

**GATS Impacts on Entry Modes and Defensive
Marketing Strategies in the Egyptian Banking Sector**

By

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AUTHOR'S DECLARATION

At no time during the registration for the degree of Doctor of Philosophy has the author registered for any other University award.

The following activities were undertaken in connection with the programme of study:

- Attendance and participation in research seminars, during which research work was presented.
- Attendance at a number of courses on research methods and data analysis in Plymouth Business School.
- Presentation of papers from the thesis in conferences are as follows:

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(2003), "A Theoretical Model for Matching Entry Modes with Defensive Marketing Strategies", *The Journal of American Academy of Business, Cambridge*, Vol. 2, No. 2 (March), pp. 460: 466;

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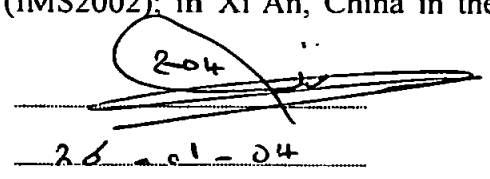
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Abstract

This research examines the effects of GATS agreements, both on entry modes and defensive marketing strategies in the Egyptian banking sector.

The research population is the Egyptian banking sector, employing a total of 83179, from which a representative sample (equal to 800 responses) was selected. As the research aims are diversified, this sample was divided into two main groups i.e. local banks and foreign branches, investigated using different questionnaires. The latter population includes all the foreign branches working in the Egyptian market; the former includes all banks working in Egypt regardless of their ownership status.

Four objectives have been pursued in this research: -

- (1) Exploring GATS impacts on the Egyptian banking sector as well as identifying variables that affect their perception;
- (2) Identifying the appropriate defensive marketing strategies for each entry mode and evaluating the marketing practices of the Egyptian banking sector;
- (3) Identifying patterns of relationships between defensive marketing strategies and four sets of variables (demographics, objectives, rivals, and rivals' competitive advantages); and
- (4) Determining the factors that affect the selection of each entry mode.

Regarding the first research objective, the findings reveal that GATS agreements have positive impacts on the Egyptian banking sector, with significant relationships observed between the perception of GATS impacts and the respondents backgrounds. Secondly, an "Entry Modes-Defensive Marketing Strategies Model" was designed, recommending specific defensive marketing strategies for each bundle of entry modes. Thirdly, strong and significant relationships appear, between selected defensive marketing strategies and four sets of variables i.e. demographics, bank's objectives, perceived competitors, and competitors' competitive advantages. Finally, the selection of entry modes is affected by both bank and target market characteristics. The latter include political stability as well as instability, language differences, religious similarities, values differences, severe competition, and moderate levels of competition; the former include greater as well as less financial resources, and less international experience.

The applicability and suitability of these findings for other similar African and Middle East countries are identified.

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Chapter One:
General Introduction

The Egyptian banking sector is the second biggest banking sector in Africa. According to the number of banks in each African country, it comes second after South Africa (Central Bank of Egypt 2000). It includes private owned and public owned banks. The latter includes twenty-five banks with 1096 branches. The former includes fifty-seven banks with 472 branches, (see Appendix B). The National Bank of Egypt - one of the four-state banks - has 308 branches, for instance. According to the amount of profit achieved during the year 2002, the National Bank of Egypt comes in the eighth position among Africa's banks and in 469th position within the largest 500 banks in the world. Moreover, Africa's best fifty banks list includes fourteen Egyptian banks (Central Bank of Egypt, 2002). Statistically, this survey was constructed using well-established financial criteria. These were: money invested in each bank, assets value, assets-capital ratio, profit-equity ratio, net profit growth, profit-assets ratio, and amount of net profit before tax (Central Bank of Egypt, 2002).

Egypt has been a member of the World Trade Organization (WTO) since 1995; this membership necessitates further liberalization of the local market by 2005. The General Agreement of Trade in Services (GATS) largely covers the liberalization in services. The banking sector falls among those that will be affected by this escalated liberalization. This liberalization imposes heavy burdens on the shoulders of local banks in responding to the "entry modes" of foreign competitors. Thus, they should be prepared to defend their market share and profits by adopting the appropriate "defensive marketing strategies".

Entry mode literature reveals that in the banking industry these could be wholly-owned and fully controlled e.g. branches, subsidiaries, and representative and agency offices, shared-owned and shared controlled entry modes (e.g. joint ventures and partially mergers and acquisitions),

contractual entry modes (e.g. licensing, franchising, strategic alliances, and management-service contracts), and purely marketing oriented entry modes (e.g. direct and indirect exporting entry modes) (Erramilli *et al.*, 2002; Bates, 2002; Jeannet and Hennessey, 2001; Pan and Tse, 2000; Miller and Parkhe, 1998; Goodwin and Elliott, 1995; Woodcock *et al.*, 1994; Erramilli and Rao, 1993; Erramilli and D'Souza, 1993; Terpstra and Sarathy, 2000; Dahringer and Muhlbacher, 1991; Erramilli, 1990; Dunning, 1988; Boddewyn *et al.*, 1986; Sapir, 1982; and Shelp, 1981).

In brief, wholly owned and fully controlled entry modes represent the maximum level of control and resource commitment entrants have upon services' production and marketing in foreign markets for an extended period of time (e.g. branches and subsidiaries) and for approaching another entry modes (e. g. representative and agency offices). Conversely, shared owned and shared control entry modes depend upon the assistance of the experience of local partners when targeting foreign markets, consequently ownership and control are shared (e.g. joint ventures and partial mergers and acquisitions). Both wholly and shared bundles could be called "equity modes", as they necessitate direct investments in foreign markets (Pan and Tse, 2000). Contractual entry modes are those that are brought into existence as a result of contractual agreements (e.g. licensing, franchising, alliance, and management-service contracts) and do not entail equity investment by a foreign entrant (non-equity modes). Finally, when entrants remain in home markets and try to penetrate target markets, marketing oriented entry modes (e.g. direct and indirect exporting modes) are the tools for such a mission.

Defensive marketing strategies are those strategies designed mainly to use customers as a shield in firms' battles with rivals. To determine the viable defensive marketing strategies, defensive marketing literature was consulted, checked, and analysed. This analysis revealed that there is no

pre-tested typology covering all the viable defensive marketing strategies. Also, each defensive marketing strategy was covered separately. Therefore, an analytical and collective approach was adopted to identify the opportunities offered by each strategy, the resources needed, and the required time span to be deployed. These viable defensive marketing strategies include business intelligence strategy (BI), customers service strategy (CS), customer complaint management strategy (CCM), Aikido strategy (AIKO), free telephone line strategy (FTL), focus strategy (FOC) or market concentration, differentiation strategy (DIFF) or market diversification, and cost leadership strategy (CL) (Purba, 2002; Erto and Vanacore, 2002; Groom and David, 2001; Tyson, 1997; Cotter *et al.*, 1997; James *et al.*, 1994; Malhotra *et al.*, 1994; Desatnick and Detzel, 1993; Taylor, 1992; Bolton and Drew, 1991; Berry and Parasuraman, 1991; Chardwick, 1991; Heskett *et al.*, 1990; Fornell and Wernerfelt, 1988; Parasuraman and *et al.*, 1985; Fornell and Wernerfelt, 1984; Hauser and Shugan, 1983; Porter, 1980; and Hofstede, 2001).

Before discussing the specific meaning of each strategy, it is worth shedding light on the abstract meaning of “strategy” itself. In “game theory”, strategy represents the set of rules that is to govern the moves of the players. In “military theory”, strategy is the utilization during both peace and war, of all of nation’s forces, through large-scale, long-range planning and development, to ensure security and victory (Mintzberg, 1978, p. 934). And in “management theory”, strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Chandler, 1962). It is the fundamental framework through which an organization can assert its vital continuity, while at the same time purposefully managing its adaptation to the changing environment to gain competitive advantages (Wit *et al.*, 1998, p. 14). It is the basic “game plan” or means for achieving the organisational objectives. It outlines the target market sought,

intended positioning, and specific details of marketing mix designed to appeal to the target market (Crane *et al.*, 1997, p. 37). Consequently, strategy has six dimensions: it is a coherent, unifying, and integrative pattern of decisions; it is a means of establishing an organizational purpose in terms of its long term objectives; it is a definition of a firm's competitive domain, which mean where the firm is going to be engaged in competition, and how it is going to compete; it is a response to the external opportunities and threats and to internal strengths and weaknesses as a means of achieving competitive advantages; it is a logical system for differentiating managerial tasks at corporate, business, and functional levels; and it is a definition of economic and non economic contribution the firm intends to make to its stakeholders (Wit *et al.*, 1998). Hambrick and Fredrickson (2001) argued that the organizational strategy should have five main parts: arenas i.e. where will we be active? Vehicles i.e. how will we get there? Differentiators i.e. how will we win in the market place? Staging i.e. what will be our speed and sequence of moves? And economic logic i.e. how will we obtain our returns? David (2001) argued that to design and implement suitable strategy for suitable situations is an art and a science.

Having said that the overall strategy ought to be divided into functional strategies. Marketing department strategy is the one oriented for achieving the marketing objectives of the organization. Morris and Pitt (1992) found that managers tended to view strategies as preceding tactics. Consequently, adopting any defensive strategies entail some tactics (e.g. procedures, rules, and programs) that have to be implemented to harvest the desired aims. Within the current study, special efforts have been devoted to analysing and matching the most appropriate defensive marketing strategy to suit each defensive situation.

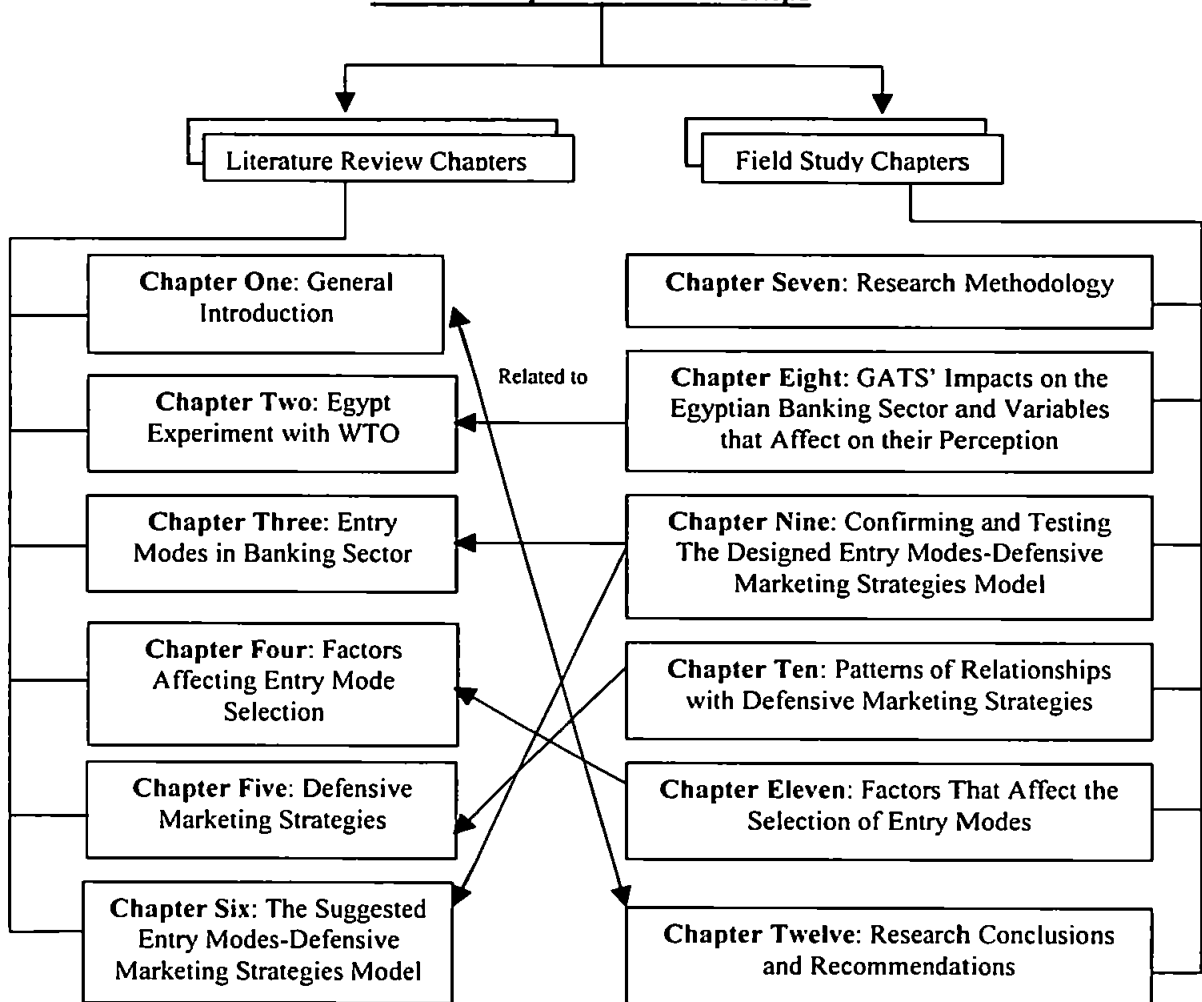
In brief, business intelligence (BI) strategy is the process that involves gathering bits and pieces of information about competitors, customers, suppliers, potential acquisition candidates, joint venture candidates, as well as strategic alliances, to take the appropriate defensive actions. Based on the previous strategy definition, BI strategy aiming at strengthen the competitive position through the collection of relevant information that light the way for the achievement of the organizational objectives. Customer service (CS) is the marketing strategy that takes customers as a shield against rivals' competitive advantages through orienting every staff member towards customer satisfaction and loyalty in the long run through adopting relationship marketing (RM) and SERVQUAL scale to early determine any performance gaps. Customer complaint management (CCM) is the strategy that mainly depends on the creation of a separate department in the organizational chart, in charge of receiving and dealing with customers' complaints and inquiries. Aikido (AIKO) is an entirely reactive strategy handled diplomatically against the attacker's movements. It works well when head-to-head competition is absent, through using three weapons: a sound perception of the attacker's intentions, good evaluation of the current situation, and finally, suitable reactions based on the right assessment of the situation. Free telephone lines (FTL) is the strategy that depends on using several telephone lines to hear from customers for inbound and outbound purposes. Focus (FOC) is a strategy that is built around serving a few specific segments. Differentiation (DIFF) is the strategy that suggests serving several markets by tailoring different marketing programs for each. Finally, cost leadership (CL) is the strategy that depends on reaping the competitive advantage over rivals through cost leadership.

The current study aims at exploring the liberalization process in the banking sector and its effects on entry modes and defensive marketing strategies. In other words, this study is motivated by four objectives:

- To determine the GATS impacts on the Egyptian banking sector, as well as the variables that affect their perception. The lack of studies from this perspective motivates pursuing the aim of exploring these impacts especially in developing countries;
- To determine the appropriate defensive marketing strategies for each entry mode. The fact of the matter is that each of them (i.e. defensive marketing strategies and entry modes) is considered a different stream of literature, which has discouraged scholars from trying to connect and set a kind of dialogue between them, so far;
- To determine the variables behind the adoption of each defensive marketing strategy (e.g. kind of threats perceived, competitive advantages of rivals, and banks' aims) represent the third dimension in the current study. From this perspective, marketing scholars have adopted a descriptive approach by presenting the concepts, merits, and mechanism of each defensive marketing strategy. Consequently, a research need for determining all the viable defensive marketing strategies and correlating them with some justifiable variables was identified; and
- Finally, through the current research the factors that affect the selection of each entry mode will be determined, as reviewing the literature in this perspective reveals that there is a research need for such collective approach.

Throughout twelve chapters of literature review and field study, these objectives will be achieved. Besides the current introductory chapter, the former includes four chapters (Chapters Two, Three, Four, Five, and Six) and the latter includes six consecutive chapters (from Chapter Seven to Chapter Twelve). Figure 1/1 portrays the chapters' relationships in this thesis.

Figure 1/1
Thesis Chapters' Relationships¹



In Chapter One (the introductory chapter), light is briefly shed on all thesis chapters and their components to give a clear understanding of the research objectives and the sequence of the thesis.

In Chapter Two, the Egyptian experiment with WTO will be thoroughly discussed. Besides the introduction about WTO, this discussion includes three main topics: the worthiness of liberalizing

¹ **Source:** - The Researcher.

the Egyptian banking sector; Egyptian obligations with WTO; and raising the question of the appropriateness of the time to liberalize the banking sector. The former topic deals with the literal advantages that the Egyptian banking sector might enjoy as a result of liberalization. The second topic deals with the agreements that Egypt has signed with WTO, with much focus on the banking sector. The latter topic deals with presenting some economic facts and indicators that reveal the Egyptian status of readiness for liberalizing in general and the urge for liberalizing the banking sector in particular.

In Chapter Three, entry modes appropriate for the banking sector will be highlighted. This includes presenting: wholly owned and fully controlled entry modes, shared-owned and shared controlled entry modes, contractual entry modes, as well as purely marketing oriented entry modes. Additionally, the four schools of thought that deal with the selection of entry modes will be highlighted. These are:

- (1) The gradual incremental involvement school that recommends entering foreign markets gradually via less-resource entry modes e.g. exporting, and then high resources commitment e.g. wholly owned entry modes. Literally, business operation in an overseas market is viewed as inherently risky due to the differences in culture, political and market systems (Luo and O'Connor, 1998; Chu and Anderson, 1992; Johanson and Vahlne, 1990; and Root, 1987; and Johanson and Vahlne, 1977).
- (2) Transaction Costs Analysis (TCA) that views any task as a transaction that could be either contracted out to external agents, partners, or suppliers (market-contracting or low-control modes) or internalised and performed by the bank's own employees (integration or full-control modes). The basic premise is that banks will internalise those activities that they can perform at a lower cost, but will subcontract activities externally if other

providers have a cost advantage (Kumar and Subramaniam, 1997; Ghoshal and Moran, 1996; Erramilli and Rao, 1993; Erramilli, 1993; Kogut and Singh, 1988; Beamish and Banks, 1987; Anderson and Gatignon, 1986; Williamson, 1986; Williamson, 1985; Davidson and McFetridge, 1985; and Caves, 1982).

- (3) Dunning's Eclectic Theory, or location-specific factors, that view the internationalisation process and consequently the selection of entry modes as driven by the pillars of ownership-specific factors, location-specific factors and internalisation factors (Hill *et al.*, 1990; Dunning, 1988; and Dunning, 1981).
- (4) Agency Theory that portrays entry mode selection decisions as the relationship between the principal (home office) and the agent (entry modes). Therefore, to guarantee the quality of taken decisions, the principal ought to collect as much information as he/she can about agents (Carney and Gedajlovic, 1991; Brickley *et al.*, 1991; Williamson, 1988; Horstmann and Markusen, 1987; Senbet and Taylor, 1986; Jensen and Meckling, 1976; and Jensen and Meckling, 1976).

In Chapter Four, the factors that affect the selection of each entry mode will be presented and critically analysed. The fact of the matter is that these factors are scattered in the literature, and some of them have been tested with some entry modes but none of them have been tested with all entry modes. Therefore, a taxonomy approach will be adopted to classify entry modes' factors. To be tested at the second stage, the nature of each factor will be presented, analysed and grouped in four distinguishing categories. These four groups are country and industry factors (macro environment of the entrant), entry modes characteristics, potential market characteristics, and bank characteristics (Erramilli *et al.*, 2002; Bates, 2002; Pan and Tse, 2000; Woodcock *et al.*, 1994; Li, 1994; Yung and Leonard, 1992; Kim and Hwang, 1992; Erramilli, 1992; Terpstra and

Sarathy, 2000; Dahringer and Muhlbacher, 1991; Erramilli and Rao, 1990; Hill *et al.*, 1990; Johanson and Vahlne, 1990; Gripsrud, 1990; Stahl and Karakaya, 1989; Douglas and Craig, 1989; Bolt, 1988; Kim and Lyn, 1987; Root, 1987; Goodnow, 1985; Tong and Walter, 1980; Dunning, 1980; Hirsch, 1976; and Goodnow and Hansz, 1972).

Bearing in mind that entry modes characteristics are considered “givens” in the situation of entry mode selection (Dahringer and Muhlbacher, 1991) and that the entrant macro environment is beyond the current study aims, the country and industry category is excluded and the entry modes category is touched upon in the literature review but not tested within the banking context in the field study.

Consulting and checking entry mode literature reveals that the entry modes characteristics category includes ten variables. These are: resource commitment associated with each entry mode, level of risk implied with each entry mode, entry mode flexibility, control, market penetration, feedback, profit possibility, incremental marketing costs, administrative costs, and number of markets each entry can target simultaneously. These variables are basic and elementary i.e. decision makers should be armed with enough information about the nature of each entry mode before going further in the selection process. The effects of these factors will be therefore also touched up on in the literature and excluded from testing at the field study stage.

Market characteristics consist of eight variables. These are market volume, potential market's risks, culture environment in the target market, levels of competition, geographical distance, technological development, infrastructure, and accurate information about targets markets. Based on the most debated variables in the literature, potential market risks (especially economical and

political), cultural environment that constitute the culture distance (measured by language, values, and religions similarities), and levels of competition, are the market characteristics' variables that will be tested within the banking context in the current field study (in Chapter Eleven).

Finally, the bank characteristics category includes nine variables. These are characteristics of what being carried and its life cycle, international experiences, financial resources, non-financial resources, the desire to exposure to foreign problems, the desire to influence the target market, mission and goals effect, competitive strategy effect, and marketing planning and research. Out of these nine variables, international experience and financial resources are the two most debated variables so far: therefore they will be tested in the banking context in the current field study.

In Chapter Five, defensive marketing strategies will be carefully presented and analysed. This analysis will be conducted based on four assessment criteria. As previously stated, defensive marketing strategies include business intelligence (BI), customer service (CS), customer complaints management (CCM), Aikido (AIKO), free telephone line (FTL), differentiation (DIFF) or market diversification, focus (FOC) or market concentration, and cost leadership (CL). The four assessment criteria include opportunities created by each strategy, continuity probability of these opportunities, resources required and time for each strategy to be deployed. Finally, a defensive marketing taxonomy table will be produced. This table helps construct the main part of the proposed "Entry Modes-Defensive Marketing Model".

In Chapter Six, after presenting and analysing both literature streams e.g. entry mode and defensive marketing, a model matching both streams will be suggested. This theoretical model

will be built (i.e. design stage) and confirmed (i.e. usage stage) through four stages. In the first stage (i.e. the design stage), thorough analysis of the literature of both streams will be conducted. This analysis will use the previously mentioned assessment criteria: opportunities or risks associated with each entry mode and defensive strategy; the continuity probability of these opportunities or risks; resources required for each entry mode and defensive strategy to be deployed; and the time required to use each entry mode and defensive strategy.

In the second stage, the defenders (local banks) will be asked to order entry modes according to these four assessment criteria. In the third stage, the suggested model will be verified or stated on the light of their perception of the four assessment criteria previously mentioned. Finally, local banks' marketing performance will be assessed, evaluated, and criticized according to the degree of commitment of this model.

It is worth mentioning that the last three stages that relate to the usage stage will be conducted in the field study (in Chapter Nine) and in the "design stage", only that related to the theoretical analysis of both literature streams will be evaluated (i.e. in Chapter Six).

The field study starts in Chapter Seven, in which an overall research methodology will be carefully presented. This highlights the research aims and types of questionnaires and questions related to each, possible research paradigms (e.g. positivistic, phenomenological, and triangulation), and identifies the research population, the sample, and the statistical techniques used. Moreover, the reliability of data collection instruments (e.g. two types of questionnaires) and concepts within will be identified and presented.

In Chapter Eight, the first research aim related to explaining GATS impacts on the Egyptian banking sector will be addressed. GATS impacts will be tested to identify (a) the aggregate GATS impacts e.g. positive, negative, neutral, (b) dependency relationships between the perception of each GATS impact and both respondents and banks' backgrounds (e.g. respondent position, age, educational level, experience, bank's experience, bank's number of employees, type of bank i.e. local, or foreign), and (c) causality relationships, modelling the perception of GATS impacts and both banks' and respondents' backgrounds.

In Chapter Nine, the second aim of the current research will be fulfilled. The matching between entry modes and defensive marketing strategies will be conducted in what is called the "Entry Modes-Defensive Marketing Strategies Model". Consequently, this chapter is motivated by two main aims:

- (a) To find out the appropriate defensive marketing strategies with each entry mode through analysing local executive's orders of entry modes according to the four assessment criteria (i.e. confirming the designed model previously stated in Chapter Six); and
- (b) To pinpoint the application status within the local Egyptian banks i.e. whether they are committed to the execution of this model or not (usage stage).

In Chapter Ten, the third research aim will be addressed. The factors that affect defensive marketing strategies will be pinpointed, throughout clarifying patterns of relationships with four sets of variables. As has been indicated previously, the literature from this perspective lacks an integrated study that determines sets of variables that affect the selection of defensive marketing strategies. These sets of variables are: demographic variables (e.g. respondents' positions, ages, educational levels, experience, bank experience, and number of employees); banks' objectives

(e.g. increasing the market share, maintaining the current market share, increasing profits, increasing customer satisfaction, and increasing customer loyalty); banks' competitors (e.g. branches, subsidiaries, joint venture, partially merger and acquisition, direct and indirect exporting entry modes); and competitors' competitive advantages (e.g. marketing mix variables, marketing program variables, using advanced technology, offering new kinds of banking services, pledging high interest rates on deposit accounts, pledging low interest rates for loans given, well designed service delivery system, owning competitive staff, and conducting strong advertising campaigns).

In Chapter Eleven, the last research aim relating to identifying variables affecting entry mode selection in the banking context will be met. These ten concepts contain bank and market characteristics. The latter includes political stability of the target markets, political instability of the target markets, language differences in the target markets (language similarities has been omitted), religious similarities in the target market (difference in religion has been omitted), values differences in the target market (values similarities have been omitted), severe competition in the target markets, and moderate competition in the target market (low competition has been omitted). The former includes greater financial resources, less financial resources, and less international experience (more international experience has been omitted).

In Chapter Twelve, all achieved results from the current research will be summarized to establish whether or not they are consistent with the literature in this perspective. Additionally, recommendations and related further research ideas will be suggested. Moreover, research limitations will be presented.



Part One:
Literature Review

Chapter Two:
The Egyptian Experiment with World Trade
Organization (WTO)

2.1. Introduction

The world has begun a new era. This era is characterized first politically, by one super power – the USA - after the sudden collapse of communism in Russia at the end of 1980's. Secondly economically, the emergence of new terminologies such as globalization (all the world can be considered one market), free market policies (to remove the barriers that may affect the free entry to that market), privatization, whether gradual or mass privatization (to shift the ownership from public sector to private sector), have become more important than before, as well as “Americanization”, which means the American style on living and business prevailing everywhere. Third is social change, increasing the role of human rights groups that focus on the unfair treatment of people all over the world - although this is sometimes used as a political tool to serve specific political aims, as in the Peace Square in China at the beginning of 1990's - and ranking countries according to their human rights record. Fourthly environmentally, the new era is characterized by an increasing awareness of the importance of a clean, comfortable and healthy global environment.

Side by side with these dramatic changes, the General Agreement of Trade and Tariff (GATT) has become more important to the vast majority of countries. The starting point for this was October 30th 1947 with the foundation of GATT between 23 governments (Caves, 1986). The signatories included 13 leading western countries (Australia, Austria, Belgium, Canada, Czechoslovakia, France, Luxembourg, Netherlands, New Zealand, Norway, Rhodesia, UK. & U.S.A.) but Germany and Japan were not among them, and ten leading developing countries (Brazil, Burma, Ceylon, Chile, China, Cuba, India, Pakistan, Syria, and Lebanon). The GATT agreement provided for a substantial reduction of tariffs among the signatories, together with a

code of general rules limiting the right to use other trade restrictions. The United States and United Kingdom were the driving forces behind the agreement, and France also exercised considerable influence in its drafting.

All these countries have discussed free trade policies in several rounds but the Uruguay Round (UR) of negotiations (1986-1994) is the most important one, as it is the one that created the World Trade Organization (WTO). Besides that, UR has achieved several achievements. These are tariff reductions, binding commitments; tariff escalations; abolishing non-tariff barriers; and achievements with trade in agricultural products, as shown in Table 2/1.

Table 2/1
Evolution of WTO¹

Year	Place/Name	Subjects Covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960:1961	Geneva (Dillon Round)	Tariffs	26
1964: 1967	Geneva (Kennedy Round)	Tariffs and anti-dumping measures.	62
1973: 1979	Geneva (Tokyo Round)	Tariffs, non-tariff measures framework agreements	102
1986: 1994	Geneva (Uruguay Round)	15 subjects: - 1. Tariffs & Non-tariff barriers. 2. Natural resource products. 3. Intellectual property. 4. Dispute settlement. 5. Textiles & Clothing. 6. Agriculture. 7. The GATT system. 8. GATT articles. 9. Investment measures. 10. Anti-dumping. 11. Tokyo Round codes 12. Tropical products. 13. Subsidies 14. Services. 15. Creation of WTO.	123

¹ Source:- Adapted from {World Trade Organization, 1998}.

Developing countries participated more actively than in previous rounds and trade policy review mechanisms and dispute settlement procedures were established (WTO, 1998). For more detail see Laird (1998) and (1997); GATT (1994a); and Martin and Winters (1995).

The emergence of the WTO in 1995 added the third side of the economic triangle that rules the world: that triangle consists of the World Bank (WB), International Monetary Fund (IMF), and WTO. This triangle plays a key role in the world economic environment especially for developing countries, and Egypt in particular.

Once it emerged, WTO became the legal successor to GATT. Obviously, WTO is an international body dealing with rules of trade between nations, with the aims of helping producers of goods and services, exporters, and importers conduct their business, and helping trade flow as freely as possible: this means removing all the obstacles. In other words, the rules have to be "transparent" and predictable. This purpose may take ages to come true and needs deep negotiation among all the 146 WTO members (Supachai, 2003), which account for 95 per cent of world's GDP (Mattoo, 1998). WTO also works as a forum for trade negotiations among all countries. Working as a dispute settlement mechanism, and monitoring national trade policies, it also offers technical assistance and training for developing countries and co-operation with other international organizations (WTO, 1999).

Most notably there are now 105 developing and transition country members of the WTO. Africa (41 countries) share 1.5 per cent of all members' GDP, Asia and the Pacific (25 countries) have

7.6 per cent share, Eastern Europe (7 countries) share 1.1 per cent and Latin America, including the Caribbean (32 countries) share 6.2 per cent (Mattoo, 1998. p.10).

2.2. Egypt's Experiment with WTO

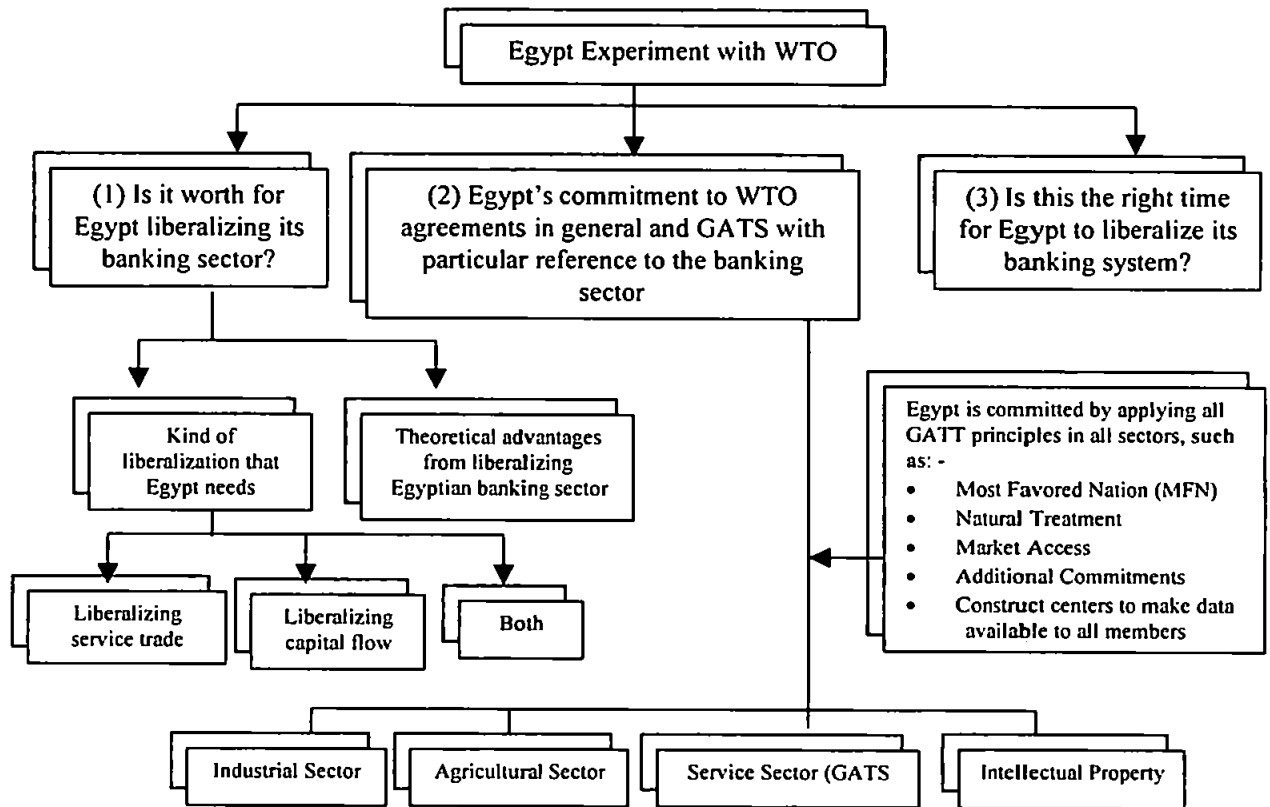
Apart from a few governmental reports that present the effects of the WTO agreement on the Egyptian economy in general, there has been no scientific study to investigate the effects of General Agreement of Trade in Services (GATS) on the Egyptian service sector, and the banking sector in particular. It could be argued that GATS effects will take time to be tangible. However, this point of view is weakened by the fact that Egypt has been a member of WTO since 1995 and most of GATS agreements have been in place since that time. Thereby, the current study will be a step in filling in the existent literature by investigating these impacts on the banking sector.

From the day of its creation, Egypt has been a complete member of WTO. Therefore it is obligated to fully free all economic sectors by 2005 (Obid, 2001). The analysis of the Egypt experiment will be guided by three questions: (a) is it worth Egypt liberalizing its banking sector? (b) What is the Egyptian commitment now with WTO in general and with GATS in particular, with particular focus on the banking sector? And (c) is this the right time for Egypt to liberalize its banking sector?

To answer the first question, light is shed on the kind of liberalization the Egyptian banking sector needs e.g. does it needs liberalizing service trade only or liberalizing capital flow, or both? Then, the theoretical advantages and drawbacks, if any, from liberalizing the banking sector will be presented. To answer the second question, a brief presentation of the Egyptian commitments in

all economic sectors, coupled with the general principles of free trade that Egypt is committed to, will be presented. Finally, the indicators that reveal the necessity for liberalization and urge for liberalizing the banking sector in particular at this time are presented, as shown in Figure 2/1.

Figure 2/1
The Egyptian Experiment with WTO¹



2.2.1. Is Banking Liberalization Worthwhile

The assessment of the effects that flow from liberalization process has been a very active field of research in applied economics since the 1960s (Sanso and Montanes, 2002, p. 231). The liberalization process can take many different forms: greater exposure of the domestic market to foreign goods and services (openness); reduction of tariffs; exposure through exports; freedom of foreign investment; freedom in the movement of experienced labour; access to technical

¹ Source: The Researcher.

information; access to the use of recent inventions through compulsory licensing; and international cooperation on technical projects (Cotsomitis *et al.*, 2002).

In a banking context, a second point to be stressed is what kind of liberalization Egypt needs. Is it to liberalize service trade or to liberalize capital flows, or both? Basically, financial services could be provided in two ways: cross-border, and foreign financial institutions in the local market (Kono and Ludger, 1999). For instance, arranging a loan with a foreign bank abroad via telephone (direct exporting entry mode) is an example of cross-border financial service provision. However, if the same loan is arranged through the domestic subsidiary or branch of a foreign bank, this an example of the presence of a foreign establishment. In other words, all banking services could be provided either by domestic or foreign financial institutions. If a domestic bank provides a loan to a domestic client using domestic capital (Cell I below), this creates neither financial services trade nor an international capital flow, as shown in Table 2/2.

Table 2/2
On Domestic Versus International Capital Flows and Financial Service Provision: the Example of Lending by Foreign Supplier Abroad¹

Alternatives	Loan provided by domestic supplier	Loan provided by foreign supplier abroad
Loan involves domestic capital only	I. Neither financial services trade nor international capital flow	II. Financial services trade only
Loan involves international capital only	III. International capital flow only	IV. Financial services trade and international capital flow

If a domestic bank lends capital from abroad to the same client (Cell III), this is a case of capital flows without financial services trade. Meanwhile, a loan arranged by a foreign institution involving only domestic capital (Cell II) is an incidence of financial services trade without international capital flows. Only transactions in Cell IV, such as loans through a foreign bank

¹ Source: - Adapted from {Kono and Ludger, 1999, p. 4}.

involving international capital, represent international capital flows and trade in financial services.

All in all, the Egyptian banking sector needs to liberalize both service trade and capital flows, as appear in Cell IV and Cell IVa in Tables 2/2 and 2/3 respectively. Therefore, all forms of liberalization suggested by Cotsomitis *et al.* (2002) are required for the Egyptian banking sector to gain the positive ramifications of the liberalization.

Table 2/3
On Domestic versus International Capital Flows and Financial Services Supply: the Example of Lending by a Foreign Supplier Established in the Country¹

Alternatives	Loan provided by domestic supplier	Loan provided by foreign supplier established in the country
Loan involves domestic capital only	Ia. Neither financial services trade nor international capital flow	IIa. Financial services trade plus inward direct investment
Loan involves international capital only	IIIa. International capital flow only	IVa. Financial services trade plus inward direct investment and international capital flow related to the supply of the loan

Literature regarding the theoretical and empirical ramifications of liberalizing the banking sector center on two main groups: those with positive (i.e. optimistic) and negative (i.e. pessimistic) effects. Nasiruddin (2003); Hargis (2002); Sugiyarto (2002); Cotsomitis *et al.* (2002); Eberlei (2001); Weller (2000); Bekaert and Harvey (2000); Kim and Singal (2000); Ghose (2000); Hargis and Ramanlal (1998); Demiguc-Kunt and Huizinga (1998); IMF (1998); Claessens and Glaessner (1997); De Santis and Imrohoroglu (1997); Susmel (1997); Bekaert and Harvey (1997); Kono *et al.* (1997); Goldstein and Turner (1996); Joshi and Little (1996); Evenson and Westphal (1994); Helleiner (1994); Arslan and Wijnbergen (1993); Weiss (1992); Thomas *et al.* (1991); and Cho (1989) have argued around the positive side of liberalization. These are: benefits resulted from

¹ Source: - Adapted from {Kono and Ludger, 1999, p. 4}.

multinational banks (MNBs) access and commercial presence in developing countries; equity markets in emerging markets can get strong and consequently their volatilities can get down; the efficiency of the banking sector is raised; the level of FDI injected to the developing economy is increased, positively affecting the level of technology, economic, and productivity growth; the political status of the liberalized country is improved; the liberalization process helps raise labour standards in developing economies; and higher living standards and shared prosperity for all are generated.

More specifically, liberalizing the banking sector attracts multinational banks (MNBs) to work in less developed financial markets. Weller (2000); Kono and Ludger (1999); IMF (1998); Demiguc-Kunt and Huizinga (1998); Claessens and Glaessner (1997); OECD (1997); and Goldstein and Turner (1996) argue around the benefits of the commercial presence of such multinational institutions in domestic markets. These benefits are:

- (1) MNB entry is supposed to introduce market discipline that makes both inadequate risk management, and inappropriate interventions in banking activities, less likely, creates pressure to improve regulation and supervision in banking sector, imports foreign expertise that leads to develop local banker's skills, and transfers banking know-how and capital, which all lead to the development of domestic markets and spreading risk more broadly, as domestic institutions tend to learn more from the practices of their rivals (Weller, 2000; IMF, 1998, p.76; Demiguc-Kunt and Huizinga, 1998; Claessens and Glaessner, 1997; Goldstein and Turner, 1996). These improvements should result in more and better financial products and services thereby lowering the costs of funds, raising the availability of credit, and leading to more investment (Weller, 2000).

Claessens and Glaessner, (1997), for example, argue that limited openness to foreign financial firms in a number of Asian countries has resulted in slower institutional development and more fragile financial systems;

- (2) MNB commercial presence can be a market-based means to improve the quality of capital flows and to strengthen financial systems. Thereby, the country that, for various reasons, is reluctant to liberalize all financial services trade and capital flows immediately, should still consider the liberalization of those types of trade. Also, an orderly and well-sequenced liberalization of the capital account is necessary for a developing country to truly benefit from the progressive liberalization of trade in services;
- (3) Foreign service providers find it easier to gain information on the credit worthiness and the financial situation of debtors if they are physically present in the foreign market. So, foreign financial institutions are more likely to avoid errors and irrational responses, as their presence gives them access to more solid and accurate information. In this case, the commercial presence of foreign entrants may help decrease the bias towards short-term lending in favor of long-term lending that in turn enhances the local markets capabilities;
- (4) The commercial presence of MNBs help in market development of domestic markets; that means the development of new services and deepening of markets is easier when service providers have information about local markets (Kono *et al.*, 1997). Foreign institutions are more likely to operate as market makers or as liquidity providers when they have a commercial presence and a considerable base of local business. Deeper and

more developed markets, in turn, are less likely to experience volatility, and investors are more willing to engage in long-term commitments;

- (5) MNBs are helpful for monetary policy management, as local governments will move from direct monetary policy instruments, such as credit and interest ceilings, to more efficient indirect instruments, such as open market operations (Kono *et al.*, 1997);
- (6) The commercial presence of MNBs in local markets helps create a balanced and efficient financing structure (in terms of maturity and financial instruments). Moreover, they help develop a full-fledged bond and equity market;
- (7) Employees of foreign establishments (i.e. MNBs) may switch to domestic institutions, taking their skills with them;
- (8) MNBs presence helps reduce the information gap and increase transparency about the soundness and creditworthiness of companies and financial institutions (as reflected in bond ratings and stock prices); and
- (9) Risk management becomes easier when certain instruments, such as forward contracts and hedging of foreign exchange and interest obligations, become available in local markets.

Liberalizing the banking sector positively affects equity markets in emerging markets and simultaneously does not negatively affect the level of volatility of these domestic financial markets (Hargis, 2002). Empirical evidence from Argentina, Mexico, and Brazil show that, in contrast to the fears of policymakers in emerging economies, volatility did not increase in emerging stock markets after opening them to foreign investors. Volatility of these markets declined after liberalization, as Argentina, Brazil, and Mexico show significant declines in

volatility for the indexes of the American Depositary Receipts (ADRs), country funds, and percentage of foreign ownership (Hargis, 2002, p. 29). In this regard, Hargis and Ramanlal (1998) advocate that volatility can decrease if accessing a larger pool of foreign investors improves liquidity and reduces the sensitivity of prices to large, temporary surges in the volume of buy or sell orders. These findings go hand in hand with other literature in this area. For instance, Bekaert and Harvey (1997) show that after controlling for other time-series and cross-sectional factors affecting volatility, volatility in emerging stock markets declines after capital market liberalization. Also, Bekaert and Harvey (2000); Kim and Singal (2000); De Santis and Imrohoroglu (1997); and Susmel (1997) did not find any kind of support for the claim that market liberalization increases price volatility, especially in financial markets. However, Kawakatsu and Morey (1999) found that, in spite of theory suggesting the opposite, liberalization does not seem to have improved the efficiency of financial markets. This contradictory result might result from the post-study efficiency level in that study, as most of their statistical tests indicated that the markets (sixteen countries) were already efficient before the actual liberalization.

Weller (2000) argues that financial liberalization may lead to greater international competition that in turn leads to improved and rationalized credit supply, through enhancing the level of transparency between lenders and borrowers. It has been recognized, for instance, that if borrowers and lenders do not have perfect information about each other, borrowers may not obtain the necessary amount of finance for their investments (Bernanke, 1993; Gertler, 1988; Stiglitz and Weiss, 1981). Also, the increased level of competition reduces the economic power of domestic rivals (Graham and Krugman, 1991). Consequently, it could be claimed that liberalization of the banking sector can lead to an increase in the efficiency of the banking sector.

This improved level of efficiency can be recognized through offering new services such as derivative products, stock market operations, customized financing packages for corporate clients (Brainard, 1990) or foreign currency loans (Euh and Baker, 1990). Cho (1989) claimed that foreign entry enhances economic efficiency through increased market competition. Evidence from the Indonesian banking sector enforced his claim.

Increasing the level of injected foreign direct investment (FDI) is another positive side of liberalization that positively affects the level of technology available in domestic markets, and consequently their economic and productivity growth. FDI usually brings technology from industrial countries to developing countries, as was the case in the East Asian economies (Nasiruddin, 2003; Evenson and Westphal, 1994). Cotsomitis *et al.*, (2002, p. 1033) argue that technological gains from liberalization - more precisely technical creativity or inventiveness - are not only logically but also empirically plausible and that there is a present challenge for economists to provide a sound policy rationale to explain the conditions under which these dynamic gains can be reaped. Also, several comparative studies provide evidence about the positive effect of liberalization on economic and productivity growth, by leading to larger economies of scale in production due to the positive spillover effects emanating from technological developments in industrial countries (Nasiruddin, 2003; Gokcekus, 1997; Tybout and Westbrook, 1995; Harrison, 1994; Michaely *et al.*, 1991; Bhagwati, 1978; Krueger, 1978; Balassa, 1971, 1982; Little *et al.*, 1970). Some empirical studies (Onafowora and Owoye, 1998; Edwards, 1992; Dollar, 1992; Thomas *et al.*, 1991; Michaely *et al.*, 1991; Romer, 1989; World Bank, 1987; Bhagwati, 1978; Krueger, 1978; Balassa, 1971, 1982; Little *et al.*, 1970) found a positive correlation between output growth rate and openness of the economy. Moreover,

outward orientation makes it possible to use external capital for development without encountering serious problems in servicing the corresponding debt (Dollar, 1992).

Also, the effect of liberalization can be extended to include the political status of the liberalized country. Eberlei (2001, p. 158) argues that economic liberalization naturally leads to political liberalization. The Structural Adjustment Programmes (SAPs) thus have a positive impact on the process of democratization in developing countries: SAPs stimulate the withdrawal of the mighty state, the decentralization of decision-making processes, and the widening of political space for non-state actors. Notably, this assumption has been the ideological basis of the International Financial Institutions (IFIs), especially the World Bank, since the early 1980s.

Additionally, Ghose (2000, p. 281) theoretically claims that both skilled and unskilled workers in the developing countries concerned have derived significant benefits of employment and wages from trade-induced growth. The global net effects are certainly positive and substantial. In addition to that the liberalization process has helped raise labour standards in developing economies.

Finally, liberalization of an economy acts as an engine of growth, increasing export volume, generating higher living standards and shared prosperity for all, including the poor (Sugiyarto, 2002). More specifically, a number of developing countries that embarked on liberalization over the past two decades experienced improvements in export performance, with significant increases in manufactured exports (e.g. Joshi and Little, 1996; Helleiner, 1994; Arslan and Wijnbergen, 1993; Weiss, 1992; Thomas *et al.*, 1991). The rationale is that trade liberalization reduces anti-

export bias and makes exports more competitive in international markets. Proponents of free trade always argue that trade liberalization will expand markets for products and services introduce competition, reduce transportation and production costs that all, in turn, stimulate exports, increase production and benefit workers.

As appears from the above debate that the implied and assumed proposition from which all the above liberalization impacts are driven, is the free competitive environment that will prevail. The invisible hand of free competition could lead to both social and individual welfare (Auerbach, 1989; Keddy, 1989; Schoener, 1983; and Harper, 1961).

The same argument is put forward by Mattoo (1998 and 1997) who argues that, "privately efficient profit-seekers" behind protective barriers could not be expected to lead to socially efficient results, as restrictions on entry benefit producers at the expense of consumers. Protection distorts resource allocation by diverting resources away from the productive sectors towards rent seeking and directly unproductive activities, leading to a lower level of output and productivity growth (Krueger, 1978; Little *et al.*, 1970). In this case, the earnings of producers are then greater than the social productivity of the inputs, as there is a component that is transferred from consumers. It is therefore desirable for the scope of competitive forces to be enhanced by the effective removal of barriers to entry, allowing FDI to be deployed in local markets.

Not only that, FDI clearly brings benefits, even in situations where it does not lead to enhanced competition. These benefits include allowing foreign equity participation, which might relax a capital constraint that could otherwise result in socially sub-optimal levels of investment in the

sector. Foreign equity participation might serve as a vehicle for transferring technology and know-how. These benefits come not only in the form of technological innovations, such as new methods of electronic banking, for instance, but also in terms of improved management and credit assessment techniques, as well as higher standards of transparency and self-regulation (Fox, 2001; Asch 2001; and Mattoo, 1998).

Therefore, Egyptian authorities ought to remain vigilant as to the reasons behind the increase in FDI level. If this increase comes simply because returns on investment are artificially raised by restrictions on competition, then the cost to the host country may exceed its benefits. In this case the returns to the investor will be greater than the true social productivity of the investment. In other words, aggregate national welfare in a particular sector could be seen as the sum of consumers' surplus and national producers' profits (plus government revenue). In competitive markets, welfare is greatest because marginal social benefit is equated to marginal social cost. In imperfectly competitive markets, producers gain at the expense of consumers (Cvitkovic, 1992).

Adopting a wider view, Goldin *et al.* (1993); Brandio and Will (1993); OECD (1993); GATT (1993); Nguven *et al.* (1991); Frohberg *et al.* (1990); Deardorff and Stern (1990); Burniaux *et al.* (1990); and Trela and Whalley (1990) mention that benefits of trade liberalization, as a result of the Uruguay Round, will range from \$119 to \$274 billion, coupled with an increase in global trade from 12.4 per cent to 17 per cent by 2005. The WTO Director-General claims that the participation of poor countries in world trade could boost the world economy by nearly \$3 billion per year and bring 320 million people out of poverty by 2015 (Sugiyarto, 2002, p. 180). The following Table 2/4 summarizes the results of the previous work.

Notably, developed countries and huge goods traders such as US, EU, and Japan will be the greatest beneficiaries (Greenaway and Milner, 1995) and both developing and less developed countries may pay the bill. Also, services liberalization is the economic sector that has potential gains for developing countries. It is estimated that the service sector in developing countries is the only sector that will achieve positive value added by 2005 (Thomas *et al.*, 1996).

Table 2/4
Estimates of Income and Trade Effects of the Uruguay Round (in US\$)¹

Previous work	Global income/welfare gains	Increase in Global Trade
Goldin <i>et al</i> (1993)	\$213 billion (1992) measured at 2002	
Brandio and Martin (1993)	1. \$88.8 billion with Organization of Economic and Development Country OECD, Agriculture reform \$20 billion for developing countries 2. \$139 billion from OECD and developing economy agriculture policy reform \$59 billion for developing economics	
OECD (1993)	\$274 billion measured at 2002	
GATT (1993)	\$230 billion measured in 2005. Based on offers as at 19 Dec. 1993	12.4% increase, \$745 billion in 2005
Nguven, <i>et al.</i> (1991)	\$119 billion with modest liberalization (0.7% of global GDP). 0.22% of income	
Fronberg, <i>et al.</i> (1990)	Not calculated	
Deardorff, <i>et al.</i> (1990)	0.9% of GDP for the OECD countries	
Burriaux, <i>et al.</i> (1990)	1. Complete agriculture liberalization (OECD 1.6% of real income: developing countries 0.5%) 2. Nonagricultural liberalization; (OECD: 0.8%; developing countries; 0.2%) 3. Partial liberalization of textiles and clothes (MFA) quotas only)	17% non-agriculture exports, 5% non-load agriculture, \$35.2 billion; 4.3% and 6.3%
Trela and Whalley (1990)	1. Based on 1986 dollars: Developed: \$19.007 billion Developing \$2.934 billion 2. After complete liberalization of textiles and clothing tariffs and MFA quotas and by 1986 dollars: Developed: \$15.357 billion Developing \$8.078 billion	6.3%

This liberalization could be achieved by the full commitment of all the GATT principles from non-discrimination, to national treatment, including open access, transparency and predictability,

¹ Source:- Adapted from {Greenaway and Milner, 1995, p. 498}.

and safeguards and exceptions (Coates *et al.*, 1993). The question that could be raised here is, will the Egyptian banking sector be among those that benefit from trade liberalization in services?

The above arguments lend strong support for further banking sector liberalization. The GATS provides a useful multilateral framework for doing this, offering sufficient flexibility for Egypt to pursue an appropriate liberalization strategy. Such liberalization also allows for the necessary degree of prudent regulation and supervision, and provides safeguard mechanisms against financial crisis.

However, some countries may wish to protect their domestic banking sector to build a "domestic industry", or they may attempt to use a protection strategy to subsidize the infant-industrial sector. Such motivations seem to be behind some countries' reluctance to liberalize the commercial presence of foreign financial institutions in the domestic financial sector. The question now is, if a country does not wish to liberalize its banking service, does this mean it should not liberalize at all, given the potential "stability costs" of cross-border liberalization? The answer to this question depends on whether the efficiency gains outweigh the "stability costs" from liberalization (Henderson, 1998).

On the other hand, Sugiyarto (2002); Metin-Ozcan *et al.* (2002); Tanski and French (2001); Sharma (2001); James (2000); Weller (2000); Ghose (2000); Weeks (1999); Claessens *et al.* (1998); OECD (1997); El-Mody (1995); Evans and Walsh (1995); Mosley (1993); Stein (1992); Rodrik (1992); Terrell (1986); Diaz-Alejandro and Helleiner (1982); and Taylor (1981) argue around the negative side of liberalization. Their main points are: that profitability of domestic banks will suffer; the rate of concentration and reduction of workers' rights within local

economies will increase; the rate of failure within the local banks will also increase; there will be only a minor impact on productivity growth. They also argue that liberalization compromises national sovereignty, brings about unemployment, skews income distribution, endangers the environment; and that the poorer economies have little chance to benefit from waves of liberalization.

More specifically, in a study on bank earnings it is found that an increase in the share of foreign banks leads to lower profitability of domestic banks (Claessens *et al.*, 1998). This finding lends support to earlier findings by Terrell (1986) that banks in economies with MNB entry have lower gross interest margins, lower pre-tax profits and lower operating costs. Moreover, Metin-Ozcan *et al.* (2002) found that openness had very little impact, if any, on the levels of profit margins and also on the behavior of sectional investments.

Liberalization may lead to an increase in the rate of concentration within the local economy, that may lead to unequal distribution of income and wealth, as well as the reduction of workers' rights (Tanski and French, 2001; Weeks, 1999). In their study on the Mexican economy, Tanski and French (2001) found that the profits ratio of the four largest banks has shifted up to 88.2 per cent in 1999 from 67 per cent in 1989 after conducting an effective trade liberalization policy, which made the President of Mexico (Vicente Fox) say "It's very sad ... We don't have a middle class in Mexico. We have the worst distribution of income in the world. We only compare with Africa" (James, 2000, p. 110). However, the Mexican economy is characterized by increasing concentration of wealth and growing polarization between regions, income groups, manufacturing sectors, and exporting companies compared to non-exporters (Tanski, and French

2001). This finding lends support to Weeks's (1999) findings that the liberalization of trading regimes have so far been associated with the reduction of workers' rights and the concentration of wealth.

Moreover, Weller (2000) argues that the chance of banks' failure may increase as a result of greater competition and less access to capital. This finding lends support to El-Mody's (1995) and Evans and Walsh's (1995) findings in this area. El-Mody (1995) theoretically and skeptically perceived the banking system liberalization - as a result of GATS - as an obstacle that negatively affects Egyptian monetary and credit policies. They argue that it can be seen as creating severe and un-equivalent price competition between Egyptian local banks and huge world financial institutions, and puts some pressure on the Egyptian authorities to allow greater access to overseas providers of services, which might threaten local banks' market shares and increase failure amongst local rivals. OECD (1997) add that the liberalization of the financial sector may also pose various risks, such as destabilized capital inflows or outflows and pressures upon the traded-goods sector.

Additionally, liberalization has had only a minor impact on productivity growth and economic performance. Sharma (2001) in a study conducted in Nepal found that manufacturing productivity had been declining prior to liberalization and that this continued to be the case even after the liberalization. Greenaway *et al.* (1997); Jenkins (1996); Shafaeddin (1994); Clarke and Kirkpatrick (1992); Agosin (1991); Taylor (1988); and Sachs (1987) contended that there is no firm ground for believing that liberalization increases the growth rate of the economy, rather it aggravates the macroeconomic problems in terms of increasing balance of payments problems,

fiscal deficits and inflation. They found little empirical evidence to support a link between trade liberalization and economic performance and productivity.

Another factor is that the global market resulting from adopting full liberalizing policies can bring about unemployment, skew income distribution, endanger the environment, and even compromise national sovereignty. Therefore, opponents of globalization and free trade also routinely blame the proponents of free trade for undermining human rights, weakening environmental protection and pushing workers into a "race to the bottom" for lower wages and poor working conditions (Sugiyarto, 2002, p. 180). These findings lend support to Ghose's (2000) findings, he claimed that the growth of trade in manufactures in some developing countries has certainly have adverse effects on employment and wages of low-skilled workers even in the industrialized countries, but such effects have been quite small.

Finally, Ghose (2000) claims that the poorer economies, with their low level of development of physical and social infrastructure, are not in a position to benefit from liberalization in a world where demand is shifting away from primary commodities to manufactures and services. Consequently, doubts that liberalization may not solve the problems of the least developed countries (LDCs) remain strong due mainly to low supply elasticities and the early stage of industrialization in these countries (e.g. Mosley, 1993; Stein, 1992; Rodrik, 1992; Diaz-Alejandro and Helleiner, 1982; and Taylor, 1981). The low level of supply elasticities may be due to infrastructure bottlenecks, shortage of skilled labour, or a lack of efficient institution.

Arising from the heated nature of these debates, the perception of GATS impacts (e.g. positive and negative) will be identified and tested within a banking context in the field study (Chapter Eight).

2.2.2. Egyptian Obligations within WTO

Egypt is committed to gradually free its trade system in all economic sectors e.g. industrial, agricultural, service, intellectual property, and most importantly the financial sector. Therefore, these sectors will be briefly touched upon, with more focus on the banking sector. Additionally, Egypt is committed by all rules and principles related to free trade systems from most favored nation (MFN) with all WTO members, to national treatment, market access, and safeguards and exceptions (Ministry of Trade, 2001).

Firstly non-discrimination or the "most-favored-nation" (MFN) provision means that any advantage extended to one signatory must also be extended to all other signatories, and withdrawal of trading privileges for one signatory country must apply to all. Secondly, transparency and predictability means rules and regulations, including fees and tariffs, should be publicly available and consistently and fairly applied. Thirdly, national treatment means domestic and foreign establishments must be treated equally, and any restrictions on trading must apply to both. Fourthly, open access means there must be no entry barriers (or unreasonable restrictions) on the way in which services can be provided. Kono and Ludger (1999) argue that open access provision prohibits six types of limitations, unless they have been inscribed by a member in its schedule. These are (a) limitations on the number of suppliers, (b) limitations on the total value of service transactions or assets, (c) limitations on the total number of service operations or on the total quantity of service output, (d) limitations on the total number of natural persons that may be employed, (e) measures which restrict or require specific types of legal entity or joint venture;

and (f) limitations on the participation of foreign capital. The use made of these limitations, particularly (a) and (f), is one of the most important elements determining the economic implications of the commitments. Finally, "safeguards and exceptions" means that nations retain the right to regulate markets to achieve national policy objectives, as long as such regulations are consistent with the other principles in the framework (liberalization, transparency, and predictability).

In the industrial sector, Egypt is committed to decreasing tariffs imposed on imported industrial products from January 1st 1995 to January 1st 2005. During these ten years, tariff reduction will reach 60 per cent in textiles products. This means the Egyptian textiles industry will be the sector most affected by the free trade policy (Hoekman and Arvind 1996). Additionally, Egyptian industrial exports have the right to access each WTO member's market within the limit of three per cent of the Egyptian imports from that country (Egyptian Minister of Foreign Trade, 1999a).

In the agricultural sector, Egypt is committed to reducing tariffs on imports by 24 per cent during the period from January 1st 1995 till 2005. Also, Egypt is committed to transferring all non-tariff fees (e.g. forbidden imports from specific places, quotas, specific quantities, and seasonal quotas) into tariff fees. Finally, Egypt is committed to reducing internal subsidies directed to the agricultural sector by 20 per cent during the ten-year period starting January 1st 1995. It is argued that the reductions on subsidies may lead to increased prices of some Egyptian exports e.g. rice, vegetables, and fruits, and those consequently may not become competitive in the world market. However, WTO agreements determine the mechanism in such situations by pledging Egypt more

financial subsidies and long term loans with low, or no, interest rates to overcome its potential losses (Egyptian Minister of Foreign Trade, 1999b).

2.2.2.1. The Egyptian Service Sector

The service sector as defined here includes the financial sector (e.g. banking, stock exchange market and insurance), tourism, communications, and transportation whether marine or air, and professional services (e.g. accounting, law, and consultancy services) but excludes services that the government offers (Ghaly, 2001b).

In the banking sector, Egypt is committed to guarantee access to its market through: (a) cross-border supply of a service (e.g. direct exporting entry modes), (b) consumption abroad (e.g. indirect exporting entry modes), (c) commercial presence of a supplier (e.g. branches, subsidiaries, representative offices, agency offices, joint ventures, and mergers entry modes, and (d) the supply of services through the presence of natural persons of a WTO member in the territory of another WTO member (Mattoo, 1998, p. 3). However, these commitments come under two conditions: first, the Egyptian Minister of the Economy determines whether the local market needs more banks or not; and second, these banks are committed to train local employees to gain the new technology and updated “know-how” in doing this kind of business (Egyptian Commercial Representative Department, 1999).

In cross-border supply of a service mode, which is analogous to international trade in goods, the service crosses a national frontier through direct exporting entry. This includes the taking of a loan by a domestic customer from a financial institution located abroad. In consumption abroad

the customers are moving to the territory of suppliers. Cross border supply includes the purchase of financial services by customers while travelling abroad. This category represents an indirect exporting entry mode.

Commercial presence modes, which are of crucial significance, entail the commercial presence of a supplier of one WTO's member (i.e. country) in the jurisdiction of another member. An example of this mode is a situation in which a foreign bank establishes a branch or subsidiary in the territory of a country and supplies financial services.

Therefore, commercial presence modes include branches, subsidiaries, and representative and agency offices (as wholly-owned and fully controlled entry modes according to Pan and Tse, 2000; Miller and Parkhe, 1998; and Erramilli and Rao, 1993 classifications), mergers and acquisitions (as a shared-owned and shared-controlled entry modes according to Erramilli and Rao, 1993), and licensing, franchising, and strategic alliances; leasing, and management-service contracts (as contractual entry modes, according to Erramilli *et al.*, 2002; Pan and Tse, 2000; and Dunning, 1988).

The final mode covers the supply of services through the presence of natural persons of a member, in the territory of another member, relates to both independent service suppliers e.g. independent financial consultants and to employees of juridical persons supplying services.

Also in relation to stock exchange market and insurance, Egypt is committed to permitting foreign companies to conduct all financial activities from stock subscription, brokerage, financial

options and futures, to forming and managing portfolios and constructing new insurance companies. Foreigners were not allowed to execute such activities before. However, the coverage of other service sectors, apart from the banking sector, is beyond the current research aims, therefore they are only briefly mentioned.

With insurance services, Egypt is committed to letting foreign companies offer their services after five years from signing the agreement, which was at January 1st 1995; consequently at January 1st 2000 the real threats have resumed. With regard to tourism, marine transportation, construction and engineering consultancy services, Egypt is committed to permitting the construction of new hotels, restaurants, tourism agencies, tourism transportation services, to construct tourism institutes, and to hold tourism conferences. Marine transportation services are permitted under one condition: that the Egyptian participation on capital is not less than 51 per cent of total capital. Engineering and consultancy services are permitted to execute huge projects like bridges, tunnels, and pipelines under two conditions. As far as intellectual property, Egypt is committed to protecting authors' rights and know-how for ten to fifty years from publication date.

2.2.3. The Right Time for Liberalizing the Banking Sector

Sooner rather than later is the right time for liberalizing the banking sector, for several reasons. Firstly Egypt launched its economic reform programme at the beginning of the 1990's with some specific arrangements with both the WB and IMF. These arrangements imposed tariffs reductions much tougher than those signed with WTO (Butter, 1997). Therefore, Egypt can easily cope with its obligations with WTO. In other words, the hard work needed to make Egypt part of the world economy has already been done.

Also, Egypt got rid of its debt burden as a result of its agreement with the Paris Club that consisted of 17 creditors (USA, France, Germany, Italy, Spain, Australia, Austria, Japan, UK, Belgium, Denmark, Netherlands, Sweden, Switzerland, Canada, Finland, and Norway). This agreement enabled Egypt to get rid of 50 per cent of its official debts in three phases from July 1st 1991 to 30th June 1994 (this was delayed until 1996). The Paris Club package, which was similar to the "pathbreaking deal" struck with Poland in March 1991, brought Egypt's total external debts down to just over \$20 billion, from \$46 billion. Also, "annual debt servicing costs" were reduced by more than 70 per cent, to between \$1,300 million - \$1,500 million within three years (Butter 1991). Also, Egypt has obtained an agreement to restructure its debts as follows: it cancelled 15 per cent of the \$20.200 million in July 1991, and a further 15 per cent 18 months later, subject to compilation of the IMF program. In July 1994 twenty per cent of the original debt was cancelled, rescheduling the remaining \$10.000 million over 25 years with a three to four years grace period. Interest payments in the first three years were reduced by 30 per cent. After this successful rescheduling, Egypt has begun detailed negotiations with each creditor. It started with the USA, then France and all other creditors, aiming at converting all foreign debts into equity in local projects, or spending the debts values on environmental or archaeological schemes (Egyptian Parliament, 1995).

Egypt, in that rescheduling process, won approval for a 25 year span compared with the 14 year rescheduling which is standard for middle-income developing countries like Egypt. However the Egypt agreement provided for 30 per cent of the interest on rescheduled debts to be cut, compared with 80 per cent for Poland. Thus, the Egyptian ground is ready for that liberalization now.

In addition, it was intended to privatize 314 state-owned corporations to participate in overcoming the Egyptian budget deficit. The book values of these corporations are 85 billion Egyptian pounds (one £ = 7.50 Egyptian pound) but their market values are expected to be within the vicinity of 200-250 per cent of that (Edmund 1994). Until, December 2001 121 corporations had been privatized, either partially or totally (Obid, 2001). Moreover, 13 corporations, with market values equal to 1126 million Egyptian pounds, have been privatized during 2001 only (Obid, 2002a). This ambitious privatization program necessitates FDI, which in turn will be reluctant and hesitate unless further liberalization steps are taken. Banking sector liberalization could be the necessary remedy for this reluctance.

Another factor is that Egypt has been successful in carrying out a thorough program of fiscal and monetary stabilization, virtually balancing the budget, and reducing inflation to 4.3 per cent (Huband, 1999a). Also, it has built up foreign exchange reserves which decreased from \$21 billion, till the end of 1998, to \$15 billion, after dollar crises which have taken \$3 billions to respond to the unjustified and sudden increase on dollar demand.

A further consideration is that economic growth has also picked up after years of stagnation. The economy expanded by about 5 per cent, 6 per cent, and 6.5 per cent in 1996/97, 1997/98 and 1999-2000 respectively (Ministry of the Economy, 2000). The state has also reduced its role in many areas of the economy, giving ground to an increasingly active private sector. Additionally, there is a 20-year program aimed at increasing per capita to more than \$4,000 by 2017 at today's prices. Consequently, in the short term, the government aims at attaining annual growth of about 7 per cent over the next three years, and doubling the total trade each five years (Butter, 1997).

To achieve this ambitious program, a \$25 billion annual investment, representing a quarter of the current GDP, should be injected into the Egyptian economy, coupled with a 25 per cent increase in productivity (Ghaly, 2001a; Huband, 1999b, p. 62). Again, this 20 year program cannot be reached by local investment only, but with the assistance of FDI.

Moreover, Egypt has succeeded in meeting most of the international criteria for sound finances, as testified by ratings agencies such as Standard & Poor's. Privatization has become one of the key benchmarks for the government's economic performance (El-Gwaley, 1999).

Egypt has passed a new investment promotion law, in a fresh attempt to secure for Egypt its fair share of FDI flows. The law offers a familiar set of tax incentives - ranging from five to twenty years, depending on the project's location - and broadens the range of activities that benefit from the incentives. 8 to 15 new projects are being registered daily under that law. Also this law leads to open infrastructure in the private sector using what is called the BOOT system (Build-Own-Operate and Transfer) (Ghaly, 2001b).

In addition, international finance corporations have included Egypt in their emerging markets stock exchange index as a result of the successful reform program. Rating agencies like Moody's, and Standard and Poor's, have issued their verdicts on Egypt's investment prospects (Butter 1996a), and the World Economic Forum let Egypt organize an economic summit in Cairo in November 12-14,1996. At the opening of this conference President Mubarak said, "Our laws and instructions must conform to the principle of economic efficiency". Market capitalization – the value of securities listed on Egyptian stock exchange market - grew to 104.6 billion Egyptian

pounds in November 1999 from 95.8 billion in September 1999, 70 billion in 1998, 23.600 million in July 1995, and 14.400 million at the end of 1994 (Ministry of Economic, 1999). Additionally, the ratio of market value to nominal value jumped to 3.2:1 from 1.6:1 (Butter 1995b). The proportion of market value of securities as a percentage of GDP grew from 5 per cent in 1992 to 7 per cent in 1993 at the end of 1994 and 15 per cent in July 1995. The aim, says the general manager of the Egyptian stock exchange market, is to reach 40-50 per cent by year 2003 (El-Trgman, 2001).

Also, the service sector accelerated from 76 per cent of the Egyptian balance of payments in 1990's, in comparison to 13 per cent in 1970's (Egyptian Parliament Report, 1995). Its participation has grown from 33.4 per cent in 1997 to 58 per cent from the Egyptian GNP in 1999, as well as constituting 55.3 per cent of total exports (Egyptian Commercial Representative Department, July, 1999). Besides that, the Egyptian service surplus reached \$5 billions to adjust the defect in goods trading balance (El-Gwaley, 1999). On paper, this sector is promising. Therefore, liberalizing the banking sector, as one component of the service sector, could be a step for the right direction.

Furthermore, enhancing its export position from £3.7 billions to £20 billion by year 2005 – as one of the declared Egyptian objectives in this period – and represents another pressure to liberalize the banking sector. Finally, Egypt now is a very attractive market to be penetrated, as much of the hard work of preparing Egypt for economic take-off has been completed; its market consists of 70 million inhabitants with promising economic indicators (Butter, 1995a). All in all, without a

strong, competitive and liberalized banking sector, achievement of the ambitious Egyptian economic objectives could be questionable.

