher than the 'neutral' value of 3.0 at .568 (95% CI, .37 to .77), $t(94) = 5.684$, $p < .001$

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks offer more attractive employee non-financial incentives	35	3.49	.919	.155

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks offer more attractive employee non-financial incentives	3.125	34	.004	.486	.17	.80

Performing a One-Sample t-test, it was found that the sample mean of the non-financial incentive score at 3.49 (SD=.919) was statistically significantly higher than the 'neutral' value of 3.0 at .486 (95% CI, .17 to .80), $t(34) = 3.125$, $p = .004$

This provided support to the hypothesis that foreign banks offer more attractive employee non-financial incentives.

However, as the interview analysis revealed, the gap in non-financial incentives is no longer as wide as it used to be two decades back.

> *"If you look at the foreign banks today, the two big positives that they have are: one, the potential international exposure even within India to get international best practices to India, and the ability to work on a worldwide set of clients sitting in India or a potential transfer to other domains; and the second is that they continue to be a bit aspirational, in that, the brand really works for them. Having said that, the negatives are that growth becomes an issue beyond a point in a foreign bank, and there is tremendous bureaucracy and having to check with the head office for everything. Also, the volume is a negative – they can get a few people, but given their own aspiration in India, they are not volume recruiting in the country. If you look at a domestic bank like us, our overall recruitment each year - it keeps varying because we keep adjusting it based on our strategy - would be to add about 7,000-8,000 people. That is the kind of numbers we are talking about. Our current employee status is that in the bank itself we have about 80,000 people, while across the group we have about 100,000 people." (R18)*

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.719	.722	3

Item Statistics

	Mean	Std. Deviation	N

Foreign banks offer more attractive employee non-financial incentives	3.57	.982	93
Working for a foreign bank is more aspirational than working for a domestic bank	3.87	1.045	93
Foreign banks offer more attractive employee financial incentives	3.53	1.119	93

If we consider those respondents who have also worked in domestic banks:

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.691	.690	3

Item Statistics

	Mean	Std. Deviation	N
Foreign banks offer more attractive employee non-financial incentives	3.50	.929	34
Working for a foreign bank is more aspirational than working for a domestic bank	3.91	.996	34
Foreign banks offer more attractive employee financial incentives	3.47	1.022	34

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item Means	3.627	3.471	3.912	.441	1.127	.061	3
Item Variances	.967	.864	1.045	.181	1.209	.009	3
Inter-Item Correlations	.426	.319	.518	.199	1.625	.008	3

The interviews, though, toned down this strong statistical significance shown for foreign banks offering better non-financial incentives.

> *"The only reasons why people would still like multinationals is because the reputation of the brand image is still strong – they like to say they work for a global organisation; and the other is if there is an aspiration of global mobility. Otherwise those who have moved to a domestic bank have seen the benefit of working for a company where decision making is fast, there is technology investment, and generally all the USP of a large Indian private sector - they know it's a competitive advantage, external or internal." (R11)*

> *"Think of the freedom and the excitement of growth domestic banks offer. Would you rather be in a foreign bank which is cutting down constantly? It is not easy, especially when you are sitting in a market where everybody else wants to expand." (R8)*

> *"Domestic banks offer the opportunity to learn. One, because you're thrown into it anywhere. It is a diverse organisation, there is a lot of learning which you can do. And the second thing which we offer is the opportunity to make a very large impact. Because given the size of the organisation, the stature and the influence it has, and the scale at which it operates - anything you do really has a very big impact. So if you are a young person who has come in and works on a new product, when that product is launched, it's something that is an event in the market. So those of us who work more on the policy side or the strategy side, if we are doing something that is trying to influence government policy or regulatory policy, then not only do we get taken seriously for who we are, but we can actually see the result." (R14)*

4.3.6.4 Additional analysis based on the interviews

The interviews also brought out two other sub-themes where there was a distinctive competitive advantage for both sets, the foreign banks and the domestic banks – one was the volume of recruitment and the second was the training aspect.

1. Lack of jobs

> *"There has been such a slow down with the foreign banks that jobs have been restrictive, so people have had no choice." (R3)*

> *"At my (domestic) bank, there is hiring that happens on talent across all the tiers of the spectrum. So we go to a Tier I institute and hire people and put them in jobs that are suitable to their talent. But we also go to Tier 2 B-Schools because there are jobs where you don't need the top end talent, you need the mid end talent. We have 45,000-50,000 people, of which at least 4,000 or so are in managerial capability at various levels. So there is regular hiring that happens every year." (R6)*

2. Training is a challenge

> *"In a foreign bank, because you had a restricted number or people and a restricted number of branches, your focus on quality was much higher. The tolerance to mistakes was much lower. You spent a lot more time and energy in perfecting your process and you would not launch something on the fly. And you would train everyone to a certain level. But that is okay when you have 500 employees, situated in 6-10 cities. When you have a population of 10,000 employees situated across 200 cities, you tend to do long distance training, and everything becomes e-learning. And while you try to make that as robust as you can, there is a little bit of loss with e-learning. Another thing is that the foreign*

banks focused on developing all round. So while the employee may have finally specialised in just one area, what helped them become bankers was the fact that they were given exposure to a range of functions. That is missing in the domestic banks, where the employees have a silo-ed experience. So the comprehensive banker concept has got lost." (R5)

"Training in a domestic bank is a challenge on account of the sheer volume you are dealing with. We have opened so many branches, and that is where the service quality has kind of suffered on the efficiency part. We have tried to get around it by hiring people a bit earlier, say three months, and then they work in another branch as additional staff. But it's never as good as the old man who sat as the cashier and had such vast knowledge. So we try to take care of that by ensuring that a lot of things don't happen in the branch in the first place." (R8)

4.3.7 'Strength of weak ties' - Collaborations

The competitive strength of entering into collaborations by the foreign bank and the domestic bank was tested across four sets: other banks, the regulator, the disruptor; and in the next theme, with local society.

There were two statements in the survey that tested this: "Foreign banks are better at collaborating with other banks in the local ecosystem", "Foreign banks are better at building a strong relationship with the RBI/other regulators".

Interview questions included: How important do you feel it is to collaborate with other banks? The disruptors (fintech firms)? Regulators? Local society? Is it a competitive advantage for you?

Content analysis of the interviews revealed that across the board, all 26 respondents strongly agreed that collaborations were the only way ahead.

> *"I think, going forward, banking is going to be all about partnerships. You can't operate in isolation. Somebody who operates in the same space as you, you've got to view them as potential partners, you've got to figure out how can you synergise with them. Look at banks like Ratnakar, they have done a fabulous job out of it. They've got limited distribution reach, but they are writing a fair amount by partnering with fintech companies and online vending entities to build their own book. So it's clearly an opportunity." (R13)*

It was also agreed that the domestic banks, given their agility, were ahead of their foreign counterparts in terms of entering into collaborations with other banks and fintech disruptors. In terms of dealing with the RBI, the foreign banks were believed to have been looked to in the past for learnings on global best practices, but this halo effect appears to have dimmed post the financial crisis.

4.3.7.1 Collaborations with other banks

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at collaborating with other banks in the local ecosystem	91	2.86	.889	.093

One-Sample Test

	Test Value = 3				
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference

					Lower	Upper
Foreign banks are better at collaborating with other banks in the local ecosystem	-1.533	90	.129	-.143	-.33	.04

Performing a One-Sample t-test, it was found that the sample mean of the collaboration-bank score at 2.86 (SD=.889) was not statistically significant from the 'neutral' value of 3.0 at -1.533 (95% CI, -.33 to .04), t(90) = -1.533, p = .129

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at collaborating with other banks in the local ecosystem	35	2.77	.808	.136

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are better at collaborating with other banks in the local ecosystem	-1.675	34	.103	-.229	-.51	.05

Performing a One-Sample t-test, it was found that the sample mean of the collaboration-bank score at 2.77 (SD=0.81) was not statistically significant from the 'neutral' value of 3.0 at -

1.675 (95% CI, -.51 to .05), t(34) = -1.675, p = .103. However, at p = .05, it was statistically significantly lower for a 1-tail t test, supporting that foreign banks are not better than domestic banks in collaborating with other banks in the local ecosystem.

This was supported by the content analysis of the interviews.

> *"Collaboration with the other incumbents, especially in the payments space, is just about happening. I certainly saw it being mentioned more with the Indian private sector banks rather than foreign banks, so I am assuming that they are more active in growing, more active in getting their market prices and stock prices up, there's a genuine desire to do that. While the foreign banks, I don't hear their names, maybe they are not so much in that space right now." (R1)*

> *"A problem for foreign banks, particularly in India, is that it is very litigious and difficult to deal with Indian groups. So therefore you don't know what you are getting into, then you may get caught up in it and there will be litigations and lawsuits. Head offices are not in the mood for that." (R2)*

> *"Why would a local bank come to an international bank? If you go back in time, SBI had a tie up with Citibank credit cards because at that time Indian banks did not have the expertise of that technology. Now they have it, so there is nothing which international banks can bring to the table for links with domestic banks of India." (R4)*

4.3.7.2 Collaborations with the regulators

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean

Foreign banks are better at building a strong relationship with the RBI/other regulators	92	3.05	.976	.102

One-Sample Test

	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are better at building a strong relationship with the RBI/other regulators	.534	91	.595	.054	-.15	.26

Performing a One-Sample t-test, it was found that the sample mean of the collaboration-regulator score at 3.05 (SD=0.976) was not statistically significant from the 'neutral' value of 3.0 at .534 (95% CI, -.15 to .26), t(91) = .534, p = .595

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at building a strong relationship with the RBI/other regulators	33	2.94	1.059	.184

One-Sample Test

	Test Value = 3

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Foreign banks are better at building a strong relationship with the RBI/other regulators	-.329	32	.744	-.061	-.44	.31

Performing a One-Sample t-test, it was found that the sample mean of the collaboration-regulator score at 2.65 (SD=1.25) was not statistically significant from the 'neutral' value of 3.0 at -.353 (95% CI, -.79 to .08), t(33) = -1.643, p = .110

Content analysis of the interviews explained the above,

> *"For most domestic banks – like in my case, on my board is the ex-Corporation Bank CEO, my Head of Compliance is one of the senior most guys of RBI – so because we have the freedom, we hire the correct people who know and can work with the regulator better. It is not as if you can influence the RBI beyond a point, but if you have somebody inside who knows that work, you can ensure you don't mess up. So I don't know why the foreign banks don't do it, I have never understood this." (R8)*

> *"My (domestic banker) feeling was that before the crisis, foreign banks were seen and held in very high esteem by the regulator. But then their reputations have been massively tarnished, so today regulators are not very complaisant about foreign banks, their standards and governance; and the discussions with the regulators has become increasingly, for all banks and in all geographies, a little bit tougher. As far as the local banks are concerned, the central bank has a far more 'strict uncle' kind of approach –we will take care of you but we will*

be very strict with you, so you don't do any nonsense. Not a benign dictatorship but a very strict paternal approach. So they have an ownership feeling about the locally grown banks because they know the potential repercussions an issue can have even if the bank is a very small one, even if it's a bank that's a fraction of a foreign bank size in India." (R9)

"With the regulators, collaboration is very, very critical. There the approach of the foreign banks is that they don't want to do anything which may be in the grey area, lest they be reprimanded by the regulator. There is always that discussion that in extreme cases gets drawn into saying that your license will go. Whereas some of the Indian banks are a little more pragmatic on this, saying if this needs to be done, we will do it. Also because the fines here are not in billions like say what the US department of Justice asks." (R12)

"Regulators prefer to spell out their principles very explicitly and tell you what you can and cannot do, rather than trying to have a relationship with you to discuss the matter." (R9)

"Traditionally RBI has looked to foreign banks for insights and knowledge in areas like financial markets because their home markets are much more evolved and sophisticated than what we have here." (R14)

4.3.7.1 Collaborations with disruptors

While the pilot draft of the survey instrument had a statement testing the hypothesis "Foreign banks are better at collaborating with fintechs", the industry experts who vetted the survey suggested deleting this, as they believed that for international banks, such collaborations typically happened at the head office, and hence given the profile of the survey respondents in India, they may not have a correct perception.

The content analysis of the interviews strongly supported the importance of such relationships, with all 26 respondents strongly agreeing that collaborating with fintechs was essential to succeed in the future.

> *"I think collaboration with young upstart companies which are coming up is going to become more and more important." (R2)*

> *"Collaborations with fintechs are very important going forward, because however good your technology is, or whatever your view of using technology appropriately is - at the end of the day you are not a technology company. People have to collaborate because both need each other - you don't know what is going to work till you actually do it, and the fintech guy needs the scale to be able to do it and the bank needs the agility of the fintech guy to do it." (R16)*

> *"Philosophically, we (top domestic bank) have decided that we will veer towards collaborator's innovation. We have set up an innovation lab, and also have an accelerator there, where we engage in start-ups – about 100 start ups every week. So we recognise the fact that just by ourselves we will not be able to compete or understand the rapid changes that are happening in technology, there are people significantly better than us in that space. And also, many of these young people are able to bring solutions to problems that we are in a sense grappling with." (R10)*

In addition, it was agreed that as of today, the domestic players were ahead of the foreign banks in terms of fintech collaboration.

