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Internationalization of State-Owned Banks: A Case Study of Banco do Brasil, Bank of China and WestLB.
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INTERNATIONALIZATION OF STATE-OWNED BANKS: A CASE STUDY OF BANCO DO BRASIL, BANK OF CHINA AND WESTLB.

Dissertação de Mestrado apresentada como pré-requisito para obtenção do título de mestre em Administração, com ênfase em Gestão Internacional, pela Escola Superior de Propaganda e Marketing – ESPM.

Orientador: Prof. FREDERICO ARAUJO TUROLLA

SÃO PAULO
2017
INTERNATIONALIZATION OF STATE-OWNED BANKS: A CASE STUDY OF BANCO DO BRASIL, BANK OF CHINA AND WESTLB.

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Dissertação submetida ao corpo docente da ESPM – PMDGI – Programa de Mestrado e Doutorado em Gestão Internacional, como parte dos requisitos necessários à obtenção do grau de Mestre.

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ABSTRACT

This Master’s Dissertation studies the process of internationalization of Banco do Brasil, Bank of China and WestLB as commercial SOBs considering proposition that state-owned banks have specific intangible assets that benefits their process of internationalization. The theoretical framework is based on the classical theories regarding internationalization of enterprises and their applications to the internationalization of banks, specific literature related to state ownership, institutional approach and intangible assets. Through a multiple-case study of the above-mentioned companies, this project explores the unique characteristics and the idiosyncrasies present in the internationalization of large state-owned banks. The result of empirical research support the main proposition of this study that state-owned banks have specific intangible assets that influence in their process of internationalization as well as the empirical evidence that these intangibles are related to specific ownership advantages deriving from state ownership highly correlated to specific knowledge company’s reputation and country’s reputation.

Keywords: International Strategy, International Business, Bank internationalization, State-owned banks.
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1 INTRODUCTION

The ‘Global Financial Report (2013)’ asserts that the state has a crucial role in the financial sector, and regarding the ownership of banks, there is new evidence that state involvement can help in mitigating adverse effects of a crisis (WORLD BANK, 2013). As an example of the magnitude of state-ownership of banks, in 2016 the ‘big four’ Chinese commercial state-owned banks (Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of China) were listed between the ten largest banks of the world (FORBES, 2016); in 2015 the largest bank of Latin America was Banco do Brasil (BANCO DO BRASIL, 2015); and during several years WestLB, also a commercial state-owned bank, was one of the four largest banks of Germany (DEEG, 1999).

However, despite the importance of globalization of state-owned multinational companies, the phenomenon has not received attention yet in the literature (CUERVO-CAZURRA et al, 2014). Also, state-ownership of banks is a neglected aspect by both financial systems of many countries and academic studies (LA PORTA et al, 2002).

Despite the scant in the literature, the internationalization of state-owned multinational companies (SOMNCs) has become an important phenomenon in International Business (CUERVO-CAZURRA et al, 2014). This lack of empirical studies of State-Owned Companies, and specifically State-Owned Banks (SOBs) is the motivation of this research.

As proposed by Rugman (2006), when banks internalize their ownership advantages by setting subsidiaries abroad, they generate new opportunities for the development of firm specific advantages. In addition, according to Qian & Delios (2007) banks internationalize in order to follow their domestic clients that go abroad and set up subsidiaries. Considering this rationale, bank internationalization is driven by maintaining the existing client base.

Qian and Delios (2007) also propose that banks undertake foreign direct investment to secure internalization benefits by following their existing clients, and to achieve economies of scale in the application of their intangible assets in international markets.

Complementing the argument proposed by Qian and Delios (2007), Wu (2009) states that brand is classified as an intangible asset of a company. Wu (2009) also
argues that the literature mainly addresses the issue on brand equity of private firms and very little investigates the remaining effect with a particular focus on state-owned enterprises. But the author finds evidence that in recent years, state-run corporations began to respect brand value and assess its possible influence because the competitive environment grew more complex.

Based on the above discussed and recognizing the relevance of institutional environment for international business (Peng, 2004), the purpose of this research is to find evidence that state-owned banks have specific intangible assets that benefits their process of internationalization. To accomplish this purpose, the following research question is addressed:

What are the specific intangible assets that benefit the internationalization of Commercial State-Owned Banks?

Therefore, the main objective of this Master’s Dissertation is to use an interdisciplinary approach to investigate the process of internationalization of Banco do Brasil, Bank of China and WestLB as state-owned banks considering proposition that state-owned banks have specific intangible assets that benefits their process of internationalization.

In order to achieve the main objective this study presents the following specific objectives that aim:

- To understand if the flow of unilateral transfers resulting from migration/diaspora is directly related to the SOBs internationalization strategies;
- To understand if the trade flow between countries is directly related to SOBs internationalization strategy.
- To understand if SOBs co-evolve with phases of institutional changings of their home-countries and gradually they started to pursue a higher degree of internationalization and independence from the government that reflected in their structure and profitability abroad.
- To understand the differences in the institutional environment of banking regulation between countries may influence the FDI of SOBs
To understand if the internationalization of SOBs follows an incremental sequence of steps that corresponds to the commitment of increase due to the reduction of psychic distance in a gradual process.

To understand if the accumulation of experience in the destination country reflected in a higher level of commitment.

The ‘Global Financial Report (2013)’ asserts that the state has a crucial role in the financial sector, and regarding the ownership of banks, there is new evidence that state involvement can help in mitigating adverse effects of a crisis (WORLD BANK, 2013). As an example of the magnitude of state-ownership of banks, in 2016 the ‘big four’ Chinese commercial state-owned banks (Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of China) were listed between the ten largest banks of the world (FORBES, 2016); in 2015 the largest bank of Latin America was Banco do Brasil (BANCO DO BRASIL, 2015); and during several years WestLB, also a commercial state-owned bank, was one of the four largest banks of Germany (DEEG, 1999).

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While there is an entire field of Sociology and Economy devoted to institutional studies (SCOTT, 2004; NORTH, 1999), and a solid foundation of IB studies dedicated to the role of intangible assets in the internationalization process of companies (RUGMAN, 1981; DUNNING, 1980, 1993), there are considerably fewer studies dedicated to Multinational Banks (MNBs), because their difference from other multinational firms in terms of the nature of their product offerings, the information intensity embedded in their products, and the way that they internationalize (QIAN; DELIOS, 2008).

The relevance of Commercial state-owned banks for the international financial system, the specificity of the phenomenon of intangible assets, and the lack of empirical studies on the internationalization of SOBs are the key drivers of this research.

But, based on the concept that a theoretical contribution is “advancing knowledge and moving the field’s thinking forward, providing new connections among previous concepts, and exploring the new practical implications of these connections” (GIOIA;
CORLEY, 2011, p. 15), this research develops a theoretical explanation for the phenomenon specific intangible assets of commercial SOBs that aims to contribute to the field of IB.

The aimed contribution can be categorized as proposed by Gioia and Corley (2011) as incremental, practically useful and scientifically useful.

**Figure 1: Dimension of Theoretical Contribution of Research**

<table>
<thead>
<tr>
<th>Originality</th>
<th>Utility</th>
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<tr>
<td>Incremental</td>
<td>Practically Useful</td>
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Source: GIOIA; CORLEY, 2011

The contribution is incremental in the sense that based on previous theoretical studies related to bank internationalization (NIGH et al, 1986; QIAN; DELIOS, 2008; WILLIAMS, 1997; BUCH; DELONG, 2004; FOCARELLI; POZZOLLO, 2005); institutional environment (NORTH, 1990, 1999; SCOTT, 2004; CANTWELL; DUNNING; LUNDAN, 2010; CAHEN, 2015); ownership advantages (DUNNING, 1979, 1980, 1998; RUGMAN, 1980; DUNNING; LUNDAN, 2008) and state-ownership (CUERVO-CAZURRA et al, 2014; LA PORTA et al, 2002; MICCO, PANIZA and YAÑES, 2007); and intangible assets (DELIOS; BEAMISH, 2001; LEV, 2001; KOGUT; ZANDER, 1993) this research presents a theoretical explanation for the phenomenon of specific intangible assets of SOBs in their internationalization.

This study also proposes a scientifically useful contribution with a view that the research developed may contribute for future agenda related to SOBs and a practical
contribution in the sense that decision makers of commercial SOBs may base their strategical decision based on the findings here presented.

2 THEORETICAL REVIEW

The purpose of literature review presented in this study is to explore previous research, theories, concepts and models. In order to provide a broad understanding of phenomenon, this review includes relevant literatures related to bank internationalization, migration and remittances, state ownership, intangible assets and internationalization, and institutional theory.

2.1 Bank internationalization

The existing literature treats multinational banks MNBs differently from other multinational enterprises and provides several theoretical explanations for the phenomenon that commonly focuses on the determinants on cross-border expansion (BUCH, KOCH and KOETER, 2011; FOCARELLI AND POZZOLO, 2005). This section is dedicated to review the arguments related to follow-the-client or defensive expansion, internalization, firm specific advantages, behavioral theories, and other approaches.

2.1.1 Follow-the-client or defensive expansion

The follow-the-client or defensive expansion approach for MNBs appears in late seventies (Fieleke, 1977; Grubel, 1977). According to Williams (1997), if producers access the international market, service suppliers are bound to follow them, remaining stagnant, at risk of losing space to the competition eager to profitability and market expansion. Therefore, if banks do not follow their clients in their international operations there is the possibility of the client establish relationship with other MNBs.

Nigh et al (1986) found evidences that US banks adopt the follow-the-client strategy. Also the ongoing relationship with multinational corporations significantly reduces the information costs for banks, causing them to internationalize in accordance with the international guidelines of its clients (SABI, 1988; WILLIAMS, 1997).
Given that banks are companies with different characteristics from other multinationals, the initial process of internationalization is also specific. According to Tschoegl (1982) a bank may be considered internationalized when it has at least one office in a country other than in country of origin. Similarly, Ahmad (2003) argues that the first level of involvement in international market is achieved by opening a representative office or agency. Also according to Tschoegl (2000) when a bank strategy is to operate in the whole sale and corporate markets they normaly adopt the branch or agency as a form of representation, because branches and agencies are integral parts of the headquarters, they trade on the basis of headquarter’s reputation.

Banks operate on the international market essentially for fund raising, financial applications and to provide their clients with loans or financial transactions and are specialized in collecting and processing information about their clients. The information collected is essential for the performance of MNBs and constitute a valuable set of specific knowledge of these companies. Information about the financial needs of clients and their operations are essential for structuring appropriate products and services (Qian; Delios, 2008). Ahmad (2012) argues that “representative offices assist and support the operation of the MNB by providing important market intelligence”.

Quian and Delios (2008) indicate that many researchers have found a positive relationship between non-banking FDI and banking FDI. Thereby, FDI of a manufacturing business can be a precursor of the banking FDI due to the nature of observed information about the relationship bank-customer. As a result in response to the internationalization of their clients, banks are motivated to consolidate presence in a particular country via FDI to internalize the exchange of information aware therefore minimizing the cost and uncertainty that brings international expansion.

According to the asymmetric information approach, Dell’Ariccia et al (1999) and Marquez (2002) describe evidence that potential entrant banks in a new country may find an adverse-selection problem given their lack of ability to distinguish new costumers from old costumers rejected by local banks. Also, Berger and Dick (2007) indicate that costumers stay with the same bank for a long time largely due to the cost of switching banks. According to the authors, this behavior of the costumers is a barrier for new entrant banks in a market. From a different perspective, Qian and Delios (2008) found market failures considering the high transaction costs related to the cost of information and knowledge when the transaction occurs in a foreign market. Nonetheless, Casson (1990) points that when new technology takes a firm to a new
location abroad, the bank that has already relationship with the firm that is expanding has an advantage over local banks, it will have the chance to serve the new foreign subsidiary.

However, Qian and Delios (2008) point a contradiction, since they proposed that the internationalization of banks is not necessarily related to non-banking FDI, given that they found evidence that MNBs lend to customers of different nationalities. A multinational bank can follow its clients at first, aiming to consolidate its multinational operations and can subsequently expand and compete with local banks. Also, according to the authors, by operating in the destination country, the bank has the opportunity to absorb knowledge about society, business environment and cultural aspects of this country.

With regard to the follow-the-client approach Engwall and Wallenstal (1998) argues that for MNBs, apart from their function as intermediaries between client’s needs capital and those who have a surplus of it, the supply side also offer an explanation of internationalization. Indeed, Engwall and Wallenstal (1998) found two main competing explanations of private and state-owned Swedish banks: banks tend to follow their clients abroad; and banks tend to internationalize to find additional financial resources.

According to the authors, banks go abroad not only in a movement of following their clients, but also, they go to global financial centers such as London, New York, Frankfurt, and Singapore where a large number of banks are already established by adopting the behavior of their main competitors with the objective of fund raise (ENGWALL; WALLENSTAL, 1998).

2.1.2 The eclectic paradigm and internalization approach for bank internationalization.

At the same period that Buckley and Casson applied the concept of Transaction Cost for International Business, Dunning (1979, 1980, 1998) developed the Eclectic Paradigm, theoretical approach that explains the internationalization phenomenon. Also called OLI-Model, this framework emphasizes three factors that are determinant for the process of internationalization: Ownership Advantages, that are specific competitive advantages possessed by firms that are seeking to internationalize through Foreign Direct Investment (FDI); Location Advantages that are locational attractions of specific
countries or regions for receiving FDI; and Internalization Advantages that are the entry mode that firms choose for internationalization, such as FDI or Joint Venture.

According to the OLI-Model, the possession of ownership advantages by a firm has a significant influence on the choice of the market for internationalization, just as the location advantages are an important aspect to define the most appropriate form of action in the chosen market (DUNNING, 1980, 1998).

The latest developments of OLI-Model highlights the consequences of the changes that are taking place in the international market which is marked by the easing of geographical boundary between countries, allowing firms to develop new configurations of organization of their productive activities, as well the ways of transaction in international markets. As result, the Eclectic Paradigm has reconfigured the concepts of specific asset location (DUNNING; LUNDAN, 2008)

Following the propositions of Buckley, Casson and Dunning, when firms decide to pursue the internationalization as a strategy, three steps are in the scope of the process: the first is the analysis of possession of ownership advantages; the second is the option whether the firm will internalize the ownership advantages or not; and the third is the decision between exporting to foreign markets or FDI.

Internalization Theory and Eclectic Paradigm emphasize that government policies increase market imperfections, which in turn make FDI more attractive than trade or licence (BREWER 1993). Rugman (1981, 1986) argues that market imperfections are obstacles to the interaction of supply and demand to a set of market price. Such imperfections are the result of high transaction costs and in cases where the information about the product or service trade are not fully available or have high costs for acquisition (DUNNING, 1993).

Still about FDI, Wright, Kroll and Parnell (2000) identify main strategies of internationalization: the first is when a firm establishes a plant or units in a foreign country, also called Greenfield investment; the second is through merger or acquisition of another company abroad. Another complementary terminology is proposed by Sherman and Hart (2006) that defines the FDI through establishing plants and units as an organic expansion and the FDI through merger and acquisition as an inorganic expansion.

Rugman (2006), asserts that the follow-the-client or defensive expansion approach is a subset of the theory of internalization, since the need for a multinational bank to exist to service the multinational enterprise would not arise in a world of perfect
capital markets. Under the theoretical framework of internalization, market imperfections are barriers to the movement of knowledge and information. Since banks are intensive in knowledge and information assets, the response for overcoming the mentioned market failures are the MNBs (BUCH, 2003, RUGMAN, 2006).

2.1.3 The behavioral approach for bank internationalization.

Internationalization of banks was also studied under the approach of behavioral theories of internationalization of companies in general. In particular, the establishment chain for internationalization of firms proposed by JOHANSON; VAHLNE (1977), that was set up according to the psychic distance (factors that make it difficult to understand for environments), in a dynamic but non deterministic process that evolves over time with learning and incremental commitment building, under a bounded rationality assumption.

The Uppsala model predicts a sequence of incremental steps in the internationalization process. Thus, a company's commitment tends to increase gradually as it acquires knowledge and accumulate experience in the host country (JOHANSON; VAHLNE, 1977, 2009). The experience of a multinational bank in the destination country can be critical to a successful internationalization modifying decisions related to future expansions. The competitiveness of a multinational bank in an overseas market may be based on the accumulation of international experience in terms of experience in destination and general international experience Tschoegl (1982). The experience gained within a subsidiary, branch or local office can help the bank to reduce the liability of foreignness, thereby decreasing local uncertainty, and to search for new opportunities Mosakowski & Zaheer (1997).