On the other hand, there are some “panicky” and “hypochondriac” responses to the worthiness of more liberalization steps in the banking sector, such as that it might lead to the collapse of the Egyptian economy as a result of dumping policies (El-Mody, 1995). However, there are some aspects that could alleviate this “hypochondriac” point of view. For example the anti-dumping rules that could be implemented when needed by any WTO member, and the regulatory and controlling rule of the Egyptian Central Bank, that determines the need for more foreign banks. By law, all foreign banks still follow the instructions of the Egyptian Central Bank. The same logic applies for the other sectors. In other words, Egyptian authorities still have the right to do what is necessary to protect local industry from sudden, unpredictable, and unjustified increases in imports of any kinds of products and services that can cause threat to that industry. These protection procedures can be active for four years and may be extended to eight or ten years if necessary (Minister of Trade, 1999). Therefore, the degree of openness is still controllable as the Egyptian authorities still hold the key to simultaneously ensure the achievement of the national objectives parallel with their openness obligations. Thereby, the “panic” regarding the full commitment of all WTO agreements should be eased.

2.3. Chapter Conclusion

Generally, the service sector is the only economic sector that can carry some benefits for developing countries after full trade liberalization by 2005 (Greenaway and Milner, 1995). Verification or falsification of Greenaway and Milner’s (1995) findings ought to come from some

developing countries. Evidence from the Egyptian banking sector will be used for this purpose. The question that arises here is: could Egypt be among those who benefit from service trade legalization? There has been no real evaluation of these impacts. Apart from a few governmental reports, no concrete study related to this research topic has been conducted recently. Therefore, this study is a step forward in a process far from over.

GATS will have positive impacts on the Egyptian banking sector. These positive impacts are driven from the economic fact that ensures both social and individual welfare in a free trade mechanism, ensuring social welfare by reaching the full utilization of a nation's resources in producing goods and services, and ensuring individual welfare by enabling the customers to enjoy pricing policies near to costs.

However, some are still cynical about the positive side of these agreements, on the Egyptian banking sector in particular. The fact that huge traders e.g. EU, USA, and Japan will be the biggest beneficiaries from freeing trade policies could be behind this cynicism. Therefore, GATS impacts, both positive and negative, will be identified and investigated in the field study (in Chapter Eight).

Additionally, due to several supportive economic indicators and justifications, it is believed that sooner rather than later is the right time to liberalize the banking sector. In particular, without liberalizing the banking sector, Egypt cannot achieve its ambitious economic objectives, especially those related to trebling its export value and consequently to enhancing the per capita income.

Chapter Three:
Entry Modes in the Banking Sector

3.1. Introduction

How foreign markets could be entered has been a topic of strong interest to researchers in international business and marketing (e.g. Erramilli *et al.*, 2002; Pan and Tse, 2000; Tse *et al.*, 1997; Agarwal and Ramaswami, 1992; Gatignon and Anderson, 1988). The executives of a multinational enterprise (MNE) who are considering entry into a new market must often make decisions under highly uncertain and changeable circumstances. The variables that have a potentially significant impact on the prospect for success in the market typically are large in number and keep evolving over time, due to the continual arrival of new information (Chi and McGuire, 1996). Therefore, entry decisions should be taken carefully to avoid severe and epidemic ramifications.

The current chapter is designed to present all viable entry modes in a manner that reveals their suitability for adoption in the banking context: the school of thoughts about entry modes; and the relative impact of the four assessment criteria (e.g. opportunities/threats each entry imposes, continuity probability, resources and time to deploy each) within each entry mode group.

Literally, a foreign market entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into foreign country” (Root, 1987, p. 5). Apparently, the entry mode is the carrier of what the foreign banks want to carry to the target market. Therefore, it carries everything from service delivery system to type of technology used, and the way of dealing with customers.

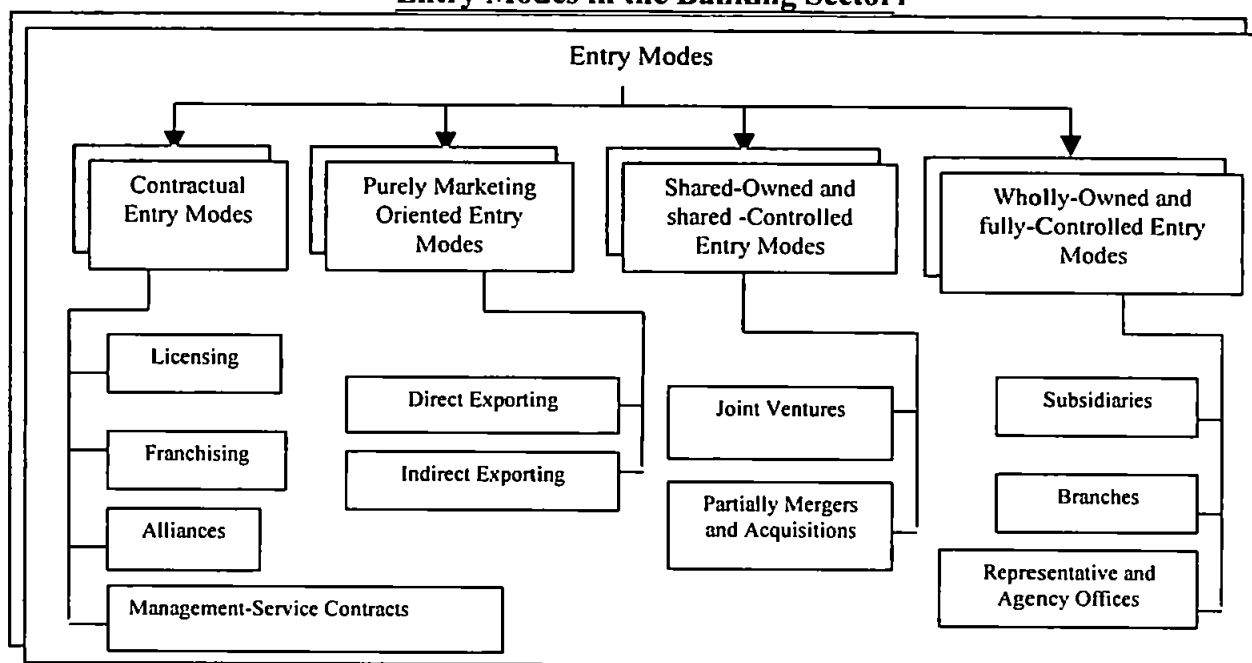
3.2. Entry Modes in the Banking Sector

Erramilli *et al.* (2002); Bates (2002); Jeannet and Hennessey (2001); Terpstra and Sarathy (2000); Pan and Tse (2000); Miller and Parkhe (1998); Goodwin and Elliott (1995); Woodcock *et al.* (1994); Erramilli and Rao (1993); Erramilli and D'Souz (1993); Dahringer and Muhlbacher (1991); Erramilli (1990); Dunning (1988); Boddewyn *et al.* (1986); Sapir (1982); and Shelp (1981) argue that entry modes in the banking industry could be wholly-owned and fully controlled (e.g. branches, subsidiaries, representative and agency offices), shared-owned and shared-controlled (e.g. joint ventures and partially mergers and acquisitions), contractual entry modes (e.g. licensing, franchising, strategic alliances, and management-service contracts), and purely marketing-oriented entry modes (e.g. direct and indirect exporting entry modes), as shown in Figure 3/1.

In brief, wholly owned and fully controlled entry modes represent the maximum control entrants have upon services' productions and marketing in foreign markets for an extended period of time (e.g. branches and subsidiaries) and/or for approaching another entry modes (e. g. representative and agency offices). Conversely, shared owned and shared control entry modes are modes that depend up on the assistance of the experience of local partners when targeting foreign markets; from this perspective they share ownership and control with entrants (e.g. joint ventures and partial mergers and acquisitions). Wholly and shared owned bundles could be called "equity modes", as they necessitate direct investments in foreign markets (Pan and Tse, 2000). Contractual entry modes are those modes brought into existence as a result of contractual agreements (e.g. licensing, franchising, alliance, and management-service contracts) and do not entail equity investment by a foreign entrant (non-equity modes). Non-equity modes are

becoming increasingly popular among service firms for organizing overseas ventures (Erramilli *et al.*, 2002, p. 223). They are especially popular among consumer-services firms e.g. hotel and restaurant firms (Erramilli, 1990). Finally, when entrants remain at home markets and trying to penetrate target markets, marketing oriented entry modes (e.g. direct and indirect exporting modes) are the tools for such mission.

Figure 3/1
Entry Modes in the Banking Sector¹



It is generally conceded that banking services, along with other services, have unique characteristics: these characteristics are intangibility, perishability, heterogeneity, professional skills, and inseparability. But, inseparability is the most important one here because it is the factor that is responsible for distinguishing between entry behavior in service and manufacturing sectors (Erramilli, 1990).

¹ Sources: - Adapted from (Erramilli *et al.*, 2002, p. 223; Pan and Tse, 2000, p. 535; Terpstra and Sarathy, 2000, p. 362; Dahringer and Muhlbacher, 1991, p.311; and Dunning, 1988).

Banking services can be classified into two categories: soft services and hard services. The latter are those services where production and consumption of the service can be fully de-coupled and separated. With this kind of service, all carriers (e.g. entry modes) could be used, from exporting to wholly owned entry modes. This kind of service could be produced in one country, embodied in some tangible form e.g. a disk, blueprint, or document, and easily exported to another country. Therefore, no entry mode problems are associated with it. Soft services are those where production and consumption occur simultaneously.

Thereby, it could be argued that the type of service determines to a significant extent the type of entry mode used to carry out these services in foreign markets. In other words, soft services that necessitate simultaneous production and consumption cannot be carried out in foreign markets by direct export entry mode. Such thinking, perhaps, led Roots (1987) to rule out the direct export option for the service sector in general.

Despite the fact that direct exporting as an entry mode was used only by 1.9 per cent of banks in Erramilli's (1990) study, and similar results have been reached by Boddewyn *et al.* (1986); Sapir (1982); and Shelp (1981), banking services could be either embodied in a tangible form or delivered through communication channels, due to technological development making long distance banking services possible.

To recap the earlier discussion, the ruling out of direct exporting by Roots (1987) has been challenged, and all entry modes could be used as carriers of all banking services. Consequently, the first aim of this chapter is achieved. Decision makers can select the entry modes that best

achieve their aims in the target markets. They have to thoroughly analyze target markets and their competitive capabilities. Such analysis is recommended for each entry mode decision.

It is worth mentioning in this context, a summary of schools of thought regarding this topic. This summary could guide thinking when such decisions need to be taken. The same logic applies for presenting and highlighting all the entry modes in the rest of this chapter.

Four main schools of thought have been put forward to explain the choice of entry modes:

- (1) Gradual incremental involvement (Luo and O'Connor, 1998; Chu and Anderson, 1992; Root, 1987; Davidson, 1980; Johanson and Vahlne, 1977 and 1990; Dubin, 1975; and Stopford and Wells, 1972).
- (2) Transaction costs analysis (TCA) (Kumar and Subramaniam, 1997; and Ghoshal and Moran, 1996; Erramilli and Rao, 1993; Erramilli, 1992; Kogut and Singh, 1988; Beamish and Banks, 1987; Anderson and Gatignon, 1986; Williamson, 1986; Williamson 1985; Davidson and McFetridge 1985; and Caves, 1982).
- (3) Dunning's eclectic theory or location-specific factors; or as called by Woodcock, *et al.*, (1994) contingency theory (Woodcock, *et al.*, 1994; Zejan, 1990; Hill *et al.*, 1990; Dunning, 1988; Caves and Mehra, 1986; and Dunning 1981).
- (4) Agency theory (Carney and Gedajlovic 1991; Brickley *et al.*, 1991; Williamson, 1988; Horstmann and Markusen, 1987; Senbet and Taylor, 1986; and Jensen and Meckling, 1976).

The first school of thought views business operations in an overseas market as inherently risky. This risky state is driven by the differences in political, cultural, and market systems. Therefore, this view advocates a gradual involvement in foreign markets. In this school, the key notions in the international expansion process model and organisational learning theory are generally applicable to FDI (Luo and O'Connor, 1998). Consequently, a low resource commitment mode (e.g. export, licensing, and franchising) is desirable when the bank first enters a foreign market. As the bank acquires more knowledge and experience in that overseas market, it will assume a higher level of resource commitment coupled with higher levels of risk, control and profit return.

Pan and Tse (2000) and Kumar and Subramaniam (1997) argue that the choice of entry modes could be examined from a hierarchical perspective. Decision makers would first structure various entry modes into a multi-level hierarchy and define a set of evaluation criteria for each level. Consequently, only a few critical factors at each level of the hierarchy will be considered, but there may be different factors at different levels of the hierarchy. The first level of the hierarchy is between equity (wholly owned and equity joint ventures entry modes (EJVs)) and non-equity entry modes (contractual agreements and export). After deciding on equity or non-equity modes, decision makers then decide which specific mode within equity or non-equity to further consider. Actually, this conceptualization is appealing for two reasons:

- (1) It recognizes that decision makers have a limited analytical capacity (Simon, 1955).

They often decompose a complex decision into a hierarchical process and adopt a small set of critical variables to monitor at each level (Steinbruner, 1974). Then, the decision process becomes a more manageable one.

- (2) The hierarchical process is suitable for entry choice decision because of the dramatic differences that exist among various entry modes and among the criteria of choice at each level (Gatignon and Anderson, 1988).

The second school of thought derives from the perspective of transaction costs analysis (TCA). The logic behind TCA has been driven by a specific given fact. This “given” claims that any task could be either contracted out to external agents, partners, or suppliers (market-contracting or low-control modes) or internalized and performed by the bank’s own employees (integration or full-control modes). The basic premise is that banks will internalize those activities that they can perform at a lower cost, but will subcontract those activities externally if other providers have a cost advantage. So, the selected option - whether interaction or full control modes (through bank’s employers), or market contracting, or low control modes (through partners) - mainly depends upon the competitive transaction cost of each option.

Generally, these transaction costs include all costs, as well as outputs and inputs, associated with various aspects of the value-added chain from production to consumption (Pan and Tse 2000). They could be costs of monitoring, controlling and inspecting performance and product quality, establishing networks of suppliers and managing customer relations, marketing the final outputs and post-sales activities, the movement of people and materials, the acquisition and use of information, and the management of all kinds of risk (Dunning, 1988). Additionally, they include the *ex ante* costs of negotiating a contract and the *ex post* costs of monitoring the performance and enforcing the behavior of the parties to the contract (Williamson 1985).

Obviously, a cost benefit analysis ought to be done for each alternative. If the bank decides to use a fully control entry mode, it includes the following: infrastructure costs, operating costs, and administrative costs (Davidson and McFetridge, 1985). Thereby, banks should make trade-offs between the benefit of integration and its costs, before deciding the entry mode (Anderson and Gatignon, 1986).

Moreover, TCA mainly depends on what is called “asset specificity” (Erramilli, 1993). Asset specificity is the degree of specialization or generalization in the assets. This degree of specialization could be measured through three main dimensions: professional skills, specialized know how, and customization. Transaction-cost theory predicts that banks integrate when asset specificity is high, as the higher costs of vertical integration are more than offset by the benefits flowing from such an arrangement (Erramilli, 1993).

However this school of thought has been criticized in that it is assumed that decision makers consider all modes of entry together at the same level, and that all the factors have the same level of relevance for all modes of entry (Kumar and Subramaniam, 1997; and Ghoshal and Moran, 1996).

The third school of thought highlights the importance of location-specific factors. Dunning (1988) in his eclectic paradigm of international production, integrates various strands of international business theories. His paradigm rests on the three pillars of ownership-specific factors, location-specific factors and internalization factors. Previous studies have confirmed the

positive correlation between ownership-specific assets and international expansion success (Li, 1994; Kogut and Chang, 1991; and McClain, 1983).

Apart from ownership factors and internalization factors, Dunning emphasizes that location-specific factors are becoming more significant in affecting banks' international operations, and these factors have an increasing impact on non-production related costs (i.e., the transaction costs). This perspective is important in today's global competition where non-production costs are rising faster than production costs.

The logic behind Dunning's Eclectic Theory is that any single bank will not extend its operations outside its domestic market unless it possesses some kinds of advantages. These advantages could be called "quasi-monopolistic advantages" such as ownership, internalization, and location advantages. Erramilli *et al.* (2002, p. 224) explains that every bank is thought to be a bundle of resources and capabilities. The former include all assets, organizational processes, bank attributes, information, and knowledge controlled by a bank that enable it to conceive and implement strategies efficiently and effectively (Barney, 1991). The latter refer to a combination of resources that creates higher-order competencies such as brand reputation, customer base, and ability to create repeat business (Madhok, 1997). Thereby, if the bank intends to penetrate new markets and compete with the local banks that possess several advantages in their markets, such as the advantage of knowledge and the advantages of local nationality, it should possess these previous advantages (Dunning, 1981). Consequently, the decision on whether to engage in international business or not, and the choice of mode, is seen to depend on the interaction between a set of ownership, internalization, and location advantages. So if the bank possesses

what can be called “ownership-specific” or “bank-specific” advantages such as technology, marketing skills, organization and production management, financial and size variables and/or oligopolistic behavior, etc., it can extend its operations into international markets (Dunning, 1981).

Finally, Agency theory is the fourth school of thought in the selection process of a suitable entry mode. It is worth mentioning that agency theory has several applications (see Carney and Gedajlovic, 1991; and Brickley *et al.*, 1991) that are outside the purposes of the current research (i.e. the selection of entry modes). Agency theory uses the metaphor of a contract to describe relationships in which one party delegates work to another (Jensen and Meckling, 1976).

This theory determines the relationship between the bank (principal) and the entry mode (agent) as an agent relationship. Having said that, the franchisee, licensee, joint venture partner, alliances partner etc. could be considered agents for the principal (the bank that wishes to expand). The principal in this case is faced with two decisions. First, which entry mode it will use to target a specific market; and second, how the performance of the agent will be evaluated. To answer the first question, the principal must collect information about the targeted market and the competition, as well as the financial resources available, and then determine which entry mode will be appropriate. To answer the second question, the principal should decide between two courses of actions (Carney and Gedajlovic, 1991; Brickley *et al.*, 1991). First, the principal might collect more information about the agent’s behavior by investing in monitoring activities and systems, and could then write a contract that bases the agent’s rewards on information about his behavior. Alternatively, the principal might write a contract that evaluates and rewards the agents

on the basis of realized outcomes, but one that includes incentives appropriate to motivate the agent to pursue outcomes compatible with the principal's goals. Consequently, the focus of the theory rests on determining the most efficient contract to govern a particular relationship. Given the characteristics of the parties involved, the fact of environmental uncertainty, and the costs of obtaining information, the principal cannot completely monitor the agent's performance in the target markets. Additionally, cross-cultural differences magnify the problems of uncertainty, asymmetric information, and monitoring. Consequently, efficient agency relationships could be more difficult to appropriately achieve in multinational markets than in domestic markets. However, this school of thought has been criticized in its usage, as agency-based research has examined the relative efficiency of only two entry modes, licensing and direct investment (Horstmann and Markusen, 1987; and Senbet and Taylor, 1986), therefore the remaining entry modes need to be addressed in future research.

From the above debate it seems that agency theory alone is not sufficient to select and evaluate all the entry modes, but it could be used with TCA, because "...these two perspectives are mainly complimentary. Both have helped and will continue to inform our understanding of economic organization" (Williamson, 1988, p. 568). Specifically both examine efficiency aspects of how banks organize functional relationships; both assume that the parties involved in a relationship are motivated by economic self-interest and will engage in opportunistic behavior; and both explicitly incorporate some different exogenous variables (like asset specificity in TCA and risk preferences in Agency Theory). Despite these commonalties, both differ in several aspects. They differ in the unit of the analysis: it is the transaction on TCA and the individual agent in agent theory. Also, TCA adopts an incomplete-contracting view of transactions between principal and

agent. In contrast, agency theory adopts an *ex ante* view of relations between principal and agent (Carney and Gedajlovic, 1991; and Brickley *et al.*, 1991).

To recap the earlier discussion, all the main categories of entry modes are viable options in the banking context and it the decision makers' responsibility to select the appropriate entry mode according to the adopted school of thought. Checking the relative existence of the four assessment pillars within each entry group is the remaining aim of this chapter.

3.2.1. Wholly Owned and Fully Controlled Entry Modes

As its name reveals, wholly owned and fully control entry modes include all the entry modes where equities, and consequently their control, rests in one set of hands. Therefore, branches, subsidiaries, representative and agency offices entry modes are explicitly ranked in this category (Miller and Parkhe, 1998). However, mergers and acquisitions as entry modes could be partially or entirely owned. Without hesitation, it can be said that complete mergers and acquisitions fall into the wholly owned and fully control entry mode category, due to the logic previously mentioned.

If it has been decided to pursue a wholly owned entry mode, the bank should have assumed a higher level of resource commitment, risk, return, and consequently control (Pan and Tse, 2000). Generally, wholly owned entry modes require a major resource commitment in the overseas location (Vanhonacker, 1997; and Anderson and Gatignon, 1986), calling for an actual investment to set up an independent operation. More significantly, they need on-going direct management of the establishment, and constant interaction with various local parties (Hill *et al.*, 1990; Hennart, 1988; and Contractor, 1984).

Given the claim that the higher the risk the higher the expected return, wholly owned entry modes, especially branches and subsidiaries, provide extensive opportunities that last for a long time. Representative and agency offices are located on the opposite side of this argument, as the opportunities offered and their continuity probabilities are less, the required resources are small, and the needed time to be deployed is short.

3.2.1.1. Subsidiaries Entry Modes

Subsidiaries are mainly separate legal entities and are subject to the laws and regulations of the host country. Through subsidiaries, "new venture divisions" are created to identify and nurture new business opportunities for the corporation in the target market (Kuratko *et al.*, 1990; Sykes, 1986; and Burgelman, 1983). They resemble host country banks and provide the means to isolate the parent and other branches from host country laws. Typically, they adopt a local character with local management to obtain access to the local business market. They are permitted to engage in a broader range of financial services and they must lend based on their own capitalization. Thereby, they require higher capitalization than branches of the same size (Miller and Parkhe, 1998). In other words, entrants transfer all the viable competitive advantages to target markets. As for branches, subsidiaries represent the peak point within the wholly owned category, in opportunities offered and in their continuity probability. However, to enjoy these opportunities very large resources are required to be invested in foreign markets. To yield revenues, a long period of time is anticipated.

3.2.1.2. Branches Entry Modes

Branches typically make up about half of a bank's total costs (The Economist, 2001a, p. 4). They are supported by the resources and lending capabilities of the parent bank. These offices perform all of the traditional banking functions, including accepting deposits and issuing loans. The parent

bank mandates their financial policies (Miller and Parkhe, 1998). American banks have been the world's most successful at getting the utmost out of their branch networks, as they are trying to find ways to generate more money from their branches. One strategy is to transform them into enticing, shop-like places where people want to spend time and, with luck, more money on financial products (The Economist, 2001b, p. 6). At the end of 1999, American banks served almost 12,000 people out of each of their branches whilst in Belgium, where practically every village has its pub and its bank, bank branches serve only 698 people, on average (The Economist, 2001a, p. 4).

Typically, branches' reasons for existence are to convince local customers to switch to their services by building new service delivery systems; to defend existing businesses in the target markets; to protect what they have already achieved in a particular market; and to move with an established customer (Erramilli, 1990). However, empirical evidence reveals that serving foreign customers is the leading power for targeting a new market. This finding has belied following established customers, as previously thought, as a reason for targeting a new market (Erramilli, 1990).

The advantages of establishing a branch include securing the full credit backing of the parent bank, attracting local clients by exploiting the parent's reputation, using the managerial and technical support of the parent bank. Also, branches are simpler to organize than subsidiaries; however, they are subject to home country taxes and laws (Miller and Parkhe, 1998).

3.2.1.3. Representative and Agency Offices Entry Modes

Agency offices resemble branches, but they are unable to accept deposits and they use inter-bank markets to obtain funds. Representative offices, the most limited organizational form, are typically the first step toward overseas expansion. They are used primarily for explanatory purposes i.e. forwarding information to the parent bank. Representative offices are not permitted to book assets or liabilities (Miller and Parkhe, 1998).

Gray and Gray (1981) discuss the motives that make multinational banks (MNB) function as foreign offices. They enjoy freedom to maintain capital funds only to the extent that a dearth of capital might inhibit the supply of deposits; they maintain liquid reserves only to the extent dictated by prudence, and they indulge in foreign exchange positions and maturity mismatch exposure freely. In addition, they take advantage of inter-market arbitrating (liability management) to utilize any tax havens that might be available; avoid domestic restrictions on foreign exchange transactions and interest rate regulations in national markets; and serve as an intra-bank source of funds for other offices operating in national markets.

Correspondence banks could be the alternatives if the bank is reluctant, for one reason or another, to use representative and agency offices. The correspondence bank is a supplier bank providing services to a client bank, in a country or market where the client bank has no physical presence (Toone, 1997). In this case, correspondence banks function as marketing tools for client banks. Their revenues are generated from charging for fee-based services, such as letters of credit or inward clearing, and from the use of funds, particularly balances that foreign banks maintain for clearing services e.g. vostro accounts (Mainelli, 1994).

To sum up, all wholly owned modes are viable service carriers in the banking context. Regarding the relative existence of the four assessment pillars, branches and subsidiaries represent the peak point within wholly modes category, as they offer great opportunities that require large resources and long time span to harvest their concrete results. Conversely, representative and agency offices represent the other edge of this perspective.

3.2.2. Shared Control Entry Modes

As its name reveals, shared entry modes are those modes in which both the newborn bank's equity and control are shared among the incorporators. Consequently, all forms of joint venture and partial mergers and acquisitions fall in this category of entry mode.

Luecal and Fricke (2001) discussed the aims behind adopting such entry modes. These are: to fulfill member needs and desires for products and services not now available in the area; to strengthen the cooperative's relationship with its current members; to gain access to and build relationships with consumers outside the cooperative's defined service territory; and to find additional revenue.

Actually, a key decision the bank's management faces is whether to go it alone or collaborate with a local partner in entering the new market. It is well accepted among scholars of international business that a collaborative venture (CV) is not economically justified unless there exists some complementarities between the resources of the participants (Contractor and Lorange, 1988; and Root, 1987). However, organizations at times have to adopt the entry mode dictated by the host country government (Pan and Tse, 2000, p. 535). Also, as suggested by the transaction cost perspective (Gomes-Casseres, 1990; Hennart, 1988; and Beamish and Banks, 1987), the

existence of synergy between the two banks is not sufficient to justify collaborative venturing, because they could also exploit that synergy by acquiring the other's complementary assets. In order for a CV to be the optimal arrangement, the two banks must also face some transaction cost problems that make the acquisition of the other bank, or part of it, economically inefficient (Chi and McGuire, 1996).

Additionally, both banks may foresee opportunities to acquire some valuable know-how from the other; it is often highly uncertain how much knowledge will be actually transferred between them due to potential transaction cost problems. But after the venture is started, it will eventually become clear how much knowledge they each can gain from the other.

In brief, no obstacles are anticipated to prevent using these kinds of entry modes in the banking context. Therefore, all the components of the category of entry modes are viable options in this perspective. Compared with wholly modes, shared modes come in the second position with regard to the four assessment pillars, as the continuity of such modes depend mainly on incorporators' satisfaction resulting from the achieved aims.

3.2.2.1. Joint Ventures Entry Modes

Hagedoorn and Sadowski (1999); Walmsley (1982); and Tomlinson (1970) have defined a joint venture (JV) as a combination of the economic interests of two or more legally separate interests of an enterprise for their mutual benefits. Hennart and Zeng (2002, p. 966) define JV as a firm that has more than one parent. In an integrated JV, the new business formed will own both the service delivery system and the branches at the same time: which means the maximum possession of facilities, because the new venture possesses both production and distribution facilities. For

JVs to survive their parents must find a way to work together (Hennart and Zeng, 2002), i.e. they must be able to agree on goals and policies, and to renegotiate them in response to changes in the environment (Doz, 1996). There are many reasons to believe that this will be harder when JV parents come from different countries:

- (a) Individuals living in a particular country tend to share similar values, and that they bring these values to the firms for which they work (Hofstede, 2001, 1997). These differences in values will in turn make it more difficult for them to agree on common goals; and
- (b) JV parents who come from different countries will also often have different mother tongues, and this can be expected to cause communication difficulties. Consequently, verbal communication may suffer from both perceptual and encoding/decoding gaps (Root, 1994). For example, many words in Japanese mean “no” without saying so (Hennart and Zeng, 2002, p. 701).

The new partner may possess the majority or minority of stock of the new unit - according to the contract - and some foreign banks prefer to hold the majority of the new unit for control purposes. Therefore, the foreign bank must determine from the beginning how much control it needs and how independent the joint venture bank will be, as most of the problems facing this kind of entry mode arise from this aspect (Walmsley, 1982). The conflict between the foreign partner and the local one might be about each other's responsibility.

However, not all joint ventures are successful and fulfill their partners' expectations. One study (Killing, 1983) found that ninety major ventures failed, in Japan alone, from 1972-1976. Also,

there was a 30 per cent failure rate among joint ventures formed before 1967 between USA companies and partners in other industrialized countries. In most of these cases, the venture was liquidated or taken over by one of the original partners (Jeannet and Hennessey, 2001). Cultural difference stands behind the failure of many cases of joint venture. Cattaneo (1992) found that representatives of 60 out of 141 Russian-Italian joint ventures have indicated that cultural barriers were a major cause of misunderstanding between the partners involved in these cross-cultural joint efforts.

Walmsley (1982) argues that each partner should analyze the other's ability to make sure that he is the right partner for his business. This analysis includes the financial ability of the potential partner, achieved by focusing on the financial history and overall financial standards, possible reasons for successful business areas, and possible reasons for unsuccessful business areas. The organizational ability of the potential partner(s) is also important and can be achieved by focusing on analyzing the organizational structure e.g. quality and turnover of senior managers, workforce conditions, labor relations, and owner-worker relationships. The market position of the potential partner e.g. reputation, evidence of research interest, and results of new business started, and finally, the production abilities of the potential partner, should also be carefully analyzed.

Killing (1983) argues that the more similar the culture of banks forming joint ventures, the easier the ventures will be to manage; and the more similar in size are the parents of a shared management venture, the easier the venture will be to manage. Jeannet and Hennessey (2001) added that it is better not to enter into JVs with partners that are initially over concerned with control, or have to split up if the venture should fail.

Buckley and Casson (1998); Paliwoda (1993); and Harrigan (1987) examine the motivation behind forming a JV. Motives are often related to the desire to spread risks: both normal risk and the risk of unpredictability of the environment over more than one partner; as well as the need for local facilities and resources, best obtained through a local interest with local influence and local knowledge of the customers and legal systems. The desire to have the opportunity to participate in any local project undertaken by the local partner has been considered by these authors, as has the desire to acquire local identity and enjoy the local partner's invisible resources e.g. goodwill. The need to cope with the explicit governmental pressure, in some markets, which may include a definite ruling to transfer the legal form from FDI to joint venture form, may be an additional reason to form a JV. Using the local partner as a shield against discriminatory action, and to getting rid of suspicion about venturing purposes, may act as a motive; as may the desire to obtain a window on new technologies, other customers, and superior information exchange. Finally, JV's may be formed out of a desire to strengthen the current strategic competitive position.

3.2.2.2. Merger and Acquisition Entry Modes

Merger and acquisition is a kind of entry mode in which two separate banks are combined into one bank, either by means of a combination of the economic interest of equals, or through an acquisition where one bank obtains majority ownership over the other bank (Aydin and Kacker, 1999). Using this entry mode, if a foreign bank merges with a local bank, totally or partially, the culture and language of one bank will prevail (Wang, 1996). This kind of strategy is preferred by banks that need to enter markets more quickly than through building a base from scratch, as it enables, effectively from purchase, the instant market information, market share, and channels of distribution (Paliwoda, 1993). This trend has probably been aided by the opening of many

financial markets in developing countries and transition economies (Jeannet and Hennessey, 2001).

Cook (1988) argues that acquisition is motivated by the same strategic considerations and potential benefits that are derived from other direct foreign investment decisions e.g. the availability of new markets, the availability of scarce or specialized resources, opportunities to achieve production efficiencies, and reducing potential risks.

Mastracchio and Zunitch (2002); Datta and Puia (1995); Root (1987); and Caves (1982) argue that acquisition as an entry mode enables its user, by overcoming traditional trade and investment barriers, reaching other markets faster, and improving the bank's competitive position, especially in critical foreign markets of key global rivals, by keeping such rivals "at bay" (Datta and Puia, 1995, p. 338). Acquisition also leads to international market diversification that in turn affects the overall bank returns. Moreover, it is a way to share responsibility among more people, and to cope with larger competitors.

Given that the costs of developing a new market in a foreign country could be substantial, the acquisition of an established bank can be less risky, as the target bank has a track record that can be evaluated. This argument can be acceptable only if the acquired bank is being evaluated correctly. However, Luecal and Fricke (2001); Datta and Puia (1995); and Hoshino (1995) evaluate the difficulties that face acquisition and merges entry mode. One set of difficulties rely on determining a reference price to set a fair value for the target bank, given differences in accounting conventions across countries, and consequential problems in interpreting and

reporting earnings and assets values. Also, there is a big debate around the effect of acquisition announcement on the image of the acquired bank and its stock market values. Additionally, comparing the performance of merged and non-merged banks is still a debatable matter. Finally, mergers and acquisitions are associated with increased anxiety, stress, absenteeism, and turnover and decreased productivity (Marks, 1991; Marks and Mirvis, 1985) and perceptions of job control and other related organizational issues (Fugate *et al.*, 2002; Fried *et al.*, 1996).

3.2.3. Contractual Agreements Entry Modes

As the name reveals, contractual entry modes are those entry modes that have been brought into existence as a result of contractual agreements and do not include equity sharing (non-equity). They include licensing, franchising, strategic alliances, and management-service contracts (MSCs) (Erramilli *et al.*, 2002; and Pan and Tse, 2000). For many service firms desirous of entering foreign markets, an important question is how to choose between different non-equity modes for organizing their operations in the foreign markets (Erramilli *et al.*, 2002).

Several previous studies have examined the choice between equity and non-equity modes for manufacturing (e.g., Pan and Tse, 2000; Arora and Fosfuri, 2000; Gatignon and Anderson, 1988; Agarwal, 1994; and Tse *et al.*, 1997) as well as service firms (e.g., Contractor and Kundu, 1998a; Contractor and Kundu, 1998b; Erramilli, 1996; Fladmoe-Lindquist and Jacque, 1995; Erramilli and Rao, 1993; and Agarwal and Ramaswami, 1992). Most recently, Erramilli *et al.* (2002) addressed the choice between two non-equity entry modes (e.g. franchising and management-service contract).

However, investigating all the viable entry modes (equity and non equity) within one service sector is recommended by many scholars (e.g. Erramilli, 1992; and Erramilli and Rao, 1993), as the extant literature does not offer a theoretically sound and empirically corroborated framework for how service firms could choose between different types of entry modes. Therefore, the present study will attempt to address this issue in the context of the banking sector.

Though the fact is that MSCs are more popular in an hotel context (Erramilli *et al.*, 2002), no concrete obstacles appear to be mentioned in using the remaining components of the contractual category within the banking context. Apparently, the resources required for adopting the components of this category of entry modes are either at a minimal level (as in alliances) or do not exist at all and are replaced by a sort of revenue called “royalty fees”, as in licensing for instance (Kedia *et al.*, 1994). Also, the survival of such a category of modes is restricted by specific periods of time, besides the satisfaction of the partners. Consequently, less opportunity is expected compared with the antecedent category i.e. shared modes.

3.2.3.1. Licensing Entry Mode

Licensing as an entry mode “is a means of establishing a foothold in foreign markets without large capital” (Cateora, 1999, p. 325). Accordingly, licensing is viewed as a supplementary entry mode, rather than the only means of entry into foreign markets. Licensing as an entry mode is “an agreement wherein the licensor gives something of value to the licensee in exchange for certain performance and payments from the licensee” (Terpstra and Sarathy, 2000, p. 384). Consequently, the process of licensing and the exchange of benefits between the licensee and licensor have been focused on. Ideally, a licensing deal should be a win-win situation licensees and licensors (Miller, 2002). Licensing is “the agreement under which the licensor permits

another to use its intellectual property in exchange for compensation designated as a royalty” (Czinkota and Ronkainen, 2001, p. 422). Consequently, royalty fees as a compensation for licensing have also been analyzed. Finally, licensing gives a local bank (licensee) the right to a patent (which protects a service, technology, or process) or a trademark (which protects a service name) of another bank, for a fee or royalty (Erramilli *et al.*, 2002).

Czinkota and Ronkainen (2001); Goddard (1999); Aulakh *et al.* (1998); and Hill *et al.* (1990) argue that licensing income is not limited to royalties i.e. a per-unit royalty fee. It has proven to be an effective marketing tool and a very lucrative business venture. It creates other cash flows paid by the licensee e.g. technical assistance fees that the bank (licensee) may need during the licensing period, sales of materials and components that the licensee required to guarantee the service quality, lump-sum payments for transfer of rights or technology, technology feedback, reciprocal license rights, management fees, R&D costs incurred in developing the licensed technology, opportunity costs incurred in the foreclosure of other sources of profits such as exports or direct investment, and finally transfer costs which include all the variable costs incurred in transferring technology to a licensee and all ongoing costs to maintain the agreement. Consequently, any bank that wishes to become a licensee should simultaneously think about the other opportunities available.

There are several reasons that push both licensee and licensor to a license agreement. It has been argued that (Aulakh *et al.*, 1998; Wall Street, 1990; Cho, 1988; and Contractor, 1984) the licensing entry mode, from the licensor’s point of view, is the solution when: the licensor lacks the knowledge and time to engage more actively in international marketing; the licensor wishes to

enter foreign markets without incurring the risks and costs associated with FDI; the target market is too small to justify fixed investment; or the bank is small but its services are demandable in several markets. It also provides a solution when the political and economic environment is uncertain but the target markets are economically attractive, or when the license fees (the fees that the licensor will take from the license as a royalty) exceed the incremental revenues of any other market entry mode. For the licensee, the licensing contract is the solution when the local bank is characterized by one or more of the following: a wish to acquire the advanced technology easily; an ambition to capture all the local market; it is new in business and wishes to gain the experience quickly; it has a wish to expand outside its border by signing a license agreement for a specific period of time; and/or a wish to add new kind of services. However, opportunistic licensees may "free ride" on the licensor's reputation (Bergen *et al.*, 1992) and take actions (e.g., poor quality control, overstepping territorial restrictions etc.) that have an adverse impact on the licensor (Aulakh *et al.*, 1998, p. 411).

Czinkota and Ronkainen (2001); Terpstra and Sarathy (2000); Cateora (1999); Brooke (1996); and Telesio (1979) discuss the merits and drawbacks of licensing. For example, the licensee gains market presence without an equity investment. Consequently, the licensee takes the right to commercially exploit the patent trademark on either an exclusive (the exclusive right to a certain geographic region) or an unrestricted basis. From the licensor's perspective, licensing income can be used in services development and improvements. Licensing protects patents and makes possible the rapid exploitation of new ideas on world markets before competitors join in the act. Licensing also helps penetrate new markets, and may open up parts of the world previously closed to a bank. Licensing is a valuable option where a service delivery system near the

customer's base is required. It is suitable for markets that are less competitive than domestic: this provides funds for extra research and development, which in turn improve the chances of licensing where the competition is strong e.g. in other potential markets. Finally, licensing is a wonderful means of entering a market where the nature of the competition makes any form of entry, apart from licensing, too expensive to be contemplated.

On the other hand licensing is not drawback-free. To a large extent it may leave the international marketing functions to the licensee. Consequently, the licensor may not gain sufficient international marketing expertise to ready itself for subsequent world market penetration. Typically, licensing agreements have time limits, although they can be renewed, and additional expansions are not permitted at all times by a number of foreign governments. Therefore, at the expiry date the licensor will lose a source of cash flow that is too important to some countries. The revenue from a license agreement will depend on the performance of the licensee, because the royalty in most cases is calculated as a percentage of sales. Also, the quality of the services may suffer because of the image of the licensee toward the importance of the quality. Therefore, the licensor may find himself regularly offering the licensee huge resources to improve the quality, because it will affect the profitability of the licensing activity. The negotiations with the licensee and sometimes with the local government are costly and often protracted. Opposition to royalty payments is encountered in some less developed countries on the grounds that too high a price is being charged for the knowledge provided. The licensee may prove less competent than expected at marketing or other management activities. Hence the licensor may find his commitment is greater than expected, so he may find costs grow faster than income. In fact, there is often an upper ceiling to licensing income (that is 5 percent of service fees or price) but

innovating services can create higher rewards if marketed in other ways. Finally, the licensee can be considered as a potential competitor to the licensor, as he will have all the know-how by the end of the contract period. Thereby the licensor may create his own competitors, not only on the markets for which the agreement was made, but also in third markets.

To recap the earlier discussion, licensing is considered a low-involvement/low-control entry mode since it does not necessarily entail equity participation (Hill *et al.*, 1990, p. 118). Although, many licensing deals do live up to their promise (Miller, 2002), conflict probability is expected before the end of licensing contract. Therefore, continuity probability is limited. Generally, licensing contracts face three kinds of uncertainties that impact on their continuity probabilities. These are: (a) host country economic and legal factors; (b) the potential of opportunistic behavior; and (c) uncertainty in valuing the licensed technology and/or know-how (Aulakh *et al.*, 1998). Consequently, opportunities pledged are limited and their continuity probabilities are restricted. However licensing contracts can be real in a short time.

3.2.3.2. Franchising Entry Mode

Franchising “is a marketing oriented method of selling a business services, often to small independent investors with working capital but little or no prior business experience” (Paliwoda, 1993, p. 150). Franchising is a kind of licensing in which a parent bank (franchiser) grants another independent entity (franchisee) the right to do business in a prescribed manner (Czinkota and Ronkainen, 2001). The franchiser typically leases its brand name, and provides marketing support, technical advice and training, to the franchisee (Erramilli *et al.*, 2002). Therefore, franchising is a special form of licensing in which the franchiser makes a total marketing program available to a local bank. This marketing program includes the brand name, logo, services, and

methods of operations. Franchising is effectively a special case of licensing wherein the franchiser provides the use of a service mark, assistance in opening the business, training for the franchisee and other specialized knowledge in return for a royalty fee (Kedia *et al.*, 1994, p. 56). Therefore, the franchiser receives royalties from the host-country collaborator (the franchisee) and supply-chain mark-ups (Erramilli *et al.*, 2002, p. 223).

To recap the earlier discussion, several concepts have been stressed i.e. franchising is a special kind of licensing; it is a strategic marketing tool used to sell the franchiser services to other business units, and the franchiser determines the way of doing business with the franchisee, which does not exist in licensing. Therefore franchising is mainly interested in ways of doing business, which is very important in the banking sector in particular.

Czinkota and Ronkainen (2001) consider franchising as a German invention, from Bavaria in particular. Paliwoda (1993) considers it goes back two centuries when brewers in Britain created the tied-house system to guarantee outlets for their beer. Despite the fact that it is not a US innovation, several types of USA businesses have adopted the franchising entry mode. This kind of entry mode generates cash flow into USA of more than \$800 billion annually (Franchise News, 1996) and in 1996 over 400 franchising firms from USA operated more than 40,000 units in international markets (Womack, 1996).

Kedia *et al.* (1994); Brickley *et al.* (1991); Carney and Gedajlovic (1991); Martin (1988); Brickley and Dark (1987); and Caves and Murphy (1976) argue that the franchising entry mode

could be used to satisfy one or more of the following aims: to penetrate potential markets; to achieve quick financial gains, and to expand outside saturated domestic markets.

Therefore, franchising contacts have several advantages for several parties i.e. for the franchiser, the franchisee, the customer, and the host country. Aydin and Kacker (1999); Czinkota and Ronkainen (2001); Small Business Reporter (1996); Paliwoda (1993); and Dahringer and Muhlbacher (1991) have specified franchising entry mode's benefits. For the franchiser: it is very fast entry mode in entry and withdrawal; it is a low risk entry mode, it offers quick access to a ready-made market, and it enables control of the service delivery system and consequently service quality. For the franchisee: it provides a flexible business structure, and shared financial responsibility with a strong and well-known foreign partner. Interestingly enough, in the United States for instance, one third of small businesses fail in the first year of operation. In contrast, only about 2.5 per cent of franchise owned outlets discontinue operations per year (Small Business Reporter, 1996). Franchising also offers the franchisee the needed legal independence, and pledges the franchisee tried and tested ideas, as well as enabling the enjoyment of economies of scale in doing business. However, the high cost of supplied items, lack of dependency in decision-making, and the franchiser's lacking knowledge about the norms and customs of the local market could offset these advantages.

Additionally, franchising provides international customers with standardized services, fixed fees, new and fast technology, as well as motivated and interested managers. However, these advantages could be offset by increasing the price as a result of royalty, and service standardization, as the customer may get bored with such ready made services mainly designed

for another kind of customer. Therefore, franchise agreements should try to keep a balance between adapting the marketing mix to local conditions and maintaining high standards in international markets (Dahringer and Muhlbacher, 1991).

Finally, franchising benefits the host country by providing technology transfer, creating employment and business opportunities, and keeping the bulk of profits generated to invested within the host country, as it requires little outflow of foreign exchange. However, franchising may also lead to direct import of negative culture effects (Aydin and Kacker, 1999).

From this discussion, franchising agreements are more comprehensive than regular licensing agreements, as the total operation of the franchisee is accurately prescribed. However, host government intervention may annoy franchisers. It may lead to disconnection between the franchisee and the home office. Interestingly, this source of annoyance does not exist in the Egyptian market in general and in the banking sector in particular, as the encouragement of private sector participation in the Egyptian GNP is a declared policy (Obid, 2001). Private sector high participation on the Egyptian GNP, which is 70 per cent of the Egyptian GNP, supports that policy (Economist, 1999).

3.2.3.3. Strategic Alliances Entry Mode

The term “strategic alliance” strikes most economists as a marketing tool (Waverman and Khemani, 1997, p. 127). It is perceived as the “biggest thing since the advent of strategic planning in the 70s” (Shearer, 2002). It means “a bilateral or multilateral relationship characterized by the commitment of two or more partners to a common goal....” (Jorde and Treece, 1992, p.55). Also, it is an entry mode by which two banks join their research and

development (R&D) to undertake innovative services with shared resources (Hagedoorn and Sadowski, 1999). Additionally, it is “a collaborative agreement between two or more companies to jointly pursue a common goal” (Hergert and Morris, 1988, p. 15). Moreover, it is “...inter-firm collaboration in product development, manufacture, or marketing that spans national boundaries, is not based on arm’s length market transactions, and includes substantial contributions by partners of capital, technology, or other assets” (Mowery 1988, p. 2-3). Alliances “...are more than a one time transfer...they create a continuing dependency” (Contractor and Blake, 1984, p. 3). Finally, strategic alliances are “a form of inter-firm agreement or arrangement between independent firms which involves knowledge production or sharing activities aimed at developing products or processes and forms of production. In this regard, the alliance may entail exchange of R&D and/or transfer of various information”(Waverman and Khemani, 1997, p. 128).

As appears from the above definitions, that a strategic alliance can be defined as “ an agreement between two or more banks for the purpose of penetrating specific markets that other entry modes can not be worked in - for one reason or another - by sharing common goals, resources, technology, and assets that create continuous dependency among separated entities”. In other words, the alliance depends upon the desire of two or more banks to utilize their resources more, and there is no requirement for forming a new entity. In such alliances, each partner brings a particular skill or resources with the expectation of each one profiting from each other’s experiences. The numbers of corporate alliances have grown by more than 20 per cent a year over the past two decades (Ernst, 2002, p. 4). It is estimated that one-fourth of all companies will

derive more than 40 per cent of their total market value from alliance-related activities by 2004, representing at least \$25 trillion (Bates, 2002, p. 12).

Waverman and Khemani (1997) and Peggy and Marc (1993) identify different forms of alliances. These include horizontal, vertical, complementary, market power alliances, technology-based alliances, production-based alliances, distribution-based alliances, confederations alliances, conjugate collectives alliances, agglomerate collectives alliances, and organic collectives alliances. It is worth mentioning that ambitious banks that have entrepreneurial orientation use these forms of alliances extensively. Marino *et al.* (2002, p. 145) found that firms with higher levels of entrepreneurial orientation will use strategic alliances more extensively (i.e., use a greater number of agreements) than those firms with a weaker entrepreneurial orientation.

In horizontal alliances, the bank engages with another bank. Basically, the motive to be part of such kind of alliance could be due to one or more of the following: economies of scale; lowering and sharing risks; facilitate transfer of technology; share information, surmount barriers to entry; and reduced entry time. Additionally, it is to gain access to markets, widen service range, develop service quality standards, to adapt and customize services to major clients or market needs, and to avoid cost of alternative forms such as mergers and joint ventures. Mowery (1988) examined a number of US strategic alliances and found that they were primarily horizontal.

In vertical alliances, the bank engages in different production and distribution activities (other related activities) such as brokerage (forward integration) and suppliers (backward integration). Typically, the motives for such alliances could be to respond to government-sponsored industrial

policy initiatives, to avoid resource dependency, to avoid transaction costs imposed by recurrent negotiation, and to hedge against intermediate service price movements in the absence of future markets.

In a complementary alliance, the bank uses this form of alliance to obtain assets to help it bear severe problems. In this case each bank represents the depth of the other one, especially in crises.

In other words, the accumulated resources of both banks can be accessed whenever needed. In a market power alliance, the bank uses the strategic alliance to satisfy specific purposes: for example, to foreclose opportunities and inhibit competitors; to create a base for market power; to facilitate collusion and other anti-competitive practices; to remove the threat of potential competition; to heighten barriers to entry and to raise rivals costs; and to engage in a strategy of international pre-emption.

In a technology-based alliance, two or more banks agree to exchange technology. According to a survey done by the Masstricht Economic Research Institute that reviewed 4,182 alliances (Economist 1993), the main reasons behind this kind of alliance are either to have access to a specific market, or exploitation of complementary technology, or the need to reduce the time taken for an innovation. Hergert and Morris (1987) examined 839 publicly announced international alliances and determined that 71 per cent were between competitors in the same market. In a production-based alliance, two or more banks agree to share the production capacity. The distribution-based alliance is used for the purpose of distributing the services of each other. In this case, the two banks will be in a similar position to a joint venture although they are still separated.

In a confederations alliance, banks that compete with each other, but maintain some contractual functional activities in common, are coordinated by a central management. This kind of alliance is similar to horizontal diversification patterns. A conjugate collectives alliance can be among banks that have contractual arrangements for symbiotic purposes. Therefore, it represents vertical linkages through the value added chain. An agglomerate collectives alliance can be among banks that compete within the same sector but have no contractual business arrangements. Finally, organic collectives alliances are among banks that engage in traditional networking, such as board memberships or other voluntary organizations.

Strategic alliances are often considered in the literature as a form of joint venture. However, joint ventures are a special case of strategic alliance with a fixed *ex ante* investment and ownership distribution, with a prescribed governance mechanism and decision making apparatus (Waverman and Khemani, 1997).

Paliwoda (1981) discussed alliances' merits and drawbacks. Alliances' merits could be that there are no financial problems as a result of the alliance, because each bank will work on its own resources. Also, the responsibilities of each partner are well defined, the control process is easy, the return on investment is very fast, risk sharing and duration of the alliance are predetermined by the agreement, each bank can enjoy the facilities of the other bank, and there is a possibility for updating the technology. On the other hand, alliances are not without disadvantages. Limited control on the operations of each other is one such, as well as the speed of the alliance resting with the local partner, and diminished opportunities for speculative risk. Renewing alliances

needs another contract, and the cost of this transfer may be more than anticipated. Ambiguity in the alliance contract is possible, and each bank depends on each other's mutual capabilities.

To recap the earlier discussion, lesser opportunities are offered via this mode, as 90 per cent of alliance's negotiations fail to reach agreements and least half of all alliances fall well short of expectations. Also, the continuity probabilities of these opportunities are restricted, as only about 2 per cent create deals that last more than four years (Bates, 2002, p. 12). Additionally, alliances' existence could be suddenly become apparent due to the confidential nature of such business dealings. Finally, the financial resources required are very limited.

3.2.3.4. Management-Service Contracts (MSCs)

MSC is a contractual deal under which the foreign entrant not only leases its brand name to a host-country collaborator, but also secures a contract to provide extensive on site technical and management support (Erramilli *et al.*, 2002). In return for that, the foreign entrant may receive some combination of royalties, supply-chain markups, management fees, and a share of profits.

Under MSCs foreign entrants are assigned to run the day-to-day operation of the new business in the host country. They often enjoy complete *de facto* strategic and operational control (Contractor and Kundu, 1998b; Dunning, 1988). However, rendering a MSC mode is more expensive to operate relative to a franchising mode. Besides it is more popular in the hotel industry than in banking (Erramilli *et al.*, 2002).

3.2.4. Marketing Oriented Entry Modes

Exporting is not only possible but a frequently exercised option in the banking industry (Erramilli, 1990). Compared with the previous categories of entry modes, minimal opportunities

are pledged, less resources as well as short time span are required for adopting this category. It includes direct and indirect exporting modes.

Dahringer and Muhlbacher (1991) have classified this category of entry modes as marketing oriented modes, as the production facilities are still based outside the target market. On the contrary, all forms of foreign production e.g. branches and subsidiaries that necessitate the transfer of both the production and marketing facilities to the target market, are called "production and marketing modes".

3.2.4.1. Indirect Exporting Entry Mode

The bank is an indirect exporter when its services are sold in foreign markets and/or its services are bought within its domestic market by foreign customers, without a special activity for this purpose within the bank (Terpstra and Sarathy, 2000). In this situation, the bank does not actively engage in any international sales activities (Albaum *et al.*, 1992).

Although exporting in this indirect way can open new markets without special efforts or investment, the bank's control over market selection and marketing strategy is very limited, and in fact the sales will be highly volatile because they will depend upon external factors outside the bank's planning. This strategy has already been used by Egyptian banks for a long period of time, through offering banking services to foreigners in Egypt - whether temporary, like tourists, or permanent, like diplomatic missions and foreign experts - using the banking systems services.

Generally, foreign banks use this strategy to penetrate those markets that do not offer a large enough opportunity to justify local production. Consequently, the bank can do nothing but to

adopt this strategy and let other factors - such as the number of foreigners within the Egyptian market - determine the amount of sales increase.

Therefore, it is a temporary entry mode to target that market that cannot be targeted by any other entry mode. Thus it suits exporters who either do not have export experience or have little export experience. It is generally recognized as being the least risky method of internationalization, and it represents the “toe in the water” in international business (Young *et al.*, 1989). However, the indirect exporting entry mode cannot be the only way for bank internationalization, as alone it is not sufficient for this mission.

3.2.4.2. Direct Exporting Entry Mode

The direct exporting entry mode is used to target those markets that are economically profitable, but for one reason or another, the bank is reluctant to deploy any other entry mode (Pan and Tse, 2000).

Aaby and Slater (1989); Kinsey (1988); Colaiacovo (1982); Morawitz (1980); and Nayyar (1976) discuss the problem that faces direct exporting. Important obstacles here are governmental policies and interventions (e.g. frequent changes in export-related policies, ineffective governmental assistance agencies, etc.); market related problems e.g. fragmented markets, which means the rising of domestic demand that reduces the supply available for exports (especially in developing and transition economies); and the lack of trained marketers.

Direct exporting, compared with indirect exporting, enables the exercise of full control over selling operations in a foreign market. It suits those services that require the intensive use of

special marketing skills such as advertising and personal selling. Also, it enables the exporter to transfer not only the services but also the entire marketing program that often makes services successful (Jeannet and Hennessey, 2001). However, direct exporting entry modes could be adopted as a first step toward overseas expansion. Additionally, they may be used to approach another entry mode in the target market. In other words, they can be used for explanatory purposes (e.g. forwarding information to the parent bank).

Lee and Brasch (1978) add that the process leading to a decision to export can be categorized according to two possibilities. In the first, called a “problem-oriented adoption process”, exporting occurs as a result of a combination of problems such as mature product, increased competition in the domestic market, decreasing sales, and the desire for market expansion. In the second, called an “innovation-oriented adoption process”, the initiating force for the decisions to export is the knowledge of the existence of a marketing opportunity in a foreign market, or the desire to learn about such opportunities.

3.3. Chapter Conclusion

Apart from MSC modes that are most popular in the hotel industry, all entry modes are viable options in the banking sector context. These entry modes could be classified into: wholly-owned and full control entry modes e.g. branches and subsidiaries, representative offices, and agency offices; shared-owned and shared control entry modes e.g. joint ventures and partially merges and acquisitions; contractual entry modes e.g. licensing, franchising, and strategic alliances; and marketing oriented entry modes e.g. direct and indirect exporting. However some of these entry modes e.g. direct and indirect exporting entry modes are not complete alternatives.

With regard to the four assessment criteria, wholly owned (especially branches and subsidiaries) and marketing oriented modes represent two extreme categories. Shared owned and contractual modes come in the second and the third position respectively from this perspective.

To select, deploy, and implement appropriate entry modes that fit target markets, four main schools of thought have been put forward. These are: the gradual incremental involvement school; the transaction cost analysis (TCA) school; Dunning's eclectic theory, or the factors school; and the Agency Theory school. In the gradual incremental involvement school, a low resource commitment mode e.g. export entry mode, is desirable for the first entrance into foreign markets. As more knowledge and experience is acquired, higher levels of resources commitment with higher levels of risk, control and profit return can be deployed.

In the TCA School, the costs and benefits of each entry mode (as a transaction) are prepared. Then decision makers select the entry mode that best satisfies the bank's objectives with minimum risk, given both the degree of control needed and financial resources available. According to Dunning's eclectic theory, banks that possess quasi-monopolistic advantages can extend their operations outside their borders. Therefore, decision makers' duties are to determine which advantage their banks have. In the agency theory school, the relationships between banks (principals) and the entry modes (agents) are portrayed exactly as an agent relationship. Typically, the greater the information the principals can collect about their agents, the higher the success possibility in selecting the appropriate entry mode.



Chapter Four:
Factors that Affect Bank Selection of Entry
Modes

4.1. Introduction

Given that accurate decisions are a function of the quality of data collected and, of course, their analysis, the same logic applies to entry mode decisions. It could be argued that data about the characteristics of entry modes (the tools), target markets (the places), the bank (the entrant), and the industry and country (macro environments) are the needed database for such decisions.

Actually, the characteristics of entry modes are prerequisites for entry mode decisions. They could be considered as given when analyzing the other basic sources of data. Ignorance of each entry mode characteristic, feature, nature, merit and drawback is unimaginable, and unforgivable, especially for the specialist in international business. Therefore, the variables that relate to this dimension will be touched upon, though not tested in the banking context. The current study's scope, regarding the analysis of the entrant, is at micro level: therefore the analysis of both industry and country characteristics is beyond the current study aims.

Consequently, neither in the literature nor in the field study will industry or country characteristics be highlighted. In the literature only, entry mode characteristics are identified to give the decision makers the needed guidance when exposed to such decisions. In the literature and with evidence from the banking sector, bank and market characteristics will be highlighted.

As previously stated, the four entry mode schools of thought: the gradual incremental involvement school, the contingency or Dunning's eclectic school, the TCA school, and the agency school mainly depend on data from these four streams. In the gradual incremental involvement school, data about both the target market and bank characteristics are needed for

entry mode decision-making. This school connects the commitment of resources in the target market with both the risk in this market (characteristics of target market) and the international experiences the bank has (bank characteristics) (e.g. Pan and Tse, 2000; Luo and O'Connor, 1998; Chu and Anderson, 1992; Johanson and Vahlne, 1990; Root, 1987; and Stopford and Wells, 1972). Therefore, the higher the risk in the target market, the less the resource commitment to entry modes deployed in that market. Also, the greater the bank's experiences, the more the tendency to use entry modes with a high level of resource commitment.

In contingency theory, Kogut and Singh (1988) found that industry, firm, and country-specific factors influence the entry mode selection decision. Additionally, Dunning (1980, 1981) argued that the choice of entry mode depends upon the position of ownership, internationalization, and location advantages. Therefore, this school is missing one vital data source i.e. characteristics of the target market.

In the TCA school of thought, the entry mode decision is dealt with as if it is a transaction. To better calculate the accurate cost of each transaction (entry mode), all costs associated with various aspects of the value-added chain from production to the consumption (Pan and Tse, 2000) are considered. Because the basic premise in TCA is that banks will internalize those activities that they can perform at a lower cost (bank characteristics), but will subcontract those activities externally if other providers have a cost advantage (potential market characteristics), this school depends on data from the two streams i.e. the characteristics of the target market and the characteristics of the entrant.

Finally, in agency theory the principles (new entrants) are highly motivated to collect data about their agents (entry modes in foreign markets) in the target market. It uses the metaphor of a contract to describe relationships in which one party delegates work together (Jensen and Meckling, 1976). Therefore, it uses data about entry modes and the potential market.

4.2. Entry Mode Variables

Generally, the preponderance of research on entry modes has examined the contingent relationship between firm characteristics, environment, and selected entry mode (Woodcock *et al.*, 1994, p. 253). Additionally, a variety of studies have considered country, industry, and firm-specific factors and their contingent influence on wholly owned entry mode decisions. Caves and Mehra (1986) found that entry mode selection was influenced by a variety of industry and firm-specific factors, including size, advertising intensity, research intensity, industry growth, and industry concentration. A subsequent study by Zejan (1990) confirmed many of Caves and Mehra's results.

Other studies have compared the joint venture and wholly owned entry modes. Gatignon and Anderson (1987) found that locational factors, the degree of multi-nationality, and research and advertising intensity, all influence the selection decision between joint ventures or wholly owned entry modes. Kogut and Singh (1988) found that industry, firm, and country-specific factors influence the selection decision between the three ownership-based entry modes: joint venture, acquisition, and new venture. Kim and Hwang (1992), and Agarwal and Ramaswami (1992) examined a wide variety of entry modes and found that locational, ownership and internalization advantages contingently influenced all of the various entry modes.

Woodcock *et al.* (1994) tested the relationship between ownership entry modes and performance. The ownership entry modes examined were the wholly owned modes of acquisition and new venture entry, and the non-wholly owned mode was joint venture entry. Their model suggested that different entry modes have different performance outcomes based upon resource and organizational control demands. Their results supported previous studies that have attempted to assess the relationship between performance and entry mode (Li and Guisinger, 1991; and Simmonds, 1990). Therefore, there is considerable supporting evidence that international ownership-based entry modes have different performance levels. However, testing the performance of entry modes is beyond the current research aims.

Recently, Pan and Tse (2000) found that foreign firms are more likely to choose open cities and special economic zones for equity-based entry modes. In studying foreign equity ownership in equity joint ventures (EJVs), Pan (1996) found a similar pattern. Firms from countries with large power distance prefer equity modes to non-equity modes, and firms from countries with high uncertainty avoidance favor non-equity modes instead of equity modes. In addition, high bilateral trade volume is conducive to firms adopting equity modes in the host country. Surprisingly, a negative relationship has been reported between the length of diplomatic ties and the preference for equity-based modes. Firms in industries of high advertising intensity favor equity modes over non-equity modes, while firms in industries with high asset turnover favor equity modes over non-equity modes.

Most recently, Erramilli *et al.* (2002) have examined the choice between two non-equity modes (i.e. franchising and management-service contracts) and found that (a) the lesser the availability

of qualified managerial staff in the host market, the higher is the firm's probability of choosing a management-service contract (MSC) relative to franchising; (b) the greater the availability of qualified and trustworthy investment partners in the host market, the higher is the firm's probability of choosing a MSC relative to franchising; and (c) the greater the level of development of the host country business environment, the lower is the firm's probability of choosing a MSC relative to franchising.

To sum up, besides the macro environment variables that go beyond the current research aims, variables that affect entry modes selection could be grouped in three main categories: entry modes characteristics, potential market characteristics, and bank's characteristics. The latter includes all that is related to the penetrator or the new entrant. The potential market characteristics category includes all that is related to the penetrated markets. The entry modes characteristics category includes the nature, merits, and limitations of the carriers. Consequently, entry mode variables will be critically analyzed and those variables debated in the literature will be tested within the banking context.

4.2.1. Entry Modes' Characteristics

The wrong selection of an entry mode requires time to be recognized and abandoned (Woodcock *et al.*, 1994). To avoid such risk, decision makers have to have a clear understanding of the nature of each entry mode before it is deployed. Terpstra and Sarathy (2000); Erramilli and D'Souza (1993); Yung-Chul and Konopa (1992); Dahringer and Muhlbacher (1991); Tong and Walter (1980); Dunning (1980); Hirsch (1976); and Goodnow and Hansz (1972) identified factors relating to these characteristics. These include resources required for each entry mode, risk associated with each entry mode, entry mode flexibility, control, market penetration, feedback,

profit possibility, incremental marketing costs, administrative costs, and number of markets each entry can be targeted at simultaneously.

Regarding resources and risk associated with each entry mode, it is vital for decision makers to fully understand the level of risk and resources associated with each before selecting the appropriate one for the situation. Erramilli and D'Souz (1993) argue that entry modes could be ranked from purely marketing oriented entry modes (e.g. direct and indirect exporting), viewed as the lowest level of resources commitment and therefore risks to wholly owned entry modes (e.g. branches and subsidiaries) on the other hand, which are viewed as the highest level of resource commitment and riskiest modes. Between these two extreme categories, contractual entry modes (e.g. licensing and franchising) fall, as shown in Table 4/1. However, shared owned entry modes (e.g. joint venture and partial mergers and acquisitions) could be included, from this perspective, before wholly owned entry modes.

Table 4/1
Characteristics of Entry Modes¹

Entry Modes	Resource Commitment	Risk
- Exports	Low	Low
- Licensing (Contractual Transfers)	↓	↓
- Foreign Direct Investment (Wholly Owned Subsidiaries)	High	High

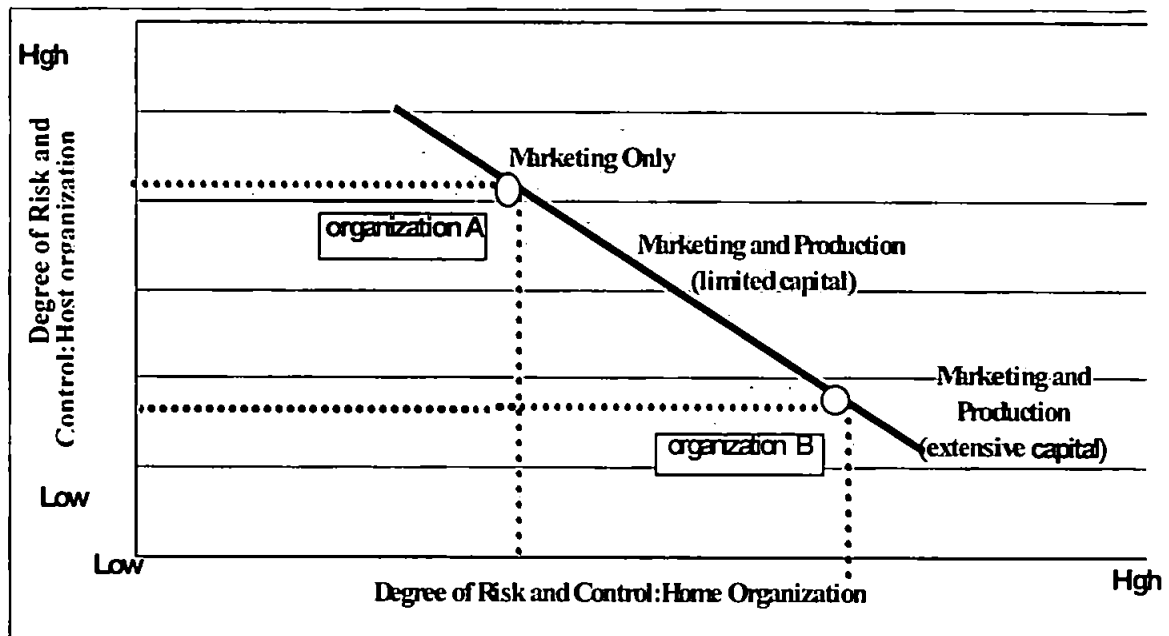
Entry mode flexibility represents the time needed for deploying and withdrawing from the target market. Generally, the less the resources committed to the entry mode, the more flexibility it has. Consequently, entry modes could be ranked according to the flexibility dimension, from purely marketing (indirect and direct exporting), contractual (licensing, franchising, alliances, and

¹ **Source:** - Adopted from (Erramilli and D'Souz, 1993, p. 29).

MSCs), shared owned (partially mergers, and joint ventures), to wholly entry modes (representative offices, agency offices, branches, and subsidiaries).

Regarding the degree of control, each entry mode pledges a different control level. From this perspective, entry modes could be ranked as follows: wholly owned, shared owned, contractual, and purely marketing entry modes. The degree of control the bank has on entry modes could relax the degree of risk assumed. Giving that the level of control is a competitive market tool (Yung-Chal and Konopa, (1992, p. 62), it should be determined carefully. Dahringer and Muhlbacher (1991) identify two positions of control, and consequently two positions of risk, a bank can have, as shown in Figure 4/1.

Figure 4/1
Risk and Control Associated with Each Entry Mode ¹



¹ Source: - Dahringer and Muhlbacher, (1991, p. 310).

Position A is one in which the bank is using purely marketing oriented entry modes, e.g. exporting, and position B one in which the bank is using wholly owned entry modes e.g. branches and subsidiaries. The latter represents the maximum level of control, and consequently the maximum level of risk. However, several positions are scattered and could be traced on a curve according to their closeness to the two extreme cases. Bearing this in mind, the control level is not price-free i.e. the cost of controlling should be taken into consideration (Hirsch, 1976). Conversely, the former represents the minimum control level, and consequently the minimum risk level. Obviously, these cases represent the two extreme cases on the entry modes' curve.

Regarding the feedback process each entry mode can pledge, it is apparently linked to the degree of control inherited in each one. It is also vital for the bank's success as it enables updating of the information about customers satisfaction level, reasons behind high employee turnover, as well as the level of local competition. From a neutral perspective, fully controlled entry modes can be ranked first, and purely marketing modes last. However, the feedback factor can be considered a supplementary factor, not an essential one. In other words, it cannot alone determine the kind of entry mode; thereby it can function as a weighted factor for entry mode selection.

Regarding profit possibilities, these are more important than profit margins and costs when selecting the entry mode. For instance, one entry mode may offer a 25 per cent profit margin on sales volume of \$2 million (\$500 thousands), but another may offer a 17 per cent profit margin on a sales volume of \$10 million (\$1,7 million) and still be more attractive (Terpstra and Sarathy, 2000). So, the profit potential of different entry modes should be determined and then the one that guarantees the highest level of profits, selected. Given the fact that the higher the risk in doing

business, the higher the expected return from this perspective: other things being equal, wholly owned, shared owned, contractual, and purely marketing entry modes respectively, could be the logical order of expected levels of profitability from high to low.