> *"For collaborations with the disruptors, there has been a big handshake between some of the banks and the fintech companies to improve their own*

offering - working together of some JVs or some sharing. And the domestic banks there are ahead, ahead, ahead compared to the foreign banks." (R3)

"In the Indian context, even when these Fintechs look to partner themselves with banks in order to be able to offer certain propositions, I have not seen them go to any of those foreign banks. They look at the potential compliance pain and difficulty of dealing with these larger institutions where decisions get taken at a distance - and all of them gravitate towards the private sector banks." (R9)

"If you have a Fintech disruptor, and if they have to come to a bank, why would they come to an international bank? Because what would an international bank bring to the table?" (R4)

"The foreign banks don't have that nimbleness of quick collaboration. And the larger the bank is, the more ambitious it becomes, and the more unwieldy it becomes to try and coordinate a global digital strategy." (R11)

Looking ahead, and commenting on some of the collaboration strategies they have adopted, the respondents commented,

"For collaboration with the fintechs, it's today yet unclear how some of these things will play out. My sense (domestic banker) is that if you look at a company like Paytm, today it is a kind of competition plus collaboration kind of approach because clearly they have certain engines to acquire customers, and we can leverage their customer acquisition to sell our products. At the same time, we want to preserve our turf and ensure our customers don't migrate to these companies, so we continue to try and keep up with new trends which are emerging in technology. So both realise that there is value to be got from the

other with collaboration, because the fintechs are much better off trying to leverage what banks can offer, and in a way deploy their technology through the bank rather than create a limited business model avenue. Similarly banks also realise that they are there and they are burning money to acquire customers, so why not see whether we can ride their channels to do something with the customers. And they are indeed acquiring a lot of transaction data that gives us additional data to mine and analyse, in addition to what we have." (R14)

4.3.7.1 Collaborations with other non-bank players in the industry

In a similar vein to the above, the respondents agreed that collaborating with other (non-fintech) players was going to be very important in the future.

"Going forward, banks by and large will only interface with other intermediaries who will do the last mile for them. They will not do it themselves as they just do not have the wherewithal for it. Because it's not just about distribution infrastructure, it's a set of people who understand that market. You'd much rather partner with somebody else and get that route. So you do due diligence on who you tie up with, and you tie up with that entity or 10 entities or a 100 entities based on your ambition that permits you to do so, and go that route." (R1)

"We (domestic bank) believe that collaboration is the only way forward to survive in the industry, as you can't do it all by yourself. So we even incubated with our vendors like Cisco and Intel to create the next generation of what they believe are going to be the digital platforms for engagement with customers for the future. So some of our branches are actually incubation labs for them to test their next level of technology." (R19)

"In terms of collaborating with other players, especially in the payments space, the private banks have a real edge over the foreign banks, because each of the private sector banks are able to set up another company. It may be under the bank's umbrella, for example HDFC has HDFC Securities as an absolute independent company. So the ability of a private sector bank to incorporate another subsidiary company, which is at a lower cost base but under the same overall management (though operating level there has to be arm's length distance because of regulatory requirements) – it is easier to be able to get an alignment. Whereas a foreign bank has to tie up with a local bank or another player." (R5)

To conclude, the following hypotheses were supported: "Greater the collaboration of a bank with the regulator, the higher is the relative growth performance in an emerging market"; "Greater the collaboration of a bank with other banks in the industry, the higher is the relative growth performance in an emerging market", "Greater the collaboration of a bank with Fintech disruptors, the higher is the relative growth performance in an emerging market", and "Greater the collaboration of a bank with other players (not banks and Fintech disruptors), the higher is the relative growth performance in an emerging market".

4.3.8 Collaboration with Local society

There were two statements in the survey that tested this theme: "Foreign banks are better at building relationships with the local society" and "Foreign banks are better at integrating into local commercial networks".

A question was also raised in the interview about the competitive advantage that a foreign and local bank has in terms of collaborating with local society. Analysis of the quantitative and qualitative data revealed that there was no statistically significant difference in this area.

4.3.8.1 Building relationships with local society

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at building relationships with the local society	95	2.85	.887	.091

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Foreign banks are better at building relationships with the local society	-1.620	94	.109	-.147	-.33	.03

Performing a One-Sample t-test, it was found that the sample mean of the local society relationship score at 2.85 (SD=0.89) was not statistically significant from the 'neutral' value of 3.0 at -1.620 (95% CI, -.33 to .03), t(94) = -1.620, p = .109

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at building relationships with the local society	34	2.82	.869	.149

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Foreign banks are better at building relationships with the local society	-1.184	33	.245	-.176	-.48	.13

Performing a One-Sample t-test, it was found that the sample mean of the local society score at 2.82 (SD=0.87) was not statistically significant from the 'neutral' value of 3.0 at -.176 (95% CI, -.48 to .13), t(33) = -1.184, p = .245

4.3.8.2 Integrating into local commercial networks

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at integrating into local commercial networks	96	2.84	.977	.100

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Foreign banks are better at integrating into local commercial networks	-1.567	95	.120	-.156	-.35	.04

Performing a One-Sample t-test, it was found that the sample mean of the commercial networks score at 2.84 (SD=.98) was not statistically significant from the 'neutral' value of 3.0 at -.156 (95% CI, -.35 to .04), t(95) = -1.567, p = .120

Stratifying the sample, and including only those respondents who have also worked in a domestic bank:

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Foreign banks are better at integrating into local commercial networks	35	2.74	.919	.155

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Foreign banks are better at integrating into local commercial networks	-1.656	34	.107	-.257	-.57	.06

Performing a One-Sample t-test, it was found that the sample mean of the commercial network score at 2.74 (SD=.92) was not statistically significant from the 'neutral' value of 3.0 at -.26 (95% CI, -.57 to .06), $t(33) = -1.656$, $p = .107$

This was close to being statistically significant for a 1-test test at $p = 0.053$, that foreign banks are not better at integrating into local commercial networks.

4.3.8.3 Qualitative Analysis

The above can be corroborated by content analysis of the interviews. 19 of the 26 respondents commented on whether foreign banks are at an advantage or disadvantage to local banks on account of the latter being better at building relationships with the local society and integrating into local commercial networks. Other than two respondents, who said that the scale of the domestic banks gives them the opportunity to do more, all the other 17 respondents said that there was no significant disadvantage that the foreign banks were at - especially the older three, HSBC, Citi and Stanchart.

"I don't think it really matters that foreign banks are less integrated into the local society and commercial networks, because giving the foreign banks their due, they do stuff. Like Stanchart got integrated with the Stanchart Marathon, ABN had part of their fee service connection go to CRY - so, every quarter, whatever their earnings, .005% of that would be made to CRY. To that extent, both private and foreign banks do it, because in this day and age you have to be seen as supporting CSR. You have to be integrated with the community." (R5)

"I don't think foreign banks are at a competitive disadvantage that the local banks may be far more deeply integrated into the local networks, into the local society - at least not for the top three players, HSBC, Stanchart and Citi. They have been around for so long that whichever city they are in, people know them." (R6)

"I don't see foreign banks as not being deeply integrated – at least in the regions where they have a presence. Especially the older ones. But remember that this whole CSR, social good and social impact and stuff, is all a very recent phenomena. So it's catching up even more. Stanchart runs the marathon which is very well known." (R11)

"I don't think foreign banks are at a disadvantage, not really, I think they have been around for at least two generations, so people have seen them – it's a long time for a brand to get entrenched." (R21)

To conclude, the hypothesis “Greater the focus on building relationships with local society, higher the relative growth performance in an emerging market” and “Greater the integration into local commercial networks, higher the relative growth performance in an emerging market” could not be supported or rejected as there did not appear to be a significant advantage with either the foreign banks or the local banks.

4.3.9 Conclusion

Prior to the domestic private banks coming in about 20 years back, a foreign bank was recognised for four key competitive advantages - financial strength, better customer service, regulatory acceptance and the global network. The first three were easily replicable by the private banks.

In terms of costing, the cost of operations for a foreign bank was higher because it never had the scale, so the cost of funds was more as it did not have the infrastructure to collect small monies which come cheap – such as retail deposits, which are highly transaction intensive. Alongside, its people were paid more and its regulatory burden and cost of compliance were higher as it had to adhere to the highest common denominator of regulations based on its developed market status. This has not changed.

The local banks though had the freedom to aggressively expand, they copied everything the foreign banks did in terms of service levels, financial innovations, and even the quality of people as most of their top management came from the foreign banks. There was no restriction on IP, so everything could be replicated. In addition, being newer, they also leap frogged technology. And while the global banks were fighting the consequences of the global financial crisis, these local banks were busy digitising. So it was a blow at multiple levels for the global banks over the last decade or so in the emerging markets.

As a respondent commented,

"At this point in time, the local banks are just killing the global banks. If you look at the valuations of local banks, they are going at an average of two and a half to three times price to book value of the equity shares of these banks, whereas global banks are almost uniformly at one time book or less. One time book or less means that if you put in one dollar into the equity capital of this company, it is actually worth less in terms of its net business value. So it is a pretty stark situation for the global banks unless they find a really unique strategy which has a sustainable edge against the local banks". (R25)

Chapter 5

Discussion and Conceptual Model

This chapter presents the conclusions and recommendations of the study, and is divided into four sections. Section 5.1 gives an overview of the objectives of the study, while Section 5.2 discusses the findings, and based on them, as also the validation of the proposed hypotheses, develops a conceptual framework that includes managerial recommendations. Section 5.3 discusses the academic and managerial implications of the findings of the study. Section 5.4 presents the limitations of the study and directions for future research.

5.1 An Overview

The purpose of this research study was to gain a better understanding of the firm-specific disadvantages that a multinational faces in emerging markets as compared to its domestic counterparts. The study used a discovery-oriented grounded theory approach that explored why the multinational banks operating in India were struggling to reach the growth performance of their domestic private counterparts. The new private domestic banks had started operations in the mid-90s and had captured over 20 percent of the country's banking market share, while that of foreign banks has stagnated at around 5 percent.

As a first step, six experts from the banking industry were interviewed. Also, a comprehensive literature review was conducted. These two steps led to the development of a conceptual model that identified the key variables bankers have to grapple with to succeed in the rapidly changing Indian environment that is dominated by regulations and digital disruption. Thereafter a set of seven themes were framed, with a set of hypotheses associated with each one (Chapter 2).

The first set of objectives of the research study was to ensure that all the factors that were considered for the successful performance of a bank in India were complete, adequate and relevant. The second set was to compare the performance of the foreign banks versus their domestic counterparts on these factors, to draw out where the significant differences lie. Where it was expected that significant differences may exist across retail services and corporate banking services, these two were analysed separately. Based on the overall empirical findings obtained, the study proposed a conceptual framework for the foreign banks to successfully compete with the growth performance recorded by their domestic counterparts in India.

This research study went through several phases, some of which were iterative in nature. Based on expert interviews and literature review, the initial set of themes and hypotheses were framed. Thereafter, a guide was developed to enable comprehensive qualitative exploration through interviews with the C-suite of multinational and domestic banks in India. The interview guide was pre-tested by conducting a set of five in-depth interviews as a pilot study with respondents who had worked at a CEO/Managing Director level in both, foreign and domestic banks. In all, 26 interviews were conducted.

At the same time, recognising the limitations of in-depth interviews as the sole method of data collection, a multi-scale instrument was developed. It was previewed by four banking experts for substantive validity, and subsequently refined before being forwarded to about 450 top/senior management of the foreign and domestic banks in India. A limited pre-test of the survey too was conducted with 20 respondents, and the responses were included into the sample. The survey was executed via the Internet, using Qualtrics software. Requests to complete the survey were sent via email and WhatsApp. Non-respondents were followed up with once at an interval of two weeks. In all, about 450 requests were sent out, and eventually, 116 respondents completed the survey, a return rate of 25.8 percent.

Through content analysis and use of NVivo software, the qualitative data collected from 26 in-depth interviews was analysed to ascertain if there was a statistical significance in the performance and managerial activities at a foreign bank as compared to its domestic counterpart across various factors. A similar analysis was carried out using SPSS software on the data collected from the 116 respondents of the survey using Qualtrics. The proposed hypotheses were tested using appropriate statistical techniques such as one sample two-tail t-tests.

The major findings of the study are discussed below.