2.1.4 Other approaches for bank internationalization.

Miller and Parkhe (1998) studied the patterns of expansion of North American banks. They found a high correlation between the North American FDI and the internationalization of American banks to developed countries and low correlation when analyzing developing countries. However, according to the authors, funds are the most important element for the production of banking services. Years later, Miller and Parkhe (2002) asked whether there is a liability of foreignness in global banking. Their answer
is yes, on the basis of different levels of efficiency of foreign-owned banks against host country banks. They used 13 host countries and confirmed the finding of earlier studies that were mostly confined to U.S. banks.

Buch (2003) investigated the relative importance of information costs (proxy through distance, language and legal system) and regulations, on the destiny of international expansion of banks. She found mixed results: while some banks like the Spanish ones expand into informationally close markets, others prefers to tap locations with relatively low regulatory entry barriers.

Focarelli and Pozzolo (2005) point out that the literature on international banking has considered three kinds of operations, namely loan provision and asset and liability management with foreign counterparts; foreign branching; and the acquisition of shareholdings in foreign banks (subsidiaries).

De Haas and Lelyfeld (2010) found evidence that multinational banks actively manage the credit growth of their subsidiaries, as these are not stand-alone operations but they are influenced by developments and factors in other subsidiaries of the group and in other countries of operation. Also, according to the authors, parent banks trade off expanding credit growth in the home-country against the host country, as well as a correlation between higher host country growth and credit growth, but in this case the substitution effect is limited to greenfield subsidiaries and subsidiaries that are relatively far away from the parent bank (DE HASS; LELYVELD, 2010).

2.2 Migration and remittances

The migration of people between countries, also known as diáspora, (OETTL; AGRAWAL, 2008; MADHAVAN; IRIYAMA, 2009) is a relevant topic in the study of banking internationalization, given that migrants' remittances to their home countries is inherent in the migration process (TUROLLA, 2012).

Unilateral transfers or unilateral current transfers are components of balance of payments of countries. These include pensions' remittances, workers’ remittances and donations to foreign residents that once worked in a particular country.

The MoneyGram annual report of 2010 defines money transfers as “transfers of funds between consumers from one location to another. The sender pays a fee based on the transferred amount and the destination location. The designated recipient may receive the transferred funds at any agent location. In select countries, the designated recipient
may also receive the transferred funds via deposit to the recipient’s bank account, mobile phone account or prepaid card.” Also, according to MoneyGram (2010) the market of money transfer “consists of a small number of large competitors and a large number of small, niche competitors. Our competitors include other large money transfer and electronic bill payment providers, banks and niche person-to-person money transfer service providers that serve select regions.”

According to Turolla (2012) diasporas contribute to internationalization of banks not only because of direct transfer of knowledge provided by migration flow or the network developed by migrants in foreign countries, but indirectly depending on how financial services of money transfer are captured by financial institutions. Turolla (2012) also propose a chart that explains the flow of migration and current transfers, as showed below.

**Figure 2: Financial origin and destiny of current transfers**

![Diagram of financial origin and destiny of current transfers](Source: Based on Turolla (2012))

According to the model presented by Turolla (2012) the definition of origin and destiny is financial rather than demographic. This approach highlights the relevance of money transfer related to migrations and the role of financial institutions in the process, given that there is strong evidence in the literature that banks are important players in migrant’s money transfers (BERNEY, 2007, MONEYGRAM, 2010).

Despite the significant role of international money transfer companies (TERRY, 2005), Suro (2005) points that in recent years international money remittances have become an important business widely recognized as a source of vital income for many developing countries and as consequence of this phenomenon the author stresses increasing participation of banks in this market.
2.3 State owned companies and internationalization

As proposed by Vernon (1979) State-Owned-Enterprises (SOEs) are born in ambiguity, since even though they are owned by state, as separate unit, with specific goals of performance, yet these companies must respond to a specific signals from the government. In other words, SOEs operate in sector where both political and market forces interacts (LIOUKAS; BOURANTAS; PAPADAKIS, 1993).

The above mentioned ambiguity directly influences the performance of SOEs. That’s the reason why literature throughout decades has dedicated most of its attention in discussing ownership, performance and competitiveness of SOEs in comparison with private companies, or before and after privatization (BOARDMAN; VINING, 1989; MEGGISON; NASH; RANDENBORGH, 1994; ZHANG; ZHANG; ZHAO, 2001).

In the past few decades the phenomenon of internationalization has increased. As pointed by World Investment Report (2013) the number of multinational State-Owned Enterprises increased from 650 in 2010 to 845 in 2012 and the related FDI flows amounted to USD 145 billion, reaching almost 11 per cent of global FDI. Furthermore, Internationalization of SOEs was subject of a special issue of The Journal of International Business Studies (JIBS) – “Governments as owners: globalizing state-owned enterprises”, whose approach is the globalization of state-owned multinationals and the approaches taken by states as cross-border investors (CUERVO-CAZURRA; MUSACCHIO; RAMASWAMY, 2014). Once again, ownership is a relevant factor for understanding the state as entrepreneur and that’s because governments have motivations to internationalize their SOEs that differs from private companies (CUERVO-CAZURRA; MUSACCHIO; RAMASWAMY, 2014; ESTRIN et al, 2016).

Cuervo-Cazurra et al (2014, p. 925) define Multinational State-Owned Enterprises (MSOE) as “legally independent firms with direct ownership by the state that have value adding activities outside home-country. These value added activities can be production facilities or sales subsidiaries, or purchasing subsidiaries or design or R&D centers.” This definition meets the scope of this research, since Banco do Brasil, Bank of China and WestLB are independent firms with direct ownership by the state and this study focus on FDI rather than internationalization through exportation.

Traditionally, literature provides two explanations for the phenomenon of existence of SOEs. The economic approach states that the SOEs emerge as a solution to
market failures and the political approach focus the focus government action in strategic sectors of the economy (CUERVO-CAZURRA et al, 2014). Raygin, Simachev and Entov (2015) strengthen the argument of Cuervo-Cazurra et al (2014) by stating that the “expansion (or contraction) of state participation in the economy is most of linked with the need to overcome market failures”.

The economic approach proposes that market failures occur when the resources are allocated in efficiently (ARROW; DEBREW, 1954; AKERLOF, 1970). In his seminal work, Coase (1937) propose that markets fail when buyers and sellers can not find the optimal performance in transactions involving the purchase and sale of goods and services.

One possible market failure occurs when there is asymmetric information that refers to situations in which some agent in a trade or business possesses a set of information while other agents involved in the same trade or business do not. The seminal work of Greenwald and Stiglitz (1986) demonstrate that when information is asymmetrically dispersed between players in the economy, markets fail to produce efficient outcomes. As a result, due to the missing of information the market players can not properly assess supply and demand and this situation increases transaction costs, as well as distorts market prices (HAMMOND, 1998).

Cuervo-Cazurra et al, (2014), propose that the existence of state-ownership is justified as one solution of market failures, where as these governments are compelled to intervene to address market failures of allocation of resources. Dunning (1993) when addressing market imperfections related to FDI propose that firms tend to internalize their ownership advantages. The author proposes that intangible assets and brand property rights as ownership advantages and points that the option for internalization creates a specific set of advantages defined as internalization advantages.

The political explanation for state-owned enterprises phenomenon is that they are result of ideological and political strategy of government regarding “private ownership of particular productive assets” (CUERVO-CAZURRA et al, 2014, p. 923). The authors identify four types of economic ideologies or political strategies that result in the creation of SOEs: comunism, which justifies the creation of SOE as a response of to the accumulation of wealth in the hands of private owners and it’s responsibility of state to address this injustice; nationalist, which argues that is responsibility of governments to create SOEs in order to accelerate the development of the country due the inability of private sector to achieve this; economic social ideology that proposes
that governments must invest in SOEs to facilitate the achievement of social objectives, such as poverty reduction; and economic strategic ideology, that justifies SOEs as being strategic for the country (CUERVO-CAZURRA et al, 2014).

These four types of political strategies are based on the common belief in the political science literature that SOEs owe their creation to the recognition that they can be used as a tool to distribute income in order to balance the wealthy inequality (WATERBURY, 1993). Although the relevance of sociological approach related to state-owned companies, Raygin, Simachev and Entov (2015) reinforce the role of economic approach of market failures with the argument that even in the countries that the state was responsible for all entrepreneur ship, like comunist countries, and stoped acting in the market, solid state-owned companies acting in sectors with market failures kept their relevance and continued operating.

Pursuing another approach for internationalization of Multinational SOEs Ramasamy et al (2012) argue that according to International Business Theories, namely Eclectic Paradigm and Uppsala Model, private-owned companies have to internationalize to stay competitive, therefore they are more risk-aversed, while Chinese companies’ FDI behavior are significantly influenced by the policies of Chinese government. Aiming to find an explanation for the behavior of Chinese Companies’ FDI, Ramasamy et al (2012) base their study in the public management theory and assert that when SOEs internationalize in some cases they also fulfill governments’ goals. This implies that Chinese SOEs are willing to adopt more aggressive internationalization strategies and take more risks.

Based on Ramasamy et al (2012), Cahen (2015) summarize the implications of key public management and international business theories in the Table 1 below:

Table 1: Assumptions and implications of key public management and international business theories regarding firm internationalization
While Ramasamy *et al* (2012) find evidence that Chinese SOE companies attracted to less-risk developed countries that are endowed with technical and innovative ownership advantages, as well as high-risk developing countries rich in natural resources motivated by pursuing Chinese government’s goals as proposed by IB theories and Public managerial theories, Cahen (2015) finds evidence that Brazilian SOEs are influenced by Brazilian’s government goals, but they internationalize in three different phases: experimental, defensive, and strategic.

Brazilian SOE’s co-evolve (CANTWELL; DUNNING; LUNDAN, 2010 in CAHEN, 2015) with the country institutional environment in three moments: pre-liberalization, after liberalization and after industry deregulation. Progressively Brazilian SOE’s sought a higher degree of internationalization and independence from the government (CAHEN, 2015).

### 2.3.1 State ownership

<table>
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<th>Public Management Theory</th>
<th>IB theories of internationalization</th>
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Government ownership is pervasive around the world and has had important consequences for economic and financial development throughout the time, but this is a neglected aspect of literature related to financial systems (LA PORTA et al, 2002), as well as in IB literature that focus primarily on nonfinancial firms (EVANS; MOLYNEUX, 2001).

There are two main views of government’s ownership in financial markets (LA PORTA et al, 2002). The first is focus on the on the demand of financial for economic growth (GERSCHENKRON, 1962). According to this view, private commercial banks have played a key role since 19th century in several industrialized countries, especially Germany, by raising saving funds and channeling into industry (GERSCHENKRON, 1962 in PORTA; LOPEZ –DE-SILENES; SHLEIFER, 2002). However, in non-industrialize countries, such as Russia, economic institutions were not developed enough for private commercial banks to play a major role in development (LA PORTA et al, 2002). As stateted by Gerschenkron (1962, pp 19-22):

“The scarcity of capital in Russia was such that no banking system could conceivably succeed in attracting funds... Supply of capital for the needs of industrialization required the compulsory machinery of the government.”

This view advocated that government ownership of firms in developing economies was strategic in some economic sectors (LA PORTA et al, 2002). The key point was that financial market in general, and banking sector in particular, are different from the other markets and that government intervention can improve the well functioning of the financial system. The public intervention is especially needed in economies where the scarcity of capital, the distrust of public opinion, and fraudulent practices among borrowers fail to generate the robust financial sector required for economic development (STIGLITZ; WEISS, 1992; STIGLITZ, 1994).

The political view of government participation in the financial system emphasizes political rather than social objectives. Defensors of that view assert that acquire control of enterprises and create state-owned banks with regard to provide employment, subsidies, and other benefits to supporters not to channel funds to socially efficient uses, but as political means that aims to maximize the politicians’ objectives of improving votes, political contributions and bribes. Such political control of banks is presumably higher in countries with poor financial systems (LA PORTA et al, 2002).
Despite having considered the Russian government intervention in the financial system a success, Gerschenkron (1962, p. 20) states that:

“There is no doubt that government as an agens movens of industrialization discharged its role in a far less than perfectly efficient manner. Incompetence and corruption of bureaucracy were great. The amount of wast that accompanied the process were formidable.”

Although the strong evidence of misconduct of governments when they participate in the financial system, there are some arguments for state intervention in the banking sector: maintaining the safety of the banking system; mitigating market failures due to the presence of asymmetric information; financing socially valuable projects; promoting financial development (LA PORTA et al, 2002, STIGLITZ; WEISS, 1992; STIGLITZ, 1994).

Additionally, the advantage of owning banks is that state- ownership allows control over the choice of projects being financed and both ‘development’ and ‘political theories recognize that state-owned banks promote government’s goals by collecting savings and directing them to strategic long-term projects (LA PORTA et al, 2002).

In order to evaluate the performance of state-owned banks, it is important to have what state-owned banks are expected to do (YEYATI et al, 2007) and their competitiveness compared to the private banks (EVANS; MOLYNEUX, 2001; MICCO; PANIZA; YAÑEZ, 2007).

According to the social view, state-owned banks should be more active in sectors where market failures are more prevalent, namely those associated with information asymmetries, intangible assets and large external financial needs. It is also expected that state-owned banks intensify their loans in situations of economic recession. This discussion suggests that state-owned banks are not expected to compete with private banks and would be unfair to evaluate public banks by their profitability, rather than their role in developing and stabilizing the economy (YEYATI et al, 2007).

On the other hand, EVANS and MOLYNEUX (2001) argue that the issue of banking ownership becomes more relevant in the banking industry due to the fact of high competitiveness of the market, but it must be considered alongside public and private ownership forms. Complementarily, Raygin, Simachev and Entov (2015)
propose that in a market of intensive competition, the optimal results are achieved through competitive interaction between state and private companies.

Micco, Panizza and Yañez (2007) researched the relationship between bank ownership and bank performance based on a dataset that provides financial information for 179 countries and they have found that state-owned banks located in developing countries tend to have lower profitability and higher costs than their private competitors while the opposite is true for foreign-owned banks. The authors also have found strong correlation between ownership and performance for banks located in industrial countries.

There are, however, differences within the developing countries. Latin America is the developing region with the largest number of banks, and state-owned banks have lower profitability compared private national and foreign banks. Public ownership is prevalent in Asian countries and Eastern Europe Countries, but state-owned banks are less profitable in these regions than the foreign banks. Foreign ownership of banks is particularly important and particularly profitable in Sub-Saharan Africa, Caribbean and Central Asian countries (MICCO, PANIZZA and YAÑES, 2007).

Micco, Panizza and Yañez (2007) also found a positive correlation between lending behavior of state-owned banks located in emerging market countries. In particular, during election years, state-owned banks located in emerging market countries significantly increase lending, but that this is not true for private banks. This information supports the already political view related to the role of state-owned banks (LA PORTA et al., 2002).

However, although the profitability of state-owned banks in developing countries is lower than the profitability of private banks and this is related to the political use of government banks, the data collected by Micco, Panizza and Yañez (2007) suggests that this occurs because they maximize broader developing and social objectives, investing in financially unprofitable projects.

When the focus is on industrial developed countries, the relationship between performance and ownership is much weaker and state-owned banks tend to be more profitable (MICCO, PANIZZA and YAÑES, 2007). This data strengthen the argument that high-income countries deal better with the distortions that emerge from government ownership of banks (LA PORTA et al., 2002). Another possible explanation is that in developed countries state-owned banks have ceased to play a development role and started to behave as private commercial banks, while in
developing countries public banks a development role as well as a social mandate (MICCO, PANIZZA and YAÑES, 2007).

Still with respect government banking ownership and banking performance it worth mentioning that not all state-owned banks are alike. Depending on whether they aim profitability, savings, or have a clear mandate to act on social or development projects, state-owned banks can be classified as state commercial banks, state development banks and development financial institutions State-owned commercial banks are institutions that act similarly to private commercial banks and have a profit-maximizing objective (SCOTT, 2007).

As discussed in the chapter dedicated to the analysis of cases, Banco do Brasil, Bank of China and WestLB are state-owned commercial banks, that aim profitability. Besides the evidence suggesting that commercial state-owned banks also have lower profitability margins than comparable private banks (BERGER; HASAN; ZHOU, 2009; MICCO, PANIZZA and YAÑES, 2007), Banco do Brasil, Bank of China, and WestLB are competitive banks in their host-countries compared to their competing private commercial banks (BANCO DO BRASIL, 2015, BANK OF CHINA, 2015, POHL, 1994).

2.4 intangible assets and internationalization

This section describes the main characteristics of intangible assets as well as their role in the formation of values for companies in the domestic market and in the internationalization process.

2.4.1 definition, characteristics and role of intangible assets

Historically, there is no consensus about the concept of intangible assets. Based on some concepts reviewed in this section, authors like Blair and Wallman (2003), Andriessen (2004) and Lev (2001) argue that intangible assets have impact on company’s value creation and businesses.