Regarding incremental marketing costs, they represent scarified costs as a result of the entry mode decision. Generally, indirect exporting would have practically no additional costs; conversely with wholly owned entry modes.

The administrative requirements of each entry mode include documentation, and management time required, which varies from one entry mode to another. Consequently, indirect exporting or licensing may involve very little additional burden of management (Terpstra and Sarathy, 2000).

Regarding the number of markets, decision makers should determine from the very beginning how many, and which, market or markets they intend to target. The number of markets is based on the result of a cost benefit analysis of each individual market. Host market characteristics give clear clues about the soundness of the capabilities of each (Root, 1987; Goodnow, 1985; Kravis and Lipsey, 1982; Tong and Walter, 1980; Dunning, 1980; Hirsch, 1976; and Goodnow and Hansz, 1972). Of these the availability of local skilled or unskilled labor, local raw materials, local technology, local capital, and local communication and transportation are considered critical.

This analysis should be conducted for each individual target market: then their degree of attractiveness could be ordered. In the next stage, those markets could be weighted by other

factors. The reality is, not all attractive markets are accessible. Markets could be blocked, for one reason or another, e.g. wholly owned entry modes could be blocked in markets that adopt national aims at various scales, and licensing may be impossible in other markets, due to the absence of a qualified licensee. The same logic applies for the other entry modes.

All things being equal, contractual entry modes e.g. licensing, franchising, strategic alliances, and exporting entry modes are the entry options if the bank has decided to target several markets at the same time. Conversely, wholly owned and shared control entry modes are the viable options if the bank has decided to target one or few markets.

Finally, the market penetration ability of each entry mode varies from one mode to another. Given the claim that “my company, not the others, is the best one ever capable of searching for and serving customers”, wholly owned entry modes can develop wide market coverage better than the other entry modes. Coverage width is the next step after pinpointing the target market. It represents, for instance, how many branches – if branches entry mode is selected - the bank needs in this market and what sizes these should be. This can be determined according to the nature of the customers within each market, and whether they are geographically concentrated or scattered.

To sum up, entry modes characteristics are preliminary, and decision makers should have enough information about their nature before taking further steps in the selection decision. Consequently, evidence from the Egyptian banking sector will not include this category of factors. In other words, they will not be tested empirically.

4.2.2. Potential Market's Characteristics

As previously stated, the wrong selection of a potential market requires time to be recognized and abandoned (Woodcock *et al.*, 1994). Therefore, potential markets should be analyzed carefully and their merits and drawbacks accurately pinpointed. Pan and Tse (2000); Terpstra and Sarathy (2000); Dahringer and Muhlbacher (1991); Stahl and Karakaya (1989); Kim and Lyn (1987); Root (1987); Goodnow (1985); Tong and Walter (1980); Dunning (1980); Hirsch (1976); and Goodnow and Hansz (1972) identify a number of characteristics of potential markets. Of these market volume, potential markets risks, culture environment in the target market, levels of competition, geographical distance, technological development, infrastructure, and accurate information about target markets are considered important.

Market volume determines the degree of attractiveness, which in turn affects the entry mode selection. The bigger the market, the more attractive it is. Root (1987); Caves and Mehra (1986); Contractor (1984); Caves (1974); and Goodnow and Hansz (1972) argue that the existence of an extensive market opportunity justifies the choice of high resource commitment entry modes. Erramilli *et al.* (2002); and Contractor (1984) found that the relative proportion of FDI increases with the level of economic development of a host country. All in all, target market size and the host country's economic development and performance should be taken into consideration when selecting the entry mode. In large markets, especially those with strong growth rates, high resource commitment entry modes are more justifiable than in small markets with low or negative growth rates. For instance, one of the reasons Japanese and US companies have made major investments in Europe is that the European Community represents an even larger market than the

United States. However, global marketers should not forget that developing economies might become major markets in the future (Kirkland, 1988; and Kotler and Dhokalia, 1986).

Regarding target market risks, this is a broad terminology as the risk sources are diverse. They include economic risks e.g. fluctuating economical polices, political risks e.g. politically unstable markets, legal risks e.g. entry restrictions, and currency risks. In international business literature, entry modes have long been regarded as closely associated with varying degrees of resource commitment, risk exposure, control, and profit return (Pan and Tse, 2000, p.535).

Firstly, economic considerations are vital for entry mode decision. Target markets should be analyzed based on certain economic criteria. In particular per capita income (reflecting purchasing power), inflation rates, tax rates, foreign exchange rates, employees wages, and trade policies (e.g. high tariffs or rigid quotas) are frequently considered as important (Gardiner, 1999; Ferguson and Maurice, 1992; Peter, 1982; Hill, 1981; Hobbs, 1981; Currie and Peters, 1980; and Slijper, 1972). Host country trade policy, for instance, can be perceived as either a target market attractiveness or weakness (Smith, 1987; Root, 1987; Lipsey and Weiss, 1981; Goodnow and Hansz, 1972; Caves, 1971; and Host, 1971).

Political considerations add another dimension in determining target market risk. Dahringer and Muhlbacher (1991); Anderson and Gatignon (1986); Goodnow (1985); Davidson and McFetridge (1985); Kobrin (1976); Green and Cunningham (1975); and Goodnow and Hansz (1972) illustrate the impacts of political considerations on entry mode selection decision: for example political instability, degree of political freedom, number of political parties available, and political

alliance. It has been found that political instability discouraged all forms of FDI (Davidson and McFetridge, 1985; Green and Cunningham, 1975). Meanwhile political alliance leaves all the possibilities open to use any entry mode appropriate to the situation. In other words, political alliance neutralizes political condition factors and the selection of entry mode will be based upon other factors. The USA- Australia alliance for instance is one of the most popular in business. It permits a broader range of market entry choices, and that alliance makes the USA the foremost foreign investor in Australia (Dahringer and Muhlbacher, 1991). Consequently, in markets where political risks are perceived to be high, it is unlikely that a high resources commitment entry mode will be undertaken. Generally, the more direct and more visible the entry mode is, the more vulnerable it is politically (Christensen *et al.*, 1987).

Currency also increases the degree of risk associated with specific entry modes e.g. purely marketing oriented and contractual entry modes. Therefore, market entry by means of direct production (wholly owned and fully control entry modes) permits the avoidance of rapid changes in exchange rates through reinvesting profits until they may be transferred out at an appropriate exchange rate (Dahringer and Muhlbacher, 1991).

Finally, legal restrictions imposed within some foreign markets may limit the number of entry modes available. For instance, if the host country requires local participation in any business conducted by foreigners, the viable choice is limited to a joint venture. Additionally, heavy legal trade restrictions in an attractive market can lead to high resource commitment entry modes being the only real available options. In the United States for example, increased protectionism, coupled with the devalued dollar and a sizable market, have resulted in increased direct foreign

investment by Asian and European manufacturers. Green and Cunningham (1975) found that there is an inverse relationship between inward FDI and level of local government restrictions on foreign entrants. Davidson and McFetridge (1985) argued that the probability of using a high resource commitment entry mode is low in the case of the existence of extensive foreign exchange control (as one of the legal restrictions) in the host country. Generally, countries with high barriers to entry receive smaller portions of FDI (Kim and Lyn, 1987). Conversely FDI increases when local legislation provides foreign investment incentives (Contractor, 1984). Additionally, legal restrictions may take the form of government involvement in business operations, as when France began to de-nationalize major industries when US firms increased their level of direct investment in France, because these firms felt more comfortable with an economy in which the private sector plays the dominant role (Specht, 1985).

To sum up, foreign markets are usually perceived as more risky than the domestic ones. However, the degree of target market risk can be relaxed by the degree of control exercised. To take valid entry decisions, risks and their sources should be carefully pinpointed and analyzed in each individual target market. Analysis of results could reveal market opportunities (to be seized immediately) or threats (to be avoided). These represent the degree of attractiveness and possessiveness a market has, and the undesirable barriers, whether structural or competitive-based (Stahl and Karakaya, 1989). Other things being equal, risky markets could be targeted - or not targeted - via purely marketing and contractual entry modes, and less likely to be targeted via wholly owned entry modes until the risky status changes. High country risk has been demonstrated to promote the use of shared-control entry modes (Gatignon and Anderson, 1988; Mascarenhas, 1982; and Goodnow and Hansz, 1972). One possibility is that in high-risk

countries, entry modes ought to guarantee minimum levels of flexibility to shift to other different modes as necessary, as they pledge relatively low switching costs (Anderson and Gatignon, 1986).

Regarding the cultural environment in target markets, this means the norms, religions, languages, values, attitudes, beliefs, and ethnocentrism of customers in the target market (Dahringer and Muhlbacher, 1991). Accordingly, these variables determine the cultural gap or distance between target markets and the home market.

Generally, entry-mode literature holds that organizations minimize the high information costs associated with operating in culturally unfamiliar countries by seeking collaborative modes (Erramilli *et al.* 2002; Agarwal, 1994; and Gatignon and Anderson, 1988). Fladmoe-Lindquist and Jacque (1995); Agarwal (1994); Erramilli and Rao (1993); and Gatignon and Anderson (1988) have brought empirical evidence from the general service sector and the manufacturing sector that supports these findings. All non-equity modes are collaborative because they necessarily involve a local partner (Erramilli *et al.*, 2002, p. 227).

Erramilli *et al.* (2002) argue that high socio-cultural distance could result in ineffective resource transfer across the organization boundaries because of (a) a mismatch in the foreign entrant's and local collaborator's routines and capabilities, and/or (b) the local collaborator's lower absorptive capacity (Contractor and Kundu, 1998a; Madhok, 1997; and Lam, 1997).

Moreover, the relationship between cultural distance and ownership is far from certain (Erramilli *et al.*, 2002). Brouthers and Brouthers (2001) and Shenkar (2001) have noted that the empirical evidence is ambiguous, even contradictory, as no relationship, positive or negative, between cultural distance and the desire to establish collaborative modes has been found.

However, Kogut and Singh (1988); Root (1987); Anderson and Gatgnon (1986); Goodnow (1985); Goodnow and Hansz (1972); and Davidson (1980) found that cultural and other national differences between the host and home countries appear to influence entry mode decisions. More specifically, Davidson and McFetridge (1985) found that foreign production i.e. wholly owned entry modes, are favored when the host country's culture (religion and language in particular in that study) is similar to that of the home country. On the other hand, numerous empirical studies have concluded that cultural distance encourages deployment of shared-control modes (Kogut and Singh, 1988; Gatignon and Anderson, 1988; and Davidson and McFetridge, 1985). Also, Erramilli *et al.* (2002) found that the propensity for using a management-service contract (MSC) is higher when cultural distance between home and host countries is also higher. Additionally, the propensity for using an MSC is higher when the advantage generated by customer competence is higher.

Another stream of literature has focused upon the effect of culture variables on the longevity of new partnerships (e.g. Fey and Beamish, 2001; Barkema and Vermeulen, 1997; Park and Ungson, 1997; and Mead, 1998). The statistical evidence for this perspective is contradictory. For instance, Barkema and Vermeulen (1997) found that national cultural differences between JV parents have a negative impact on JV longevity, Fey and Beamish (2001) found no impact, and

Park and Ungson (1997) found a positive one. Mead (1998) found case study evidence to support the notion that JVs with parents from different countries may experience greater conflicts and therefore have a shorter life than those with parents from the same country. Therefore, it is worth testing the effect of cultural variables in a banking context.

Dahringer and Muhlbacher (1991) argue that a society that is characterized by a high level of ethnocentrism is probably best entered through a contractual entry mode. Korean firms that intend to enter Japanese markets are more likely to succeed when they take this approach. In contrast, Japanese electronic firms entering the United States are probably better off maintaining their home-country identity. As American consumers believe that Japanese manufacturers produce high quality products, a joint venture incorporating the Japanese name, or even direct foreign investment, probably makes the most sense.

In the first entry decision, it is preferable to target those markets that have been perceived as similar to the home market (this can be called bridging) to crack down the high dissolution rates. Cross-cultural conflicts between parents of different nationalities are often cited as reasons for these high dissolution rates (Shenkar and Zeira, 1992; Lane and Beamish, 1990; and Brown *et al.*, 1989). In the last ten years the rates of formation and dissolution of international joint ventures (JVs) have both been extremely high (Hennart and Zeng, 2002). For instance, seventy per cent of the partnerships studied by Coopers and Lybrand (1986), two-thirds of those in Auster's (1986) and Kogut's (1989) sample, half of those in Harrigan's (1988), forty per cent of those in Millington and Bayliss' (1997) and a third of those in Franko's (1971) eventually broke up due to cross cultural conflicts.

Targeting dissimilar markets could be the second step. These markets require high levels of international experience. Bridging is similar to a market roll-out campaign, in which the bank uses its experience in a particular market segment to gain a competitive edge in similar segments. Swedish organizations, for example, often enter the UK market before entering the US market, and Japanese organizations enter Australian markets before attempting to enter the US market (Dahringer and Muhlbacher, 1991).

The level of competition in the target market should be taken into consideration when selecting the entry mode. This variable includes the number of competitors within the target market, intensity of this competition, relative market share of each competitor, rate of growth, and technological sophistication (Dahringer and Muhlbacher, 1991). Thereby the analyses' results could reveal one of two options: either barriers (strengths of local competitions) or opportunities. In the case of opportunities, decision makers choose the entry mode according to the intensity of competition level. In the entry modes literature, the effect of the competition variable on entry mode selection has not had much attention. In other words, in the contingency school for instance, past studies have shown that the choice of entry modes depends on different types of factors, including firm-specific factors (Kumar and Subramaniam, 1997; Madhok, 1997; Erramilli and Rao, 1993; and Kim and Hwang, 1992), and industry-specific and country-specific factors (Tse *et al.*, 1997; Kogut and Singh, 1988; and Anderson and Gatignon, 1986). The same criticism can be leveled at the other three schools of entry thought. Therefore, the competition effect will be tested in the field study.

Geographical distance is another variable that should be considered when selecting the entry mode. Due to increasing transportation costs, the greater the geographical distance between the home and the host country, the less competitive the exporting entry mode (Caves and Mehra, 1986; Goodnow, 1985; Lipsey and Weiss, 1981; and Caves, 1971). However, this result is more valid with goods exporting. Given that banking services can be either embodied in a tangible form, or delivered through extant communication channels, due to technological development, long distance banking services are possible (Erramilli, 1990). Therefore, the effect of this variable could be questionable in a banking context.

Technological development of the target market could be one of the determinants of the selection of entry modes. When entering a sophisticated market, the new entrant may be able to transfer its technology directly into the local market. This might be done without capital involvement, through licensing. Conversely, in a market with a lower level of technological sophistication, direct production with capital involvement may be necessary to ensure appropriate use of technology (Dahringer and Muhlbacher, 1991).

Regarding infrastructure, this includes electricity supply, clean water, communications, and transportation, as well as information centers and computerized communication facilities. Its overall effect could be either an incentive or a barrier. Thereby, high resource commitment entry modes could be viable options in cases where reliable infrastructures are available in host countries.

Dahringer and Muhlbacher (1991) consider accurate information about local markets an important entry mode determinant. Obviously, the accuracy of the information to the decision maker determines, to a large extent, how accurate the decisions can be. Sometimes this accurate information is either not available at all, or not sufficient. Consequently, there are three alternatives the decision maker may face: omitting this market from his priorities; targeting this market via the exporting entry mode; or depending on a local partner to execute this mission.

To sum up, to take decent entry decisions target markets should be perceived as if reading an opened book. Potential market risks, especially economic and political, cultural environment, and levels of competition are the market characteristics' variables that will be tested in the banking context in the field study. The logic behind this are that these variables seen the most popular and most debated in the service sector in particular (Erramilli and D'Souza, 1993; Erramilli, 1990; Kogut and Singh, 1988; Gatignon and Anderson, 1988; and Davidson and McFetridge, 1985). In addition, currency and legal risks do not exist for the time being as the Egyptian authorities strongly support FDI (as mentioned in Chapter Two). Information about both the Egyptian market and its basic infrastructures are available, therefore those two variables are excluded. Finally, the unique geographical location of the Egyptian market devalues the effect of the geographical distance variable.

4.2.3. Bank's Characteristics

Pan and Tse (2000); Terpstra and Sarathy (2000); Woodcock *et al.* (1994); Li (1994); Kim and Hwang (1992); Erramilli (1992); Dahringer and Muhlbacher (1991); Erramilli and Rao (1990); Hill *et al.* (1990); Johanson and Vahlne (1990); Gripsrud (1990); Douglas and Craig (1989); and Bolt (1988) have all considered bank's characteristics. They identified the characteristics of what

is being carried and its life cycle; international experience; financial and non-financial resources, the desire for exposure to foreign problems; the desire to influence the target market; mission and goals effects; competitive strategy effects; and marketing planning and research.

The characteristics of what is being carried and its life cycle (goods or services or ideas) via the carriers (entry modes), affect the entry mode selection decision. The greater the market's resistance to what will be offered by the new entrant, the greater the need for an entry mode that supplies direct control. Conversely, the less the need for direct control entry modes if what is being offered is likely to diffuse rapidly through the target market (Dahringer and Muhlbacher, 1991). Therefore, to succeed in that target market, new entrants should undertake appropriate marketing efforts to reposition the offered services as consistent with social values.

Regarding the bank's experience, this is the backbone of the internationalization process as well as the best teacher for ambitious banks. It has been suggested that internationalization is a learning process (Johanson and Vahlne, 1990; Gripsrud, 1990; and Douglas and Craig, 1989). This view has been empirically substantiated by Li's (1994) study, which suggests that international experience is a key factor behind expansion.

The internationalization literature has consistently shown that entry into a new international market requires a learning period over which the entrants establish themselves (Cardozo *et al.*, 1989; Forsgren, 1989; Juul and Walters, 1987; Newbould *et al.*, 1978; Johanson and Vahlne, 1977; and Johanson and Wiedersheim-Paul, 1975). Woodcock *et al.*, (1994) discussed the characteristics of this start-up period. They argued that performance is depressed due to the

struggle to achieve economies of scale and scope, and financial performance may be poor and unstable for a variety of reasons. Firstly, new entrants require time to adjust to new markets, new organizational processes and systems, or new competitive factors in the new market. Also, the average performance of an entry may be low at first due to wrong selection of entry mode or market. Thus, to recognize their error and abandon the entry, time will be needed. However, gaining these international experiences is not without price. Stopford and Wells (1972) argued that high resource commitment entry modes should be selected to gain international experience.

The crucial point that needs to be stressed here is that the literature is not consistent about the effect of international experience on the entry mode selection. Indeed in some cases it is contradictory. Firstly, Stopford and Wells (1972) found a positive correlation between entry modes and the level of experience. Johanson and Vahlne's (1977) case-based research, along with empirical studies by Dubin (1975) and Davidson (1980) and Erramilli (1992) provide further support for this contingent, incremental entry mode relationship. Along the same literature lines, Madsen (1989); Christensen *et al.* (1987); Amine and Cavusgil (1986); Denis and Depleteau (1985); and Fenwick and Amine (1979) have reported positive links between the level of international experience and one entry mode (exporting). Additionally, Dau (1991); Dichtl *et al.* (1990); and Lindsay (1990) have investigated the relationship between the intensity of international involvement and market performance. Their findings, generally, suggest that organizations that actively pursue international operations tend to attain better export performance.

However, an inverse relationship between the level of international experience and exporting performance (as one entry mode) has been suggested by Kaynak and Kuan (1993); Cooper and Kleinschmidt (1985); Ursic and Czinkota (1984); and Bilkey (1982).

Also, despite the ambiguity regarding the number of years that determine the experience level (Woodcock *et al.*, 1994), the more international experience gained, the more geographically diverse the entry modes could be, as companies select more "psychically distant" markets (Dahringer and Muhlbacher, 1991).

Finally, the lack of international experience and the shortage of internationalists (i.e. decision makers with international experience) will constrain the viable entry mode alternatives. Consequently, if this is the case the internationalization process will be started from the very beginning by adopting direct exporting and licensing (Cavusgil and Nevin, 1981b; Johanson and Vahlne, 1977; and Johanson and Wiedersheim-Paul, 1975).

It seems from the above debate that the experience variable is still debatable in the entry mode literature. Therefore it is worth testing in the banking context in the current research.

Regarding financial resources, Pan and Tse (2000); Woodcock *et al.*, (1994); Kim and Hwang (1992); Erramilli and Rao (1993); Bonaccorsi (1992); Liouville (1992); Hill *et al.* (1990); Samiee and Walters (1990); Culpan (1989); Cooper and Kleinschmidt (1985); Lecraw (1984); Stening and McDougall (1974); and Snavely *et al.* (1964) argue that entry mode selection is affected by the status of financial resources.

Erramilli and Rao (1993) mentioned in their study of the whole service sector (including banking) that fully owned entry modes are the entry options of choice in cases where there are enough financial resources, as shown in Table 4/2.

Table 4/2
Entry Modes in the Service Sector¹

Basic Modes	Variations	Degree of Ownership Integration	Resource Commitment /Risk	Designation
Contractual Transfer	<ul style="list-style-type: none"> • Licensing, Franchising, Correspondent Banking. 	None/Little	None/Little	<ul style="list-style-type: none"> • Shared-Control Mode.
Joint Venture	<ul style="list-style-type: none"> • Partnership, Consortium, Affiliate. 	↓	↓	<ul style="list-style-type: none"> • Shared-Control Mode.
Wholly Owned Operation	<ul style="list-style-type: none"> • Subsidiary, Office, Branch, Project Office, Representative Office. 	↓ Full	↓ High	<ul style="list-style-type: none"> • Full-Control Mode

Lecraw (1984) argues that the larger the financial resources, the greater the ability to expend resources and absorb risks, and the greater the likelihood of establishing integrated modes. Moreover, financial resource status affects bargaining power, as the greater the financial resources that are possessed, the greater the bargaining power to negotiate for greater ownership and control in countries with restrictive investment policies. On the other hand, some studies have reported little or no support for such a relationship (Bonaccorsi, 1992; Liouville, 1992; Stening and McDougall, 1974; and Snaveley *et al.*, 1964).

Adding to this confusion, reverse relationships have been reported between size (expressed by financial resources) and export profitability (e.g. Samiee and Walters, 1990), export growth (e.g. Cooper and Kleinschmidt, 1985), and the number of markets served (Culpan, 1989).

¹ Source: - Adopted from {Erramilli and Rao, 1993, p. 19}.

This debate applies simultaneously to small and the large size organizations. Agarwal and Ramaswami (1992) and Gatignon and Anderson (1988) argue that the ability to marshal financial resources is a potential determinant of entry-mode choice, not only with large organizations but with small ones as well. Researchers have found that small size organizations suffer from severe financial resources constraints. Van-Hoorn (1979) identified limited resources (especially financial resources) as an important factor that distinguishes the strategic behavior of small organizations from that of large organizations.

Cooper *et al.* (1989) reported that financial resources availability was an important barrier to entry for the small organizations. Lynn and Reinsch (1990) found that, unlike large corporations, small businesses lack the financial resources to grow through acquisitions.

Eisenhardt and Schoonhoven (1990) and Stinchcombe (1965) argue that financial resource constraint was a primary reason for the failure of small and young organizations. Besides that, Goodnow and Hansz (1972) argue that larger corporations tend to choose high-resource commitment and high-risk modes, compared with smaller corporations.

Other things being equal, wholly owned and shared owned entry modes will be most likely with the existence of enough financial resources. However, banks have unique features derived from their nature of business. Specifically, in Egypt fixed assets do not account for more than 10 per cent of the total assets by all means; banks' financial statements are mainly dependent upon deposits, not upon money invested; loan ceiling policy is often within 65 per cent of deposits values; and banks' capital ranges from 15 to 20 per cent of the total assets values (Central Bank

of Egypt, 2001). Consequently, the effect of financial resources on the selection of entry modes could be debated in the banking context; therefore it is worth testing this variable empirically.

Non-financial resources e.g. personnel, strong management, and planning and control systems, could also affect the entry mode decision. Without properly trained and experienced personnel for instance, the bank is well advised to avoid high risk and high control entry modes. Indeed, human resources can be critical to the success of global operations (Bolt, 1988).

Regarding the desire to ward off exposure to foreign problems, this may weight the bank entry mode selection. Therefore, if the bank is unwilling or unable to deal with those problems, it must choose an entry strategy that lets someone else handle them, such as licensing for instance (Dahringer and Muhlbacher, 1991). However, the more directly the bank is involved in foreign markets, the more its management will have to deal directly with new kinds of legislation, regulation, tax, labor problems, and other foreign market peculiarities.

The desire to influence the target market could be one of an international bank's aims. This desire can be responsible for high leniency toward specific entry modes. In other words, if the bank intends to influence the target market and is unable to do so from its home base, wholly owned and fully control entry modes (e.g. branches and subsidiaries) are called for this purpose. To use an example from other service sector: motivated by this desire, IBM established a subsidiary in Japan to enter the computer market there, as well as influencing the Japanese market (Dahringer and Muhlbacher, 1991).

Regarding missions and goals and their effect on the selection of entry mode, these differ from one bank to another. The bank whose corporate mission is to be number one or two in every market it services, would probably choose one of the wholly owned and full control entry modes. Thus, if the bank is a market leader it usually needs to achieve the greatest possible control over the marketing of its services in foreign countries. On the other hand, banks that view internationalization as an extra effort are more likely to select an indirect entry mode.

Competitive strategy could affect the entry mode decision. If the bank is totally internationally oriented i.e. its survival depends on regular internationalization processes, it may undertake a direct market entry mode. Lall (1980); Buckley and Pearce (1979); and Wolf (1977) argue that the possession of strong competitive advantages (e.g. size; research and development intensity; degree of service differentiation; capital; economies of scale; service production and general skills) tends to lead to the use of foreign production entry modes over exporting.

Additionally, marketing research and planning appear to be important activities in facilitating international involvement, since lacking knowledge of overseas markets is often a major obstacle in the development of international operations (Terpstra and Sarathy, 2000; Walters, 1985; and Johanson and Vahlne, 1977). Dominguez and Sequeira (1993); and Sood and Adams (1984) argued that conducting marketing research enables market entry modes' selection to be rational.

Finally, the importance of marketing planning has also been reported by several studies (e.g., Walters, 1993; Madsen, 1989; Gomez-Mejia, 1988; Kaynak and Kothari, 1984; and Bilkey and Tesar, 1977). These studies generally suggested a positive connection between formal marketing

planning and export performance. Cavusgil and Godiwalla (1982) and Robinson *et al.*, (1984) argue that as companies become more experienced and more committed to international operation, marketing decisions tend to move from ad hoc and reactive to more formal.

To sum up, international experiences and financial resources are the two most debated variables examined so far; therefore they will be tested in the banking context in the current empirical study.

4.3. Chapter Conclusion

Wholly owned entry modes (e.g. branches, subsidiaries, representative offices, and agency offices) and purely marketing oriented entry modes (e.g. direct and indirect exporting) are two extremes on the entry modes curve. The latter represents the least resource commitment entry mode banks can have. Conversely, the former represents the maximum resource commitment entry modes. Shared owned (e.g. joint venture, and merges) and contractual (e.g. licensing, franchising, and alliances) entry modes both represent points in between these two extreme cases, as Table 4/3 shows.

As shown in Table 4/3, wholly owned and fully control entry modes can be segregated into two major categories: branches and subsidiaries; and representative and agency offices. Branches and subsidiaries are suitable for specific situations. For example, they are appropriate where servicing one or two foreign markets with maximum depth of coverage and feedback is the bank's philosophy and orientation. Branches and subsidiaries may be also preferred in cases where there is the desire for both extensive exposure to foreign problems (e.g. competitors and environment)

in order to gain overwhelming international experience, and the desire to change some of the values and norms of huge target markets. Therefore they are the most risky fully controlled and high resource commitment entry modes. The desire to adopt highly inflexible entry modes necessitates establishing a service delivery system, execution of an intensive marketing campaign, hiring well qualified personnel, and consequently affording administrative costs and working capital for the first running period. Branches and subsidiaries may be selected because of the desire to target those markets that are politically stable, with no entry barriers, have positive economic indicators, and a similar cultural environment to the home country. Branches and subsidiaries may be selected when targeting markets characterized by low level of competition, because the entrant can offer another level of quality that cannot be compared with the level of local service quality; when targeting less sophisticated target markets with basic infrastructures; and when targeting far away markets characterized by expensive communication, due to the physical distance between home and target markets. They are consistent with ambitious missions and objectives that aim at not only obtaining a large market share in the long run, but also at being a market leader; and with those who possess great experience, represented in well-trained staff and past history in servicing foreign markets, coupled with possessing strong competitive advantages. They are also appropriate for promising markets that have fluctuating currencies to an extent that affects the real value of profits. In these cases, the entrant can reinvest his profit until a fair exchange rate is guaranteed, if it is expected in the future.

On the other hand, representative offices and agency offices represent the least degree of resource commitment within the wholly owned entry modes category. They are appropriate with markets that are currently volatile but promising in the future. These two entry modes could be used in

markets that have severe competition; or for information-collection purposes, especially in those markets that the home bank intends to target intensively.

Shared owned and shared control entry modes including joint ventures and partial mergers and acquisitions are appropriate with some other situations, for example, when targeting a few markets with reasonable coverage and feedback. However, the risk in these two entry modes rests in finding the appropriate partners. They may also be appropriate when other forms of ownerships are not legitimate in the target market; when there is a need for relatively flexibility (compared with wholly owned modes); when target markets are politically stable, economically promising and culturally similar to the home market; when there is severe competition in the target market; and with sophisticated markets where the basic infrastructure, information, and business common background are complex. Like wholly owned modes, they suit more those markets that are physically far away from the home country, as communication is too expensive to those promising markets. They may also suit those seeking to gain international experience quickly.

Contractual entry modes e.g. licensing, franchising and alliances, enable relatively quick access to many markets at the same time as a revenue guarantee e.g. royalty fees from the very beginning. Therefore, these entry modes are appropriate when banks have a good reputation and "good-will" as well as strong competitive advantages. They suit ambitious banks that have clear long-run objectives to be market leaders, and well-trained staff to execute those objectives, but which, for one reason or another, cannot use branches and subsidiaries. They can be utilized in temporary situations, until the entrant builds a clear vision about the target market. In this case, the entrant is highly motivated to gather all information about the target market and can then shift

to another entry mode. Contractual modes can be used in situations that need flexible entry, and with target markets that are semi-similar to the home market, especially with alliances.

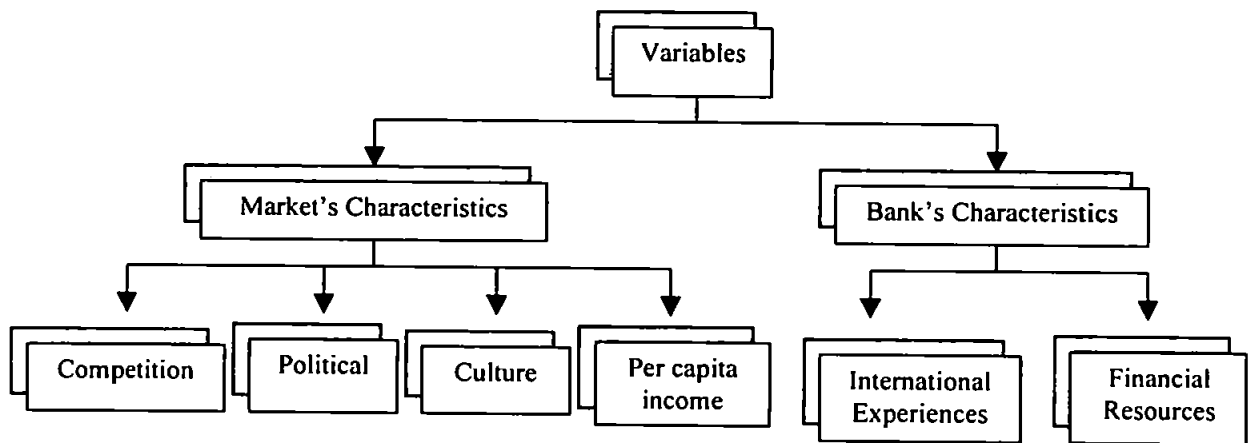
Finally, purely marketing oriented entry modes e.g. direct and indirect exporting, represent the least resource commitment a bank can devote to a specific target market. Exporting entry modes could be used either by less experienced banks as they are relatively risk-and cost-free, or by experienced banks, to approach another high resource commitment entry mode in the future. These entry modes fit relatively small markets with severe competition, huge entry barriers, and those which are politically unstable. Additionally, they fit target markets that are dissimilar to the home market. Also, banks that adopt these entry modes have no intention, at least for the time being, of significantly influencing those target markets. Finally, these entry modes represent the highest possible level of flexibility.

It can be concluded from the above debate that wrong entry mode decisions are costly. To avoid such enormous costs, decision makers should base their selection upon what can be called “the entry modes-selection variables matrix” as explained in Table 4/3. This tool could facilitate their mission in selecting the most appropriate entry mode for the situation. This is particularly relevant, as an entry mode decision is a function of the target market situation as well as decisions makers’ skills.

To sum up, the most debated organizational characteristics and target market’s characteristics will be tested in the banking context. The former include international experience (i.e. the experience the bank has about foreign markets measured by number of years) and financial resources (i.e. the

amount of capital and other resources the bank has). The latter include economic risk (represented in per capita income), political risk (i.e. the stability of foreign markets), cultural environment (represented by six variables: similarities and differences in languages, values, and religions between the home market and target markets), and levels of competition (i.e. number of rivals and the shape of competition in foreign markets), as shown in Figure 4/2.

Figure 4/2
Suggested Entry Modes' Variables to be Tested in the Banking Context ¹



¹ Source: - The Researcher.

Table 4/3
Entry Modes-Selection Variables Matrix¹

Entry Modes' Characteristics	Evaluation Factors	Purely Marketing Entry Modes		Contractual Entry Modes			Shared-Owned Entry Modes		Wholly Owned and Fully Control Entry Modes			
		Indirect Export.	Direct Export	Licensing	Franchising	Strategic Alliances	Merger & Acquisition	Joint Venture	Agency Offices	Representative Offices	Subsidiaries	Branches
	Resources Commitment	The lowest	The lowest	Low	Low	Low	High	High	Low	Low	The Highest	The Highest
Risk associate	The lowest	The lowest	Low	Low	Low	High	High	Low	Low	The Highest	The Highest	
Flexibility	Highly Flexible	Highly Flexible	Semi- Flexible	Semi-Flexible	Semi-Flexible	In Flexible	In Flexible	Semi-Flexible	Semi- Flexible	Un-flexible	Un-flexible	
Control.	Minimum	Small	Moderate	Moderate	Moderate	Large	Large	Maximum	Maximum	Maximum	Maximum	
Market feedback	Minimum	Low	Moderate	Moderate	Moderate	Large	Large	Maximum	Maximum	Maximum	Maximum	
Profits Possibility	The lowest	Low	Moderate	Moderate	Moderate	High	High	Low	Low	The highest	The highest	
Incremental Marketing	The lowest	Low	Moderate	Moderate	Big	Big	Big	Low	Low	The biggest	The biggest	
Administration Fees	The lowest	Low	Low	Low	High	High	High	Low	Low	The biggest	The biggest	
Number of Markets	Several	Several	Some	Some	Some	Few	Few	Some	Some	One or two	One or two	
Market penetration	Minimum	Low	Moderate	Moderate	Moderate	Deep	Deep	Low	Low	Maximum	Maximum	
Target market volume	Small	Small	Big	Big	Big	Big	Big	Medium	Medium	V. Big	V. Big	
Risks	Economic	Acceptable	Acceptable	Promising	Promising	Positive	Positive	Promising Indicators	Promising Indicators	Very Positive Indicators	Very Positive Indicators	
	Political	Un-Stable	Un- Stable	Stable	Stable	Stable Enough	Stable Enough	Less Stable	Less Stable	Very Stable	Very Stable	
	Legal Restrictions	More entry Barriers	More entry Barriers	More entry Barriers	Barriers Existed	Barriers Existed	Barriers Existed on single entry	Barriers Existed on Single entry	No Entry Barriers	No Entry Barriers	No Entry Barriers	No Entry Barriers
	Currency	Neutral	Slow changes in exchange rates	Slow changes in exchange rates	Slow changes in exchange rates	Slow changes in exchange rates	Rapid changes in exchange rates	Rapid changes in exchange rates	Rapid changes in exchange rates	Rapid changes in exchange rates	Rapid changes in exchange rates	Rapid changes in exchange rates
Culture environment	Dissimilar	Dissimilar	Semi-Similar	Semi-Similar	Similar	Similar	Similar	Similar	Similar	Similar	Similar	
Competition	Sever	Sever	Sever	Sever	Sever	Sever	Sever	Sever	Sever	Less	Less	
Geographical distance	Not a condition	Very close markets	Far and close markets	Far and close markets	Not a condition	Far and close markets	Far away markets	Long physical distance	Long physical distance	Long physical distance	Long physical distance	
Technological development	Not a condition	Not a condition	Promising markets	Promising markets	Sophisticated Markets	Sophisticated Markets	Sophisticated Markets	Less Sophisticated Markets	Less Sophisticated Markets	Less Sophisticated Markets	Less Sophisticated Markets	
Infrastructure	Not a condition	Not a condition	Acceptable	Acceptable	Good	Good	Good	Good	Good	Good	Good	
Information	No accurate info.	Some	Seeking for info.	Seeking for info.	Enough Info.	Accurate info.	Seeking for info.	Need more info.	Need more info.	Accurate info.	Accurate info.	

Potential Market's Characteristics

Bank's Characteristics	Service characteristics	Ok	Ok	Ok	Ok	Ok	Ok	Ok	Ok	Ok	Ok	Ok
	Experience	No	Less	Seeking for	Seeking for	Some	Seeking for	Seeking for	Seeking for	Seeking for	V. Big	V. Big
	Financial Resources	Small	Small	Small	Small	Small	Big	Big	Small	Small	V. Big	V. Big
	Non-financial resources	Small	Small	Small	Small	Small	Big	Big	Small	Small	V. Big	V. Big
	The Desire to exposure to foreign problems	Reluctant	Reluctant	Trying	Trying	Trying	Trying	Trying	Trying	Trying	High	High
	The desire to influence target market	Less desire	Less desire	Moderate desire	Moderate desire	Moderate desire	High desire	High desire	Less desire	Less desire	Very high	Very high
	Missions and goals	Internationalization viewed as an extra efforts	Internationalization viewed as extra efforts	Market leader	Market leader	Market leader	Market leader	Market leader	Market leader	Market leader	Market leader	Market leader
	Competitive strategy	Weak	Internationally oriented	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong	Strong
	Marketing research	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite	Prerequisite
To sum up	Opportunities created	The Lowest	The Lowest	Low	Low	Low	High	High	Low	Low	The Highest	The Highest
	Continuity of opportunities	Volatile	Volatile	Moderate	Moderate	Moderate	High	High	Volatile	Volatile	The Highest	The Highest
	Resources required	The Smallest	The Smallest	Moderate	Moderate	Moderate	Big	Big	Small	Small	V. Big	V. Big
	Time required	The Shortest	The Shortest	Moderate	Moderate	Moderate	Moderate	Moderate	Short	Short	The Longest	The Longest

Source: - The Researcher based on the literature.

Chapter Five:
Defensive Marketing Strategies

5.1. Introduction

Compelling evidence that customer loyalty drives profitability in service industries has led to recommendations that firms shift their focus away from "offensive" strategies aimed at seeking new customers and toward "defensive" strategies aimed at satisfying and keeping current customers (Tax and Brown, 1998, p. 89). However, though these defensive strategies help keep at least the status quo they might not be extended to reaping competitive advantages unless they are appropriately used against relevant threats, as responses that are merely defensive or reactive to the innovations of competitors fail to provide such competitive advantages. Active measures are needed that anticipate competition with forward-looking strategies (Werther and Kerr, 1995). In other words, the effective usage of defensive strategies should be coupled with spotting competitors' movements in the present, and anticipating their intentions in the future, to keep the status quo and achieve competitive advantages in the target market. Setting scenarios between kinds of rivals and their competitive advantages and defensive strategies are required.

Defensive marketing is the body of knowledge that uses customers as a shield in their battle with their rival in a specific market (Griffin *et al.*, 1995; Heskett *et al.*, 1994; Reichheld, 1993; Fornell, 1992; Reichheld and Sasser, 1990; and Fornell and Wernerfelt, 1988). Hauser and Shugan used defensive marketing terminology for the first time at 1983. Therefore, it could be considered a relatively new terminology in marketing literature. This may explain the lack of studies related to this body of knowledge.

As with offensive marketing strategies, defensive marketing strategies use the elements of marketing programs (i.e. promotional and marketing mix elements) in defending the current markets and assisting revenues to grow. However, world growth has slowed since the September

11th terrorist attack (Loomis, 2002; Marketing, 2002a; and Sarsfield, 2002), and many multinational corporations (MNCs) are finding that the only way to grow is by taking market share from the competition (Caudron, 1994). Pressures from competitors, changing customer needs, and the macro-economy continuously confront businesses, requiring them to constantly evaluate and change their strategic goals (Hao, 2000; McEvily *et al.*, 2000; and Inkpen, 2000). Also, opportunities, competitors, and resources are globally viewed, as most of the millennium MNCs realize they must be proactive to survive and succeed (Lerouge, 2000). All these dramatic changes in today's businesses entail adopting a vigilant thinking for defending, at least, the status quo. Consequently, special interest should be assigned to the defensive marketing strategies issue to deal with the anticipated severe competitive waves in the coming decades.

Compared with offensive marketing studies (e.g. Urban and Hauser, 1993; Davidson, 2000; Wind, 1982; Pessemier, 1982; and Shocker and Srinivasan, 1979), defensive marketing studies need to be focused on more. This current study is an endeavor to do this.

Literature in this area can be criticized for the following reasons. First, it is both scattered and narrow in the scope of its coverage, as each defensive marketing strategy is separately addressed. Second, the variables that affect the selection of defensive marketing strategies have not been addressed in the literature before. Therefore, the current study attempts to address this issue by adopting a collective and comprehensive approach that tackles all the viable defensive marketing strategies, and the variables that affect their selection, in one study. Consequently, this work could be considered a pioneer endeavor from this perspective.

5.2. Defensive Marketing Strategies

Defensive marketing strategies will be presented and analyzed in this context to reveal the opportunities each strategy can offer, the continuity probability of these opportunities, the time required to deploy each strategy, and the resources required for that deployment.

Purba (2002); Zhao *et al.* (2002); Erto and Vanacore (2002); Groom and David (2001); Gummesson (2000); Peck *et al.* (1999); Mattila (1999); Gordon (1998); Porter (1998); Donthu and Yoo (1998); Payne *et al.* (1998); Piercy *et al.* (1998); Wit *et al.* (1998); Tax and Brown (1998); Tyson (1997); Cotter *et al.* (1997); Katsikeas and Leonidou (1996); Stone and Woodcock (1995); Reeves and Bednar (1994); James *et al.* (1994); Malhotra *et al.* (1994); Desatnick and Detzel (1993); Myers (1993); Olusoga (1993); Hooley and Saunders (1993); Babakus and Boller (1992); Cronin and Taylor (1992); Bergstrom (1992); Bolton and Drew (1991b); Berry and Parasuraman (1991); Chardwick (1991); Heskett *et al.* (1990); Lee and Yang (1990); Kim *et al.* (1989); Albaum *et al.* (1989); Fornell and Wernerfelt (1988); Parasuraman *et al.* (1985); Fornell and Wernerfelt (1984); Clarke (1984); Hauser and shugan (1983); Malickson (1983); Piercy (1982); Hofstede (2001); Rugman (1979); IMR (1978); ITI (1979); BETRO Trust Committee (1976); and Smith (1956) have contributed to definitions of defensive marketing strategies. Together they have identified business intelligence strategy (BI), customers service strategy (CS), customer complaint management strategy (CCM), Aikido strategy (AIKO), free telephone line strategy (FTL), focus strategy (FOC) or market concentration, differentiation strategy (DIFF) or market diversification, and cost leadership strategy (CL) as important factors.

5.2.1. Business Intelligence (BI)

Business Intelligence is an analytical process from start to finish. It is a process that involves gathering bits and pieces of information about competitors, customers, suppliers, potential

acquisition candidates, joint venture candidates, as well as strategic alliances (Tyson, 1997, p. 153). BI could be considered the key to success in an increasingly complex global business environment (Bergstrom, 1992). However, the practice of BI lacks a straightforward and standard definition. A more accurate approach is to accept a definition that consists of multiple components or dimensions. Commonly accepted components include Executive Information Systems (EIS), Executive Support Systems (ESS), and Decision Support Systems (DSS) (Purba, 2002, p. 28).

From the above definitions, one may argue about the closeness between “market orientation strategy (MOS)” and BI strategy. The approaches are believed to be different in two main aspects: the contents and the scope. In content, BI could be viewed as the operationalization steps of market orientation strategy, as the latter is defined as “a culture that influences how employees think and act” (Dobni and Luffman, 2000, p. 895). In scope, BI strategy is a MOS and more, as the former focuses on competitors, and suppliers besides customers, who are the main interest of MOS proponents (e.g. Jaworski and Kohli, 1993). Jaworski and Kohli (1993, p. 54) defined MOS as the organization wide generation of market intelligence pertaining to current and future needs of consumers, dissemination of intelligence horizontally and vertically within the organization, and organization wide action or responsiveness to it. Moreover, Deshpande *et al.* (1993); Narver and Slater (1990); Shapiro (1988) added that the principal feature of MOS is putting the customer interest first through the coordination and integration of the organization’s resources, human, and other directed toward the creation of superior customer value.

BI aims at building a competitive knowledge database that can be used as a reference point to evaluate new information and help make timely decisions. Obviously, the competition element of

BI is extremely important, as it helps formulate defensive strategy. Competitor intelligence is information on markets, products and other businesses that can give its user a competitive edge, to significantly increase profits and protect against losing business to competitors (for more details regarding the purposes of competitor intelligence, see Wilson, 1994).

BI is one of the fastest-growing management strategies being used by businesses today (Bergstrom, 1992). Simply, this strategy aims at making competitors look like an open book, so whenever any piece of information is needed it can be obtained in a timely fashion. For instance, the success of Japanese companies in penetrating and even dominating industries such as electronics and automobiles is a proof of the value of competitor intelligence. Most of these firms have weekly meetings, called "competitor comparisons", during which they analyze the competition (Bergstrom, 1992, p. 28). On the other side of the Pacific Ocean, less than 10 per cent of American corporations are sophisticated and competent about gathering information about their competitors. The other 90 per cent are downright amateurs (Ettorre 1995, p. 15). Groom and David (2001, p. 13) argued that businesses use intelligence to develop strategies that address opportunities and threats and allow them to gain or maintain competitive edge. Therefore, this strategy can function to achieve two main aims: reactive i.e. defensive (by defending the current market) and proactive i.e. offensive by deciding whether or not to enter a foreign market (Ettorre, 1995). For Egyptian banks, this strategy can serve defensive purposes at least in its first stage. Finally, organizations with high market orientations tend to be more strategically proactive (like BI proponents) and connected to their customer within their environments than their counterparts with low market orientations (McKee, *et al.*, 1989; McDaniel and Kolari, 1987; Walker and Ruekert, 1987).

To be used appropriately in a banking context, Myers (1993); Bergstrom (1992); and Porter (1980) identify three main steps of BI. These are: the “doorknob lock”, which represents collecting, compiling, classifying, and cataloging competitive information, and executing some digestive analysis upon these data; second, to unlock the interior “slide lock”, sharing that data with departments; and third, for the “dead bolt”, using competitive intelligence. It is worth mentioning that these three consecutive steps resemble “a three-lock door”. When all the three keys and locks are in good working order, the benefits of this strategy could be gained. If one key is missed, the other two are useless. It is the same with gathering and trying to use competitive information; it is of little value unless these data has been shared within the bank. If the “dead bolt” is rusty, the bank is out of luck, too. Consequently, gathering and sharing competitive information would not pay off until data is used effectively.

BI starts by collecting data about competitors. Two data sources can be used: published and field data. The former includes secondary data sources e.g. publications, media, government documents, broadcasts and contacts, speeches by management, community organizations, analyst reports, filing to government and regulatory agencies, patent records, court records, and other local sources. The latter includes primary data sources e.g. using sales force, engineering staff, distribution channels, suppliers, advertising agencies, personnel hired from competitors, professional meetings, trade associations, market research firms, reverse engineering, and security analysis, the most-valued customers of the bank, prospects (i.e. people shopping around for bank services), referrals (e.g. real estate brokers, accountants, lawyers, business executives, chamber members and other professionals) and even current competitors themselves. However, primary data about competitors does not include just other banks, but mortgage companies, credit unions, stockbrokers, financial planning companies, credit card companies, retailers offering

credit cards, and even the telephone companies that now offer credit cards (Myers, 1993, p. 29). The suggested gatherers in this stage might be the sales and business development staff, and sales managers. However, every bank employee is in some position to learn or hear about competitors. Others can be valuable eyes and ears in acquiring data for the bank's competitive intelligence: members of the board of directors, officers, new account personnel, tellers, customer service representatives and, of course, the marketing department (Myers, 1993, p. 28). At this stage also, the collected data should be sorted in an the appropriate way, catalogued, and descriptively analyzed to produce meaningful information (e.g. data summarizing, data ranking according to the credibility of the source, quarterly comparisons of the financial analyses of key competitors, estimation of competitors' cost curve and trends, and ranking the competitors according to their strong points).

Sharing the gathered information with other departments within the bank is the second step, as the right people in the bank should be permitted to know what the competitive information adds up to. Competitive information gathering and sharing ought to be an agenda item at every sales meeting. To guarantee the success in this step, information gatherers should simply pass the information on without making judgments about what they read, see, hear and learn. Myers (1993, p. 31) mentioned that if someone (i.e. collector or analyzer) suddenly says, "Aha! I know what they're up to. In that moment, competitive information becomes competitive intelligence". Therefore, the Society of Competitive Intelligence Professionals (SCIP) has defined competitive intelligence as a systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business' own goals (Groom and David, 2001, p.13).

The final step is using competitive intelligence (CI) i.e. the dead bolt by guiding service development. Metayer (1999) identified three factors that have driven the emergence of CI: (a) the arrival of new competitors that increase the danger of getting blind-sided by unexpected new entrants; (b) increasing industry consolidation has made it harder to know what competitors are doing from conventional, publicly available sources; and (c) new tools and sources of information have allowed non-research specialists to access information they need, and to easily analyze, synthesize and distribute it. Therefore, it could be claimed that BI helps determine and sharpen market focus and long-range strategies through determining the niches that left unserved and the efforts required for assuring customer loyalty (Myers, 1993). Bearing in mind that at other times the information will spark new ideas, this process ought to be repeated continuously.

One may argue that BI is only a database strategy. The fact of the matter is that it is a defensive marketing strategy that simultaneously leads to other defensive marketing strategies, through transferring the collected data to meaningful information and then to knowledge and finally to competitive intelligence that enhance the competitive capabilities and strategy development and implementation (Simpson, 1997).

To recap the earlier discussion, BI strategy could be used to find out the surrounding opportunities and threats and reveal the appropriate way to deal with each. BI programs help managers make smart decisions by extracting information from computer systems, running it through sophisticated math formulas, and delivering it in simple and understandable reports (Kerstetter, 2002). Consequently, it offers great opportunities to the users of this strategy. Additionally, the continuity probability of such opportunities will last for a long period of time due to the depth of strategy coverage. Consequently, it uses large resources e.g. financial

resources, and human resources for these purposes. Additionally, this huge amount of data will be collected over an extended period of time; therefore it needs a long period of time to produce tangible results.

5.2.2. Customer Service (CS)

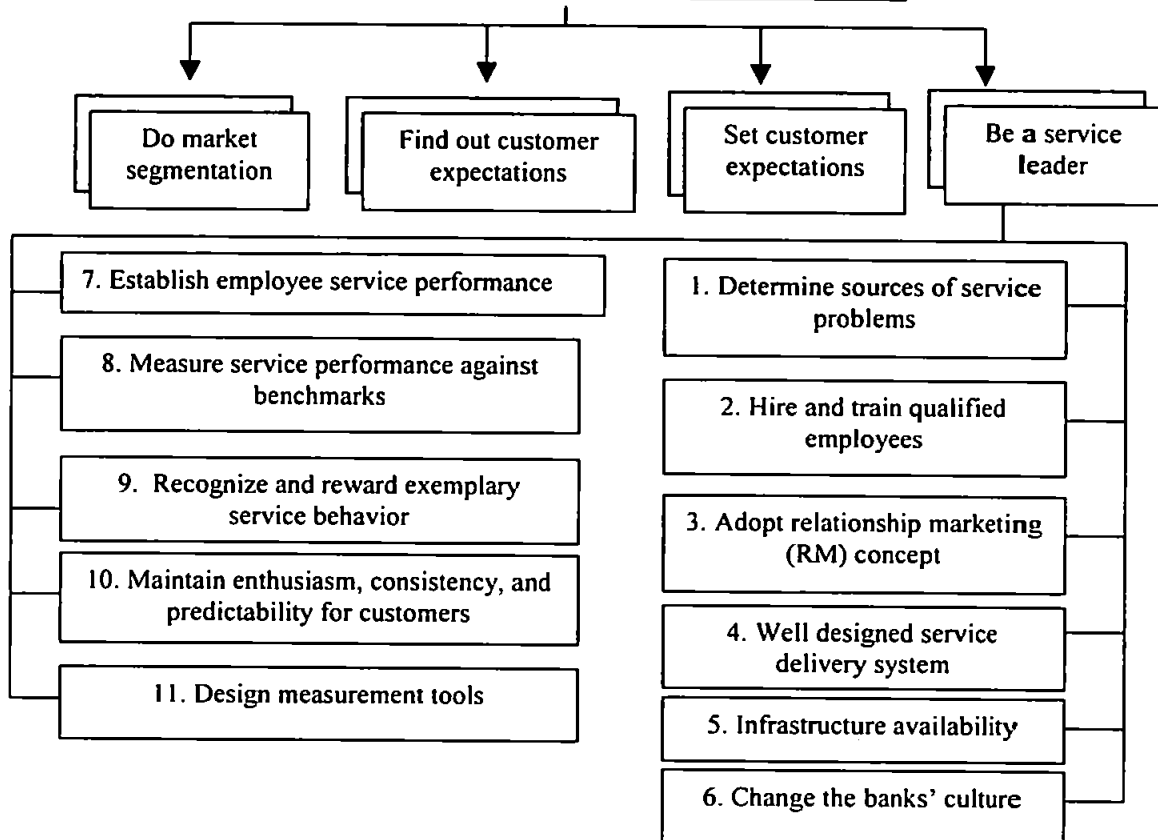
In the evolution of most markets, competition appears to progress from features to cost to quality of service (Davidow and Uttal, 1989, p. 24). Additionally, trying to sustain competitive advantage through technology is a myth, as technology represents a massive investment just to stay and play in the game (Giles, 1986, p. 19). Moreover, trying to compete solely on the basis of price is insufficient, as the differentiation that justifies high price is difficult to maintain. Apart from customer service, the same argument applies for the rest of marketing program components i.e. all marketing and promotional mix variables. Therefore, customer service is the way to reap a competitive edge, as it is the standard by which customers measure performance (Parasuraman *et al.*, 1988). Moreover, bad service will cancel any benefit from selling more products (Cotton, 2002).

Therefore, it is worth mentioning the steps and mechanism of this strategy as well as its definitions, which will be critically analyzed and presented (see Figure 5/1). Besides that, attention will be drawn to the opportunities created by this strategy, the continuity probability of these opportunities, and the resources and time needed to appropriately use this strategy.

Customer service strategy is a quality assurance strategy that aims at giving much care to customers and keeping them loyal. Given that a strategy is the path that should be followed to reach a destination, CS strategy aims at defending market share and reaping competitive edge. Also, it includes all the features, acts, and information that augment the customer's ability to

realize the potential value of a core product or service (Davidow and Uttal, 1989, p. 22).

Figure 5/1
Customer Service Strategy's Components¹



Therefore, it is whatever enhances customer satisfaction. This satisfaction, or the lack of it, is the difference between customer expectations and perceptions. Actually, the offered service (e.g. banking service) is not only what the customer already received; it could be more than that. Therefore, evaluating and measuring service quality has been a topic in customer service's literature since many decades. Many researchers have proposed and evaluated alternative service quality models and instruments for measuring service quality but Parasuraman *et al.* (1991, 1988, 1985) model that called "SERVQUAL" is the most prominent and the most widely used. It proposed that the consumer's opinion of quality be formed by an internal comparison of

¹ **Source:** - The Researcher, based on the relevant literature.

performance with expectations. Good service quality means that the customers' perceptions of service performance meet or exceed their expectations of what the service firm should provide.

As originally proposed, SERVQUAL consists of two sections: a 22-item section to measure customers' service expectations of companies within a specific sector and a corresponding 22-item section to measure customers' perceptions of a particular company in that sector (Parasuraman *et al.*, 1991, p. 421). This 22-item SERVQUAL scale includes five constructs: tangibles (4 items), reliability (5 items), responsiveness (4 items), assurance (4 items), and empathy (5 items). However, its validity, reliability, and applicability in different markets with different business cultures still a debated issue in the literature (for more details Zhao *et al.*, 2002; Mattila, 1999; Donthu and Yoo, 1998; Reeves and Bednar, 1994; Babakus and Boller, 1992).

Levitt (1980) defined service components as generic services, expected services, augmented services, and potential services. The generic service is the fundamental, but rudimentary, substantive element e.g. loanable funds for a bank. Expected services include the services that the bank's customers anticipate e.g. convenient delivery, attractive terms, and adequate after sales support. Augmented service adds to what is already expected, a bundle of benefits the customer does not expect, e.g. training of his employees or a bank statement that analyzes sources and uses of funds. Since the augmented service exceeds the customer's expectations, it can produce much customer satisfaction. Finally, the potential service is everything that might be done to attract and hold customers, and that can be added to the augmented feature in future.

Therefore, customers perceive the offered service as a complex cluster of value satisfactions (Erto and Vanacore, 2002). Most notably, the generic element is not itself the service, it is the

minimum that is necessary at the outset to give its producer the chance to play the game. It is the playing that gets the results, and in business this means getting customers and keeping them loyal (Levitt, 1980, p. 84). Thereby, to keep customers, the quality required (that each single customer paid for) ought to be thoroughly received.

Bolton and Drew (1991a) and (1991b); and Parasuraman *et al.* (1988) defined quality as a form of attitude, related but not equivalent to satisfaction, that results from the comparison of expectations with performance. Customer satisfaction is “the degree of happiness experienced by the customer. It is produced within and through an organization, among all departments, all functions, and all people. Customers include external purchasers of goods and services from the organization, suppliers, the local community, employees, managers, and supervisors (and share holders if the organization is publicly held)” (Desatnick and Detzel, 1993, p. 9). Notably, most banks say that they are close to the customer, but few are.

Quality, especially in service, is elusive and abstract, and difficult to define and measure (Crosby, 1996; Ghobadian *et al.*, 1994; Garvin, 1993; Carman, 1990; and Rathmell, 1966). However, it is considered the most effective strategy to reap competitive edge (Brown and Swartz 1989; Parasuraman *et al.*, 1988; Rudie and Wansley, 1985; Thompson *et al.*, 1985). In order to realize, or control a certain level of quality, the availability of an efficacious practical measure of the actual service quality is first needed (Erto, 1997a, 1997b). Erto and Vanacore (2002) argue that a more effective measure of the actual service quality level could be based on the evaluation of both the logical structure employed to produce the service and its main characteristics.

However, service quality is an antecedent of customer satisfaction, and customer satisfaction

exerts a stronger influence on purchase intentions than service quality. Hence, the customer does not necessarily buy the highest quality service; convenience, price, or availability may enhance satisfaction (Cronin and Taylor, 1992). So local banks should know from the beginning that all customers cannot be satisfied at all times, because sometimes customers create problems to get their money back. Moreover, service availability can be taken into consideration within the service quality component.

Davidow and Uttal (1989) defined the strategy mechanism for customer service. Market segmentation, finding out what customers expect, setting customers expectations, and serving the target market in unique ways that achieve market leadership comprise the elements of this strategy mechanism.

Firstly, market segmentation should focus on customers' expectations more than their needs. This segmentation is unlike classical marketing segmentation because several customer service segments may exist within one market segment, and one customer service segment can cut across several market segments. Once customers are segmented, they can be ranked by their relative value and the costs of serving them. It is important to note that trying to serve more than one segment superbly is dangerous. If it must be done, the bank should make sure that the segments, and the services they expect, are not radically different. If there are big differences, the least valuable segments should be considered or different organizations created to serve them. Segmentation aims at identifying customers with the greatest revenue potential (Kessler, 1997).

The second element is finding out what customers expect by concentrating on the most important of these. Davidow and Uttal (1989) discussed appropriate ways to find out about customer

expectations. If research is the method to do that, it is recommended to start with open-ended questions and use focus groups by formal methods. It is also recommended to use qualitative truth instead of generating thousands of highly accurate but largely misleading numbers. It is recommended to look to competitors' strategies to understand where they are in the service life cycle, and how to leapfrog them or finesse their advantages. Getting caught in a downward spiral of service, or a price squeeze, should be avoided; companies should try instead to push competitors into the spiral.

Next, the determination of customers' expectations should be accurate. This can be done throughout, developing a communications plan that will influence customers to expect a little less service than that they will get. For instance, if the bank can finish all credit letter procedures in half an hour, it may guarantee a one-hour service.

Finally, serving customers should be with the intention of being a service leader in the market. Desatnick and Detzel (1993) and Davidow and Uttal (1989) have defined service leadership requirements as determining sources of service problems; requirements in hiring and training employees; designing service delivery systems, and infrastructure; changing the bank's culture; establishing employee service performance; measuring service performance against superior benchmarks; recognizing and rewarding exemplary service behavior; maintaining enthusiasm, consistency, and predictability for customers, and designing measurement tools.

The starting point to be a service leader is clarity. The current service position should be clearly pinpointed to identify the sources of service problems. More frequently, the sources of service problems can be created either from the services delivery system itself (e.g. the lack of facilities

and inconvenience of system layout), or from the bank staff. Certainly, the determination of service problems and their sources is half way to the solution.

If the source of service problems is the lack of employees or their quality, the bank should hire new staff and train them, as well as setting correct measures for both the skills needed and the standards for each skill. Desatnick and Detzel (1993) have discussed the abilities that the employees dealing with customers should have i.e. being cooperative, dependable, self motivated, possessing the ability to work under pressure, communication skills, enthusiasm, integrity and honesty, interpersonal skills, the ability to take decisions, as well as the ability to handle pressure and priorities.

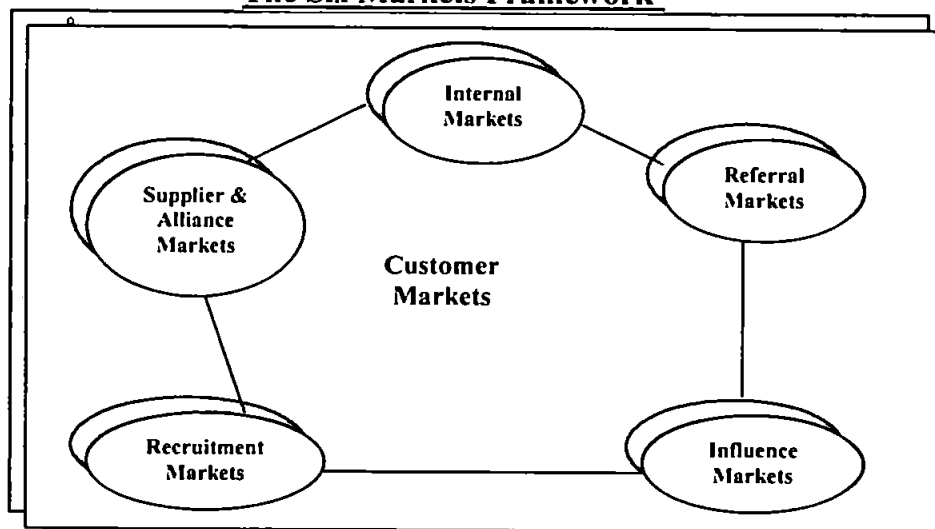
Given that customers judge service by the quality of interactions, the more contact the employees have with customers, the more the probability of criticizing their behaviors (Gronroos, 1982; and Shostack, 1977). Staff should be trained on how to conduct conversations with customers to accurately determine their needs (Cotton, 2002). Therefore, staff recruiting, hiring and compensation should be matched with the quality of services intended to be offered, as financial services companies are 'behind the times' and provide poor customer service compared with other industries, according to findings of researches conducted by IBM and Swallow Information Systems (Marketing, 2002b, p.7).

Additionally, simultaneous face-to-face delivery brings employees and customers physically, organizationally, and psychologically close without clear boundaries between customers and employees (Aldrich and Herker, 1997; Schneider *et al.*, 1980; and Adams 1976): for instance, active customers' participation in the creation of bank services by filling out deposit tickets

(Lovelock, 1980; and Eiglier and Langeard, 1977). Therefore, banks ought to hire the right people in the right place throughout, searching for target groups whose life situations fit well with the job requirements. Then a continuous training program should be activated. Furthermore, customer service employees should be paid enough to show their importance to the bank's success, and to give them genuine paths instead of making their career a dead-end job.

Relationship marketing (RM) is the ongoing process of identifying and creating new value with individual customers and then sharing the benefits from this over a lifetime of association (Gordon, 1998). This long lasting relationship between the bank and its stacks (especially customer groups) help discover their needs faster than rivals which in turn offer sustainable market opportunities if better seized.

Figure 5/ 2
The Six Markets Framework²



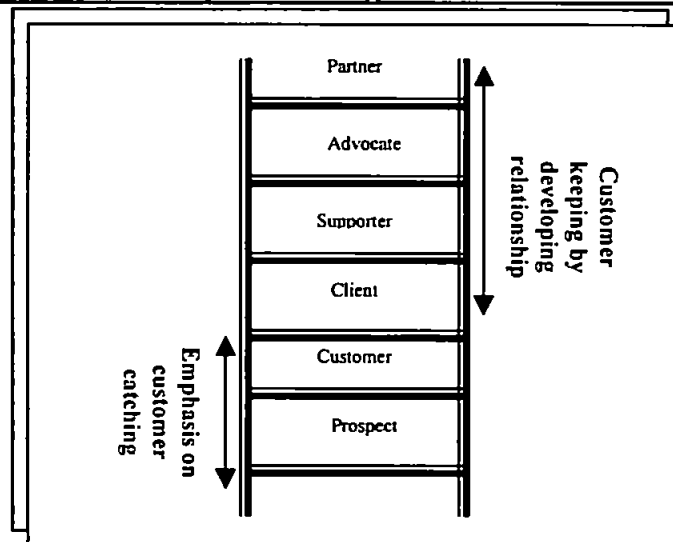
Of course, MR differ from traditional marketing in six dimensions: in creating the value with customers and sharing it with them; in recognizing the role that individual customers have in defining the value they want; in designing and aligning business process within the bank in a way

² **Source:** Adopted from: {Peck *et al.*, 1999, p. 1}.

that support the value that customers want; in real time interaction between sellers and buyers; in recognizing customers purchasing on lifetime base; and in building a sustainable chain with all bank's stacks (i.e. customers, suppliers, employees, shareholders, financial institutions, distributors, and government) (Gordon, 1998). Therefore, MR is perceived to be valid for six markets: customer, internal; referral, influence, recruitment, and supplier markets (Peck *et al.*, 1999), as shown in Figure 5/2.

Having said that, RM is seen as relationships, networks and interaction aimed at finding and satisfying all bank's stacks and giving them all what they expected to have (Gummesson, 2000; Stone and Woodcock, 1995). RM is often perceived as the opposite to transaction marketing (the one-shot deal) in which there is no ambition existed to climb what so called "the loyalty ladder" which starts by prospect, customer, client, supporter, advocate and partner (Payne *et al.*, 1998). Notably, the lower two ladders are oriented to catch customers whilst the remaining four ladders are oriented by how to keep them, as shown in Figure 5/3.

Figure 5/3
The Relationship Marketing Ladder of Customer Loyalty³



³ **Source:** Adopted from {Payne *et al.* 1998, p. viii}

Needless to say, this long lasting relationship with customers will not continue unless the obtained services meet their expectations. Here the importance of SERVQUAL appears in figuring out and filling any gap between customers' expectations and the real performance.

Service delivery systems (the bank layout) ought to be designed in a way that makes receiving service very smooth. Lovelock (1985) defined some considerations in bank layouts. For example, in designing the layout the designer should consider the difference between high and low contact services. Also, types of customers (e.g. individual or an institution) should be considered: how long it takes to deliver the service; how much information the customer needs about work in progress; how much capacity may constrain delivery of service; how often the customer repurchases the core service; how complex the service; and how much failure will affect the customer are also considered. These suggestions are helpful in both newly designed and redesigned service delivery systems.

Without infrastructures none of the above could be achieved. These include networks, physical facilities, and information to support services production. In addition, a bank's whole culture should be oriented towards customer service. Ubich and Lake, (1990) discussed alternative ways of organizational changing (OC) and developing (OD) to be a customer-oriented bank. Based on the Mintzberg theory, changing the culture mainly depends on the real bank's culture situation. They define three alternative cultural situations a bank can have. Firstly, the hidden part of culture is equal to the observed part; in this case the bank can change the culture through the simultaneous use of both the organizational development (OD) and organizational change (OC) techniques. Or the hidden part of culture is less than the observed one, in this case OC is recommended. Finally, the hidden part is greater than the observed one, in this case OD is

recommended. According to the Mintzberg theory, the hidden part includes culture, values, norms, and attitudes. Conversely, the observed part includes mission, goals, organizational structure, strategies, and procedures. For more details about the Mintzberg theory and the approaches of culture change see Ubich and Lake (1990).

In establishing employee based service performance, it is not enough to say to each employee “be nice with customers”; the meaning of “nice” should be clearly defined. Thus the bank should determine a written job description for every position and performance standard that encourages customer satisfaction. Performance standards should include behavioral as well as technical, financial, and operating results. Desatnick and Detzel (1993) identified job description details i.e. why the position exists, what it contributes to the bank’s goals, what the six to eight principle responsibilities are, where and how the position fits into the total picture, and how performance will be measured.

When measuring service performance against superior benchmarks, the bank has to have mechanisms that enable performance to be compared to standards and reveals the deviations. Moreover, the reasons behind poor performance should be pinpointed. Therefore, measurement is an insufficient condition for the creation of quality service it is absolutely necessary (Davidow and Uttal, 1989, p. 204). No universally accepted methodology exists on how to improve service quality however.

Data envelopment analysis (DEA) is widely accepted as providing benchmarks for branches (El-Faraj *et al.*, 1992). This measurement technique multiplies the branch outputs (decision making unit (DMU)) to branch inputs. Thereby, the DMU will be inefficient if some other DMU can

produce at least the same amount of outputs with less of some resource inputs, and not more of any other resource. Conversely, a DMU is efficient if the above is not possible. El-Faraj *et al.* (1992) defined input and output components. The latter includes net monthly profit, monthly average balance of savings, the monthly average of current accounts, the monthly average of the accounts, monthly mortgages, an index of loans, and the number of accounts. The former includes many factors such as numbers of employees, employees with college degrees, location index, an index of the rank of the highest authority, an index of expenditures on decoration, average monthly salaries, other operational expenses, equipment, and average number of years of experience.