5.2 Summary of the Findings

The findings of the study have provided a useful first step in understanding the research question as to why the multinational banks operating in India are struggling to reach the growth performance of their domestic private counterparts – in essence, what causes a phenomenon as described below by a respondent:

> *"Today, a bank like HDFC is considered to be one of the most valuable banking stocks globally – it trades at four and a half times book, it has reported 30 plus percent growth quarter on quarter for about 50 odd quarters on the trot. And right now, when the global economy and GDP has slowed down, I think it is still clocking about 20% growth here in India. That's on top of the 30% plus that it used to grow at, while the foreign banks have stagnated at about 5%." (R16)*

5.2.1 The regulatory environment

The regulatory constraints that a foreign bank faces in India is a key competitive disadvantage for growth. One reason for this is that these banks have to ensure that they follow the strictest common denominator of regulatory constraints across the world, wherever they operate. There is always the overhanging fear of enormous fines in case of any lapse, or worse, losing the license to operate. Similarly, a perceived transgression in a far-off land can undermine the global brand. This makes their expansion steps, particularly in an emerging market like India, more tentative and filled with trepidation. In addition, the restriction on opening new branches has been a challenge that has continued for decades.

Having said that, the RBI today appears to be far more open to bringing in private capital in state-owned banks, and also making the Indian capital markets more robust to meet its corporate funding requirements. These are two great opportunities for foreign banks. While it would take courage, buying over a domestic bank could in fact become a distinct possibility for the more committed players.

The choice to subsidiarise and be treated on par with the domestic banks is another great opportunity for these banks. Admittedly it comes with the restriction of added priority sector lending requirements, but as one respondent (R17) commented, "that should be seen as the cost of doing business in a country with tremendous growth opportunity".

Collaborations are believed to be a key solution to managing some regulatory woes such as priority sector lending, which currently stands at 32% of the balance sheet for the foreign banks. While it is even higher at 40% for the Indian banks, their distribution network enables them to have access to genuine customers. For instance, as at March 2017, HDFC had 4,520 branches in 2,587 cities, of which 25% were in metros, 20% in urban, 32% in semi-urban and 23% in rural. Hence, 55% of the branch network were in the semi-urban and rural areas. So these players are able to use that physical presence to not only perform sales and marketing activities, but also conduct proper risk assessment. However, the burgeoning growth of NBFCs and microfinance players in the Indian banking sector provides an opportunity for the foreign banks to collaborate with them and extend their reach to those semi-urban and rural areas.

KYC and other requirements have made it hard to deliver on customer service. Again, as seen in the case of DBS' Digibank, collaborations with, and outsourcing to, domestic players could alleviate this challenge.

Thus it is proposed that:

P1.1: Strategic intent to commit to India by subsidarising and thereby manage key regulatory challenges is a predictor of a foreign bank's successful growth performance in India.

P1.2: The quality and type of collaborations made with other organisations to manage the regulatory challenges is a predictor of a foreign bank's successful growth performance in India.

The construct defining the regulatory environment here include the gamut of laws covered by the Banking Regulations Act in India, focused in particular on those related to statutory requirements, priority sector lending, and branch licensing norms for foreign banks.

5.2.2 Distribution networks

There were three significant findings that emerged from the research. First, the reach of brick-and-mortar channels offered by a bank was far more important for retail services than core corporate services. The foreign banks lack of a distribution network of physical outlets did not appear to impede their corporate banking services, which can be attributed to the fact that a high proportion of customers for these services are located in metros and urban areas, where they do have a presence. However, the importance of brick and mortar outlets for retail banking services came through strongly from all the respondents.

The second key finding was that the push away from brick and mortar toward digital was the only way forward to succeed in a market like India. In addition, it was routinely suggested that the digital movement would rapidly leapfrog from the Internet to mobile technology. It was also suggested that this trend is impacting the talent requirements of the banking business.

Third, given the above, it becomes important to rethink what the traditional branch should look like - its location, and also the kind of staffing it needs.

Understanding the first challenge, namely the continued importance of brick-and-mortar, the reality today is that apart from a few, foreign banks in India have basically chosen to withdraw from the retail network. But this is what would give them access to cheaper funds, branding and recognition, customer acquisition, and also support building strong links to the regulatory and local community. Most of all, from the data collected, it appears that the Indian customer still wants to see that physical branch.

P2: The reach of physical branches is a predictor of a foreign bank's successful growth performance in India, particularly for the retail operations, and its influence is moderated by the bank's digital network.

However, it is also a fact that the foreign banks catch up game with the domestic players appears to be an insurmountable task, especially given the licensing norms. So what are the options available? One is subsidarisation, which in fact, is being considered by some foreign banks. In August 2015, the RBI deputy governor had stated that four banks had expressed interest in subsidarising, although their names were not provided.

P3: Strategic intent to commit to India by subsidarising and thereby manage the regulatory challenge of limited branch licenses is a predictor of a foreign bank's successful growth performance in India.

Other strategies available are to rationalise the branch network and focus on capturing a key market. As one respondent expressed,

> *"As the CEO of a foreign bank, I am saying that I will not pick up more branches, because the reality for international banks today is the catch-up, how many branches will you take? Today where your local competition has thousands of branches, getting another 20 branches is not going to make any sense. It is such*

a big catch-up agenda that you would rather do single city markets. So if you are in Mumbai, let's do another 20 branches there, but capture Mumbai. So focus on the big metros, go after the affluent, and go big on the unsecured piece. That's the name of the game now." (R17)

A second option is to rationalise the branch network. This would entail closing down in some Tier 2 cities, and also contribute to reducing priority sector lending obligations.

A third strategy is to push aggressively toward digital channels. It could be a pure digital bank like DBS is establishing, or then a strategy of capturing a key location (most likely, a metro) with a single branch that provides the 'trust' factor that customers want, and then expand to the neighbouring areas with a hub-and-spoke model using digital channels. This appears to be an attractive proposition for the foreign banks, given that only 5-8% of account transactions are happening in a domestic bank's branch. The following indicative quote appears to add great support to this suggested course of action.

"There is no doubt that it is certainly not going to be a branch-led strategy for banks who are very cognizant of the way technology is evolving and customer habits are changing. India is demographically a very young country with 25 years of average age, and the younger population in particular, are hooked on to digital platforms. It is a country of 1.2 billion phones, 25-30% of are smart phones. They are also one of the largest consumer of data, so a lot of customers are moving on to consuming products digitally or at least getting their need serviced digitally. Events such as the recent demonetisation exercise have also forced people to think in that direction. And as more laws are coming in with regard to laundering and black money, and the income tax net is getting tighter, people are beginning to realise that handling cash is not the best way of

transacting. So, all of that, at least the compliant people, which is a large part of that population, will move towards adoption of digital platforms to meet their needs." (R19)

This push to digital channels could thus be a game changer in the competitive advantage of a foreign bank, and level the playing field for them. As another respondent said,

"Foreign banks could have one brick and mortar branch, and then with collaborations, go digital across the wider reach. But it depends again on the products. The smarter thing would be to go digital for more low value consumers and low volume transactions." (R23)

P4: The digital distribution network of a bank in India is a predictor of a foreign bank's successful growth performance in India.

The need to leapfrog into mobile networks was emphasised. Another respondent articulated this very clearly,

"Distribution channels are more digital now, and increasingly banks are tying up with people to go the last mile. Within cities, whether its Tier 2 or Tier 3, it's all digital. The whole concept of brick and mortar, reassuring somebody, does not exist anymore because even at the lowest of the lowest segments, everyone has a mobile phone these days and it is being used. They have been tutored, they've gone vernacular. So while today we are in a kind of transitional phase, if you were to forecast the future, maybe 7-10 years hence, digital is the way to go." (R1)

P4a: Effective use of mobile technology by a bank in India is a predictor of a foreign bank's successful growth performance in India.

The push to digital channels for foreign banks was clearly a push to collaborations. This included steps such as simple outsourcing of data entry to tie-ups with third parties for the last mile and logistics, to collaborating with a Non-Banking Financial Company (NBFC) for rural reach.

Internally too, there may have to be some restructuring done to ensure the right talent is in place. As one respondent explained,

> *"While there is a need to have a proper distribution to tackle and capture those online transactions, you may not be able to do it yourself and you will have to collaborate with others and manage internal resources effectively. I will give you an example – while setting up this new digital bank (in another Emerging Asian country), only one colleague and I are traditional bankers, and I have hired two people from Unilever, and all the others are from fintech companies. The reason I hired the Unilever guys is because in these countries (similar to India), almost 95% of the transactions happen in cash and they happen in small mom-and-pop stores, which are all over the place. Now the only people who have reached these stores on a daily basis are the FMCG guys, through their distributors. So if I want my digital payments solution to be accepted at every store, I cannot tie up with all of them, and it makes more sense that I do a deal with a big distributor and I start adding value to him by digitising his chain with the retailer. Then I also go and digitise the retailers – the kirana stores, which are not large stores and cannot have access to technology that they need - and help them compete with the emerging modern trade. So if you are a digital player and a digital bank, you have got to start it differently, think differently, and that's what will get you size and the transactions." (R20)*

P5: The quality and type of collaborations made with other organisations to augment digital distribution is a predictor of a foreign bank's successful growth performance in India.

P6: Active and focused recruitment of a set of employees other than traditional bankers, such as those from Fintech firms and consumer goods companies, is a predictor of a foreign bank's successful growth performance in India.

Based on the findings and the shift to digital banking, an additional, albeit less dramatic, shift that needs to be taken is the rethinking of the design of the bank's retail branches. This could be a considerable saving for the foreign banks, who have in the past, opened their branches in prime locations, with excellent facilities and highly experienced staff to service the walk-in customer. But today, as one respondent (R24) said, "The only walk-ins are the assistants of these customers" – and hence these outlets must be reimagined.

The construct defining design thinking includes the size and layout of the branch, facilities offered, its location, and staffing.

P7: Effectively employing design thinking in the branch network is a predictor of a foreign bank's successful growth performance in India.

The seamless experience that customers are looking for across channels would also need to include social media activities that engage the customer. The domestic banks, with local presence and roots, are currently doing a better job at this, although some foreign banks too are becoming more active on platforms such as Facebook.

P8: Effective use of social media platforms is a predictor of a foreign bank's successful growth performance in India.

5.2.3 Enabling technology

Content analysis of the qualitative data obtained from the interviews provided strong statistical support that informants believed that going digital was the way forward for all banks, and the domestic banks currently had a distinctive edge over the foreign banks in terms of their digital capability. Hence, there is a great opportunity for foreign banks to use technology not only to circumvent the distribution challenge mentioned above, but also dramatically drive down costs by building IT platforms that are more amenable to integration with external, particularly locally available, data ecosystems. However, according to informants, the early results seem to indicate that these firms are not as efficient as they would expect.

It has been suggested that in order to succeed, multinationals should localise the front end and support integration at the back (Ignatius, 2017). However, while running many systems with numerous patches is not advisable, there is in fact a necessity to also allow localisation at the back end too. One respondent provided an example:

> *"We (foreign bank) do constantly look at adapting global products to the Indian market, but I think it is not necessarily a good thing. For example, I work with the private bank and we have a global system for return reporting. But the nuances of the global system are very different from what the requirements of the Indian system are – we don't have investment in hedge funds and a lot of private equity funds, we don't have bench marks for those products – which is where that reporting system is strong. However we have a lot of standard mutual funds, and that's where the system is not that great. But the challenge is that you don't want to develop a new system in India which is a standalone system, you want to adapt what's there. So at times it can be an impediment because we are not able to get the best platform locally and use that to service the local requirement." (R24)*

P9a: Developing IT platforms that are customised to the local requirements is a predictor of a foreign bank's successful growth performance in India.

P9b: Developing IT platforms that are amenable to integration with external locally available data ecosystems is a predictor of a foreign bank's successful growth performance in India.

There was a need expressed to make greater use of domestic software firms like TCS and Infosys. Not only do these players know the Indian market well, they are also typically more cost-effective. As a respondent (R8) said, "Foreign banks have a penchant of going for technology in their own country, not realising that that's not where you get the best and cheapest technology." Another (R5) said, "The problem with foreign banks was that even if they had a great technology, it was a great technology suited for where there home base was. It wasn't the technology tailored to the country they were operating in."

P10: Collaborating with domestic software firms to develop IT platforms is a predictor of a foreign bank's successful growth performance in India.

Reducing the costs of technology investment by outsourcing/sharing resources is a business model that foreign banks could look to replicate from the private banks. As one CEO explained,

> *"A bunch of us came together and we set up the (private) bank from scratch. We were grappling with the problem of how we would get presence in the cities and extend our distribution network. So we decided to be the first bank that outsourced its entire ATM network and developed modules, where a professional ATM company would bear the expenditure and capital, and we would work on a revenue sharing model which enabled us to transfer that risk and gave them rights. We promised to them that we don't mind if the ATM becomes an architecture, and if they banked separately with their own brand or they banked*

> *with several banks. We didn't think it made any sense to deploy capital creating a proprietary ATM network. We were very farsighted in that because that is what is happening now across the board – there are outsourced/shared ATMs all over the country." (R20)*

P11: The quality and type of collaborations made with other organisations to reduce the cost of digital investment is a predictor of a foreign bank's successful growth performance in India.