Intangible assets are defined by Kholer (1957) as assets that have no physical existence whose value is dependent on the rights that possession confers upon the owner. However, besides that natural intangibility must be support by registrable and valuable tangible physical evidence (REILLY; SCHWEIHS, 1998). In other sense,
intangible assets are no physical rights of future benefits created by innovation, organizational practices or human resources that interact with tangible assets to create corporate value and economic growth (LEV, 2001).

According to Reilly and Schweis (1998) intangible assets: must be indentificable and recognizable by description; they must have legal existence and object to legal protection; they must be subject to private property rights, that must be legally transferable; they must have tangible manifestation or proof of existence, such as contracts, licences or financial statements; they must have been created or entered into existence in an identifiable moment or as result of and identifiable event.

In addition to the above mentioned identification criteria, some intangible assets are non-identifiable, for example the goodwill. But as proposed by Epstein and Mirza (2005), though over time some intangible assets have been seen as aggregated amount or goodwill without impact on financial statements, they can be measured under impairment approaches. Also, Blair and Wallman (2005) argue that, besides the non-identifiable factor, these intangibles contribute to, or are used in, the production of goods or the provision of services and produce future benefits to the companies that control them.

Although intangible assets cannot be traded in an organised market, their existence may not be verifiable in some situations, their value can fluctuate and sometimes they are strongly interlinked with tangible assets or specific activities, products, services or business, it is, nowadays, irrefutable the contribution of intangibles for value creation in companies (LEV, 2001).

Based on above, it is evident that intangible assets are large and important, however financial statements provide little and poor information about them (LEV, 2003), as a result financial statements are fragmentary, information is not accurate and users do not have complete knowledge about the intangibles owned and managed by a firm (DUTZ et al, 2012). Knowledge, know-how, human capital and reputation are examples of intangible assets that cannot be touched, easily costed or quantified (BLAUG and LEKKI, 2009).

Contractor (2001) develops a set of principles related to the nature and attributes of intangible corporate assets that can be broadly applied in a variety of situations. According to the classification proposed by the author, there are three types of corporate intangible assets:
1. Registered Intellectual Property Rights, such as brands, patents and copyrights;

2. Intellectual Assets, which comprise registered property rights as well as codified but unregistered corporate knowledge, such as drawings, software, data bases, blueprints, formulae, manuals and trade secrets. These intangibles are kept as a proprietary information or trade secrets within the company and they are deliberately not registered;

3. Human and Organizational Capital, or expertise that comprise corporate collective knowledge, individual employee skills and knowledge, “know how”, organizational culture and customer satisfaction.

Moving from the first category 1 to category 3, separability and formalization embeddedness causing difficulty for valuating intangible assets due the change in knowledge. In the same way, information becomes knowledge and finally strategy, for example a patent evolves to an efficient manufacturing capability as the knowledge flows from an identifiable and registrable to an less identifiable intangible asset in such a way that for a firm to be competitive, knowledge must be assimilated and embedded in its personnel and in its culture (CONTRACTOR, 2001)

Another aspect pointed by Reilly and Schweigh (1998) refers to the drivers that contribute for the existance and the value of an intangible asset. As stated by Feltham and Ohlson (1995), the value of intangible assets results from the maximization of company’s sale that generate higher profits. This statement points to the reasons that lead consumers to buy a certain product or service.

Literature indicates knowledge, competence and related intangible assets such as reputation as the key drivers of firm’s competitive advantage that influence the consumers’ decision to buy products or services (DENEKAMP, 1995; ZANDER AND KOGUT, 1995; TEECE, 1998; CONTRACTOR, 2001). This is not just because of the relevance of knowledge itself, but because intangibles are the main basis of competitive differentiation in many sectors that are directly related to the expansion of goods and services in some markets (TEECE, 1998).

Knowledge assets arise as the main way to achievement and wealth creation (LEV, 2001; TEECE, 1998), since they are in the strategic core competence of companies, they lie in the collective uncodified and tacit intellectual human factor that
can be found in the company as whole (ZANDER AND KOGUT, 1995), as well as in the creative flair of company’s personnel (CONTRACTOR, 2001).

In attempt to find an answer for the question “what is the company’s intangible asset?” Contractor (2001, p.7) answers that an intangible asset is a “collective knowledge, codified and encapsulated in a referenciable data base” that can enable a firm to global. Likewise, Teece (1998) argues that once in global world the barriers for knowledge transfer are more fluid, competition around the world sharpened and reduced the shelter afforded to privileged positions in domestic markets. As a result, companies have to internationalize its knowledge in order to keep their competitiveness. In the next section this study presents the the International Business Theory related to intangible assets.

2.4.2 International business theory and intangible assets

Studies in International Business and FDI have traditionally focused on internalization advantages to explain the firm’s decision to invest abroad (DENEKAMP, 1995). These studies suggest that high transactions cost induce the firm’s decision to internalize its foreign activities via FDI (DUNNING, 1979, 1980, 1998; DUNNING; LUNDAN, 2008; RUGMAN, 1980). In the last decades, several studies and empirical tests have been developed in an attempt to relate the level of FDI to the role of intangible assets in the internationalization process (DENEKAMP, 1995; GANDE; SCHENZLER; SENBET, 2009).

In this sense, both OLI paradigm and internalization approach are similar as they assert that firm’s ownership or specific advantages and location advantages are not sufficient to explain the firm’s decision to invest abroad (DENEKAMP, 1995). While the eclectic paradigm states that each of the three advantages must be satisfied for FDI to occur (DUNNING, 1979, 1980, 1998), the internalization approach highlights the existence of the internalization advantage (RUGMAN, 1980, 1981).

The main argument pursued by the internalization approach is that the enforcement of foreign contracts may be complicated by the existence of asymmetric information (WILLIAMSON, 1985). When contracts break down, the market is unable to protect firm-specific advantages because of their intangible nature (DENEKAMP, 1995). In other words, the internalization advantages emerge from the characteristics of imperfect markets (CAVES, 1971; RUGMAN, 1980, 1981).
Moreover, internalization approach asserts that by internalizing certain of its intangible assets, such as R&D and advertising expenditures, a firm can increase its value (CAVES, 1971). In other words, a firm can bypass some transaction difficulties by internalizing intangible assets (GANDE; SCHENZLER; SENBET, 2009). Therefore, according to internationalization approach, internalization of firm-specific assets will generate high levels of multinationality (BUCLEY; CASSON, 1976, 2003).

In a more assertive instance, Dunning (1993) states that intangible assets are the foundation of firm’s motivation to go abroad, since they generate in home-country that can be exploited with the right configuration of specific location advantages and internalization advantages. However, ownership advantages and internalization advantages can collapse, since an ownership advantage have to be internalized on international markets to be effective (RUGMAN, 1986). Also according Rugman (1986), when a firm goes abroad enters by forming a foreign subsidiary in a host country, the subsidiary becomes a firm's agent for exploiting it’s intangible asset advantages (RUGMAN, 1982).

According to Li (2007), both internalization theory and the eclectic paradigm imply that the need for leveraging firm-specific intangible assets underscores the propensity of a firm’s internationalization, which, consequently, is positively associated with the firm’s performance.

Delios and Beamish (2001) argue intangible assets are public goods that can be applied in new markets with smaller increments in cost and Morck and Yeung (1991) suggests that due their informational and intangible nature, firm-specific assets are like public goods in the sense that their value increases as a firm becomes multinational. In addition, firm’s diversification in foreign markets does not depreciate the value of information-intensive assets (MORCK and YEUNG, 1998). Simultaneously, the value of intangible assets should increase with the degree of multinationality of firms as the knowledge and firm-specific are transferred abroad (DELIOS; BEAMISH, 2001; KOGUT; ZANDER, 1993).

Despite the contributions of the internationalization theory and eclectic paradigm, there are weaknesses that limit their capacity to correctly describe the role of intangible assets in the internationalization of companies: they focus on how the intangible assets affect the FDI location and entry mode, but they fail in providing insights about how the operations and performance of companies evolve over time; although the firm-specific intangible asset is a core concept of internalization theory and eclectic paradigm, there is
a lack of development to complete understanding multinational strategies; and, both
theories do not consider the marginal costs of the ‘liability of internationalization’,
situation in which firms will incur in extra costs when they invest abroad (LI, 2007).

Another explanation for the role of intangible assets related to
internationalization of companies is provided by the Uppsala Model (JOHANSON;
VAHLNE, 1977, 2009) in which internationalization is cumulative and path-dependent
process. Internationalization is conceived like a process of incremental commitment
based on the learning, the knowledge accumulation and in the increase of resources
placed in the markets abroad (LI, 2007; JOHANSON; VAHLNE, 1977)

As a complementary view about the incremental commitment and sequential
international model (JOHANSON; VAHLNE, 1977), CHANG; RHEE (2011) argue
that intangible assets have a moderating effect related to internationalization speed and
firm performance. Firms possessing superior resources, capabilities and knowledge may
generate competitive advantages to overcome the liabilities of foreignness, which in
turn facilitate rapid FDI expansion (CHANG; RHEE, 2011)

According to Resource Based View (RBV) intangible resources, such as brands,
customer lists, knowledge and skills play a central role in explaining firm’s competitive
advantage (Barney, 1991). The Knowledge Based View (KBV) has extended KBV by
putting emphasis on the role that knowledge play for firm competitiveness (KOGUT;
ZANDER, 1995).

Another aspect of intangible assets related to internationalization is
reputation. According to Spence (1974) reputation is a part of market-
signaling process by which firms communicate relevant characteristics to
customers and entry barriers in foreign countries would be lifted by
companies with strong reputations.

Jensen and Petersen (2014) argue that brand recognition and
reputation are of particular relevance to service companies. While strategy
literature such as RBV/KBV is strongly focused on firm-internal value
creation processes–strategy as a way of creating value, marketing literature by default sees value creation logics as a process in which the firm and its costumers jointly create value and that contributes for firm’s reputation (JENSEN and PETERSEN, 2014).

Warren and Bilkey (1982) state that country of origin of a firm influences in the product or service reputation. Country of origin or COO is the stereotypic perception that consumers hold toward the country’s representative products or brands (ROTH; ROMEO, 1992; BLUEMELHUBER et al, 2007).

According to Wang and Yang (2007) an important concept for brand differentiation, which influences consumer’s decision making is the brand personality that is a phenomenon often associated with human personality which could increase consumer preference and usage, foster feelings of comfort and confidence in the minds of consumers and enhance the levels of loyalty. The authors found that COO image exert a significant positive effect as a moderator between brand personality and purchase intention which provides new managerial implications.

On the other hand, Wu (2009) found evidence that COO of state-owned companies has strong relation with the brand reputation and when these companies go global, they are more likely to engender consumer consciousness and roll out strategies to fulfill consumer satisfacion in order to help profit goals.

2.4.3 state owned banks, internationalization and intangible assets.

Cuervo-Cazurra et al, (2014) apply the concept of extraterritorial market imperfections to explain the phenomenon of multinational state-owned companies and propose that when state-owned companies invest abroad, the government is increasing the welfare of another country’s citizens. Combining this argument proposed by Cuervo-Cazurra et al, (2014) with the follow-the-client or defensive expansion (QIAN; DELIOS, 2008) concept already adressed in this study, it can proposed that
commercial state-owned banks like Banco do Brasil, Bank of China WestLB internationalize as a way to mitigate market imperfections for their clients and thereafter these companies provide solutions for market imperfections of local country citizens and companies.

Whereas the already exposed in this section, it is now up to mention that commercial state-owned banks compete in its local market with local private banks, and when internationalize, the state-owned banks have to compete with local banks abroad, even in a process of follow-the-client internationalization.

As mentioned before in this study, companies internationalize because they have or can obtain competitive advantages (DUNNING, 1993; CONTRACTOR, 2007; HENNART, 2007). More specifically, intangible assets and brand property rights as ownership advantages become relevant factors in the internationalization process of banks (CHEN; DANBOLT; HOLLAND, 2014).

Qian and Delios (2008) suggest that firm-specific assets provide ownership advantages for banks and Wu (2009) propose that brand intangible assets of state-owned companies play a crucial role upon the cognition of consumers. Therefore, within the scope of this research and supported by the concepts presented in this literature review related to the internationalization of state-owned banks, as well as the intangible assets ownership advantages, this chapter provides the theoretical discussion that fundaments the propositions, the methodological procedures and field research that will be described in the following chapters.

Traditionally, literature on banking internationalization presents the “follow-the-client” movement as a possible explanation of the phenomenon, in other words, banks internationalize in order to take advantage of the informational assets obtained in their home markets and their corporate clients (QIAN; DELIOS, 2008; FOCARELLI; POZOLLO, 2005; LUO; TUNG, 2007). Trade flows between countries can also be precursors of international movement. Additionally, in the case of emerging countries, the follow-the-client movement can be expanded for including migration/diaspora and unilateral transfers (TUROLLA, 2012). Intangible assets and brand property rights as ownership advantages become relevant factors in the internationalization process of banks (CHEN, DANBOLT, HOLLAND, 2014) and state-owned companies, including SOBs internalize their informational advantages (CUERVO-CAZURRA et al, 2014; DUNNING, 1993).
Based on the theoretical approach presented in this section, this study presents the following propositions.

P1: The internationalization of SOBs follow the preceding movement of their home clients, but commercial SOBs have specific intangible assets that influence in their internationalization process.

P1a: The flow of unilateral transfers resulting from migration/diaspora is directly related to the Banco do Brasil, Bank of China and WestLB internationalization strategy.

P1b: The trade flow between countries is directly related to Banco do Brasil, Bank of China and WestLB internationalization strategy.

2.5 Institutions and bank internationalization

The approach based on institutions originated in political science, economics and sociology, specifically the theoretical framework developed by Weber (DIMAGGIO and POWELL, 1991, 1993) and contemporarily was revisited from the 1940s (SCOTT, 2001). According to Peng (2002), institutions based view emerged to address a limitation in previous visions concerning to the environment.

Institutions are defined by North (1990, 3-5) as “the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. North (1994, 361) also proposed that it is the interaction between institutions and organizations that shapes the institutional evolution of an economy.”

According to Scott (1995) institutions are “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior”.

The institutions were central to the birth of organized societies. From the beginnings until today, individuals interact from rules. Only after the emergence of rules, it is possible to understand the organization of societies (NORTH, 1990).

Institutions are able to define the economic destiny of a country. Indeed, it is possible to understand the performance of societies throughout history simply analyzing the dynamics of its institutional matrix (NORTH, 1990). According to the same author, poor societies are in this situation because they have developed a base of rules, laws and
customs unable to stimulate economically productive activities, specifically accumulation of capital and knowledge.

Regarding to the already discussed, International Business research requires attention to the institutional characteristics that span the regulative, normative and cognitive domains (HEINZ and SWAMINATHAN, 2008) in both home-country and host-country that directly or indirectly influence the internationalization of MNEs (CANTWELL; DUNNING; LUNDAN, 2010; CAZURRA and GENC, 2008), in particular State-Owned Banks, that are the focus of this Research.

Cantwell, Dunning and Lundan (2010) argues that MNEs are likely to exhibit both adaptation and co-evolution with institutions in different home and host countries, in different industrial sectors. With regard to home-country, banking regulation has often been put in place by various countries - and sometimes conflicting - goals in mind, such as the promotion of national financial institutions strengthened against foreign financial institutions, increasing consumer protection, assisting certain industrial or development of a specific region and preserve financial stability and settlement system (OECD, 2006).

As already discussed previously, there is political influence strategy that change the form and content of public regulations (Boddewyn and Brewer, 1994; Ramamurti, 2005) related to the state ownership of banks that varies according to the level of development of home-country. (GERSCHENKRON, 1962; MICCO, PANIZZA and YAÑES, 2007).

State-ownership of banks in industrial countries tend to be more development driven than political driven and in the host-country and state-owned banks also tend to be more profitable while in state-owned banks in developing countries tend to be less profitable and more political driven (GERSCHENKRON, 1962). High-income countries deal better with the distortions that emerge from government ownership of banks (LA PORTA et al, 2002). Developed countries state-owned banks have ceased to play a development role and started to behave as private commercial banks, while in developing countries public banks a development role as well as a social mandate (MICCO, PANIZZA and YAÑES, 2007).

Another point previously discussed is based on the assumption proposed by Cantwell, Dunning and Lundan (2010), that state-owned companies co-evolve with phases of institutional changings of their home-countries and they internationalize in a first moment to achieve political objectives without seek profitability, and gradually
they start to pursue a higher degree of internationalization and independence from the government (CAHEN, 2015).

Based on the above mentioned arguments, this study presents the following propositions:

P2: Banco do Brasil, Bank of China and WestLB co-evolved with phases of institutional changings of their home-countries and gradually they started to pursue a higher degree of internationalization and independence from the government that reflected in their structure and profitability abroad.