Although this model provides guidelines for improving service quality by comparing branches' performances, it was found insufficient as a measuring tool to examine a single service quality output (Soteriou and Stravinides, 1997; and Oral and Yolalan, 1990). Thanassoulis *et al.* (1995); and Sherman and Gold (1985) have discussed the soundness of using both traditional financial ratios and DEA for this purpose.

Exemplary behavior should be recognized and rewarded. Appropriate rewarding and recognizing systems help repeat all the right behaviors in the future. Obviously, the "right" behavior is the one above standard performance. The reward system can be one or more of the following: cash bonuses, gains, profit sharing, ownership, incentive pay, commissions, promotions accompanied by significant pay increases, and merit increases. Given that employees need more than money, a monthly competition (e.g. employee of the month or department of the month) is a decent way of recognizing and motivating employees.

Enthusiasm, consistency, and predictability for customers should be maintained. To guarantee a win-win situation, the bank should hold weekly or bi-weekly staff meetings and let the employees contribute to the meetings' agenda. Desatnick and Detzel (1993) argued that maintaining enthusiasm for the customers leads, in the long run, to an increase in the bank's market share and revenues.

Finally, there should be a measurement to judge the effectiveness and efficiency of the strategy, as the absence of such tools could cripple services improvement. Presumably, what gets measured gets done.

To sum up, CS and its quality is considered an effective way to gain competitive advantage and its importance has been documented in a number of studies (see Cronin and Taylor, 1992; Bolton and Drew, 1991b; and Parasuraman and *et al.*, 1985). It could be argued that CS strategy creates huge opportunities, if appropriately applied. Given that CS aims at customer satisfaction in the long run, its opportunities continuity probability is high. However, these gains are not without cost. Strategy implementation requires large resources to be deployed and its concrete results will not be instant.

5.2.3. Customer Complaints Management (CCM)

The fact of the matter is that the way of complaints handling about products, services, or staff affects the quality of the relationship between the organization and their customers. Numerous explorations of this topic exist in both academic and practitioner literature (e.g. Tax *et al.*, 1998; Bennett, 1997; Lotayif, 1994; Bailey, 1994; Whitely, 1991; Walker, 1990; Bearden and Teel, 1983; and Singh, 1988). Although relatively few dissatisfied consumers complain (Singh, 1990; Singh and Widing, 1990; Albrecht, 1985; and Singh, 1988), those who do may actually increase

their loyalty to the service or product provider in situations where their complaints are handled effectively. For instance, Lotayif (1994) found a strong relationship between complaint outcomes (i.e. ways of compensation) and both loyalty and repurchase decision. Whitely (1991) reported that over 80 per cent of dissatisfied customers who chose to exercise their voices, and whose complaints were handled effectively in a timely manner, expressed repurchase intentions.

Similarly, Best and Andreasen (1977) indicated that only 40.2 per cent of problems perceived with products, and 47.7 per cent with services, were ultimately voiced as complaints, because others complain privately to friends. Some just never deal with this business again, and still others think about the appropriate action to be taken. In addition, Walker (1990) found that of the dissatisfied customers who did complain to the seller, about 70 per cent repurchased from the business. Of those who felt their complaint was fairly resolved, the repurchase percentage jumped to 95 per cent. As an added bonus, those customers created positive word-of-mouth reports by telling an average of five people about their positive experiences. Additionally, an estimated 71 per cent of consumers are likely to complain about a service or product, based on a survey by the NOP (a British organization), while the Henley Centre cited 56 per cent of consumers personally expressing dissatisfaction in 1997 (Marketing, 1998, p.5). Finally, Desatnick and Detzel (1993) mentioned that 96 per cent of unhappy customers never complain about unsatisfactory purchasing experiences, but 90 per cent or more of them do not buy again from the same place.

Therefore, CCM strategy mainly depends on the creation of a separate department in the bank organizational chart, in charge of receiving and dealing with customers' complaints and inquiries (Fornell and Wernerfelt, 1988). Marketers should respond positively to the growing consumer awareness (Marketing, 1998), as keeping and developing relationships with current customers is

a key business strategy nowadays (Griffin *et al.*, 1995; Fornell, 1992; and Reichheld and Sasser, 1990). For instance, consumers in the UK are becoming more critical of products and services in the market, as a 17 per cent increase in the number of people who have complained in person was posted in 1998 from 39 per cent in 1997 to 56 per cent in the following year. Moreover, 10 per cent have filed lawsuits against those of whom they complained (Denny, 1998, p. 16). To guarantee a timely response for customers' complaints, the supervision burden of this department ought to rest in the hand of bank's general manager. Thereby, the bank's culture should encourage customers to voice complaints through face-to-face interactions, complaints boxes, and 0800 lines, as well as internet sites.

To encourage face-to-face voicing, each employee should be well qualified and equipped. To perform his mission appropriately, each employee's satisfaction and loyalty should be stressed, as the level of satisfaction and loyalty is closely related to the ability to deal effectively with customer problems, especially in the service industry (Schlesinger and Heskett, 1991). American Express, for instance, pays careful attention to the job satisfaction of its investment advisers, since it estimates that more than 30 per cent of an adviser's clients would defect if the adviser left the company (Tax and Brown, 1998). Regarding voicing through complaint boxes, these should be available in all branches, and checked regularly. Regarding voicing through 0800 lines, technology used and hired staff should be stressed, and the data produced should be analyzed carefully (this topic will be addressed in detail when discussing FTL). Finally, voicing through the internet sites enables customers to give instant feedback without being involved in a face-to-face conversation that might be perceived by some shy customers as a tedious way of voicing. These sites should clearly determine how to make a complaint, list safety concern and provides a list of who's who within the company. Actually, most of the sites are full of genuine, free market

research for the company concerned with what is going wrong in customer-service and product terms within their organisations. In the www.btopenwoe.co.uk site, for instance, customers who use BT can see the issues facing others and ask each other questions to provide a forum for customers who think BT has lied to them (Marketing, 2002c). However, most companies are deaf to that cheap data stream, as was found in a recent survey of 50 companies where 85 per cent did not even review simple key-word search logs on their Web sites (Zack, 2001).

In this context, Tax and Brown (1998) suggested four sequential stages for adopting the CCM strategy in service industry. These are: (a) identifying service failures; (b) resolving customer problems; (c) communicating and classifying service failures; and (d) integrating data and improving overall service. Firstly, the identification of service failures will not be real without setting performance standards; communicating the importance of service recovery; training customers in how to complain; and using technological support offered through customer call centers and the internet.

Secondly, fairness of outcomes, processes, and interactions ought to be guaranteed when resolving customer problems. The impact of that compensation or recovery strategies on a company's revenue and profitability is dramatic. Hampton Inn hotels, for example, realized \$11 million in additional revenue from the implementation of its service guarantee and scored the highest customer retention rate in the industry (Ettorre, 1994; and Rust *et al.*, 1992). Guaranteeing a state of fairness in CCM strategy could be achieved through hiring, training, and empowerment of the appropriate front-line employee who receives the complaint; establishing service-recovery guidelines and standards; providing easy access and effective responses through call centers; and maintaining customer and product databases.

Thirdly, complaints related to service failures should be communicated and classified. Most firms fail to document and categorize complaints adequately, making learning more difficult. In their study, Tax and Brown (1998) found four explanations for this failure:

- (1) In several cases, employees showed little interest in hearing the customer describe the details of the problem. They treated the complaint as an isolated incident needing resolution but not requiring a report to management;
- (2) Many employees and managers devoted their energies to avoiding responsibility for the problem, instead blaming the customer for the failure;
- (3) Numerous complaints were never resolved. Customers left telephone messages, complained to several employees, and wrote letters - and still no action was taken;
- (4) Firms appeared to have no systematic way to collect and distribute complaint information to the individuals responsible for the process that failed.

Finally, integrated data about the complainers ought to be collected to improve the overall service. The only limit on data sources is the imagination of the strategy's executer. Most recently, Saxby *et al.* (2000) discussed procedural justice in a complaint context. They suggested four procedural justice dimensions: (1) bilateral communications, (2) familiarity with the situation of individuals, (3) refute decisions, and (4) consistent application of procedures. Bilateral communications is conceptualized as how much two-way communications occurred. Listening to customers is an art. UPS, for instance, has built into their schedules an extra half-hour each week to spend time with customers, answering questions and receiving feedback about procedures, packages, and new services. This sends a strong message about the importance of recovery and the drive toward zero defects (Tax and Brown, 1998). The familiarity dimension

means how well the individual handling the complaint understood the complainer's circumstance, as perceived by the complainer. The ability to refute the decision refers to the complainer's ability to reject the initial process outcome and resubmit the complaint to another arbitrator. Finally, consistency means that consumers make a determination as to whether their complaint is handled in a manner similar to all other complaints.

It could be deduced from the above discussion that customer complaint management strategy is different from warranties or guarantees, and free-toll-lines. A warranty - used mainly in the case of products selling - is a limited provision that usually states that a service or product, if covered, will be brought to working order at the expense of the seller (Fornell and Wernerfelt, 1988). A free telephone line is a way by which banks can hear from their customers. Consequently, complaint management is much wider than both free-line and guarantees in several aspects. For example, complaining customers may receive different levels of compensation over and above repeating the service. Complaint management applies to all customers for the purpose of quality improvements. Given that a free-line strategy is just one way of customer voicing, complaint management includes several other voicing methods, as previously indicated.

The increase in complaint volume should not be misinterpreted. Ross and Gardner (1985); and Fornell and Westbrook (1984) argued that any increase in complaints volume is perceived as a negative gesture and sometimes is reflected in management performance's evaluation and lower executive compensation instead of considering the opportunity cost of not receiving complaints. Therefore, banks' decision makers should not be demoralized by the increase in complaints volume, as that increase will not lead to compromising the success of complaints management.

Tax and Brown (1998); and Fornell and Wernerfelt (1988) defined the benefits of a customer complaints strategy. For example, there is a strong tie between complaints from dissatisfied customers and brand loyalty, especially, but not necessarily, when the complaint is satisfactorily resolved. In addition, the complaint management department could serve as a profit center. Fornell and Wernerfelt (1988) in their study found that banks had a return of 170 per cent on the money invested in complaint strategy, and packaging goods industry and retailing firms achieved 75 per cent and 400 per cent respectively. Added to this, customer complaints provide valuable insights into root causes of operations failures. Many quality-award winners, including Federal Express, Xerox, and Ritz-Carlton, use failure data when making decisions on process improvements, coupling service recovery with initiatives to increase customer satisfaction in the future.

Thereby, bank's decision makers should not hesitate in creating and operating a customer complaint department effectively. Apparently, this strategy requires financial resources and human resources that are less than those needed for the BI and CS strategies previously mentioned. Additionally, the time needed to build a complaints department, and consequently its being on duty, is relatively less than that needed for executing both BI and CS defensive strategies. So despite the great opportunities created via the complaints strategy, it is relatively less costly than those created by both BI and CS defensive strategies. A complaints strategy defuses risks levels raised from doing business. Adopting a clear and loudly-declared complaints strategy is a signal about the guaranteed level of quality. Effective dealing with customer complaints enhances the positive words of mouth about the provider. Therefore, it is not exaggerating to say that a complaints strategy could be seen as a substitute for offensive marketing e.g. advertising in particular. A complaint strategy is preferable when customer's

margins are high. Consequently customer shifting to rivals is costly and painful for the bank. Compensations in most cases are inexpensive e.g. they could be just a few words, and a hospitality drink.

To sum up, a CCM strategy can offer great opportunities that justify the money invested. However, it could be more effective when several competitors are working in the same market with high quality elasticity of demand (Fornell and Wernerfelt, 1988). Additionally, this strategy requires resources for its creation; however these resources and the time needed are relatively less than those required for both the BI and CS strategies previously discussed.

5.2.4. Aikido Strategy (AIKO)

Apparently, this strategy works well when head-to-head competition is absent (Cotter *et al.*, 1997). In other words, in situations such as when new technology is being launched by rivals, service innovation is being introduced for the first time, competition with rivals with good reputation and so on, Aikido can better suit.

Aikido is an entirely reactive strategy handled diplomatically with the attacker with three weapons: the sound perception of the attacker's intentions, good evaluation of the current situation, and finally, suitable reactions based on the right assessment of the situation. Given the fact that this strategy is driven from a hand-to-hand martial art used by the self-defense Japanese technique known as Aikido, all of these three weapons could be executed simultaneously according to the situation's assessment. Thereby, the defender ought to be vigilant in reacting when threats are perceived and evaluated.

Cotter *et al.* (1997) defined the four main pillars that Aikido strategy is based on: leading control,

blending with the attack, non-resistance at the beginning of the attack, and offering a tantalizing target.

Regarding the leading control principal, this aims at controlling the attacker's movements. In the very beginning, the attacker's strike should be avoided until the attack loses its momentum and becomes less strong. Meanwhile, the attacker's energy is coaxed in an advantageous direction that helps the defender sustain itself. In other words, if the attacker (the new entrant) penetrates the target market and brings new technology or new services, the defenders (local rivals) ought to wait until his purposes become obvious. At this point, the defender has to analyze these purposes and make the appropriate reactions. In this case, the reaction could be either to quickly use the same technology, (if the defender can afford its consequences), or focus on another competitive advantage. The focal point in Aikido strategy is that the defender has to avoid trying to control and lead while the power of the attacker is near its peak. In other words, the defender should have the ability to absorb the momentum of the first attack.

Blending with the attack aims at achieving avoidance and absorbance purposes. Therefore, this blending should not be over a long time. It depends on the degree of attack strength; therefore the time of blending is left to the assessment of the defenders. Nowadays, the attack on Egyptian local banks, for instance, is severe and anticipated to be harsher in the very near future (by 2005 as result of the full application of all GATS). Thereby, local banks must be prepared and well armed for this battle.

The non-resistance principle aims at prohibiting all form of counter attack when another attack with the same power is anticipated. "Aikidoists" recognize that any direct action taken against a

person will almost inevitably result in an equally direct reaction, typically in the opposite direction. The same logic applies in the battle between the attacker and the defender. However, this principal does not mean one stands with hands folded, without reaction forever, but selects the right time to react. Besides that, the attacker has to feel your commitment to defend your market share. Ford Corporation, for instance, suffered accumulated losses for many years in order to kick Volkswagen small cars "Beetle-style" out of the American market in the late 1960's.

Porter (1980) argued that the commitment to respond looks like nuclear power for many reasons. It can lead to the prevention of some aggressive and offensive consequences from the competitor side; therefore it serves as a war preventive weapon. It makes the attacker think several times before attack. If the attacker perceives a grim, eager, ready and committed defender through waves of countermoves, many of the attacker's plans might be changed.

Practically, the defender's commitment to retaliate in a downward spiral could be understood throughout by deliberately releasing some gestures to the public. For example, declaring the excess cash reserves available for further expansion; declaring ambitious plans to capture further market share in the coming period of time; and conducting a massive advertising campaign in which the possessed customer service experiences are stressed (Porter, 1980). If this message has been passed appropriately to the attacker, it can serve as a discipline mechanism to punish the competitors if they make an undesirable move from the defender's point of view, and to subdue the enemy without fighting (Khoo, 1992). Moreover, offering a tantalizing target to be achieved by the defender is a clear enough way in which to defend the bank's market share and revenues.

To sum up, the highest level of success this strategy can achieve is to make the attacker fail in his

mission without working out how that failure happened. Additionally, this strategy is mostly a systematic way of thinking, therefore the resources needed either to use this strategy or to declare commitment to respond are limited (Porter, 1980, p. 104). Moreover, this strategy could be appropriate when a sudden and unexpected entrant causes a shock for the local defender e.g. situations of sudden mergers and acquisitions, and joint ventures. Therefore, the time needed to use this strategy is immediate, and the results may be tangible sooner rather than latter. On the other hand, the opportunities created by this strategy are worthwhile and can last for a while.

5.2.5. Free Telephone Line Strategy (FTL)

FTL strategy depends on using several telephone lines to hear from customers. It satisfies two main purposes, inbound and outbound purposes (Boyed, 1996). The latter includes telemarketing, post purchase satisfaction, and market research. The former includes customer care complaints, information dissemination, and up-selling lines.

As mentioned earlier, FTL frequently been included as an element of customer service (CS) strategy and/or customer complaints management (CCM). For it to be implemented as a stand-alone strategy, Malickson (1983) suggested four distinct communication decisions in which the whole organization's departments may participate in their creation. These are: (a) effective initial announcement; (b) easy product/service model identification; (c) adjustment offer; and (d) adjustment fulfillment. Firstly, the announcement should have as broad a distribution as necessary to reach as many of the affected consumers as possible. Within this announcement the organization should declare the free number by which it hears from its customers. At this stage it is also required to reach and orient the organization's employees (e.g. from part-time employees to executives), dealers, sales personnel, and even advertising agencies about how to receive a complaint phone call from a dissatisfied customer. Secondly, proper identification of the recalled

lot or item is a very important part of the initial announcement. For product identification, it should be clear and readable. Therefore, if identification by date and /or lot number is now mysteriously hidden or in difficult "factory-only" jargon, the organization should try to start management thinking about simplified, easy-to-find identification. For instance, Ford Motor Company has an identification system that makes it possible to obtain a complete set of specifications on every vehicle built and sold in North America including the name and address of the first purchaser. For service identification, the needed information, to be reported in a phone call, could be the timing in which the service has been delivered, service provider, type of service received, and reasons for dissatisfaction. Thirdly, the organization should determine the suitable adjustment systems. These adjustment systems can take many forms, but "one-for-one" is a relatively simple exchange type. Finally, the authorized employee for adjustment fulfillment should be identified and prepared.

Practically, monthly reports summarizing calls contents should be prepared. To be analyzed quantitatively, these reports should be both standardized and in large volumes to produce meaningful interpretation. Moreover, the authorized persons for receiving these calls should be well trained, to avoid a vicious circle that exists in such situations. This vicious circle could happen when customer complaint levels increase, and this leads to organizational suppression of the unit receiving those complaints. This subsequently can contribute to a further increase in complaints due to inaction by management (Fornell and Wernerfelt, 1984). Therefore, it is vital to remain vigilant against this.

Chardwick (1991); and Davidow and Uttal (1989) discussed the benefits behind this strategy. The information collected via free telephone lines can be used in measuring customer satisfaction; in

addition to this, identification of quality control problems can be measured; and the information collected can help design new services and redesign existing ones. Given the rising costs of traditional marketing research, questioning those who contact the bank via an 0800 number seems to be a convenient and cost-effective option. However, the representativeness of this sample of the whole population could be questionable. Chardwick (1991) argued that it is not advisable to use a sample of 0800 number callers as a substitute for a randomly selected sample, and that the quantitative interpretation of data derived from those 0800 numbers is problematic at best and, in some cases, totally inappropriate. FTL strategy helps build brand loyal customers however. Consequently, marketing to a brand loyal customer is much less expensive, as loyal customers buy instead of being sold to, and loyal customers tend to buy more than other customers. An FTL strategy can also help in shortening of service life cycle e.g. idea generation, idea screening, concept development, financial analysis, market test, and implementation. Boyed (1996) argues that telecommunication, throughout FTL, makes customers participate in the first two stages of the service life cycle.

However, defensive marketing via free line can carry an expensive price tag and be less effective if the bank tries to be all things to all customers. The cost of providing a free telephone line number will soon outrun the benefits. Hoax calls from careless adults and bored school kids is one this strategy obstacles (Rogers, 1996). Thus, the cost of this strategy should be tightly controlled (Fornell and Wernerfelt, 1988).

To sum up, FTL strategy requires limited resources to be deployed. However, it offers opportunities through being the ears of a bank that hear from customers. Meanwhile, these opportunities could continue for a specific period times, as in crisis time with crisis management

teams, as suggested by Fearnley (1993), or for life. Moreover, it could be in service within very short time.

5.2.6. Focus Strategy (FOC) or Market Concentration

Generally, a key element of the mission statement of a firm is the definition of the competitive domain in which it will operate. Kotler (2003) suggested that the competitive domain should cover four areas: industry scope, market segment scope, vertical scope and geographical scope. The geographical scope is “defined as the range of regions, countries, or country groups where the corporation wishes to operate” (Olusoga, 1993, p. 41). Focus strategy (i.e. market concentration) is built around serving a few specific segments or markets in that geographic scope, and the channeling of resources into these segments with the objective of securing significant market share, which in turn can enhance long-term profitability (Kotler, 2003; Albaum *et al.*, 1989; Piercy, 1982; ITI, 1979; Tessler, 1977; Day, 1976; BETRO Trust Committee, 1976); Tookey, 1975). Therefore, FOC is concerned with the degree to which the organization segments its markets and targets efforts to particular segments or accounts (Smith, 1956). It assumes that the target market could be serviced more efficiently and effectively than competitors who adopt a broader strategy. It necessarily involves a trade-off between profitability and sales volume. Porter (1998) argued that benefits of focus cannot be gained if a bank is simultaneously serving a broad range of segments (i.e. cost leadership or differentiation).

Proponents of market concentration or FOC strategy (e.g. Albaum *et al.*, 1989; Piercy, 1982; ITI, 1979; BETRO Trust Committee, 1976) argued that market specialization, economy of scale, greater market knowledge, and high degree of control are viable benefits from adopting such strategy. The explanation offered by these researchers is that by securing large market shares in a few key markets, firms using FOC strategy are able to generate higher performance results than

firms using diversification strategy. However, Olusoga's (1993) and Clarke's (1984) findings disproved many of these benefits, as their findings did not support the notion advanced by market concentration proponents that by concentrating on a few, carefully selected markets, most firms can generate superior performance results. More specifically, there is no evidence that concentration had a positive effect on the average level of profit margins in the period from 1970 to 1976 in UK manufacturing industry (Clarke, 1984, p. 66).

At the same time, a focus strategy is not a risk free one. Porter (1980) discussed these risks. The cost differential between broad-range competitors and the focused bank widens, to eliminate the cost advantages of serving a narrow target or to offset the differentiation achieved by focus. In addition, differences in desired banking services that brought this strategy into existence, between the strategic target and the market as a whole, narrows at times. Finally, if the strategic targets are profitable, competitors may penetrate and try to find sub-markets within the target market, which cast some doubts on the effectiveness of such strategy. As it can be easily noticed, the strengths of market concentration are the weaknesses of market diversification and vice versa (Olusoga, 1993, p. 42).

It is worth noting that the differences between focus and differentiation strategies rest in the number of target markets that each strategy intends to serve. The latter targets several strategic markets at a time. The former concentrates on one or few markets. The resources required for focus strategies are relatively low compared with that required for differentiation strategy (Adel-Reheem, 1984). It is claimed that both cost leadership (CL) and differentiation (DIFF) are about how to compete, while focus (FOC) is about where to compete (Faulkner and Bowman, 1992). Therefore, the focuses on the pricing factor across the three generic strategies are different. In CL

strategy, it is the main tool for reaping the competitive edge in the target market. Whilst pricing is one effective tool (along with the other elements of marketing programs i.e. the marketing and the promotional mixes) that could be used in the target markets by both the differentiators i.e. DIFF strategy and the concentrators i.e. FOC strategy.

To implement this strategy, users have to have strategic and clear visions of target markets. To better determine these target markets, market segmentation has to be effective. And all the promotional and location factors suggested by Hooley and Saunders (1993); Ayal and Zif (1979) should be considered.

Typically, types of customers, geography, income, gender, type of business, and motives behind dealing are examples of the basis for that segmentation (Adel-Reheem, 1984). Complex bases can better reach and determine the target market. For instance, small businesses in a specific geographic area, university students, or technicians e.g. plumbers, fitters, painters etc, in another area, could be the building blocks of that target market development. Interestingly enough, Egyptian banks have a potentially huge market of 70 million inhabitants. This market can be segmented - whatever the segmentation criteria – in many ways. For instance, tourists, wealthy people, students, and technicians could be strategic target markets. More specifically, Egypt has ambitious tourism objectives. Recently, it managed to have five million tourists annually out of the world quota (Minister of Tourism, 2002). Consequently, tourists could be targeted via special marketing programs. These programs could be designed to conduct and last from the arrival till the departure time. University students could be another strategic target market.

Hooley and Saunders (1993); Day (1986); Patel and Younger (1978); and Robinson *et al.* (1978)

have amplified and extended the factors that should be considered whenever determining the target market. These are: (a) market factors e.g. the size of the target market, growth rate in that target market, stage of industry evolution, predictability, price elasticity and sensitivity, bargaining power of customers, and seasonality and cyclicity of demand; (b) economic and technological factors e.g. barriers to entry, barriers to exit, bargaining power of suppliers, level of technology utilization, investment required, and margins available; (c) competitive factors e.g. competitive intensity, quality of competition, threat of substitution, and degree of differentiation; and (d) environmental factors e.g. exposure to economic fluctuations, exposure to political and legal factors, degree of regulation, social acceptability and physical environment impacts. In the 1970s Barclays Bank was forced to reconsider its activities in South Africa because of the impacts on its business in the UK and elsewhere, for instance (Hooley and Saunders, 1993). Consequently, each bank should assess its current and potential strengths in serving markets as well as the attractiveness of the available markets, and focus its efforts on those attractive segments, as shown in Table 5/1.

Table 5/1
Target Market Selection¹

		Market Segment Attractiveness		
		Unattractive	Average	Attractive
Current and Potential Bank Strengths in Serving the Segment	Weak	Strongly Avoid	Avoid	Possibilities
	Average	Avoid	Possibilities	Secondary targets
	Strong	Possibilities	Secondary targets	Prime targets

Ayal and Zif (1979) advocated determining the factors that affect the selection of the appropriate generic marketing strategies (i.e. either market concentration or market diversification) for that target market. These factors are: (a) characteristics of the product e.g. the need for the product

¹ **Source:** - Adapted from (Hooley and Saunders, 1993, p. 201).

and communication adaptation; (b) characteristics of the penetrated market e.g. growth rate, sales stability in each market, competitive lead time, existence of marketing or goodwill spill-over effects from one market to another; (c) economic of scale in distribution; and (d) decision criteria of the firm e.g. program control requirements. Notably, Bradley and Gannon (2000) argued that these factors reflect the “location advantages” discussed by Dunning (1981).

The use of focus strategy or market concentration could be both locally and internationally executed, as shown in Figure 5/4. Cells a_1 , and a_2 , for instance, represent the concentration in local and international markets respectively. More specifically, in cell a_1 (market concentration-low internationalization) the firm employs market concentration and generates 1-50 per cent of its sales in international markets. In cell a_2 (market concentration-high internationalization) the firm employs market concentration and generates over 50 per cent of its sales in international markets.

Figure 5/4
Alternative Strategies Suggested by Market Concentration, Market Diversification, and Internationalization⁴

	1%	Market Concentration (MC)	Market Diversification (MD)
Low Internationalization (LI)		a_1 (MC-LI)	b_1 (MD-LI)
High Internationalization (HI)	100%	a_2 (MC-HI)	b_2 (MD-HI)

In conclusion, the time needed to implement this strategy is that required for executing appropriate segmentation and selecting the strategic target market. Literally, this time is not too long. Also, the resources required are not so large as to be an obstacle to adopting this strategy. These resources, e.g. human and financial, include the cost of designing and executing a separate

⁴ **Source:** - Adopted from (Olusoga, 1993, p. 45).

marketing program for each strategic target market. However, the opportunities of this strategy could be big especially, when rivals are adopting a broader strategy that deploys one marketing program for the entire market. However, imitation probability might make these opportunities volatile. Also, over time the segment(s) focused on may become less attractive and limiting on the bank (Hooley and Saunders 1993).

5.2.7. Differentiation Strategy (DIFF) or Market Diversification

Rooted in the economics of industrial and service organizations, the principle of differentiation ranks as one of the fundamental tenets of marketing and competitive strategy (e.g. Kotler, 2003; Piercy *et al.*, 1998; and Porter, 1980). However, there is lack of agreement among researchers about the relative worthiness of DIFF and FOC strategies on business firms (Lee and Yang, 1990). In this regard, Olusoga (1993) suggested four alternative strategies could be driven from DIFF and FOC strategies locally and internationally and tested their influence on multinational enterprise (MNE), as previously shown in Figure 5/4. Cells b_1 and b_2 , for instance, represent the diversification in local and international markets respectively. More specifically, in cell b_1 (market diversification-low internationalization) the firm employs market diversification and generates 1-50 per cent of its sales in international markets. In cell b_2 (market diversification-high internationalization) the firm employs market diversification and generates over 50 per cent of its sales in international markets.

Differentiation strategy (termed “market spreading” by Albaum *et al.*, 1989, and Piercy, 1982 and “market diversification” by Olusoga, 1993) is defined as the allocation of resources over a large number of markets in an attempt to reduce risks of concentrating resources and to exploit the economies of flexibility (Albaum *et al.*, 1989, p. 105) through using a low commitment of

resources to many markets at the same time (Bradley and Gannon, 2000, p. 14). Differentiation strategy intends to strengthen the image of a company by selling unique products, as these products are characterized by valuable features (e.g. quality, customer orientation, location, design, integration). They provide an additional value to the customer which he/she rewards by paying an instant higher price (Corsten and Will, 1993, p. 316) as well as remaining loyal to the brand name (Westphal, 1999). Therefore, it implies serving many target markets throughout different marketing programs as a result of accurate segmentation (Kotler, 2003; and Adel-Reheem, 1984).

Differentiation can take many forms: product based differentiations (e.g. brand image, design, quality, technology, features, price), and non-product based differentiations e.g. all marketing program's components apart from the product component (Gervino, 1999; Piercy *et al.*, 1998; Werther and Kerr, 1995; Boulding *et al.*, 1994; and Porter, 1980).

Regarding product-based differentiation through brand image for instance, the right name for a bank can be crucial to its success. Though it has been argued that "a rose by any other name would smell as sweet". It is also widely recognized that trade names can actually provide some measure of service differentiation since there are several competitors in the banking industry and clients need to know which bank will cater for their specific needs. Building a strong brand name can be achieved using four steps (Gervino, 1999). These are: (1) validate through customer research how a proposed brand will be perceived by each of its three target audiences (i.e. the internal bank staff, the bank's customers and the external environment of the marketplace); (2) assure that all modes of communications effectively highlight the brand identity, and send the same message to each of the institution's three target audiences; (3) find nontraditional ways to

spotlight the brand identity and differentiate the bank from its competitors; and (4) identify and empower a single department or individual within the organization with responsibility for effective promotion of the brand.

Moreover, differentiations that based on the technology, features, and design do not achieve their results automatically without the assistance of other non-product differentiations, as “building a better mousetrap” does not guarantee that customers will beat a path to the bank’s door. In other words, even a technically superior product needs good marketing to achieve desirable sales results. By using advertising and selling approaches (non-product based differentiations), for instance, consumers could be informed and persuaded about the product’s superior features, and they must be convinced that they will get better value for their dollar from buying this product rather than some other one (Bloom and Reve, 1990). Price differentiation is risky, as a strategy of aggressive price discounting may provide a temporary increase in sales (but not in profits) until competitors match prices in order to regain lost revenues (Helms *et al.*, 1997). Piercy *et al.* (1998, p. 343) argued that maintaining higher quality, better delivery and service, better (more appealing or heavier) promotions or lower prices based on a cost advantage, can all be used to fortify the position held against a frontal attack. Generally, most competitive advantages reaped via product differentiation are quickly matched or exceeded by competitors (Werther and Kerr, 1995). Consequently, opportunities created are low and their continuity is volatile.

Regarding non-product based differentiation, Boulding *et al.* (1994) discussed the benefits of using advertising, sales force, and promotion activities in increasing a firm’s ability to differentiate, and thus shield itself from future price competition. By providing unique and positive messages, a bank can insulate itself from future price competition, as witnessed by less

negative future price elasticities. Conversely, their results indicate that non-unique messages can decrease future differentiation; for example, price promotions for firms that price above the industry average lead to more negative future price elasticities. Sorensen (1997) argue that sufficient differentiation may be a viable method of preventing aggressive price competition even if it does not eliminate it. Compared with product-based differentiation, opportunities created via non-product based differentiation are relatively great and last for a while.

It is worth noting that differentiation does not mean relaxing or ignoring the cost dimension. Literature in this area reveals some contradictory findings that center on two main schools of thoughts: (a) the dichotomy school that believes in incompatibility between differentiation and low cost (i.e. efficiency). In other words, both of these are perceived as two fundamentally different approaches to achieve competitive advantages; (b) and the simultaneity school, that adopts a triangulation approach, reinforcing the simultaneous use of these two generic approaches. The latter school of thought supports the simultaneous adoption of both the differentiation strategy and the low cost strategy. This school rejects a "dichotomization" of generic strategy options (i.e. either differentiation or low cost) and favours instead their dynamic integration in "outpacing strategies" (e.g. Sorensen, 1997; Gupta, 1995; Slocum *et al.*, 1994; Corsten and Will, 1993; Hill, 1988; Jones and Butler, 1988; Murray, 1988; Buzzell and Gale, 1987; Wright, 1987; White, 1986; Miller and Friesen, 1986; Hall, 1983; Phillips *et al.*, 1983; and Buzzell and Wiersema, 1981). Phillips *et al.* (1983), for instance, conclude in an empirical study that quality and cost control interact to generate above average return on investment (ROI).

The former school of thought views efficiency (i.e. low cost) and differentiation are generally incompatible (Porter, 1998; Reitsperger *et al.*, 1993; Nayyar, 1993; Parker and Helms, 1992;

Dess and Davis, 1984; Hambrick, 1983; Dess and Davis, 1982; and Porter, 1980), as the more efficiency that is sought by management, the less differentiated the firm will be, whereas the more differentiation sought by management, the less efficient the firm will be (Porter, 1998; Dess and Davis, 1984; Hambrick, 1983; Dess and Davis, 1982; and Porter, 1980). Also, the value chain required for low cost strategy is qualitatively different from the value chain required for differentiation strategy. The emphasis of differentiation strategy is on achieving (even at considerable costs) superior quality and image throughout the value chain, whereas the emphasis of low cost strategy is on the lowering of costs wherever possible. Because of different thrusts of the strategies, high performing enterprises tend to compete with one strategy only (Helms *et al.*, 1997, p. 679).

Reitsperger *et al.* (1993, p. 8) argued that differentiations provide excess returns by permitting higher prices for a unique product offering. Although differentiation may have many sources, it is most often characterized by superior quality (i.e. product based differentiation) of the product (Phillips *et al.*, 1983). This extremely high level of quality provides a defensible market position as loyal customers willingly pay more for this desirable feature. However, this generic strategy is not risk free. Porter (1980) identified the risks of price differentiation strategy. The high price gap between the differentiated service price and the low-cost competitors may crack down on the level of loyalty in the long run. In the long run also, customers may sacrifice some of the differentiated services for large cost saving gained from competitors. Bearing that in mind, imitation and the industry nature may narrow the perceived differentiation over time.

To recapitulate, this strategy can create some opportunities where it is accurately executed. These are: greater flexibility, less dependence on particular markets, and lower perception of risks

(Albaum *et al.*, 1989; Piercy, 1982). Also, IMR (1978); and Hirsch and Lev (1973) reported that market diversification produces better performance results than market concentration. The explanation offered for their findings is that for small firms seeking to avoid direct concentration with large firms, taking low market shares in many markets may be more profitable for these firms than securing large market share in few markets (Olusoga, 1993, p. 42). Moreover, a major proposition of international theory is that international market diversification stabilizes firms' earnings (Eiteman and Stonehill, 2001; Rugman, 1979). Kim *et al.* (1989) found that underlying economic conditions and major political climates tend to be uncorrelated across different international markets, thereby stabilizing firm's overall returns, though this argument is less related in today's global climate. Also, these opportunities could be volatile and costly, as they require resources to differentiate the offered services and to execute different marketing programs. However, compared with a focus strategy, differentiation creates more opportunities that last for a while (e.g. Olusoga, 1993; Piercy, 1982; IMR, 1978; and Hirsch and Lev, 1973). For instance, Olusoga (1993, p. 54) found that market diversification strategy (i.e. DIFF strategy) produce better performance results (measured by profitability and profit stability) than market concentration (i.e. FOC strategy). Consequently, it requires more resources and time than those required for a focus strategy.

5.2.8. Cost Leadership Strategy (CL)

Cost leadership strategy was increasingly common in the 1970s because of the popularization of the experience curve concept (Porter, 1980). It is more concerned with process efficiency to achieve the status of the lowest-cost producer or supplier to its market (Partridge and Perren, 1994; and Reitsperger *et al.*, 1993), therefore organizations employing either a defender or low-cost strategy would use environmental scanning activities that seek immediate solutions for lowering costs or improving profits (Hrebiniak and Joyce, 1985). Consequently, CL strategy is

aimed at a relative cost advantage over competitors in the relevant market segment by concentrating all strategic activities on cost reduction (Corsten and Will, 1993, p. 316). It requires tight control on all kinds of costs, as well as efficient usage of resources in comparison with competitors. This leads to avoiding marginal customers.

Obviously to enjoy its benefits banks have to have a high market share in which marginal customers may be avoided. However, Hambrick (1983) has argued that the low cost strategy would be unlikely to be found in a dynamic industry environment in which rivals quickly replicate the created competitive advantages. Consequently, opportunities created via this strategy are volatile. It is likely when greater market demand allows attaining of higher market shares and a cumulative volume of production (Helms *et al.*, 1997). Banks following this strategy accept cheaper components, use standard production processes, and thus seek high market share in order to reduce unit costs (Phillips *et al.*, 1983).

Porter (1980) identified the drawbacks of cost leadership strategy. Technological change may nullify past investments. Imitation by newcomers could be another source of nullification of intensive investments aimed at achieving cost leadership, and the focus on cost may lead managers to forget other important issues. Additionally, low cost merits are found doubtful in the long run, especially as prerequisites to going international (Graham, 1998), which reinforces the notion of its volatile opportunities. By this logic, therefore, the domestic and international merits of this strategy cannot last for a long period of time.

It is worth mentioning that banks' costs could be minimized through ready-made software packages that take the assets side as a main determinant of deducing the optimal usage of these

money sources (Al-Ansary, 1995).

To recapitulate, cost leadership opportunities can last for a short time and vanish in the foreseeable future due to severe competition, as all cost advantage is built on experience-curve effects that can be eroded by imitation and technology gains, as well as in other ways (Partridge and Perren, 1994). More generally, cost escalation relative to competitors can narrow the advantage and render the bank vulnerable. Therefore, the continuity probability is very low and volatile, as it could be argued that cost leadership can be a precarious strategy which may accelerate the move towards a commodity market in which, ultimately, no-one benefits (Partridge, and Perren, 1994). Additionally, it requires reasonable resources to be deployed. Its concrete results could be tangible within a short period of time, however.

5.3. Chapter Conclusion

In this chapter, defensive marketing strategies appropriate to the banking sector have been discussed, particularly business intelligence (BI), customer service (CS), customer complaints management (CCM), Aikido (AIKO), free telephone line (FTL), differentiation (DIFF), focus (FOC) or market concentration, and cost leadership (CL). More specifically, these strategies offer different levels of opportunities with different continuity probabilities. Consequently, they differ in the required resources and time to be deployed, as shown in Table 5/2.

Based on the four assessment pillars, BI and CS represent one extreme and both FOC and CL represent the other one and the remaining defensive strategies represent points in between these two extremes, as shown in Table 5/2.

BI strategy is a database strategy that aims at making competitors information available as if reading an opened book. It includes collecting information from their secondary and primary sources, compiling, cataloguing, analyzing, communicating, and formatting the appropriate strategy to deal with that situation. Having said that, BI creates huge market opportunities, as it collects and analyzes all bits and pieces of information. These opportunities could last for long period of time.

Table 5/2
Taxonomy of Defensive Marketing Strategies⁵

Assessment Criteria	Defensive Marketing Strategies							
	BI	CS	CCM	AIKO	FTL	DIFF	FOC	CL
Opportunities	V. High	V. High	High	High	Low	Low	Low	Low
Probability	High	High	High	Moderate	Moderate	Volatile	Volatile	Volatile
Time Required	Long	Long	Medium	Medium	Medium	Short	Short	Short
Resources	Large	Large	Medium	Medium	Small	Medium	Small	Small
Total	12 points	12 points	9 points	8 points	6 points	5 points	4 points	4 points

Notes: -
(1) Assessment Criteria: -
Opportunities are represented by "Very high = 3 points, "High" = 2 points, and "Low" = 1 point.
Continuity probabilities are represented by "High" = 3 points, "Moderate" = 2 points, and "Volatile" = 1 point
Time required is represented by "Long" = 3 points, "Medium" = 2 points, and "Short" = 1 point.
Resources required are represented by "Large" = 3 points, "Medium" = 2 points, and "Small" = 1 point.
(2) Defensive Marketing Strategies: -
 (BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.

On the other hand, it requires huge resources (financial and human) to be executed. Moreover, its output results take time to be tangible. In other words, the time gap between the adoption of this strategy and the production of the final analysis, and consequently the recommended defensive strategy is too long. However, this strategy is recommended in all cases if the resources and time are available. It is a necessity in situations where the organization's existence is threatened by devastating risks that could cause severe disruption.

⁵ Source: - The Researcher.

CS strategy focuses on the importance of customer satisfaction in reaping a competitive edge. It aims at defending both the current market share and revenues through the cohesion with customers, by using them as a shield against rivals attacks. Having said that, everything about customer needs and desires ought to be well identified. In the long run, this helps build loyal customers who are both difficult to attract by competitors, and costly if they try. The opportunities created by CS strategy are huge as it mainly depends on keeping loyal customers and preventing them turning to rivals. It is proved that keeping the current customers is less expensive than attracting new ones. Fornell and Wernerfelt (1988) argue that keeping an existing customer costs one-third of that needed to attract a new one. However, to reach to the stage of knowing all the customers details as if reading an opened book needs huge resources to execute the required marketing research. Consequently, CS strategy requires a long time to produce results. Once produced, however these results help reap competitive advantage that lasts a long time with high probability.

FOC strategy aims at targeting one or two market segments with different marketing program packages. Therefore, the opportunities created are small, as they are driven from small target markets. Also, the continuity of these opportunities are in jeopardy and highly volatile, as these segments will be seen as attractive by other rivals in the foreseeable future. Resources needed are limited and the time required is short.

CL strategy aims at targeting and eliminating all unnecessary costs to get prices down. Opportunities created are small, as they are based on using only one marketing mix variable (price). Also, their continuity probabilities are volatile. However, it requires very limited resources and needs a short time to be deployed.

To conclude, the relative order of appropriate defensive marketing strategies for Egyptian banking could be as follows: business intelligence (BI), customer service (CS), customer complaints management (CCM), Aikido (AIKO), free telephone line (FTL), differentiation (DIFF), focus (FOC), and cost leadership (CL), as shown in Table 5/2. The extant literature on defensive marketing strategies does not offer a theoretically sound and empirically corroborated framework for the factors that affect the selection of defensive marketing strategies. Consequently, the present study attempts to address this issue in the context of the banking sector by determining and modeling these variables (in Chapter Ten).

Chapter Six:
Suggested Model For Matching Entry Modes With
Defensive Marketing Strategies

6.1. Introduction

Given the fact that entry modes and defensive marketing strategies represent two different streams of literature, the matching process between them is not an easy task. However, four pillars have been identified: the opportunities or risk offered by each one, the continuity probability, the resources and the time needed to deploy each strategy. This typology could help facilitate the mission of this thesis, bearing that in mind that, this is the first step in a long process. The application of this model to the banking sector gives a positive indicator of awareness of the two dimensions i.e. entry modes and defensive marketing strategies. It provides a step in the right direction for Egyptian banks.

6.2. Analyzing Entry Modes and Defensive Marketing Strategies Literatures

Based upon these four judgmental pillars, each entry mode and defensive marketing strategy is analyzed. As previously stated, entry modes in the banking industry could be wholly-owned and fully controlled (e.g. branches, subsidiaries, representative and agency offices), shared-owned and shared-controlled (e.g. joint ventures and partially mergers and acquisitions), contractual entry modes (e.g. licensing, franchising, strategic alliances, and management-service contracts), and purely marketing-oriented entry modes e.g. direct and indirect exporting entry modes (Erramilli *et al.*, 2002; Jeannet and Hennessey, 2001; Pan and Tse, 2000; Terpstra and Sarathy, 2000; Miller and Parkhe, 1998; Goodwin and Elliott, 1995; Woodcock *et al.*, 1994; Erramilli and Rao, 1993; Erramilli and D'Souz, 1993; Dahringer and Muhlbacher, 1991; Erramilli, 1990; Dunning, 1988; Boddewyn *et al.*, 1986; Sapir, 1982; and Shelp, 1981).

From the defender's point of view, the two streams of literature (i.e. entry modes and defensive marketing strategies) will be analyzed based upon the four assessment pillars mentioned above (i.e. opportunities or risk offered, continuity probability of these risks or opportunities, resources

and time needed to be deployed) to define their existence or not within each entry mode and defensive strategy.

Wholly owned and fully controlled entry modes, especially branches and subsidiaries, represent the highest level of resource commitment in the target market (Pan and Tse, 2000; Vanhonacker, 1997; Anderson and Gatignon, 1986). These two entry modes are used by banks (parent banks) that are globally oriented; and their competitive position in one country is significantly affected by their position in another, and vice versa (Porter, 1986). Also, the risk of business failure is spread over a much wider geographic area (Porter and Takeuchi, 1986, p. 116). Therefore, huge marketing efforts to demolish the effect of local rivals strategies are anticipated. British and American corporations are the two explicit examples for such huge marketing practices, as in 2000 British corporations were the world's biggest overseas investors, beating US corporations into second place for the first time since 1988: British and US FDI were £132 billion and £95 billion respectively (Crooks, 2000, p. 1).

Given that they have come to stay as long as they can, foreign branches and subsidiaries could impose the maximum level to threats for local rivals as a result of constant interaction with various local parties (Hill *et al.*, 1990; Hennart, 1988; and Contractor, 1984). These threats will last for a long time, as they necessitate a major resource commitment in the overseas location (Vanhonacker, 1997; Anderson and Gatignon, 1986), calling for an actual investment to set up an independent operation. They need on-going direct management of the establishment, and constant interaction with various local parties (Hill *et al.*, 1990; Hennart, 1988; and Contractor, 1984). Representative and agency offices represent the other extreme within the wholly owned category.

Shared-controlled entry modes e.g. joint ventures and partial mergers and acquisitions represent the second highest resources commitment, and consequently the second riskiest category, as there are local partners with whom risks are shared (Pan and Tse, 2000). Besides the attractiveness of target markets, the use of shared controlled entry modes could be motivated by gaining the lacked international experience (by inexperienced banks that aim at acquiring these experiences through depending on local partners). Alternatively, these entry modes may be the only permitted legitimate ways in some markets to increase and diversify production capacities, as seen by experienced banks (Odagiri, 1997), and shown in Table 6/1. Consequently, local rivals in their battle face both ambitious and experienced banks that hope to make more money as a couple than each would have alone (Mastracchio, and Zunitch, 2002).

Nowadays, increasing production capacities represents the dominant aim behind new mergers. The top 10 new mergers deals announced in 2000, totaling \$600 billion, included prominent attempts at industry redefinition to facilitate capacity expansion (Gadiesh *et al.*, 2001, p. 187). For instance, General Electric's attempt to acquire Honeywell, and the AOL and Time-Warner marriage are explicit example of capacity expansion reactions. Clearly, mergers have re-emerged as a master tool of strategy. Diversification is the second aim to be pursued in merger contracts. Diversification directions can take many forms: forward, backward, and horizontal. For instance, if materials cost drives profit, then purchasing scale (i.e. backward merger) will be key. If customer acquisition is more important, then channel scale (i.e. forward merger) will be critical (Gadiesh *et al.*, 2001). And if a specific rival represents an obstacle for customers' hearts and minds, the horizontal scale will be the solution. Gadiesh *et al.* (2001) added that getting scale-based initiatives right requires the correct business definition and the correct market definition.

This can be difficult because, over time, the definition of scale in an industry can change drastically.

Acquisition of technology is another aim for merger contracts. Such contracts aim at broadening the scope of technologies through buying specific expertise to either accelerate or substitute for a traditional new-business development or technology R&D function. It has been successfully executed in a number of industries, such as financial services (GE Capital), Internet hardware (Cisco), and chip manufacturing (Intel) (Gadiesh *et al.* 2001, p. 190). Rescuing a specific business or takeover transaction represents the final aim of merger contracts. The \$183 billion takeover of Mannesmann by Vodaphone AirTouch is an explicit example of this contact in 2000 (Pryor, 2001, p. 825). However, these types of transactions had declined exponentially by the year 2000, as they accounted for less than 2 per cent of all American acquisitions, down from a high of 34 per cent in 1988 (Atlas, 2001).

Table 6/1
Mergers and Acquisitions Objectives¹

Objectives	%
1. Increasing production capacity	23.0
2. Diversification	19.8
3. Strengthening marketing capacity	18.1
4. Acquisition of technology	14.8
5. Restructuring the market	8.2
6. To deal with regulation	7.0
7. Investment in venture business	4.9
8. Rescue	4.1

Apparently, opportunities offered via this category of entry mode are less than those offered by the wholly owned category (particularly branches and subsidiaries), for the following reasons. The adoption of the shared owned category could be the best available, but not the optimal option, due to facing some transaction cost problems that make the acquisition of other banks

¹ Source: - Adopted from {Odagiri, 1997, p. 76}.

economically inefficient (Chi and McGuire, 1996). Given that the willingness of one owner is more cohesive than that of two or more partners, continuity probabilities in shared controlled entry modes are, literally, less than that pledged by wholly owned entry modes, as the former depend on the willingness of partners. Indeed dispute probability is to be expected. This makes their management potentially more challenging than that of wholly owned entities because the parents must agree on common goals and learn to work with each other. It has been argued that these difficulties will be magnified when parents come from different countries because a bank's goals and management styles are influenced by the culture of its home country (Hennart and Zeng, 2002, p. 710). Finally, communication obstacles may increase the likelihood that the parents in shared modes do not know each other, due to the absence of a common spoken and 'silent' language that, at the end of the day, may negatively affect on the opportunities offered via this category.

Additionally, the time required to start the business is also less than that required for the wholly owned category, as within a short time its existence becomes reality. Moreover, resources required for starting the business are also less than those needed for wholly owned entry modes, as an established business already exists, whilst the entrant starts from scratch in wholly owned modes. Remarkably, the ambiguity and secret nature of such business dealings adds another dimension to threats imposed by this category of entry modes. Therefore, sudden declaration of these deals could cause severe disruption to local rivals.

With contractual entry modes e.g. licensing, franchising, and alliances, the risk imposed is moderate as the local partners' delivery systems remain in business with the assistance of the

foreign partner (e.g. in licensing and franchising contracts), or remain as they were in the case of alliance contracts.

Compared with wholly-owned and shared owned entry modes, the probabilities of risk continuity in contractual entry modes are low, as franchising and licensing contracts are limited by specific periods of time, after which renewal contracts have to be signed. Additionally, alliances contracts continue as long as the bilateral benefits are still guaranteed. Moreover, resources required for both (licensing and franchising) are small, or even do not exist at all and are replaced by a sort of revenue called royalty fees (Czinkota and Ronkainen, 2001). The time required is short, as all contractual entry modes aim at establishing a foothold in foreign markets without large capital (Cateora, 1993).

Table 6/2
Taxonomy of Entry Modes²

Assessment Pillars	Entry Modes										
	Wholly-owned		Shared-Owned		Contractual			Marketing Oriented + Rep. & Agency offices			
	BR	SU	MERA	JOI	LIC	FRA	ALL	REP	AGE	DIR	IND
Risk Imposed	Very high		High		Low			Low			
Risk Probability	High		Moderate		Moderate			Volatile			
Time Required	Long		Medium		Medium			Short			
Resources Required	Large		Medium		Small			Small			
Total	12 Points		8 Points		6 Points			4 Points			
Notes: -											
(1) Assessment Criteria: -											
Threats are represented by "Very high" = 3 points, "High" = 2 points, and "Low" = 1 point.											
Continuity probabilities are represented by "High" = 3 points, "Moderate" = 2 points, and "Volatile" = 1 point											
Time required is represented by "Long" = 3 points, "Medium" = 2 points, and "Short" = 1 point.											
Resources required are represented by "Large" = 3 points, "Medium" = 2 points, and "Small" = 1 point.											
(2) Entry Modes: -											
(BR) = Branches, (SU) = Subsidiaries, (MERA) = Merge and Acquisition, (JOI) = Joint Venture, (LIC) = Licensing, (FRA) = Franchising, (ALL) = Alliances, (DIR) = Direct Exporting, (IND) = Indirect Exporting, (REP) = Representative Offices, and (AGE) = Agency Offices.											

Finally, looking at marketing oriented entry modes (e.g. direct, and indirect exporting), this is the category that imposes the lowest level of risk. One possibility is that this category is often used to

² Source: - The Researcher.

approach other entry modes. Consequently, the continuity of the risk imposed is volatile. Additionally, the resources required are small, and the time required for deployment is short. From the defenders' point of view, Table 6/2 explains the relative existence of the four assessment pillars across all entry modes.

On the other hand, the four assessment criteria, again, are used as bases for the analysis of defensive marketing strategies. As previously stated Purba (2002); Erto and Vanacore (2002); Groom and David (2001); Piercy *et al.* (1998); Wit *et al.* (1998); Porter (1998); Tax and Brown (1998); Tyson (1997); Cotter *et al.* (1997); Katsikeas and Leonidou (1996); James *et al.* (1994); Malhotra *et al.* (1994); Desatnick and Detzel (1993); Myers (1993); Olusoga (1993); Hooley and Saunders (1993); Cronin and Taylor (1992); Bergstrom (1992); Bolton and Drew (1991b); Berry and Parasuraman (1991); Chardwick (1991); Heskett *et al.* (1990); Lee and Yang (1990); Kim *et al.* (1989); Albaum *et al.* (1989); Fornell and Wernerfelt (1988); Parasuraman *et al.* (1985); Fornell and Wernerfelt (1984); Clarke (1984); Hauser and shugan (1983); Malickson (1983); Piercy (1982); Porter (1980); Hofstede (2001); Rugman (1979); IMR (1978); ITI (1979); BETRO Trust Committee (1976); Hirsch and Lev (1973); and Smith (1956) have contributed to the definition of viable defensive marketing strategies. They have identified business intelligence strategy (BI), customers service strategy (CS), customer complaint management strategy (CCM), Aikido strategy (AIKO), free telephone line strategy (FTL), focus strategy (FOC) or market concentration, differentiation strategy (DIFF) or market diversification, and cost leadership strategy (CL) as important factors (see Chapter Five). To avoid redundancy and based on the analysis presented in Chapter Five, Table 6/3 summarizes the relative existence of the four pillars within defensive marketing strategies.

Table 6/3
Taxonomy of Defensive Marketing Strategies³

Assessment Pillars	Defensive Marketing Strategies							
	BI	CS	CCM	AIKO	FTL	DIFF	FOC	CL
Opportunities pledged	Very high	Very high	High	High	Low	Low	Low	Low
Continuity Probability	High	High	High	Moderate	Moderate	Volatile	Volatile	Volatile
Time	Long	Long	Medium	Medium	Medium	Short	Short	Short
Resources	Large	Large	Medium	Medium	Small	Medium	Small	Small
Total	12 points	12 points	9 points	8 points	6 points	5 points	4 points	4 points

Notes: -

(1) **Assessment Criteria:** -

Opportunities are represented by "Very high" = 3 points, "High" = 2 points, and "Low" = 1 point.

Continuity probabilities are represented by "High" = 3 points, "Moderate" = 2 points, and "Volatile" = 1 point

Time required is represented by "Long" = 3 points, "Medium" = 2 points, and "Short" = 1 point.

Resources required are represented by "Large" = 3 points, "Medium" = 2 points, and "Small" = 1 point.

(2) **Defensive Marketing Strategies:** -

(BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.

6.3. The Suggested Entry Modes-Defensive Marketing Strategies Model

Based on that on Tables 6/2, and 6/3, an "Entry Mode-Defensive Marketing Strategies Matching Model" can be designed, as shown in Table 6/4. The matching process between the two contexts assumes the following: -

1. Entry modes are divided into four entry groups: wholly owned (e.g. branches, subsidiaries); shared owned (e.g. mergers and acquisitions, joint ventures); contractual entry modes (e.g. licensing franchising and alliances); and pure marketing oriented entry modes (e.g. direct exporting, indirect exporting, representative offices, and agency offices). On the other hand defensive marketing strategies include eight strategies (i.e. BI, CS, CCM, AIKO, FTL, DIFF, FOC, and CL);
2. The analysis of the two streams is based on the four assessment pillars previously mentioned;

³ Source: - The Researcher.

Table 6/4
Entry Modes-Defensive Marketing Strategies Model⁴

Defensive Strategies	Entry Modes										
	Wholly-owned		Shared-Owned		Contractual			Marketing Oriented + Rep. & Agency offices			
	BR	SU	MERA	JOI	LIC	FRA	ALL	REP	AGE	DIR	IND
BI	x										
CS	x										
CCM			x								
AIKO			x								
FTL						x					
DIFF						x					
FOC									x		
CL										x	

Notes: -
Defensive Marketing Strategies: -
 (BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.
Entry Modes: -
 (BR) = Branches, (SU) = Subsidiaries, (MERA) = Merge and Acquisition, (JOI) = Joint Venture, (LIC) = Licensing, (FRA) = Franchising, (ALL) = Alliances, (DIR) = Direct Exporting, (IND) = Indirect Exporting, (REP) = Representative Offices, and (AGE) = Agency Offices.

3. Relative evaluation is adopted i.e. each entry mode and/or each defensive strategy is evaluated in relation to the remaining entry modes and defensive strategies, especially its antecedent;
4. Descending matching is used i.e. the highest defensive marketing strategies' score matches the first entry mode and so on;
5. Overlap allocation is not permitted (one-one matching) i.e. each defensive strategy is used once; and
6. The existence of each assessment pillar is measured throughout three-point scale as follows: -
 - Opportunities or threats offered are measured by "Very high" = 3 points, "High" = 2 points, and "Low" = 1 point.

⁴ Source: - The Researcher.

- Continuity probability of either the opportunities or threats is measured by “High” = 3 points, “Moderate” = 2 points, and “Volatile” = 1 point.
- Time required is measured by “Long” = 3 points, “Medium” = 2 points, and “Short” = 1 point.
- Resources required is measured by “Large” = 3 points, “Medium” = 2 points, and “Small” = 1 point.

In this model, both business intelligence (BI) and customer service (CS) strategies match with wholly owned entry modes e.g. branches and subsidiaries. From the local rivals' perspective, to defend market share and revenues requires large resources to be deployed, and takes a long time to achieve its objectives. With the existence of such permanent threats the battle for the hearts and minds of customers is definitely not an easy task. Having said that, what are required for this mission could be defensive marketing strategies that offer lasting marketing opportunities to absorb and deal with these permanent threats.

Consequently, BI and CS could work appropriately here, as these two defensive strategies offer very high opportunities. BI strategy offers the required databases about banks' stakeholders (i.e. customers, suppliers, potential acquisition candidates) that enable the drawing of appropriate defensive strategies. Also, through CS, defenders can build and reap the required competitive edge for such business situations by using customers' loyalty as a legitimate shield. CS aims at giving much care to customers and keeping them loyal (Desatnick and Detzel, 1993). Given that loyalty represents the final end any business aims at, opportunities created via this strategy are remarkably high.

With shared owned entry modes e.g. mergers and joint ventures, customer complaints management (CCM) and Aikido (AIKO) strategies work appropriately. Whilst AIKO offers the immediate solution, CCM is the long run remedy. Through the AIKO strategy, the defender can fully understand the purposes of a sudden emergence of new businesses. The ambiguity and secret nature of such business dealings add another dimension to threats imposed by this category of entry modes. Therefore, sudden declaration of these deals could cause severe disruption to local rivals. At the same time, CCM strategy is the long range remedy for such situations, as there is a strong tie between complaints from dissatisfied customers and brand loyalty, especially, (but not necessarily) when the complaint is satisfactorily resolved (Fornell and Wernerfelt, 1988). Fornell and Wernerfelt (1988) in their study found that banks had a return of 170 per cent on the money invested in complaint strategy. Therefore, it is a profit center on its own. Also, adopting a clear and loudly declared complaints strategy is a signal about the guaranteed level of quality.

Free telephone lines (FTL) and differentiation (DIFF) strategies match with contractual entry modes e.g. licensing, franchising, and alliance entry modes. Local rivals in their battle face both ambitious banks seeking to gain experience, and experienced and well-armed banks as well. Through DIFF strategy, local rivals can tailor different marketing programs to deal with their competitive advantages. As the objectives of each contractual entry mode may differ, product (e.g. brand image, design, quality, technology, features, price), and non-product differentiation (e.g. Gervino, 1999; Piercy *et al.*, 1998; Werther and Kerr, 1995; Boulding *et al.*, 1994; Olusoga, 1993; and Porter, 1980) could be called for to achieve this mission. In addition to that, DIFF strategy offers the flexibility required in such situations (Albaum *et al.*, 1989; Piercy, 1982; IMR, 1978; Hirsch and Lev, 1973). Also, FTL strategy enables the receipt of accurate feedback for the effectiveness of the adopted marketing programs.

Finally, focus (FOC) and cost leadership (CL) strategies match with purely marketing oriented (e.g. direct and indirect exporting), representative and agency offices entry modes. Through FOC strategy specific segments can be better served and used as shields for local rivals. For instance, targeting and convincing foreign banks' customers to turn to local banks' services through guaranteeing the same level of quality could be a legitimate aim of FOC strategy. Having said that local banks can secure significant market share, which in turn can enhance long-term profitability (e.g. Kotler, 2003; Albaum *et al.*, 1989; Piercy, 1982; ITI, 1979; Tessler, 1977; Day, 1976; BETRO Trust Committee, 1976); Tookey, 1975). Simultaneously, CL strategy could be the longer and more lasting remedy, as it aims at a relative cost advantage over competitors in the relevant market segment, by concentrating all strategic activities on cost reduction (Corsten and Will, 1993, p. 316). It should be borne in mind, however, that the risk imposed via this category of entry modes is volatile, as in most cases they are used to approach other permanent entry modes. Local rivals should remain vigilant to the volatile nature of the offered opportunities via these two defensive strategies, as imitation or price/cost war is a high expectation in dynamic environments nowadays (Partridge and Perren, 1994; Hambrick, 1983).

6.4. Chapter Conclusion

Given the fact that entry modes and defensive marketing strategies represent two different streams of literature, it was thought that there is no relationship between them. This endeavor resembles a stone thrown into a stagnated lake, by trying to match them.

One may argue about the model's assumptions. For instance, changing or adding some other criteria rather than the four assessment pillars. Also, argument may center around the overlapping use of defensive strategies i.e. the use of the same defensive marketing strategy with more than

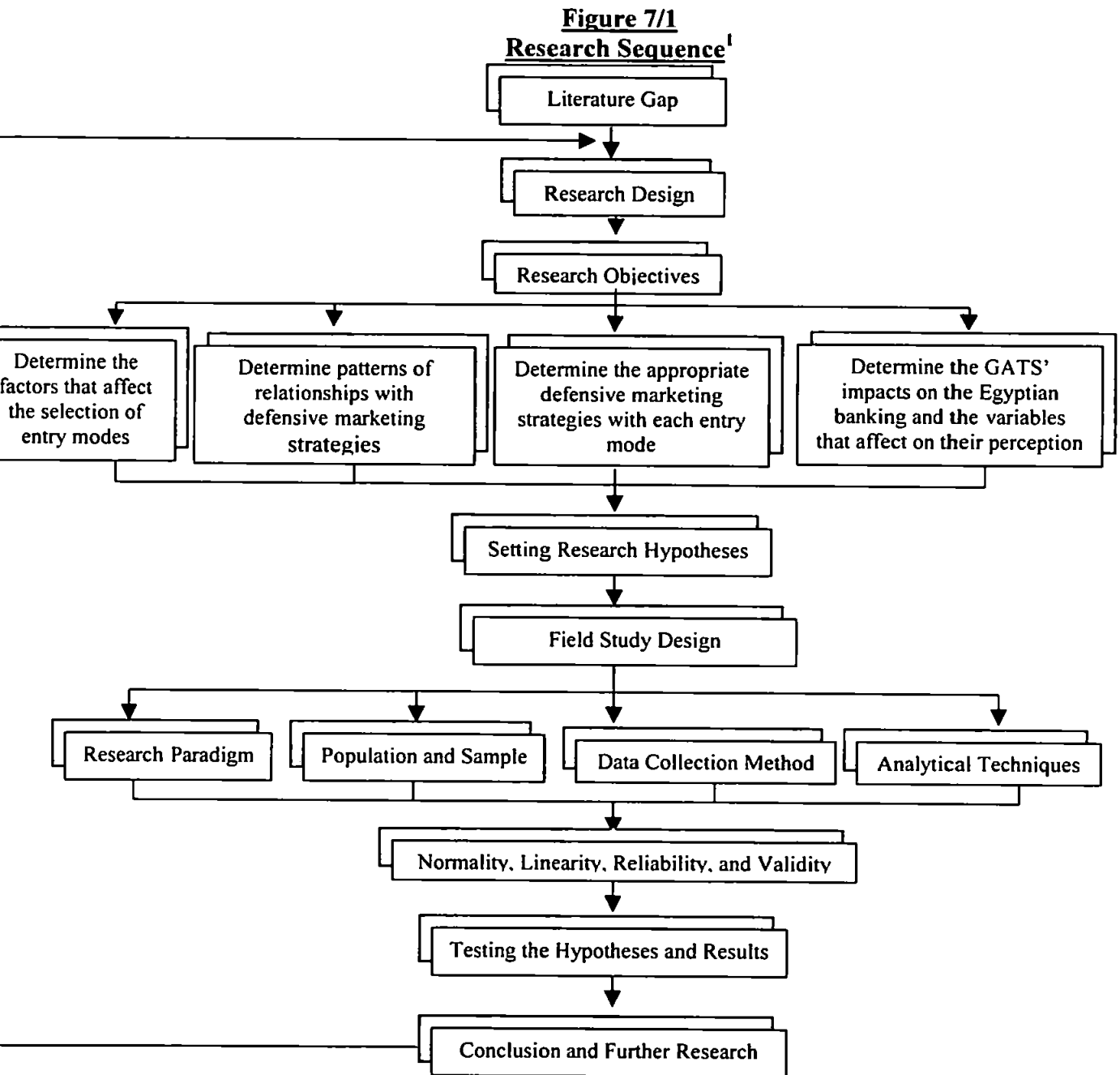
one entry mode. The crucial point is, however, that this is the starting point for setting a dialogue between two streams of literature, given the lack of other links between them.

Part Two:
Field Study

Chapter Seven:
Research Methodology

7.1. Research Design

It is essential from the beginning for any research to determine its objectives and the fieldwork paradigm, as shown in Figure 7/1.



¹ Source: - The Researcher.

The fieldwork diagram includes the steps needed to achieve the empirical research objectives, the research population and sample, response base, data collection methods (quantitative or qualitative methods), software packages, and the analytical techniques used, as shown in Figure 7/1.

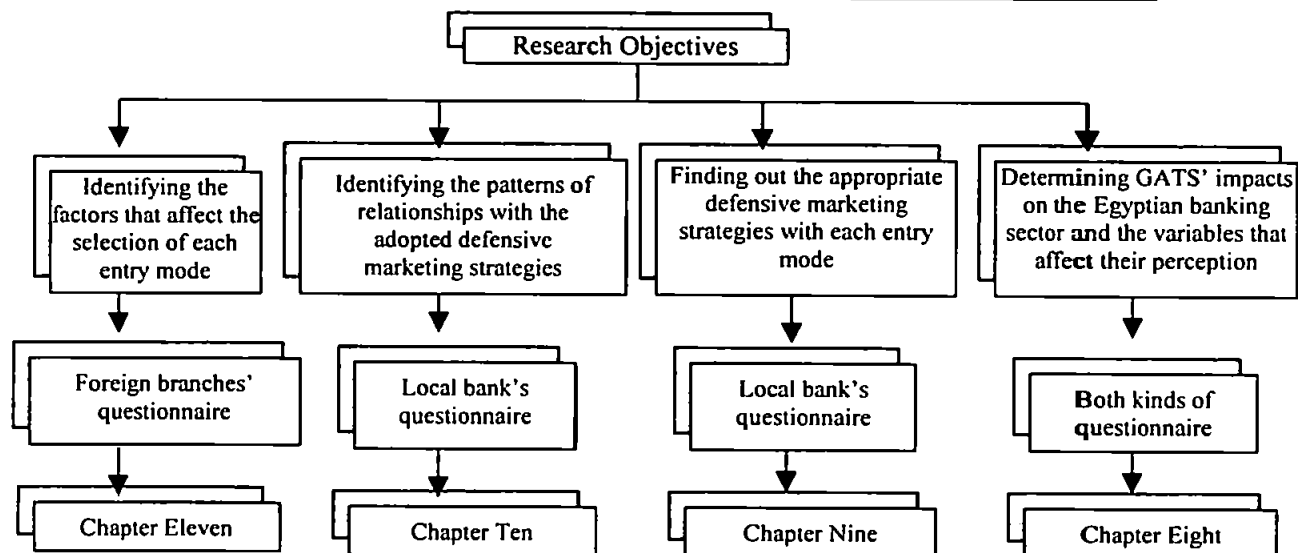
7.1.1. Research Objectives

Based on the literature gap that has been clearly determined in the previous chapters, this research is oriented around four hypothesized objectives. Firstly, determining the GATS' impacts on the banking sector as well as determining the variables that affect their perception (the two kinds of questionnaires serve this objective). The literature in this area is segregated into two main point of view: optimistic (e.g. Nasiruddin, 2003; Hargis, 2002; Sugiyarto, 2002; Cotsomitis *et al.*, 2002; Eberlei, 2001; Weller, 2000; Bekaert and Harvey, 2000; Kim and Singal, 2000; Ghose, 2000; and Hargis and Ramanlal, 1998) and pessimistic (e.g. Sugiyarto, 2002; Metin-Ozcan *et al.*, 2002; Tanski and French, 2001; Sharma, 2001; James, 2000; Weller, 2000; Ghose, 2000; Weeks, 1999; Claessens *et al.*, 1998; OECD, 1997; El-Mody, 1995; Evans and Walsh, 1995; Mosley, 1993; Stein, 1992; Rodrik, 1992; Terrell, 1986; Diaz-Alejandro and Helleiner, 1982; and Taylor, 1981). No endeavor has been conducted before to model the variables that affects the perception of GATS impacts.