The importance of using Big Data was also frequently mentioned. However, while its use is increasing, it is happening sporadically in some areas, and there is much more that can be done in this space. It was commented,

> *"We need to draw from behavioural economics and analytics, as that is the way to get rid of biases. But that is still unheard of in India across all banks. The idea that you can make judgemental errors and you need to use data to manage that is seen sometimes in marketing, but I don't see it being used in budgeting or in decision making across all segments - and I think that is a huge gap." (R1)*

P12: Effective use of Big Data is a predictor of a foreign bank's successful growth performance in India.

Technology will have to include channels that appeal to the young demographics. With social media becoming the buzzword, soon current platforms such as Facebook and Twitter will have to be used for banking.

And finally, it was believed that succeeding in the digital game would require the banks, both foreign and local, to have a complete shift in their thinking where going digital meant being firmly entwined in the larger ecosystem that the customer dealt with. To succeed, the bank would need to seamlessly embed its services into the day-to day activities of the digital customer. In other words, digitising meant going far beyond creating front-end apps to reimagining and picturing where a bank's services may be embedded into the customer's day. This shift in thinking was well articulated by the CEO and former head of digital of a foreign bank,

> *"You need to start thinking about getting successful in a new industry - it is no longer about selling a loan or working on the net interest margins and managing cost of funds, that is part of banking - but you now need to see clearly in the digital space that you have to be the one to capture transactions. You have got to participate in that whole ecosystem. Because a customer typically doesn't wake up in the morning and do a banking transaction, instead they order a cab, or buy a movie ticket, things like that - so if you want your mobile application to be relevant, then your bank has to participate in all those things.*
>
> *The other important thing to look out for is who your competition is in the digital world. Most of the smart phones in India are about 16 GB and there are only so many apps that can stay on that phone. When I launched a foreign, largely digital, bank in India and asked friends to download it and check it out, they would ask me how much memory it would take, because they did not want to uninstall something like say a game. So the point is that in digital, you are not competing with other banks, you are competing with games and all kinds of apps on the phone. So unless your app becomes all-pervasive and it is something that is used by the customer almost every day, unless you are sitting in the middle of that ecosystem and offering payment solutions for anything that a customer does - it will never work." (R15)*

P13: Effective embedding of services in a customer's day to day activities is a predictor of a foreign bank's successful growth performance in India.

But this kind of thinking could go against the culture and legacy of the large, well-established foreign banks. The 'tyranny of the headquarters" was repeatedly observed as a theme that impeded the process of digitisation. The need for greater discretion and authority to be provided to the host country was frequently mentioned. In fact, it was repeatedly brought up that the foreign banks have the technology, particularly in their own domestic markets - but these need to be deployed quicker and more effectively in the host countries to drive greater business value.

The head of a digital bank noted,

> *"India is a showcase for the digital market – it is backed by the government, it is the only country which has a billion biometrics stored that are increasingly being used for authenticating payment directly from your phone. There has been a lot of government collaboration with the private sector and the RBI to introduce this, and I have seen it first-hand. In my prior (foreign) bank, I was the head of digital and I ideated this first hand. While we could carry this out, I knew I was constrained. If I had done this in a private sector bank, it would have taken me half the involved time and I probably would have done it at a third of the cost. That is the problem really - it is not just the legacy system - it's a very complex politically charged matrix organisation structure with all kinds of people floating around who have an opinion and slow down the process.*
>
> *Second, they insist on centralisation of many systems cross-countries so each country is bound by what another country is doing and changes are bound by what happens on those platforms, also depending on which country is important,*

etc. – so there is very little flexibility and very little room for manoeuvring in an agile manner based on what the market needs.

Third, we have seen that MNCs are subject to regulations across several countries, especially where they are headquartered, and that becomes a problem. So for example, when I created a digital bank in India, I could have put a mean, agile open architecture core system in India at half the price, but the monetary authority in the parent country didn't allow data to be posted outside the country. So we had to play it out. The core banking in the bank is the least flexi system, at greater cost of the home country – and because of that, for example, all the developers also had to be sitting in that home country and doing offshore development - which was foolish. So we had to take some 400 guys from Hyderabad to that country and pay them those salaries. So these are the kind of things that are hampering foreign banks." (R20)

P14: Flexibility and agility in speed to market is a predictor of a foreign bank's successful growth performance in India.

P15: Decentralisation of banking systems is a predictor of a foreign bank's successful growth performance in India.

Given the potential difficulty in changing the culture at the bank in the short-term, recommendations to succeed in this disruptive environment included carving out units that could run as start-ups, and training of the employees through initiatives like Hackathons to think differently. In the same vein, it was considered important to invest in disruptive technologies such as blockchain and cryptocurrencies, as it was all to do with a mindset of innovation, and a gamble in the future.

This would require being open to collaboration with the Fintechs, of which there has been a rapid increase in India. While the Fintechs primarily comprised technologists, and not bankers, they were making massive inroads into the banking space. They were also proving to be more capable at raising capital, as people were seeing their focus and the much clearer shareholder proposition they had to offer as compared to the banks.

In addition, while banks have the money to spend on developing a new technology - the challenge is whether they can come out with a technology innovation that they can patent and hold on to as unique to them – which seems rather unlikely. The answer here too appears to lie in ongoing continuous collaboration with the fintechs. As a respondent said,

> *"Collaborating with the fintechs is what could give the banks that edge. But the reality is that whatever happens in fintech is probably going to roll out in a way that will become commercially available, and the local banks will just buy it or rent it. So I don't know if even that will be a sustainable edge. You are spending on technology to get a sustainable edge, and so you have to keep spending on fintech, as there is no limit to what technology can do in banking. But there is no IP thereafter, so the edge may not be as long term as you would hope." (R25)*

P16a: Continued focus on developing innovative and potentially disruptive technological products and services for the future is a predictor of a foreign bank's successful growth performance in India.

P16b: The quality and type of collaborations made with Fintech organisations to pilot technological innovation is a predictor of a foreign bank's successful growth performance in India.

The push to digital also implies that changes have to be made in the traditional organisation structure and hiring processes. As discussed in the previous section, new digital banks are largely looking to hire from Fintechs and FMCGs to get their distribution growth. Marketing teams too are being typically run by people strong in analytics. This is also catching on in the foreign banks. As one respondent said,

> *"At Citibank, for instance, while the consumer banking head position in India has typically always been filled internally by people who have headed the business in other parts of the world, this time they have taken on a local hire whose expertise is in digitisation and technology implementation – she used to be the head of the digital platform at Paytm. So why did they take her? Because they have now realised that it is a seriously urgent necessity." (R24)*

P17: Active and focused recruitment of a set of employees other than traditional bankers, such as those from Fintech firms and consumer goods companies, is a predictor of a foreign bank's successful growth performance in India.

To conclude, the push to digital was clearly considered the way forward for the banks, but the thinking about the entire ecosystem had to change. Both the local banks and the foreign banks have the same playing field – in fact this is an area where the foreign banks may benefit, because with initiatives like UPI coming in, the retail distribution network of branches becomes less significant and they can compete anywhere in India. Besides, the reality is that the multinationals banks are already quite high in their digital capabilities, at least in their domestic markets, given that the ecosystem of innovation in technology is extremely high in the western markets.

5.2.4 Strengthening the competitive advantage with customers

Analysis of the survey data, as well as content analysis of the interviews, revealed that a clear USP for foreign banks is their global network, given the number of top end customers wanting to expand outside the country, and equally, the number of multinationals from their home country, where they are the principal banker, wanting to succeed in India. Not only does the foreign bank provide them this network, but most of them have a rating higher than that of the Indian banks, which is capped at the sovereign rating of BBB minus. However, the turf issue, which hinders the sharing of customers or following the diaspora, was repeatedly raised as a potential challenge. So increasingly the network was being ignored, and the local office would go on its own.

P18: Access to a global network, particularly for the core corporate services, is a predictor of a foreign bank's successful growth performance in India, and its effect is stronger when there is open sharing of knowledge and data on customers across countries.

The analysis of data also supported that the foreign bank's strong focus on value of the customer, at the cost of getting volume, may not be the right approach in an emerging market like India. As mentioned in the section on "Distribution Networks", the bank needs scale for many reasons, such as getting access to deposits at local rates, as also achieving the priority sector lending guidelines.

P19: Acquisition of customers that combines a focus on volume with value is a predictor of a foreign bank's successful growth performance in India.

However, when a bank operates on the scale that is recommended in an emerging market like India, the measurement of customer profitability, customer satisfaction and other such metrics are essential for its success, and also requires high-end digital capabilities.

P20: Effective use of MIS and Big Data on customer profitability is a predictor of a foreign bank's successful growth performance in India.

There was an increasing need to cross sell. As a respondent commented,

> *"Earlier banks were more focused on product lines, where people would work in their own separate silos - now because of the costs, efficiencies and the general downturn, and markets being compressed, everyone is busy looking at how much you can cross sell from a single client rather than going on increasing the number of clients, because that gets expensive." (R3)*

While breaking down of product silos was considered essential for the future, the private banks had gone a step further by looking to capture the ecosystem. As a respondent explained,

> *"We (domestic bank) are not looking at an anchor as a client. Say I am doing business with Tata Steel. Then what is important for me as a bank is not just to build a B2B business, but also a B2B2C kind of business with that customer. So I do not want to bank Tata Steel alone, but also its customers, vendors, dealers, and employees. Because I have a universal banking license, I have created a state-of-the-art infrastructure, whether its technology, digital platforms or branches – and the only way I can sweat it is if I get a wallet share of not just the anchor but also the ecosystem. Also for me there is a filtered credit risk assessment as Tata Steel would have had business relationships and dependencies with each one of them. So I would like to acquire that client at a lower cost and cross sell to him to increase my flow of business – because for me, the ROE comes through utilisation of throughputs." (R12)*

In a similar vein, these banks have a huge advantage as together with their group companies, they are in a position to offer a one-stop shop solution to their customer for all financial needs, making it more of a 360 degrees customer experience that promotes stickiness.

P21a: Breaking down product silos is a predictor of a foreign bank's successful growth performance in India.

P21b: Effective embedding of services in the entire ecosystem of the customer network is a predictor of a foreign bank's successful growth performance in India.

In terms of using innovative products, it became quite evident that there is no real IP in banking products as these can be easily replicated. Also, foreign banks did not have much advantage in getting global products as these did not meet the nuances that the Indian customer wanted. The only kinds of products where there was some protection in terms of the time it takes to copy it are those bedded in technology.

There were also challenges in bringing these products to the market due to external challenges such as regulations, and internal constraints that included bureaucracy and slow decision making. This is where collaborations with Fintechs, which are solely in the business of developing innovative products, would be useful.

P22a: Continued and relentless long term focus on developing innovative products and services is a predictor of a foreign bank's successful growth performance in India.

P22b: The speed at which a multinational bank can bring in a global product adapted to local use to the Indian market is a predictor of its successful growth performance in India, and is influenced by the organisation's commitment and speed of decision making (factors covered in the next section on Tyranny of the Headquarters").

P22c: The quality and type of collaborations made with Fintech organisations to pilot innovative products is a predictor of a foreign bank's successful growth performance in India.

Given the profile of India's demographics, and the active uptake of social media, engaging the customer through Facebook, Twitter and the like are becoming increasingly important.

P23: Effective use of social media platforms is a predictor of a foreign bank's successful growth performance in India.

Customer service has generally taken a beating at both the foreign banks as well as the domestic ones. The foreign ones are struggling with compliance requirements, while the domestic players have to manage huge volumes. There is a general drop in the employees' knowledge levels, as jobs become more silo-ed, and training is impacted given the numbers involved. There is a greater dependence on technology and call centres to answer the customers.

P24: Effective training of employees across functions is a predictor of a bank's successful growth performance in India.

5.2.5 'The tyranny of the headquarters' syndrome

Analysis of the data from the survey and the interviews revealed that the construct of "tyranny of the headquarters" was a significant disadvantage for foreign banks as compared to the domestic banks. This construct included the following factors: speed of strategic decision making, access to top management at the head office, commitment to the Indian market, and likelihood to assume risk.

The speed of strategic decision making was impacted by several factors. One was the lack of knowledge of local operations by the head office. As a respondent commented,

> *"If I look back at my time in three foreign banks, I found a complete lack of knowledge of what the local market really entails at the head office, where knowledge levels were pathetic. But when I moved to an Indian bank, I was always able to move and decide way faster." (R1)*

There was also a lack of trust in the local office's operations, particularly if in emerging markets.