With regard to host-country, if institutions represent a restriction for agents in the course of their transactions (NORTH, 1999), it’s possible to infer that the regulatory aspects of financial systems in host countries are essential to define the entry decisions of bank in a foreign market.

Recent studies have been dedicated to understand how firms from emerging countries react to complex institutional environments. Cazurra and Genc (2008) point out that MNEs from emerging countries have several drawbacks comparing to companies from developed countries when acting abroad. However, these companies are used to operating in countries with similar economic volatility and institutional environments, which can become a decisive advantage for survival and success in emerging countries or developed countries undergoing economic and institutional crisis.

Banking regulation has often been put in place with several – and sometimes conflicting – objectives in mind, such as promoting strong national financial institutions, offering consumer protection, assisting industrial and/or regional development and preserving financial stability, in particular the safeguarding of the payment and settlement system (OCDE, 2006). A country can create many kinds of barriers to activities of foreign banks through increasing regulation. These barriers can be applied in several ways, the most common examples: mandatory hiring local managers, limiting for loans and difficulty in repatriating profits earned. Thus, a dense wire regulation can become a barrier to entry to banks (BUCH; DELONG, 2004).

According to Focarelli and Pozzolo (2005) institutional characteristics of the destination country also play a role in the pattern of bank internationalization and act as determinant variables in bank’s decision making about the separation between branches and subsidiaries. Economic integration, institutional characteristics, and profit opportunities are indeed the driving forces of bank internationalization, but their effect
may be different depending on the expansionary policy followed by the bank (FOCARELLI and POZZOLO, 2005).

Empirical literature about determinants in mergers and acquisitions of banks, generally accept the hypothesis that deregulation has a significant impact on decisions related to mergers and acquisitions Buch and DeLong (2004). Each bank makes an analysis of a comprehensive set of destinations and decides on their own destiny internationalization considering a number of factors. As already discussed, according to the eclectic paradigm, ownership advantages, advantages of destination and the advantages of internalization (DUNNING, 1980, 1993). Among the significant advantages in destination are the institutions of the host country, ranging from the macroeconomic environment to socio-cultural aspects that refer to the psychic distance between countries of origin and destination. The relevant factors may include macroeconomic performance of the economy on credit supply and interest rates and exchange rates.

Buch and DeLong (2004) conducted a study about determinants of international bank mergers and acquisitions and found that a lower level of regulation in the host country fosters a greater number of international mergers and acquisitions banking. According to the authors, the high government involvement in the financial system clearly reduces the incentives of foreign banks to merge with domestic banks. In addition, Molina (2012) argues that unregulated markets generally have a lower capital requirement and thus potentiate the return on capital invested, consequently it fosters internationalization.

Following the argument presented by Buch and Delong (2004), Focarelli and Pozzolo (2005) and Molina (2012), that the level of regulation of host-country influences the entry mode of banks, but also taking into account that companies co-evolve with international environment (CANTWELL; DUNNING; LUNDAN, 2010), this research proposes:

P3: Differences in the institutional environment of banking regulation between countries may influence the FDI of SOBs.

The proposition above presented does not exclude the influence of incremental internationalization and learning process of banks in their expansion abroad (JOHANSON; VAHLNE, 1977) as already discussed in this research. Indeed, this study proposes that both theoretical views are complementary when related to banking internationalization.
P3a: The internationalization of SOBs follows an incremental sequence of steps that corresponds to the commitment of increase due to the reduction of psychic distance in a gradual process.

P3b: The accumulation of experience in the destination country reflected in a higher level of commitment of SOBs.

2.6 A synthetic representation of the main theoretical assumptions in the literature review.

Figure 3: Synthesis of the Literature Review

Source: Elaborated by the author

The above presented figure presents a synthesis of the literature review and provides the preliminary basis for the field research related to the internationalization of SOBs.
Based on the theoretical approaches the synthetic representation highlights the following main points: follow the client strategy that involves the defensive expansion, the trade flow between countries and the diaspora of people from home country to host country; SOBs Specific intangible assets related to knowledge and reputation; institutional environment both in home and host country; and the accumulation of experience as well as incremental sequence of steps that corresponds to the commitment in the host country.

3 METHODOLOGY

This chapter offers a detailed description of all activities and procedures adopted during the research process. In order to achieve the proposed objectives of this research, the method adopted is a case study within qualitative paradigm. Also, this chapter address the epistemological approach, the research method and the reasons for choosing the same. The data collecting method and data analysys choosen are detailed and an explanation about the propositions mentioned in the previous chapter is presented. Based on qualitative research tools, a thematic analysis of participant’s data collected from in-depth interviews and documents analysis is employed (EISENhardt, 1989; BARDIN, 2010; YIN, 2010).

Lima (2010) proposed a conceptual model that provides a visual description of all steps methodological procedures conducted by researcher. First is defined the epistemological approach to be used. After the definition of epistemological approach it is described the option for qualitative approach adopted in this research. The method chose is the case study, due to the flexibility and explanation the context of certain phenomena instead of the relationship between variables (Merriam 1988). As proposed by Kvale and Brinkman (2009) the data collection chose is in-depht interviews and the criteria adopted is the judgement. The data processing is content analysys (CARLEY, 1993). The methodological procedures are described in the Figure 3 below.

Figure 3: Methodological Procedure
3.1 Epistemological approach

Burrel and Morgan (1979) propose that "all theories of organization are based upon a philosophy of science and a theory of society". Following that assumption the authors developed a methodological approach for studies related to organizations divide in four different paradigms based on different sets of meta-theoretical premises about the nature of social science and the nature of society. The four paradigms are mentioned in the Figure 4 below.

Figure 4: Four Paradigms for the analysis of social theory

Source: Burrel and Morgan (1979)
The functionalist paradigm proposes that the social world is composed by empirical artifacts, relatively concrete and relationships that can be identified, studied and measured using approaches derived from the natural sciences (BURREL and MORGAN, 1979). In addition, functionalist paradigm posits that postulate that the social world is concrete, tangible, comprised by relatively immutable structures, and external to individual’s cognition (BURREL and MORGAN, 1979).

Having his approach derived from positivism, functionalism seeks to explain what happens in social world by investigating regularitites and relationships between its components (BURREL and MORGAN, 1979).

Given the above mentioned considerations, this research choices the functionalist paradigm as epistemological approach, since the objective of this work is to use an interdisciplinary approach to investigate the process of internationalization of Banco do Brasil and WestLB as state-owned banks whereas the proposition that state-owned banks have specific intangible assets that benefits their process of internationalization.

3.2 Qualitative approach

As proposed by Creswell (2003; 2010) research strategies can be quantitative, qualitative, or when the use of the two strategies, the mixed method and they can be used as elements or inquiry, as showed in the Figure 5, mentioned below.

![Figure 5: Knowledge Claims, Strategies of Inquiry, and Methods Leading to Approach and the Design Process](image)

Source: Creswell (2003)

In a qualitative approach, the research starts with issues that define the extent as the studies advance and aims to investigate a phenomenon through the opinion of interviewees or in other words it aims knowing the significance of events and situations in which individuals play a relevant role (AUERBACH & SILVERSTEIN, 2003; KNOX & BURKARD, 2009).
In this study, as the main objective is to investigate the process of internationalization of Banco do Brasil, Bank of China WestLB as state-owned banks whereas the proposition that state-owned banks have specific intangible assets that benefits their process of internationalization, the investigation take place through interviews with executives of both banks and it was decided to apply the qualitative approach this research.

3.3 Case study method

As defined by Stake (1994) a qualitative case study is an intensive, holistic description and an analysis of a single instance, phenomenon, or a social unit. In addition, Yin (1994) argues that case study research is a very useful method as it allows expanding and generalizing theories by combining the existing theoretical knowledge with new empirical insights.

This research uses the case study, as this is shown as the most appropriate in view of flexibility and depth that the method allows (EISENHARDT, 1989). The case study method has the capability to use multiple data collection methods and sources for studying the chosen case or a number of cases in an in-depth and holistic manner (PATTON, 2002), by combining methods of collecting data such as files, interviews, questionnaires and observations. The evidence may be qualitative (e.g., words), quantitative (numbers) or both (MERRIAN, 1988). Also, the proposed method seeks to understand the complexity of the case studied in order to explore events, activities and processes (STAKE, 2007; CRESWEL, 2010).

Yin (2010) defines three kinds of research on case studies: exploratory, descriptive and explanatory or causal. The first allows "greater understanding of a relatively unexplored phenomenon and its results generate hypotheses that can be validated in future research." But the descriptive method emphasizes the characteristics of situations and context in which each occurs. While not guided by hypotheses, the exploratory method can support future research. In the explanatory or causal method the researcher aims to verify the variables that are cause and effect of a given phenomenon, and allows generalizations. Since this study is interested in the process of internationalization of Banco do Brasil, Bank of China and WestLB in order to identify specific intangible assets that are related to expansion abroad of these banks, this
research is exploratory as the findings are sufficient to reveal relationships between events and data as well as the meaning of these relationships.

Yin (1989) emphasizes that this research strategy is applicable to understand a complex social phenomenon and can be used to:

- Explain the causal links in interventions of real life that are too complex for experimental strategies or those used in surveys;
- Describing an intervention and real-life context of occurrence;
- Explore situations in which the intervention under evaluation does not have a simple and clear result.

### 3.3.1 Multiple-case study and identification of the cases

According to Yin (2003) a ‘case’ could be an individual, an event or an entity. In this respect, a study case could be a single-case or a multiple-case, and both types can have either a single unit or multiple units of analysis that can conform a case itself.

A single-case study is appropriate for testing a well-formulated theory or observing a phenomenon that is related to some potential misobservation (YIN, 2003) and it is also convenient where it represents a critical case, or a unique peculiar case that is a revelatory case (YIN, 1994). Another characteristic of single cases is that they allow the investigation of phenomena in depth to provide a rich description (WALSHAM, 1995).

Multiple-case study designs allow cross-case analysis and comparison, as well as an investigation of a phenomenon in diverse settings (YIN, 1994). In a multiple-case research, the cases need to be similar in some ways (YIN, 2010). For some studies the collection include all of cases that exist, but the most common procedure is a selection of cases (STAKE, 2006).

The selection of composing cases of multiple-case studies must predicts similar results or constrasting results but for predictable reasons and random sampling does not help (YIN, 2010). However, statistical generalization to a population is not the goal of case studies multiple-case studies can strengthen a research in the same way that multiple experiments do (YIN, 1994). Although Stake (2006) established the criterion of at least four cases to compose a multiple-case study sample, YIN (2014) argues that three cases can compose a multiple-case study in an explanatory approach.
Following the similarity criterion (YIN, 2010) this multiple-case study choose Banco do Brasil, Bank of China and WestLB as the sample that composes the research, since they meet the condition of being Commercial SOBs that pursued internationalization as a business strategy (BANCO DO BRASIL, 2015, BANK OF CHINA, 2015, DEEG, 1999, OLIVEIRA, 2008) and reflect the theoretical propositions that have been formulated in this research (YIN, 2010). In addition, this research chooses the ‘stratified purposeful and opportunistic’ criterion which aims to describe information-rich cases, that manifest the phenomenon intensily (McDavid and Hawthorn, 2016).

3.3.2 Research structure and agenda

Figure illustrates the general steps designed for the case study presented in this research (EISENHARDT, 1989; YIN, 2010).
Based on theoretical review it was first defined the research question - to find evidence that state-owned banks have specific intangible assets that benefits their process of internationalization. After thematizing the study it was defined the population that composes the study case – Banco do Brasil, Bank of China and West LB as state-owned banks represented by the directors, executives and managers directed involved in the process of internationalization of the companies (SURI, 2001; MARSHALL, 1996).
Then, topics of data collection and procedures were defined for strengthening of theoretical bases and sinergizing the evidence with the proposed theoretical foundations. The next step was a pilot interview that aimed a validation of the proposed assumptions in the theoretical review. As shown in the section Pilot Research, the pilot results validate the theoretical assumptions, while proposing new issues that demand the expansion of literature review. After validating of theorethical review effectively entering the research field, with flexible and efficient search methods.

The main collection technique proposed is conducting in-depth interviews with directors, executives and managers of organizations. Along with data collection through interviews, a triangulation is proposed by using secondary data sources such as articles in newspapers and internet sites, as well as reports published by Banco do Brasil and WestLB. According to Stake (2007), these complementary procedures compose a triangulation that reliability for the research. Figure 7 shows the representation of the triangulation process proposed in this study.

Figure 7: Data sourcing triangulation elaborated by the author

Source: Elaborated by the author

3.3.3 Case study data collection and procedures

Yin (2001) states that interviews are a source of information for a study case. Interviews are used in this research as a way of understanding the perception of decision-makers and managers about the brand intangible assets of Banco do Brasil, Bank of China, and WestLB as well as the influence of the same in the internationalization process of these Banks.
The data collection procedures for the case study of the research involves two main stages. The first stage begins with designing and preparing the case study protocol followed by the collection of data from the field. These stages are explained in the next sub-headings.

3.3.4 Field, bibliographic and documentary research

The main technique to be applied in this research collection is in-depth face-to-face interviews that will be conducted with individuals who took part in some way of the internationalization process of Banco do Brasil, Bank of China, and WestLB. As suggested by Molina (2012) the intended interviewees are:

- Decision makers that were responsible for the adoption and implementation of the internationalization strategy;
- Managers that observed and took part at the time of the phenomenon and decision process, but had no active participation and held no decision-making Power;
- Managers who were not present at the time of internationalization decisions, but currently handle with the results of such decisions.

The above mentioned face-to-face informal interviews are oriented towards storytelling and conversations. The storytelling technique is considered to be appropriate for this research to understand the perspectives of international business relationships between State-owned Banks and their clients (CRESWELL, 2010).

The questions to be posed to the interviewees are non-structured and opened in order to evoke point of views and opinions (CRESWELL, 2010). Godoi et al (2006) also reaffirm the validity of unstructured interviews model and point that this procedure matches with the explicit expectations of interviewees and set an ambience that encourages the research respondents to talk freely.

Regarding to the interviews, this research intends to use the free conversational form which is characterized by no previous formulation of questionnaire and the use of questions that come up from the context of conversation with respondents (KVALE, 2009). Although the questions are not being formulated previously, this research defines topics for the guidance of the interviews. These topics are based on the theoretical review, propositions and information previews researched, such as Annual Reports, web sites of banks that compose the research, and web sites news.
<table>
<thead>
<tr>
<th>ISSUE</th>
<th>CODES AND THEORETICAL CONEXION</th>
<th>REFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internationalization of Banks</strong></td>
<td>Follow-the-Clients, Defensive Expansion</td>
<td>Nigh et al, 1986; QIAN; DELIOS, 2008; Williams, 1997</td>
</tr>
<tr>
<td></td>
<td>Diaspora and Remittances</td>
<td>Oettl and Agrawall, 2008; MADHAVAN; IRIYAMA, 2009; Turolla, 2012</td>
</tr>
<tr>
<td></td>
<td>Fundraising and Trade Finance</td>
<td>Miller and Parkhe, 1998, 2002; Engwall and Wallenstal, 1988</td>
</tr>
<tr>
<td><strong>State-owned Companies</strong></td>
<td>Internationalization of SOB</td>
<td>Cuervo-Cazurra et al, 2014; Estrin et al 2016</td>
</tr>
<tr>
<td></td>
<td>Government Ownership</td>
<td>Ramasamy et al, 2012</td>
</tr>
<tr>
<td></td>
<td>Public Management and IB</td>
<td>Ramasamy et al, 2012; Cahen 2015</td>
</tr>
<tr>
<td></td>
<td>Institutional Barriers, Differential Regulation Between Countries and Banking Regulation</td>
<td>BUCH; DELONG, 2004; Focarelli and Pozzolo, 2005.</td>
</tr>
<tr>
<td></td>
<td>Co-evolution institutional environment Home-country</td>
<td>Cahen, 2015; Cantwell, Dunning and Lundan, 2010</td>
</tr>
<tr>
<td><strong>State-Owned Banks</strong></td>
<td>Government Ownership</td>
<td>La Porta et al, 2002; Micco, Panizza and Yañes, 2007; EVANS; MOLYNEUX, 2001</td>
</tr>
<tr>
<td><strong>Intangible Assets</strong></td>
<td>Characteristics (knowledge, inseparability of tangibles)</td>
<td>Lev, 2001; Contractor, 2001; Teece, 1998; Zander and Kogut, 1995; Denekamp, 1995</td>
</tr>
<tr>
<td></td>
<td>Multinationality and Intangible Assets</td>
<td>DELIOS; BEAMISH, 2001; KOGUT; ZANDER, 1993</td>
</tr>
</tbody>
</table>

Source: Elaborated by the author
As mentioned before, this study proposes a triangulation by using secondary data sources for description of phenomena. As secondary data source this research mentions:

- Annual Financial Reports of Banco do Brasil from 2000 until 2015 (BANCO do BRASIL, 2016);
- Annual Financial Reports of WestLB from 1997 until 2006;
- Reports and Data Sources of Banco Central do Brasil (BRASIL, 2016);
- Documents provided by Banco do Brasil and WestLB;
- Internet sites;
- Academic Studies.