The second objective includes, finding out suitable defensive marketing strategies within each entry mode (the local banks' questionnaires serves this objective), as the two streams of literature (i.e. defensive strategies and entry modes) have not been explored together before. Thirdly, identifying patterns of relationships with the adopted defensive marketing strategies (the local banks' questionnaire serves this objective). The literature in this area is scattered i.e. each defensive strategy has been dealt with separately (e.g. Tax *et al.*, 1998; Bennett, 1997; Lotayif,

1994; Bailey, 1994; Whitely, 1991; Walker, 1990; Fornell and Wernerfelt, 1988; Bearden and Teel, 1983; and Singh, 1988 have argued around the benefits of customer complaint as a defensive strategy and Cotter *et al.* (1997) addressed the mechanism of Aikido strategy, and so on). No comprehensive endeavor has been conducted before to model the variables that affect the selection of defensive strategies. The final objective includes identifying the factors behind the selection of each entry mode (the foreign branches' questionnaire serves this objective), as the literature in this area recommends studying entry modes vertically within one sector (e.g. Erramilli, 1990).

Figure 7/2
Research Objectives and their Related Questionnaires and Chapters¹



As shown in Figure 7/2, these four objectives are achieved through each of the research chapters. Throughout Chapter Eight GATS' impacts on the Egyptian banking sector and the variables that affect their perception have been explored and highlighted. In Chapter Nine, the appropriate defensive marketing strategies within each entry mode are determined and the marketing performance of local banks evaluated. In Chapter Ten, the patterns of relationships with the

¹ Source: - The Researcher.

adopted defensive marketing strategies are identified and clarified. In Chapter Eleven, the factors that affect each entry mode selection have been pinpointed.

7.1.2. Research Hypotheses and Questions

To achieve the previously mentioned objectives, the following hypotheses and research questions were tested throughout Chapters Eight to Eleven. In Chapter Eight, the following hypotheses were generated, determining GATS impacts and dealing with relationships between GATS impacts and demographics: -

H8₁: "GATS agreements have greater positive than negative impacts on the Egyptian banking sector".

H8₂: "There are significant relationships between managerial demographics (i.e. respondents' positions, ages, educational levels, and experience) and their perception of GATS impacts".

Specifically:

H8_{2a}: "There are significant relationships between managerial demographics and their perception of the aggregate GATS impacts".

H8_{2b}: "There are significant relationships between managerial demographics and their perception of the detailed GATS impacts".

H8₃: "There are significant relationships between bank demographics (i.e. bank experience, number of employees, and type) and their perception of GATS impacts".

Specifically:

H8_{3a}: "There are significant relationships between bank demographics and their perception of the aggregate GATS impacts".

H8_{3b}: "There are significant relationships between bank demographics and their perception of the detailed GATS impacts".

H8₄: "There are significant relationships between the perception of each GATS impact (detailed and aggregate) and bank type, respondents' positions, educational levels, banking experiences, and banks' experiences".

In Chapter Nine, other hypotheses dealing with the application status of defensive marketing strategies are tested. These are: -

H9_a: "The numbers of Egyptian banks that consider branches and subsidiaries their rivals are equal to the numbers of Egyptian banks that apply business intelligence (BI) and customer service (CS) defensive marketing strategies".

H9_b: "The numbers of Egyptian banks that consider mergers and acquisitions and joint ventures their rivals are equal to the numbers of Egyptian banks that apply customer complaint management (CCM) and Aikido (AIKO) defensive marketing strategies".

H9_c: "The numbers of Egyptian banks that consider direct and indirect exporting their rivals are equal to the numbers of Egyptian banks that apply focus (FOC) and cost leadership (CL) defensive marketing strategies".

Moreover, in Chapter Ten, relationships between defensive marketing strategies and demographics, banks' objectives, banks' competitors, and competitive advantages of rivals are tested.

H10₁: "There are strong and significant relationships between selected defensive marketing strategies (i.e. eight strategies) and respondent's demographics (i.e. position, age, educational level, experience, bank's experience, and number of employees)".

H10₂: "There are strong and significant relationships between selected defensive strategies (i.e. eight strategies) and bank objectives (i.e. increasing the bank's market share, maintaining the current market share, increasing the profit, increasing customer satisfaction, and increasing customer's loyalty)".

H10₃: "There are strong and significant relationships between selected defensive strategies (i.e. eight strategies) and the perceived rivals (i.e. branches, subsidiaries, joint venture, mergers, direct exporting, and indirect exporting)".

H10₄: "There is a strong significant relationship between selected defensive strategies (i.e. eight strategies) and the competitive advantage of rivals (i.e. marketing mix, marketing program, offering new kinds of banking services, pledging high interest rates on deposit accounts, pledging low interest rates for loans given, well designed service delivery system, owning competitive staff, and conducting strong advertising campaign)".

In Chapter Eleven two main research questions are evaluated. These two questions are: -

Q11_a: What are the effects of target market's characteristics on the selection of each entry mode?

Q11_b: What are the effects of bank's characteristics on the selection of each entry mode?

7.1.3. Research Paradigm

A paradigm means a basic orientation of the theory and research (Kuhn, 1970). Therefore, it is a whole system of thinking that includes basic assumptions and philosophies about the world and the nature of the knowledge, important questions to be answered or puzzled to be solved, and research techniques to be used (Neuman, 2000). Unfortunately, the term "paradigm" is used quite loosely in academic research, which in turn might mean different things to different people (Hussey and Hussey, 1997). This motivated Morgan (1979, p. 137) to suggest that the term "paradigm" could be used at three different levels: philosophical (i.e. where it is used to reflect basic beliefs about the world), social (i.e. where it is used to provide guidelines about how the

researcher should conduct his/her endeavors), and technical (i.e. where it is used to specify the adopted methods and techniques).

In human science, research paradigms could be positivism, phenomenology, and triangulation i.e. using the first two paradigms simultaneously in a pragmatic methodology (Sarantakos, 1998; Watson 1997 and Smith *et al.*, 1996). This provides comprehensive, accurate, and reliable data, as both paradigms complement each other in many ways (Neuman, 2000, p. 122). As philosophies, these approaches can be broadly categorized as quantitative, objectivist, scientific, experimentalist, and traditionalist for the positivism paradigm; or, on the other hand, the phenomenology paradigm is generally classified as qualitative, subjectivist, humanistic, and interpretivist (Hussey and Hussey, 1997), as shown in Table 7/1. Consequently, the researcher should determine from the very beginning the kind of research paradigm adopted in his research, as each has its own perspective on the characteristics of human science research (Williams and Scandura, 2000).

Table 7/1
Alternative Features of the Main Research Paradigm¹

Positivistic Paradigm	Phenomenological Paradigm
<ul style="list-style-type: none"> • Quantitative • Objectivist • Scientific • Experimentalist • Traditionalist 	<ul style="list-style-type: none"> • Qualitative • Subjectivist • Humanistic • Interpretivist

Creswell (1994) discussed the assumptions behind the two main paradigms and their reflection on research questions in both positivistic and phenomenological research, as shown in Table 7/2. These assumptions are ontological, epistemological, axiological, rhetorical, and methodological. With the ontological assumption, the nature of the reality required ought to be clear from the

¹ **Source:** - Hussey and Hussey, 1997, p. 47.

beginning e.g. objective reality (as in positivism) or subjective reality (as in phenomenology). With the epistemological assumption, the kind of relationship with what is being researched ought to be determined e.g. is it an independent relationship (as in positivism) or an interaction relationship (as in phenomenology)? Regarding the axiological assumption, the role of the population and sample's values ought to be carefully determined e.g. will the research results be affected by population values (as in phenomenology), or will the values effect be neutral (as in positivism)? Regarding the rhetorical assumption, research language could be formally based on a set of well-known literature context's definitions; it uses accepted quantitative words (as in positivism) or informal and personal words (as in phenomenology).

Table 7/2
Assumptions of each Research Paradigm¹

Assumption	Question	Quantitative	Qualitative
Ontological	What is the nature of reality?	Reality is subjective and singular apart from the researcher	Reality is subjective and multiple as seen by participants in the study
Epistemological	What is the relationship of the researcher to that researched?	Researcher is independent from that being researched	Researcher interacts with being researched
Axiological	What is the role of values?	Value-Free and unbiased	Value-laden and biased
Rhetorical	What is the language of research?	<ul style="list-style-type: none"> • Formal based on set of definitions • Impersonal voice use of accepted quantitative words 	<ul style="list-style-type: none"> • Informal evolving decisions • Personal voice use of quantitative words
Methodological	What is the purpose of research?	<ul style="list-style-type: none"> • Deductive process • Cause and effect • Static design -categories isolated before study • Context free • Generalization leading to prediction, explanation and understanding • Accurate and reliable through validity and reliability 	<ul style="list-style-type: none"> • Inductive process • Mutual simultaneous shaping of factors • Emerging design - categories identified during research process • Context-bound • Patterns, theories developed for understanding • Accurate and reliable through verification

The positivist paradigm tends to produce quantitative data, uses large samples, is concerned with hypotheses testing, and uses highly specified and precise data. The location is artificial, reliability

¹ Source: - Adopted from Creswell, 1994 (in Hussy and Hussy, 1997, p. 55).

is high, validity is low, but generalizations from sample to population are possible. On the other hand, the phenomenological paradigm tends to produce qualitative data, uses small samples, and is concerned with generalizing theories. Data used is rich and subjective, research location is normal, reliability is low, validity is high, and generalizing from one research project to another is possible (Hussey and Hussey, 1997).

Sarantakos (1998) discusses positivism and phenomenology characteristics in human science. Positivism researches' purposes are to explain social life and to test theory. It employs an objective approach and its etiological interest is why things happen. Its historical interest is explanation over space and time. On the other hand, phenomenology research purposes are to understand social life, and theory building. It employs a subjective approach, adopts an interpretative view about how things are happening, and its historical interest is the real cause of things.

Positivism is a close and strictly planned approach, its research process is predetermined, and the researcher, in adopting this kind of philosophy, is distant from respondents. It uses static and rigid approaches coupled with inflexible processes, and where possible, employs random sampling for accomplishing research objectives. In contrast, phenomenology is open and flexible in all aspects, the research process is influenced by respondents, the researcher is close to respondents when conducting such research, it uses a dynamic approach coupled with flexible processes, and employs theoretical sampling. Positivism places priority on studying differences, employs a reductive data analysis, and uses high levels of measurement coupled with a deductive approach. Phenomenology, on the other hand places priority on similarities, employs explicative data analysis, and low levels of measurement coupled with an inductive approach. Finally, the

research methodology ought to be clear, as should the research purposes e.g. is it a cause and effects study, a deductive process, using generalization from sample to population to understand, explain, and predict specific phenomena (as in positivism) or is its research purpose inductive, and aiming at theory building (as in phenomenological), as shown in Table 7/2?

Due to the very special nature of the current research aims and their related hypotheses, the scattered response bases, and the sample size (800 response base) it has been decided to adopt a positivist paradigm but using what might be called a “triangulated approach”. In other words, the desire to conduct a highly reliable and objective study was behind deploying two structured questionnaires and multiple phases in data collection.

There is an argument that all well-designed social research uses some form of triangulation. In this study however, although the current study touched new grounds, the used variables were extracted from earlier works conducted in two schools of literature (i.e. entry modes and defensive strategies), alongside the arguments created around GATS impacts. The difference in this study was the way that these variables functioned to better serve the current study aims. Therefore, it was felt that no compelling need to use the phenomenological paradigm to explore and identify the two questionnaires’ variables. More specifically, the current study is motivated by achieving four main aims: (1) to explore GATS impacts in the Egyptian banking sector; (2) to design a dialogue between entry modes and defensive marketing strategies; (3) to determine the variables that affect the selection of defensive marketing strategies; and (4) to determine the variables that affect the selection of entry modes. As previously explained in Chapter Two, GATS literature center in two point of views: optimistic, and pessimistic. Therefore, these two points of view were explored in the current study to achieve the first aim. Regarding setting a

dialogue between entry modes and defensive strategies that represent the second aim of the current study, the two literature streams are clear regarding the four pillars used, as previously explained in Chapters Four and Five. Regarding the third and the fourth aims, the variables used are those taken from the literature, especially those debated in Chapter Four. Based on this logic there no need to use subjective research to identify or cluster these variables.

Having said that, perceptions and judgments of respondents were investigated through some questions though researcher intervention during questionnaires' completion was non-existent, as indicated in the assumptions of positivist paradigm in Table 7/2. Similarly, quantitative analytical techniques have been utilized for data analysis, coupled with explanations and comments. Therefore, the positivist paradigm coupled with explanations, whenever needed, was guaranteed through all phases of the current research.

7.1.4. Research Population and Sample

The research population is the Egyptian banking sector, that includes 82 banks and is ruled by 800 boards of directors' members, and served by 83179 employees and 20658 workers, as shown in Table 7/3.

Table 7/3
Research Population¹

Items	Public Banks	Private Banks	Total
Number of banks	25	57	82
Number of branches	1096	472	1568
Board of directors	273	527	800
Employees	65539	17640	83179
Workers	16316	4342	20658

To represent this population, a sample of 800-response base is sufficient (Ali, 1973 and Hill *et al.*, 1962). Due to the current research aims, the response base is the board of directors' members.

¹ **Source:** - The Central Bank of Egypt, 1999.

Obviously, the board of directors is the body responsible for drawing and implementing banks' strategies. Interestingly, the boards of directors' members are doing executive work either now, or have been in the past; therefore their opinions are valuable in reaching the research objectives.

The fact that they are the authorized bodies for making strategic decisions - like the current researches' objectives - and strategy design are the main reasons behind targeting banks' board of directors. In addition, the boards of directors' members are responsible for designing branches' policies of 1096 public and 472 private banks respectively. As the research aims are diversified, the research sample was divided into two main categories; local and foreign branches samples. The latter includes all the foreign branches working in Egypt. The former includes all banks working in Egypt regardless of their ownership status, as shown in Table 7/4.

Table 7/4
Research two Samples¹

Sample Kind	Sub.	Sample Size
<u>Local Banks' Sample</u>		
Central Bank and Commercial Banks	51	
Property and Industrial Banks	27	
Development and Agriculture Banks	195	
Commercial Banks	267	
Investment Banks	110	650
<u>Foreign Branches' Sample</u>		150
Total		800

Based on Table 7/4, the local banks sample comprises 650 executives (51 executives from public commercial banks + 27 executives from property and industrial banks + 195 executives from development and agriculture banks + 276 executives from private commercial banks + 110 executives from investment banks). On the other hand, the foreign branches sample is 150 executives; therefore the total sample size is 800 executives. Recall that in Figure 7/2 above; each sample served specific research aims.

¹ Source: - The Central Bank of Egypt, 1999.

7.1.5. Data Collection Method

Obviously, the decision to whether to pursue a qualitative or quantitative data collection method depends mainly on the nature of data needed (e.g. primary or secondary) that in turn is driven by the research aims, the distribution of the research sample, and the research budget and time. For the current research, primary data was collected from the respondents via structured and multiple phased questionnaires as a quantitative primary data collection method. Two types of questionnaires - accompanied by personalized cover letters and directions for completion - were used, one for banks working in the Egyptian market - apart from foreign branches - called the local banks' questionnaires - and the second questionnaire designed for the foreign branches working in the Egyptian market (See Appendix A₁ and A₂). As previously stated, in the paradigm part of this chapter, the scattered nature of the response base coupled with the limited research budget encouraged the use of such approach in data collection. The research questionnaires have been carefully tailored to fit the current research's aims.

In fact primary rather than secondary data were used in the current study due to three reasons. First, it is difficult to get appropriate data from secondary sources regarding the study's four objectives. Second, there is no secondary data published that has dealt with the matching mechanism between defensive marketing strategies and entry modes. The reason behind that may be the deceptive nature of each one of them - defensive marketing strategies considered one stream of literature and entry modes another- that did not give scholars the opportunity to endeavor matching them. Finally, given that the full application of GATS principles on the Egyptian market will be completed by 2005, there is a lack of research that pinpoints the benefits and drawbacks of these agreements on the banking sector in particular.

It has been argued that structured questionnaires have both advantages and limitations. Selltize *et al.* (1976) argued that questionnaires are less expensive than other methods and can be sent through the mail, whereas personal interviews, for instance, are less effective at a distance. Sarantakos (1998) advocated that structured questionnaires produce quick results, can be completed at respondent's convenience, and offer less opportunity for bias or errors caused by the presence of an interviewer. They are stable, consistent, uniform measures, and offer greater assurance of anonymity. Moreover, they are not affected by problems of "no-contacts", offering a wider coverage, since the researcher can approach the respondents more easily than with any other method. Finally, they offer a considered and objective view of the issue as the respondents can consult their files; and many subjects prefer to write rather than talk about certain issues.

Moreover, questionnaires are well suited to collect a great amount of information and in this way are useful tools for investigating patterns and trends in data. They are also valuable as research tools for their flexibility and versatility. Questionnaires have a history of use in the business field, especially in marketing and management research surveys (Smith *et al.*, 1993).

On the other hand, structured questionnaires have some limitations. These are that partial response is quite possible due to the lack of supervision; they do not offer an opportunity for collecting additional information, it is not possible to check whether the question order was followed or not; they do not offer opportunities for motivating respondents to participate in the survey; they do not allow prompting and clarification of questions; and the identity of the respondents and the conditions under which the questionnaire was answered remain unknown (Sarantakos, 1998). However, close follow up, coupled with a thorough selection of the respondents throughout using a door-to-door policy can nullify many of these limitations.

To perform its mission as a successful data collection tool for achieving research objectives, each questionnaire in the current study is divided into sequential parts. The local banks' questionnaire contains five parts: -

- (1) The demographic variables part, by which data related to both respondents and their bank characteristics were obtained {e.g. from question one (X_1) to question six (X_6)}. The fact of the matter is, these demographics are communally used in business researches (e.g. Contractor and Kundu, 1998; Koh, 1991; Erramilli, 1990);
- (2) The GATS impacts section, by which data related to GATS impacts on the Egyptian banking sector have been collected {e.g. from question seven- (X_7) to question nine (X_9)}. Literature in this area center on two extremes point of view: optimistic (e.g. Nasiruddin, 2003; Hargis, 2002; Sugiyarto, 2002; Cotsomitis *et al.*, 2002; Eberlei, 2001; Weller, 2000; Bekaert and Harvey, 2000; Kim and Singal, 2000; Ghose, 2000; Hargis and Ramanlal, 1998; Demiguc-Kunt and Huizinga, 1998; IMF, 1998; Claessens and Glaessner, 1997; De Santis and Imrohoroglu, 1997; Susmel, 1997; Bekaert and Harvey, 1997; Kono *et al.*, 1997; Goldstein and Turner, 1996; Joshi and Little, 1996; Evenson and Westphal, 1994; Helleiner, 1994; Arslan and Wijnbergen, 1993; Weiss, 1992; Thomas *et al.*, 1991; and Cho, 1989) and pessimistic (e.g. Sugiyarto, 2002; Metin-Ozcan *et al.*, 2002; Tanski and French, 2001; Sharma, 2001; James, 2000; Weller, 2000; Ghose, 2000; Weeks, 1999; Claessens *et al.*, 1998; OECD, 1997; El-Mody, 1995; Evans and Walsh, 1995; Mosley, 1993; Stein, 1992; Rodrik, 1992; Terrell, 1986; Diaz-Alejandro and Helleiner, 1982; and Taylor, 1981), as shown in Chapter Two in details. Therefore, both points of view are considered here to explore the real impacts of GATS on the Egyptian banking sector;

- (3) The entry modes assessing criteria section, by which data related to the characteristics of each entry mode e.g. the risk imposed, the continuity of risk, the required resources and time have been obtained {e.g. from question eleven (X_{11}) to question fourteen (X_{14})}. The work of Erramilli *et al.* (2002); Bates (2002); Pan and Tse (2000); Miller and Parkhe (1998); Goodwin and Elliott (1995); Woodcock *et al.* (1994); Erramilli and Rao (1993); Erramilli and D'Souza (1993); Erramilli (1990); Dunning (1988); Boddewyn *et al.* (1986); Sapir (1982); and Shelp (1981) were of help in this perspective;
- (4) The marketing objectives and rivals' section, by which data about local banks' objectives, local banks' perceived rivals and their competitive advantages were obtained {e.g. questions ten (X_{10}), fifteen (X_{15}) and sixteen (X_{16})}. This part is settled in the literature, however the work of Porter (1980) was of help in determining the rivals and their competitive advantages; and
- (5) The defensive marketing strategies' section, by which data regarding the defensive marketing strategies that the local banks are currently deploying were obtained {e.g. question seventeen from seventeen one to seventeen twenty six (X_{17})}, See Appendix (A₁). The work of Purba (2002); Erto and Vanacore (2002); Groom and David (2001); Tyson (1997); Cotter *et al.* (1997); Lotayif (1994); James *et al.* (1994); Malhotra *et al.* (1994); Desatnick and Detzel (1993); Taylor (1992); Bolton and Drew (1991); Berry and Parasuraman (1991); Chardwick (1991); Heskett *et al.* (1990); Fornell and Wernerfelt (1988); Parasuraman and *et al.* (1985); Fornell and Wernerfelt (1984); Hauser and Shugan (1983); Porter (1980); and Hofstede (1980) help determine the viable defensive marketing strategies.

On the other hand, the foreign branches' questionnaire contains three sequential parts. These are:

- (1) The demographic variables section, by which data regarding both the respondents and their banks' characteristics were obtained {e.g. from question one (X_1) to question six (X_6). No respondents responded positively to question seven, related to bank's capital);
- (2) The GATS impacts section, by which data regarding the perceived merits and the drawbacks of GATS on the Egyptian banking sector were obtained {e.g. question ten (X_{10}) and question eleven (X_{11}) from eleven one to eleven twenty four}; and
- (3) The entry modes factors' section, by which data regarding the factors that determine the selection of each entry mode have been obtained {e.g. from question twelve (X_{12}) to question thirty (X_{30})}, See Appendix (A₂). The debated variables in the literature were collected to be tested in the banking context. Consequently, the work of many scholars have participated in the construction of this part (e.g. (Erramilli *et al.*, 2002; Bates, 2002; Pan and Tse, 2000; Woodcock *et al.*, 1994; Li, 1994; Yung and Leonard, 1992; Kim and Hwang, 1992; Erramilli, 1992; Terpstra and Sarathy, 1991; Dahringer and Muhlbacher, 1991; Erramilli and Rao, 1990; Hill *et al.*, 1990; Johanson and Vahlne, 1990; Gripsrud, 1990; Stahl and Karakaya, 1989; Douglas and Craig, 1989; Bolt, 1988; Kim and Lyn, 1987; Root, 1987; Goodnow, 1985; Tong and Walter, 1980; Dunning, 1980; Hirsch, 1976; and Goodnow and Hansz, 1972).

It is worth mentioning that, three types of questions were used in the two types of structured questionnaires: nominal (e.g. dichotomous all "yes" and "no" questions), ordinal (e.g. all the five points Likert scale questions), and ratio (e.g. continuous scale questions such as age, experience,

and bank experience questions). Most of the questions are closed because of the awareness of the benefits of such questions for quick completion and analyses.

Once designed their reliability and validity were assessed. To assess their validity, these two questionnaires were piloted on fellow academics for consultation as well as industry participants, and amended in the light of comments and recommendations made. All item changes, additions, or deletions were made by consensus agreement among the evaluators. Some of the results of this stage were that representative, and agency offices, and strategic alliance entry modes are not common in the Egyptian market, therefore they were excluded. In the coming three parts, validity (that represents the work preceded the use of the two questionnaires), reliability, and both normality and linearity (the work preceded the statistical analysis's stage) of the used instruments and their variables, will be presented in details.

7.1.6. Tests and Instrument Validity

Simply, tests and instruments are valid if they are functioned correctly to measure and produce what is intended or claimed to achieve (Bryman and Cramer, 1999). El-Ragal (2001); Kline (2001); Keil *et al.* (2000); Ravichandran and Rai (2000); Bryman and Cramer (1999); Rust and Golomok (1999); Chan *et al.* (1996); Ghiseli *et al.* (1991); Wonnacott and Wonnacott (1990); Nunnally (1978); Campbell and Fiske (1959) distinguished between kinds of validity. These are face, content, predictive, construct, concurrent, convergent, and discriminant validity.

Face validity refers to the appearance of the instrument. Therefore, it includes everything related to collect the required data for the intended purposes, from questions design and order, to number of questions and so on. Face validity is measured by judgmental methods e.g. careful definition of the topic, items to be scaled, scale to be used and so on (El-Ragal, 2001). Content validity

refers to the extent to which the instrument provides adequate coverage of the topic being researched (Rust and Golomok, 1999). To ensure these two kinds of validity, the two research questionnaires were piloted on fellow academics for consultation as well as industry participants, and amended in the light of comments and recommendations made, as previously mentioned.

Predictive validity refers to ability of a test to predict some relevant outcome. To assess this kind of validity, criterion to be compared with should be available. However, it is difficult to set up a good criterion to upon which to base predictions. Therefore, predictive validity is of little use (Bryman and Cramer, 1999). Construct validity refers to identify the underlying construct(s) being measured and determine how well the test represents them. It is usually measured by factor analysis (Bryman and Cramer, 1999). Concurrent validity refers to correlating a test with another test of the same variable (Rust and Golomok, 1999). Satisfactory concurrent validity requires a correlation of at least 0.7 between the two tests (El-Ragal, 2001). Scales differences impose restrictions on conducting this kind of validity.

Discriminant validity refers to the strength of correspondence between a measure and other measures which are supposed to represent other concepts (Bryman and Cramer, 1999). Ghiseli *et al.* (1991) stated that correlation coefficient greater than 0.80 represent extreme cases. In the current study, discriminant validity was conducted when multiple regression (MR) was used, by insuring variables were free from the multi-collinearity problem, indicated in Table 8/3 in Chapter Eight. Also, discriminant validity was conducted via bivariate analysis between concepts within Chapter Eleven, as indicated in Table 7/11. Finally, convergent validity refers to the attempt to demonstrate that each measure harmonizes with another measure (El-Ragal, 2001; Bryman and Cramer, 1999; Chan, *et al.*, 1996; Campbell and Fiske, 1959). Jenkins *et al.* (1975)

recommended that using observations in addition to the questionnaire could guarantee this kind of validity a procedure not followed here.

7.1.7. Reliability of Instruments (Scales) and Items

Reliability refers to the extent to which a scale produces consistent results if repeated measurements are made (Bryman and Cramer 2001, p.62; Hussey and Hussey, 1997, p. 57; Andrews, 1984, p.409; and Jaffe and Nebenzahl, 1984, p. 463). It is equivalent to consistency (Sarantakos, 1998, p. 83). Also, reliability refers to the extent to which measures are free from random error (X_r). If $X_r = 0$, the measure is perfectly reliable (Malhotra, 1993, p. 307 and Aaker and Day, 1995 p.299).

In brief, Sarantakos (1998, p. 84); Malhotra (1993, p. 308); Krosnick and Alwin (1987, p. 201); Crespi and Morris (1984, p. 578); and Schuman *et al.* (1983, p. 112) defined three ways of assessing instrument reliability. These are test-retest reliability, alternative forms reliability, and internal consistency reliability.

In “test-retest reliability”, respondents are administered identical sets of scale items at two different times under nearly as equivalent conditions as possible. Typically, the time interval between tests is two to four weeks. Statistically, the degree of similarity between the two measurements is determined throughout computing a correlation coefficient. The higher the correlation coefficient is, the greater the reliability.

However, this test has been criticized in many ways (Malhotra, 1993). First, it is sensitive to the time interval between testing. Other things being equal, the longer the time interval, the lower the reliability. Second, the initial measurement may alter the characteristic being measured. Third, it

might be impossible to make repeated measurements. Fourth, the first measurement may have a carry over effect to the second measurement as respondents may attempt to remember answers they gave the first time. Fifth, the characteristic being measured may change between measurements. Finally, the coefficient can be inflated by the correlation of each item with itself. Consequently, the Test-Retest approach is best applied in conjunction with other approaches such as alternative forms or alpha coefficient.

“Alternative-form reliability” assumes constructing and using two equivalent forms of scale. The same respondents are measured at two different times, usually two to four weeks apart. Then, the scores from the administration of the alternative scale forms are correlated to assess reliability (Krosnick and Alwin, 1987, p. 201; Crespi and Morris, 1984, p. 578; and Schuman *et al.*, 1983, p. 112). This approach has two main problems: it is time consuming and expensive to construct an equivalent form of the scale; and it is difficult to construct two equivalent forms of a scale.

“Internal consistency reliability” is used to assess the reliability of a summarized scale where several items are summed to form a total score. Statistically, internal reliability could be measured via two ways: split-half reliability and the coefficient alpha (e.g. Cronbach α).

With split-half methods, the research instrument (questionnaire) is split into two parts. Items splitting could be done on a random basis or an odd and even basis. Correlation between the two halves' items is made. Statistically, the higher the correlation is, the greater the reliability. However, split-half reliability could be affected, and in turn could be not accurate enough, by the method of items splitting (Malhotra, 1993).

With Cronbach Alpha reliability, the research instrument is split in several ways, and the average of all possible split-half coefficients is calculated. Therefore, it covers the weaknesses resulting from using one method of splitting the instrument. This coefficient (e.g. Cronbach α) varies from 0 to 1 (Hair *et al.*, 1998, p. 618) and a value of 0.60 or less generally indicates unsatisfactory internal consistency reliability (Foster, 2001, p. 228; Teo and King, 1996; Kiline, 1993; and Malhotra, 1993, p. 308). Nunnally (1978) suggests that increasing alpha coefficient beyond 0.80 is often wasteful of time and funds.

Table 7/5
Reliability of Instruments (Scales)

Instruments (Scales)	N	N of Items	Alpha
Foreign Branches' Questionnaires	146	169	0.911
Local Banks' Questionnaires	591	114	0.694

Table 7/6
Reliability of Items

Concepts (Items)	N	No. Of Items	Cronbach Alpha
GATS Effects: -			
In Local Banks	591	25	0.614
In Foreign Branches	146	25	0.678
In Both	737	25	0.622
Factors Affect Selection of Entry Modes	146	128	0.913
Defensive Marketing Strategies	591	26	0.865
Bank aims, rival, and their competitive advantages	591	23	0.794
The four assessment criteria	591	32	0.661

Based on the above argument, the coefficient alpha has been used to assess scales' reliability in the current research. Alpha values are 0.91 and 0.69 in foreign branches and local banks questionnaires respectively, as shown in Table 7/5. Consequently, the reliability of the current research results is supported. Additionally, items' reliability is guaranteed as alpha reported values of 0.622, 0.913, 0.865, 0.794, and 0.661 with GATS impacts, factors affect selection of entry modes, defensive marketing strategies, bank aims, rival, and their competitive advantages, and the four assessment criteria respectively, as shown in Table 7/6.

7.1.8. Normality and Linearity

Data is considered normal, when the sample size is greater than or equal to 30 (Ortuzar and Willumsen, 1994, p.58). However, ensuring univariate normality for all individual variables and/or ensuring bivariate normality for all possible pairs does not guarantee multivariate normality (Jobson, 1992, p. 148). Since the current research sample size is equal of 737, the normality condition is assumed.

One of the unresolved issues in data analysis is the question of when parametric rather than non-parametric tests should be used (Bryman and Cramer 2001, p.115). Therefore, parametric assumptions e.g. scale of measurement is of equal interval or ratio scaling, normality, and variance homogeneity are strongly questioned. Lord (1953) suggested that parametric tests could also be used with ordinal (Likert five points scale for instance) variables as tests apply for numbers (from one to five) irrespective of what those numbers signify. Consequently, a Multiple Regression (MR) analysis (parametric test) was used with GATS impacts in Chapter Eight. Additionally, parametric tests are routinely applied in social and psychological researches where variables are basically ordinal e.g. attitudes, perceptions etc (Bryman and Cramer, 2001).

However, a number of studies have been carried out (Games and Lucas, 1966; and Boneau, 1960) where the values of the statistics used to analyse samples drawn from populations which have been artificially set up to violate normality and homogeneity assumptions, have been found not to differ greatly from those for samples which have been drawn from populations which do not violate these assumptions. Consequently, some non-parametric or “distribution-free tests” such as Chi-Square, Chi-Square Goodness of Fit, and Wilcoxon, Friedman, besides some other parametric tests (e.g. MR, Correlations, and Factor Analysis) were used in the current research.

7.1.9. Research Response Rate

Research questionnaires were mailed to response bases and followed up through telephone calls. Due to some unforeseen obstacles, 59 and 4 questionnaires from local banks and foreign branches' samples respectively were not received. Consequently, a total of 737 executives were contacted. Of these, 591 and 146 questionnaires were from local banks and foreign branches' samples respectively. Thus, the average response rate was 92.1 per cent, distributed into 97.3 per cent and 90.9 per cent in foreign branches and Egyptian banks' samples respectively, as shown in Table 7/7 below.

Table 7/7
Sample Response Rate

Items	Actual	Responded	Response Rate (%)
Local Banks' Questionnaires	650	591	90.9
Foreign Branches' Questionnaires	150	146	97.3
Total	800	737	92.12

Table 7/8
Response Rate in Some Egyptian Studies ¹

Authors	Research Titles	Response Rates (%)
Nasef (2002)	"Psychological and Behavioural Effects of Mergers and Acquisitions"	75.00
Abdeen (2001)	"The Quality of Work Life: An empirical study"	80.00
Abdel-Aal (1999)	"Modelling the Fisheries of Lack Manzala Egypt, Using Parametric and Nonparametric Statistical Methods"	88.20
Abdel-Ghafar (1993)	"The Relationship Between University Systems and Staff Members' Firing Rates at Cairo University"	86.40
Hussien and El-Zayat (1993)	"Determinants of Service Quality in the Egyptian Insurance Industry"	95.10
Al-Tahyeeh (1993)	"Business Communities' Perception of Business Department's Graduates in Gulf States"	66.00
Badran (1993a)	"Privatization of An Egyptian Public Sector Hotel: The Change Process"	65.00
Badran (1993b)	"The Egyptian Public Sector Managers As Change Agents for Privatization"	100.00
Abo-Zeed (1993a)	"The Role of Egyptian Customers in Their Own Protections"	98.00
Abo-Zeed (1993b)	"Research Centers-Customers Relationship's Role in Achieving Effective Results"	80.00
Erasha (1993)	"The Effect of The Organizational Commitment and Motivation on Absenteeism and Intention to Stay within the Organization"	87.60
Gamaha (1991)	"Factors Affecting on Eggs Enterprises' Profitability"	100.00

¹ Source: - The Researcher.

Actually, the high response rate might be due to (a) the researcher's close follow up during about eleven months, and (b) the attractiveness of the research aims as perceived by banking executives. It is worth mentioning that most Egyptian studies are characterized by high response rates, as shown in Table 7/8.

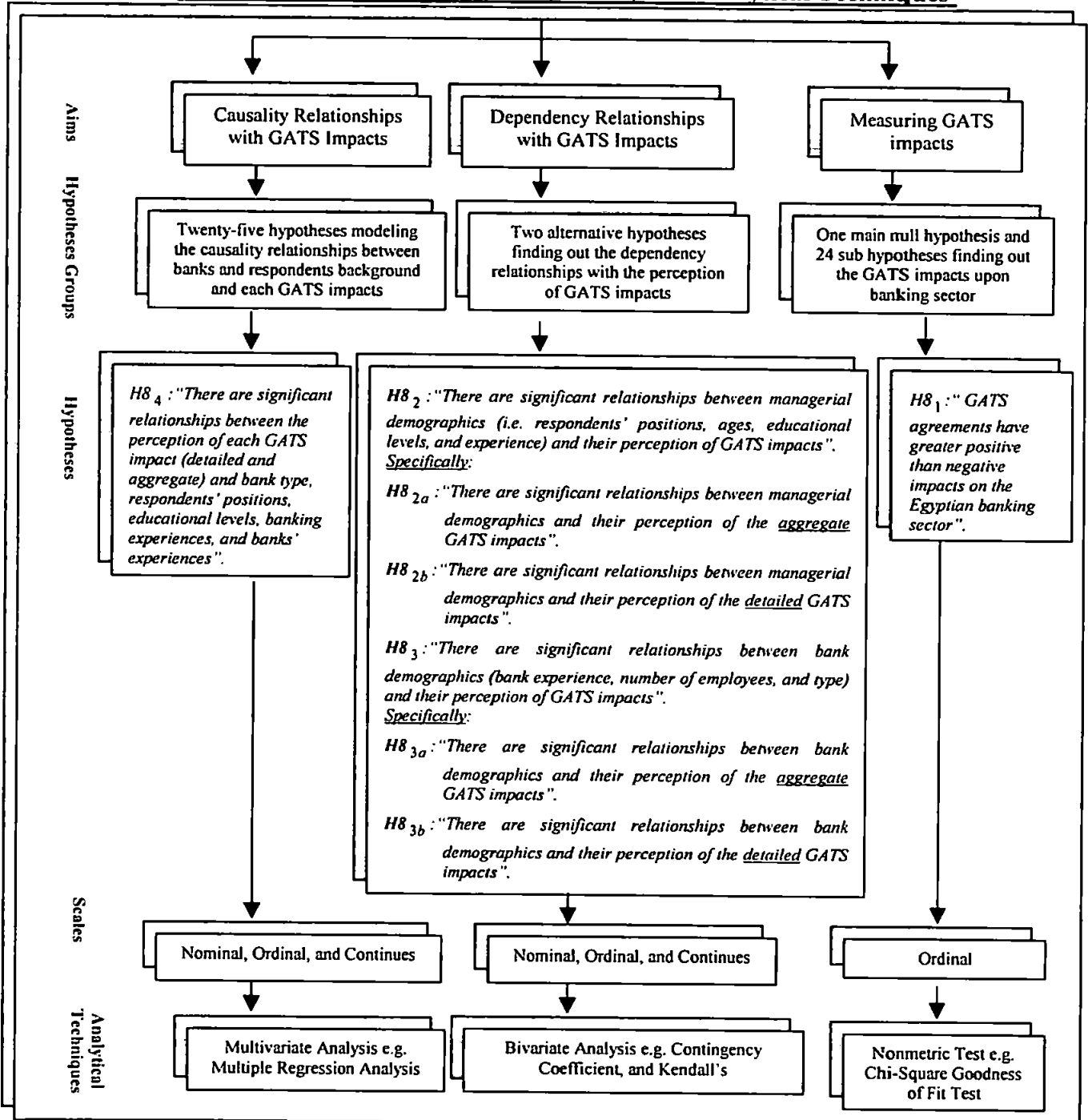
7.1.10. Data Analysis Techniques

The information contained within the questionnaires was input into SPSS release ten (Statistical Programs for Windows 2000) and Stat graph packages to enable detailed quantitative analyses to be performed. The statistical techniques that have been used for hypotheses testing are bivariate analysis (e.g. Contingency Coefficient and Kendall's correlations), multivariate analysis (e.g. Multiple Regression), and Chi-Square Goodness of Fit Test as in Chapter Eight. In addition to that, univariate analysis (e.g. descriptive statistics), and non-metric tests (e.g. Chi-square Goodness of Fit Test, Wilcoxon, and Friedman) have been used, as in Chapter Nine. Multivariate techniques (e.g. Canonical Analysis), and bivariate analysis (e.g. Contingency Coefficient, and Kendall's) have been conducted, as explained in Chapter Ten. Finally, Factor Analysis (principal components orthogonal method) has been employed in Chapter Eleven. These analytical techniques will be highlighted in detailed: the definitions, the assumptions, the null, and alternative hypotheses, will be discussed within the coming pages according to their appearance in each chapter.

In Chapter Eight, Chi-Square Goodness of Fit Test, Bivariate Analysis via Correlation techniques (e.g. Contingency Coefficient, and Kendall's correlation coefficient), and Multivariate Analysis e.g. Multiple Regression have been utilized, as shown in Figure 7/3. Chi-Square Goodness of Fit Test is an analysis that tests the distribution of data by assuming specific data distribution and testing this distribution (Ashour and Abo-Elftooh, 1995; Ashour, 1993; and Wayne, 1978). It

works through comparing observed and expected values according to the following equation (Wayne, 1978, p. 256): -

Figure 7/3
Chapter Eight Aims, Hypotheses, Scales, and Analytical Techniques¹



¹ Source: - The Researcher.

$$X^2 = \sum_{l=1}^r \frac{(O_l - E_l)^2}{E_l}$$

Where: -

X^2 = Chi-Square value

O = Observed value

E = Expected value

r = Number of classes

In that chapter, the distribution of GATS impacts will be tested to find out the distribution pattern. The null hypothesis (H_0) is “the actual data distribution is following specific distribution” and the alternative hypothesis (H_1) is “the actual data distribution is not following that specific distribution but other distributions”. Consequently, the null hypothesis ought to be accepted, rejecting the alternative hypothesis if the $p > 0.05$. Conversely, the alternative hypothesis ought to be accepted, if the $p \leq 0.05$.

Goodness of Fit Test. They recommend that the questions scale is nominal or ordinal, the total sample size is more than 30, and the frequency within each cell is not less than five. These three assumptions have been met in the current research sample.

The use of correlation techniques e.g. contingency coefficient, and Kendall’s correlation coefficient, depend on variable scales (Wayne, 1978). Scales pattern relationships could follow one of six patterns. These patterns are “nominal-nominal”, “nominal-ordinal”, “nominal-continuous (e.g. interval and ratio)”, “ordinal-ordinal”, “ordinal-continuous”, and “continuous-continuous”. Statistically, Contingency Coefficient correlation is used with nominal scale variables. It provides both dependency relationships and their direction. Kendall’s correlation is used with ordinal scale’s variables. Given that in bivariate analysis the lower scale determines the used correlation techniques. In other words, with “nominal-nominal”, “nominal-ordinal”, and

“nominal-continuous” scales, Contingency Coefficient correlation is a viable option. The same logic applies to the other scales’ patterns (Ashour, 1993).

Wayne (1978, p. 300: 306) discusses Kendall’s, and contingency coefficient assumptions. For Kendall’s, the data consists of a random sample of (N) observation pairs (x_i) and (y_i) numeric or nonnumeric observations. Each pair of observations represents two measurements taken on the same unit of association. The data are measured on at least an ordinal scale so that each (X) could be ranked in relation to all other (X ’s), and each (Y) observation in relation to all other observed (Y ’s). For contingency coefficient’s assumptions, the data consists of a simple random sample of size N from some population of interest, and the observation in the sample may be cross-classified according to two criteria, so that each observation belongs to one and only one level of each criteria. The criteria are the variables of interest in a given situation.

In contingency coefficient, and Kendall’s correlations, the null hypothesis (H_0) is that the variables are independent (no significant relationship) and the alternative hypothesis (H_1) is that the variables are directly related or dependent (there is a significant relationship). Therefore, with $\alpha = 0.05$ and confidence rate 0.95 the null hypothesis ought to be rejected, accepting the alternative if $p \leq 0.05$. Conversely, the null hypothesis ought to be accepted, if $p > 0.05$. Actually, the correlation coefficient’s value (r) is the main determinant of the variables relationships’ directions. Correlation coefficient’s value ranges from +1 to -1 to indicate positive or inverse relationship respectively. Variables relationships’ directions are weak, moderate, strong, and perfect; if the coefficients’ values are less than 0.50, equal 0.50, and more than 0.50 (and less than unity), and 1 in both directions respectively (Moore, 1996, p. 114; Mcghee, 1985, p. 400; Maxwell, 1983, p. 442). George and Mallery (2001, p. 113) added that perfect

correlations (positive or negative) exist only in mathematical formulas and direct physical or numerical relations.

Finally, Multiple Regression (MR) Analysis is a multi-variate technique that identifies both the dependency and causality relationships among variables i.e. one dependent variable with several independent variables (Foster, 2001; Hair *et al.*, 1998; and Cooper and Emory, 1995), as shown in Table 7/9. Consequently, Multiple Regression aims at predicting the changes that occur in the dependent variable as a result of the changes in the independent variables (IV's) or regressors. This objective is most often achieved through the statistical rule of least square (Hair *et al.*, 1998, p.13).

Table 7/9
Multiple Regression Components¹

Source	Sum of Square (SS)	Degree of Freedom (DF)	Mean Square (MS)	F-Value	P-Value
Model Regression	SS_r	DF_r	$MS_r = \frac{SS_r}{DF_r}$	$\frac{MS_r}{MS_e}$	
Error	SS_e	DF_e	$MS_e = \frac{SS_e}{DF_e}$		
Corrected Total	SS_t	DF_t			
Notes: -					
➤ Model Error represents the error value in the model, therefore the smaller the Model Error, the stronger the independent variables on the dependent variable(s)					

The MR outputs that serve the hypotheses testing purpose are “*p* values”, coefficients of determination (R^2) or “*R* Squares”, Adjusted coefficient of determination “adjusted *R* Squares”, partial *F* (or *t*) values, “*beta* coefficients (β)”, collinearity, and “Durbin-Watson tests”. The *p*-value indicates the dependency relationship between the dependent variable (DV) and the independent variables (IVs) or regressors. If ($P \leq 0.05$) that means there is a dependency

¹ **Source:** - Adopted from {Cooper and Emory, 1995, p. 499}.

relationship among the variables. Conversely, if ($P > 0.05$) that means there is no dependency relationship among the variables. The *beta* value indicates the causality relationship, as it clarifies the effect each IV has on the behavior of the dependent variable.

R-Square and the Adjusted *R*-Square indicate the model's predictability, as the latter refers to the predictability power in the population, while the former refers to the predictability power the model has within the sample (Cooper and Emory, 1995). Moreover, R^2 measures the proportion of the variance of the dependent variable about its mean, that is explained by the independent, or the predictor, variables. The coefficient can vary from 0 to 1. The higher the value of R^2 , the greater the explanatory power of the regression equation, and therefore the better the prediction of the criterion variable (Hair *et al.*, 1998, p. 80). On the other hand, adjusted R^2 is a modified measure of the coefficient of determination that takes into account the number of predictor variables included in the regression equation. The addition of predictor variables will always cause the coefficient determination to rise; the adjusted coefficient of determination may fall if the added predictor variables have little explanatory power and are statistically insignificant. This statistic is quite useful for comparison between equations with different numbers of predictor variables.

Partial *F* (or *t*) value is simply an *F* test for the additional contribution to prediction accuracy of a variable about that of the variables already in the equation. When a variable (X_a) is added to a regression equation after many other variables have already been entered into the equation, its contribution may be very small. The reason is that X_a is highly correlated with the variables already in the equation. A partial *F* value may be calculated for all variables by simply pretending that each, in turn, is the last to enter the equation. This method gives the additional contribution

of each variable above all others in the equation. However, a t value may be calculated instead of F values in all instances, with the t value being the square root of the F value. The test statistic F is defined as (Hair *et al.*, 1998, p. 119):

$$F \text{ ratio} = \frac{\frac{\text{Sum of square error}_{\text{regression}}}{\text{Degree of freedom}_{\text{regression}}}}{\frac{\text{Sum of square error}_{\text{Total}}}{\text{Degree of freedom}_{\text{residual}}}}$$

Where: -

Degree of freedom_{regression} = Number of estimated coefficients (including the constant) – 1

Degree of freedom_{residual} = Sample size – the number of estimated coefficients (including the constant)

Beta coefficient (β) is a standardized regression coefficient that allow for a direct comparison between coefficients as their relative explanatory power of the dependent. It uses standardized data and can be directly compared (Hair *et al.*, 1998, p. 80). In SPSS the use of B value instead of β is common, as the constant coefficients are available in the B column only. Therefore, B values are used in the current study to determine the relative importance each IV has in the regression equation. Collinearity is the expression of the relationship between two (collinearity) or more independent variables (multicollinearity). Two predictor variables are said to exhibit complete collinearity if their correlation coefficient is 1 and a complete lack of collinearity if their correlation coefficient is 0. Multicollinearity occurs when any single predictor variable is highly correlated with a set of other predictor variables (Hair *et al.*, 1998, p. 80). Finally, Durbin-Watson is a test to indicate the effect of data keying order on the analysis. If this is > 1.4 it means the order has no effect on the analysis and, if less, it means the order has an effect on the analysis' results (Stat graphs, 2000).

Coakes and Steed (2001); Keil *et al.* (2000); Hair *et al.* (1998); Cooper and Emory (1995); Wonnacott and Wonnacott (1990); and Ghiselli *et al.* (1981) discussed MR assumptions. These assumptions are:

- (a) The ratio of cases to independent variables should be at least five times more cases than the independent variables as a minimum requirement. While the minimum ratio is 5 to 1, the desired level is between 15 to 20 observations for each independent variable (Hair *et al.*, 1998, p. 105). Actually, this assumption refers to the research design stage. The current research sample does not violate this assumption as the valid questionnaires are 737 items and the independent variables in this analysis are seven demographic factors.
- (b) The outliers' assumption refers to eliminating those extreme cases that have considerable impacts on the regression solution or modified to reduce their influence. This assumption is tested through Mahalanobis distance.
- (c) The independent variables ought to be free from multi-collinearity and singularity problems. The latter refers to the existence of perfect or near-perfect correlations among independent variables. The former refers to the existence of high correlations' levels among independent variables. Consequently, the multi-collinearity matrix ought to be checked free from multi-collinearity problem before modeling the relationship. Keil *et al.* (2000, p. 648) and Wonnacott and Wonnacott (1990, p. 503) argue that the higher the correlation of the regressors (independent variables), the worse the problem of multi-collinearity. But none of them determine how high the problematic correlation is. Ghiselli *et al.* (1981) suggest that correlation greater than 0.80 could be extreme case of multi-collinearity. As in Table 8/3 in Chapter Eight, the multi-collinearity matrix reported correlation values less than 0.80.

- (d) Normality, linearity, homoscedasticity and independence of residuals assume that the difference between the obtained and predicted dependent variable's scores are normally distributed. Moreover, it is assumed that the residuals have a linear relationship with the predicted scores and that the variance of the residuals is the same for all predicted scores. Mild deviation from linearity is not serious. Ortuzar and Willumsen (1994, p. 58) mentioned that data is considered normal when the sample size is greater than or equal 30. Jobson (1992, p. 148) stressed that ensuring univariate normality for all individual variables and /or ensuring bivariate normality for all possible pairs do not guarantee multivariate normality. Since the current research sample size equals 737, the normality condition is assumed. This assumption is then automatically tested via the statistical package (Coakes and Steed, 2001).
- (e) The dependent variable should be in a continuous scale. However in human science the Likert scale is sufficient for this purpose as it has a numeric value (from one to five for instance) that could be predicted.

In MR, the null hypothesis says; "there is no significant relationship between the dependent and independent variables", however the alternative hypothesis says; "there is a significant relationship between the dependent and independent variables".

In the light of the above MR assumptions, each impact of the twenty-five GATS impacts were tested (as dependent variables) with the seven demographics several times, to reach the causality relationship that does not violate the multi-collinearity assumption, and of course the other assumptions. As Tables 8/3 and 8/4, and 8/5 at the end of Chapter Eight indicate, the causality relationship exists between the perception of each GATS impact and five regressors e.g. bank's

type (local or foreign branch), bank's number of employees, respondent's position, educational level, and experiences, (as the correlations among the IVs are less than 0.8, as shown in Table 8/3).

In Chapter Nine, the analytical techniques used to fulfill this chapter aims are: univariate analysis (e.g. Frequency Analysis) conducted to order the entry modes according to the four assessment pillars, and non-metric techniques (e.g. Chi-Square Goodness of Fit Test, Wilcoxon, and Friedman) deployed to indicate whether or not the local banks are deploying and pursuing the appropriate defensive marketing strategies according to the "Entry Modes-Defensive Marketing Strategies Model".

The Chi-Square Goodness of Fit Test (CSGFT) is a statistical technique that compares the values within two pairs or tests the distribution within a specific sample (Wayne, 1978). Unlike the previous chapter i.e. Chapter Eight, the null hypothesis (H_0) says: "the values in each pair are equal", whilst the alternative hypothesis (H_1) is; "the values within each pair are not equal", which means at least one value is different. Consequently, the null hypothesis (H_0) will be accepted if $p > 0.05$. Conversely, the alternative hypothesis will be accepted, rejecting the null hypothesis, if $p \leq 0.05$.

Ashour (2001); Coakes and Steed (2001); Ashour and Abo-Elftooh (1995); Ashour (1993); and Wayne (1978) have discussed the assumptions of CSGFT. Besides what has been mentioned in the previous chapter (i.e. Chapter Eight), these assumptions are that the value of each cell should not be less than five, and the total observations should not less than 30. These two assumptions

were met throughout the research sample, as the value of each cell is greater than five, and the total observed values are 5239, 1730, and 975 respectively, as shown in Tables 9/7, 9/8, and 9/9.

Wilcoxon Signed Ranks Test (WSRT) is a non-metric statistical technique that tests the difference between two pairs. It is the nonparametric alternative to the parametric "Matched-Sample Test" (Anderson *et al.*, 1996, p. 753). In the Matched-Sample situation, each experimental unit generates two paired or matched observations, one from population 1 and one from population 2. The differences between the matched observations provide insights about the differences between the two populations. The methodology of the parametric matched sample analysis (the t test on paired differences) requires interval data and the assumption that the population of differences between the pairs of observations is normally distributed. With this assumption, the t distribution can be used to test the null hypothesis of no differences between the population means. If the assumption of normality distributed differences, and interval scale are not appropriate, the nonparametric WSRT can be used (Anderson *et al.*, 1996).

In WSRT, the null hypothesis (H_0) is; "the median of the population difference $(X_i - Y_i) = D_i$ is zero", and the alternative hypothesis (H_1) is; "the median of the population difference is not zero". The null hypothesis will be accepted, rejecting the alternative hypothesis if $p > 0.05$; and the alternative hypothesis will be accepted if $p \leq 0.05$. The Wilcoxon Matched-Pairs Signed-Ranks Test is appropriate when the amount of any differences between pairs of observations X_i and Y_i , as well as the direction of the differences can be determined. The ranking can be done by the magnitude of differences, therefore producing additional information (rankings of the differences) that the WSRT utilizes.

Wayne (1978, p.135) discusses WSRT assumptions: These are: the data consists of a random sample of n pairs of measurements $(X_1, Y_1), (X_2, Y_2), \dots, (X_n, Y_n)$, where each pair of measurements is taken from the same subject or subjects that have been paired with respect to one or more variables. The difference represents observations on a continuous random variable; the distribution of the population of the differences is symmetric; the differences are independent; and the differences are measured on at least an interval scale. Interestingly, these assumptions have been met by the research sample, as the pairs were compared according to the "Entry Modes-Defensive Marketing Strategies Model" as shown in Table 9/4.

Friedman's Two-Way Analysis of Variance (ANOVA) is a non-parametric statistical test that compares K -related samples. Its null hypothesis (H_0) is; "the populations within a block are identical" and the alternative hypothesis (H_1) is; "at least one treatment tends to yield larger values than at least one other treatment" (Wayne, 1978, p.135). If $p \leq 0.05$, the null hypothesis will be rejected, and if $p > 0.05$ the alternative hypothesis will be rejected, and accepting the null hypothesis.

Friedman's assumptions are: (a) the sample consists of N mutually independent samples (blocks) of size K where the rows represent the blocks and the columns represent the treatment; (b) the variables of interest are continuous; (c) there is no interaction between blocks and treatments; and (d) the observations within each block may be ranked in order of magnitude (Wayne, 1978, p.135). These assumptions have been met in the research sample.

In Chapter Ten, bivariate (first stage), and multivariate (second stage) analyses have been conducted. The former was conducted via the Contingency Coefficient Correlation, as the lower

scale is nominal. Basically, a variable's scale determines the appropriate correlation test. Therefore, the lower scale is the main determinant of correlation type (Ashour, 1993, p. 213). Consequently, the contingency coefficient might be the deployed option with nominal-nominal scales' variables, and nominal-any other higher scales e.g. ordinal and continuous. The latter was conducted through canonical analysis, as the scale of the dependent variables (i.e. defensive marketing strategies) is also nominal.

Canonical correlation is a multivariate technique, which can be used in situations with multiple dependent and multiple independent variables (Diamantopoulos and Schlegelmilch, 1997). Regarding the variables' type, this analysis can handle both variable types: the quantitative (metric) and the qualitative (nonmetric) (Cheng, 1995; and Cliff, 1987). Additionally, canonical correlation analysis is the only multivariate technique that can handle nonmetric dependent and nonmetric independents (Hair *et al.*, 1998, p. 327). Therefore, canonical analysis does not impose many restrictions on the data type.

Statistically, it is used to study the interrelationships between two multiple variable sets, as it explains the effects of one set on the other one. The independent variables are grouped into a weighted set e.g. the defensive strategies (predictor variables), and the dependent variables are also weighted and grouped e.g. demographics, bank's objectives, rivals, and competitive advantages (criterion variables) (Cooper and Emory, 1995). The objective of canonical analysis is to decide whether the two variable sets are related or not, and the magnitude of their relationship (Walker, 2001). Consequently, it derives separate linear combinations of the independent and dependent variables in such a way as to maximize the correlation between these two sets of

variables (Diamantopoulos and Schlegelmilch, 1997). The general form of canonical analysis is (Walker, 2001; and Hair *et al.*, 1998):

$$b_1 Y_1 + b_2 Y_2 + \dots + b_n Y_n = a_1 X_1 + a_2 X_2 + \dots + a_n X_n$$

Where: -

Y 's represent the dependent variables (one canonical variate).

X 's represent the independent variables (the other canonical variate).

b_{1-n} & a_{1-n} represent the effect magnitude.

Hair *et al.* (1998, p. 329) mentioned that canonical correlation is the most generalized member of the family of multivariate statistical techniques. It starts with some canonical functions that consist of two variates (one for the independents and one for the dependents). The number of variates generated equals the smallest number of dependent or independent variables. Remarkably, each pair of canonical variates is independent of other variates and explains successively lower correlations (Cooper and Emory, 1995, p. 523). The first canonical function found should account for the maximum amount of relationship between the two sets of variables. The strength of the relationship is reflected by the canonical correlation. The function chosen should be significant and have the highest magnitude (Cliff, 1987). The analysis results in pairs of canonical variates that are similar to factors, except they account for the maximum amount of relationship between the two sets of variables. Besides the canonical variates, the analysis provides canonical correlation between the variates' statistical significance, and a redundancy measure of shared variance (Cooper and Emory, 1995).

Thomas (2001); Bryman and Cramer (1999); and Hair *et al.* (1998) discussed the assumptions of canonical analysis. These assumptions include: the ratio of observations per IVs ought to be 10 to 1, as with Hair *et al.* (1998). However, Thomas (2001) raises this limit to 20 to 1. The sample size of 591 respondents here gives 118 to 1 with the smallest IVs set of variables (i.e. banks'

objectives that contains five variables, as shown in Table 10/8) and 74 to 1 with the biggest IVs set of variables (i.e. the eight elements of competitive advantages, as shown in Table 10/18). Normality and linearity are not required, but are preferred for canonical analysis (Hair *et al.*, 1998). Though, the need to meet the conditions for using parametric tests has been strongly questioned (Bryman and Cramer, 1999, p. 117).

The reasons behind deploying canonical analysis rather than other multivariate analyses are mainly due to the nature of the DVs and IVs, as well as the research objectives. More specifically, other statistical techniques (e.g. MANOVA, Multiple Regression, and Discriminant analysis) can handle nonmetric independents but requires the dependents to be metric, which is not the case in this sample. Diamantopoulos and Schlegelmilch (1997) view canonical analysis as an extension of multiple regression analysis, the key difference being the number of dependent variables. Additionally, the emphasis in this chapter is to identify the effect of a set of variables, demographics for instance, on another set of variables (i.e. not the effect of every single independent on the dependents). Consequently, canonical analysis can successfully achieve this.

Regarding defensive marketing strategies (DVs), each includes some defensive actions, as Table 9/6 in Chapter Nine has indicated. The fact of the matter is that to measure dependency and even causality relationships with each single defensive action might be difficult to interpret, thus there is a strong logic behind the creation of some “composite variables” to represent the eight defensive strategies. Statistically, the calculation could be conducted through the summation of each strategy components, the average of each strategy (the summation divided by the number of components), and the sequential equation by creating a composite variable $\{T_n = A + 2B + 4C + 8D + 16E + \dots + \alpha\}$ without suggesting any modifications on the original

sub-variables (Ashour, 2001). The sequential method was adopted in creating defensive strategies, as T_n = the created variable (composite variable) and A, B, C, and D are the components of each strategy, (see Appendix C).

In Chapter Eleven, the factor analysis (FA) has been deployed. Principal Component Analysis is one of the most commonly used forms of FA. It is based on either the Latent Root Criterion (Eigenvalues) or the Scree Plot. For confirmation purposes both methods could be used. In Latent Root Criterion, factors that have latent; or eigenvalues, greater than one are retained and interpreted (Bryman and Cramer, 2001, p. 264-268 and Hair *et al.*, 1998, p. 376-377). Child (1990, p. 37) added that this method is particularly suitable for principal components designs. A useful tactic is to consider the loadings in descending order of magnitude, as those with the highest loadings are going to give the “flavor” of the factor (Child, 1990). In the Scree Plot (as reported by SPSS) or Scree Test (as firstly proposed by Cattell, 1966 and 1988), a graph is plotted of the descending variance accounted for by the factors initially extracted (Bryman and Cramer, 2001, p. 267). The shape of the resulting curve is employed to judge the cut-off point (critical value) (Child, 1990, p. 38). However, the Scree Plot is criticized for its subjectivity (Cooper, 1998, p. 239 and Kline, 1997, p. 75). Therefore, the current research uses the eigenvalue method.

Orthogonal and Oblique rotations are the most commonly methods to rotate factors (Bryman and Cramer, 2001; Sapsford and Jupp, 1996, p. 279; and Child, 1990, p. 49-52). The Orthogonal method produces factors that are unrelated to or independent of one another (*Varimax procedure*). It is the least complicated method (Child, 1990, p. 49). The Oblique method produces factors that are related or dependent on one another (Promax solution), and therefore it is rather

more complex than orthogonal. The advantage of orthogonal rotation is that the information the factors provide is not redundant; whereas one of its disadvantages is that the factors may have been forced to be unrelated (Bryman and Cramer, 1999, p. 279). Meanwhile, there are also other kinds of methods, which are available on SPSS such as alpha, image, and maximum likelihood factoring, but these are used much less frequently (Bryman and Cramer, 1999, p. 274).

In the current research, "Orthogonal Principal Component analysis" is the adopted method for rotation. Therefore, the Rotated Matrix, and Eigenvalue are the outputs used in data interpretation.

Traditionally, FA has been used to explore the possible underlying structure in a set of interrelated variables without imposing any preconceived structure on the outcome (Child, 1990, p. 6). Thereby, FA is utilized to examine the underlying patterns or relationships for a large number of variables, to determine whether or not the information could be considered in a smaller set of factors or components through both data reduction and summarizing (Hair *et al.*, 1998, p. 365 and Jobson, 1992, p.344). In FA, the variates (factors) are formed to maximize their explanation of the entire variable set. Additionally, FA works by trying to fit a model of data in such a way as to minimize squared deviations from a set of predicted values (Sapsford and Jupp, 1996, p. 277). Thus, FA is considered an essential technique for summarizing information to make broad generalizations from the detailed sets of data (Cooper, 1998, p. 225).

Cramer and Bryman (2001); Coakes and Steed (2001); Hair *et al.* (1998); Jobson (1992); Child (1990); and Gorsuch (1983) have discussed Factor Analysis assumptions. The preferable sample size is greater than 100, with a minimum of five subjects per variable. As the foreign branches

sample is 146 with eight variables (i.e. eight entry modes) in each concept, this assumption has been met. The variables scale should not be dichotomous (zero and one). This assumption has been also met, as the concepts scale is Likert (five points). The correlation matrix should report a substantial number of correlations greater than ± 0.30 ; this assumption has been met. Bartlett's Test of Sphericity, {which provides the statistical probability that the correlation matrix has significant correlations among at least some of the variables (Hair *et al.*, 1998, p. 374)}, should report a value less than 0.05. It would be worthless to conduct factor analysis if there are no significant correlations between the items used in measuring different variables. This assumption was met with ten concepts, where p values were <0.01 . The Measure of Sampling Adequacy (MSA) should not be less than 0.60. In SPSS Kaiser-Meyer-Olkin (KMO) is used as a measure of Sampling Adequacy. Hair *et al.* (1998) mentioned that KMO could be interpreted with the following guidelines: (1) 90 or above (marvelous), (2) 80 or above (meritorious), (3) 70 or above (middling), (4) 60 or above (mediocre), (5) 50 or above (miserable), and (6) below 50 (unacceptable). However, MSA increases as the sample size, the average correlation, the number of variables increase, or the number of factors decrease (Hair *et al.*, 1998, p. 374). Therefore, MSA's value ought to be examined for each concept (entry variable) and those variables falling in the unacceptable category should be excluded.

As a result of examining the above assumptions with each concept, ten concepts, out of fifteen, have KMO values that range from 0.609 (with similarities in religion concept) to 0.771 (with different in target language concept), and therefore were eligible for factoring. The remaining five concepts were not eligible for factoring, as their KMO and p values are not available. Therefore these were excluded from the analysis and interpretation. These five concepts are: language similarities between home and target markets (X_{17}); difference in religion between

home and target markets (X_{18}); values similarities between home and target markets (X_{20}); low competition in the target markets (X_{27}); and the more international experiences that a bank has (X_{29}), as indicated in Table 7/10.

To ensure discriminant validity through concept-concept correlations as recommended by Keil *et al.* (2000) and Ghiselli *et al.* (1981), the correlations between these ten concepts were checked and found acceptable. All concept-concept correlations are less than 0.80, as indicated in Table 7/11. These correlations resulted from bivariate analysis i.e. Pearson's correlation coefficients. Each concept's average is computed and correlated with the other concepts. Moreover, instrument and concepts' Cronbach Alpha values are 0.678 and 0.913 respectively which > 0.60 . Consequently, reliability in this analysis is supported (Foster, 2001; Teo and King, 1996; Kiline, 1993; and Malhotra, 1993), as previously reported in Tables 7/5 and 7/6 in the current chapter.

Table 7/10
Concepts Eligibility for Factoring

Concepts	Kaiser-Meyer-Olkin Measure of Sampling (KMO)	Bartlett's Test of Sphericity (P-value)	Explanation Power
1. Political Stability	0.610	0.000	Mediocre
2. Political Instability	0.626	0.000	Mediocre
3. Greater Financial Resources	0.749	0.000	Middling
4. Less Financial Resources	0.617	0.000	Mediocre
5. Differences in Languages	0.771	0.000	Middling
6. Similarities in Languages	NA	NA	NA
7. Religious Differences	NA	NA	NA
8. Religious Similarities	0.609	0.000	Mediocre
9. Values Similarities	NA	NA	NA
10. Values Differences	0.666	0.000	Mediocre
11. Severe Competition	0.738	0.000	Middling
12. Moderate Competition	0.752	0.000	Middling
13. Low Competition	NA	NA	NA
14. More International Experience	NA	NA	NA
15. Less International Experience	0.689	0.000	Mediocre

Notes: - NA = Not Available

To sum up, ten concepts are perceived to affect the selection of entry modes. These ten concepts contain bank and market characteristics. The latter includes political stability of the target

markets, political instability, language differences (language similarities has been omitted), religious similarities (difference in religion has been omitted), values differences (values similarities have been omitted), severe competition, and moderate competition (low competition has been omitted). The former includes greater financial resources, less financial resources, and less international experience (more international experience has been omitted).

Table 7/11
Concepts' Correlations for Discriminant Validity

Factors (Concepts) Affecting Entry Modes	Factors (Concepts) Affecting Entry Modes								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Political Stability (1)	---								
Political Instability (2)	.303	---							
Greater Resources (3)	.750	.424	---						
Less Resources (4)	.350	-.210	.540	---					
Language Differences (5)	.637	.193	.504	.058	---				
Religious Similarities (6)	.250	.123	.020	-.125	.328	---			
Value Differences (7)	.396	-.363	.342	.379	.404	.029	---		
Severe Competition (8)	.014	-.599	-.026	.234	.207	-.007	.335	---	
Moderate Competition (9)	.528	.692	.459	-.251	.661	.123	.005	-.227	---
Less International experiences (10)	.784	.059	.409	.082	.528	.493	.288	.261	.334

Notes: -

- Matrix variables = $\frac{N * (N - 1)}{2} = \frac{10 * (10 - 1)}{2} = 45$
- Political Stability = (1), Political Instability = (2), Greater Resources = (3), Less Resources = (4), Language Differences = (5), Religious Similarities = (6), Value Differences = (7), Severe Competition = (8), and Moderate Competition = (9).

Needless to say, those statistical techniques used were quite similar to those used by other scholars in the literature. In brief, Kedia *et al.* in (1994) have used both factor analysis (principal components extraction and varimax rotation) and discriminant analysis to find out the factors behind internationalization. In this study, it was suggested that two managerial attitudes (the desire to expand and the desire to increase profits) generally increase the likelihood that firms will internationalize their operations. Erramilli and Rao in (1993) used MANOVA, correlations, and maximum likelihood to find out service firms' international entry modes. Erramilli and D'Souze (1993) used chi-square, multiple regression, correlation, chi-square and logistic

regression to measure the foreign market entry behavior of small and large service firms. Erramilli (1990) used analysis of variance (ANOVA) and chi-square to determine the entry modes working in the service industry. Interestingly the banking sample in this study was 591 questionnaires (the same number of valid local banks' questionnaires in the current study).

In addition, Buckley and Casson (1998) used logical thinking coupled with descriptive statistics (percentage analysis) to build up foreign market entry strategies based on the internationalization approach. Yung-Chul and Konopa (1992), hypothesized differences between the characteristics of exporting and those of foreign production, and examined these via paired t-tests on the data provided by 134 respondents. The study aimed at finding out the impacts of host country market characteristics on the choice of foreign market entry mode (exporting and foreign production).

Miller and Parkhe in (1998) used cross sectional time series regression to find out the factors that determine the use of entry modes in the expansion of the US banks.

Hagedoorn and Sadowski (1999) used descriptive statistics, chi-square and Poisson regression. Hoang (1998) used maximum likelihood, bivariate correlation analysis (Pearson correlation), and principal components factor analysis and varimax to test the relationship between firm characteristics, international marketing strategies, and export performance. Contractor and Kundu (1998) used logistical regression, canonical discriminant analysis to analyze entry modes in hotels industry. Chadee and Mattsson in (1998) used t-tests, chi-square, and logistic regression to differentiate between the services and merchandise exporters.

Koh (1991) used t-tests, and chi-square. In that research, chi-square was used to investigate the association between organizational characteristics and export marketing strategy variables.

Mallika (1994) used canonical correlation and chi-square to compare successful and unsuccessful exporters from developing countries.

7.2. Sample Profile

The sample contains different position categories: credit manager (39.8 per cent), general managers (28.4 per cent), managers (20.2 per cent), and marketing managers (11.7 per cent) as shown in Table 7/12. Their educational backgrounds differ, ranging from pre university certificates to Ph.D. degrees. Notably, executives in foreign branches are better educated than those in the Egyptian banks, as those who have master degrees and Ph.D. degrees represent 46.6 per cent each. The same two educational categories are 17.1 and 19.8 per cent respectively in Egyptian banks. General Managers – the category responsible for drawing and implementing banks' strategies – in the foreign branches' sample are more well educated than those in Egyptian banks, as their educational backgrounds are Ph.D. (32.9 per cent) and master degrees (26 per cent) respectively, as opposed to 2.5 and 2.7 per cent respectively in Egyptian banks. Only 2.9 per cent of credit managers in Egyptian banks have degrees beyond university first degree: this might limit their ability for successfully interacting with the global economy, as well as weaken their competitive position.