> *"One big challenge foreign banks have is a lack of trust from the Head Office. There is hardly any freedom that senior management have to take decisions. The speed of decision making in domestic banks is just way ahead." (R8)*

P25a: Speed in strategic decision making by a foreign bank in India is a predictor of successful growth performance, and is influenced by the knowledge levels at the head office.

P25b: Speed in strategic decision making by a foreign bank in India is a predictor of successful growth performance, and is influenced by the level of trust that the head office has in the local operations.

The multinational bank's distance from the parent company, added to the matrix structure and complicated reporting lines, was revealed to put the foreign banks at a disadvantage. While it was generally agreed that the matrix reporting lines was a given, it was believed that a more equal and collaborative power structure was required. Empowering the local CEOs was a possible initiative to provide more flexibility, improve the speed of decision making and break down the silos.

As a respondent commented,

> *"You do need a local pulse - what do the head office people sitting in a developed country a continent away know about India? How can they come for three days and tell you what your strategy should be? So there has to be a good give and take – because equally, you cannot allow local fiefdom and local processes to take over. My call is that for a multinational organisation, a matrix organisation is the only way to go in the current environment as you have to depend on other people for expertise. Having said that, the litmus test is how much of the banks in India are localised versus expat-ised. When you go back to the late 1990s when two German banks entered, they just assumed that the Germans knew everything, and were out six months later. They got completely hammered because they flew in some guys who were smart in their own country, but the Indian culture is unique – what you see is not what you get; you need to have that local flavour, local knowledge." (R2)*

Another respondent provided a valuable insight,

> *"I still remember a pretty good quote from my regional boss when I asked him that as I was new to this bank and clearly a lot of things are happening in China, Hong Kong, etc., to tell me some of the best practices. And he said, "If you really want to change, don't look at other's best practices, look at your worst practices. Get rid of your worst practice instead of adopting someone else's best practice." And honestly when you think about it, in foreign banks we fall into that trap – we say it works in Hong Kong or in Argentina, lets adopt it in India, which is not necessarily right. So as a foreign bank you want to be globally consistent, but that doesn't allow you scope for customisation and personalisation, I don't want*

to know what is best in China – that may not work for me here. What the local country wants is to get rid of your worst behaviour." (R22)

P26a: Adequate delegation of decision-making authority to the host country is a predictor of a foreign bank's successful growth performance in India.

P26b: High awareness of local knowledge among the top management in the home and host country is a predictor of a foreign bank's successful growth performance in India.

P26c: High customisation of products and services to the Indian market is a predictor of a foreign bank's successful growth performance in India.

Operating in silos, whether in a foreign bank or a domestic bank, was a challenge. The importance of collaborations and providing more authority to the local office calls for a shift from the traditional matrix, silo-ed and competitive structures towards one that actively encourages flexible, cross-functional teams that would enable innovation. As a respondent commented,

"Even in the Indian banks, you have very clear demarcations and they all run their P&Ls separately. But to my mind, having studied that piece well, the only really efficient model is one that combines the P&Ls and includes the products and other pieces which cater to the whole businesses – retail, mass affluent, private, and gets their cost and freight. But nobody does that, not even the Indian banks, because everybody has their turf - they like to own people, they like to own their own business. So it doesn't work in the most efficient way even today. Certainly foreign banks do it in the most inefficient way." (R1)

P27: Reducing the silos in a bank through active cross collaboration and cross-functional teams is a predictor of a foreign bank's successful growth performance in India.

The measurement matrix applied by the head office of a multinational bank was also believed to be a challenge, as the model for calculating the cost of doing business was not always accurate or relevant. This would frequently lead the bank to become very parochial, and look at their local balance sheet only.

P28: Accuracy in capturing the business generated by the host country to the multinational's global operations is a predictor of a foreign bank's successful growth performance in India.

And finally, an oft-repeated disadvantage that foreign banks faced was the wavering or vacillating commitment to the Indian operations. As a CEO aptly commented,

> *"Every three to four years, most international banks at a country level, at a regional level, and even at the top of the house level, have people coming in with different thought processes. Let's go to Asia, let's pull out of Asia - so here there's constant change happening. And for banking to really prosper, it needs a lot of stability. The reason for this is that we are not a manufacturing company that can, for instance, buy iron ore, put it through a furnace, and make steel of it. Most of our business is generated by process and dialogues – and for that to prosper, you need a stable environment." (R4)*

P29: Stable long term commitment of a multinational bank to the Indian operations is a predictor of a foreign bank's successful growth performance in India.

5.2.6 Managing Talent

This research supported that increasingly in India, domestic players are able to attract high quality talent which previously used to prefer working in foreign banks only. The reasons were two-fold: financial incentives, largely in the form of ESOPs; as well as non-financial incentives that included the likes of greater authority being vested to make strategic decisions.

While there was a certain aspirational factor to working in a foreign bank given its image and brand, it was mostly at the lower levels; or then in certain pockets such as cross-border activities. In India, people also aspired to foreign banks in the hope that they would get a foreign posting. However, with rising protectionist policies across nations, and the HR function becoming more silo-ed and aligned to a business, such opportunities were becoming increasingly rare. In the bargain, the multinational bank was also losing that cadre of globally mobile managers who could seed best practices across businesses across nations.

Additionally, expatriates used to be prized resources that were being groomed for leadership resources. But now, with relocations invariably on local terms, they find that they are left without a mentor. They not only lose contact with those in the host country, but are also treated as a short-term resource in the destination country.

P30a: Higher mobility and opportunity to work overseas offered by a multinational bank in India is a predictor of its successful growth performance.

P30b: Higher mobility and opportunity to work overseas offered by a multinational bank in India is a predictor of successful growth performance, and this is influenced by the bank's global HR policies on mobility.

P30c: Ensuring a global HR that is not silo-ed along business lines is a predictor of a foreign bank's successful growth performance in India.

In terms of financial incentives offered, analysis of the data revealed that while the salary maybe higher in the foreign banks, the ESOPs offered by the domestic banks were a significant attraction. As India's stock market continued to rise, these options have done remarkably well, and resulted in tens of millionaire domestic bankers. The foreign banks too offer share options, but given that these are dependent on the bank's global performance, which has not been particularly positive in most cases, they have not come to amount to much. In fact, this dependence on global performance was an issue that was raised by the respondents:

> *"Bonus needs to have a local component - if the Indian cycle is doing well but the global institution is not doing well, then your bonus gets subdued. Now if the parent is doing very well but the local franchise is not doing very well, then there is no reason to give high bonus. So you lose out both ways." (R4)*

P31: Localisation of employee financial incentives is a predictor of a foreign bank's successful growth performance in India.

Accurate capture of returns for measuring appropriate rewards was another challenge that a foreign bank.

> *"Look at the rewards structure. Today most banks do not correctly capture the business generated. As a CEO, I should be rewarded for inbound and outbound business generated. If say Reliance banks with me in 30 countries, I should get compensated based on the P&L generated because of Reliance at those 30 plus India countries - because otherwise the business won't happen." (R23)*

P32: Accuracy in capturing the business generated by the host country to the multinational's global operations is a predictor of a foreign bank's successful growth performance in India.

Data analysis indicated that the domestic banks today are able to get the same quality of talent as the foreign banks, which was not always the case. However there is also a secondary theme that emerged in the greater discussion, which was that the quality of talent needed today is not what it used to be. With digital disruption, there is a different kind of talent skills that is required. It may also be the case that the need for talent has been lowered overall. This would be a future research theme to investigate further.

> *"Today we need people who are innovators, who think out of the box; people who are able to find solutions by deploying technology, and are comfortable with technology. And on the other end of the spectrum, given the kind of focus that one has on regulations, we need people who are able to do compliance with a conscience. So we have to successfully manage this balance." (R6)*

Another respondent added,

> *"The MNC banks typically source for talent from the top B-Schools, which is not the best strategy. These people are more expensive and may not have the hunger that comes from those in say, Tier 2 schools - especially as the aspiration of going overseas may not be met. I personally believe that the foreign banks tend to over engineer the job, in the sense that if the job can be done by a B.Com why put an MBA on it? But that's what they do, they tend to put excessive talent on the job and therefore their cost structures are high. But if you look at the domestic banks, they have created internal systems and processes that are so strong that they would be idiot proof, then you can put a slightly average guy on it and he's got to basically follow that process. The high end talent is really needed only at the creative top end business development." (R6)*

P33a: Active and focused recruitment of a set of employees other than MBAs and traditional bankers, such as those from Fintech firms and consumer goods companies, is a predictor of a foreign bank's successful growth performance in India.

However, the above proposition also implies that, going forward, banks may struggle to find talent because they are looking for the same kind of talent that the fintechs and other start-ups are prowling for. Moreover, there is an increased reluctance from potential recruits to join a bank as the traditional security of service of job, which used to be taken for granted, no longer exists. In addition, the bankers are also finding that they have not been left with any specialised skills for a career shift. So future employability becomes a challenge and many younger people are seeking careers elsewhere. It would require some innovative thinking to manage the talent pipeline, which some domestic banks have already commenced with.

> *"We (domestic bank) experienced a huge war for talent, and were told to pay more - but we did not want to as the volume is so huge and margins are already very thin – so we thought why not ensure a good supply chain by opting for academia partnerships. We then entered into a joint venture with academic institutions, where we said we will have people trained, and at the end of 9-months they will have a job and can come to the bank and hit the road running. Today 70% of our requirement is being met by those supply chain set ups that we have put in place over a period of time, with the remaining 30% being recruited from lateral channels from the market. And given the employer brand name that we have been able to cultivate over a period of time and the current situation in the job market, it is not really a challenge." (R18)*

Another respondent added:

> *"Despite being a start-up domestic bank, we have been able to build a significant talent pool. The way we have done it is by developing an institutionalised professional entrepreneurial plan from day one. We don't take recruits as management trainees, but instead immediately offer them the early experience of owning a stock in our company, and the freedom to work like an entrepreneur - so there are not many layers, there are not large bureaucracies, and people are accessible if you want to go and discuss anything." (R19)*

P33b: Innovative strategies to recruit appropriate talent, such as entering into academic partnerships or offering ESOPs to new recruits, is a predictor of a foreign bank's successful growth performance in India.

As mentioned earlier in the "tyranny of the headquarters" section, foreign banks are considered to be at a disadvantage to local banks in terms of factors such as slower decision making and added bureaucracy. However, training and learning about best practices is an area that they are considered to be at an advantage, as commented,

> *"The reason I moved out of a domestic bank to a foreign bank, despite the ESOPs to die for, is that you reach a point when you say that I want an opportunity to figure out what is happening in the rest of the world. And honestly I have learnt so much more in this foreign bank that is happening globally that hasn't even come to India as yet. And it may not be true with products, but more about different aspects of business like managing conduct risk or reputation risk, which is a science overseas, but not in India so much." (R22)*

P34: Offering non-financial incentives, such as an opportunity to learn about global best practices, is a predictor of a foreign bank's successful growth performance in India.

5.2.7 Active collaborations

Analysis of the quantitative and qualitative data collected revealed that there were invaluable gains to be made from collaborations, and in fact, this is the way forward for banks to succeed in emerging markets like India.

The first, and most talked about, collaboration was with the fintech players. Collaboration with a disruptor is believed to be a win-win situation – the banks offer them large platforms to work on and test their products, and the fintechs provide the banks the opportunity to offer differentiated solutions to customers. The fintechs have recognised that working with large financial institutions brings them credibility, the capability to comply with regulations, and a sustainable business model - and so are more open to collaboration than before. As for the banks, the nimbleness offered by a young fintech start-up with no legacy issues is very attractive. As a respondent (R11) articulated, "Let them do the innovations, and let us buy rather than build."

Another explained,

> *"Fintech brings phenomenal innovation to the table in a very, very sharp manner. For all the stuff that we are talking about like blockchains and so on, we may focus only on 5% of it. So that 5% in many ways is never big enough or good enough to do a business by itself – it's very niche with limited growth. But you marry it with something else and then there is a metamorphosis. Also, if you don't have that 5% sharpness that I am talking about, to the extent that it is part of my business model, I am uncompetitive or I will always have to play catch-up with someone else – so I have got to have it. And hence, I have to collaborate." (R16)*

But while there was much talk of this collaboration happening, it had not yet become mainstream. In concept, it sounded perfect. And yet, in reality, the head offices of the multinational banks "are too caught up right now to be thinking about it, and the local guy really doesn't have that kind of leverage and freedom." But that was expected to change in the near future, as the need to collaborate becomes more acute.

For a quality collaboration, there were certain factors that had to be met.