### 3.3.5 Interviewees

Table 3: Describes job title, experience of respondents and date of interview.

<table>
<thead>
<tr>
<th>NAME CODE</th>
<th>COMPANY</th>
<th>JOB TITLE</th>
<th>YEARS WORKED IN THE COMPANY</th>
<th>DATE</th>
<th>DURATION OF INTERVIEWS IN MINUTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>E1</td>
<td>Banco do Brasil</td>
<td>Head of FI</td>
<td>18</td>
<td>24/03/2016</td>
<td>43</td>
</tr>
<tr>
<td>E2</td>
<td>Banco do Brasil</td>
<td>Chief Executive Officer of UK Subsidiary</td>
<td>22</td>
<td>16/06/2016</td>
<td>52</td>
</tr>
<tr>
<td>E3</td>
<td>WestLB</td>
<td>Former Chief Executive Officer</td>
<td>12</td>
<td>05/06/2016</td>
<td>67</td>
</tr>
<tr>
<td>E4</td>
<td>WestLB</td>
<td>Former FI Relationship Manager</td>
<td>20</td>
<td>21/07/2016</td>
<td>72</td>
</tr>
<tr>
<td>E5a</td>
<td>Bank of China</td>
<td>FI Relationship Manager</td>
<td>7</td>
<td>30/11/2016</td>
<td>48</td>
</tr>
<tr>
<td>E5b</td>
<td>Bank of China</td>
<td>Head of FI</td>
<td>12</td>
<td>30/11/2016</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Elaborated by the author

In order to provide a better understanding and deepening the data analysis of collected material, interviews were recorded and transcribed (Dick, 1999; Bardin, 2006).

### 3.3.6 Case study protocol

As proposed by Yin (1994), the case study protocol for the current research follows four main sections:

- An overview of the case study research project (objectives, issues, topics being investigated);
• Field procedures (access to sites, sources of information, timetable of data collecting activities).
• Case study questions that the researcher keeps in mind during the process of data collection;
• A guide for case study report.

3.3.7 Process of collecting the data field

The data collection process follows the guidelines established by Dick (1999):
• Contact the interviewees;
• Explain the purpose of the research project to interviewees;
• Establish relationship with the interviewees;
• Determine a date, time and venue for the interview course.

3.3.8 Content analysis

Content analysis is defined by Bardin (2006) as a set of analytical communication techniques (syntactic, lexical and thematic) in which systematic and objective procedures are employed to describe the content of messages by using qualitative or quantitative processes in order to infer the knowledge. That is to say, the objective of content analysis is to understand critically the meaning of communications, its manifest or latent content, as well as its explicit or implicit significance (Chiozzotti, 2006).

As described by Bardin (1977; 2011) the categorical content analysis comprises the following main steps:

I. Pre-Analisisys, which consists of material selection, also known as corpus to be analyzed. In this step, the interviews were transcribed and the articles, books, internet sites and newspaper news were selected, as well as the annual reports published by Banco do Brasil, Bank of China. All this material was meticulously readed.

II. Encoding, step of transforming the data from corpus, by making use recording units (word, sentence, sequence of phrases and theme). The
recording units were grouped according to previously elaborated rules of enumeration;

III. Categorization, which was the organization phase and classification of the corpus on a set of significant number of units – the codes. In this step, the entire interviews were encoded;

IV. Interpretation, which consists of the inferential, that means accepting a proposition linked to other propositions already accept as true (BARDIN, 1977) process presented in the section “Analysis of Results of Research”.

In order to improve the quality of categorical content analysis, this research applies the software ATLAS TI that has four principles of analysis: visualization, which allows the researcher organizing and maintaining ongoing contact with data; integration of database and elements, which allows the organization of data; randomness, which allows the discovery and insights without deliberate search; and, continuous manipulation of data through the interaction with the interface and software features, which also allows the discovery of insights (BANDEIRA DE MELLO e CUNHA, 2003)

Bardin (2011) argues that the use of computer assisted qualitative data analysis softwares, such as ATLAS TI, can speed up the process of cutting phrases and selecting codes, but the main decisions related to codification are responsability of the researcher. In other words, a softaware will never replace the researcher’s creativity and sociological perspective (TEIXEIRA and BECKER, 2001).

4 PRESENTATION AND ANALYSIS OF RESULTS OF RESEARCH

As mentioned in the section Research Justification this research develops a theoretical explanation (GIOIA; CORLEY, 2011) for the phenomenon specific intangible assets of commercial SOBs that aims to contribute to the field of IB and according to Eisenhardt and Graebner (2007, p. 25) in theoretical building from case studies each case server as a distinct experiment that “stands on its own as an analytic unit”. In other words, multiple cases are experiments that serve as replications, contrasts, and extensions to theories (YIN, 1994).
The theory-building process takes place as a recursive cycling among the case data, current theoretical views, emerging theory, and extant theory (EISENHARDT AND GRAEBNER, 2007). Theory-building cases usually rely extensively on data from interviews, observations, books, archives that are combined to form detailed narratives (EISENHARDT AND GRAEBNER, 2007).

Pursuing the above mentioned analytical guidelines and the methodological approach proposed in the previous section, this section presents the results of research of each unit of analysis Banco do Brasil, Bank of China and WestLB in a narrative format that combines: codification of interviews provided by using Atlas TI that supported the main connections between categories related to internationalization of selected cases; description of the evolution of internationalization of the banks, correlation between events and theoretical review; and other data, such as annual reports, internet news, academic studies, and other literature that support empirical data and provide contextualization for results.

Table 4 presents a data summary containing information about the internationalization of selected cases.

<table>
<thead>
<tr>
<th>BANK</th>
<th>ASSETS</th>
<th>STARTING YEAR OF INTERNATIONALIZATION</th>
<th>FOREIGN OFFICES, BRANCHES AND SUBSIDIARIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco do Brasil</td>
<td>BRL 1.1 trillion (2016)</td>
<td>1929</td>
<td>44 (2016)</td>
</tr>
</tbody>
</table>


4.1 Internationalization of Banco do Brasil – case analysis

Following the methodological approach described in the chapter Metodology of this research, the interviews 1 (E1), 2 (E2) and 6 (E6) were coded and categorized by using the software Atlas TI. The categories obtained and their conexions are shown in the Figure 8 below.
Figure 8: Empirical results of Banco do Brasil

Source: Elaborated by the autor
In order to contextualize the categorical empirical result with the propositions of this research and the theoretical review, the next section presents description of internationalization strategy of Banco do Brasil, based on the interviews, annual reports, previous academic researches, books and web sites news.


Besides not mentioned in the studies of Santioni (2010) and Aragão (2015), the above mentioned three phases of internationalization are highly correlated with the study of Cahen (2015) already discussed in the chapter Theoretical Review of this research. According to Cahen (2015) Brazilian SOE’s co-evolve with the country institutional environment in three moments: pre-liberalization, after liberalization and after industry deregulation. Progressively Brazilian SOE’s sought a higher degree of internationalization and independence from the government. Over the evolution of internationalization of Banco do Brasil,

4.1.1 Instrument of public policies (1941-1986)

According to Oliveira (2008) the first stage of internationalization of Banco do Brasil took place in 1922 when branches were opened in Buenos Aires (Argentina) and Montevideo (Uruguay). This first move failed and in 1924 those agencies were closed. However, Aragão (2015) in her study found evidence that Banco do Brasil does not have files containing the history of the opening of the first two agencies mentioned by Oliveira (2008).

The new attempt at international expansion of the Bank of Brazil occurred in 1941 with the opening of a branch in Asunción (Paraguay). Indeed, Banco do Brasil currently recognizes this agency as its first agency abroad (BANCO DO BRASIL, 2016). About the opening of Asunción branch, E2 clarifies that the “follow-the-client” strategy (QIAN; DELIOS, 2008; FOCARELLI; POZOLLO, 2005; LUO; TUNG, 2007) is one of the first drivers of the bank’s internationalization:

“E2: And the bank invested abroad after 1940, in Paraguay and it was exactly to support the Brazilian farmers in that country.”
Four years later, in 1945, the bank again opened a branch in Montevideo (Uruguay). During the 1960s it was opened other branches in Buenos Aires (Argentina), Santiago (Chile), La Paz and Santa Cruz de la Sierra (Bolivia). (BANCO DO BRASIL, 2016; OLIVEIRA, 2008).

Following guidelines established by the government, which is the largest shareholder of Bank of Brasil, during the 1960s the bank's internationalization process was guided to the opening of branches and offices in countries whose foreign trade chain was important for the country. In this context, in 1969 it was inaugurated the Banco do Brasil branch in New York (BANCO DO BRASIL, 2016). During the 1970s the bank kept its expansion process with the opening of offices in Hamburg, London, Tokyo and Mexico City (BANCO DO BRASIL, 2016; OLIVEIRA, 2008).

Despite the adverse conditions faced by the country's economy resulting from the oil crisis of 1970s and the decline of economic policies of the military regime that ruled the country until the mid-1980s, the international expansion of Banco do Brasil remained fast. At the end of the year of 1980 the organizational structure of the bank consisted of 4 Superintendencies; 35 Agencies; 6 Sub-branches, 19 Representative Offices; 1 Service point; 3 Wholly-owned subsidiaries – Banco do Brasil AG, in Vienna, Brazilian Merchant Bank (Bamb), in Grand Cayman, and Brazilian Finance and Investment Corporation (BFIC), in Toronto (OLIVEIRA, 2008).

In the period 1941-1986, Banco do Brasil was clearly a public policy instrument of Brazilian government, and the country’s most important agent for attracting foreign investment. Banco do Brasil was also the financial institution responsible for promoting and financing the Brazilian exports aiming to equalizing the balance of payments, (ARAGÃO, 2015; SANTIONI, 2010; OLIVEIRA, 2008).

The internationalization of Banco do Brasil in this period did not aimed profitability of the agencies and offices abroad and there is no records or files setting goals related to competitiveness issues, market positioning or brand these markets (ARAGÃO, 2015; SANTIONI, 2010). Besides the fact of many state-owned companies acting abroad as private companies, in many situations they internationalize in order to meet political goals not related to profit or performance, but as instruments of political relations between countries (CAZZURA et al, 2014).

In line with the theoretical review presented in this study, this first phase the internationalization of BB is characterized by public management decisions to fulfill government’s goals such as: internationalization in large and inconsistent steps, profit
are welcome, but not primary goal; less concerning with loosing money (RAMASAMY, et al, 2012; CAHEN, 2015).

4.1.2 Defining a competitive strategy (1987-2009)

Since the second half of the 1980s and until the second half of 1990’ Brazilian economy experienced a serious recession and a series of economic plans that profoundly affected the role of Banco do Brasil as a state-owned company. In 1986 the federal government closed the ‘Movement Account’ that covered the bank's déficits and this caused changes in the internationalization strategy of Banco do Brasil, including the expansion abroad (OLIVEIRA, 2008). About this period, E3 says:

“After that, everything changed. We had to deal with the challenge of becoming a profitable company.”

As a result of extinction of Movement Account several changes in the company's management has been implemented, including the decision for reducing the structure of the Bank of Brazil abroad. This process lasted until the first half of the 1990s. At the end of 1992, the Bank of Brazil had only 43 units abroad (OLIVEIRA, 2008). However, during the reduction period of foreign bank operations some strategic decisions for internationalization were adopted. In this new phase of the internationalization of Banco do Brasil were introduced new strategic plans with the creation of Regional Foreign Offices (GRE in portuguese) that aimed fund raising for international loans and reorganization of agencies abroad focusing on business (ARAGÃO, 2015; SANTIONI, 2010).

On the one hand, operations in Europe were restructured. In 1993, the agency in Bruxelas was converted in Subsidiary and in 1994 was inaugurated BB Securities subsidiary in London whose purpose was to operate bonds and financial consulting (OLIVIERA, 2008). On the other hand, the increasing flow of migration to Japan of brazilian of japanese ancestry, also called decasequis, allowed the expansion of Banco do Brasil operations in that country with the opening of sub-branches in Hamamatsu (1993) and Nagoya (1998) (BANCO DO BRASIL, 2016). Indeed, there is a clear bank marketing strategy that aims to provide banking services to the decasequis in Japan, as showed below:
“Banco do Brasil is the only Brazilian bank that provides money remittances in Brazilian Reais to Brasil” (BANCO DO BRASIL, 2016)

Following new strategic guidelines, in 2001 Banco do Brasil became a state-owned commercial bank (BANCO DO BRASIL, 2001) and in 2006 the bank became a publicly traded company operating in the stock market of São Paulo, Brazil.


This phase of the bank's internationalization between the late 1990s and early 2000s remained following the strategy dedicated to traditional entry modes: opening of agencies, branches and offices; establishment of subsidiaries; expansion of Regional Foreign Offices (GRE) - GRE Europa (2000), GRE América do Norte (2000), GRE América Latina (2002) and GRE Asia (2004); and the opening of the first operational desk in 2008 – BB USA Servicing Center (ARAGÃO, 2015).

According to Aragão (2015) the latest phase of internationalization of Banco do Brasil started in 2009 and its main characteristic is the strategy of inorganic expansion by acquisition of banks abroad.

In 2009 Banco do Brasil acquired Banco Patagonia in Argentina. As mentioned on the website of BB:

“The partnership with Banco Patagonia is part of the strategy of Banco do Brasil to follow the expansion of Brazilian multinationals in the world in order to meet their demands for global solutions, banking services and financing”. (BANCO DO BRASIL, 2009).

In 2010 Banco do Brasil acquired the Euro Bank in USA. As mentioned on the website of BB:
“Although the Banco do Brasil is present in the country since 1969, with branches in New York and Miami, his role is limited - according to local regulations - the foreign bank activities, which restricts the marketing of certain products and, as a result, access to Brazilian and Hispanic communities resident in that country”. (BANCO DO BRASIL, 2010).

4.1.3 Hybrid model (2009-), internationalization drivers of banco do brasil and commercial sob intangible assets

In 2009 Banco do Brasil started its third phase of internationalization characterized by an intense expansion both organic and inorganic (BANCO DO BRASIL, 2001). During this period the financial international crisis started in mid-2007 has intensified and the global economy has entered a recession. As a consequence of the crisis, international banking system has entered in an ‘illiquidity wave’ that affected mostly US and Europe (BRUNNENMEIR, 2009). On the other hand, Brazilian government adopted an anti-cyclical economic policy that minimized the effects of the crisis on the country (ARAÚJO and GENTIL, 2012). About this period, the respondents say:

“E6: While US and Europe were trying to survive, Brazilian economy was growing. Banks in Europe and US were in aliquidity crisis and we saw the opportunity of growing fast.”

E2: Banco do Brasil decided to follow the country Brasil. Brazilian companies were going abroad. Country’s reputation was better than ever. We used to call this ‘follow the flag’. So, we decided to increase our international operation. The goal was increase 9%. Very challenging! But in 2013, 13,9% of group’s earnings came from our operations abroad.”

Emprirical data collected also correlates reputation of the country Brazil with the reputation of Banco do Brasil, and state-ownership:

“E6: Brazil was going up! Brazil received a lot of FDI in that period and we did a lot of business that we couldn’t do before. This happened because we had liquidity, and we were a state-owned bank, but a commercial bank, too.

In view of the above mentioned, an international institutional environement in crisis and a home-country institutional environment stable (BRUNNENMEIR, 2009; ARAÚJO and GENTIL, 2012) formed a unique condition that allowed Banco do Brasil
to exploit abroad its intangible assets related to specific state ownership advantages, company reputation, and country reputation (WU, 2009) in order to achieve benefits (Blair and Wallman 2005; LEV, 2001).

Additionally to international economic and institutional conditions, according to Geleilate and Forte (2011), there was an institutional orientation from Brazilian government promoting the expansion of Brazilian companies abroad. According to E2:

“Sure, shareholder and administrative council clearly decided that this was one of the most important strategic guidance for the group.”

In this period Banco do Brasil decided to expand inorganically due the limitations of organic expansion, since representative offices, branches, and subsidiaries submitted to local regulation of host-countries that determines which banking products can be offered, as well as limits related to loan strategies (BUCH; DELONG, 2004; QIAN DELIOS, 2008). According to E2:

“Our first option was to obtain authorization from US authorities to expand the operation of BB Miami as a retail bank, but regulatory authority was very conservative at that moment. They saw Banco do Brasil as a Corporate Bank without a global experience in retail banking. So, we did not received authorization to expand the retail operation. As a consequence, we changed our plans and started to seek to buy a local bank. After some research, we found Euro Bank. Now, as you know, BB Americas.”