The sample includes different bank sizes: small banks e.g. banks with 100 employees, medium banks e.g. banks with 550 employees, large banks e.g. banks with 5500 employees, and huge banks e.g. banks with 10000 employees and more; consequently their representation in the research's sample are 60.5, 17.4, 14.9, 2.8, 2.3 and 2 per cent respectively. Obviously, most of the samples are medium-sized: 64 and 46.6 per cent in Egyptian banks and in foreign branches respectively. Even in this medium-size category, the foreign branches' sample has better educated employees than those in Egyptian banks. They have employees who have masters (26

per cent) and Ph.D. (20.5 per cent) degrees. However the highest category of Egyptian bankers are those who have university degrees, as they represent 43 per cent.

Regarding respondents' ages, response options were 50 years (i.e. from 41-50), 60 years (i.e. from 51-60), 40 years (i.e. from 31-40), and 30 years (i.e. 21-30) by 60.1, 24, 10, and 5.9 per cent respectively. Fifty years is the major category in both foreign branches and local banks (52.7 and 61.9 per cent respectively) with the major educational levels within this category being university degrees (in local banks) and master degrees (in foreign branches) 40.6 and 40.4 per cent respectively. Recall that in Table 7/13, respondents' ages range from 25 to 60 years. However they range from 25 to 55 in local banks and from 28 to 60 in the foreign branches' sample. This may mean that foreign branches' banks are recruiting more experienced staff than are local banks.

Regarding executives' experience, this ranges from 20, 30, 10, and 40 years (36.4, 30.8, 24.6, and 8.3 per cent respectively). Twenty years is the major category in both local banks and foreign branches, as it represents 35.4 and 40.4 per cent respectively. Again recall that in Table 7/10, executives' experience ranged from 5 to 37 years in the local banks sample and from 5 to 30 years in the foreign branch sample. This may explain why the 40 years category does not exist in the foreign-branches sample. Moreover, experience mean scores are 19.61 years, and 16.78 years in local banks and foreign branches respectively, and 19.05 years in both samples. To sum up, although foreign banks' executives are much older than those in local banks the fact of the matter is, local executives are more experienced than those in foreign branches' banks.

Table 7/13
Sample profile

Demographic Variables		Foreign Branches								Egyptian Banks										Both		
		University Degree		Master Degree		Ph.D. Degree		Total		Before University		University Degree		Master Degree		Ph.D. Degree		Total		No.	%	
Position (X1)		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%			No.
		Credit Manager			20	13.7			20	13.7	17	2.9	183	31.0	53	9.0	20	3.4	273	46.2	293	39.8
	General Manager			38	26.0	48	32.9	86	58.9			92	15.6	16	2.7	15	2.5	123	20.8	209	28.4	
	Manager			10	6.8	10	6.8	20	13.7			49	8.3	15	2.5	65	11.0	129	21.8	149	20.2	
	Marketing Manager	10	6.8			10	6.8	20	13.7			32	5.4	17	2.9	17	2.9	66	11.2	86	11.7	
	Total	10	6.8	68	46.6	68	46.6	146	100	17	2.9	356	60.2	101	17.1	117	19.8	591	100.0	737	100.0	
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
Number of Employees (X6)	100 Employees	10	6.8	10	6.8	38	26.0	58	39.7	17	2.9	35	5.9					52	8.8	110	14.9	
	550 Employees			38	26.0	30	20.5	68	46.6			254	43.0	66	11.2	58	9.8	378	64.0	446	60.5	
	5500 Employees			20	13.7			20	13.7			52	8.8	35	5.9	21	3.6	108	18.3	128	17.4	
	10000 Employees											15	2.5					15	2.5	15	2	
	12000 Employees															21	3.6	21	3.6	21	2.8	
	13000 Employees															17	2.9	17	2.9	17	2.3	
	Total	10	6.8	68	46.6	68	46.6	146	100	17	2.9	356	60.2	101	17.1	117	19.8	591	100.0	737	100.0	
Age (X2)		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
		30 Years	10	6.8					10	6.8			16	2.7	17	2.9			33	5.6	43	5.8
		40 Years					20	13.7	20	13.7			31	5.2			23	3.9	54	9.1	74	10.0
		50 Years			59	40.4	18	12.3	77	52.7			240	40.6	67	11.3	59	10.0	366	61.9	443	60.1
		60 Years			9	6.2	30	20.5	39	26.7	17	2.9	69	11.7	17	2.9	35	5.9	138	23.4	177	24.0
		Total	10	6.8	68	46.6	68	46.6	146	100	17	2.9	356	60.2	101	17.1	117	19.8	591	100.0	737	100
Experience (X4)		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
		10 Years	10	6.8	10	6.8	29	19.9	49	33.6			92	15.6	17	2.9	23	3.9	132	22.3	181	24.6
		20 Years			39	26.7	20	13.7	59	40.4			151	25.5			58	9.8	209	35.4	268	36.4
		30 Years			19	13.0	19	13.0	38	26.0	17	2.9	99	16.8	52	8.8	21	3.6	189	32.0	227	30.8
		40 Years											14	2.4	32	5.4	15	2.5	61	10.3	61	8.3
		Total	10	6.8	68	46.6	68	46.6	146	100	17	2.9	356	60.2	101	17.1	117	19.8	591	100.0	737	100
Bank Experience (X5)		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
		25 Years	10	6.8	58	39.7	59	40.4	127	87.0	17	2.9	341	57.7	84	14.2	58	9.8	500	84.6	627	85.1
		50 Years					9	6.2	9	6.2			15	2.5	17	2.9			32	5.4	41	5.6
		75 Years															21	3.6	21	3.6	21	2.8
		100 Years			10	6.8			10	6.8							17	2.9	17	2.9	27	3.7
		125 Years															21	3.6	21	3.6	21	2.8
	Total	10	6.8	68	46.6	68	46.6	146	100	17	2.9	356	60.2	101	17.1	117	19.8	591	100.0	737	100	

Banks' organizational experience is ranged from 25 to 125 years. Twenty-five years is the major category in both the local banks and foreign branches sample (representing 84.6 and 87 per cent respectively). Again recall that in Table 7/13, banks' experience ranged from 15 to 102 years in local banks and from 18 to 100 in foreign branches. The 125 years category does not exist in the foreign-branches sample. Mean values are 27.28, 27.53, and 27.33 years in the local banks sample, foreign branches sample and in both samples respectively.

Table 7/13
Sample Taxonomy by Ages, Executive and Bank Experiences

Both Samples	N	Minimum	Maximum	Mean	Std. Deviation	Variance
1-Age	737	25	60	45.48	7.66	58.630
2-Executive experience	737	5	37	19.05	8.44	71.175
3- Bank Experience	737	15	102	27.33	19.40	376.498
Total	737					
Local Banks Sample	N	Minimum	Maximum	Mean	Std. Deviation	Variance
1-Age	591	25	55	45.23	7.35	53.969
2-Executive experience	591	5	37	19.61	8.35	69.730
3- Bank Experience	591	15	102	27.28	19.28	371.784
Total	591					
Foreign Branches Sample	N	Minimum	Maximum	Mean	Std. Deviation	Variance
1-Age	146	28	60	46.51	8.76	76.679
2-Executive experience	146	5	30	16.78	8.43	71.083
3- Bank Experience	146	18	100	27.53	19.96	398.223
Total	146					

The standard deviation equation is
$$S = \sqrt{\frac{\sum (X - \bar{X}_i)^2}{n-1}}$$

Where (x_i) is the score for (i_{th}) person, (\bar{x}) is the arithmetic mean for that variable, and (n) is the number in the sample. This indicates the extent to which the scores on the variable are bunched together; the higher the standard deviation, the more dispersed they are. Variance is the square of the standard deviation (Sarantakos, 1998, p. 374)

7.3. Chapter Conclusion

In this chapter the four research aims and hypotheses were clearly identified. These are to explore the GATS impacts on the Egyptian banking sector; to set up an "Entry Mode-Defensive Marketing Strategies Model" to be used in evaluating the marketing practices of local banks; to

investigate patterns of relationships with defensive marketing strategies; and to pinpoint the factors that affects the selection of entry modes.

To achieve these aims a positivist approach has been adopted. Two kinds of samples were targeted: local banks and foreign branches. The latter includes 150 executives with a response rate 97.3 per cent. The former includes 650 executives with a response rate 90.9 per cent. The average response rate in the current study is 92.1 per cent (rounded up). The response bases e.g. board of directors' members, were targeted via structured multiple phase questionnaires. The reliability of the instruments i.e. the two questionnaires and the concepts are within the acceptable limit, as they report values more than 0.60.

The analytical techniques {e.g. Contingency coefficient, Kendall's correlation, Multiple regression, Chi-square goodness of fit test, Wilcoxon, Friedman, descriptive statistics, Canonical analysis and Factor analysis (principal components orthogonal method not oblique)} used in the current study will be carefully introduced and explained (e.g. their appropriateness for usage, assumptions, null, and alternative hypotheses) wherever deployed.

Chapter Eight:
GATS' Impacts on the Egyptian Banking Sector and
the Variables that Affect their Perception

8.1. Introduction

The current chapter aims; (a) identifying GATS impacts on the banking sector, (b) finding out the dependency relationships with GATS impacts, and (c) modeling the causality relationship between perceiving GATS impacts and both respondents and banks' background i.e. the demographics. Actually, these relationships were not explored before in the literature. Consequently, the following hypotheses were tested:

H8₁: "GATS agreements have greater positive than negative impacts on the Egyptian banking sector".

H8₂: "There are significant relationships between managerial demographics (i.e. respondents' positions, ages, educational levels, and experience) and their perception of GATS impacts".

Specifically:

H8_{2a}: "There are significant relationships between managerial demographics and their perception of the aggregate GATS impacts".

H8_{2b}: "There are significant relationships between managerial demographics and their perception of the detailed GATS impacts".

H8₃: "There are significant relationships between bank demographics (i.e. bank experience, number of employees, and type) and their perception of GATS impacts".

Specifically:

H8_{3a}: "There are significant relationships between bank demographics and their perception of the aggregate GATS impacts".

H8_{3b}: "There are significant relationships between bank demographics and their perception of the detailed GATS impacts".

H8₄: "There are significant relationships between the perception of each GATS impact (detailed and aggregate) and bank type, respondents' positions, educational levels, banking experiences, and banks' experiences".

8.2. The Results of Hypotheses Testing

The hypotheses are designed to investigate the three main concepts mentioned above. Firstly, investigating GATS impacts on the Egyptian banking sector (*H8₁*). Questions related to GATS impacts in the two kinds of questionnaires were used for this purpose. The Chi-Square Goodness of Fit Test was utilized in testing this main hypothesis and its related twenty-four sub hypotheses. The second set of hypotheses includes two main alternative hypotheses designed to find out the dependency relationships with GATS impacts. Bivariate analyses through correlation techniques

(e.g. contingency coefficient and Kendall's) were conducted to measure these dependency relationships. The final set of hypotheses includes twenty-five alternative hypotheses designed for modeling the causality between perceiving GATS impacts and demographics. Multi-variate Analysis via Multiple Regression was conducted to investigate these causality relationships patterns.

To test these hypotheses, a new file containing similar questions in both questionnaires was created. This file includes 737 questionnaires (e.g. 591 local banks, and 146 foreign branches) with focus on two main parts: the respondents' backgrounds i.e. seven demographics, and the twenty-five GATS impacts. Respondents' backgrounds were represented by question one (x_1) to question six (x_6) in both questionnaires, besides the bank type variable. GATS impacts were represented by question eight (x_8) and question (x_9) from $X9_1$ to $X9_{24}$ - in the local bank's questionnaire - and by question ten (x_{10}) and question eleven (x_{11}) from $X11_1$ to $X11_{24}$ in the foreign branch's questionnaire (see Appendix A₁ and A₂).

The new variables in the created file are: x_1 to x_6 and bank type (e.g. local or foreign branch) to represent the seven demographics (e.g. respondent's position, age, educational level, experience, bank's experience, bank's number of employees, and bank type respectively) and x_8 to x_9 - from $X9_1$ to $X9_{24}$ - to represent the GATS' impacts. Consequently, the results relate to the three sets of hypotheses e.g. GATS impacts; dependency relationship with GATS impacts, and causality relationship will be presented in separate parts.

8.2.1. The Aggregate GATS' Impacts on the Egyptian Banking Sector

In Table 8/1, the suggested distributions will be tested. According to the mechanism of the Chi-square Goodness of Fit Test, these suggested variable's distributions represent the null hypotheses and the remaining distributions (apart from those distributions) represent the alternative hypotheses. Here, H_{8_1} , "GATS agreements have greater positive than negative impacts on the Egyptian banking sector" was tested. From Table 8/1, with $\alpha = 0.05$, $N = 737$ and $p > 0.05$ with all the twenty-five GATS impacts, all the elements of hypothesis H_{8_1} were supported. Actually, GATS impacts can be divided into negative and positive. The latter were strongly agreed to by all the respondents, as the mean values indicate in Table 8/1 range from 3.75 to 4.79 on a Likert five-point scale. In addition, mean values with negative impacts range from 1.48 to 2.74. Based on this criterion, Egypt should not hesitate in taking further steps to liberalize the banking sector. More specifically, liberalization of the banking sector provides local banks with strong motives to offer new banking services, allowing new banking systems to enter the Egyptian market with their advanced technology, system layouts, and well-trained staff.

As shown in Table 8/1, liberalizing the banking sector might be a better way for local rivals to improve their quality, improve banking regulations and supervision rules that might lead to improvement in the total performance of the local banking sector, and enable it to play its essential role in the Egyptian economy. Moreover, liberalizing the banking sector might bring new financial instruments to the local market, such as forward contracts like futures and options for instance, to enhance the competition. That might lead to lowering the banking services costs in the long run, increasing transparency about the soundness and creditworthiness of all financial institutions, and might also help transfer banking skills from outside. Further more, GATS might broaden and deepen the capital market through improving current legislations that rule the whole

financial sector, and might help reduce the information gap between local and foreign markets that could spread the financial risks. Finally, GATS might increase the level of FDI injected in the banking sector in particular, and enhance banking know-how, through the attraction of foreign banks staff to local institutions.

On the other hand, perception of GATS negative impacts are not severe. For instance, the fear of collapse of the banking sector as a result of GATS was strongly rejected by 72 per cent. Also, the fear of decreasing local banks revenues and market shares was accepted only by 22, and 24 per cent respectively.

In addition to that, the fear of GATS negative impacts on the Egyptian monetary and credit policies was strongly rejected by 55 per cent and accepted only by 3 per cent. Finally, the fear of increasing advertising budgets, agitating price competition, increasing defensive expenditures, and attracting local banks' staff to work in foreign banks were accepted only by 14, 15, 15, and 18 per cent respectively, as shown in Table 8/1.

The single thing that should be stressed here is that GATS will not affect negatively either Egyptian monetary or credit policy, as removing this variable from the GATS list will enhance the alpha coefficient from 0.622 to 0.657. Therefore, it is strongly recommended that this variable be removed from GATS impacts lists in future research. Moreover, the removal of all that could be perceived as GATS drawbacks from the GATS impacts' list shifts the alpha coefficient from 0.622 to 0.908.

Table 8/1
Chi-Square Goodness of Fit Test for GATS Impacts on the Egyptian Banking Sector

The detailed GATS Impacts	Null Hypotheses					Chi-Square	Mean	df	P-Value
	SA %	IA %	N %	ID %	SD %				
<input type="checkbox"/> GATS effects on the Egyptian banking sector (Negative, Neutral, Positive) (X8)	70		20		10	3.669	0.57	2	.160 *
<input type="checkbox"/> Allowing new banking systems to enter the Egyptian market (X91)	80	19		1		2.323	4.79	2	.313 *
<input type="checkbox"/> Improve the level of local banks' services quality (X92)	76	23		1		.948	4.75	2	.622 *
<input type="checkbox"/> Gives the local banks the motive to offer new banking services (X93)	80	20				3.258	4.77	1	.071 *
<input type="checkbox"/> Improves the total performance of local banks (X94)	69	23	5	1	2	1.897	4.51	4	.755 *
<input type="checkbox"/> Enables the banking sector to perform its role in the Egyptian economy in the coming period (X95)	63	11	20	2	4	7.375	4.17	4	.117 *
<input type="checkbox"/> Employees of foreign establishments may switch to domestic institutions, taking their skills with them (X96)	49	18	12	9	12	1.832	3.75	4	.767 *
<input type="checkbox"/> Financial market broadening and deepening by helping and develop bond and stock markets (X97)	57	28	12	1	2	1.421	4.32	4	.840 *
<input type="checkbox"/> Helps reduce information gaps (X98)	55	36	7		2	.512	4.40	3	.916 *
<input type="checkbox"/> Increase transparency about the soundness and creditworthiness of financial institutions (X99)	58	30	11	1		1.738	4.42	3	.628 *
<input type="checkbox"/> Risk management becomes easier when certain instruments such as forward contracts and hedging of foreign exchange and interest obligations become available (X910)	60	26	11	1	2	1.429	4.22	4	.839 *
<input type="checkbox"/> Efficiency broad-based liberalization commitments increase competition that lead to lowest cost practices in all market segments generally and banking sector in particular (X911)	60	22	15	1	2	1.089	4.32	4	.896 *
<input type="checkbox"/> Help to transfer skills from outside (X912)	58	24	9	7	2	1.565	4.26	4	.815 *
<input type="checkbox"/> Help to spread the risk more broadly (X913)	54	36	7	1	2	.988	4.36	4	.912 *
<input type="checkbox"/> Liberalizing international trade in banking sector can be a market-based means to improve the quality of capital flows and to strengthen financial systems (X914)	52	26	14	5	3	.930	4.14	4	.920 *
<input type="checkbox"/> Creates pressure to improve regulation and supervision for the Egyptian banking sector (X915)	67	29	2		2	.530	4.56	3	.912 *
<input type="checkbox"/> Improve regulation and supervision across a broad range of financial services (X916)	51	28	6	2	13	.529	3.75	4	.971 *
<input type="checkbox"/> Decrease the local banks' market share (X917)	24	6	10	12	48	1.059	2.50	4	.901 *
<input type="checkbox"/> Decrease the local banks' revenues (X918)	22	6	6	17	49	1.781	2.39	4	.776 *
<input type="checkbox"/> Leads to the collapse of the Egyptian banking sector (X919)	2		9	17	72	1.451	1.48	3	.694 *
<input type="checkbox"/> Attracts the local banks' staff to work in foreign banks (X920)	18	19	20	12	31	.544	2.52	4	.969 *
<input type="checkbox"/> Agitates the price/cost competition among the local and the foreign banks (X921)	15	24	10	10	41	.748	2.74	4	.945 *
<input type="checkbox"/> Leads to increase the defensive reaction expenditures on the local bank side (X922)	15	21	15	10	39	.588	2.58	4	.964 *
<input type="checkbox"/> Leads to increase the advertising budget of the local banks (X923)	14	24	11	7	44	.448	2.54	4	.978 *
<input type="checkbox"/> Affect both monetary and credit policies of Egypt in a negative direction (X924)	3	8	17	17	55	1.175	1.91	4	.840 *

Notes: -

- > The null hypothesis assumes and tests a specific distribution of variables. In the current table, these assumed distributions are presented in (SA), (IA), (N), (ID), and (SD) columns;
- > (*) Means: - with $\alpha = 0.05$, $N = 737$ the null hypotheses is accepted, as p -value > 0.05 ;
- > Cronbach Alpha Coefficient = 0.622, which according to Foster (2001); Teo and King (1996); Kiline (1993); and Malhotra (1993) is sufficient; and
- > SA = Strongly Agree, IA = Inclined to Agree, N = Neutral, ID = Inclined to Disagree, and SD = Strongly Disagree.

To sum up, the overwhelming majority strongly recognize and perceive GATS positive impacts. Therefore, the hypothesis $H8_1$ that “GATS agreements are seen as having greater positive than negative impacts on the Egyptian banking sector” is supported. Consequently, these findings might defuse the skeptical point of view supported by El-Mody (1995) and Evans and Walsh, (1995) regarding the severe ramifications of liberalization. On the other hand, the findings go hand in hand with the optimistic scholars (e.g. Fox, 2001; Asch, 2001; and Greenaway and Milner, 1995) who support liberalization, especially in the banking sector. Therefore, accelerating the liberalization process of the Egyptian banking sector is strongly recommended.

8.2.2. The Relationships between the Perception of GATS Impacts and The Respondents and Banks' Backgrounds

It is worth mentioning that the literature does not suggest any one set of variables, as presenting all GATS impacts. All that have been found are treated here. Therefore, trying to discover the pattern of relationships with GATS impacts could be considered as one of the contributions of this current pioneer endeavor. The verification or falsification of relations' patterns give clear clues to other scholars regarding the kind of variables that should or should not be included in future research. The current study attempts to address this issue in the banking context.

Statistically, cross-tabulation has been conducted to test the hypotheses designed to explore relationships between the perception of GATS impacts and each demographic e.g. respondent's position, age, educational level, experience (as managerial demographics), bank's experience, bank's employees number and bank's type (as bank demographics), as shown in Table 8/2. The purposes of this cross-tabulation are: to find out the dependency relationship, to find out the relationship direction through the correlation coefficient value, and to test the related research hypotheses.

8.2.2.1. The Relationship between Perceiving GATS Impacts and Bankers' Positions

Since the variables scales here are nominal and ordinal, a lower scale correlation technique such as the contingency coefficient is an appropriate analytical tool for finding out both dependency relationships and their directions (Ashour, 1995).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$, and r (correlation coefficient) = 0.353, a significant relationship was reported between the perception of the aggregate GATS impacts and respondent position (as on of the managerial demographics). However, the relationship strength is weak, $r = 0.353 < 0.50$. Based on that in Table 8/D1 in Appendix D, 67.8 per cent (500/737), 12 per cent (89/737), and 20 per cent (148/737) across the four positions' categories perceive positive, negative, and neutral GATS' impacts respectively. Consequently, the vast majority of bankers perceive positive impacts of GATS. Based on their perception of GATS positive impacts, bankers' positions could be ordered as: credit manger, general manager, manager, and marketing manager {42.6 (213/500), 31.6 (158/500), 17.8 (89/500), and 8 (40/500) per cent respectively}. Although they are not the highest position category within bank's hierarchy, credit managers is the category that perceives GATS impacts as greatest. The focal point is that those in higher positions (e.g. general managers) do not perceive GATS impacts as being greatest. The ramifications of that might be weak competitive advantages and consequently demoralized staff morale in the long run.

Regarding relationships strength, strong relationships ($r > 0.50$ according to Moore's (1996, p. 114); Mcghee's (1985, p. 400); Maxwell's (1983, p. 442) classifications) are reported with eleven GATS impacts and weak relationships (i.e. $r < 0.50$) with the rest. These strong relationships existed between respondent positions and perceiving GATS as a way to:

Table 8/2
The Relationships between Demographics and GATS Impacts

GATS Impacts	Demographics													
	Managerial Demographics						Bank Demographics							
	Position (C)		Age (K)		Educational Level (C)		Banker Experience (K)		Bank Experience (K)		Number of Employees (K)		Bank's Type (C)	
	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>
X8	.353	.000***	-.251	.000***	.410	.000***	-.135	.000***	-.122	.001***	-.129	.000***	.027	.766
X91	.338	.000***	-.039	.249	.439	.000***	-.104	.002**	-.237	.000***	-.216	.000***	.230	.000***
X92	.347	.000***	-.088	.010*	.355	.001***	-.105	.002**	-.209	.000***	-.215	.000***	.246	.000***
X93	.301	.000***	-.021	.565	.280	.000***	.102	.001***	-.081	.050*	-.165	.000***	.025	.496
X94	.391	.000***	-.013	.712	.426	.000***	.026	.431	-.132	.002**	-.165	.000***	.265	.000***
X95	.460	.000***	-.045	.200	.371	.000***	-.125	.000***	-.130	.000***	-.266	.000***	.368	.000***
X96	.574	.000***	-.102	.003***	.435	.000***	-.165	.000***	-.101	.001***	-.199	.000***	.226	.000***
X97	.485	.000***	-.107	.000***	.386	.000***	.045	.152	-.212	.000***	-.308	.000***	.293	.000***
X98	.459	.000***	-.132	.000***	.501	.000***	-.213	.000***	-.166	.000***	-.213	.000***	.143	.002**
X99	.423	.000***	-.001	.981	.371	.000***	-.001	.981	-.058	.149	-.240	.000***	.331	.000***
X910	.495	.000***	-.026	.433	.529	.001***	-.026	.433	-.223	.000***	-.272	.000***	.265	.000***
X911	.513	.000***	.132 ^o	.000***	.327	.000***	.132	.000***	-.053	.164	-.138	.000***	.262	.000***
X912	.550	.000***	-.174	.000***	.438	.000***	-.174	.000***	-.091	.007**	-.100	.002**	.153	.001***
X913	.467	.000***	-.193	.000***	.434	.000***	-.174	.000***	-.267	.000***	-.191	.000***	.271	.000***
X914	.529	.000***	-.102	.001***	.417	.001***	-.102	.001***	-.237	.000***	-.275	.000***	.163	.000***
X915	.324	.000***	.098 ^o	.004***	.348	.000***	.098	.004**	-.063	.076	-.032	.222	.111	.026*
X916	.535	.000***	.130 ^o	.000***	.519	.000***	.130	.000***	.080	.006**	-.022	.467	.261	.000***
X917	.533	.000***	.075 ^o	.010**	.448	.000***	.075	.010**	.307	.000***	.450	.000***	.289	.000***
X918	.487	.000***	.050 ^o	.079	.360	.000***	.050	.079	.333	.000***	.471	.000***	.228	.000***
X919	.451	.000***	.073 ^o	.025**	.360	.000***	.073	.025*	.403	.000***	.375	.000***	.154	.000***
X920	.582	.000***	.055 ^o	.062	.574	.000***	.055	.062	.211	.000***	.163	.000***	.470	.000***
X921	.606	.000***	.173 ^o	.000***	.479	.000***	.173	.000***	.277	.000***	.414	.000***	.169	.000***
X922	.617	.000***	-.049	.125	.582	.001***	-.049	.125	.211	.000***	.365	.000***	.223	.000***
X923	.527	.000***	.057 ^o	.060	.576	.000***	.057	.000***	.098	.002**	.336	.000***	.257	.000***
X924	.554	.000***	.203 ^o	.000***	.498	.000***	.203	.000***	.264	.000***	.236	.000***	.162	.000***

Notes:-

- (C) = The Bivariate analysis was conducted through Contingency Coefficient Correlation, (K) = The Bivariate analysis was conducted through Kendall's Correlation, *r* = The Correlation Coefficient, *P* = *P*-value, *N* = 737, and $\alpha = 0.05$;
- One asterisk (* = $p \leq 0.05$); two asterisks (** = $p < 0.01$); and three asterisks (***) = $p < 0.001$);
- With all asterisks, there is a significant relationship as $p \leq 0.05$, therefore accepting the alternative hypotheses that; "there are significant relationships between variables";
- X8 and X9 from X91 to X924 represent GATS impacts by the same sequence as in Table 8/2 previously mentioned; and
- X8 represent the aggregate GATS impacts and X9 from X91 to X924 represent the detailed GATS impacts.

- (1) Increase defensive reaction expenditures on the local bank side ($r = 0.617 > 0.50$);
- (2) Agitate the price/cost competition between the local and the foreign banks ($r = 0.606 > 0.50$);
- (3) Attracts the local banks' staff to work in foreign banks ($r = 0.582 > 0.50$);
- (4) Make employees of foreign establishments switch to the domestic institutions taking their skills with them ($r = 0.574 > 0.50$);
- (5) Negatively affect both the Egyptian monetary and credit policies ($r = 0.554 > 0.50$);
- (6) Help at skills transfer from outside ($r = 0.550 > 0.50$);
- (7) Improve regulations and supervision across a broad range of financial services ($r = 0.535 > 0.50$);
- (8) Decrease the local banks' market share ($r = 0.533 > 0.50$);
- (9) Improve the quality of capital flows and strength financial systems ($r = 0.529 > 0.50$);
- (10) Increase the advertising budget of local banks ($r = 0.527 > 0.50$); and
- (11) Increase competition that in turn lowers cost practices in all market segments generally and in the banking sector in particular ($r = 0.523 > 0.50$). On the other hand, weak significant relationships exist with thirteen GATS impacts, as shown in Table 8/2.

8.2.2.2. The Relationship between the Perception of GATS Impacts and Bankers' Ages

Since the variables' scales here are continuous and ordinal, the lower scale correlation's technique e.g. Kendall's, could be appropriate for finding out the relationships and their directions (Ashour, 1995).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$ and $r = (-0.251)$, an inverse significant relationship was reported between the perception of the aggregate GATS impacts and respondents' ages (as on of the managerial demographics). This means that the vast majority of

the respondents are fully aware of the positive impacts of GATS, as 67.8 per cent (500/737) of the four ages' categories perceive these positive impacts, and 61.8 per cent out of this category is concentrated on the 50 years old category (i.e. from 41-50 years). Consequently, bankers' ages could be ordered according to the perception of GATS positive impacts as 50 year old managers, 60 year old managers, 40 years old managers, and 30 year old managers (by 61.8, 20.2, 14.8, and 3.2 per cent respectively), as shown in Table 8/D2 in Appendix D.

Regarding the detailed GATS impacts, insignificant relationships were reported between respondents' ages and ten detailed GATS impacts, as shown in Table 8/2. These are that there is no significant relationship between respondents' ages and:

- (a) Perceiving GATS agreements as a way to allow new banking systems to enter the Egyptian market ($p = 0.249 > 0.05$);
- (b) Perceiving GATS as a motivating tool for local banks to offer new banking services ($p = 0.565 > 0.05$);
- (c) Perceiving GATS as a way to improve local banks' total performance ($p = 0.712 > 0.05$);
- (d) Perceiving GATS as a way to enable the banking sector to perform its role in the Egyptian economy in the coming period ($p = 0.20 > 0.05$);
- (e) Perceiving GATS as a way to increase transparency about the soundness and creditworthiness of financial institutions ($p = 0.981 > 0.05$);
- (f) Perceiving GATS as an appropriate way to increase transparency in all Egyptian financial institutions ($p = 0.981 > 0.05$);
- (g) Perceiving GATS as a way to make risk management much easier ($p = 0.433 > 0.05$);

- (h) Perceiving GATS as a way to decrease local banks' revenues ($p = 0.079 > 0.05$);
- (i) Perceiving GATS as a way to attract local banks' staff to work in foreign banks ($p = 0.062 > 0.05$);
- (j) Perceiving GATS as a way to increase the defensive reaction's expenditures in local banks side ($p = 0.125 > 0.05$); and
- (k) Perceiving GATS as a way that leads to increase the advertising budgets of local banks ($p = 0.060 > 0.05$).

The focal point is that the relationships' directions between respondents' ages and the detailed GATS impacts take two directions: inverse directions with most of the positive impacts, and weak but significant relationships with most of the negative impacts. This inverse relationship might mean that the older the executives the less their perception of the positive side of GATS. Consequently, elderly executives who occupy higher positions desperately need extensive training about new world trends, globalization philosophy and related topics. On the other side, the older the executives, the more the tendency to perceive the negative impacts of GATS agreements. Recall that in Table 8/D2 in Appendix D, GATS negative effects were perceived by 60 year executives, 30 year executives, and 50 year executives by 41.5 (37/89), 30.3 (27/89), and 28 (25/89) per cent respectively. Apparently, the higher age category comes first in perceiving the dark side of GATS, which lends support to the previous findings that higher executives are focusing on the glass's empty part rather than the full part i.e. focusing on the negative rather than the positive side of GATS.

8.2.2.3. The Relationship between Perceiving GATS Impacts and Bankers' Educational Level

Since the variables scales here are nominal and ordinal, the contingency coefficient could be appropriate for finding out dependency relationships and their directions (Ashour, 1995).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$ and as $r = 0.410$, a significant relationship was reported between educational levels (as on of the managerial demographics) and the perception of GATS impacts. However, the relationship is a weak one, as $r = 0.410 < 0.50$. The vast majority {67.8 (500/737) per cent} of the four educational level categories perceive positive impacts of GATS agreements on the Egyptian banking sector, and 61.6 (308/500) per cent of this category were educated to university level. Therefore, the perceivers of positive impacts could be ranked as: university level, Ph.D. level, masters level, and before university level {61.6, 23.8 (119/500), 11.2 (56/500), and 3.4 (17/500) per cent respectively}, as shown in Table 8/D3 in Appendix D.

Regarding the detailed GATS impacts, significant relationships have been reported between respondent's educational level and their perception of the detailed GATS impacts, as $p < 0.05$, as shown in Table 8/2. Strong relationships have been reported between respondents' educational level and the perception of GATS as a way to: (1) increase the defensive reaction expenditures of local banks, as $r = 0.582 > 0.50$; (2) Increase the advertising budget of local banks, as $r = 0.576 > 0.50$; (3) Attract local banks' staff to work in foreign banks, as $r = 0.574 > 0.50$; (4) Ease management by providing instruments such as forward contracts and hedging of foreign exchange and interest obligations become available, as $r = 0.529 > 0.50$; (5) Improve regulations and supervision across a broad range of financial services, as $r = 0.519 > 0.50$; and (6) Help reduce information gaps, as $r = 0.501 > 0.50$. On the other hand, weak but significant relationships were reported with the remaining detailed GATS impacts, as indicated in Table 8/2.

8.2.2.4. The Relationship between Perceiving GATS Impacts and Bankers Experiences

Since the variables are measured on ordinal and continuous scales, the lower scale bivariate technique e.g. Kendall's correlation, could be the appropriate analytical technique here (Ashour, 1993).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$, and $r = (-0.135)$, a significant relationship was reported between the perception of the aggregate GATS impacts and respondents' experiences (as on of the managerial demographics). However, the relationship's direction is an inverse one, as $r = (-0.135) < 0.50$ means the greater the banker's experience is, the less the perception of the aggregate GATS impacts. The perception of positive GATS impacts could be ranked as: banker with 20 years experience, 30 years experience, 10 years, and 40 years (38.6, 30.8, 27.87, and 2.8 per cent respectively). Therefore, the vast majority who perceive GATS aggregate positive's impacts are those respondents with banking experience ranges from 10 to 30 years, as Table 8/D4 in Appendix D.

Regarding the detailed GATS impacts, insignificant relationships were observed between respondents' experiences and the perception of seven GATS impacts, as $p > 0.05$ as Table 8/2 indicates. These insignificant relationships are between:

- (a) Respondents' experiences and their perception of GATS as a way for improving local banks' total performance, as ($p = 0.431 > 0.05$);
- (b) Respondents' experiences and their perception of GATS as a way for broadening and deepening the financial market by helping and developing strong bonds and stock markets, as ($p = 0.152 > 0.05$);
- (c) Respondents' experiences and their perception of GATS as a way for increasing transparency about the soundness and creditworthiness of financial institutions, as ($p = 0.981 > 0.05$);
- (d) Respondents' experiences and their perception of GATS as a way for facilitating managerial risk by providing the local financial market by certain instruments e.g. forward contracts and hedging, as ($p = 0.433 > 0.05$);

- (e) Respondents' experiences and their perception of GATS as a threat that decrease local banks' revenues, as ($p = 0.079 > 0.05$);
- (f) Respondents' experiences and their perception of GATS as a threat to local banks' staff by encouraging them to work in foreign banks, as ($p = 0.062 > 0.05$); and
- (g) Respondents' experiences and their perception of GATS as a threat that might leads to increase the burden of defensive reaction expenditures in local banks side, as ($p = 0.125 > 0.05$).

To sum up, significant relationships were reported between managerial demographics (position, age, education, and experience) and their perception of the aggregate GATS impacts. Consequently, all the elements of hypothesis $H8_{2a}$ are supported. However, not all the elements of $H8_{2b}$ are supported

8.2.2.5. The Relationship between Perceiving GATS Impacts and Banks' Experiences

Since the variables here are measured using ordinal and continuous scales, the lower scale technique e.g. Kendall's coefficient could be the appropriate analytical technique for this mission (Ashour, 1993).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$, and $r = (- 0.122)$, a significant relationship was reported between bank' experience (as on of banks demographics) and the perception of the aggregate GATS impacts. However, the relationship direction is an inverse one, as $r = (- 0.122) < 0.50$ means the greater the bank experience the less the perception of the aggregate GATS impacts.

To confirm the above finding, significant relationships were reported between banks' experience and all but three GATS' impacts, as shown in Table 8/2. The three insignificant relationships are reported between:

- (a) Banks' experience and their perception of GATS as a way of increasing transparency in the Egyptian financial institutions ($p = 0.149 > 0.05$).
- (b) Banks' experience and the perception of GATS as a way of increasing competition that might lead to lower cost practices in all market segments in general, and in the banking sector in particular ($p = 0.164 > 0.05$).
- (c) Banks' experience and the perception of GATS as a way for creating pressure to improve regulations and supervision in the Egyptian banking sector ($p = 0.076 > 0.05$).

Regarding the relationships' directions, inverse relationships have been reported between banks' experience and all positive impacts, which confirm the previously mentioned claim that the more the bank's experience, the less the tendency to perceive the positive side of GATS. Therefore, it may be that the four state banks' executives (National Bank of Egypt, Misr, Alexandria, and Cairo Banks) are in need of advanced training to cope with the new business standards. On the other hand, there are weak significant relationships between the banks' experience variable and all GATS negative impacts, which might mean the more the bank's experience, the higher the tendency to perceive the negative side of GATS.

8.2.2.6. The Relationship between Perceiving GATS Impacts and Banks' Number of Employees

Since the variables here are measured using ordinal and continuous scales, the lower scale technique e.g. Kendall's coefficient could also be the appropriate analytical technique (Ashour, 1993).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, $p < 0.05$, and $r = (-0.129)$, a significant relationship was reported between bank's number of employees (as on of banks demographics) and the perception of the aggregate GATS impacts. However, the relationship direction is an inverse one, as $r = (-0.129) < 0.50$.

Supporting the above finding, GATS' positive impacts were perceived by the overwhelming majority (67.8 per cent) of banks with different numbers of staff as follows: banks having 550, 100, 5500, 13000, and 10000 employees (57.2, 20, 16.4, 3.4, and 3 per cent respectively). Consequently, small and medium size banks, rather than big banks like the four state banks for instance, are the two categories that perceive the positive side of GATS, as shown in Table 8/D6 in Appendix D.

Hand in hand with the above findings, significant relationships were reported between banks' number of employees and all but two GATS impacts. These are, that there is no significant relationship between banks' number of employees and:

- (1) Perceiving GATS as a way to create pressure to improve regulations and supervision in the Egyptian banking sector ($p = 0.222 > 0.05$); and
- (2) Perceiving GATS as a way to improve the regulation and supervision across a broad range of other financial services ($p = 0.467 > 0.05$).

The second point to be made regarding these relationships is that they take two directions: (a) inverse relationships with all GATS positive impacts were reported. Consequently, the more the number of a bank's employees, the less the tendency to perceive GATS positive impacts. (b) Weak significant relationships with all GATS negative impacts were reported. Consequently,

where this occurred the higher the number of employees, the greater the tendency to perceive the negative GATS' impacts.

8.2.2.7. The Relationship between Perceiving GATS Impacts and Banks' Types

Since variable scales are nominal and ordinal, the lower scale bivariate technique e.g. the contingency coefficient could be the appropriate analytical technique for finding out variables' relationships and their directions here also (Ashour, 1993).

From Table 8/2, with $\alpha = 0.05$, $N = 737$, and $p = 0.766 > 0.05$, an insignificant relationship was reported between bank's type (as one of the banks demographics) and the perception of the aggregate GATS impacts. This might be considered as a contradictory result, as significant relationships were reported between bank type and the perception of all but one detailed GATS impact, as shown in Table 8/2 (i.e. an insignificant relationship between bank type and perceiving GATS as a way to motivate local banks to offer new banking services $p = 0.496 > 0.05$). To sum up, not all the elements of hypotheses $H8_{3a}$, and $H8_{3b}$ were supported.

8.2.3. The Causality Relationship between Perceiving GATS Impacts and Respondents' and Banks' Background

In this part, a causality relationship analysis between the perception of GATS impacts and the demographics has been conducted. It was executed among the seven demographic variables and each GATS impact. After several trials, the multi-collinearity assumption was achieved between five demographics, which are bank type, respondent's position, educational level, respondent's experience, and bank experience and each GATS impacts, as shown in both Figure 8/1 and Table 8/3. These demographics were correlated with each GATS impact to model the relationships amongst these variables. Interestingly enough, such relationships were not explored in the literature before.

Figure 8/1
Multiple Regression Dependent and Independent Variables

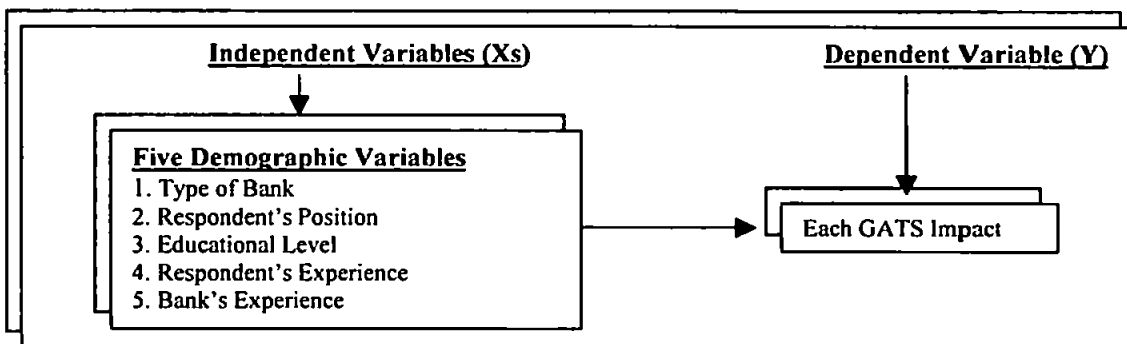


Table 8/3
Multi-collinearity Matrix of the Independent Variables

Independent Variables	Independent Variables				
	FORLOC	X1	X3	X4	X5
Bank Type (FORLOC)	--				
Position (X1)	.12	---			
Education (X3)	.06	.55	---		
Experience (X4)	.11	.36	.01	---	
Bank's Experience (X5)	.51	.06	.45	.08	---

Note: -Number of matrix's cells = $n(n-1) / 2$, where n = Number of independent variables

Statistically, correlation techniques deal with bivariate relationships between two variables, and some of them deal with relationship strength as well; but none of them deal with causality. The causality relationship explains the dependence relationship between more than two variables, in which it clearly specifies that one or more variables “cause” or create an outcome presented by at least one other variable (Hair *et al.*, 1995, p. 618). Multiple Regression analysis (MR) is one of the analytical techniques that perfectly serve this purpose, as it offers an explanation of relationships causality among several independent variables (IVs or regressors) and one dependent variable at a time.

In this stage of the current research, four questions are raised:

- (a) What are the demographic variables that collectively affect the behavior of each GATS impact (after conducting the bivariate analysis between each demographic and each GATS impact)?

- (b) If there is a relationship, how greater is its effect?
- (c) What is the weight of the effect that each demographic has on each single GATS impact.
- (d) How does the Egyptian banking context differ from or agree with what has been found in the literature?

Table 8/4
Multiple Regressions between the Demographics and the GATS Impacts

GATS Impacts	F	P-value	R	R Square	Adjusted R Square	Durbin-Watson
X8	13.784	.000***	.294	.086	.080	2.073
X91	57.862	.000***	.532	.284	.279	2.040
X92	33.264	.000***	.431	.185	.180	2.073
X93	15.817	.000***	.312	.098	.091	2.037
X94	26.479	.000***	.392	.153	.148	2.058
X95	15.760	.000***	.312	.097	.091	2.022
X96	16.162	.000***	.316	.100	.093	1.929
X97	57.185	.000***	.530	.281	.276	1.824
X98	58.026	.000***	.533	.284	.279	1.847
X99	16.262	.000***	.316	.100	.094	2.067
X910	27.027	.000***	.395	.156	.150	1.962
X911	12.852	.000***	.284	.081	.075	2.093
X912	14.188	.000***	.297	.088	.082	2.057
X913	13.346	.000***	.289	.084	.077	2.120
X914	14.746	.000***	.303	.092	.085	1.994
X915	6.492	.000***	.206	.043	.036	2.099
X916	55.995	.000***	.526	.277	.272	2.107
X917	41.421	.000***	.470	.221	.215	1.974
X918	45.788	.000***	.488	.238	.233	1.957
X919	69.951	.000***	.569	.324	.319	2.050
X920	115.308	.000***	.664	.441	.437	1.925
X921	84.912	.000***	.606	.367	.363	1.910
X922	58.808	.000***	.536	.287	.282	1.964
X923	49.580	.000***	.503	.253	.248	1.955
X924	31.054	.000***	.419	.175	.170	1.957

Notes:-

- > (***) There is a significant relationship between at least one of the independent variables and model dependent variable as $p < 0.001$. Therefore, the model variables' coefficients should be explained;
- > **R Square** = indicates the effects the independent variable has on the dependent one in the sample;
- > **Adjusted R Square** = also reflects the model goodness of fit for the population;
- > **Durbin-Watson** is a test to indicate the effect of data entry order in the analysis, therefore if it is > 1.4 it means the order has no effect on the analysis and if it is less it means the order has affect the analysis (Stat graphics 2000); and
- > X8 and X9 from X91 to X924 represent GATS impacts by the same sequence as in Table 8/2 previously mentioned.

To find accurate answers to these four questions, and based on Multiple Regression Analysis, the alternative hypothesis $H8$, that; "there are significant relationships between the perception of each GATS impact (detailed and aggregate) and bank type, respondents' positions, educational levels, banking experiences, and banks' experiences" is supported ($p = 0.000 < 0.05$ with all

GATS impacts, as Table 8/4 indicates). The most remarkable thing is that these five IV's are responsible for 0.043 {with the GATS impact that says; "GATS create pressure to improve regulations and supervision for the Egyptian banking sector ($X_{9_{15}}$)"} to 0.441 {with the GATS impact that says; "GATS lead to attract local banks' staff to work in foreign banks ($X_{9_{20}}$)"} of variation in the dependent variable's behavior in the sample, as "R Square" values indicate in Table 8/4.

However, if the adjusted R Square has been taken into consideration, the effect of the independent variables shrinks to a small proportion. This proportion ranges from 0.036 to 0.437 of the dependent variable's behavior, as shown in Table 8/4. Consequently, there are other independent variables than these five demographics responsible for the vast majority of the dependent variables' behaviors.

For instance, the five independent variables are collectively responsible for 0.086 (based on R Square) or 0.080 (based on the adjusted R Square) of the variation in the aggregate GATS impacts (X_8) as a dependent variable, as shown in Table 8/4. Of these and based on B value, the educational level affects the dependent variable by - 0.143, respondent's experience affects the dependent variable by - 0.011, and bank's experience affects the dependent variable by - 0.004, as shown in Table 8/5.

Moreover, the five independent variables are collectively responsible for 0.284, 0.185, 0.098, 0.153, 0.097, 0.100, 0.281, and 0.284 (based on R Square values) or 0.279, 0.180, 0.091, 0.148, 0.091, 0.093, 0.276, and 0.279 (based on adjusted R Square values) of the variation in rating GATS as a way: (a) to allow new banking systems to enter the local market, (b) to improve the

local banking services, (c) to give local banks the motive to offer new banking services, (d) to improve local banks' overall performances, (e) to enable banking sector to perform its vital role in serving the local economy, (f) to make foreign banks' employees switch to local banks, (g) to broaden and develop local financial market, and (h) to reduce information gap respectively (as dependent variables). The same logic applies for the rest of GATS impacts, as shown in Table 8/4.

Table 8/5
Explaining the Weighted Effect of Each Regressor on the Dependent Variables

DVs (V's)	Independent Variables										Constant
	Bank Type (Forloc)		Respondents' Position		Educational Level		Respondents' Experience		Bank Experience		
	B	P-Value	B	P-Value	B	P-Value	B	P-Value	B	P-Value	
X8	-0.046	.503	-0.004	.867	-.143	.000	-0.011	.000	-0.004	.005	1.187
X91	.315	.000	0.087	.000	0.065	.004	-0.011	.000	-0.014	.000	4.820
X92	.183	.000	0.020	.290	0.087	.000	-0.005	.017	-0.012	.000	4.835
X93	-.105	.011	0.064	.000	-.101	.000	0.003	.051	-0.004	.000	4.951
X94	-.178	.028	.202	.000	-.142	.000	0.010	.002	-0.014	.000	4.687
X95	-.202	.075	-.297	.000	-0.049	.377	-0.002	.554	-0.003	.207	5.176
X96	-.374	.009	-.254	.000	-.320	.000	-0.022	.000	0.003	.293	5.460
X97	-.279	.001	-0.038	.220	-.121	.002	0.008	.020	-0.021	.000	5.281
X98	-.132	.066	-0.042	.130	-.230	.000	-0.021	.000	-0.011	.000	5.721
X99	.445	.000	0.048	.163	.138	.002	-0.000	.832	-0.015	.000	4.103
X910	-.421	.000	0.013	.772	-.229	.000	-0.002	.607	-0.019	.000	5.541
X911	-.243	.009	-0.099	.006	-0.03	.492	0.020	.000	-0.007	.000	4.630
X912	.205	.046	-0.075	.062	.156	.002	-0.029	.000	-0.006	.004	4.707
X913	-.137	.101	0.008	.794	-0.080	.053	-0.009	.009	-0.009	.000	5.049
X914	-.198	.062	-0.057	.162	-0.067	.200	0.002	.542	-0.013	.000	4.869
X915	-.138	.064	0.094	.001	-0.036	.326	0.011	.000	-0.003	.026	4.435
X916	-.533	.000	.664	.000	.193	.003	0.017	.002	-0.011	.000	2.626
X917	.637	.000	.144	.016	.549	.000	0.002	.661	0.020	.000	.113
X918	.522	.000	0.028	.623	.560	.000	-0.003	.639	0.024	.000	.330
X919	.231	.002	0.076	.007	.193	.000	0.009	.002	0.017	.000	.131
X920	-.749	.000	.308	.000	.822	.000	0.007	.135	-0.002	.427	1.298
X921	1.172	.000	.548	.000	.638	.000	0.016	.002	0.002	.331	-.900
X922	.513	.000	.626	.000	.353	.000	-0.031	.000	0.008	.006	.675
X923	.469	.001	.493	.000	.638	.000	-0.004	.471	-0.002	.496	.263
X924	.319	.004	-0.026	.546	.277	.000	0.026	.000	0.014	.000	.315

Notes: -

> X91-X924 = the GATS impacts by the same order, and X8 = the aggregate GATS impacts on general, as in Table 8/2 previously mentioned.

> $y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \dots + \beta_n x_n + \epsilon$ (Cooper and Emory, 1995, p. 499).

Where: - y = The dependent variable (25 GATS impacts);

α = The value of y if all X 's (from $X_1 \rightarrow X_n$) equal zero (constant value);

β = The general liner model slopes of X_i , or the response. The β represent the regression coefficient associated with each X_i ;

X_i = The independent variables (e.g. bank's type, respondents' positions, educational levels, experience, and bank's experience); and

ϵ = Model' error, ϵ is assumed to be zero.

However, not all the independent variables have the same effect on the dependent variables. Statistically, if the MR model is significant it does not mean that all the independent variables within the equation have significant relationships with the dependent variable, but it does mean that only (at least) one significant relationship exists (Ashour, 1993). Therefore it is necessary to determine the effect that each independent variable has in the MR equation. For instance, four independent variables out of five affect the perception of GATS as a way that affect negatively both monetary and credit policies of Egypt (X_{24}). These variables are bank type ($B = 0.319$), educational level ($B = 0.277$), respondent's experience ($B = 0.026$), and bank's experience ($B = 0.014$), as shown in Table 8/5.

It could be concluded that the four questions have been answered as follows:

- (1) The five demographic variables collectively affect the behavior of each GATS impact; therefore the alternative hypothesis $H8$, has been supported.
- (2) R Square and adjusted R Square values indicate the effects of these independent variables. According to the adjusted R Square are remarkably limited.
- (3) The weighted effect that each regressor has on each single GATS impact was identified through B values, as indicated in Table 8/5.

Regarding the answer to the final question, GATS impacts on the Egyptian banking sector have not drawn scholars' attention yet, as this research is a pioneer endeavor in testing and modeling these impacts and the variables behind them. However, GATS impacts have been taken from the literature as many scholars (e.g. Nasiruddin, 2003; Hargis, 2002; Sugiyarto, 2002; Cotsomitis *et al.*, 2002; Sugiyarto, 2002; Metin-Ozcan *et al.*, 2002; Eberlei, 2001; Weller, 2000; Bekaert and Harvey, 2000; Kim and Singal, 2000; Ghose, 2000; Hargis and Ramanlal, 1998; Demiguc-Kunt

and Huizinga, 1998; IMF, 1998; Claessens and Glaessner, 1997; De Santis and Imrohorglu, 1997; Susmel, 1997; Bekaert and Harvey, 1997; Kono *et al.*, 1997; Goldstein and Turner, 1996; Joshi and Little, 1996; Evenson and Westphal, 1994; Helleiner, 1994; Arslan and Wijnbergen, 1993; Weiss, 1992; Thomas *et al.*, 1991; and Cho, 1989) have suggested these GATS impacts on developing countries, in the literature. Meanwhile, however, none of them have determined the variables that affect perception.

Other scholars in similar situations have used demographics, though. Erramilli (1990) used number of employees variable to classify the banking sector into medium sized banks (1001-10000 employees), and large banks (more than 10000) as 85.7 per cent and 14.3 per cent respectively. Koh (1991) used the education variable (DV) among other variables that affect export performance (DV). In his study, Koh (1991) identified significant relationships between two sets of variables (e.g. organizational characteristics among which was the education variable, and export marketing strategy) and export performance. Experience, size, and business experience for the enterprise were used by Contractor and Kundu (1998). In their study, Contractor and Kundu (1998) modeled the relationship between three sets of variables (IVs) (e.g. country specific variables, firm structure variables among which size, experience, and business experience, and firm strategy factors) and entry modes (DVs).

To sum up, all the correlations among the regressors are less than 0.80 which is enough, according to Ghiselli *et al.* (1981), to free the model from the multi-collinearity problem, as shown in Table 8/3. However, these regressors' effects are desperately limited (based on adjusted *R* Square values). Therefore it is recommended that further research consider other independent variables that might affect the perception of GATS impacts.

8.3. Chapter Conclusion

The current study is a pioneer endeavor not only in determining GATS impacts on a leading sector but also in modeling the variables that affect their perception. Empirical evidence has shown that GATS agreements have positive impacts on the Egyptian banking sector, as perceived by the overwhelming majority of bankers. Additionally, GATS agreements are not seen as negatively affecting monetary or credit policy, as the removing of this variable from GATS list will lead to an enhanced alpha coefficient of 0.657 from 0.622. Therefore, it is strongly recommended to remove this variable from GATS impacts list in future research. The removal of what could be perceived as a GATS drawback from the GATS impacts list could shift the alpha coefficient to 0.911.

The key point is that the higher one goes up the banks' hierarchies i.e. positions, ages, educational levels, bankers' experiences, banks' experiences, and banks' number of employees, the less the perception of GATS agreements' positive side, and the more perception of their drawbacks.

In other words, the higher positioned executives (general managers for instance) perceive the positive ramifications of GATS agreements less; however their drawbacks are well perceived. This incomplete perception indicates that they may lack a clear vision about the Egyptian banking industry's future; this in turn may cripple their ability to seize the viable opportunities to stay in business and improve their profits. Consequently, Egyptian bankers may need extensive training programs to become knowledgeable about new market trends, and the positive consequences of GATS agreements.

The same conclusion has been reached with those at higher educational levels, such as those who have PhD's and master degrees. This casts doubtful shadows on the real empirical banking experiences of such respondents i.e. those who have PhD's and master degrees know the theories well, but may lack work experience.

Sadly however, it is found that those who have high levels of experience suffer from the same problem, and share the ignorance of GATS positive impacts. In other words, bankers and banks that reported having more experience are not capable of diagnosing the benefits of GATS, but know the drawbacks well. It could be argued that this may be due to the accumulated domestic thinking over ages, as Egyptian economics used to be run through highly planned mechanisms and not through free market mechanisms. Therefore extensive training programs would seem useful.

Finally, those huge banks that recruit and hire huge number of employees, like the four state banks for instance, perceive GATS positive impacts less tolerantly, therefore its drawbacks are well recognized. Training programs coupled with other managerial remedies may need to be put in action, to update and refresh executives' knowledge about GATS ramifications.

The five demographic factors e.g. bank's type, respondent's position, educational level, banker's experience, and bank's experience have limited effects over the perception of each GATS impact. Consequently, other factors rather than these five regressors might play significant roles in affecting the perception of each GATS impact' behavior. Therefore, investigating and finding those factors is highly recommended for further research, to build solid empirical evidence in this area.

Chapter Nine:
Confirming and Testing The Designed Entry
Modes-Defensive Marketing Strategies Model

9.1. Introduction

This chapter aims at confirming and testing the “Entry modes-defensive marketing strategies model” that has been designed in Chapter Six. Firstly, confirming the matching through asking the response bases in the Egyptian banking sector about their perception of entry modes. This perception is based upon the same four assessment pillars previously mentioned. These are opportunities or threats created by each entry mode and defensive marketing strategies, the continuity probability of these opportunities or threats, resources required for each entry mode and defensive strategy to be deployed, and the time required to use each entry mode and defensive strategy. Secondly, testing this model in the Egyptian banking sector.

Through two sequential stages i.e. “design confirmation” and “usage” these two aims will be achieved. The former includes four sequential steps:

- (a) The literature of both streams (e.g. entry modes and defensive marketing strategies contexts) were analysed and checked in the light of these four assessment pillars, as previously stated in Chapter Six. Whilst this step produces the model design only, the remaining three steps aims at “design confirming” this model.
- (b) The response bases (i.e. the respondents) were asked to arrange the entry modes in the light of the same four assessment pillars.
- (c) Univariate Analysis (e.g. Frequency Analysis) was conducted to order executives’ perception of the entry modes;
- (d) In the light of the previous three stages, verification or falsification of the model could be induced. Therefore, the output of this stage produces the appropriate matching in what is called “Entry modes-defensive marketing strategies model”. This model represent the “benchmark” to be used in determining whether or not local banks are currently using the

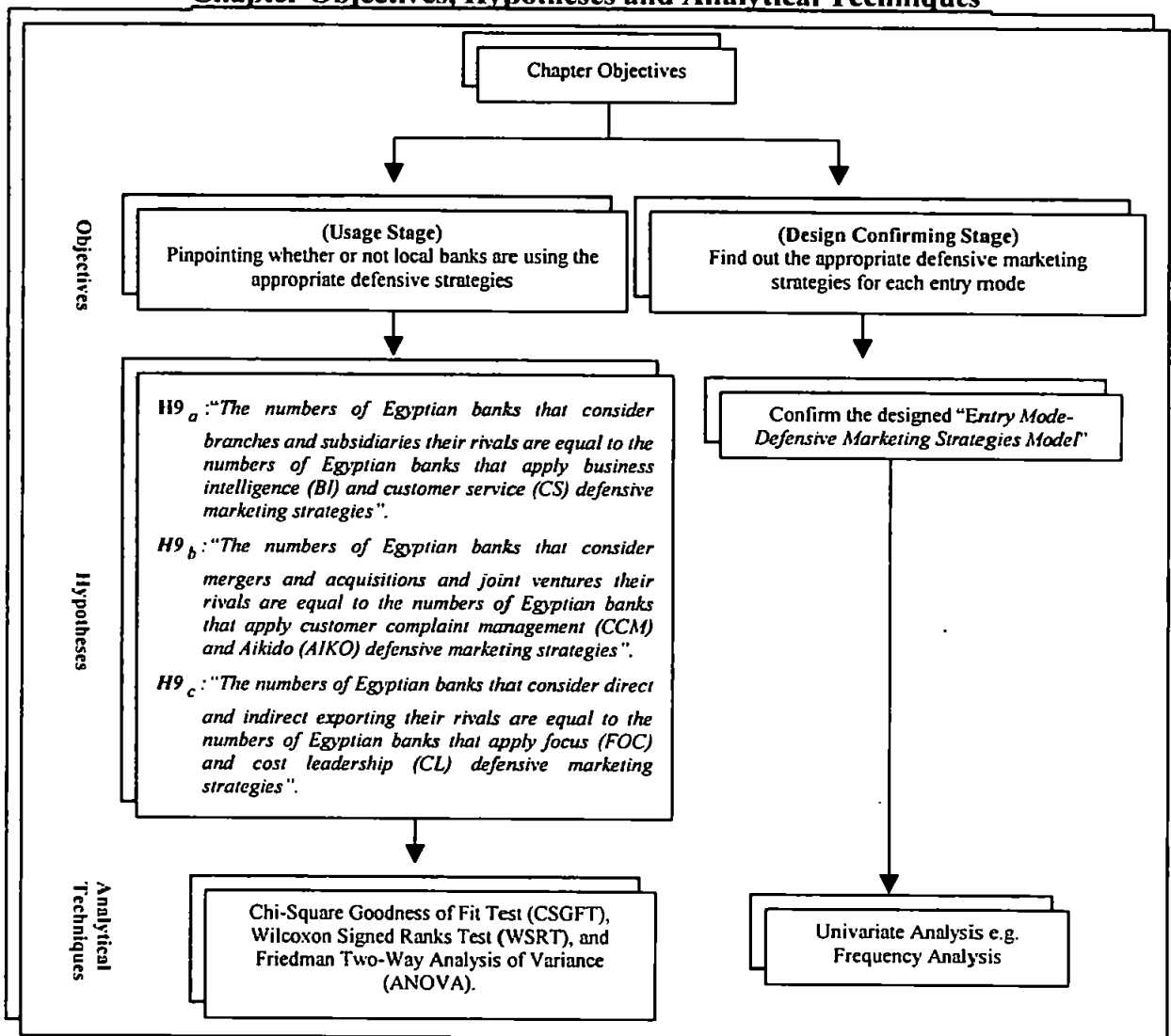
appropriate defensive strategy related to each entry mode. In other words, the experiences of the response bases (i.e. board of director's members) will be utilized to verify the debatable dimension of this mode i.e. entry modes. The fact of the matter is that defensive marketing strategies' literature offers the abstract meaning of each defensive marketing strategy, which is sufficient in this perspective. Opportunities and their probabilities, resources, and the time span of each defensive strategy is objectively presented in the literature. Consequently, what is lacking here is the subjective perception in the application sector i.e. the field study's executives. Therefore, the relative perception of entry modes threats justify defensive actions, as they offer subjective priorities, from the point of view of the field study's executives. Perceptual differences from one industry to another are expected.

The "usage" stage includes three steps:

- (a) The response bases were asked to determine their competitors (i.e. entry modes).
- (b) Also, they were asked about the kind of defensive marketing strategies currently being used.
- (c) In the final step and through non-metric analysis e.g. Chi-Square Goodness of Fit Test, Wilcoxon, and Friedman, marketing performances of Egyptian banks have been evaluated to identify whether or not the appropriate defensive strategies are being deployed with the right entry mode.

To sum up, the purposes of this chapter are to confirm the designed model i.e. entry modes-defensive marketing strategies model (in the design confirming stage), and to pinpoint the status of its application within the Egyptian banks (in the usage stage). Therefore, their commitment to the model in whose creation they have participated is evident, as show in Figure 9/1.

Figure 9/1
Chapter Objectives, Hypotheses and Analytical Techniques¹



9.2. The Appropriate Defensive Marketing Strategies with Each Entry Mode (The Design Confirming Stage)

As previously mentioned in Chapter Six, for designing the matching model two streams of literature (e.g. defensive marketing strategies and entry modes' contexts) have been consulted and reviewed in the light of the four assessment pillars, as shown in both Tables 9/1 and 9/3.

¹ Source:- The Researcher

Table 9/1
Taxonomy of Entry Modes²

Assessment pillars	Entry Modes									
	Wholly-owned		Shared-Owned		Contractual			Marketing Oriented + Rep. & Agency offices		
	BR	SU	MERA	JOI	LIC	FRA	ALL	REP	AGE	DIR
Risk Imposed	Very high		High		Low			Low		
Risk probability	High		Moderate		Moderate			Volatile		
Time Required	Long		Medium		Medium			Short		
Resources Required	Large		Medium		Small			Small		
Total	12 Points		8 Points		6 Points			4 Points		

Notes: -

(1) **Assessment Criteria:** -

Threats are represented by "Very high" = 3 points, "High" = 2 points, and "Low" = 1 point.

Continuity probabilities are represented by "High" = 3 points, "Moderate" = 2 points, and "Volatile" = 1 point

Time required is represented by "Long" = 3 points, "Medium" = 2 points, and "Short" = 1 point.

Resources required are represented by "Large" = 3 points, "Medium" = 2 points, and "Small" = 1 point.

(2) **Entry Modes:** -

(BR) = Branches, (SU) = Subsidiaries, (MERA) = Merge and Acquisition, (JOI) = Joint Venture, (LIC) = Licensing, (FRA) = Franchising, (ALL) = Alliances, (DIR) = Direct Exporting, (IND) = Indirect Exporting, (REP) = Representative Offices, and (AGE) = Agency Offices.

In four separate questions {from question eleven (X_{11}) to question fourteen (X_{14}) in the local banks' questionnaire, see Appendix A1}, the response bases were asked to arrange the entry modes from their point of view according to the four assessment pillars. This step aims at determining the subjective perception of entry modes in the application sector i.e. the Egyptian banking sector. Finally, through Univariate Analysis (e.g. Frequency Analysis), their answers were ordered as follows: branches, subsidiaries, joint ventures, mergers and acquisitions, licensing, franchising, direct exporting, and indirect exporting respectively, as shown in Table 9/2. The findings are identical with the designed model, and the Egyptian banking sector lends support to its validity. As previously mentioned, executives in the industry (i.e. field study) ought to be asked to verify or amend the entry modes according to their relative perception. Therefore, it is strongly recommended that the subjective perception of entry modes is determined before using this model, as amendments are expected and welcomed.

² **Source:**- The Researcher, based on entry modes literature

As previously stated in Chapter Six, the suggested “Entry modes-defensive marketing strategies model” depends on two main dimensions: entry modes and defensive marketing strategies. It is worth mentioning that the defensive marketing literature is fairly clear in dealing with the four assessment pillars, therefore the literature is sufficient only in describing each defensive marketing strategy. Consequently, investigating those pillars again with defensive marketing strategies throughout the sample might be considered as redundant.

Table 9/2
The Executives’ Perception of Entry Modes Based on the Four Assessment Criteria

Entry Mode	Order
Branches	First
Subsidiaries	Second
Joint Ventures	Third
Merger and Acquisitions	Fourth
Licensing	Fifth
Franchising	Sixth
Direct Exporting	Seventh
Indirect Exporting	Eighth
Note: - Cronbach Alfa (α) = 0.661	

As Table 9/2 indicates, defenders perceive branches as the most risky entry mode, believe that the risk imposed will last for a long period, and needs both the largest resources and the longest time to defend. On the other hand, indirect exporting is perceived as the least risky entry mode with the least continuity probability, and the least resources and time required. Consequently, the entry modes’ perception is identical with what has been found in the literature, as determined in Chapter Six. Therefore, the “initial matching” previously mentioned is confirmed and can be called final matching known as “Entry mode-defensive marketing strategies model”, as no amendments from field study executives were suggested.

Table 9/3
Taxonomy of Defensive Marketing Strategies³

Assessment Criteria	Defensive Marketing Strategies							
	BI	CS	CCM	AIKO	FTL	DIFF	FOC	CL
Opportunities pledged	Very high	Very high	High	High	Low	Low	Low	Low
Continuity Probability	High	High	High	Moderate	Moderate	Volatile	Volatile	Volatile
Time Required	Long	Long	Medium	Medium	Medium	Short	Short	Short
Resources Required	Large	Large	Medium	Medium	Small	Medium	Small	Small
Total	12 points	12 points	9 points	8 points	6 points	5 points	4 points	4 points

Notes: -

(1) **Assessment Criteria:** -

Opportunities are represented by "Very high = 3 points, "High" = 2 points, and "Low" = 1 point.

Continuity probabilities are represented by "High" = 3 points, "Moderate" = 2 points, and "Volatile" = 1 point

Time required is represented by "Long" = 3 points, "Medium" = 2 points, and "Short" = 1 point.

Resources required are represented by "Large" = 3 points, "Medium" = 2 points, and "Small" = 1 point.

(2) **Defensive Marketing Strategies:** -

(BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.

Table 9/4 represents this model in its final form. In this model, both business intelligence (BI) and customer service (CS) strategies match with the wholly owned entry modes e.g. branches and subsidiaries. Customer complaints management (CCM) and Aikido (AIKO) strategies match with the shared owned entry modes e.g. mergers and joint ventures entry modes. Free telephone lines (FTL) and differentiation (DIFF) strategies match with the contractual entry modes e.g. licensing, franchising, and alliance entry modes. Finally, focus (FOC) and cost leadership (CL) match with the purely marketing oriented (e.g. direct and indirect exporting), representative and agency offices entry modes. Now the appropriate matching has been reached and banking practices will be evaluated according to the degree of closeness to this "benchmark".

Regarding the first group, both business intelligence (BI) and customer service (CS) strategies are characterized by offering very high opportunities to defend current market share and create loyal

³ **Source:**- The Researcher, based on the literature of defensive marketing strategies.

customers. These opportunities last for a very long time, and require a long time to be deployed because they need well trained staff, as well as huge resources, to be implemented. These characteristics match with both branches and subsidiaries as these are ranked as the most risky entry modes. The risks last for a long time because they impose a physical existence; both necessitate huge resource commitment in the target markets, and the outcomes of investments take a long time to become economic and then profitable. Consequently, BI, and CS could be the appropriate defensive marketing strategies with wholly owned entry modes e.g. branches and subsidiaries.

Table 9/4
Entry Modes and Defensive Marketing Strategies⁴

Defensive Strategies	Entry Modes										
	Wholly-owned		Shared-Owned		Contractual			Purely marketing oriented + Rep. & Agency offices			
	BR	SU	MERA	JOI	LIC	FRA	ALL	REP	AGE	DIR	IND
BI	x										
CS	x										
CCM			x								
AIKO			x								
FTL						x					
DIFF						x					
FOC										x	
CL										x	

Notes: -
(1) Defensive Marketing Strategies: -
 (BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.
(2) Entry Modes: -
 (BR) = Branches, (SU) = Subsidiaries, (MERA) = Merge and Acquisition, (JOI) = Joint Venture, (LIC) = Licensing, (FRA) = Franchising, (ALL) = Alliances, (DIR) = Direct Exporting, (IND) = Indirect Exporting, (REP) = Representative Offices, and (AGE) = Agency Offices.