> *"The key is that you need to have a mind-set of partnering, otherwise the partnership cannot be long lasting. So that is one challenge. When a player thinks that he is an expert and he has achieved a scale of competency/complacency, then taking the partner along becomes an issue. We also need to have the organisational mechanism to ensure that the partnerships are nurtured. The other important thing is that it takes a long time to monetise digital. We just have to keep spending a lot of marketing dollars to get the brand going and people to start using it. You have also got to spend a lot of money on social media and other digital forums, basically spend a lot on collaborations with the partners in the ecosystem – and you probably won't even break even in five years and maybe even longer. But what the gain over there is that you will get a credit on your valuation. Fintechs understand that, but banks don't. Unless they create different companies under their licenses which they are able to spinoff at the right valuation, they will never be able to gain fully." (R20)*

While the Indian banks are much faster at collaborations because they are willing to experiment and have a faster speed to market, on the flip side, it was to be noted that they lacked the scale of what a multinational bank could do. As a respondent explained,

> *"A foreign bank can tie up with somebody globally. So if you take AliPay today as an example, it is not that a local Chinese bank cannot do something with Alibaba, but it would probably do it for China alone. Whereas if you take an HSBC, Citi, or Stanchart for example, they will probably tie up with Alibaba across the globe." (R22)*

P35: The quality and type of collaborations with Fintechs that a foreign bank has contributes to its successful growth performance in India, and this is influenced by the scale of the bank's global operations.

The second kind of collaboration is with the regulators. While analysis of the data revealed that it was not possible to 'collaborate' with the regulators, working well with them was very critical. The RBI used to value the foreign banks' insights, but this appears to have taken a beating post-2008. Today the approach of the foreign banks is that they want to strictly abide by the book, and so recruiting compliance-savvy employees would be helpful.

P36a: The quality and type of collaboration with the regulator is a predictor of a foreign bank's successful growth performance in India.

P36b: Active and focused recruitment of employees experienced in compliance is a predictor of a foreign bank's successful growth performance in India.

The third collaboration that was researched was those with other banks. There is already a natural space where banks will be collaborating, such as international cross border banking, international trade finance, and so on. But there is scope for this to move to another level, where banks may use each other's data and share information not only for risk mitigation, but also to come up with different types of solutions, or open different types of revenue pools which are not visible today.

Collaborations are also expected to extend beyond the above set of players to include non-bank players, for instance online market places and other areas, where banks can collect and connect the data to acquire customers and perform other activities. Tie-ups with firms like Cisco and Intel to incubate their next-generation products is another option. And given that most foreign banks do not have group companies operating in India, they would look at collaborations with a host of firms offering products like mutual funds or auto loans.

P37: The quality and type of collaborations with other banks is a predictor of a foreign bank's successful growth performance in India.

P38: The quality and type of collaborations that a bank has with other non-bank players in the industry is a predictor of a foreign bank's successful growth performance in India.

The final kind of collaboration discussed was that with local society. However, while this was considered a significant contributor to a bank's success, there did not appear to be a significant advantage with either the foreign banks or the local banks. It was generally agreed that all are doing enough in this space, and the three large foreign banks in particular had been around for decades and were well recognised in the community.

5.2.8 Development of a conceptual model

This grounded research study examined the key competitive disadvantages of a multinational bank in India as compared to its domestic counterpart that leads to lower growth performance within the framework of the internationalization theory and the theory of disruption. The analysis of the findings led to the formulation of the above propositions, culminating in the development of the following model.

Managing the Regulatory Challenges	**Augmenting Distribution networks**	**Enabling technology**	**Strengthening the competitive advantage with customers**	**"The tyranny of the headquarters"**	**Managing Talent**
Commit by subsidarising	Subsidarise			Stable long term commitment	
Acquisition of customers that	Extend the reach of physical branches,		Freer and more sharing of the access		Opportunity to work overseas

combines a focus on volume with value - PSL	particularly for the retail operations		to a global network		
	Enhance the digital distribution network and use a hub and spoke model				
	Push mobile technology				
Recruitment of compliance specialists	Recruitment of non- traditional bankers (FMCG/Fintech)	Recruitment of non- traditional bankers (FMCG/Fintech)			Recruitment of non- traditional bankers (FMCG/Fintech) Innovative strategies to recruit appropriate talent, such as entering into academic partnerships or offering ESOPs to new recruits
			Effective training of employees across functions		Offering non-financial incentives, such as learning about global best practices
			Speed in strategic decision making, which is influenced by: the culture knowledge levels at the head office	Adequate delegation of decision-making authority to the host country High awareness of local knowledge among the top management in the host country	
	Employing design thinking				
	Push use of social media channels		Push use of social media channels		
		Developing IT platforms that are customised to the local requirements		High customisation of products and services to the Indian market	Localisation of employee financial incentives

		Effective embedding of services in a customer's day to day activities	Effective embedding of services in the entire ecosystem of the customer network.		
		Increase effective use of MIS and Big Data	Increase use of Big Data	Accuracy in capturing the business generated by the host country	Accuracy in capturing the business generated by the host country
		Enhance flexibility and agility in speed to market	The speed at which a global product can be adapted to local use		
		Decentralise banking systems	Breaking down product silos		
		Continued focus on developing innovative and potentially disruptive technological products and services for the future	Continued and relentless long term focus on developing innovative products and services		
Collaboration (outsource) regulatory requirements	Collaboration Last mile distribution Fintechs NBFCs	Collaborating with domestic software firms to develop cheaper and more locally - adapted IT platforms Develop IT platforms that are amenable to integration with external locally available data ecosystems Collaborate to reduce cost of digital investment Collaborate with fintechs to pilot technological innovation	Collaboration with Fintech organisations to pilot innovative products	Collaboration to reduce the silos in a bank through active cross collaboration and cross-functional teams	Collaboration across global lines, ensuring a global HR that is not silo-ed along business lines

The model in **Figure 2** below captures the interplay between the key propositions that could promote the successful growth performance of foreign banks in India. For instance, if there is a push to augment the brick-and-mortar branches (Distribution) by e-banking (Technology), it would require collaboration with the fintechs and other firms that could provide the logistics support (Collaborations) and a different kind of employee – not 'bankers' as much as 'technologists' (Talent), who should be provided a start-up kind of environment to work in (Tyranny of the Headquarters) to develop user-friendly and intuitive customer apps (Strengthening the competitive advantage with customers). And this would all have to happen under the umbrella of the regulatory framework.

Figure 2: Key Propositions to promote the successful growth performance of foreign banks in India

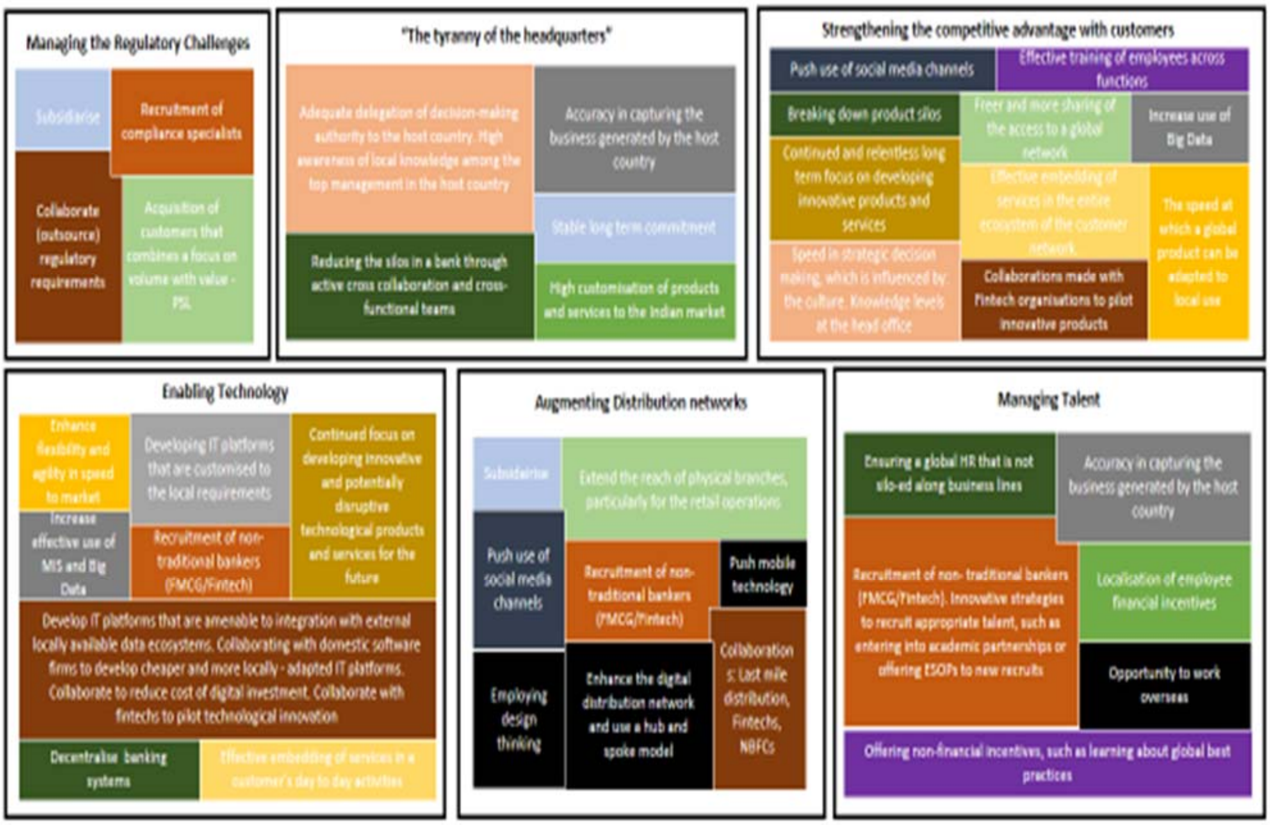
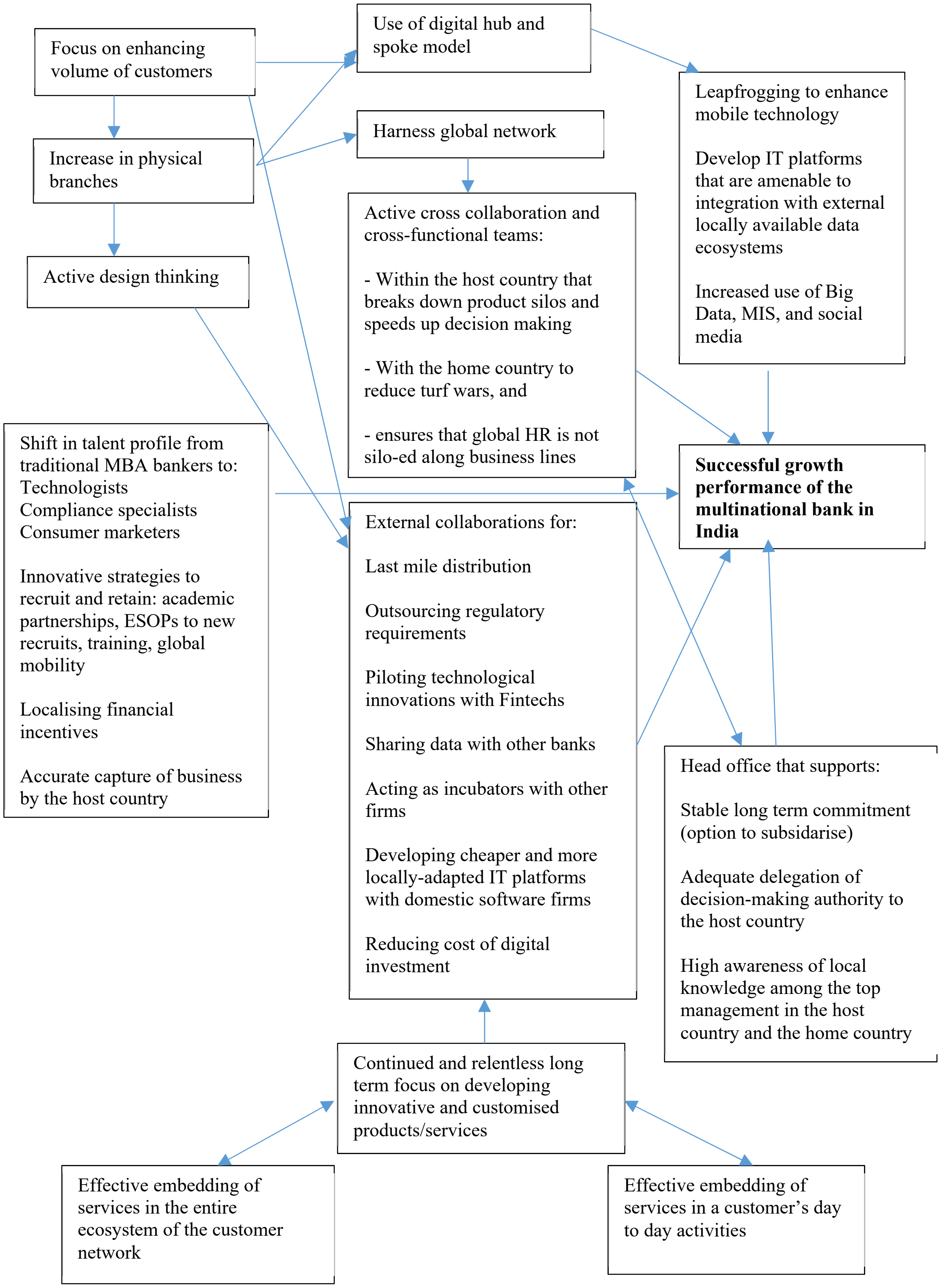


Figure 3: Conceptual model that captures the key propositions leading to the successful growth performance of foreign banks in India



5.3 Significance and relevance of the findings

5.3.1 Academic relevance

The traditional internalisation theory is focused at the firm level, and does not consider the networks. Johanson and Mattsson (1988) did attempt to address this shortcoming; and emphasised the relationships between independent firms as a key part of a firm's internationalisation process. This research study contributes to the internationalisation theory as it considers the network approach and pays importance to concepts such as commitment and collaborations that are studied outside the firm. It builds on extant literature, and conceptualises a model that provides a network of links between the activities and strategies undertaken by both sets of banks, foreign and domestic, thereby providing a better understanding of the complexity multinationals face doing business in an emerging market. In an emerging market, and particularly India, there is a multifaceted interplay of social, demographic, economic and regulatory factors, which this research has attempted to comprehend.