About the strategy adopted by Banco do Brasil related to acquisition of Banco Patagonia and the presence in South America, E2 states:

“Acquisitions started in Argentina. Why did we start in Argentina? The answer is very simple. Because the Brazilian companies had chosen Argentina. Because we have the geographical and the cultural proximity. And also, Brazilian companies were going to Argentina. …We did a research and we confirmed that there were no regulation problems to acquire a Bank in Argentina. Deepen the bank’s performance was the right decision at that time. …We kept the name Patagonia because it was well-known brand and because the BB’s brand, could make things difficult due to the cultural rivalry between Brazil and Argentina”
The above mentioned information supports the proposition P3 and P3a, based on Uppsala model (JOHANSON; VAHLNE, 1977, 2009), and also supports P1, since Banco do Brasil increased its commitment in Argentina by following Brazilian companies and also cumulative experience (LI, 2007), but the specific intangible assets negatively influenced the maintenance of BB’s brand in that country.

Another factor that supports the psychic distance approach (JOHANSON; VAHLNE, 1977, 2009) as a factor that influences strategic decision of Banco do Brasil towards South America is mentioned by E2:

“We prioritized South America because of cultural and geographical proximity”

Since 2010, the strategy of internationalization of Banco do Brasil is guided by three drivers: internationalization to countries where Brazilian companies have settled; internationalization to countries where there are significant Brazilian communities; and internationalization to countries that are important for Brazilian foreign trade, as stated in the Annual Reports:

“BB's network abroad supports the internationalization process of Brazilian companies, the increase of the flow of the international trade and Brazilians communities abroad.” (2011, p. 13)

“Owner of the largest overseas service network among Brazilian banks, the bank is also seeking to expand its international operations. The directives for these operations include having a presence in regions where there are Brazilian communities, the internationalization of Brazilian companies and growth in Brazil’s trade relations with the world.” (2013, p. 27).

The first and the second drivers are consistent with the concept of defensive expansion or follow-the-client previously presented in the literature review (QIAN; DELIOS, 2008; FOCCARELI and POZOLLO, 2005; LUO; TUNG, 2007). According to E1:

“Yes, look that, really one of the drivers of Banco do Brasil is to follow-the-client,. Corporate and Brazilian communities that live abroad. We have the case of Japan, it was a case of internationalization following the first individual customers of BB, Brazilian immigrants who were working in Japan”. 
But, for Banco do Brasil, follow-the-client is also a defensive strategy (QIAN; DELIOS, 2008; FOCCARELI and POZOLLO, 2005; LUO; TUNG, 2007, WILLIAMS, 1997):

“E2: Our clients abroad were approached by our market competitors, so we had to provide banking services to them.”

Still about the second driver, the interviews pointed a direct relation between follow-the-client and remittances (TUROLLA, 2012):

“E2: The operation in Japan started when the flow of Japanese-descendents (the decaseguis) returned to Japan seeking employments. They had job, they had money, in fact abundant resources. They also had a lot of communication problems and problems for sending money home.

As mentioned in the previous section, in the late 60’s and early 70’s Banco do Brasil opened agencies in New York, Tokyo, London and Frankfurt, although, this research has found a strong connection between Trade Finance for Brazilian companies and fundraising that is not related to follow-the-client. Indeed, this is a contingency internationalization effort to important financial centers similar to other banks (ENGAWALL and WALLENSTAL, 1988):

“E1: Another important factor we use, especially in New York, London and Tokyo, is to capture interbanking liquidity. We capture international interbanking liquidity to finance foreign trade.”

Empirical data presented in this section support that propositions P1, regarding to follow-the-client approach, P1a and P1b are strongly related to the internationalization strategy of Banco do Brasil.

According to empirical data, there is an indirect correlation between the follow-the-client approach and intangible assets of SOB that support P1. The first movement is to follow Brazilian companies or Brazilian communities abroad. After starting to operate abroad, Banco do Brasil promotes events related to foreign trade like ‘Doing Business in Brazil’ and close deals based on knowledge, reputation and brand as state-owned bank.
“E2: Yes. Of course! We frequently participate and also promote events related to foreign trade, such as ‘Doing business in Brazil’ with Apex and Chambers of Commerce. Banco do Brasil is leader in trade finance and we are commited to promote the country abroad. This is related to our brand and the reputation of Brazil. The correct word is that one: intangible. It’s not clear, but, yes there is a correlation between the brand, the reputation and to the fact that we are state-owned.

“E3: Abroad, frequently we use the expression ‘nobody knows Brasil than we do’. We always talk to foreign companies about this. And when they know that we are state-owned, foreign companies always start asking about ‘doing business in Brazil’ or investment in Brazil. Our goal is profitability. We are state-owned, but here in Brazil and abroad our strategy is act as a commercial bank… Yes, several times our knowledge and our reputation, as state-owned, and our brand helped us to close deals.”

The above mentioned quotes are highly associated to ownership adavantages (DUNNING, 1979, 1980, 1998; BUCLEY; CASSON, 1976, 2003), related to knowledge, brand and reputation (CONTRACTOR, 2001; TEECE, 1998), and even if they are no accountable, they contribute for value creation and economic growth (LEV, 2001). Given that these intangible assets is related to ownership and specific (DUNNING, 1979, 1980, 1998; BUCLEY; CASSON, 1976, 2003, but sometimes not verifiable, and they emerged from the empirical research, in this study they are referred as Ownership Intangible Assets of State-Owned Banks.

Despite the new inorganic growth strategy, Banco do Brasil kept the organic growth with an emphasis in transforming the office in Shanghai (China) into a branch in 2014 (BANCO DO BRASIL, 2014). On the website of BB there is a mention of an event called “Brazil Seminar” that took place on Japan and China (2015). This event was sponsored by the bank in partnership with Brazilian Ministry of Foreign Affairs and Brazilian Ministry of Planning. The main themes of the seminar were investment opportunities in Brazil and the Brazilian government's incentive policies for foreign investors (BANCO DO BRASIL, 2015). About this, E1 says:

“Our reputation makes difference. When government wants to promote the country it’s common to call us. We are the government’s
bank and a commercial bank. So there is a this component of legitimate the events with a government’s financial institution… Yes, there is this component of our reputation as government’s bank. Companies abroad think ‘they are a government’s bank, so they know about investment and services and economy’.

The above mentioned quote supports the main proposition of this study (P1) that state-owned banks have specific intangible assets that influence in their process of internationalization as well as the empirical evidence that these intangibles are related to specific ownership advantages (DUNNING, 1980; 1998; DUNNING; LUNDAN, 2008) deriving from state ownership (CUERVO-CAZURRA et al, 2014; ESTRIN et al, 2016), highly correlated to specific knowledge (ZANDER and KOGUT, 1995), company’s reputation and country’s reputation (WANG and YANG, 2007; WU, 2009).

Currently abroad, Banco do Brasil’s service network consists of 49 own subsidiaries located in 24 countries. At the end of 2013, there were 1,200 banks acting as BB’s correspondent in 134 countries. In Argentina, the network of the Banco Patagonia has been expanded to 374 points of service, growth of 7.5% in twelve months. Banco do Brasil Americas, in the United States, has a network of four agencies, and through established agreements, have available 40,000 shared ATMs, also offering internet services and mobile banking (BANCO DO BRASIL, 2016).

4.2 Internationalization of Bank of China – case analysis

Following the methodological approach described in the chapter Methodology of this research, the interviews 1 (E1), 2 (E2) and 6 (E6) were coded and cathegorized by using the software Atlas TI. The categories obtained and their conexions are shown in the Figure 9 below.
Figure 9: Empirical results of Bank of China

Source: Elaborated by the autor
In order to contextualize the categorical empirical result with the propositions of this research and the theoretical review, the next section presents description of internationalization strategy of Bank of China, based on the interviews, annual reports, previous academic researchs, books and web sites news.

Bank of China, also known as BoC, was established in 1912. From that date until 1949 the bank served as the country’s central bank, international exchange bank and specialised international trade bank. After 1949 Bank of China became responsible for managing China’s foreign exchange operations and provided support to the country’s foreign trade foreign trade development as well as economic infrastructure through its offering of international settlement, overseas fund transfer and other non-trade foreign exchange services (BANK OF CHINA, 2013).

From 1912 to 1949, Bank of China was consecutively the country’s central bank, international exchange bank, and international trade bank (BANK OF CHINA, 2014, 2015). In this period before the communist revolution of 1949 the bank totally owned by the Chinese government and its role was to develope China’s financial services sector in the home-country and abroad (BANK OF CHINA, 2015).

In order to accomplish the Chinese government’s goals, BoC opened its first branch abroad in London, in 1929 aiming to raise funds to trade finance chinese companies (BANK OF CHINA, 2014, 2015). After 1949, BoC became responsible for managing China’s foreign exchange operations and provided vital support to the nation’s foreign trade development and economic infrastructure by its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services (BANK OF CHINA, 2015).

From 1949 to 1994 BoC opened branches Luxembourg (1979), New York (1981), and Paris (1985), but all strategic decision made, including internationalization, came from Chinese government. About this period, E5b states:

“All Chinese companies belonged to Chinese Government. There was no talking about profitability, only the State decision. That time, State decided all strategies, and the goal was to fulfill the state decisions.”

This phase of international expansion of Bank of China was fully aligned with communist economic and political ideology which proposes that is responsibility of governments to create SOEs in order to accelerate the development of the country due to the inability of private sector to achieve this (CUERVO-CAZURRA et al, 2014). Also, this phase correspond to the view of state-ownership characterized by political
goals, not by profitability (MICCO, PANIZZA and YAÑES, 2007; LA PORTA et al, 2002).

In the early 1980’s Chinese government started the reform of the Chinese banking system with an institutional change of view. The first step was the creation, in 1984, of a multi-bank system, in which central banking functions were separated from the rest. The second step was the separation of commercial banking activities from those related to economic development. Policy lending banks were established in 1994 and a new Commercial Banking Law was approved in 1995 to regulate commercial banks. Third, the institutional design of the People’s Bank of China (PBC) was strengthened in 1995, and its three main responsibilities were established: monetary stability, banking supervision and oversight of the payments system. China’s banking reform was based on three main pillars: (i) bank restructuring, (ii) the reduction of government interference in the system, and (iii) strengthened financial regulation and supervision, coupled with efforts to improve corporate governance and transparency (HERRERO, GAVILÁ and SANTABARBARA, 2006).

In 1994, BoC was transformed into a wholly state-owned commercial bank. The bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch A-Share and H-Share initial public offering and achieve a dual listing in both markets. Since 2010 and until 2015, Bank of China was enrolled as a Global Systemically Important Bank, becoming the sole financial institution from emerging economies to be designated as a Global Systemically Important Bank for five consecutive years (BANK OF CHINA, 2015; BIS, 2013; FSB, 2016).

Internationalization is a core strategy for Bank of China, with overseas business contributing largely to the BoC’s development. By 2015, the total assets of the overseas institutions accounted for 27% of Bank of China Group’s total assets, and the contribution of the profit before income tax realised by overseas institutions further increased (BANK OF CHINA, 2015). The BoC’s overseas institutions cover 46 countries and regions, 5 more than the 2014, further enhancing its global service network. Figure 10A and Figure 11B show the International Presence of Bank of China.
Figure 10A: International Presence of Bank of China

Source: Annual Report Bank of China 2015

Figure 11B: International Presence of Bank of China

Source: Annual Report Bank of China 2015
Bank of China is controlled by Central Huijin Investment Ltd., a state-owned investment company established under the Company Law on 16 December 2003. Central Huijin Investment Ltd. is wholly owned by China Investment Corporation. The main objective of Huijin is to fulfill obligations as an investor on behalf of the state aiming to enhance the value of state-owned financial assets (BANK OF CHINA, 2015). Table 4: Companies held by Huijin list the proportion of capital held by Huijin.

Table 4: Companies held by Huijin

<table>
<thead>
<tr>
<th>NUMBER</th>
<th>COMPANY NAME</th>
<th>PROPORTION OF CAPITAL HELD BY HUIJIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China Development Bank Corporation</td>
<td>34.68%</td>
</tr>
<tr>
<td>2</td>
<td>Industrial and Commercial Bank of China Limited</td>
<td>34.71%</td>
</tr>
<tr>
<td>3</td>
<td>Agricultural Bank of China Limited</td>
<td>40.03%</td>
</tr>
<tr>
<td>4</td>
<td>Bank of China Limited</td>
<td>64.02%</td>
</tr>
<tr>
<td>5</td>
<td>China Construction Bank Corporation</td>
<td>57.11%</td>
</tr>
<tr>
<td>6</td>
<td>China Everbright Group Ltd.</td>
<td>55.67%</td>
</tr>
<tr>
<td>7</td>
<td>China Everbright Bank Company Limited</td>
<td>21.96%</td>
</tr>
<tr>
<td>8</td>
<td>China Export &amp; Credit Insurance Corporation</td>
<td>73.63%</td>
</tr>
<tr>
<td>9</td>
<td>China Reinsurance (Group) Corporation</td>
<td>71.56%</td>
</tr>
<tr>
<td>10</td>
<td>New China Life Insurance Company Limited</td>
<td>31.34%</td>
</tr>
<tr>
<td>11</td>
<td>China Jianyin Investment Limited</td>
<td>100.00%</td>
</tr>
<tr>
<td>12</td>
<td>China Galaxy Financial Holding Co., Ltd.</td>
<td>78.57%</td>
</tr>
<tr>
<td>13</td>
<td>Shenwan Hongyuan Group Co., Ltd.</td>
<td>25.03%</td>
</tr>
<tr>
<td>14</td>
<td>China International Capital Corporation Limited</td>
<td>28.45%</td>
</tr>
<tr>
<td>15</td>
<td>China Securities Co., Ltd.</td>
<td>40.00%</td>
</tr>
<tr>
<td>16</td>
<td>China Investment Securities Co., Ltd.</td>
<td>100.00%</td>
</tr>
<tr>
<td>17</td>
<td>Jiantou &amp; Zhongxin Assets Management Limited</td>
<td>70.00%</td>
</tr>
<tr>
<td>18</td>
<td>Guotai Junan Investment Management Co., Ltd.</td>
<td>14.54%</td>
</tr>
<tr>
<td>19</td>
<td>Central Huijin Asset Management Ltd.</td>
<td>100.00%</td>
</tr>
</tbody>
</table>


As argued by this research, based on a study related to internationalization of Brazilian SOEs developed by Cahen (2015), Commercial State-Owned Banks co-evolve with their home-country institutional environment and this section presents evidence that Bank of China progressively sought a higher degree of internationalization and independence from the government (CAHEN, 2015), aiming profitability and this supports proposition P2.
4.2.1 Internationalization drivers of bank of china, government ownership and intangible assets.

The main internationalization strategies of Bank of China are described in this section. According to empirical data and complementary, such as Annual Reports, websites news and web sites reports, Bank of China: follow their corporate and retail clients (BANK OF CHINA, 2015; MOODY’S 2015); adopt an organic growth strategy, instead of pursuing acquisitions (BANK OF CHINA, 2013, 2014, 2015; MOODY’S 2015); supports trade finance; and aims profitability. About the strategies of internationalization and the role of Bank of China, the respondents say:

“E5a: Yes, we follow our corporate clients. Chinese companies are going abroad and we are the Chinese bank for trade finance, so it’s a strategical decision to establish branches in the core countries.”

“E5b: What differs us from the other Chinese banks, as they all are state-owned, is that we are historically the bank of trade finance for Chinese companies. We were the first Chinese bank going abroad and we are the most internationalized Chinese bank.”

The above mentioned information is consistent with the concept of defensive expansion or follow-the-client previously presented in the literature review (QIAN; DELIOS, 2008; FOCCARELI and POZOLLO, 2005; LUO; TUNG, 2007).

Empirical data presented in this section support that propositions P1, regarding to follow-the-client approach and P1b regarding the trade flow between countries, but P1a is not fully supported for empirical and documental evidence. About following Chinese migrants, E5b says:

“We have had products for individual persons, like accounts, credit and exchange, and …yes, as I known we have supported Chinese migrants and communities abroad, but we do not have a strategic pillar to follow migrants abroad.”

About the relation between trade finance and fundraising, there is an empirical evidence of a contingent internationalization effort to important financial centers similar to other banks (ENGAWALL and WALLENSTAL, 1988), in order to fundraise for supporting trade finance:
“E5a: Since the beginning of internationalization the bank needed fundraising to support Chinese foreign trade. This is the reason why we have branches in New York, Tokyo, London and Frankfurt.”