Regarding the shared owned entry modes' category (including mergers and acquisitions and joint ventures) this comes second according to the four assessment pillars. Given that both joint ventures and mergers entry modes impose sudden threats for local competitors, the Aikido strategy represents a "magic" solution. It enables local competitors to avoid the momentum of the

⁴ **Source:** - The Researcher, based on the literature of defensive marketing strategies and entry modes.

first attack, and suspend all defensive actions until the real purposes of the newcomers become clear. During this suspended period, local competitors could tailor suitable marketing strategies for sustaining their market shares, revenues, and customers more perfectly. Given that to keep an existing customer cost one-six of attracting a new one (Fornell and Wernerfelt, 1988, p. 287), local competitors ought to get close to their existing customers by adopting a Customer Complaints Management (CCM) strategy. Consequently, they could use their loyal customers as a shield against those newcomers. Therefore, CCM and AIKO strategies could be appropriate defensive marketing strategies with shared owned entry modes e.g. joint ventures and mergers and acquisitions.

Free telephone (FTL) lines and differentiation (DIFF) defensive marketing strategies enable one to communicate with customers and simultaneously adopt many marketing programs. Given that inexperienced entrants might use contractual entry modes, the DIFF strategy could defuse much of the imposed risks. Consequently, DIFF and FTL could be the appropriate defensive marketing strategies with the contractual entry modes e.g. licensing, franchising, and alliance.

Finally, direct exporting, indirect exporting, representative, and agency offices are viewed as the least risky entry modes because they impose temporary threats and need both short time periods and small resources to be implemented. This is because sooner or later they will be altered to another direct investment form, like branches or subsidiaries, or will go out of business if they fail. Consequently, focus (FOC) and cost leadership (CL) could be the appropriate defensive marketing strategies with these forms of entry modes.

After the matching process was completed i.e. the “design confirming stage”, local banks’ performances needed to be evaluated to establish whether or not respondents were aware of the appropriate usage of defensive strategies. If they were fully aware of the two streams of literature, the number of executives who perceived an entry mode as a competitor ought to adopt the appropriate defensive marketing strategies, according to the “Entry Modes- Defensive Marketing Strategies Model”, (in whose design they have participated), or at least the differences should be minimal. 464 and 425 executives considered both branches and subsidiaries respectively as their competitors, as shown in Table 9/5. Therefore, the same number of executives ought to perceive BI and CS as appropriate defensive marketing strategies, or at least no significant differences exist between these numbers. The same logic applies for the remaining entry modes and defensive marketing strategies. Chi-Square Goodness of Fit, Wilcoxon, and Friedman are most appropriate to investigate these, as will be explained at the coming stage (usage stage).

Table 9/5
Local Banks Competitors

Entry Modes	N	Number	%
Branches (X15 ₁)	591	464	78.5
Subsidiaries (X15 ₂)	591	425	71.9
Joint Ventures (X15 ₇)	591	281	47.5
Merger and Acquisitions (X15 ₈)	591	186	31.5
Direct Exporting (X15 ₁₀)	591	36	6.1
Indirect Exporting (X15 ₁₁)	591	19	3.2

To recap the earlier discussion, by confirming the “Entry Modes-Defensive Marketing Strategies Model” the first objective of this chapter was achieved. Thus this model will be the “*benchmark*” for judging whether or not local banks are using appropriate defensive marketing strategies. As its name implies, the “Entry Modes-Defensive Marketing Strategies Model” matches specific defensive marketing strategies with specific entry modes, as previously explained.

9.3. Pinpointing the Application Status in Local Banks (The Usage Stage)

The usage stage includes three sequential steps: (a) the respondents were asked to determine their competitors' entry modes. Table 9/5 indicates the results of this step. (b) Also, they were asked about the kind of defensive marketing strategies currently being used (X_{17}), (see Appendix A1), and (c) through Chi-Square Goodness of Fit Test (CSGFT), Wilcoxon Signed Ranks Test (WSRT), and Friedman two-way Analysis of Variance (ANOVA) their marketing performances were evaluated, to identify whether or not appropriate defensive strategies were being deployed with the right entry modes. More specifically, the number of perceived competitors will be compared with the number of the applied defensive marketing strategies, according to the designed "Entry Modes-Defensive Marketing Strategies Model".

Since each defensive marketing strategy contains several marketing actions, each defensive marketing strategy has been rebuilt again by re-collecting its components, as shown in Table 9/6.

Consequently, the following hypotheses have been tested: -

H9_a: "The numbers of Egyptian banks that consider branches and subsidiaries their rivals are equal to the numbers of Egyptian banks that apply business intelligence (BI) and customer service (CS) defensive marketing strategies".

H9_b: "The numbers of Egyptian banks that consider mergers and acquisitions and joint ventures their rivals are equal to the numbers of Egyptian banks that apply customer complaint management (CCM) and Aikido (AIKO) defensive marketing strategies".

H9_c: "The numbers of Egyptian banks that consider direct and indirect exporting their rivals are equal to the numbers of Egyptian banks that apply focus (FOC) and cost leadership (CL) defensive marketing strategies".

To test these hypotheses, numbers comparisons via CSGFT, WSRT, and Friedman ANOVA were conducted. The aim of these comparisons is to find out whether or not there are significant differences among them. The number of executives who perceived branches and subsidiaries as their rivals, were compared with the number of executives who selected the components of BI

and CS strategies. Moreover, the number of executives who perceived mergers and acquisitions and joint ventures as their rivals, were compared with the number of executives who selected the components of CCM and AIKO strategies.

Table 9/6
The Components of Each Defensive Marketing Strategy

Defensive Strategy	Strategy Components	Freq.	No.	New Variable
Business Intelligence (BI)	Collecting published and field data about the competitors to make them as an open book (X171)	434	4	T17 ₁
	Classifying these data (X172)	378		
	Cataloguing these data e.g. data cataloguing, constructing competitor library (X173)	346		
	Analyze these data and take the appropriate action (X174)	413		
Customer Service (CS)	Start market segmentation immediately, to determine the bank customer groups (x175)	416	7	T17 ₂
	Find out customer's expectation of each group (X176)	409		
	Develop a communication plan that influences customers to expect a little less than they will get (X177).	333		
	Hire and training competitive staff (X178)	419		
	Create new banking services (X179)	453		
	Modify the service delivery system in all the bank's branches (X1710)	424		
	Create healthy competition among the bank's branches to select branch of the month. (X1711)	325		
Aikido (AIKO)	Investigate and understand the attacker intentions about the Egyptian banking sector (X1713)	203	4	T17 ₃
	Wait until the service delivery system is settled and the competitors' intentions appear (X1714)	130		
	"Bend" for a while and keep using the previous marketing program (X1715)	136		
Cost Leadership (CL)	Increase deposit rates (X1722)	97	4	T17 ₄
	Decrease loan interests (X1723)	97		
	Exercise tight control on all kinds of costs within the bank (X1724)	178		
	Avoid marginal customers i.e. those customers who do not produce more profits for the bank (X1725)	152		
Customer Complaint Management (CCM)	Create a customer service department (X1712)	346	3	T17 ₅
	Add a customer complaint department to the current bank's hierarchy (X1717)	265		
	Train all the bank's staff to deal with customer complaints (X1718)	183		
Focus Strategy (FOC)	Focus on attracting and satisfying specific customer categories (X1720)	19	2	T17 ₆
	Design an intensive marketing campaign (X1726)	168		
Differentiation (DIFF)	Designing marketing program for each customer category (X1721)	156	1	T17 ₇
Free-Telephone Line (FTL)	Use a free line telephone for customer voicing (X1719)	125	1	T17 ₈

Finally, the number of executives who perceived direct and indirect exporting their rivals, as their rivals, was compared with the number of executives who selected the components FOC and CL strategies. Zero values (by using “select case” function in SPSS) were considered missed values throughout this analysis, as the variables scales are nominal.

From Tables 9/7, 9/10, and 9/11 with $p < 0.05$, $N = 591$, the null hypothesis (H_0) was rejected. This rejection has occurred based on conducting three analytical tests (i.e. CSGFT, Friedman ANOVA, and WSRT) each of which confirmed the results of the other one. More specifically, CSGFT conducted in Table 9/7 shows that there are a number of differences amongst the compared groups; executives using both BI and CS strategies are not equal with those perceiving branches and subsidiaries as their rivals. Friedman ANOVA conducted in Table 9/10, especially in row *a*, shows that the blocks are not identical. In this test, the comparisons were amongst the values of the two composite variables: one for branches and subsidies, and the second for BI and CS strategies. Finally, WSRT, presented in the first and the second row of Table 9/11, shows that there are differences amongst the values of blocks' medians. In this test, both branches and subsidiaries have been merged together in one composite variable and tested against BI (as one composite variable) and CS (as another composite variable) in two separated runs.

Consequently, by all means the conclusion that “there are significant differences between the number of executives who perceive branches and subsidiaries as their rivals and the number of executives using BI and CS strategies' components” could be drawn. Consequently, Egyptian banks are currently not using the appropriate defensive marketing strategies with both branches and subsidiaries entry modes. Therefore they are invited to rethink the adopted defensive

strategies in this perspective to better defend their market shares, revenues, and prevent customers switching to their competitors.

Table 9/7
Chi-Square Goodness of Fit Test (CSGFT) for Branches, Subsidiaries, and the Related Defensive Marketing Strategies.

Defensive Marketing Strategies and the Related Entry Modes		Observed N	Expected N	Residual
Branches (X151)		464	403.0	61.0
Subsidiaries (X152)		425	403.0	22.0
BI Components (T17 ₁)	Collecting published and field data about the competitor (s) to make them as open book (x171)	434	403.0	31.0
	Classifying these data (x172)	378	403.0	-25.0
	Cataloguing these data e.g. data cataloguing, constructing competitor library (x173)	346	403.0	-57.0
	Analyze these data and take the appropriate action (x174)	413	403.0	10.0
CS Components (T17 ₂)	Start market segmentation immediately to determine the bank customer groups (x175)	416	403.0	13.0
	Find out customer's expectation of each group (x176)	409	403.0	6.0
	Develop a communication plan that influences customers to expect a little less than they will get (x177)	333	403.0	-70.0
	Hire and training competitive staff (x178)	419	403.0	16.0
	Create new banking services (x179)	453	403.0	50.0
	Modify the service delivery system in all the bank's branches (x1710)	424	403.0	21.0
	Create healthy competition among the bank's branches to select branch of the month. (X1711)	325	403.0	-78.0
	Total	5239		
Notes:-				
➤ Chi-square = 58.377, df = 12, $p = .000 < 0.05$, $\alpha = 0.05$, N = 591				

Based on Tables 9/8, 9/10, and 9/11 with, $N = 591$, $p < 0.05$, the null hypothesis (H_0) was rejected. As it is previously noted, the rejection was based on the findings of three consecutive tests: CSGFT, Friedman ANOVA (as row c in Table 9/10 shows), and WSRT (as the fifth and the sixth rows in Table 9/11 shows). That means there are significant differences between the number of executives who perceive joint ventures and mergers as their rivals and the number of executives using CCM and AIKO strategies' components. Consequently, Egyptian banks are currently not using the appropriate defensive marketing strategies with both joint venture and merger entry modes.

Table 9/8
Chi-Square Goodness of Fit Test (CSGFT) for Joint Venture, Merger Entry Modes and the Related Defensive Marketing Strategies

Defensive Marketing Strategies and the Related Entry Modes		Observed N	Expected N	Residual
Joint Ventures (X157)		281	206.1	74.9
Mergers and Acquisitions (X158)		186	206.1	-20.1
CCM Strategy (T17 ₃)	Create a customer service department (x1712)	346	206.1	139.9
	Add a customer complaint department to the current bank's hierarchy (X1717)	265	206.1	58.9
	Train all the bank's staff to deal with customer complaints (x1718)	183	206.1	-23.1
AIKO Strategy (T17 ₃)	Investigate and understand the attacker intentions about the Egyptian banking sector (x1713)	203	206.1	-3.1
	Wait until the service delivery system is settled and the competitors' intentions appear (x1714)	130	206.1	-76.1
	"Bend" for a while and keep using the previous marketing program (x1715)	136	206.1	-70.1
Total		1730		
Notes: -				
➤ Chi-Square = 227.454, df = 8, P-value = .000, $\alpha = 0.05$				

From Tables 9/9, 9/10, and 9/11 below, with $N = 591$, $p < 0.05$, the null hypothesis (H_{9c}) was rejected. As previously noted, the rejection was based on the findings of three consecutive tests: CSGFT, Friedman ANOVA (as row *b* in Table 9/10 shows), and WSRT (as the third and the fourth rows in Table 9/11 shows).

That means there are significant differences between the number of executives who perceive direct exporting and indirect exporting as their rivals and the number of executives using FOC and CL strategies' components. Consequently, it seems that Egyptian banks are currently not using the appropriate defensive marketing strategies for direct or indirect exporting entry modes.

Table 9/9
Chi-Square Goodness of Fit Test (CSGFT) for Direct Exporting, Indirect Exporting and the Related Defensive Marketing Strategies

Defensive Marketing Strategies and Related the Entry Modes		Observed N	Expected N	Residual
Direct Exporting (X1510)		36	97.5	-61.5
Indirect Exporting (X1511)		19	97.5	-78.5
Focus Strategy (FS) (T17 ₆)	Focus on attracting and satisfying specific customer categories (x1720)	19	97.5	-78.5
	Design an intensive marketing campaign (x1726)	156	97.5	58.5
CL Strategy (T17 ₄)	Increase deposit rates (x1722)	97	97.5	-.5
	Decrease loan interests (x1723)	178	97.5	80.5
	Exercise tight control on all kinds of costs within the bank (x1724)	152	97.5	54.5
	Avoid marginal customers i.e. those customers who do not produce more profits For the bank (x1725)	168	97.5	70.5
	Total	975		

Notes: -
 > Chi-square = 368.518, df = 9, P-value = .000, $\alpha = 0.05$.

Table 9/10
Friedman Two-Way Analysis of Variance Test (ANOVA)

Entry modes- Defensive Marketing Strategies	Chi-Square	P-Value
(a) Wholly owned entry modes (e.g. branches and subsidiaries) with BI and CS strategies.	324.077	.000R
(b) Purely marketing oriented entry modes (e.g. direct and indirect exporting) with FOC and CL strategies	270.263	.000R
(C) Shared owned entry modes (e.g. joint ventures and mergers) with, AIKO and CCM. Strategies	241.438	.000R

Note: -
 > R= Rejecting the null hypothesis that; "the populations within blocks are identical" as $p \leq .05$.

Table 9/11
Wilcoxon Signed Ranks Test (WSRT)

Entry modes- Defensive Marketing Strategies	Z value	P
1. Wholly owned entry modes (e.g. branches and subsidiaries) with BI strategy	-18.212	.000 R
2. Wholly owned entry modes (e.g. branches and subsidiaries) with CS strategy	-20.401	.000 R
3. Purely marketing oriented entry modes (e.g. direct and indirect exporting) with FOC	-8.287	.000 R
4. Purely marketing oriented entry modes (e.g. direct and indirect exporting) with (CL)	-16.393	.000 R
5. Shared owned entry modes (e.g. joint ventures and mergers) with CCM strategy.	-5.407	.000 R
6. Shared owned entry modes (e.g. joint ventures and mergers) with AIKO strategy.	-11.591	.000 R

Note: -
 > R= Rejecting the null hypothesis that; "the median of the population difference $(X_i - Y_i) = D_i$ is zero", as $p \leq 0.05$.


To sum up, hypotheses ($H9_a$), ($H9_b$), and ($H9_c$) were rejected when three non-metric techniques were deployed; rejected when using the “absolute numbers” via assuming specific distribution which was the equality (as CSGFT assumes), and rejected when calculating “differences among the blocks” and assuming these differences are zeros (as Friedman assumes). As previously mentioned, the null hypothesis in the Friedman test is “values within blocks are identical”. The hypotheses were also rejected when comparing blocks via “the median values” in each block (as WSRT assumes). These findings indicate that Egyptian banks are not currently using the appropriate defensive marketing strategies. Therefore, corrective actions are required in the marketing practices of these banks.

9.4. Chapter Conclusion

It could be claimed that the confirmation of “Entry Mode-Defensive Marketing Strategies Model” matching entry modes and the appropriate defensive strategies is the main contribution of this chapter. This model is an endeavor to match two streams of literature where previously no relationship was indicated. In other words, scholars consider entry modes and defensive marketing strategies as two different literature streams; and no endeavor has been conducted previously to marry them. This endeavor might encourage other scholars to rethink the relationship between these two streams of literature from different perspectives, thus leading to enriched literature in this context.

To appropriately apply this model in other industries, entry modes perception should be determined according to the four assessment pillars, as this perception might differ from industry to industry. In different industries, subjective perceptions of entry modes are expected, encouraged, and welcomed. Therefore, scholars are invited to explore this approach in other industries.

Secondly, based on the “Entry Modes-Defensive Marketing Strategy Model”, Egyptian banks are not using appropriate defensive marketing strategies with all entry modes they have considered their rivals. Therefore banks ought to rethink their applied defensive marketing strategies to maintain their current customers and prevent switching to competitors.



Chapter Ten:
Patterns of Relationships with Defensive
Marketing Strategies

10.1. Introduction

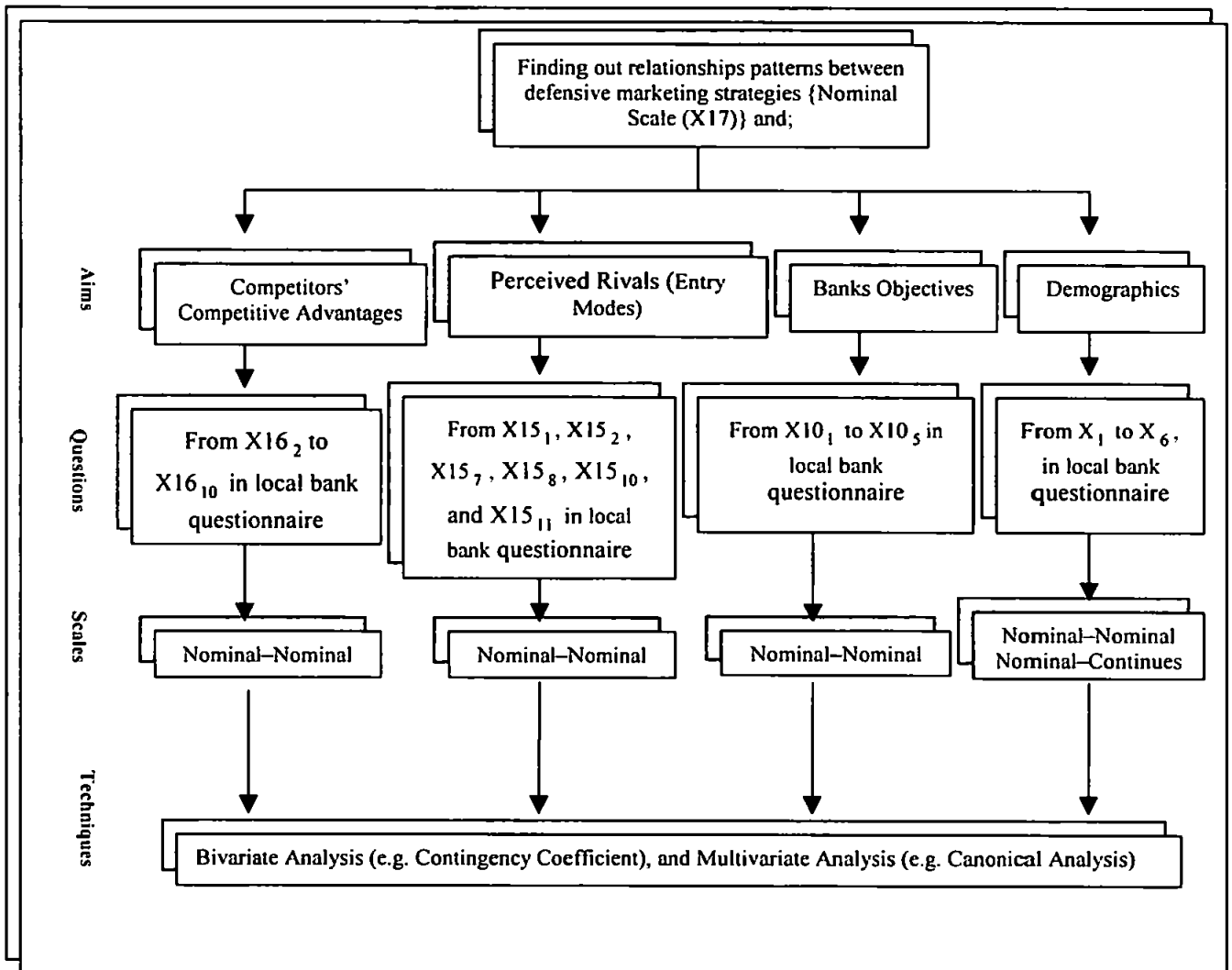
It is worth mentioning that the literature in this perspective needed to be integrated, as it does not offer any concrete study. Business scholars are mainly concerned with investigating the effect of marketing strategies (as independent variables) on profits (e.g. Kotabe *et al.*, 1991 Fornell and Wernerfelt 1988); but none of them with investigating the effect that other factors have on the selection of defensive marketing strategies (as dependent variables). Also, defensive strategies have been touched upon separately. For instance Fornell and Wernerfelt (1988) addressed the effect of CCM defensive strategy on profit, and Cotter *et al.* (1997) addressed Aikido strategy and its implementation mechanism. The same logic applies for the rest of the defensive marketing strategies. No theoretically sound and empirically corroborated framework for how service firms could select between different types of defensive marketing strategies have been executed. The current study attempts to address this issue in the banking context.

This chapter aims at determining the patterns of relationships between defensive marketing strategies and:

- (a) Demographics e.g. respondents' positions, ages, educational levels, experience, bank experience, and bank's number of employees (from X_1 to X_6 in local banks' questionnaire);
- (b) Bank's objectives e.g. to increase the bank's market share, to maintain the current market share, to increase the bank's profit, to increase the bank's customer satisfaction, and to increase the customer's loyalty (from X_{10_1} to X_{10_5});
- (c) Perceived competitors (kinds of entry modes) e.g. branches, subsidiaries, joint venture, merger, direct exporting and indirect exporting (from X_{15_1} , X_{15_2} , X_{15_7} , X_{15_8} , $X_{15_{10}}$, and $X_{15_{11}}$); and

(d) Competitors' competitive advantages e.g. their marketing mix variables, all their marketing program variables; their use of advanced technology; offerings of new kinds of banking services; high interest rates on deposits accounts; low interest rates for loans given; well designed service delivery systems; employing competitive staff; and strong advertising campaigns (X16₂ to X16₁₀), as Figure 10/1 shows.

Figure 10/1
Chapter Aims, Questions' Scales, and Analytical Techniques¹



¹ Source: - The researcher.

10.2. Patterns of Relationships between Demographics (Respondents and Banks' Backgrounds) and Defensive Marketing Strategies

To investigate these patterns of relationships, both bivariate and multivariate analyses have been conducted. The former was conducted through Contingency Coefficient Correlation, as the lower scale among the six demographics scales and the eight defensive marketing strategies' scales is nominal. The latter was conducted via Canonical correlation, as the DVs are nonmetric. Consequently, the following main alternative hypothesis has been tested.

H10₁: "There is a strong and significant relationship between selected defensive marketing strategies (i.e. eight strategies) and respondent's demographics (i.e. position, age, educational level, experience, bank's experience, and number of employees)".

Based on Table 10/1, with $N = 591$, and $\alpha = 0.05$, $p \leq 0.05$, significant relationships between all demographic variables and defensive marketing strategies have been reported. More specifically, strong and significant relationships between respondent's position and CS, CCM, CL, AIKO, FOC, and BI have been reported, as $p < 0.05$ and correlation coefficients (r) are 0.791, 0.687, 0.651, 0.578, 0.563, and 0.559 > 0.50 respectively. Meanwhile, weak and significant relationships between respondent's positions and DIFF ($r = 0.430 < 0.50$), and FTL defensive strategies ($r = 0.446 < 0.50$) were reported. It is worth noting that there is a common agreement amongst scholars (e.g. George and Mallery 2001, p. 113; Moore, 1996, p. 114; Mcghee, 1985, p. 400; Maxwell, 1983, p. 442) for the explanation power of the correlation coefficient (r). It represents strong, medium, weak, perfect, and no relationships if r values are more than 0.50 (and less than unity), equal 0.50, less than 0.50, equal 1, and equal zero in both directions respectively. Therefore, these explanations represent the benchmarks in the current study.

Regarding respondent's age, strong and significant relationships between this and CS, CL, and CCM have been reported, as $p < 0.05$ and correlation coefficients are 0.790, 0.676, and 0.562 $>$

0.50 respectively. Whilst, weak and significant relationships between respondent's ages and BI, AIK, FOC, DIFF, and FTL defensive strategies were reported, as $p < 0.05$ and correlation coefficients are 0.334, 0.370, 0.351, 0.338, and 0.212 < 0.50 respectively.

Table 10/1
Relationships Between Demographics and Selected Defensive Marketing Strategies

Strategies	Demographic Factors											
	Respondents' Background								Banks' Background			
	Positions		Ages		Educational Levels		Experience		Banks' Experiences		Number of Employees	
	Contin. Co		Contin. Co		Contin. Co		Contin. Co		Contin. Co		Contin. Co	
	r	P	r	P	r	P	r	P	r	P	R	P
1	.559	.000R	.334	.000	.629	.000R	.474	.000	.788	.000R	.784	.000R
2	.791	.000R	.790	.000R	.813	.000R	.817	.000R	.883	.000R	.868	.001R
3	.578	.000R	.370	.000	.463	.000	.540	.000R	.524	.000R	.592	.000R
4	.651	.000R	.676	.000R	.670	.000R	.619	.000R	.712	.000R	.725	.000R
5	.687	.000R	.562	.000R	.570	.000R	.616	.000R	.575	.000R	.672	.000R
6	.563	.000R	.351	.000	.528	.000R	.380	.000	.350	.000	.672	.000R
7	.430	.000	.388	.000	.277	.000	.306	.010	.421	.000	.473	.000
8	.446	.000	.212	.000	.334	.000	.309	.000	.238	.000	.570	.000R

Notes: -

- > **Contin. Co.** = Contingency Coefficient Correlation, **r** = Coefficient Value, **P** = P-Value, and $N^2 = 591$; and
- > **R** = Rejecting the null hypothesis and accepting the alternative hypothesis that; "there is a strong and significant relationship between the two variables", as $p \leq 0.05$ and the correlation coefficient (r) $> \pm 0.50$ (Moore, 1996, p. 114; Mcghee, 1985, p. 400; Maxwell, 1983, p. 442).
- > **Defensive Marketing Strategies:** -
1 = Business Intelligence (BI), 2 = Customer Service (CS), 3 = Aikido (AIKO), 4 = Cost Leadership (CL), 5 = Customers Complaints Management (CCM), 6 = Focus Strategy (FOC), 7 = Differentiation (DIFF), 8 = Free Telephone Lines (FTL).

Regarding educational level, strong and significant relationships with this and CS, CL, BI, CCM, FOC strategies, as $p < 0.05$ and correlation coefficients are 0.813, 0.670, 0.629, 0.570, and 0.528 > 0.50 respectively. Meanwhile, weak and significant relationships with AIKO, FTL, and DIFF defensive strategies were reported, as $p < 0.05$ and correlation coefficients are 0.463, 0.334, and 0.277 < 0.50 respectively.

Furthermore, strong and significant relationships between respondent's experience and CS, CL, CCM, and AIKO strategies have been reported, as $p < 0.05$ and correlation coefficients are 0.817, 0.619, 0.616, and 0.540 > 0.50 respectively. Whilst, weak and significant relationships between

respondent's experience and BI, FOC, FTL, and DIFF strategies were reported, as $p < 0.05$ and correlation coefficients are 0.474, 0.380, 0.309, and $0.306 < 0.50$ respectively.

Beside that, strong and significant relationships are identified between banks' experiences and CS, BI, CL, CCM, and AIKO strategies, as $p < 0.05$ and correlation coefficients are 0.883, 0.788, 0.712, 0.575, and $0.524 > 0.50$ respectively. However, weak and significant relationships between banks' experiences and FOC, DIFF, and FTL strategies were reported, as $p < 0.05$ and correlation coefficients are 0.350, 0.421, and $0.238 < 0.50$ respectively.

Table 10/2
Summarizing Patterns of Relationships between Defensive Marketing Strategies and Demographics

Demographics		Defensive Marketing Strategies							
		BI	CS	AIKO	CL	CCM	FOC	DIFF	FTL
Respondents	Position	Strong	Strong	Strong	Strong	Strong	Strong	Weak	Weak
	Ages	Weak	Strong	Weak	Strong	Strong	Weak	Weak	Weak
	Educations	Strong	Strong	Weak	Strong	Strong	Strong	Weak	Weak
	Experiences	Weak	Strong	Strong	Strong	Strong	Weak	Weak	Weak
Banks	Experiences	Strong	Strong	Strong	Strong	Strong	Weak	Weak	Weak
	Employees	Strong	Strong	Strong	Strong	Strong	Strong	Weak	Strong

Notes: -
Relationship Strength: -

- **Strong** = Strong significant relationship, is the relationship between two variables with correlation coefficient $> \pm 0.50$ (Moore, 1996, p. 114; Mcghee, 1985, p. 400; Maxwell, 1983, p. 442);
- **Weak** = Weak significant relationship, is the relationship between two variables with correlation coefficient $< \pm 0.50$; and
- **Medium** = Medium relationship, is the relationship between two variables with correlation coefficient $= \pm 0.50$.

Defensive Marketing Strategies: -

- **BI** = Business Intelligence, **CS** = Customer Service, **AIKO** = Aikido, **CL** = Cost Leadership, **CCM** = Customers Complaints Management, **FOC** = Focus Strategy, **DIFF** = Differentiation, and **FTL** = Free Telephone Lines.

Finally, strong and significant relationships between the number of employees and CS, BI, CL, CCM, FOC, AIKO, and FTL strategies, as $p < 0.05$ and correlation coefficients are 0.868, 0.784, 0.725, 0.672, 0.672, 0.592, and $0.570 > 0.50$ respectively. However, a weak and significant relationship between the number of employees and DIFF strategy was reported, as $p < 0.05$ and the correlation coefficient is $0.473 < 0.50$.

The remarkable thing here is that CS reported the highest correlation with all demographics, as correlation coefficients are 0.883, 0.868, 0.817, 0.813, 0.791, and 0.790 > 0.50 with banks' experiences, banks' number of employees, respondents' experiences, educational levels, positions, and ages respectively. This means that CS is perceived as an important strategy. Conversely, DIFF strategy reported the least correlation with all demographics, as indicated in Tables 10/1 and 10/2. It seems that Egyptian executives are not in favor of this strategy. Consequently, Egyptian banks ought to rethink the importance of these strategies to their competitive positions in the long run, especially CS, as it appears to be the most effective defensive strategy from a demographic perspective. On the demographics side, the number of employees' variables appear to have the highest effect on defensive strategies, as strong relationships were reported between this variable and most of defensive strategies apart from DIFF strategy. Conversely, respondent's ages appears to have the least effect, as weak relationships with most defensive strategies apart from CS, CL, and CCM strategies were reported, as indicated in Tables 10/1 and 10/2.

The second stage in the analysis is to determine the relationship and its magnitude between the two sets of variables (i.e. the demographics and defensive strategies). Canonical analysis was conducted to express the strength of the relationship between these two sets of variables. According to the canonical formula, the magnitude of the variable represents its contribution to the variate it belongs to. Statistically, variables of opposite signs represent inverse relationships to each other's. Having said that, the following findings have been reached: -

- Firstly, a strong significant relationship between demographics (IVs) and the eight defensive marketing strategies (DVs) were reported, as $p = 0.000 < 0.05$, and the

correlation magnitude = 0.864 > 0.50, as indicated in Table 10/3. Consequently, the hypothesis ($H10_1$) has been supported.

- Secondly, the first function in Table 10/3 has the highest magnitude between the two sets (0.864). Whilst, the other five functions are also significant ($p < 0.05$), they will not be used to elaborate the relationships between the two sets of variables, as lower magnitudes were reported.

Table 10/3
Canonical Correlations between Demographics and Defensive Marketing Strategies

Function Number	Eigenvalue	Canonical Correlation	Wilks Lambda	Chi-Square	D.F.	P- Value
1	0.748007	0.864874	0.0481767	1766.65	48	0.0000
2	0.583547	0.763902	0.191183	963.761	35	0.0000
3	0.335115	0.578891	0.459074	453.502	24	0.0000
4	0.169028	0.41113	0.690456	215.759	15	0.0000
5	0.132553	0.364078	0.830902	107.904	8	0.0000
6	0.0421298	0.205255	0.95787	25.0726	3	0.0000

Notes: -
 > $N = 591$, $\alpha = 0.05$
 > Canonical Formula = $\{-0.027354 * BI \text{ Strategy} + 0.563148 * CS \text{ Strategy} + 0.493256 * AIKO \text{ Strategy} + 0.496321 * CL \text{ Strategy} - 0.515086 * CCM \text{ Strategy} + 0.217418 * FOC \text{ Strategy} - 0.0366529 * DIFF \text{ Strategy} + 0.162832 * FTL \text{ Strategy}\} = \{-0.15689 * \text{Respondent Age} - 1.63808 * \text{Bank Experience} + 0.158453 * \text{Respondent Experience} + 0.196038 * \text{Respondent Position} + 0.154603 * \text{Education} + 1.55564 * \text{Number of Employees}\}$.

- Thirdly, the chosen function's eigenvalue is 0.748, which represents the amount of shared variance in the DVs that is accounted for by the IVs.
- Finally and most importantly, in the IVs side, the number of employees variable accounts for the highest positive magnitude (1.55564) and works on the same direction as respondent's position (0.196), respondent's experience (0.158), and education (0.154), and all are opposite to bank experience (-1.638), and respondent's age (-0.15689), as indicated in Table 10/5. On the DVs side of the canonical formula, CS strategy accounts for the highest positive magnitude (0.563) and works the same direction as CL (0.496), AIKO (0.493), FOC (0.217), and FTL (0.162) and all are opposite to CCM (-0.515), DFF (-0.036), and BI (-0.027), as

indicated in Table 10/4. Interestingly enough, these findings lend support to what have been reported by the bivariate analysis previously mentioned as follow: -

Table 10/4
Coefficients for Canonical Variables of the First Set (DVs)

DVs	Functions					
	1	2	3	4	5	6
BI Strategy	-0.027354	-0.463298	-0.204741	-0.643183	-0.489202	-0.268346
CS Strategy	0.563148	-0.214829	0.0936487	0.829186	-0.480515	0.261057
AIKO Strategy	0.493256	-0.497045	0.26759	0.147755	0.107125	-0.176484
CL Strategy	0.496321	0.921962	0.168966	0.611913	-0.0789961	-1.31762
CCM Strategy	-0.515086	0.432958	-0.0264954	-0.875766	-0.648959	0.21994
FOC Strategy	0.217418	-0.434707	0.1249	-0.951337	0.377978	0.490312
DIFF Strategy	-0.0366529	-0.57349	0.840505	0.201649	-0.196851	0.534105
FTL Strategy	0.162832	0.14771	-0.683577	0.367373	0.158758	0.524857

Table 10/5
Coefficients for Canonical Variables of the Second Set (IVs)

IVs	Functions					
	Function 1	Function 2	Function 3	Function 4	Function 5	Function 6
Age	-0.15689	-0.0351253	-0.777444	-0.182022	-0.189123	0.763231
Bank Exp.	-1.63808	-0.469815	0.700726	-0.872414	0.285436	0.0962828
Respondent Exp.	0.158453	0.417717	0.162395	-0.71995	-0.298474	-0.765673
Position	0.196038	-0.426173	0.128527	-0.28666	0.944693	0.289136
Education	0.154603	0.896	-0.332343	0.346376	0.646131	0.254419
No. of Employees	1.55564	0.32057	0.240209	0.532897	-0.823761	0.359498

- (1) Banks' number of employees has the strongest relationship with defensive marketing strategies, as the correlation coefficients are 0.868, 0.784, 0.725, 0.672, 0.672, 0.592, and 0.570 with CS, BI, CL, CCM, FOC, AIKO, and FTL strategies respectively. Conversely, respondents' ages reported the least dependency relationship, as strong and significant relationships exist only with CS ($r = 0.790 > 0.50$), CL ($r = 0.676 > 0.50$), and CCM ($r = 0.562 > 0.50$), as indicted in Table 10/1.
- (2) CS strategy reported the highest dependency relationship with demographics; conversely DIFF strategy reported the least dependency relationship, as shown in Table 10/2.

10.3. The Relationship between Banks' Objectives and Defensive Marketing Strategies

In two stages of analysis (i.e. dependency and causality), patterns of relationships will be investigated. Defensive marketing strategies and the banks' objectives are nominal variables.

Bivariate analysis e.g. Contingency Coefficient correlation is the appropriate analytical technique here (Ashour, 1993). The second stage explores the relationship, and its strength, between the two sets of variables (i.e. bank's objectives and defensive strategies). Consequently, the following alternative hypothesis has been tested: -

H10₂ : "There is a strong significant relationship between selected defensive strategies (i.e. eight strategies) and bank objectives (i.e. increasing the bank's market share, maintaining the current market share, increasing the profit, increasing customer satisfaction, and increasing customer's loyalty)".

From Table 10/6, with $N = 591$, $\alpha = 0.05$, and $p > 0.05$, there appear to be no significant relationships between increasing banks' market shares (as a bank objective) and BI, AIKO, CL, CCM, FOC, DIFF, and FTL defensive marketing strategies. However, a weak and significant relationship with CS was reported, as $p < 0.05$ and $r = 0.265 < 0.50$.

However, strong and significant relationships between maintaining current market shares and CS, BI, and CCM defensive marketing strategies were reported, as $p < 0.05$ and correlation coefficients (r) are 0.582, 0.580, and 0.537 > 0.50 respectively. Therefore, Egyptian banks ought to focus on the adoption of these strategies to maintain their current market shares. Weak but significant relationships with the remaining strategies have been reported, as $p < 0.05$ but correlation coefficients < 0.50 .

Regarding the objective of increasing profits, a strong and significant relationship between this and only CS strategy has been reported, as $p < 0.05$, and the correlation coefficient = 0.580 > 0.50 . Again, the importance of CS has been stressed, as a way of increasing banks' profits; therefore it is associated with the achievement of this objective. On the other hand, an insignificant relationship with this and FTL defensive strategy, has been reported, as $p = 0.577 >$

0.05. In addition to that, weak and significant relationships with this and the remaining defensive marketing strategies have been reported, as $p < 0.05$ (but correlation coefficients are less than 0.50), as indicated in Table 10/6.

Table 10/6
Relationships between Banks' Objectives and Defensive Marketing Strategies

The Banks' Objectives										
Increasing market shares		Maintaining the current market shares		Increasing banks' profits		Increasing customers' satisfactions		Increasing customers' loyalties		
Strategies	Contin. Co.		Contin. Co.		Contin. Co.		Contin. Co.		Contin. Co.	
	r	P	r	P	r	P	r	P	r	P
1	.123	.058N	.580	.000R	.351	.000	.237	.000	.362	.000
2	.265	.000	.582	.000R	.580	.000R	.568	.000R	.593	.000R
3	.030	.317N	.160	.004	.399	.000	.364	.000	.234	.000
4	.114	.251N	.359	.000	.275	.000	.419	.000	.462	.000
5	.078	.732N	.537	.000R	.370	.000	.361	.000	.417	.000
6	.071	.226N	.488	.000	.138	.003	.286	.000	.185	.000
7	.069	.095N	.294	.000	.335	.000	.227	.000	.041	.313N
8	.079	.053N	.339	.000	.023	.577N	.281	.000	.274	.000

Notes: -

- **Contin. Co.** = Contingency Coefficient Correlation, **r** = Coefficient Value, and **P** = P-Value. $\alpha = 0.05$, and $N = 591$;
- **R** = Rejecting the null hypothesis and accepting the alternative hypothesis that; "there is a strong and significant relationship between the two variables", as $p \leq 0.05$ and the correlation coefficient $> \pm 0.50$; and
- **N** = Accepting the null hypothesis that; "there is no strong significant relationship between the two variables", as $p > 0.05$.

Defensive Marketing Strategies: -

- **1** = Business Intelligence (BI), **2** = Customer Service (CS), **3** = Aikido (AIKO), **4** = Cost Leadership (CL), **5** = Customers Complaints Management (CCM), **6** = Focus Strategy (FOC), **7** = Differentiation (DIFF), **8** = Free Telephone Lines (FTL).

Regarding increasing customer satisfaction, a strong and significant relationship with this and CS strategy has been reported, as $p < 0.05$ and the correlation coefficient = 0.568 > 0.50 which again lends support to the claim of the importance of this strategy in enhancing customer satisfaction. Additionally, weak but significant relationships with the remaining strategies have been reported (where $p < 0.05$ but correlation coefficients are less than 0.50), as indicated in Table 10/6.

Finally, a strong and significant relationship between increasing customer loyalty and CS defensive strategy has been reported, with $p < 0.05$ and the correlation coefficient = 0.593 > 0.50 . On the other hand, an insignificant relationship between increasing customer loyalties and DIFF

strategy has been reported, as $p = 0.313 > 0.05$. Additionally, weak and significant relationships between increasing customer loyalty and the remaining defensive strategies have been reported, with $p < 0.05$ but correlation coefficients less than 0.50, as indicated on Table 10/6.

Table 10/7
Summarizing Patterns of Relationships between Defensive Marketing Strategies and Banks' Objectives

Aims	Defensive Marketing Strategies							
	BI	CS	AIK O	CL	CCM	FOC	DIFF	FTL
1	No	Weak	No	No	No	No	No	No
2	Strong	Strong	Weak	Weak	Strong	Weak	Weak	Weak
3	Weak	Strong	Weak	Weak	Weak	Weak	Weak	No
4	Weak	Strong	Weak	Weak	Weak	Weak	Weak	Weak
5	Weak	Strong	Weak	Weak	Weak	Weak	No	Weak

Notes: -

- **Strong** = Strong significant relationship, is the relationship between two variables with correlation coefficient $> \pm 0.50$;
- **Weak** = Weak significant relationship, is the relationship between two variables with correlation coefficient $< \pm 0.50$; and
- **Medium** = Medium relationship, is the relationship between two variables with correlation coefficient $= \pm 0.50$.
- **No** = No significant relationship.

Defensive Marketing Strategies: -

- **BI** = Business Intelligence, **CS** = Customer Service, **AIKO** = Aikido, **CL** = Cost Leadership, **CCM** = Customers Complaints Management, **FOC** = Focus Strategy, **DIFF** = Differentiation, and **FTL** = Free Telephone Lines.

Banks' Objectives: -

- 1 = Increasing the bank's market share, 2 = Maintaining the current market share, 3 = Increasing the bank's profit, 4 = Increasing the bank's customer satisfaction, 5 = Increasing the customer's loyalty

To sum up, based on Tables 10/6 and 10/7, maintaining the current market share is the key objective as perceived by respondents, as significant relationships have been reported between this and all defensive marketing strategies. The single point that should be stressed here is the bank's decision to select which strategies will achieve its objectives according to the available resources. Conversely, increasing the bank's market share was reported as of the least concern. Therefore, the strongest relationships with defensive marketing strategies appear to be maintaining the current market share, increasing customers' loyalty, increasing profits, and increasing customer's satisfaction.

Additionally, the strongest significant relationships have been reported between CS strategy and the banks' objectives. Conversely the least significant relationships have been reported with both

Differentiation and Free Telephone Lines as defensive marketing strategies. This indicates that Egyptian banks could achieve their objectives by focusing on customer service (CS) strategy through implementing market segmentation to better determine the bank customer groups, finding out customer's expectation of each group, developing a communication plan that to influence customers to expect a little less than they will get, hiring and training competitive staff, creating new banking services, modifying the service delivery system in all the bank' branches, and creating a healthy competition among the bank's branches to select branch of the month (Porter, 1980).

In the second stage of the analysis, a clear and accurate portrait about the relationship strength between the two sets of variables (i.e. bank's objectives and defensive marketing strategies) has been identified. The following findings have been reached: -

- Firstly, a strong and significant relationship between bank's objectives (IVs) and defensive marketing strategies (DVs), as $p = 0.000 < 0.05$ and canonical correlation $= 0.725 > 0.50$. However, some other significant functions (e.g. from function 2 to 4 in Table 10/8) have been excluded from elaborating the two sets of variables, as they reported lower magnitudes. However, the hypothesis ($H10_2$) has been supported as well.
- Secondly, the chosen function's eigenvalue is 0.526, which represents the amount of shared variance in the DVs that is accounted for by the IVs.
- Thirdly, in the IVs side in this equation, maintaining the current market share accounts for the highest positive magnitude (0.746) and works in the same direction as increasing customer's loyalty (0.624) and increasing profits, (0.248) that account for the second and the third effects respectively, as indicated in Table 10/10. The

remaining two objectives work in the opposite direction (i.e. increase customer satisfaction (- 0.113) and increase market share (- 0.043). Interestingly, these findings confirm the results of the bivariate analysis conducted in the first stage, as the same order of bank's objectives were previously obtained, as indicated by Tables 10/6 and 10/7.

- Finally, in the DVs side of the Canonical formula, CS strategy accounts for the highest positive magnitude (0.839) and works in the same direction as FTL (0.525), DIFF (0.354), BI (0.219), and AIKO (0.053) and all are in opposite direction with the remaining strategies, as indicated in Table 10/9. In the bivariate analysis, CS strategy accounted also for the highest effect, as previously indicated in Table 10/7.

Table 10/8
Canonical Correlations between Banks' Objectives and Defensive Strategies

Function Number	Eigenvalue	Canonical Correlation	Wilks Lambda	Chi-Square	D.F.	P- Value
1	0.526159	0.725368	0.243424	823.75	40	0.0000
2	0.363394	0.602822	0.513725	388.317	28	0.0000
3	0.126106	0.355115	0.806976	125.031	18	0.0000
4	0.0722703	0.268831	0.923425	46.4449	10	0.0000
5	0.00463963	0.0681148	0.99536	2.7112	4	0.6073

Notes:-
 > N = 591, $\alpha = 0.05$
 > Canonical Formula = {0.21914 * BI Strategy + 0.839203 * CS Strategy + 0.0538975 * AIKO Strategy - 0.639685 * CL Strategy - 0.130177 * CCM Strategy - 0.0976021 * FOC Strategy + 0.354448 * DIFF Strategy + 0.525415 * FTL Strategy + (-0.0430703 * x101 + 0.746381 * x102 + 0.248159 * x103 - 0.113895 * x104 + 0.624847 * x105)}.

Table 10/9
Coefficients for Canonical Variables of the First Set (DVs)

Defensive Strategies (DVs)	Functions				
	1	2	3	4	5
BI Strategy	0.21914	-0.447231	0.115719	-0.35974	-0.869651
CS Strategy	0.839203	-0.10486	-0.0961485	0.882844	0.249574
AIKO Strategy	0.0538975	0.218808	-0.508005	-0.243077	0.46418
CL Strategy	-0.639685	0.616495	0.0191171	0.467319	0.759902
CCM Strategy	-0.130177	-0.277722	-0.23928	-0.19645	-0.0881529
FOC Strategy	-0.0976021	-0.533166	0.538056	-0.918236	0.219236
DIFF Strategy	0.354448	0.6956	0.0325262	0.119624	-0.94672
FTL Strategy	0.525415	-0.115485	0.369419	0.286852	0.113669

Table 10/10
Coefficients for Canonical Variables of the Second Set (IVs)

Bank's Objectives (IVs)	Functions				
	1	2	3	4	5
Increase Market Share (X101)	-0.0430703	-0.0864195	-0.145683	-0.277639	-0.946133
Maintain Market Share (X102)	0.746381	0.0233278	0.176441	0.638648	-0.226542
Increase Profit (X103)	0.248159	0.681002	-0.559131	-0.463277	0.112758
Increase Customer Satisfaction (X104)	-0.113895	0.701808	1.08115	-0.294674	-0.16151
Increase Customer Loyalty (X105)	0.624847	-0.854357	-0.582926	-0.531132	0.267688

10.4. The Relationships between Perceived Competitors (Entry Modes) and Defensive Marketing Strategies

Since the variables' scales are nominal, contingency coefficient correlation was selected as the appropriate bivariate test (first stage), and canonical correlation (second stage) as a multivariate analytical technique. The following hypothesis has been tested: -

H10₃: "There is a strong significant relationship between selected defensive strategies (i.e. eight strategies) and the perceived rivals (i.e. branches, subsidiaries, joint venture, mergers, direct exporting, and indirect exporting)".

From Table 10/11, with $\alpha = 0.05$, $N = 591$, $p \leq 0.05$, correlation coefficients > 0.50 , strong and significant relationships between branches and CS and CL defensive marketing strategies have been reported; whilst, weak and significant relationships between branches and the remaining defensive strategies have been reported, with $p < 0.05$ but correlation coefficients < 0.50 . Additionally, strong and significant relationships between subsidiaries and CS, CCM strategies have been reported, with $p < 0.05$ and correlation coefficients = 0.605, and 0.507 > 0.50 respectively.

Meanwhile, weak and significant relationships with the remaining defensive strategies have been reported, with $p < 0.05$ but correlation coefficients < 0.50 . Therefore, wholly owned entry modes (e.g. subsidiaries and branches) have strong significant relationships with CS, CCM, and CL strategies, which might offer alternatives for Egyptian banks to defend their market share through using such strategies in their battle.

Table 10/11
Patterns of Relationship between Perceived Competitors (Entry Modes) and Defensive Marketing Strategies

Defensive Marketing Strategies	Perceived Competitors											
	Wholly Owned Entry Modes				Shared Owned Entry Modes				Marketing Oriented Entry Modes			
	Branches (X15 ₁)		Subsidiaries (X15 ₂)		Joint Venture (X15 ₇)		Merger (X15 ₈)		Direct Exp. (X15 ₁₀)		Indirect Exp. (X15 ₁₁)	
	Contingency Coefficient		Contingency Coefficient		Contingency Coefficient		Contingency Coefficient		Contingency Coefficient		Contingency Coefficient	
<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	
Business Intelligence	.392	.000	.365	.000	.326	.000	.475	.000	.435	.000	.152	.008
Customer Service	.595	.000R	.605	.000R	.600	.000R	.568	.000R	.575	.000R	.252	.002
Aikido	.344	.000	.291	.000	.419	.000	.517	.000R	.405	.000	.349	.000
Cost Leadership	.527	.000R	.434	.000	.337	.000	.337	.000	.451	.000	.454	.000
Customer Complaints Management	.438	.000	.507	.000R	.501	.000R	.519	.000R	.276	.000	.326	.000
Focus Strategy	.336	.000	.223	.000	.188	.000	.339	.000	.597	.000R	.707	.000R
Differentiation	.206	.000	.186	.000	.001	.974N	.075	.068N	.391	.000	.291	.000
Free Telephone Lines	.122	.003	.145	.000	.128	.002	.003	.941N	.194	.000	.332	.000

Notes: -

- *r* = Coefficient, *P* = P-Value;
- $\alpha = 0.05$, and $N = 591$;
- **R** = Rejecting the null hypothesis and accepting the alternative hypothesis that; "there is a strong significant relationship between the two variables, as $p \leq 0.05$ and the correlation coefficient $> \pm 0.50$; and
- **N** = Accepting the null hypothesis that; "there is no strong relationship between the two variables", as $p > 0.05$.

With shared owned entry modes, strong and significant relationships between joint ventures and CS, and CCM defensive strategies have been reported, with $p < 0.05$ and correlation coefficients = 0.600, and 0.501 > 0.50 respectively. Strong and significant relationships between mergers and the same two defensive strategies i.e. CS and CCM have been also reported, as $p < 0.05$ and correlation coefficients = 0.568, and 0.519 > 0.50 respectively. Also, a strong and significant relationship between merger and AIKO has been reported, as $p < 0.05$ and $r = 0.517 > 0.50$. Therefore, Egyptian banks ought to understand the elements and mechanism of these strategies for better implementation in their battle with shared entry modes. On the other hand, insignificant relationships between joint ventures and DIFF strategy have been reported ($p = 0.974 > 0.05$) and between mergers and FTL ($p = 0.941 > 0.05$), and DIFF strategies ($p = 0.068 > 0.05$). Apart from the strategies that previously mentioned, weak and significant relationships with the remaining strategies have been reported, as $p < 0.05$ but correlation coefficients < 0.50, as indicated in Table 10/11.

Finally, strong and significant relationships between direct exporting and FOC and CS strategies have been reported, as $p < 0.05$ and correlation coefficients = 0.597 and 0.575 > 0.50 respectively. Therefore, these two strategies appear to be viable options for Egyptian banks in their battle with direct exporting. For instance, via the adoption of focus strategy, Egyptian banks can target specific customer groups that have a greater tendency to switch to competitors, by offering more banking facilities and services than might be offered by their rivals. Simultaneously, CS strategy may offer the second viable alternative, to demolish even thinking of switching. Moreover, a strong and significant relationship between indirect exporting and FOC strategy has been reported, with $p < 0.05$ and a correlation coefficient = 0.707 > 0.50. Again, FOC strategy appears to be the option with indirect exporting. Generalizing, Egyptian banks

could focus on some customer groups (e.g. tourists, diplomatic missions working in Egypt, and businessmen) to prevent these from switching to rivals services. Meanwhile, weak and significant relationships with direct and indirect exporting and the remaining defensive strategies have been reported, with $p < 0.05$ but correlation coefficients < 0.50 , as indicated in Table 10/11.

Table 10/12
Summarizing Patterns of Relationships between Defensive Marketing Strategies and Perceived Competitors (Entry Modes)

Entry Modes	Defensive Marketing Strategies							
	BI	CS	AIKO	CL	CCM	FOC	DIFF	FTL
Br.	Weak	Strong	Weak	Strong	Weak	Weak	No	Weak
Sub.	Weak	Strong	Weak	Weak	Strong	Weak	Weak	Weak
Joi.	Weak	Strong	Weak	Weak	Strong	Weak	No	Weak
Mer.	Weak	Strong	Strong	Weak	Strong	Weak	No	No
Dir.	Weak	Strong	Weak	Weak	Weak	Strong	Weak	Weak
Ind.	Weak	Weak	Weak	Weak	Weak	Strong	Weak	Weak

Notes: -

- **Strong** = Strong significant relationship i.e. the relationship between the two variables with correlation coefficient $> \pm 0.50$;
- **Weak** = Weak significant relationship i.e. the relationship between the two variables with correlation coefficient $< \pm 0.50$;
- **Medium** = Medium relationship i.e. the relationship between two variables with correlation coefficient = ± 0.50 ; and
- **No** = No significant relationship between the two variables.

Defensive Marketing Strategies: -

- **BI** = Business Intelligence, **CS** = Customer Service, **AIKO** = Aikido, **CL** = Cost Leadership, **CCM** = Customer Complaint Management, **FOC** = Focus, **DIFF** = Differentiation, and **FTL** = Free Telephone Line.

Entry Modes: -

- **Br** = Branches, **Sub.** = Subsidiaries, **Joi.** = Joint Venture, **Mer.** = Merges, **Dir.** = Direct Exporting, and **Ind.** = Indirect Exporting.

To sum up, customer service strategy appears to have strong relationships with all kinds, but one, of entry modes. Therefore by focusing on this strategy local banks can build competitive edge against all kinds of competitors. Conversely, differentiation strategy was reported as the least related to all perceived competitors. Indirect exporting has the weakest relationship with all the perceived competitors, as shown in Table 10/12.

In the second stage of the analysis, almost the same results have been reached through Canonical analysis, as the following findings were reported:

- First, a strong and significant relationship between defensive marketing strategies (DVs) and rivals (IVs) has been reported, with $p < 0.05$ and the canonical correlation = $0.837 > 0.50$, as the first function in Table 10/13 indicates. Consequently, hypothesis ($H10_3$) is supported. However, some other significant functions (e.g. from function 2 to 8 in Table 10/13) have been excluded from elaborating the two sets of variables, as they reported lower magnitudes.
- Secondly, the chosen function's eigenvalue is 0.701, which represents the amount of shared variance in the DVs that is accounted for by the IVs.

Table 10/13

Canonical Correlations between Banks' Rivals and Selected Defensive Marketing Strategies

Function Number	Eigenvalue	Canonical Correlation	Wilks Lambda	Chi-Square	D.F.	P- Value
1	0.70134	0.83746	0.0279777	2079.65	64	0.0000
2	0.59249	0.769734	0.0936772	1376.93	49	0.0000
3	0.459424	0.677808	0.229877	854.928	36	0.0000
4	0.417329	0.64601	0.425245	497.235	25	0.0000
5	0.165472	0.406783	0.729819	183.148	16	0.0000
6	0.117147	0.342268	0.87453	77.9612	9	0.0000
7	0.00942731	0.0970943	0.990573	5.50798	4	0.0000
8	0.0	0.0	1.0	0.0	1	0.0000

Notes:-

> $N = 591$, $\alpha = 0.05$.

> Canonical Formula = {0.32733 * BI Strategy + 0.38247 * CS Strategy - 0.426691 * AIKO Strategy - 0.856273 * CL Strategy - 0.215222 * CCM Strategy + 0.039628 * FOC Strategy + 0.228472 * DIFF Strategy - 0.0809913 * FTL Strategy} = {0.34887 * Branches - 0.305634 * Direct Exp. + 0.122483 * Indirect Exp. + 0.609631 * Subsidiaries - 0.553053 * Joint Venture + 0.0999659 * Mergers}.

- Thirdly, in the DVs side of the canonical equation, CS strategy accounts for the highest positive magnitude (0.38247) and works in the same direction as BI (0.327), DIFF (0.228), and FOC (0.039) strategies, and all work in the opposite direction of the remaining strategies, as indicated in Tables 10/14. Interestingly, CS strategy reported the highest relationship with all perceived rivals in the first stage of the analysis (i.e. in the bivariate analysis), as previously indicated in Table 10/12.
- Finally, in the IVs side of the canonical formula, subsidiaries (as a perceived rival) accounts for the highest positive magnitude (0.609) and works in the same direction

as branches (0.348), indirect exporting (0.122), and mergers (0.099); and all work in the opposite direction to joint ventures (-0.553), and direct exporting (-0.305), as indicated in Table 10/15. Interestingly, subsidiaries, branches, and mergers reported the highest dependency relationship in the first stage of the analysis (i.e. in the bivariate analysis), as previously indicated in Table 10/12:

Table 10/14
Coefficients for Canonical Variables of the First Set (DVs)

DVs	Functions							
	1	2	3	4	5	6	7	8
BI	0.32733	-0.0657754	0.833824	0.0910307	0.664644	-0.0696832	-0.480028	-1.#IND
CS	0.38247	-0.166551	-0.108185	0.479491	-0.647877	0.613405	0.39779	-1.#IND
AIKO	-0.426691	-0.111093	-0.0471306	0.746779	-0.4824	-0.383759	-0.231333	-1.#IND
CL	-0.856273	-1.07912	-0.281869	-0.503134	-0.428285	0.479347	-0.68347	-1.#IND
CCM	-0.215222	-0.0717238	-0.00475831	0.139107	1.19307	0.0991164	0.501569	-1.#IND
FOC	0.039628	1.14927	0.69584	-0.0386331	0.0131087	-0.320968	0.796256	-1.#IND
DIFF	0.228472	-0.168777	0.678684	0.269997	-0.31598	-0.14505	0.310726	-1.#IND
FTL	-0.0809913	0.511112	-0.532104	0.23912	-0.0758287	0.385342	-0.824072	-1.#IND

Table 10/15
Coefficients for Canonical Variables of the Second Set (IVs)

Rivals (IVs)	Functions							
	1	2	3	4	5	6	7	8
Branches	0.34887	0.48512	0.672376	-0.0196455	0.854966	0.308033	0.328213	0.0
Direct Exp.	-0.305634	-1.23147	1.30282	-0.390327	0.0204023	-0.715662	0.0712586	0.0
Indirect Exp.	0.122483	0.398406	0.21992	0.687221	0.156218	1.29833	-0.433909	0.0
Subsidiaries	0.609631	-0.123213	-0.110296	0.0399747	-0.802413	-0.364534	-0.710409	0.0
Joint Ventures	-0.553053	0.31807	-0.107986	-0.326958	0.492031	-0.398741	-0.837423	0.0
Mergers	0.0999659	-0.179358	-0.134368	0.910937	0.0600059	-0.391327	0.82821	0.0

10.5. Relationships between Competitors' Competitive Advantages and Selected Defensive Marketing Strategies

In two analytical stages, dependency and causality patterns of relationships will be investigated. Contingency coefficient correlation was selected as the appropriate analytical test here for identifying the dependency relationships. Canonical correlation was deployed for modeling the causality relationship between the two sets of variables. To discover these relationships, the following alternative hypothesis has been tested: -

H10₄: "There is a strong significant relationship between selected defensive strategies (i.e. eight strategies) and the competitive advantage of rivals (i.e. marketing mix, marketing program, offering new kinds of banking services, pledging high interest rates on deposit accounts, pledging low interest rates for loans given, well designed service delivery system, owning competitive staff, and conducting strong advertising campaign)".

From Table 10/16, with $\alpha = 0.05$, $N = 591$, $p \leq 0.05$, strong and significant relationships between competitors' marketing mix and CS and CL strategies have been reported, as correlation coefficients = 0.647 and 0.602 > 0.50 respectively. Meanwhile, weak and significant relationships between this and the remaining defensive strategies have been reported, with $p \leq 0.05$ but correlation coefficients < 0.50.

Therefore, Egyptian banks can deal with the sovereignty of their rivals' marketing mixes by adopting a clear strategy that reduces costs of doing business to the minimum level, as well as adopting pricing policies near to service costs. In addition to that, adopting customer service strategy appears to be the long run remedy against rivals' competitive edge, based on their marketing mix components (product/service, price, place, promotion, process, personnel, and physical i.e. 7 Ps).

Table 10/16
Relationships between Competitors' Competitive Advantages and Selected Defensive Marketing Strategies

Defensive Strategies	Competitors Competitive Advantages									
	Competitors marketing mix		Competitors marketing program		Using advanced technology		Offering new kind of banking services		High interest rates on deposit accounts	
	Contin. Co		Contin. Co		Contin. Co		Contin. Co		Contin. Co	
	r	P	r	P	r	P	r	P	r	P
1	.416	.000	.296	.000	.299	.000	.299	.000	.235	.000
2	.647	.000R	.545	.000R	.608	.000R	.572	.000R	.500	.000R
3	.376	.000	.269	.000	.241	.000	.284	.000	.190	.000
4	.602	.000R	.315	.000	.396	.000	.399	.000	.433	.000
5	.445	.000	.305	.000	.367	.000	.336	.000	.290	.000
6	.287	.000	.216	.000	.342	.000	.430	.000	.371	.000
7	.394	.000	.232	.000	.062	.128N	.039	.343N	.195	.000
8	.092	.025	.146	.000	.287	.000	.334	.000	.273	.000

Notes: -

- > **Contin. Co** = Contingency Coefficient, **r** = Coefficient, **P** = P-Value, $\alpha = 0.05$, and $N = 591$;
- > **R** = Rejecting the null hypothesis and accepting the alternative hypothesis that; "there is a strong significant relationship between the two variables, as $p \leq 0.05$ and the correlation coefficient > ± 0.50 ; and
- > **N** = Accepting the null hypothesis that; "there is no relationship between the two variables", as $p > 0.05$.

Defensive Marketing Strategies: -

- > 1 = Business Intelligence (BI), 2 = Customer Service (CS), 3 = Aikido (AIKO), 4 = Cost Leadership (CL), 5 = Customers Complaints Management (CCM), 6 = Focus Strategy (FOC), 7 = Differentiation (DIFF), 8 = Free Telephone Lines (FTL).

Regarding the marketing program of competitors, a strong and significant relationship with this and CS strategy has been reported, as $p \leq 0.05$ and the correlation coefficient = $0.545 > 0.50$. Additionally, weak and significant relationships with the remaining defensive strategies have been reported, as $p \leq 0.05$ but correlation coefficients < 0.50 , as indicated in Table 10/16. Again, CS strategy seems to be the remedy also in case of the sovereignty of rivals marketing programs e.g. the components of their marketing mixes and promotional mixes.

Regarding the use of advanced technology as a competitive advantage, a strong significant relationship between this and CS strategy has been reported, with $p \leq 0.05$ and a correlation coefficient = $0.608 > 0.50$. However, an insignificant relationship with DIFF strategy has been reported, as $p = 0.128 > 0.05$. Moreover, weak significant relationships with the remaining defensive strategies have been reported, as $p \leq 0.05$ but correlation coefficients < 0.50 .

Regarding competitors offering new kinds of banking services as competitive advantage, a strong and significant relationship between this and CS strategy has been reported, as $p \leq 0.05$ with a correlation coefficient = $0.572 > 0.50$. However, an insignificant relationship with DIFF strategy has been identified, with $p = 0.343 > 0.05$. Moreover, weak and significant relationships with the remaining defensive strategies have been reported, as $p \leq 0.05$ but correlation coefficients < 0.50 , as indicated in Table 10/16.

Regarding pledging high interest rates on deposit accounts as a competitive advantage, a moderate significant relationship between this and CS strategy has been reported, as $p \leq 0.05$ with a correlation coefficient = 0.50 . Meanwhile, weak but significant relationships with the

remaining strategies have been identified, with $p \leq 0.05$ but correlation coefficients < 0.50 , as indicated in Table 10/16.

Table 10/16a
Relationships between Competitors' Competitive Advantages and Selected Defensive Marketing Strategies

Defensive Strategies	Competitors Competitive Advantages							
	Low interest rates for loans given		Well designed service delivery system		Owning competitive staff		Strong advertising Campaign	
	Contin. Co		Contin. Co		Contin. Co		Contin. Co	
	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>	<i>r</i>	<i>P</i>
1 = BI	.387	.000	.379	.000	.418	.000	.246	.000
2 = CS	.526	.000R	.578	.000R	.619	.000R	.562	.000 R
3 = AIKO	.367	.000	.317	.000	.286	.000	.385	.000
4 = CL	.463	.000	.353	.000	.437	.000	.301	.000
5 = CCM	.328	.000	.274	.000	.410	.000	.369	.000
6 = FOC	.314	.000	.338	.000	.151	.001	.237	.000
7 = DIFF	.161	.000	.261	.000	.036	.384N	.061	.136N
8 = FTL	.411	.000	.437	.000	.280	.000	.438	.000

Notes: -

- > *Contin. Co* = Contingency Coefficient, *r* = Coefficient, *P* = P-Value, $\alpha = 0.05$, and $N = 591$;
- > **R** = Rejecting the null hypothesis and accepting the alternative hypothesis that; "there is a strong significant relationship between the two variables, as $p \leq 0.05$ and the correlation coefficient $> \pm 0.50$; and
- > **N** = Accepting the null hypothesis that; "there is no relationship between the two variables", $p > 0.05$.

Defensive Marketing Strategies: -

- > **1**= Business Intelligence (BI), **2** = Customer Service (CS), **3** = Aikido (AIKO), **4** = Cost Leadership (CL), **5** = Customers Complaints Management (CCM), **6** = Focus Strategy (FOC), **7** = Differentiation (DIFF), **8** = Free Telephone Lines (FTL).

Regarding pledging low interest rates for loans as a competitive advantage, a strong and significant relationship between this and CS strategy has been reported, as $p < 0.05$ with a correlation coefficient = $0.526 > 0.50$. Meanwhile, weak and significant relationships with the remaining strategies have been identified, with $p < 0.05$ but correlation coefficients < 0.50 .

Regarding using well-designed delivery systems as a competitive advantage, a strong and significant relationship between this and CS strategy has been reported, with $p < 0.05$ and a correlation coefficient = $0.578 > 0.50$. Meanwhile, weak and significant relationships with the remaining strategies have been identified, as $p < 0.05$ but correlation coefficients < 0.50 .

Regarding employing competitive staff as a competitive advantage, a strong and significant relationship between this and CS strategy has been reported, as $p < 0.05$ and the correlation coefficient = $0.619 > 0.50$. However, an insignificant relationship with DIFF strategy has been identified, as $p = 0.384 > 0.05$. Moreover, weak and significant relationships with the remaining defensive strategies have been reported, as $p \leq 0.05$ but correlation coefficients < 0.50 .

Finally, regarding using strong advertising campaigns as competitive advantage, a strong and significant relationship with this and CS strategy has been also reported, as $p < 0.05$ and the correlation coefficient = $0.562 > 0.50$. However, an insignificant relationship with DIFF strategy has been also identified, as $p = 0.136 > 0.05$. Moreover, weak and significant relationships with the remaining defensive strategies have been reported, as $p \leq 0.05$ but correlation coefficients < 0.50 .

Table 10/17
Summarizing the Relationships between the Defensive Marketing Strategies and the Competitors Competitive Advantages

Advantages	Defensive Marketing Strategies							
	BI	CS	AIKO	CL	CCM	FOC	DIFF	FTL
1	Weak	Strong	Weak	Strong	Weak	Weak	Weak	Weak
2	Weak	Strong	Weak	Weak	Weak	Weak	Weak	Weak
3	Weak	Strong	Weak	Weak	Weak	Weak	No	Weak
4	Weak	Strong	Weak	Weak	Weak	Weak	No	Weak
5	Weak	Medium	Weak	Weak	Weak	Weak	Weak	Weak
6	Weak	Strong	Weak	Weak	Weak	Weak	Weak	Weak
7	Weak	Strong	Weak	Weak	Weak	Weak	Weak	Weak
8	Weak	Strong	Weak	Weak	Weak	Weak	No	Weak
9	Weak	Strong	Weak	Weak	Weak	Weak	No	Weak

Notes: -

- > Strong = strong significant relationship, is the relationship between two variables with correlation coefficient $\geq \pm 0.50$;
- > Weak = weak significant relationship, is the relationship between two variables with correlation coefficient $\leq \pm 0.50$;
- > Medium = medium relationship, is the relationship between two variables with correlation coefficient $\approx \pm 0.50$; and
- > No = no significant relationship.

Defensive Marketing Strategies: -

- > BI = Business Intelligence, CS = Customer Service, AIKO = Aikido, CL = Cost Leadership, CCM = Customer complaints management, FOC = Focus strategy, DIFF = Differentiation, and FTL = Free Telephone lines.

Competitors Competitive Advantages: -

- > 1 = their marketing mix variables, 2 = all their marketing program variables, 3 = use of advanced technology, 4 = offering new kind of banking services, 5 = high interest rates on deposits accounts, 6 = low interest rates for loans given, 7 = well designed service delivery system, 8 = owning competitive staff, and 9 = strong advertising campaign.

To sum up, customer service strategy has the strongest relationship with all the competitors' competitive advantages, therefore it appears to be the best solution for Egyptian banks that may nullify the competitive edge of rivals. Conversely, differentiation strategy has the weakest relationship with all competitive edges. On the other hand, rivals marketing mix has the highest relationship with all defensive marketing strategies.

In the second stage of the analysis, the magnitude of the two sets of variables is determined via canonical analysis that explains the relationship patterns and the strength between them.