This study has also widened the scope of research by adopting a well-structured research process that is holistic in its orientation. It first develops a conceptual model that identifies the key variables bankers have to grapple with to succeed in the rapidly changing Indian environment. Thereafter it examines those factors in depth to ensure that they were complete, adequate and relevant. Only then did it compare the growth performance of the foreign banks versus their domestic counterparts on these factors, to draw out where the significant differences lie, and subsequently postulate a series of propositions leading to a conceptual framework that would enable the foreign banks to successfully compete with their domestic counterparts in India. Hence, keeping true to the concepts of grounded theory, the study included qualitative and exploratory research through expert interviews and literature research, leading to the development of hypotheses and construction of an interview guide and relevant scales, which was then followed by qualitative and quantitative examination and validation.

While there have been many existing studies that discuss strategies multinationals employ to succeed in emerging markets, to my knowledge, there are none that specifically discuss what happens when the industry is also facing massive disruption. This research thus additionally empirically contributes to the theory of disruption, and recommends that multinationals also need to consider competing with "simple, easy-to-use, and low-priced products" (Christensen et al, 2015) that are focused on the middle and bottom of the pyramid.

This study also contributes to the literature on banking by formulating a scale that is contextually relevant to the Indian market. By considering the entire range of factors that are at interplay in the Indian banking industry, it adds considerably to the domain knowledge.

5.3.2 Managerial significance

I believe that this study has great practical and managerial significance as it comes at a time when multinationals are reeling from the twin challenges of globalisation and protectionist policies. With their domestic markets largely stagnant, the attraction to emerging countries is strong – and India, opening up rapidly, is undoubtedly one of the more attractive emerging markets to invest in.

> *Multiple macroeconomic, demographic, and technological developments make the Indian banking sector one of the most attractive opportunities globally. The broader Indian economic growth story continues unabated—GDP grew at 7 percent in 2016, and growth rate could increase to 7.7 percent by 2020. Additional indicators like upward consumer mobility also point to a bright macroeconomic future (McKinsey, 2017)*

There is also yet much market share in the Indian banking sector waiting to be won over, and the game lies wide open with the nationalised banks withdrawing. As explained by a former CEO of a domestic bank, *"If you take the valuation of the private sector banks, it reflects not what they do, but what opportunity they have - because the government which owns the PSU banks has a strategy to take their market share down to 50% as they do not want to put any more capital into these banks. At the same time, they want the economy not to be constrained by bank capital. So in a way the scene is set, technically speaking, that there is 20% of the Indian banking sector market share which can be picked up by anyone, a private sector bank or international bank. And that's what finally reflects in the private sector banks valuation, which at the top end is five times the book value, because they can grow much faster in the industry." (R4)*

This research has had the advantage of 30 experts and C-suite banking leaders sharing their views, strategies and prognosis of what lies ahead, where the key competitive advantages lie, and what can be done to succeed in the current, disrupted and yet, increasingly open, environment. It can enable bankers across the globe to develop suitable go-to-market approaches that have a strong strategic fit with the ground realities in the emerging markets.

5.4 Limitations of the study and potential for future research

The present research is limited to the study of banking in India. As the regulatory environment is a key consideration for success, this implies that the findings cannot be replicated as is across countries. Future research should do a validation of the scales and the conceptual model in other Emerging Asian markets to determine similarities or differences.

This research also works with a single industry – banking - and needs to be tested and validated across other industries in other emerging markets.

Another limitation of the research is that it did not include the customers' as a set of respondents. However, this has to some extent been addressed as the interviewees often spoke about their experiences as customers.

In terms of sampling procedure, the qualitative part of this research was based on interviews with C-suite leaders on the basis of convenience sampling. Hence, there are the drawbacks of a non-random sample being selected. Having said that, the effects were minimised by interviewing leaders across both, foreign and domestic banks.

In the quantitative analysis of the survey, it was found that there was a bias of respondents who had only worked in foreign banks to rate the foreign banks higher on most scales. This limitation was addressed by analysis of each factor separately across the group of all respondents, and those that had also worked in domestic banks.

5.5 Conclusion

This study contributes to theory and practice by providing a greater understanding of what it takes multinationals to succeed in an Asian emerging market, and develops a conceptual framework of an array of entwined propositions that could serve as a guide to researchers' for future studies on internationalisation and disruption, and to practitioners for application in the banking industry.

Exhibit 1: A snapshot of the liabilities of banks in India – 2016

Deposits	**(INR millions)**
Citibank N.A.	1,002,154
Hongkong and Shanghai Banking Corpn. Ltd.	879,438
Standard Chartered Bank	751,931
Deutsche Bank Ag	437,088
DBS Bank Ltd.	234,275
Bank of America N.A.	130,386
All Foreign Banks	**4,588,000**
All Nationalised Banks (excl SBI)	**52,456,359**
HDFC Bank	5,464,242
ICICI Bank	4,214,257
Axis Bank	3,579,676
Kotak Mahindra Bank Ltd	1,386,430
Yes Bank Ltd.	1,117,195
All Private Sector Banks	**21,476,733**
State Bank of India & Its Associates	**22,405,421**
All Scheduled Commercial Banks	**100,926,513**

Market Share of Liabilities

	Foreign banks	**Domestic Private banks**
As on March 31, 2016	4.5%	21.3%
As on March 31, 2015	4.3%	19.4%
As on March 31, 2014	4.1%	18.7%
As on March 31, 2013	3.9%	18.8%
As on March 31, 2012	4.3%	18.2%
As on March 31, 2011	4.3%	17.9%
As on March31, 2010	4.9%	17.3%
As on March 31, 2009	5.3%	18.1%
As on March 31, 2008	5.8%	20.3%
As on March 31, 2007	5.6%	20.5%
As on March 31, 2006	5.3%	19.8%
As on March 31, 2005	4.7%	17.1%

Source: Reserve Bank of India (2017). Statistical Tables Relating To Banks in India. https://rbi.org.in/Scripts/AnnualPublications.aspx?head=Statistical%20Tables%20Relating%20to%20Banks%20in%20India.

Exhibit 2: A snapshot of the advances of banks in India - 2016

Advances	**(INR millions)**
Citibank N.A.	615,505
Standard Chartered Bank	665,360
Hongkong and Shanghai Banking Corpn. Ltd.	549,703
Deutsche Bank Ag	432,543
DBS Bank Ltd.	176,531
Bank of America N.A.	123,464
All Foreign Banks	**3,635,508**
All Nationalised Banks (not SBI)	**37,442,774**
Axis BANK	3,387,737
HDFC Bank	4,645,940
ICICI Bank	4,352,639
Kotak Mahindra Bank Ltd	1,186,653
Yes Bank Ltd.	982,099
All Private Sector Banks	**19,393,394**
State Bank of India & Its Associates	**18,492,994**
All Scheduled Commercial Banks	**78,964,670**

Market Share of Assets

	Foreign banks	**Domestic Private banks**
As on March 31, 2016	4.6%	24.6%
As on March 31, 2015	4.4%	21.4%
As on March 31, 2014	4.3%	19.9%
As on March 31, 2013	4.5%	19.4%
As on March 31, 2012	4.5%	19.0%
As on March 31, 2011	4.5%	18.6%
As on March31, 2010	4.7%	18.1%
As on March 31, 2009	5.5%	19.2%
As on March 31, 2008	6.5%	20.9%
As on March 31, 2007	6.4%	20.9%
As on March 31, 2006	6.4%	20.6%
As on March 31, 2005	6.5%	19.2%

Source: Reserve Bank of India (2017). Statistical Tables Relating To Banks in India. https://rbi.org.in/Scripts/AnnualPublications.aspx?head=Statistical%20Tables%20Relating%20to%20Banks%20in%20India.

Exhibit 3: Perspective of the Indian Banking industry as narrated by a former CEO of a foreign bank and founder of a domestic bank

Until the mid-1980s

The entry and growth of the multinational banks into India can be divided into three stages. The first stage was somewhere from Independence in India in 1947 up to the mid '80s, with a brief nationalisation period when everybody was thrown out. So they were all just outposts who came in and bought nice buildings, whether it was Hong Kong Bank or Standard Chartered Bank, Grindlays Bank, Citibank –some came in a bit sooner, some a bit later – but it was all just about supporting the commerce of one country with the other, just a very simple reason for presence.

In the mid '80s, two or three things started happening. One was that the head office mind-set changed. They started realising that this market was interesting, there is money to be made here, the growth rate (even though it may be the "Hindu growth rate" which was 5%) was still a dream growth rate compared to a lot of economies. So as the developed economies like Japan started slowing down, they started looking a little bit more eastward to the emerging markets. So I don't know if it was driven by the people who were in India who were trying to change the mind-set of the head office, or if the head office was perceptive and wanted to do that – but the net effect was that there was a head office mind set change saying this is real. We need to be here, there is money to be made.

The next big thing that happened was that India itself started showing a lot of promise in terms of the potential to make money. It started experimenting with growth, domestic consumption, etc., and moving from being a very, very insular, inward looking society to opening up. So that lent itself to a desire for better banking products.

And the third thing was talent. If you look at the recruitment process of the banks somewhere around the mid to late 1980s, the international banks started realising that there is a lot of good talent, there is a lot of opportunity in this country, so this is good picking. I think Citi was by far the leader in this, no question. And in the case of Citi, it was largely driven by the Head Office, because their CEO then was one of the smartest retail bankers.

At the core, banking is very simple. Also in developed countries like the UK, Europe, Japan and the US, commercial banking is nothing very fancy or attractive. It's an okay job; it's not a great job. So all this was happening in the mid to late '80s - but outside India. In India though, because of the branding, because of the money the foreign banks started paying, they were getting the best talent. So there was a big tussle at the top B-Schools and a very clear targeting of high quality talent by multinational banks around that time. So capital started coming in, talent entered, and then the boom years started, from 1985 onwards.

1985 – 2008

At this time, the banks started going into investment banking, treasury, etc. - so they started focusing a lot on the country. And there were a lot of things happening globally which was impacting what was happening in India from an industry point of view. So it was all go, go, and go - and this was reflected in the slogans at that time, right up to the second phase which lasted up to the financial crisis in 2008. HSBC said that we will become "the world's local bank", "Citi never sleeps" was the Citi logo – so everybody was basically trying to say that we should be a household name in this country.

At this time, two more things were happening. Till probably the late 2000s, it was a very decentralised model and local countries could do a lot. Then a centralised model of banking started with the American banks and slowly moved to the European banks. So globally they started deciding whether or not to allocate more capital, etc. - but the thinking was alike. India was a key country for every bank and they would throw money at it. They thought technology would be able to take over and so they would not need to have so many branches - but let's try in any case to get them - so they kept on applying for bank licences, and focused on organic expansion. Even inorganic was tried. The mantra was let's do something different, let's expand our footprint in this country. The big competitor in the foreign bank space before 2008 was Citi.