Bank of China internationalization strategy also supports major Chinese national overseas strategies called “Belt and Road” and “Going Global” (BANK OF CHINA, 2015).

The “Belt and Road” is the initiative launched by the Chinese government in 2013 of jointly building a Silk Road Economic Belt and the 21st-Century Maritime Silk Road (CHINA, 2103). The “Belt and Road” run through Asia, Europe and Africa and aims to connect the East Asia economic circle with the Developed European Economic circle and encompassing African countries with potential for economic development. Figure 12: Preliminary map based on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. shows a preliminary map based on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.
Figure 12: Preliminary map based on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.

Source: HKTDC, 2016.
Together with the “Belt and Road”, since 2013 Chinese government has put forward several recommendations for increasingly investing abroad as part of a comprehensive growth strategy called “Going Global”. Following this major comprehensive economic approach, Chinese companies, mostly large, but also medium-sized ones, are redirecting their investments abroad to diversify their assets and location portfolios (OECD, 2014).

According to OECD (2013) data, Chinese overseas FDI flows amounted to USD 70 billion, but China’s Go Global strategy is also about increase aid flows through concessional finance that amounted at USD 3.5 billion in 2013.

Dedicated to strategic economic guidelines of Chinese government, Bank of China supported the “Belt and Road” infrastructure projects and provided finance funding for the investment and M&A Chinese “Going Global” companies. BoC also signed the “Belt and Road” strategic cooperation agreements with large companies such as China Merchants Group, China National Petroleum Corporation and Power Construction of China in order to support their “Going Global” projects. In 2015 Bank of China provided a total of USD 28.6 billion in credits to “Belt and Road” in manifold like corporate loans, letters of guarantee and letters of credit (BANK OF CHINA, 2015).

Bank of China also keeps the called “cross-border SME matchmaking service” that aims to build a globally interconnected platform, guiding the “Going Global” efforts of domestic SME. This matchmaking service provides a communication plataform SMEs who seek cross-border investment and trade cooperation. The BoC’s strategy of SME internationalization service follows a “six-step” method involving information sharing, customer matching, online matching, face-to-face communication, on-site investigation and financial services. In order to provide this service, Bank of China works with domestic and foreign government bodies and chambers of commerce.

As an example of this “SME matchmaking service” BoC has launched in Phillipines a nationwide roadshow to match small and medium entrepreneurs with their counterparts in China. This roadshow was a cooperative partnership with the Philippine Chamber of Commerce and Industry, the Department of Trade and Industry, and the International Chamber of Commerce and Industry. As the matches tune into business, Bank of China will furnish financial assistance (MANILA BULETIN, 2017).

Comparing figure...b “International Presence of Bank of China” with figure... “Preliminary map based on Jointly Building Silk Road Economic Belt and 21st-Century
Maritime Silk Road” is possible to find a correlation between the expansion abroad of Bank of China and the major projects of Chinese Government. About this, E5b says:

“Chinese companies are going abroad following the Chinese Government’s projects. Huge projects! Like ‘Going Global’ and the ‘Belt’… and the ‘Silk Road’. We have to support Chinese companies, so we provide funds and we open branches abroad.”

Empirical data offers support for proposition P1 with regard to the relation between the follow-the client approach and specific intangible assets of state-owned bank:

“E5b: Yes, we have this knowledge. We know how to do business in China. We know all Chinese companies and we are engaged to promote China abroad.”

“E5a: Chinese companies prefer to do business with us, with Chinese banks, because we have a ‘know-how’. For Chineses reputation is important. So, if we are in determined country, Chinese companies will prefer to deal with us. But local companies deal with us too. You see, here in Brazil, big banks. Our operation is small, but we deal well. Our numbers are growing. Of course we are aggressive, but there is the expertise about China and companies that trade with China, always ask about environment and business channels.”

Empirical data also correlates intangibility with tangibility (LEV, 2001; BLAIR and WALLMAN, 2003), ownership advantages (DUNNING, 1980, 1993; BUCLEY; CASSON, 1976, 2003; GANDE; SCHENZLER; SENBET, 2009), and competitive advantages (CHANG; RHEE, 2011):

“E5b: No, it’s always about business. Our clients want credit, FX and credit in Renminbi. Being the Chinese bank of trade finance puts us ahead, because of the knowledge and the brand, a being state-owned too. We can’t split these things. It’s everything together. We know and our client knows too. But at the end it’s always about close the deal and improves our assets.

As mentioned previously, since 2006 Bank of China is a public tradely company whose majority shareholder is the state-owned company Central Huijin Investment Ltd. Table 5 shows the ordinary shareholders and the percentage of ordinary shares in 2015.
### Table 5: Ordinary Shareholders and percentage of ordinary shares

<table>
<thead>
<tr>
<th>NAME OF ORDINARY SHAREHOLDER</th>
<th>PERCENTAGE OF TOTAL ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Huijin Investment Ltd.</td>
<td>64.02%</td>
</tr>
<tr>
<td>HKSCC Nominees Limited</td>
<td>27.79%</td>
</tr>
<tr>
<td>China Securities Finance Co., Ltd.</td>
<td>2.53%</td>
</tr>
<tr>
<td>Central Huijin Asset Management Ltd.</td>
<td>0.61%</td>
</tr>
<tr>
<td>Buttonwood Investment Platform Ltd.</td>
<td>0.36%</td>
</tr>
<tr>
<td>Huaxia Life Insurance Co., Ltd.</td>
<td>0.29%</td>
</tr>
<tr>
<td>The Bank of Tokyo-Mitsubishi UFJ Ltd.</td>
<td>0.18%</td>
</tr>
<tr>
<td>Anbang Life Insurance Co., Ltd.</td>
<td>0.16%</td>
</tr>
<tr>
<td>Anbang Property &amp; Casualty Insurance Co., Ltd</td>
<td>0.07%</td>
</tr>
<tr>
<td>Guotai Junan Securities Co., Ltd.</td>
<td>0.06%</td>
</tr>
</tbody>
</table>


About Corporate Governance and Chinese government interference in Bank of China’s internationalization strategy in last decades, E5b says:

“We report to parent company, the shareholder. Our main goals come from them. We are a commercial bank. Our parent company is state-owned, but we are not like a development bank. We have goals. We have to be profitable…Our decision to establish in a country is strategic. They follow the guidelines of Corporate Strategy.”

The empirical data presented in this section supports the proposition P2 that Bank of China co-evolved (CANTWELL; DUNNING; LUNDAN, 2010; CAHEN, 2015) with phases of institutional changings of its home-country and gradually they started to pursue a higher degree of internationalization and independence from the government that reflected in their structure and profitability abroad.

But, besides this, co-evolution with institutional changes of its home-country, as all other Chinese state-owned companies, Bank of China is highly commited with the drivers established by State. Since the late 70’s Chinese leaders realized that China should be able to participate in globalization in ways that would facilitate the country’s rising and fortify its influence, regionally and globally. The Chinese government’s decision to ‘go global’ incorporates this political aspiration (LUO, XUE, HAN, 2010).

After the international crisis of 2008 the slow of economic recovery of developed countries provided opportunities expand their investments abroad both in developed countries and developing countries (CHINA, 2015). Bank of China also
experienced an expansion of its operations abroad and from 2009 started dealing, exchanging and setting cross-border trade accounts with the national currency Renminbi (RMB). In 2011 Bank of China handled a total volume of RMB 740 billion and in the same year its Macau, Bangkok and São Paulo branches started to transact RMB locally (BANK OF CHINA, 2011). About the international environment, the respondents assert:

“E5b: After 2008 China saw the opportunity to increase FDI and, besides all chaos on international financial system, we accumulated growing profits all these years. And Chinese government saw the opportunity of internationalize RMB. We started our operation with RMB very fast. At the same time the government was increasing investments in Africa and the countries of the ‘silk road’. So, we expanded our operation in Africa. And now we have operations in countries like Kazakhstan.”

“E5a: The RMB strategy is a differential for us. Countries like Brazil have a lot of trade with China and exchange with RMB is increasing…Yes, there is an advantage as a Chinese bank, because clients know that we have expertise in Chinese business and how to do business in RMB.”

The above mentioned quotes associate internationalization of Renminbi (RMB) to intangible assets related to a specific knowledge (ZANDER and KOGUT, 1995; DENEKAMP, 1995) and bank’s reputation (WU, 2009) that is also connected to state ownership as internationalization of Chinese currency is government strategy. Since 2009 People’s Republic Bank of China (PRC) has been increasingly using RMB in trade settlements and cross-border financial transactions (ZHANG, 2013).

According to respondents internationalization of RMB is also associated to bank’s expansion in countries near China as well as the Belt:

“E5b: We are expanding globally as we said. In the region near China, such as Cambodia, Vietnam and Laos there is more Chinese influence and a kind of close culture and Singapore is a Chinese culture. We also have many businesses in RMB happening there… Yes this region is dealing our currency so we are deepening our presence there… It’s strategical.
Following the implementation of opening-up policies, Bank of China was the first bank from mainland to start business such as credit cards services and foreign exchange (BANK OF CHINA, 2011). About this, E5a says:

“Taiwan is a Chinese culture. It’s China, but we consider this movement as internationalization because of political factors.”

The above mentioned quote shows that besides the really short psychic distance (JOHANSON; VAHLNE, 1977, 2009) and the bank’s knowledge regarding to insular China, there are environmental institutional issues (NORTH, 1999; SCOTT, 2004) that influence banking regulation in Taiwan and affects the FDI of Bank of China in that region (BUCH; DELONG, 2004; FOCARELLI and POZZOLO, 2005).

4.3 Internationalization of WestLB – case analysis.

Following the methodological approach described in the chapter Methodology of this research, the interviews 1 (E1), 2 (E2) and 6 (E6) were coded and categorized by using the software Atlas TI. The categories obtained and their connections are shown in the Figure 13: Empirical Results of WestLB below.
Figure 13: Empirical Results of WestLB

Source: Elaborated by the author
In order to contextualize the categorical empirical result with the propositions of this research and the theoretical review, the next section presents description of internationalization strategy of WestLB, based on the interviews, annual reports, previous academic researchs, books and web sites news.

4.3.1 Landesbanks

Westdeutsche Landesbank Girozentrale, WestLB for short, was founded in 1969 by the merger of old-established companies, namely Landesbank für Westfalen Gironzentrale, Münster, founded in 1832, and Rheinische Gironzentrale und Provinzialbank, Düsseldorf, founded in 1854. The result of this merging was an institution which, in terms of total assets, was one of the largest banks in Germany at that time, WestLB was a state-owned bank under the public law of Landesbank, since the company’s owners were the North Rhine-Westphalia (43,2%), The Regional Associations of the Rhineland and Westphalia (11,7%) and the Sparkassen Associations of the Rhineland and Westphalia-Lippe (16,7%) (POHL, 1994).

For a better understanding, Landesbanks are a traditional group of german state-owned banks regionally organised whose business is predominantly wholesale banking. They are also head banking institutions of the local and regional saving banks called Sparkassen. Together with corporate private banks and cooperatives, Landesbanks and Spakassen comprise the three pillars of the Germany banking system (DEEG, 1999).

About the role of Landesbanks and Spakassen, E3 highlights:

“The savings banks (Spakassen) are banks of the cities. They are the bank where ‘José’ and ‘Maria’ keep their saving deposits. So, it's like the bank of the city. Every little town has its bank. And this bank has no owner. The owner is the city. So, alone, they are very little banks. But it's a little bank that has an impressive penetration because they are in each of these cities, and each of them is an individual bank. So what these banks at some point realized, is that they had a hard time competing with commercial banks. So the saving banks could do business with the ‘shoemaker’, but it was difficult for them to get into Volkswagen e.g. Then at some point they have put pressure in the government. And the government has created these state-owned banks (Landesbanks) which centralize the saving banks and provide their compensation office and are able to do larger business”.

About WestLB as a Landesbank, E4 mentions:
“WestLB is the Landesbank of the German’s state that after the war was the most industrialized state of Germany, that was located in the Ruhrgebiet region.”

Although the main goal of conducting business was not to make profit, but carry out the tasks of state and municipal bank as well as central bank of the Sparkassen, WestLB was authorized to conduct all types of banking transactions (POHL, 1994), including commercial-loan operations (DEEG, 1999). Indeed, in the 1970s the WestLB grew strongly and expanded the operations to include larger companies, and therefore, larger loans with profits (POHL, 1994; DEEG, 1999).

4.3.2 The early expansion abroad

The first step of WestLB towards internationalization was still in 1970 by joining the Chase Manhattan Bank in starting up an international merchant bank called Orion Bank Ltd (POHL, 1982). Also during the 1970’s WestLB established branches in London (1973), New York (1975) Hong Kong (1975), and Tokyo (1976) (POHL, 1994). But it was in the 1980’s after the appointment of Friedl Neuber as chairman of the bank that the internationalization process really started to gain focus. As mentioned by Deeg (1999), both Neuber and the Land government promoted the international expansion because they believed that one of the Europe’s leading banks could not help but have a positive impact on the regional economy.

About the early WestLB’s expansion abroad and its motivations, E3 mentions:

“The process of internationalization of the bank realy started there, more or less in the middle of 80’s... So this whole story is to explain why the internationalization happened. One of the expectations of the saving banks (Sparkassen) was that these Banks (Landesbank) should be the banks that provide banking services ... that they could help them in foreign trade, and to develop transactions that they (Sparkassen) did not have access. So this was a natural way for the bank to follow, right? Then the bank was a wholesale bank, which had a very important cash generating capacity, which had a significant volume of assets that did not yield much. So the Bank (WestLB) said: ‘the only way I can develop is to go outside, okay? I will become a commercial bank and become a wholesale bank internationally.’ And that is the reason why the internationalization process begins, due to
lack of choice on the one hand. On the other hand because these banks, they had little capital... So, even though the capital base is not extraordinary, before Basel 1, Basel 2, that's right, then the bank enjoyed that guarantee. This guarantee of the German state ... it was not only very important from the point of view of a bank, the state Rhine-Westphalia was the most important state of Germany.

Another motivation for internationalization is mentioned by E4:

“WestLB was the bank of the most industrialized region in Germany, so there were a lot of German companies going abroad, so WestLB had to follow them, and by following them… it also developed a lot of interest in doing, I do not know, overtime we developed this mission of being an investment Bank.”

The above mentioned information highlights that the early internationalization movements of WestLB were highly influenced by German’s government (CUERVO-CAZURRA, 2014; LA PORTA et al, 2002; Cuervo-Cazurra et al, 2014) and one of the main strategies was following German companies that were internationalizing at that moment (QIAN; DELIOS, 2008; NIGH et al, 1986). This data support proposition P1.

Since the late 1970’s and during all decade of 1980s German experienced a period of macroeconomic growth due to the successful adaptation to an export-oriented standard (GIERSH et al, 1992). About this period respondents say:

“E4: WestLB was responsible for financing exportations, and we started to expand to raise funds and investment.”

“E3: The bank had a guarantee from German Government that ranked the operation as a AA. This allowed us a rating which the bank would not have in normal conditions because of its size.”

“E4: I think that all these elements influenced the bank’s expansion, we were a German bank, state-owned, and so we had that guarantee from the Government. The bank was unbreakable. We knew the German companies that were doing business around the world.”

The above mentioned information support P1b, since one of the main strategies of WestLB was finance the German’s trade flow and also support P1 in respect to intangible assets related to government ownership (Ramasamy et al, 2012; La Porta et al, 2002; Micco, Panizza and Yañes), as well as knowledge and reputation (Lev, 2001;
Contractor, 2001; Teece, 1998; Zander and Kogut, 1995; Denekamp, 1995) that are specific of commercial state-owned banks, as proposed by this research.

4.3.3 German economic growth and expansion abroad

Under Neuber’s administration, WestLB expanded organically through the establishment of new branches subsidiaries: Osaka (1980), Toronto (1980), WestLB AG (1989), WestLB Merchant Bank Ltd (1983) (POHL, 1994). However, as Neuber had planned, WestLB also increased its international business through equity by the acquisition in 1985 of percent share of Gerresheimer Glas AG, which syndicated the glass manufacturer for other German investors. Also, in 1986, WestLB extended its international profile by an arrangement with the Japanese to sell securities on the Tokyo exchange. The Japanese allowed WestLB and three other large German banks to deal securities under certain limited circumstances in exchange for access to Deutsche Bond Market in Europe (DEEG, 1999).

The German economic growth of the 1980s boosted local business (GIERSH et al, 1992), and WestLB engaged in infrastructure project finance as developed bank from a developed country (La Porta et al, 2002; Micco, Panizza and Yañes, 2007), while at the same time the bank had to maintain its overseas competitiveness:

“E3: So the problem was duality: WestLB was a bank that had to operate as a commercial bank, and at the same time the bank had to operate as a developed bank. So they decided to split the operation and they created WestLB Merchant Bank that was the commercial wing of WestLB”.

By the beginning of 1990’s WestLB had become one of the fourth-largest German banks in total assets competing in internal market directly with Dresdner Bank and Commerzbank but in the second half of the decade the bank experienced some difficulties related to the increasing of the risk carried, but operations abroad continued expanding (DEEG, 1999).

In late 1990’s and early 2000’s WestLB was affected that EU no longer tolerate the special status of German state-owned banks. About this E3 says:

“German commercial banks submitted to EU a complaint about the special status of state-owned banks, particularly WestLB, because we
were competitive and we had the guarantee that allowed us to take risk. So in 2001 German government decided to revoke our special status and our guarantee was suspended in 2004 or 2005.”

As a consequence of this decision, once again WestLB has undergone significant restructuring by creating WesLB AG based on the principle of clear separation between the public-sector operation and commercial business. Thereby, WestLB was divided into two legally separate institutions, the public-law Landesbank NRW and the private-law WestLB AG (WESTLB, 2002). Figure 14: Composition of WestLB Group shows the composition of WestLB Group after restructuring.

**Figure 14: Composition of WestLB Group**

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>WestLB AG, Düsseldorf/Münster</td>
<td>238.3</td>
<td>237.7</td>
<td>0.3</td>
<td>325.0</td>
</tr>
<tr>
<td>WestLB International, Luxembourg</td>
<td>15.3</td>
<td>15.4</td>
<td>-0.6</td>
<td>15.4</td>
</tr>
<tr>
<td>Westdeutsche ImmobilienBank, Mainz (Group, pro rata)</td>
<td>8.0</td>
<td>8.2</td>
<td>-2.4</td>
<td>8.2</td>
</tr>
<tr>
<td>WestLB Ireland, Dublin</td>
<td>4.6</td>
<td>4.3</td>
<td>7.0</td>
<td>4.3</td>
</tr>
<tr>
<td>WestLB Covered Bond Bank, Dublin</td>
<td>1.8</td>
<td>0.0</td>
<td>-0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>BEAL, Brussels</td>
<td>1.6</td>
<td>4.2</td>
<td>-61.9</td>
<td>4.2</td>
</tr>
<tr>
<td>WestLB (Italia) Finanziaria, Milan</td>
<td>1.4</td>
<td>1.2</td>
<td>16.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Banco WestLB do Brasil, São Paulo</td>
<td>1.2</td>
<td>0.0</td>
<td>-0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Landesbank Schleswig-Holstein, Kiel (Group, pro rata, incl. Hamburgische Landesbank)</td>
<td>0.0</td>
<td>0.0</td>
<td>-55.8</td>
<td>55.8</td>
</tr>
<tr>
<td>Landesbank Rheinland-Pfalz, Mainz (Group, pro rata)</td>
<td>0.0</td>
<td>0.0</td>
<td>-26.2</td>
<td>26.2</td>
</tr>
<tr>
<td>Other Banking Group companies</td>
<td>11.8</td>
<td>11.9</td>
<td>-0.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Boulouard Group</td>
<td>2.8</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Other Group companies</td>
<td>12.4</td>
<td>12.7</td>
<td>-2.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Consolidations</td>
<td>-32.6</td>
<td>-34.2</td>
<td>-1.8</td>
<td>-36.3</td>
</tr>
<tr>
<td>WestLB Group</td>
<td>266.6</td>
<td>264.1</td>
<td>0.6</td>
<td>6319</td>
</tr>
</tbody>
</table>

Source: WestLB, 2002

As mentioned above, WestLB co-evolved (Cantwell, Dunning and Lundan, 2010) with the institutional home-country environment to internationalize in a first
moment to achieve political objectives without seek profitability, and gradually the bank started to pursue a higher degree of internationalization and independence from the government (CAHEN, 2015) as stated in the proposition P2.

During the restructuring process, WestLB also revised operations abroad in order to consolidate its international strategy. With the founding of WestLB Covered Bond Bank in Dublin, the Group aimed to strengthen its position in securities market as well as refinancing securities through the issuing of bonds. WestLB also revised strategy in Latin America by forming Banco WestLB, São Paulo, to handle Brazilian operations (WESTLB, 2002). About that restructuring, respondents say:

“E3: You may think ‘what is a state-owned German bank doing in Brazil?’ But it makes all sense. German companies were in Brazil doing huge business and Brazil is a trade partner of Germany. Once the bank, at that moment, was separating commercial bank from public bank, the commercial wing was trying to consolidate its international positions.

E4: At that time changes in São Paulo branch were a difficult task. The bank was changing its operations abroad to strengthen its positions, but in Europe things were different. We always knew banking regulation, because it was similar. In Europe we knew banking. The only problem was the complaints about our role as a German state-owned bank in London, for example, but the regulation was similar. We were there long ago and we expanded to Dublin – securities operation…Yes, it was a deepening in commitment. We were strengthening commitment in Brazil too, but in São Paulo we had to learn regulation to restructuring the operation. Your ‘Bacen’ had specific rules that were different from European regulation. There (in Europe) we already knew Basel regulations and in Brazil you didn’t have that rules at that time… Yes, it was very hard, for the bank had to adapt the strategy and Brazil was important, but there was that adaptation to Brazilian rules and laws.

The above mentioned information correlates P3, P3a and P3b with the WestLB’s strategical restructuring decision in a way that the bank’s decision to increase the commitment based on cumulative experience (JOHANSON; VAHLNE, 1977, 2009; LI,
2007) was directly related to trade partnership (P1b) and the degree of regulation of host-country directly influenced the bank’s FDI (Miller and Parkhe, 1998, 2002).

In 2005 the Group WestLB reached EUR 294 billion on assets and this was the peak of the company in terms of asset results (WESTLB, 2006). Also in 2005 reached an out-of-court settlement with European Banking Commission that provided the continued existence of public-law companies, however after a transitional phase ending on July of the same year, institutional liability and guarantor liability were eliminated (WESTLB, 2006).

Despite the fact that WestLB established a sustained business model in 2001 when activities of public interest were separated from economic activities, as well as the increasing in assets results of following years, short term profits originated from volatile and costly investment banking activities generated losses in 2002, 2003, 2004 and 2007 (WESTLB, 2006; LIENEMEYER and MAGNUS, 2011).

At the beginning of 2008, even before the collapse of Lehman Brothers, WestLB was already in need of support due the portfolio of toxic assets that the bank had. From 2009 WestLB started receiving aid from EU (LIENEMEYER and MAGNUS, 2011):

“E3: Then came into play European Union that gave funds and subventions to the bank. EU decided that the bank was not in condition to reduce the level of activities at that moment.”

The EU’s aid was given through the shareholder’s commitment to sell the bank as a whole or in parts by the end of 2011. The liquidation plan was submitted to European Banking Commission in 30 June 2011 (LIENEMEYER and MAGNUS, 2011) and in 30 June of 2012 the bank was downsized and Portigon Financial Services became legal successor of WestLB (PORTIGON, 2016).

About the reputation and knowledge of WestLB abroad, respondents say:

“E3: We had an expertise in project finance for infrastructure and investment banking due our experience in public finance, and this was a differential factor when the bank started a project both in Germany and abroad.”

“E4: We had a very good reputation in relation with other banks. We were respected because of our expertise in investment bank. And, yes, there was that difference. WestLB was a government’s bank. Other banks that were our clients had that behavior, they thought ‘it’s German government’s bank, they are strong. They are trustworthy.
When the problems started I used to hear from other banks ‘How is this possible?’

The above mentioned quotes highlight that WestLB had a specific knowledge (ZANDER and KOGUT, 1995) related to its condition of SOB as well a reputation related to government’s ownership (WANG and YANG, 2007; WU, 2009) that provided a specific intangible asset for the bank.

4.4 Cross-comparison of cases and findings

In order to answer to the main research question of this research, it is necessary to discuss and analyse the similarities and differences which emerged from the empirical data and findings. The cross-case analysis method was chosen for this purpose, as mentioned in the methodology section.

With help of theoretical approach empirical evidence related to the propositions of this research were found in interviews, as summarised in the following Table 6.

Table 6: Codes found in interviews

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>CODES AND THEORETICAL CONEXION</th>
<th>REFERENCES</th>
<th>BANCO DO BRASIL</th>
<th>BANK OF CHINA</th>
<th>WESTLB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalization of Banks</td>
<td>Follow-the-Clients, Defensive Expansion</td>
<td>Nigh et al, 1986; QIAN; DELIOS, 2008; Williams, 1997</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td>Diaspora and Remittances</td>
<td>Oettl and Agrawall, 2008; MADHAVAN; IRIYAMA, 2009Turolla, 2012</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Fundraising and Trade Finance</td>
<td>Miller and Parkhe, 1998, 2002; Engwall and Wallenstal, 1988</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Ownership Advantages</td>
<td>Dunning, 1980; 1998; DUNNING; LUNDAN, 2008.</td>
<td>X</td>
<td>X</td>
<td>x</td>
<td></td>
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</tr>
<tr>
<td>Psychic Distance</td>
<td>JOHANSON; VAHLNE, 1977, 2009.</td>
<td>X</td>
<td>X</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td><strong>State-owned Companies</strong></td>
<td><strong>Internationalization of SOB</strong></td>
<td>Cuervo-Cazurra et al, 2014; Estrin et al 2016</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>Ramasamy et al, 2012</td>
<td>X</td>
<td>X</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Public Management and IB</td>
<td>Ramasamy et al, 2012; Cahen 2015</td>
<td>X</td>
<td>X</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td><strong>Institutions and Bank Internationalization</strong></td>
<td><strong>Institutional Environment</strong></td>
<td>North, 1990, 1999; Scott, 2000.</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td><strong>Institutional Barriers, Differential Regulation Between Countries and Banking Regulation</strong></td>
<td>BUCH; DELONG, 2004; Focarelli and Pozzolo, 2005.</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Co-evolution institutional environment Home-country</td>
<td>Cahen, 2015; Cantwell, Dunning and Lundan, 2010</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td><strong>State-Owned Banks</strong></td>
<td>Government Ownership</td>
<td>La Porta et al, 2002; Micco, Panizza and Yañes, 2007; EVANS; MOLYNEUX, 2001</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td><strong>Intangible Assets</strong></td>
<td>Characteristics (knowledge, inseparability of tangibles)</td>
<td>Lev, 2001; Contractor, 2001; Teece, 1998; Zander and Kogut, 1995; Denekamp, 1995</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Ownership Advantages</td>
<td>Dunning, 1979, 1980, 1998; Rugman, 1980; DUNNING; LUNDAN, 2008</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Multinationality and Intangible Assets</td>
<td>DELIOS; BEAMISH, 2001; KOGUT; ZANDER, 1993</td>
<td>X</td>
<td>X</td>
<td>x</td>
</tr>
</tbody>
</table>
Emprirical evidence supported proposition P1 internationalization of Banco do Brasil, Bank of China and WestLB followed the preceding movement of their home clients (QIAN; DELIOS, 2008; NIGH et al, 1986), and as commercial SOBs they have specific intangible assets that influence in their internationalization process, such as ownership advantages (DUNNING, 1980, 1998; DUNNING; LUNDAN, 2008) related to state-ownership (CUERO-CASURRA et al, 2014), reputation related to state-ownership (WANG and YANG, 2007; WU, 2009), and specific knowledge related to state-ownership (ZANDER and KOGUT, 1995) that contributes to the degree of multinationality of companies (DELIOS; BEAMISH, 2001).

Regarding to P1a, only Banco do Brasil adopted a follow-the-client strategy focused on the flow of unilateral transfers resulting from migration/diaspora (TUROLLA, 2012). However, trade flow between countries is directly related to Banco do Brasil, Bank of China and WestLB internationalization strategy (P1b).

Also, empirical evidence showed that Banco do Brasil, Bank of China and WestLB co-evolved with phases of institutional changings of their home-countries (CANTWELL; DUNNING; LUNDAN, 2010) and gradually they started to pursue a higher degree of internationalization and independence from the government that reflected in their structure and profitabilty abroad (CAHEN, 2015).

As Banco do Brasil and Bank of China gradually evolved from central banks of their countries highly and direct oriented by political decisions related to government’s goals (LA PORTA et al, 2002; MICCO, PANIZA and YAÑES, 2007) into public held companies already controlled by the governments but aiming profitability in their process of internationalization, WestLB pursued a different way of governance by splitting its structure in two companies, one dedicated to commercial banking activities and other dedicated to public activities.

Differences in the degree of banking regulation between countries (P3) exerted direct influence in the process of internationalization of the banks studied (BUCH;
In the case of Banco do Brasil empirical evidence showed direct influence from US authorities in the decision of acquiring Eurobank instead of organically expand BB Miami; besides the cultural and geographic proximity between China and Taiwan, Bank of China only received authorization to operate in the land in 2010 as a result of geopolitical issues; and, as argued by interviewees, in the case of WestLB there was a clear difference in operating with European regulation and Brazilian regulation during the process of restructuring of the bank.

However, even in the cases that local regulation had specific regulations related to foreign banks (BUCH; DELONG, 2004; FOCARELLI and POZZOLO, 2005), Banco do Brasil increased the level of commitment in US and Argentina due the accumulation of experience (JOHANSON; VAHLNE, 1977, 2009; LI, 2007) as well as WestLB regarding to its operation in São Paulo and Bank of China in Taiwan and São Paulo (P3b).

Another point related to the cases is that while Banco do Brasil and Bank of China took advantage from the economical conditions of their home countries during the international crisis of 2008, WestLB already weakened by constant losses was downsized.

5 FINAL CONSIDERATIONS AND LIMITATIONS OF THE STUDY

The objective of this research was to investigate the process of internationalization of Banco do Brasil, Bank of China and WestLB as state-owned banks considering proposition that state-owned banks have specific intangible assets that benefits their process of internationalization.

As discussed in the section Case Analysis, empirical evidence supports the main proposition of this study that the state-owned banks analysed have specific intangible assets that influence in their process of internationalization as well that these intangibles are related to specific ownership advantages (DUNNING, 1980; 1998; DUNNING; LUNDAN, 2008) deriving from state ownership (CUERVO-CAZURRA et al, 2014; ESTRIN et al, 2016), highly correlated to specific knowledge (ZANDER and KOGUT,
company’s reputation and country’s reputation (WANG and YANG, 2007; WU, 2009).

The findings of the multiple case study supported as the earlier literature for the most part but also presents an incremental theoretical contribution in the sense that based on previous theoretical studies related to bank internationalization (NIGH et al, 1986; QIAN; DELIOS, 2008; WILLIAMS, 1997; BUCH; DELONG, 2004; FOCARELLI; POZZOLLO, 2005); institutional environment (NORTH, 1990, 1999; SCOTT, 2004; CANTWELL; DUNNING; LUNDAN, 2010; CAHEN, 2015); ownership advantages (DUNNING, 1979, 1980, 1998; RUGMAN, 1980; DUNNING; LUNDAN, 2008) and state-ownership (CUERVO-CAZURRA et al, 2014; LA PORTA et al, 2002; MICCO, PANIZA and YAÑES, 2007); and intangible assets (DELIOS; BEAMISH, 2001; LEV, 2001; KOGUT; ZANDER, 1993) this research presents a theoretical explanation for the phenomenon of specific intangible assets of SOBs in their internationalization.

After conducting the study, it can be said that the limitations of this research concern to the scope of the empirical research and the generalizability of the results. Firstly, six interviews conducted in three case companies is relatively limited sample even though the cases choosed are relevant due the relevance of the banks studied as already discussed. Secondly, this research has a limited generalizability of the findings since the study was conducted in the context of only three commercial SOBs. However, some of the conditions related to the main proposition of this study and institutional environment seems to be common to SOBs in general. Finally, this study cannot give explicit countably measurable to the research questions, as quantitative studies generally can, but a wider and deep explanation on the topics is provided in this research. However, it is important to state, that conducting a quantitative study in the context of this research was not possible due the nature of the propositions, especially those related to intangible assets. A larger pool of interviews, in a larger number of commercial SOBs, may have provided more accurate answers to the questions proposed in this study and this may be a study subject of a future agenda, especially related to commercial SOB from China given the relevance of these companies for international financial system as mentioned in research.

As previously argued in the introductory chapter, internationalization of commercial SOBs is not a major theme in IB studies, besides the relevance of these companies and state-owned companies on international system.
This study also proposes a scientifically useful contribution with a view that the research developed may contribute for future agenda related to SOBs and a practical contribution in the sense that decision makers of commercial SOBs may base their strategical decision based on the findings here presented.

Finally, the results of this Master’s Dissertation provide a setting for either validation or expansion of research.
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