And another trend that coincided with this trend was India opening up in 1991 – so a lot of foreign companies were coming in. Who would they come with? I recollect the Citi CEO then would say that,

> *If you want to be close to a company in the US, then find out which is the most difficult and the furthest jurisdiction that the company works in, and make sure that you are banking them there. Because that is what the CFO is worried about – they are not worried about the US but about India or Indonesia or wherever. It did not have to be a large market because frauds can happen anywhere. Brand reputation can be damaged anywhere and banking is a problem everywhere. So if you are solving his banking problem in the country that nobody else is being able to solve, then you will do him a favour which he will return to you in the US.*

That was the logic. So all the B2C companies wanted to come to India, which was opening up, and who would help them – the foreign banks. And then their expatriates would come, who's banking for them – the foreign banks. And their only competition was nationalised banks, of which they were so far ahead in terms of technology and talent that they were not really bothered. So the first licence was in 1994 to HDFC, and their CEO came from Citi, probably the best bank in the world at that time. He could put together a very good quality team and gave serious level of options to people. The share market culture was just coming up, so he gave these people shares which at that time looked like a great deal. So it was the first dent or chip in the multinational brand name that this was a different force coming. And in this same vein, other domestic banks came in. In the early 2000s, RBI gave two licences to Kotak Bank and to Yes Bank. All these banks, each with a different model, could do almost everything a foreign bank could do. They had recruited foreign bankers so there was very little to choose from a cultural perspective.

And there was another technological piece that favoured them as the local players like TCS were coming up and offering ready to use, state of the art, banking software.

And the domestic players offered incentive structures which really worked given India's demographics. There were a lot of reasonably well-educated hungry youth who realised that this was a way to make good money, you get incentives, it's a polished job, and it's a good brand name to work for. So at the top you had these foreign bankers who had taken over key positions. Then they had big sales teams, and all those sales teams were basically young Indians coming up from what is called Emerging India, and they started selling very aggressively. So they would do what a nationalised bank used to do – they would come home to open an account, they would come and give you cash. If you were going there, you would call them up and they would help you immediately. So they were basically becoming very, very attractive and they were taking a lot of share from the nationalised banks. They were not taking a great share from the multinational banks. It wasn't that State Bank of India did not have wealthy customers, they had lot of wealthy customers - so the idea was not to bother with foreign banks which had a small market share, just go to the big guys and take from them. And they didn't have to do anything really, in droves people were willing to leave the nationalised banks, which were not upping their game at all. So that was the evolution. So if you think about it, they were able to attract talent, they were able to pay very well because they were listed, their stocks were doing well, and because their stocks were doing well, people with share options were making good money.

2008 to date

And then there was one more development, which was really in the third phase of foreign banks. This is currently dominating the third phase of Indian banking. It is another sort of nail in the coffin of the foreign banks because there is another model where you can go and pick up a private bank in India and turn it around, so everybody will make a lot of money out of it. Then that started extending – why only banks, you can do this with NBFCs, you can do it with Wealth Management companies, and you can do it with lending companies – and that has happened. And it has now opened up to every financial services institution – that there is money to be made - get a private equity together, get a team together, pick a company, and go for it. So that's a very big third wave which has come. The first wave was foreign banks, the second wave was new private banks and the third wave is pick up private banks or assets that are underperforming and then inject capital and talent into it.

Coming back to the foreign banks, they also started extending a lot of their talent overseas. A number of the Indian bankers who were recruited in the early to mid '80s went out. And then from 1999, other banks were expanding, there seemed to be unlimited capital, unlimited liquidity, overall globally things were booming – good times, no restrictions, excess expenditure – just go on expanding branches, don't worry about anything.

And then the crisis started, which is the third phase of foreign banks, where there has basically been a complete about turn is almost every head office now. And with the exception of some Asian and Middle Eastern banks, like DBS wants to expand in India—but every European bank, American bank, Japanese bank basically had little capital left. They were under tremendous regulatory pressure. They all started realising that with the rise of the private banks, it’s not that easy pickings now. And also, what do you mean by ‘World’s local Bank”? You can never compete with a State Bank of India, or now even an HDFC.

So a combination of lack of capital, lack of investment dollars for upgrading technology, and probably equally, if not most important, is the problem with regulation. For example, the US Monitor goes to every country, which means every country has to ensure that it is adhering to US standards everywhere – how can you afford such a thing? So in a bank, everything is a weak link – your strongest is where you are the weakest – that’s what defines you. So foreign banks are very happy to leave this world because KYC is very onerous, very expensive, you have to do it to US standards, and with all the scandals, the press is very bad.

2017 onwards

There is this whole technology piece which is coming up, which will probably be the fourth phase that has been kicked off from an Indian perspective, and this is the licences given for payments banks and small banks. I believe payment bank licences will be phenomenal for the customer, hopeless for the sponsor because they will never make money. But the benefit is twofold. One is, if you are a mobile company like Vodafone, you already have a lot of infrastructure in place, so the incremental cost is not that much. Because of that they can tie the customer in – now you can do your banking on your mobile, so that makes sense. The second play could be that, like they used to do it in India all the time, if you are getting a licence, take it and wait for your time. Then go back to the RBI and say that one cannot make money in a payments bank - can you convert it into a normal bank licence. Then you buy a local private or a nationalised bank which may go on sale and start your asset building. That is for people who have got patience and also frankly have the guts and courage to play the system. That’s the play.

So the fourth phase from the technology perspective is these payments banks and the small finance banks, which will make the game very different. It will become a lot more local, it will become a lot more nimble and it will become a lot more budget airlines kind of thing. And it will go to the bottom of the pyramid.

Exhibit 4: Interview Guide

The questions are structured around seven broad themes. They are open-ended, and do not necessarily follow the order given below.

1. Regulatory framework

How do regulations affect the competitive playing field for foreign banks as well as the domestic private banks in India?

2. Distribution channels

What are the distribution channels you are currently using to reach your customer? Do you see the focus changing with digital coming in?

How important are your distribution channels? Do you see it as a competitive advantage or a competitive disadvantage?

What are the important elements you consider when you look at distribution?

Foreign banks had struggled to manage the highly fragmented and complex distribution network due to a variety of reasons including restrictions on the opening of traditional physical branches. However, the advent of disruptive digital technology and exponential mobile usage could alleviate this challenge?

3. Technology

How do the domestic private banks compare with the foreign banks in terms of their digital capability?

In your view, are you investing sufficiently in technology to meet the growth requirements of the future?

Do you use Big Data that you have on the customers?

Compared to the rest of the industry, how would your platform compare with competitors, both local and foreign?

4. Innovative practices to get close to the customer again

How do the domestic private banks compare to the foreign banks in terms of customer service?

What is your customer strategy based on – value or volume?

Are you moving away from product-focused silos to more effectively reach your customers?

What do you do to make sure you understand their requirements and build a product/service suite to address that?

5. Tyranny of the headquarters, and the innovation mind-set

Are domestic private banks at a significant advantage on account of the physical proximity of the head office?

Does it affect the speed of decision making? Risk taking abilities? Innovation mind set?

Are the domestic players at a competitive disadvantage to the MNCs, which have potential access to much larger capital and network resources on a global scale?

How important do you feel is commitment from the head office?

6. Acquiring and retaining talent

Compared to the foreign banks, do you see acquiring and retaining talent as a competitive advantage, or are you well-positioned in the industry? Is there an aspirational factor in working for a foreign bank?

Where do you source your talent from?

How do you measure employee engagement? How important is it for you?

7. – "Strength of weak ties"

How important do you feel it is to collaborate with other banks? The regulators? The disruptors (Fintech firms)? Local society? Is it a competitive advantage for you?

Exhibit 5: Survey Questionnaire

Thank you for making time to participate in this study.

The purpose of this academic research is to examine the key factors that determine the success of a multinational in emerging Asian markets, particularly at a time of massive digital disruption and increased protectionist policies.

This study focuses on the Banking Industry in India as a test case, and compares the performance of the foreign banks from the developed world against the domestic private banks (non-nationalised) in India, to understand the competitive advantage that both groups offer.

This study is entirely voluntary and will take approximately 10 minutes to complete. We seek your consent to participate in this important study. Your responses will be kept confidential and anonymous. Any publication that result from this study will not be linked to you and will be presented in an aggregated manner.

Only the researcher involved in this study can access the data. If you have any questions or clarifications, please contact Havovi Heerjee Joshi at havovij.2015@smu.edu.sg or (65) 81898545. For questions on your rights as participant, please contact Singapore Management University's Institutional Review Board (IRB) Secretariat at irb@smu.edu.sg or (65) 68281925.

Please click on https://smusg.asia.qualtrics.com/jfe/form/SV_5jrBd6CZe9P5UQB to start the survey.

In appreciation of your participation, if you so wish, you will receive an executive summary of the insights derived from this study. Please do contact the researcher at havovij.2015@dba.smu.edu.sg and provide your email address if you would like to receive a copy. Thank you once again for your time and contribution to this study.

Sincerely,
Havovi Heerjee Joshi

Questionnaire

1. How many years of work experience do you have in a foreign bank (in India or overseas)?
    1. 0-5 years
    2. 5-10 years
    3. 10-15 years
    4. 15-20 years
    5. 20-25 years
    6. Over 25 years

2. How many years of work experience do you have in a domestic private bank in India?
    1. 0-5 years
    2. 5-10 years
    3. 10-15 years
    4. 15-20 years
    5. 20-25 years
    6. Over 25 years

3. In your opinion, how important are each of the following factors for the successful performance of a bank in India?

	Not at all important (1)	Slightly important (2)	Moderately important (3)	Very important (4)	Extremely important (5)
1. Complying with regulatory norms					
2. High level of customer service					
3. Effectively using a combination of physical and digital channels to reach the customer					
4. Possessing effective digital capabilities to address customer needs					
5. Investing sufficiently in technology for the future					
6. Timely response from top management at the head office					
7. Stable long term commitment of the head office to developing the business					
8. Acquiring strong employee talent					
9. Providing strong financial incentives such as bonuses/ESOPs					
10. Providing strong non-financial incentives					
11. Actively collaborating with other banks					
12. Building a strong relationship with the RBI/other regulators					
13. Building strong relationships with the local society					

4. This section compares the foreign banks in India to the domestic private banks in India on the following factors.

How strongly would you agree that compared to the domestic private banks:

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)	No opinion (6)

1. Foreign banks have a more stringent set of regulatory constraints to follow than the domestic banks
2. Foreign banks are quicker in their strategic decision making
3. Foreign banks have a better access to top management at the head office
4. Foreign banks are more committed to the Indian market
5. Foreign banks are more likely to assume risk
6. Working for a foreign bank is more aspirational than working for a domestic bank
7. Foreign banks offer more attractive employee financial incentives
8. Foreign banks offer more attractive employee non-financial incentives
9. Foreign banks are better at collaborating with other banks in the local ecosystem
10. Foreign banks are better at building a strong relationship with the RBI/other regulators
11. Foreign banks are better at building relationships with the local society
12. Foreign banks are better at integrating into local commercial networks
13. Foreign banks use digital channels more than the domestic banks

5. The following set of questions compare the retail banking services and the core corporate banking services offered by the domestic private banks and the foreign banks in India. Please indicate whether you would like to answer the questions for either, or both.

1. Only Retail banking services
2. Only Corporate banking services
3. Both Retail and Corporate banking services

If you have answered Only Retail banking Services, please go to question 6 only.
If you have answered Only Corporate banking Services, please go to question 7 only.
If you have answered Both Retail and Corporate banking services, please answer both question 6 and 7.

6. This section compares the **retail banking services** of the foreign banks in India to the domestic private banks in India on the following factors.

How strongly would you agree that compared to the domestic private banks:

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)	No opinion (6)

1. Foreign banks have a greater focus on value as compared to volume
2. Foreign banks have a better understanding of the retail customer's requirements
3. Foreign banks are quicker to develop new product and service suites to meet the customers' demand
4. The foreign bank's global network is a great advantage in retail banking operations
5. The foreign bank's reputation with their overseas customers is of great value in building a local brand
6. Foreign banks are more willing to help their customers
7. The employees of a foreign bank have greater knowledge in answering their retail customers' questions
8. Foreign banks are more innovative in driving customer satisfaction
9. The distribution channels of foreign banks are better in meeting its retail customers' needs
10. The digital capability of foreign banks is better than the domestic banks
11. Foreign banks are better at using MIS on their retail customers

7. This section compares the **core corporate banking services** of the foreign banks in India to the domestic private banks in India on the following factors.

How strongly would you agree that compared to the domestic private banks:

	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)	No opinion (6)

1. Foreign banks have a greater focus on value as compared to volume
2. Foreign banks have a better understanding of the corporate customer's requirements
3. Foreign banks are slower to develop new product and service suites to meet the customers' demand
4. The foreign bank's global network is a great advantage in corporate banking operations
5. The foreign bank's reputation with their overseas customers is of great value in building a local brand
6. Foreign banks are better at performing the service right the first time
7. The employees of a foreign bank have greater knowledge in answering their corporate customers' questions
8. Foreign banks are more innovative in driving customer satisfaction
9. The distribution channels of foreign banks are better in meeting its corporate customers' needs
10. The digital capability of foreign banks is better than the domestic banks
11. Foreign banks are better at using MIS on their corporate customers

Thank you for your time and contribution to this study.

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