Consequently, the following results have been reached: -

Table 10/18
Canonical Correlations between Rivals' Competitive Advantages and Selected Defensive Marketing Strategies

Function Number	Eigenvalue	Canonical Correlation	Wilks Lambda	Chi-Square	D.F.	P- Value
1	0.758116	0.870699	0.0220434	2218.27	64	0.0000
2	0.540667	0.7353	0.0911324	1392.95	49	0.0000
3	0.47681	0.690514	0.198402	940.554	36	0.0000
4	0.312742	0.559234	0.379215	563.853	25	0.0000
5	0.26923	0.518874	0.55178	345.763	16	0.0000
6	0.175862	0.419359	0.755066	163.372	9	0.0000
7	0.0822437	0.286782	0.916189	50.9001	4	0.0000
8	0.00170764	0.0413237	0.998292	0.993844	1	0.3188

Notes:-

➤ $N = 591$, $\alpha = 0.05$

➤ Canonical Formula = $\{-0.373468 * BI + 0.839424 * CS - 0.694562 * AIKO - 0.0341888 * CL + 0.0813979 * CCM - 0.740816 * FOC - 0.23039 * DIFF + 0.260757 * FTL\} = \{-0.383815 * x_{162} - 0.144298 * x_{163} - 0.373824 * x_{165} - 0.249018 * x_{166} + 1.05568 * x_{167} - 0.30726 * x_{168} - 0.457673 * x_{169} + 0.404468 * x_{1610}\}$

- First, a strong and significant relationship between defensive marketing strategies (DVs) and rivals' competitive advantages (IVs) (apart from technology variable X_{16_4}) has been reported, with $p < 0.05$ and canonical correlation = $0.870 > 0.50$, as the first function in Table 10/18 indicates. Consequently, the hypothesis (H_{10_4}) is supported. However, some other significant functions (e.g. from function 2 to 7 in Table 10/18) have been excluded from the two sets of variables, as they reported

lower magnitudes, the same logic applies for function number 8, as its $p = 0.3188 > 0.05$.

- Secondly, the chosen function's eigenvalue is 0.758, which represents the amount of shared variance in the DVs that is accounted for by the IVs.
- Thirdly, DVs include eight defensive strategies and IVs include all competitive advantages (previously analyzed in the bivariate analysis) apart from the advanced technology, as this was excluded for canonical formula to work properly.
- Fourthly, in the DVs side of the Canonical equation, CS strategy accounts for the highest positive magnitude (0.839) and works in the same direction as FTL (0.260), and CCM (0.081) and all are opposite to the remaining strategies, as indicated in Table 10/19. Interestingly, CS strategy reported the highest dependency relationship with all perceived rivals in the first stage of the analysis (i.e. bivariate analysis).

Table 10/19
Coefficients for Canonical Variables of the First Set (DVs)

DVs	Functions							
	1	2	3	4	5	6	7	8
BI	-0.373468	0.288507	0.290413	0.241658	-0.4049	-0.131179	0.97991	0.0607793
CS	0.839424	-0.456167	-0.478494	-0.728992	0.0734776	0.0162844	-0.176418	0.631669
AIKO	-0.694562	-0.0890885	-0.182403	-0.42608	-0.0601341	0.394461	-0.327979	-0.47491
CL	-0.0341888	0.662026	-0.439072	-0.817484	0.370439	0.796663	0.206247	-0.712997
CCM	0.0813979	0.446904	0.285269	0.746848	-0.456072	0.543424	-0.0383937	0.642377
FOC	-0.740816	-0.310202	-0.653278	1.15781	0.661379	-0.255684	-0.0153403	0.483276
DIFF	-0.23039	-0.272521	-0.340543	-0.136624	-1.09093	-0.73669	0.0710096	-0.133817
FTL	0.260757	-0.941602	0.75892	-0.26025	-0.209365	0.219651	0.128221	-0.537118

Table 10/20
Coefficients for Canonical Variables of the second Set (IVs)

IVs	Functions							
	1	2	3	4	5	6	7	8
(X162)	-0.383815	0.0551743	0.686719	-0.340707	0.556339	-0.604349	0.368607	0.126868
(X163)	-0.144298	0.118459	0.0476041	-0.237347	-0.842837	-0.627934	0.0635194	-0.491207
(X165)	-0.373824	-0.344162	-0.381871	0.374751	0.244094	0.0825173	-0.339961	-0.937948
(X166)	-0.249018	0.340249	-0.772002	0.739891	0.0405437	0.203863	0.838026	0.195871
(X167)	1.05568	0.303208	0.346231	-1.19211	0.735162	-0.855072	0.838026	-0.360468
(X168)	-0.30726	-0.953278	-0.274327	0.0024358	-0.114315	-0.158979	-0.395627	0.768789
(X169)	-0.457673	-0.359147	-0.12403	-0.33756	-0.363716	1.18638	-0.113276	0.104021
(X1610)	0.404468	-0.238266	0.889301	0.850881	-0.336809	0.509101	-0.146342	0.2274

Notes:-

> Rivals competitive advantages:-

(X162) = Marketing mix variables, (X163) = marketing program variables, (X165) = Offering new kind of banking services, (X196) = High interest rates on deposits accounts, (X197) = Low interest rates for loans given, (X168) = Well-designed service delivery system, (X169) = Owning competitive staff, and (X1610) = Strong advertising campaign.

> Using advanced technology, as a competitive advantage (X164) has been avoided.

- Finally, in the IVs side from the Canonical formula, offering low interest rates on loans given (X167) accounts for the highest positive magnitude (1.055), and the advertising variable (0.404) comes second; both are in the opposite direction of the remaining competitive advantages, as indicated in Table 10/20.

10.6. Chapter Conclusion

Through bivariate (contingency coefficient correlation) and multivariate techniques (canonical analysis), four categories of variables were analyzed to identify their patterns of relationships with selected defensive marketing strategies. Statistically, bivariate analysis aims only at exploring the relationships between variables, and their directions, whilst multivariate analysis extends to causality relationships between sets of variables.

The four categories are demographics (e.g. respondents' job titles or positions, ages, educational levels, experience, banks' experience, and bank's number of employees); bank's objectives (e.g. increasing market share, maintaining the current market share, increasing profits, increasing customer satisfaction, and increasing customer loyalty); perceived competitors i.e. kinds of entry mode (e.g. branches, subsidiaries, licensing, joint ventures, mergers, direct exporting, and indirect exporting); competitors competitive advantages (e.g. marketing mix variables, marketing program variables, use of advanced technology, offerings of new kinds of banking services, high interest rates on deposits accounts, low interest rates for loans given, well designed service delivery systems, hiring competitive staff, and implementing strong advertising campaigns).

A number of strong and significant relationships have been reported between defensive marketing strategies and these four sets of variables, as indicated in Figure 10/2. These findings could be considered to be the contribution of the approach taken by this study, as the literature

does not offer a collaborated study, like the current one, for the variables that affect the selection of defensive marketing strategies.

In the first category, banks' number of employees reported the highest positive magnitude. Conversely respondents' ages have the least relationship. Customer service (CS) strategy, reports the highest relationship with these demographics; conversely differentiation (DIFF) strategy reports the least relationship. At the bivariate level, significant relationships between each defensive marketing strategy and each demographic (i.e. respondents' positions, ages, educational levels, experiences, banks' experiences, and number of employees) were reported.

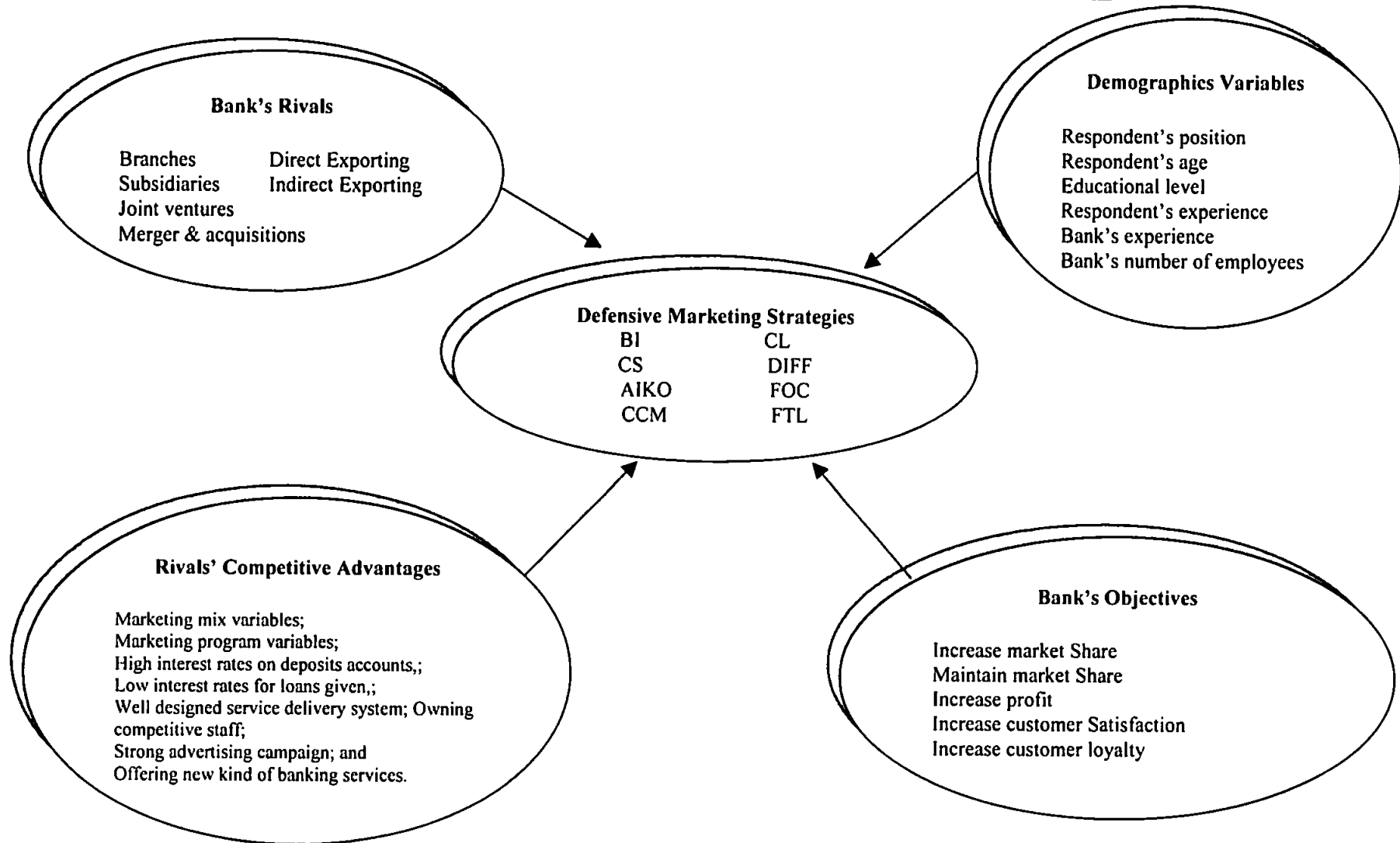
Regarding the effects of the second category, maintaining current market share is the objective that has the strongest relationships with all defensive marketing strategies, as it reported the highest magnitude using the canonical formula. On the other hand, customer service (CS) defensive strategy has the strongest significant relationships with most of the banks' objectives. Having said that, CS might make Egyptian banks' objectives viable. At the bivariate level, significant relationships between each defensive marketing strategy and most banks' objectives were reported. However, insignificant relationships between increasing market share (as a bank objective), and all but one defensive marketing strategies were reported. Moreover, insignificant relationships between FTL strategy and increasing profits (as a bank objective), and between DIFF strategy and increasing customer loyalty (as a bank objective), were reported.

Regarding the effects of the third category, the perception of a subsidiary as a rival achieved the highest magnitude of effect on selected defensive marketing strategies. Conversely, joint ventures reported the least effect on the selection of defensive strategies. Customer service strategy was

reported as having the strongest relationship with all kinds of perceived rivals. Consequently, by focusing on this strategy local banks could build competitive edge against their competitors. At the bivariate level, significant relationships between each defensive marketing strategy and most entry modes (as perceived rivals) were reported. However, insignificant relationships between joint ventures (as a perceived rival) and DIFF strategy, between mergers (as a perceived rival) and DIFF strategy, and between mergers and FTL strategy, were reported.

Finally, regarding rivals' competitive advantages, low interest rates on loans and advertising campaign account for the highest positive effect on selected defensive strategies. Additionally, customer service strategy had the strongest significant relationship with all competitors' competitive advantages; therefore this would seem to be considered effective against all competitors' competitive advantages. At the bivariate level, significant relationships between each defensive marketing strategy and most competitive advantages were reported. However, insignificant relationships between DIFF strategy and using advanced technology, offering new kind of banking services, owning competitive staff, and conducting strong advertising campaign (as competitive advantages), were reported.

Figure 10/2
Sets of Variables that Affect the Adoption of Defensive Marketing Strategies¹



¹ **Source:-** The Researcher, based on the results of the Canonical Analysis.

Chapter Eleven:
Factors That Affect the Selection of Entry Modes

11.1. Introduction

This chapter aims at summarizing the effects that both bank and market characteristics (as concepts) have on the selection of each entry mode. The purpose of this summary is to make broad generalizations from the detailed sets of data. Therefore, the core concerns of this chapter are: -

- (1) Summarizing and interpreting target market characteristics effects on the selection of each entry mode.
- (2) Summarizing and interpreting bank characteristics effects on the selection of each entry mode.

Based on the banking context, market characteristics include the political stability and instability of the target markets, similarities and differences between home and target markets' language, similarities and differences in religion between home and target markets, similarities and differences in values between home and target markets, and the level of competition in the target market (e.g. low, moderate and severe). Conversely, bank characteristics are both their financial resources (e.g. greater or fewer financial resources), and their international experience (e.g. more or less international experience).

As previously stated in Chapter Four, the above variables (concepts) are those discussed most in the entry mode selection literature, especially for service firms. The current study attempts to address this issue in the Egyptian banking sector.

These concepts (which are both bank and market characteristics variables) are clear and well-defined. Child (1990) argues that it is unusual to find social scientists starting research in an empty-headed way. In most instances, the analysis is preceded by a hunch as to the factors that

might emerge. Hair *et al.* (1998, p. 375) added that, in many situations, the analyst has preconceived thoughts on the actual structure of the data based on theoretical support or prior research. Therefore, whenever differing groups are expected in the sample, separate factor analysis should be performed.

Consequently, no need existed for factoring all concepts again, as the entry mode context is clear from this perspective i.e. market and bank characteristics (concepts). Throughout the Factor Analysis, outputs e.g. Eigenvalues, and Rotated matrixes, for each concept will be analyzed separately.

Foreign branches' executives were asked in five-point Likert scale questions, to express their opinions regarding the effect of each concept on the selection of entry modes. As appears in the foreign branches' questionnaire, these questions include question twelve (X_{12}) to question thirty (X_{30}). Apart from question 23 (X_{23}) relating to the effect of per capita income on the selection of entry modes, all other questions were fully completed and returned. Question twenty-three was either unclear, and therefore not understood, was considered too sensitive to be answered, or has no effect on the entry modes selection, as most of the respondents did not respond positively to this question. As explained in the methodology chapter (i.e. Chapter Seven), the remaining questions contained fifteen concepts ready to be factored through Factor Analysis (FA) (using Principal Components Analysis).

11.2. Target Market's Characteristics Effect on the Selection of Entry Modes

The political stability effect is loaded on three factors that explain 87.83 per cent of the variance in responses, as the eigenvalues in Table 11/1 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998) the explanatory power of these three factors are "mediocre", as $KMO = 0.61$, as indicated in Table 11/1. However, other factors that explain 12.2 per cent (100 - 87.8) of the variance in responses were excluded, as their eigenvalues were < 1 each.

Table 11/1
Eigenvalues for Political Stability Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Shared owned (e.g. joint venture, and partial merger and acquisition), and purely marketing oriented (e.g. direct and indirect exporting) entry modes	3.461	43.258	43.258
2- Wholly owned (e.g. branches and subsidiaries) entry modes	1.966	24.576	67.834
3- Contractual (e.g. licensing and franchising) entry modes explains	1.600	19.996	87.829
Notes: -			
<ul style="list-style-type: none"> > Extraction Method: Principal Component Analysis in which: - <li style="padding-left: 20px;">Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.610; <li style="padding-left: 20px;">Bartlett's Test of Sphericity = 1282.443, $p = 0.000$; and <li style="padding-left: 20px;">Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization. 			

Factor one includes shared owned (e.g. joint venture, and partial merger and acquisition, as Table 11/1a shows, and purely marketing oriented (e.g. direct and indirect exporting) entry modes that explain 43.2 per cent of the variance in responses. Factor two includes wholly owned (e.g. branches and subsidiaries) entry modes, explaining 24.5 per cent of the variance in responses. Finally, factor three includes contractual (e.g. licensing and franchising) entry modes, explaining 19.9 per cent of the variance in responses. The first two factors explain 67.83 per cent of the variance in responses. Therefore, politically stable markets encourage all wholly and shared owned entry modes as well as purely marketing oriented entry modes. Additionally, contractual entry modes are encouraged also in case of political stability. Interestingly, the effect of the

political variable is consistent, as it groups most of the entry modes according to the original literature. In other words, the effect of the political variable is loaded on three factors, each containing the same components as in the literature. For instance the second factor, wholly owned entry modes, includes branches and subsidiaries, and so on.

Table 11/1a
Rotated Component Matrix for Political Stability Concept

Entry Modes (Item Loading)	Factors Components		
	1	2	3
Branches (X121)		.952	
Subsidiaries (X122)		.885	
Licensing (X123)			.949
Franchising (X124)			.792
Joint Venture (X127)	.873		
Partial Merger and Acquisition (X128)	.825		
Direct Exporting (X1210)	.719		
Indirect Exporting (X1211)	.812		
Notes:			
<ul style="list-style-type: none"> > 1= Shared owned and Purely oriented marketing entry modes, 2 = Wholly owned Entry Modes, and 3 = Contractual entry modes; > Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i>, 1998); and > Items are loaded on the factors according to their highest absolute correlation value. 			

To sum up, in politically stable markets all forms of entry mode are permitted. These entry modes are divided into three groups: shared controlled entry modes and purely marketing oriented entry modes (that explain 43.25 per cent of the variance in responses); wholly owned entry modes (that explain 24.47 per cent of the variance in responses); and contractual entry modes (that explain 19.9 per cent of the variance in responses). These three groups, besides being deployed together, could be used individually.

These three factors are justifiable. Banks that penetrate politically stable markets using the first group of entry modes (shared owned entry modes and purely marketing oriented entry modes) might be those with less financial resources and international experience. Therefore, they depend

on local partners' experience. The same logic might apply on the third entry group i.e. contractual entry modes. The use of direct and indirect exporting entry modes in this group aims at gaining international experience previously lacking. In the case of already having international experience and financial resources, banks might shift to the second group of entry modes i.e. wholly owned entry modes. Finally, politically stable markets encourage extensive resource involvement via wholly owned entry modes i.e. branches and subsidiaries. This finding goes hand in hand with the literature on this subject, as Christensen *et al.* (1987) found that high resources-commitment entry modes are undertaken when political risks in foreign markets are perceived to be low. Bank's characteristics and ambitions are the only limits in using the appropriate mode (Goodnow and Hansz, 1972).

Political instability is loaded on three factors that explain 73.55 per cent of the variance in responses, as the eigenvalues in Table 11/2 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998), the explanation power of these three factors are also "mediocre", as $KMO = 0.626$, as indicated in Table 11/2. However, factors with eigenvalues < 1 each, explaining 26.45 per cent of the variance in responses, were excluded.

Factor one includes contractual (e.g. licensing and franchising, as Table 11/2a shows), and purely marketing oriented (e.g. direct exporting) entry modes, explaining 34.13 per cent of the variance in responses. Factor two includes wholly owned (e.g. subsidiaries), shared owned (e.g. partial merger and acquisition), and purely marketing oriented (e.g. indirect exporting) entry modes, explaining 22.25 per cent of the variance in responses. Finally, the third factor includes wholly

owned (e.g. branches), and shared owned (e.g. joint ventures) entry modes (explaining 17.18 per cent of the variance in responses).

Table 11/2
Eigenvalues For Political Instability

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing and franchising), and purely marketing oriented (e.g. direct exporting) entry modes	2.730	34.128	34.128
2- Wholly owned (e.g. subsidiaries), shared owned (e.g. partial merger and acquisition), and purely marketing oriented (e.g. indirect exporting) entry modes	1.780	22.248	56.376
3- Wholly owned (e.g. branches), and shared owned (e.g. joint ventures) entry modes	1.374	17.180	73.555

Notes: -

- Extraction Method: Principal Component Analysis in which: -
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.626;
Bartlett's Test of Sphericity = 460.948, $p = 0.000$; and
Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization.

Table 11/2a
Rotated Component Matrix for Political Instability Concept

Entry Modes (Item Loading)	Factors Components		
	1	2	3
Branches (X131)			.721
Subsidiaries (X132)		.821	
Licensing (X123)	.836		
Franchising (X124)	.846		
Joint Venture (X137)			.761
Partial Merger and Acquisition (X138)		.674	
Direct Exporting (X1310)	.829		
Indirect Exporting (X1311)		.652	

Note:-

- 1= Contractual and direct exporting entry modes, 2 = Subsidiaries, Partial mergers and Acquisitions, and Indirect exporting entry modes, and 3 = Branches, and Joint ventures entry modes;
- Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, *et al.*, 1998); and
- Items are loaded on the factors according to their highest absolute correlation value.

Therefore, politically unstable markets could be entered through three viable entry mode components. These are: contractual and direct exporting entry modes (explaining 34.13 per cent of the variance in responses); subsidiaries, partial mergers and acquisitions, and indirect exporting entry modes (explaining 22.25 per cent of the variance in responses); and branches and joint ventures (explaining 17.18 per cent of the variance in responses). However, the last two of

these components entry modes are very risky. The findings here especially with regard to using contractual and direct exporting modes (as in the components of the first factor) in targeting politically unstable foreign markets are consistent with Davidson and McFetridge (1985) and Green and Cunningham's (1975) results, as they found political instability discouraged all forms of FDI. Though, the remaining two factors represent contradictory results, in this regard. However, Gatignon and Anderson (1988); Mascarenhas (1982); and Goodnow and Hansz (1972) recommended that high political risk has been demonstrated to promote the use of shared-control entry modes in which sorts of FDI are included as in joint venture and partial acquisition and mergers.

As previously stated in Chapter Four, Kogut and Singh (1988); Root (1987); Anderson and Gatignon (1986); Goodnow (1985); and Goodnow and Hansz (1972) discuss ways of measuring culture distance between target and home market. These measurement concepts can be summarized as levels of similarities or differences in language, religion, and values.

Language differences are loaded on three factors that explain 85.54 per cent of the variance in responses, as the eigenvalues in Table 11/3 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998) the explanation power of these three factors are "middling", as $KMO = 0.771$, as indicated in Table 11/3. However, factors with eigenvalues < 1 each, that explain 14.46 (100 - 85.54) per cent of the variance in responses, were excluded.

Table 11/3
Eigenvalues for Difference of Target Market Language Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1. Contractual (e.g. licensing and franchising), and indirect exporting entry modes	3.751	46.885	46.885
2. Wholly owned (e.g. branches, subsidiaries), and direct exporting entry modes	1.718	21.470	68.355
3. Shared owned entry modes (e.g. joint ventures, and partial merges and acquisitions).	1.375	17.189	85.544
Notes:-			
<ul style="list-style-type: none"> ➤ Extraction Method: Principal Component Analysis in which:- Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.771; Bartlett's Test of Sphericity = 1217.907, $p = 0.000$; and Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization. 			

Factor one includes contractual entry modes (e.g. licensing and franchising, as Table 11/3a shows), and indirect exporting entry mode explains 46.89 per cent of the variance in responses. Factor two includes wholly owned entry modes (e.g. branches, subsidiaries), and the direct exporting entry mode, and explains 21.47 per cent of the variance in responses. Finally, factor three includes shared owned entry modes (e.g. joint venture and merger), and explains 17.19 per cent of the variance in responses.

Table 11/3a
Rotated Component Matrix for Difference of Target Market Language Concept

Entry Modes (Item Loading)	Factors Components		
	1	2	3
Branches (X161)		.895	
Subsidiaries (X162)		.793	
Licensing (X163)	.828		
Franchising (X164)	.871		
Joint Venture (X167)			.920
Partial Merger and Acquisition (X168)			.782
Direct Exporting (X1610)		.789	
Indirect Exporting (X1611)	.961		
Notes: -			
<ul style="list-style-type: none"> ➤ 1= Contractual and Indirect exporting entry modes, 2 = Wholly Owned, and Direct exporting entry modes, and 3 = Shared entry modes; ➤ Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i>, 1998); and ➤ Items are loaded on the factors according to their highest absolute correlation value. 			

Therefore, target markets that are different in languages from the home market could be entered through three viable entry components. These are: contractual and indirect exporting entry modes, explaining 46.89 per cent of the variance in responses; wholly owned and direct exporting entry modes explaining 21.47 per cent of the variance; and shared control entry modes, explaining 17.18 per cent of variance.

It could be argued that the first entry component might be appropriate for those banks that have not enough financial resources and seek to gain international experience. On the other hand, the second component could be appropriate for those banks that do have enough financial resources and international experience. Finally the third entry component could be appropriate for those banks having enough financial resources and seeking to gain international experience by depending on local partners, through mergers and joint ventures. The first and the third components (i.e. contractual and indirect exporting entry modes as in the first component; and shared control modes as in the third component) are consistent with the findings of entry modes literature in this regard, as numerous empirical studies have concluded that cultural distance (language and religion) encourages deployment of shared-control and collaborative modes (i.e. non-equity) to minimize the high information costs associated with operating in culturally unfamiliar countries (Erramilli *et al.*, 2002; Kogut and Singh, 1988; Gatignon and Anderson, 1988; and Davidson and McFetridge, 1985). However, the selection of wholly owned subsidiaries in the second component contradicts Davidson and McFetridge's (1985) results, as they found that foreign production i.e. wholly owned entry modes, are favored when the host country's culture (religion and language in particular in that study) is similar to that of the home country.

Religious similarities are loaded on four factors that explain 84.48 per cent of the variance in responses, as the eigenvalues in Tables 11/4 show. Eigenvalues > 1 exist with four factors. According to Hair *et al.* (1998) the explanatory power of these four factors are “mediocre”, as $KMO = 0.601$, as indicated in Table 11/4. However, factors with eigenvalues < 1 each, explaining 15.52 (100-84.48) per cent of the variance in responses, were excluded.

Table 11/4
Eigenvalues for Similarities between Target and Home Market Religion's Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing), and shared owned (e.g. joint venture) entry modes	2.256	28.201	28.201
2- Wholly owned (e.g. subsidiaries), and purely marketing oriented (e.g. direct and indirect exporting) entry modes	1.957	24.462	52.662
3- Wholly owned (e.g. branches), and shared owned (e.g. partially merger and acquisition) entry modes	1.481	18.509	71.171
4- Contractual (e.g. franchising) entry mode	1.065	13.309	84.480
Notes: -			
<ul style="list-style-type: none"> > Extraction Method: Principal Component Analysis in which: - Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.609; Bartlett's Test of Sphericity = 635.933, $p = 0.000$; and Rotation Method: Varimax (i.e. Variance Maximized) with Kaiser Normalization. 			

Factor one includes contractual modes (e.g. licensing, as Table 11/4a shows) and joint venture entry modes, and explains 28.21 per cent of the variance in responses. Factor two includes wholly owned (e.g. subsidiaries), direct and indirect entry modes, and explains 24.46 per cent of the variance. Factor three includes wholly owned (e.g. branches), and shared owned (e.g. partially merger and acquisition) entry modes, and explains 18.51 per cent of variance. Finally, factor four includes contractual (e.g. franchising) entry modes, and explains 13.31 per cent of variance. Factors with eigenvalues < 1 each, explaining 15.52 per cent of the variance in responses, were excluded.

Table 11/4a
Rotated Components Matrix for Similarities In Religion

Entry Modes (Item Loading)	Factors Components			
	1	2	3	4
Branches			.882	
Subsidiaries		.809		
Licensing	.952			
Franchising				.950
Joint Venture	.932			
Partial Merger and Acquisition			.636	
Direct Exporting		.876		
Indirect Exporting		.547		

Notes: -

- 1= Licensing and Joint venture entry modes, 2 = Subsidiaries and Purely marketing oriented entry modes, 3 = Branches and Partial mergers and acquisition entry modes, 4 = Franchising entry modes;
- Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, *et al.*, 1998); and
- Items are loaded on the factors according to their highest absolute correlation value.

To sum up, penetrating target markets with religions similar to the home market appear to be through four viable entry packages. These are: licensing and joint ventures entry modes (explaining 28.20 per cent of the variance in responses); subsidiaries and purely marketing oriented entry modes (explaining 24.46 per cent of the variance in responses); branches and partial mergers and acquisitions entry modes (explaining 18.50 per cent of the variance in responses); and the franchising entry mode (explaining 13.30 per cent of the variance in responses).

The findings here appear to be consistent with Davidson and McFetridge's (1985) results, as they mentioned foreign production is favored when the host country's culture (i.e. religion and language) are similar to that of the home country. Foreign production is available in all but one entry mode component. More specifically, foreign production is through joint ventures, subsidiaries, and branches, partial mergers and acquisitions as in the first, the second and the third factors respectively.

Dissimilarities in cultural values are loaded on three factors that explain 73.41 per cent of the variance in responses, as the eigenvalues in Table 11/5 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998) the explanatory power of these three factors are “mediocre”, as $KMO = 0.666$, as indicated in Table 11/5. Factors with eigenvalues < 1 each, explaining 26.59 (100-73.41) per cent of the variance in responses, were excluded.

Factor one includes wholly owned (e.g. branches, as Table 11/5a shows), contractual (e.g. franchising), shared owned (e.g. joint venture), and direct exporting entry modes, and explains 35.00 per cent of the variance in responses. Factor two includes contractual (e.g. licensing) and shared owned (e.g. partial merger and acquisition) entry modes, and explains 20.04 per cent of the variance in responses. Finally, factor three includes wholly owned (e.g. subsidiaries), and indirect exporting modes, and explains 18.38 per cent of the variance in responses.

Table 11/5
Eigenvalues for the Differences in Values Between Target and Home Markets

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1. Wholly owned (e.g. branches), contractual (e.g. franchising), shared owned (e.g. joint venture), and direct exporting entry modes	2.800	34.995	34.995
2. Contractual (e.g. licensing), and shared owned (e.g. partial merger and acquisition) entry modes	1.603	20.042	55.037
3. Wholly owned (e.g. subsidiaries), and indirect exporting entry modes	1.470	18.377	73.414

Notes: -
 > Extraction Method: Principal Component Analysis in which: -
 Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.666;
 Bartlett's Test of Sphericity = 686.559, $p = 0.000$; and
 Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization.

Therefore, entering target markets that are perceived dissimilar in values to the home market could be viable through three entry components. These are: branches, franchising, joint venture,

and direct exporting entry modes (explaining 35.00 per cent of the variance in responses); licensing and partial mergers and acquisitions (explaining 20.04 per cent of the variance in responses); and subsidiaries and indirect exporting entry modes (explaining 18.38 per cent of the variance in responses). However, the first component including branches as an entry mode could be risky, unless the entrant is highly motivated to change the values in the target market. The same logic applies to the rest of the wholly and shared entry modes.

Table 11/5a
Rotated Components Matrix for the Differences in Values Between Target and Home Market

Entry Modes (Item Loading)	Factors Components		
	1	2	3
Branches	.667		
Subsidiaries			.665
Licensing		.805	
Franchising	.802		
Joint Venture	.761		
Partial Merger and Acquisition		.800	
Direct Exporting	.819		
Indirect Exporting			.866

Notes: -

- 1= Branches, Franchising, Joint venture, and Direct exporting entry modes, 2=Licensing and Partial merger and acquisition entry modes, and 3 = Subsidiaries and Indirect Exporting entry modes;
- Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, *et al.*, 1998); and
- Items are loaded on the factors according to their highest absolute correlation value.

Severe competition as an effect is loaded on three factors that explain 86.68 per cent of the variance in responses, as the eigenvalues in Table 11/6 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998) the explanatory power of these three factors are “middling”, as KMO = 0.74, as indicated in Table 11/6. Factors with eigenvalues < 1 each, explaining 13.32 (100-86.68) per cent of the variance in responses, were excluded.

Table 11/6
Eigenvalues for Severe Competition in the Target Market

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing and franchising), and direct exporting entry modes	3.191	39.888	39.888
2- shared owned (e.g. joint venture and partial merger and acquisition) entry modes	2.586	32.323	72.211
3- wholly owned (e.g. branches and subsidiaries) entry modes	1.157	14.468	86.679
Notes: - > Extraction Method: Principal Component Analysis in which:- Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.738; Bartlett's Test of Sphericity = 1456.736, $p = .000$; and Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization.			

Factor one includes contractual (licensing and franchising, as Table 11/6a shows), and direct exporting entry modes, and explains 39.89 per cent of the variance in responses. Factor two includes shared owned (e.g. joint venture and partial merger and acquisition) entry modes, and explains 32.32 per cent of the variance. Finally, factor three includes wholly owned (e.g. branches and subsidiaries) entry modes, and explains 14.47 per cent of variance.

Table 11/6a
Rotated Components Matrix for Severe Competition Concept in the Target Markets

Entry Modes (Item Loading)	Component		
	1	2	3
Branches			.886
Subsidiaries			.895
Licensing	.885		
Franchising	.929		
Joint Venture		.977	
Partial Merger and Acquisition		.954	
Direct Exporting	.923		
Indirect Exporting			
Notes: - > 1 = Contractual and Direct exporting entry modes, 2 = Shared owned entry modes, and 3 = Wholly owned entry modes; > Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i> , 1998); and > Items are loaded on the factors according to their highest absolute correlation value.			

Therefore, entering target markets that have severe levels of competition could be through three viable entry packages. These are: contractual and direct exporting (explaining 39.89 per cent of

the variance in responses); shared owned entry modes (explaining 32.32 per cent of the variance in responses); and wholly owned entry modes (explaining 14.47 per cent of the variance in responses).

Obviously, severe competition in the target market justifies the use of contractual entry modes as a starting point, besides direct exporting, as in the first entry component. In the second, the entrant prefers to depend on the experiences of local partners when entering markets having severe competition. Finally, banks with huge financial resources and international experiences may favor the third, risky, component.

Moderate competition is loaded on two factors that explain 63.30 per cent of the variance in responses, as the eigenvalues Table 11/7 show. Eigenvalues > 1 exist with two factors. According to Hair *et al.* (1998) the explanatory power of these two factors are "middling", as $KMO = 0.75$, as indicated in Table 11/7. Factors with eigenvalues < 1 each, explaining 36.70 (100-63.30) per cent of the variance in responses, were excluded.

Table 11/7
Eigenvalues for Moderate Level of Competition in the Target Market

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing and franchising), shared owned (e.g. joint venture), and indirect exporting entry modes	3.220	40.248	40.248
2- Wholly owned (e.g. branches, and subsidiaries), shared owned (e.g. partial merger and acquisition), and direct exporting entry modes	1.844	23.054	63.302
Notes: - > Extraction Method: Principal Component Analysis in which:- Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.752; Bartlett's Test of Sphericity = 710.106, $p = .000$; and Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization.			

Factor one includes contractual (e.g. licensing and franchising, as Table 11/7a shows), shared owned (e.g. joint venture), and indirect exporting entry modes, and explains 40.25 per cent of the variance in responses. Factor two includes wholly owned (e.g. branches, and subsidiaries), shared owned (e.g. partial merger and acquisition), and direct exporting entry modes, and explains 23.05 per cent of the variance in responses.

Table 11/7a
Rotated Components Matrix for Moderate level of competition

Entry Modes (Item Loading)	Factors Components	
	1	2
Branches		-.633
Subsidiaries		-.571
Licensing	.872	
Franchising	.861	
Joint Venture	.912	
Partial Merger and Acquisition		.794
Direct Exporting		.714
Indirect Exporting	.578	
Notes:-		
➤ 1=Contractual, Joint venture, and Indirect entry modes, 2 = Wholly owned, partial merger, and Direct exporting entry modes;		
➤ Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i> , 1998); and		
➤ Items are loaded on the factors according to their highest absolute correlation value.		

Therefore, entering target markets that have moderate levels of competition could be through two viable entry components. These are contractual, joint ventures and indirect exporting (explaining 40.25 per cent of the variance in responses); and wholly owned, partial mergers and acquisitions, and direct exporting entry modes (explain 23.05 per cent of the variance in responses). These findings represent a contribution in this area, as the effect of the competition variable in the literature is not clear.

11.3. Bank Characteristics' Effects on the Selection of Each Entry Mode

Regarding the effect of “more financial resources”, this is loaded on three factors that explain 80.96 per cent of the variance in responses, as the eigenvalues in Table 11/8 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.* (1998) the explanatory power of these three factors are “middling”, as KMO = 0.75, as indicated in Table 11/8. Factors with eigenvalues < 1 each, explaining 19.04 (100-80.96) per cent of the variance in responses, were excluded.

Table 11/8
Eigenvalues for More Financial Resources Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing and franchising), and shared owned (e.g. partial merger and acquisition) entry modes	3.195	39.935	39.935
2- Shared owned (e.g. joint venture), Purely marketing oriented (e.g. direct exporting) entry modes	1.813	22.664	62.599
3- Wholly owned (e.g. branches and subsidiaries) and indirect exporting entry modes	1.469	18.366	80.964

Notes: -

- Extraction Method: Principal Component Analysis in which: -
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.749;
Bartlett's Test of Sphericity = 1114.879, $p = 0.000$; and
Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization.

Factor one includes contractual (e.g. licensing and franchising, as Table 11/8a shows), and shared owned (e.g. partial merger and acquisition) entry modes, and explains 39.94 per cent of the variance in responses. Factor two includes shared owned (e.g. joint venture), and direct exporting entry modes, and explains 22.66 per cent of the variance in responses. Finally, factor three includes wholly owned (e.g. branches and subsidiaries), and indirect exporting entry modes, and explains 18.37 of the variance in responses.

Banks having more financial resources could penetrate target markets through three viable entry components. These are: contractual (e.g. licensing and franchising) and partial mergers and

acquisitions entry modes (explaining 39.94 per cent of the variance in responses); joint ventures and purely marketing oriented (direct exporting) entry modes (explaining 22.67 per cent of the variance in responses); and wholly owned (e.g. branches and subsidiaries) and indirect exporting entry modes (explaining 18.37 of the variance in responses). As the results indicate, all entry modes are viable options in cases when there are enough financial resources. Similar results have been presented by Pan and Tse (2000); Woodcock *et al.* (1994); Kim and Hwang (1992); Erramilli and Rao (1990); and Hill *et al.* (1990).

Table 11/8a
Rotated Components Matrix for More Financial Resources Concept

Entry Modes (Item Loading)	Factor Components		
	1	2	3
Branches			.778
Subsidiaries			.774
Licensing	.935		
Franchising	.839		
Joint Venture		.623	
Partial Merger and Acquisition	.988		
Direct Exporting		.943	
Indirect Exporting			.595

Notes: -

- > 1= Contractual, and Partial merger entry modes, 2 = Joint venture, and Direct exporting entry modes, 3 = Wholly owned, and Indirect exporting entry modes;
- > Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, *et al.*, 1998); and
- > Items are loaded on the factors according to their highest absolute correlation value.

Regarding the effect of “less financial resources”, this loaded on three factors that explain 72.35 per cent of the variance in responses, as the eigenvalues in Table 11/9 show. Eigenvalues > 1 exist with three factors. According to Hair *et al.*, (1998) the explanatory power of these three factors are “mediocre”, as KMO = 0.62, as indicated in Table 11/9. Factors with eigenvalues < 1 each, explaining 27.45 (100-72.35) per cent of the variance in responses, were excluded.

Table 11/9
Eigenvalues for Less Financial Resources Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1-Wholly owned (e.g. subsidiaries), and purely marketing oriented (e.g. direct and indirect exporting) entry modes	2.323	29.032	29.032
2-Wholly owned (e.g. branches), and contractual (e.g. licensing and franchising) entry modes	2.071	25.891	54.923
3-Shared owned (e.g. partial merger and acquisition) entry mode	1.394	17.429	72.352
Notes: -			
<ul style="list-style-type: none"> > Extraction Method: Principal Component Analysis in which: - Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.617; Bartlett's Test of Sphericity = 753.149, $p = 0.000$; and Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization. 			

Factor one includes wholly owned (e.g. subsidiaries, as Table 11/9a shows), and purely marketing oriented (e.g. direct and indirect exporting) entry modes, and explains 29.03 per cent of the variance in responses. Factor two includes wholly owned (e.g. branches), and contractual (e.g. licensing and franchising) entry modes, and explains 25.89 per cent of the variance in responses. Finally, factor three includes shared owned (e.g. partial merger and acquisition) entry modes, explaining 17.43 per cent of the variance in responses.

Table 11/9a
Rotated Components Matrix for Less Financial Resources

Entry Modes (Item Loading)	Factor Components		
	1	2	3
Branches		.534	
Subsidiaries	.660		
Licensing		.851	
Franchising		.960	
Joint Venture			
Partial Merger and Acquisition			.821
Direct Exporting	.947		
Indirect Exporting	.867		
Notes:-			
<ul style="list-style-type: none"> > 1= Subsidiaries and Purely marketing oriented entry modes, 2 = Branches, and Contractual entry modes, 3 = Partial merger entry mode; > Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i>, 1998); and > Items are loaded on the factors according to their highest absolute correlation value. 			

Banks having less financial resources could target new markets through three viable entry packages. These are: subsidiaries and purely marketing oriented (e.g. direct and indirect exporting) entry modes (explaining 29.03 per cent of the variance in responses); branches and contractual (e.g. licensing and franchising) entry modes (explaining 25.89 per cent of the variance in responses); and partial merger and acquisition entry modes (explaining 17.43 per cent of the variance in responses).

The literature in this area promotes for use of contractual and shared rather than wholly owned modes (e.g. Erramilli and Rao, 1993); Goodnow and Hansz, 1972). One possibility for these contradictory results might be due to the nature of the banking business itself. In other words, the features and regulations of the banking sector might nullify, or at least neutralize, the effect of less financial resources. These features and regulations include: fixed assets should not account for more than 10 per cent of total assets by any means; banks' financial statements are mainly dependent upon deposits, not upon money invested; loan ceiling policies are often within 65 percent of deposits' values; and bank's capital ranges from 15 to 20 per cent of total assets (Central Bank of Egypt, 2001). Consequently, the effect of less financial resources on the selection of entry modes could be debatable in the banking context.

"Less international experience" is loaded on four factors that explain 88.558 per cent of the variances in responses, as the eigenvalues in Table 11/10 show. Eigenvalues > 1 exist with four factors. According to Hair *et al.* (1998) the explanatory power of these four factors are "mediocre", as $KMO = 0.69$, as indicated in Table 11/10. Factors with eigenvalues < 1 each, explaining 11.44 (100-88.55) per cent of the variance in responses, were excluded.

Table 11/10
Eigenvalues for Less International Experience Concept

Factors	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1- Contractual (e.g. licensing and franchising) entry modes	2.708	33.848	33.848
2-Purely oriented (e.g. direct and indirect exporting) entry modes	1.877	23.468	57.317
3-Wholly owned (e.g. branches), and shared owned (e.g. joint venture) entry modes	1.472	18.403	75.719
4-Wholly owned (e.g. subsidiaries), and shared owned (e.g. partial merger and acquisition) entry modes	1.027	12.839	88.558
Notes: -			
<ul style="list-style-type: none"> > Extraction Method: Principal Component Analysis in which: - <ul style="list-style-type: none"> Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = 0.689; Bartlett's Test of Sphericity = 834.368, $p = 0.000$; and Rotation Method: Varimax procedure, which gives an orthogonal solution (i.e. Variance Maximized) with Kaiser Normalization. 			

Factor one includes contractual (e.g. licensing and franchising, as Table 11/10a shows) entry modes, and explains 33.85 per cent of the variance in responses. Factor two includes purely marketing oriented (e.g. direct and indirect exporting) entry modes, and explains 23.47 per cent of the variance in responses. Factor three includes wholly owned (e.g. branches), and shared owned (e.g. joint venture) entry modes, and explains 18.40 per cent of the variance in responses. Finally, factor four includes wholly owned (e.g. subsidiaries), and shared owned (e.g. partial merger and acquisition) entry modes, and explain 12.84 per cent of the variance in responses.

Therefore, banks having less international experience could target new markets through four viable entry components. These are: contractual (e.g. licensing and franchising) entry modes (explaining 33.85 per cent of the variance in responses); purely marketing oriented (e.g. direct and indirect exporting) entry modes (explaining 23.47 per cent of the variance in responses); branches and joint ventures entry modes (explaining 18.40 per cent of the variance in responses); and subsidiaries and partial mergers and acquisitions entry modes (explaining 12.84 per cent of the variance in responses).

Table 11/10a
Rotated Components Matrix for Less International Experience Concept

Entry Modes (Item Loading)	Factor Components			
	1	2	3	4
Branches			.825	
Subsidiaries				.781
Licensing	.942			
Franchising	.949			
Joint Venture			.759	
Partial Merger and Acquisition				.777
Direct Exporting		.832		
Indirect Exporting		.928		
Notes: -				
➤ 1= Contractual entry modes, 2 = Purely marketing oriented entry modes, 3 = Branches and Joint venture entry modes, 4 = Subsidiaries and Partial merger entry modes;				
➤ Items are loaded on the factors with which their correlations are higher than 0.30 (Coakes and Steed, 1999; and Hair, <i>et al.</i> , 1998); and				
➤ Items are loaded on the factors according to their highest absolute correlation value.				

The results of the first two entry components, mainly dependent on local partners (in contractual entry modes), and targeting the market from outside its borders (direct and indirect entry modes) to acquire international experience, go hand in hand with the literature in this area. This indicates that these two components yield international experience later rather than sooner. Therefore, the findings here agree with the literature that has consistently shown that entry into a new international market requires a learning period over which the entrants establish themselves (Cardozo *et al.*, 1989; Forsgren, 1989; Juul and Walters, 1987; Newbould *et al.*, 1978; Johanson and Vahlne, 1977; and Johanson and Wiedersheim-Paul, 1975). Woodcock *et al.* (1994) discuss the characteristics of this start up period. They explain these as performance being depressed due to the struggle to achieve economies of scale and scope, and financial performance being poor and unstable for a variety of reasons. Firstly, new entrants require time to adjust to new markets, new organizational processes and systems, or new competitive factors in the new market. Secondly, the average performance of an entry may be low at first, due to the wrong selection of entry mode or market.

11.4. Chapter Conclusion

To penetrate new target markets, creating a factor matrix would be useful to describe both the current bank's situation as well as the target market characteristics. Therefore, enough information ought to be collected about these target markets to enable taking healthy entry mode decisions. Bearing in mind that the evaluation of the target market, and of course the bank's characteristics, is a continuous process, what can fit a specific target market at a specific point of time may not be appropriate for the same market at another time. Thereby entry mode selection is a function of both market and bank characteristics; so if these characteristics change, banks ought to re-evaluate the selected entry mode.

Table 11/11
The Factors That Affect the Selection of Each Entry Mode

Market and Bank Characteristics		Entry Modes in Banking Context							
		Wholly-Owned		Shared-Owned		Contractual		Purely Marketing Oriented	
Market Characteristics		BR	SU	MER	JOI	LIC	FRA	DIR	IND
	1-Political stability								
	2-Political instability								
	3-Languages differences								
	4-Religious similarities								
	5-Values differences								
	6-Severe competition								
	7-Moderate competition								
Bank	8-More financial resources								
	9-Less financial resources								
	10-Less International experience								
Notes: - > (BR) = Branches, (SU) = Subsidiaries, (MER) = Partial Mergers and Acquisitions, (JOI) = Joint Ventures, (LIC) = licensing, (FRA) = Franchising, (DIR) = Direct Exporting, (IND) = Indirect Exporting.									

Evidence from the Egyptian banking sector reveals that bank and target market characteristics affect the selection of entry modes. The latter includes political stability, political instability, language differences, religion similarities, values differences, severe competition, and moderate level of competition. The former includes more financial resources, less financial resources, and less international experience.

However, a Table like Table 11/11 could be produced, if the respondents were asked to choose only one or a few entry modes instead of ranking all of them within each concept. In this case and by using FA, each concept (eight entry modes) could be loaded on a few factors, creating only one item. In other words, one or a few entry modes instead of entry mode components could be produced. It is strongly recommended that further research explore this approach.

Chapter Twelve:
Research Conclusions and Recommendations

12.1. Introduction

It is worth mentioning that the idea for this research was generated after Egypt signed up for WTO at its early emergence at 1995 and committed itself to liberalizing its markets in general, and the banking sector in particular. When the related literature was checked and consulted, lack of coverage of the antecedents and consequences of this liberalization were clearly discovered, especially for developing countries. Therefore, the inspiration for investigating in this area emerged. Many scholars have discussed and explored GATS consequences in general. Some of them were pessimistic (e.g. Sugiyarto, 2002; Tanski and French, 2001; Sharma, 2001; James, 2000; Weller, 2000; Ghose, 2000; Weeks, 1999; Claessens *et al.*, 1998; OECD, 1997; El-Mody, 1995; Evans and Walsh, 1995; Mosley, 1993; Stein, 1992; Rodrik, 1992; Terrell, 1986; Diaz-Alejandro and Helleiner, 1982; and Taylor, 1981) and the rest were optimistic (e.g. Nasiruddin, 2003; Hargis, 2002; Sugiyarto, 2002; Cotsomititis *et al.*, 2002; Eberlei, 2001; Weller, 2000; Bekaert and Harvey, 2000; Kim and Singal, 2000; Ghose, 2000; Hargis and Ramanlal, 1998; Demiguc-Kunt and Huizinga, 1998; IMF, 1998; Claessens and Glaessner, 1997; De Santis and Imrohorglu, 1997; Susmel, 1997; Bekaert and Harvey, 1997; Kono *et al.*, 1997; Goldstein and Turner, 1996; Joshi and Little, 1996; Evenson and Westphal, 1994; Helleiner, 1994; Arslan and Wijnbergen, 1993; Weiss, 1992; and Thomas *et al.*, 1991).

The fact of the matter is that both points of view ignite a willingness to explore the two contradictory perspectives, and therefore justifies the current research by investigating GATS impacts on the Egyptian banking sector. Bearing in mind that this area of research is still beginning, an endeavor has been made to model the variables that affect the perception of these GATS impacts. Consequently, findings regarding GATS impacts, and variables that affect their perception, might be considered one of the current research's contributions to this area.

According to the signed agreements with WTO, by the year 2005 the full liberalization of the Egyptian market will be completed. Therefore, all forms of FDI will be welcomed in the local market. Here, the second research question has been raised. What will local banks do, and what defensive strategies should be applied? Consultation of the literature here, revealed that, though defensive marketing strategies and entry modes are considered in depth. These are two different streams of literature. No serious endeavor has before explored the match between them. Therefore, the current study attempts to address this issue by matching the variables identified in each stream. Consequently evaluating the marketing practices of local banks was conducted as well. This endeavor is a pioneer one and its findings are one of the contributions of the current study.

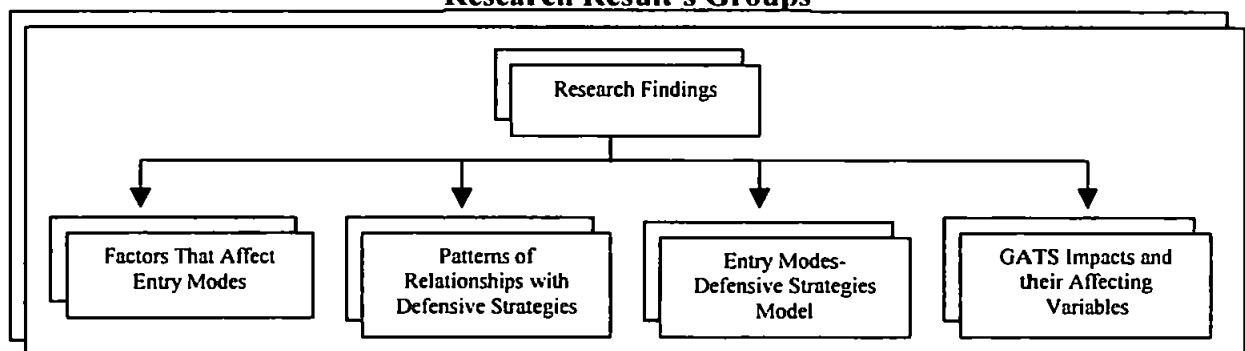
The third objective of the current research has been raised from a desire to enrich defensive marketing literature by exploring patterns of relationships (e.g. dependency and causality) that affect the selection of defensive strategies, as the literature in this area is so descriptive and scattered. Descriptive rather than analytical is the approach adopted of most scholars in dealing with defensive strategies topics, by limiting their focus on the merits (e.g. Tax and Brown, 1998; and Fornell and Wernerfelt, 1988), steps (e.g. Cotter *et al.*, 1997; Myers, 1993; Bergstrom, 1992; and Porter, 1980), and application circumstances (e.g. Saxby *et al.*, 2000; Tax and Brown, 1998; Ross and Gardner, 1985; and Fornell and Westbrook, 1984) of each strategy for instance. Apart from the collective efforts conducted to explore the interchangeability and simultaneity in using differentiation (DIFF) and cost leadership (CL) strategies, and market concentration and market diversification (e.g. Porter, 1998; Sorensen, 1997; Gupta, 1995; Slocum *et al.*, 1994; Corsten and Will, 1993; Albaum *et al.*, 1989; Hill, 1988; Jones and Butler, 1988; Murray, 1988; Buzzell and Gale, 1987; Wright, 1987; White, 1986; Miller and Friesen, 1986; Hall, 1983; Phillips *et al.*,

1983; Piercy, 1982; and Buzzell and Wiersema, 1981), scattered rather than collective is the common feature of these studies, as they research only one defensive marketing strategy at a time. Few of them are analytical and collective in scope; therefore the current study attempts to address this issue. Most importantly, none of them has dealt with the factors affecting the selection of each strategy; therefore the current study explored this approach. The findings here are also considered to be one of the current study's contributions.

Finally, the debatable factors affecting entry modes were explored in the banking context after consulting and examining the relevant literature. It is worth mentioning that the igniting power behind pursuing the last two objectives in the current research (i.e. exploring patterns of relationships with defensive strategies, and clustering factors that affect the selection of entry modes) is Erramilli's (1992) recommendation to study one sector horizontally by exploring the kinds of entry modes and the factors affecting them. The same logic applies for defensive marketing strategies.

Due to the diversified nature of the findings of the current research, it is worth grouping them in four distinguishable categories, as shown in Figure 12/1.

Figure 12/1
Research Result's Groups¹



¹ Source: The Researcher.

These are: results related to GATS impacts and the variables that affect their perception; results related to the entry modes-defensive marketing strategies matching model and the evaluation of marketing practices of the Egyptian banking sector; patterns of relationships with defensive marketing strategies; and results related to the factors that affect the selection of entry modes.

12.2. Results Related to GATS Impacts

Results in this part have been extracted from testing a group of related hypotheses. The findings in this area revealed the following: GATS agreements have greater positive than negative impacts on the Egyptian banking sector; there are significant relationships between the perception of the aggregate GATS impacts and respondents backgrounds; and causality relationships have been identified between these detailed GATS impacts and bank type, respondents' positions, educational levels, and experience, and banks' experiences.

Firstly, GATS agreements have greater positive than negative impacts on the Egyptian banking sector. Consequently, the null hypothesis ($H_{8,1}$) was supported. These positive impacts have been strongly perceived i.e. strongly agreed to on the Likert scale, in the following order:

- (1) Giving the local banks the motive to offer new banking services to sustain their market shares (80 per cent);
- (2) Allowing new banking systems to enter the Egyptian market with their advanced technology, system layouts, and their well-trained staff (80 per cent);
- (3) Improving the local banks' service quality (76 per cent);
- (4) Creating healthy pressure on the Egyptian authorities to improve the banking regulations and supervision rules (67 per cent);
- (5) Improving the total performance of the local banking sector, especially in the long run (69 per cent);

- (6) Enabling the banking sector to play its essential role in the Egyptian economy, especially nowadays (63 per cent);
- (7) Bringing new financial instruments to the local market, such as forward contracts like future and options (60 per cent);
- (8) Enhancing the competition that leads to lowering the banking services costs in the long run (60 per cent);
- (9) Increasing transparency about the soundness and creditworthiness of all financial institutions (58 per cent);
- (10) Helping in transferring banking skills from outside (58 per cent).

Additionally, GATS positive impacts include broadening and deepening local capital markets through improving legislations (57 per cent); helping reduce the information gap between inside and outside markets (55 per cent); and helping in spreading financial risks among more banks (54 per cent). Moreover, increasing the FDI injected in the banking sector (52 per cent); improving regulations and supervision across a broad range of financial services (51 per cent); and transferring banking know-how through foreign banks' staff (49 per cent).

On the other hand, GATS negative impacts are not severe. For instance, the fears of collapse in the banking sector as a result of the GATS agreements have been strongly rejected (i.e. strong disagreement on the Likert scale) by 72 per cent. Also, the fear of decreasing local banks' revenues and market shares was accepted only by 22 per cent, and 24 per cent respectively. In addition, the fear of GATS agreements having negative ramifications on Egyptian monetary and credit policies was strongly rejected by 55 per cent and strongly accepted only by 3 per cent. Moreover, the fear of increasing advertising budgets, agitating price competition, increasing defensive expenditures, and

attracting local banks' staff to work in foreign banks were accepted only by 14 per cent, 15 per cent, 15 per cent, and 18 per cent respectively.

Secondly, not all the elements of $(H8_2)$ and $(H8_3)$. Finally, causality relationships have been identified between the perception of each detailed GATS impact and bank type, respondents' positions, and educational levels, and experiences, and banks' experiences. Consequently, the hypothesis $(H8_4)$ was supported. However, the effects of these regressors are fairly limited, as they range from 0.043 to 0.441, as "R square" values indicated. Therefore, it is strongly recommended that further research be conducted to rethink other independent variables, besides those five regressors, that might affect the perception of GATS impacts. It is worth mentioning that the literature in this perspective is silent, as no specific variables were suggested. Consequently, the current study considers a pioneer endeavour and other scholars are invited to explore this approach to find out the variables that affect the perception of GATS impacts.

To recapitulate, evidence from the Egyptian banking sector revealed that the liberalization of this sector, as a result of GATS, brings positive ramifications. Therefore, hypochondriac point of views adopted by some scholars (e.g. Sugiyarto, 2002; Metin-Ozcan *et al.*, 2002; Tanski and French, 2001; Sharma, 2001; James, 2000; Weller, 2000; Ghose, 2000; Weeks, 1999; Claessens *et al.*, 1998; OECD, 1997; El-Mody, 1995; Evans and Walsh, 1995; Mosley, 1993; Stein, 1992; Rodrik, 1992; Terrell, 1986; Diaz-Alejandro and Helleiner, 1982; and Taylor, 1981) regarding the worthiness of liberalization has been belied and their claims resisted. The findings here are consistent with other literature in this area, as most scholars are optimistic regarding assessing GATS impacts (e.g. Nasiruddin, 2003; Hargis, 2002; Sugiyarto, 2002; Cotsomitis *et al.*, 2002; Eberlei, 2001; Fox, 2001; Asch, 2001; Weller, 2000; Bekaert and Harvey, 2000; Kim and Singal,

2000; Ghose, 2000; Hargis and Ramanlal, 1998; Demiguc-Kunt and Huizinga, 1998; IMF, 1998; Claessens and Glaessner, 1997; De Santis and Imrohoroglu, 1997; Susmel, 1997; Bekaert and Harvey, 1997; Kono *et al.*, 1997; Goldstein and Turner, 1996; and Joshi and Little, 1996)

Before leaving this point it is worth mentioning that the statistical tests used in clustering and identifying these GATS impacts were: correlation, Chi-square, and multiple regression. From the researcher's point of view, these tests are appropriate here for the following reasons: (a) the correlation test (as a bivariate analysis) is designed to identify the relationship between two variables and its magnitude. Therefore, it was utilized to identify the relationship between each GATS impact and each demographic variable; (b) the Chi-square (as a non-parametric test) is designed to test a specific data distribution. Therefore, it was used to test the distribution of GATS impacts to identify whether or not the positive impacts are prevailing; and (c) the multiple regression (as a multivariate technique) is designed to identify the causality relationship between a set of IVs and one DV. Therefore, the demographic variables were tested with each GATS impact to identify the relationship and the magnitude each IV has on the regression equation. However, MANOVA might draw a clear picture between a set of IVs (e.g. demographics) and DVs (e.g. GATS impacts) if the data did not violate homogeneity, and singularity assumptions.

12.3. Results Related to Entry Modes-Defensive Marketing Model

In this part, a model matching the two streams of literature (e.g. entry modes and defensive marketing strategies) has been constructed and its application has been evaluated in the Egyptian banking sector. The construction of "Entry Modes-Defensive Marketing Strategies Model" is one of the main contributions of this section. As Table 12/1 indicates, a matching process between the two streams of literature is suggested.

Table 12/1
Entry Modes and Defensive Marketing Strategies²

Defensive Strategies	Entry Modes										
	Wholly-owned		Shared-Owned		Contractual			Purely marketing oriented + Rep. & Agency offices			
	BR	SU	MERA	JOI	LIC	FRA	ALL	REP	AGE	DIR	IND
BI	x										
CS	x										
CCM			x								
AIKO			x								
FTL						x					
DIFF						x					
FOC										x	
CL										x	

Notes: -
Defensive Marketing Strategies: -
 (BI) = Business Intelligence, (CS) = Customer Service, (CCM) = Customer Complaints Management, (AIKO) = Aikido, (FTL) = Free Telephone Line, (DIFF) = Differentiation, (FOC) = Focus, and (CL) = Cost Leadership.
Entry Modes: -
 (BR) = Branches, (SU) = Subsidiaries, (MERA) = Merger and Acquisition, (JOI) = Joint Venture, (LIC) = Licensing, (FRA) = Franchising, (ALL) = Alliances, (DIR) = Direct Exporting, (IND) = Indirect Exporting, (REP) = Representative Offices, and (AGE) = Agency Offices.

After verification based on the experience of respondents, the model has been used as a “prototype” or “benchmark” for evaluating the marketing practices of local banks in this regard. This benchmark recommends that if perceived rivals use wholly owned entry modes (e.g. branches or subsidiaries), the appropriate defensive marketing strategies are both business intelligence (BI) and customer service (CS). If they use shared owned entry modes, however, (joint ventures or mergers), the appropriate defensive strategies are both customer complaint management (CCM) and Aikido (AIKO). In case of contractual entry modes (e.g. licensing or, franchising, or alliances), the appropriate defensive marketing strategies are free telephone-lines (FTL) and differentiation (DIFF). Finally, where purely marketing oriented entry modes (e.g. direct and indirect exporting), representative and agency offices are used, the appropriate defensive marketing strategies are focus (FOC) and cost leadership (CL). The evaluation process of the marketing practices of the Egyptian banking sector revealed that they are not using the

² Source: - The Researcher.

appropriate defensive marketing strategies according to the designed model in whose design they have participated. Therefore, hypotheses ($H9_a$), ($H9_b$), and ($H9_c$) were not supported. Given that there is no other link, setting a dialogue between two different streams of literature (e.g. entry modes and defensive marketing strategies) is a contribution to this area. Therefore, this endeavor could be considered a pioneer one.

The statistical tests used within this section are Chi-square Goodness of Fit (CSGFT), Wilcoxon Signed Ranks Test (WSRT), Friedman two-way Analysis of Variance (ANOVA), and descriptive analysis (percentage analysis). These analytical techniques are appropriate for achieving the required aim for the following reasons: (a) CSGFT as a non-parametric test is designed to test the data distribution patterns, as previously stated in Chapter Seven in the current study. Therefore, it was used for comparing pairs of variables (as stated by the designed entry modes-defensive marketing model) to identify whether or not they were equal. The researcher believes that this test is appropriate here, as what was needed was to find out if there were significant differences amongst the blocks that represent the number of applied defensive marketing strategies and the number of the perceived rivals. (b) Both WSRT and Friedman ANOVA were used for double-check purposes after conducting the Chi-Square test. And (c) the percentage analysis suffices for ranking the perceived rivals from the defenders' points of view (respondents).

One may argue about the worthiness of correlation techniques here. The writer would agree with that point of view if the previous analytical techniques showed a significant relationship between the variables, but that was not the case. In this case, the correlation techniques provide us with the relationship magnitude and its direction.

12.4. Results Related to Patterns of Relationships with Defensive Marketing Strategies

Strong significant relationships between defensive marketing strategies (i.e. eight strategies) and four sets of variables have been found. These four categories are demographics (e.g. respondents' job titles or positions, ages, educational levels, experience, banks' experience, and bank's number of employees); bank's objectives (e.g. increasing market share, maintaining the current market share, increasing profits, increasing customer satisfaction, and increasing customer loyalty); perceived competitors i.e. kinds of entry mode (e.g. branches, subsidiaries, joint ventures, mergers, direct exporting, and indirect exporting); and competitors' competitive advantages (e.g. marketing mix variables, marketing program variables, offering new kinds of banking services, giving high interest rates on deposits accounts, taking low interest rates for loans given, having well designed service delivery system, owning competitive staff, and implementing strong advertising campaigns). Consequently, hypotheses ($H10_1$), ($H10_2$), ($H10_3$), and ($H10_4$) have been supported.

It is worth mentioning here that the defensive marketing literature lacks the comprehensive analysis offered by the current study in modelling the relationship between defensive marketing strategies and four sets of regressors (e.g. demographics, objectives, rivals, and competitive advantages of rivals). Scholars (e.g. Hofstede, 2001; Tyson, 1997; Cotter *et al.*, 1997; Malhotra *et al.*, 1994; Desatnick and Detzel, 1993; Cronin and Taylor, 1992; Bolton and Drew, 1991; Berry and Parasuraman, 1991; Chardwick, 1991; Heskett *et al.*, 1990; Fornell and Wernerfelt, 1988; Parasuraman *et al.*, 1985; Fornell and Wernerfelt, 1984; Hauser and shugan, 1983; and Porter, 1980) have adopted a narrow approach when tackling the defensive marketing strategies topic, by presenting them one by one, and most by stressing definitions, features, and usage of each. One explanation for this might be the recentness of the emergence of defensive marketing terminology

itself, as Hauser and Shugan used it for the first time at 1983. Therefore, compared with offensive marketing studies, defensive marketing studies need to be focused on more.

The second thing to be stressed before leaving this point is, the removal of advanced technology from the competitive advantage list is consistent with Giles's (1986) claim that trying to sustain competitive advantage through technology is a myth, as technology represents a massive investment just to stay and play in the game.

The statistical techniques used to draw these findings were correlation techniques i.e. the contingency coefficient and the canonical correlation. The contingency coefficient was appropriate for exploring the dependency relationship. The canonical correlation was appropriate for exploring the causality relationships amongst these sets of variables. The fact of the matter is that, the nature of the dependent variables' scale (nominal scale) made this multivariate technique second to none. However, other outputs like the weighted effect each IV has on each DV (as in the Multiple Regression and the General Linear Model) not been considered.

12.5. Results Related to the Factors that Affect the Selection of Entry Modes

Entry modes selection is affected by both bank and target market characteristics. The latter includes political stability and instability, language differences, religious similarities, values differences, severe competition, and moderate levels of competition. The former includes greater financial resources, less financial resources, and less international experience.

Based on the respondents' experience, a politically stable market could be entered through three viable entry mode components. These are: shared controlled (e.g. joint venture, and partial merger and acquisition), and purely marketing oriented (e.g. direct and indirect exporting) entry

modes; wholly owned (e.g. branches and subsidiaries) entry; and contractual entry modes (e.g. licensing and franchising). The results here goes hand in hand with the literature in this area, as in markets where political risks are perceived to be low, it is likely that a high resources commitment entry mode will be undertaken (Christensen *et al.*, 1987). Additionally, all entry modes are viable options and bank's characteristics and ambitions are the only limits (Goodnow and Hansz, 1972).

The most appealing forms of entry into politically unstable markets are: contractual (e. g. licensing and franchising), and purely marketing oriented (e.g. direct exporting) entry modes; subsidiaries, partial mergers and acquisitions, and indirect exporting entry modes; and branches and joint ventures. However, of these the second and the third entry components might be very risky. The findings here, especially with regard to using contractual and direct exporting modes (as in the components of the first factor) in targeting politically unstable foreign markets, are consistent with Davidson and McFetridge (1985) and Green and Cunningham's (1975) results, who found political instability discouraged all forms of FDI. Consequently, the remaining two factors represent contradictory results. However, Gatignon and Anderson (1988); Mascarenhas (1982); and Goodnow and Hansz (1972) indicate that high political risk has been demonstrated to promote the use of shared-control entry modes in which sorts of FDI are included, as in joint ventures and partial acquisition and mergers. It is recommended that more evidence from other industries to be explored for this variable i.e. political instability.

Regarding the effect of language differences, target markets that have different languages from the home market could be entered through three viable entry components. These are: contractual (e.g. licensing and franchising) and indirect exporting entry modes; wholly owned (e.g. branches,

subsidiaries) and direct exporting entry modes; and shared control (e.g. joint ventures, and partial mergers and acquisitions) entry modes. The first and the third components (i.e. contractual and indirect exporting entry modes as in the first component; and shared control modes as in the third component) are consistent with entry modes' literature, as numerous empirical studies have concluded that cultural distance (language, religion, and values) encourages deployment of shared-control and collaborative modes to minimize the high information costs associated with operating in culturally unfamiliar countries (Erramilli *et al.*, 2002; Kogut and Singh, 1988; Gatignon and Anderson, 1988; and Davidson and McFetridge, 1985). However, the selection of wholly owned in the second component contradict with Davidson and McFetridge's (1985) results, as they found that foreign production i.e. wholly owned entry modes, are favoured when the host country's culture (religion and language in particular in that study) is similar to that of the home country. The findings here could be added to the long lasting debate regarding the relationship between cultural distance and ownership (i.e. full venture, shared, and collaborative through non equity modes) raised by Erramilli *et al.* (2002); Brouthers and Brouthers (2001); and Shenkar (2001), as this relationship is far from certain.

Regarding religious similarities, target markets with religions similar to the home market could be entered through four viable components. These are: licensing and joint ventures; subsidiaries and purely marketing oriented modes; branches and mergers and acquisitions; and franchising. The findings in this perspective seem to be consistent with Davidson and McFetridge's (1985) results, as they mentioned foreign production is favoured when the host country's culture (i.e. language, religion, and values) is similar to that of the home country. Foreign production is available in all but one of entry mode components.

Regarding the effect of values dissimilarity, entering target markets that are perceived dissimilar in values with the home market could be through three viable entry components. These are: branches, franchising, joint venture, and direct exporting entry modes; licensing and partial mergers and acquisitions; and subsidiaries and indirect exporting. However, the first component that includes branches entry mode could be risky unless the entrant is highly motivated to change the values in the target market. The same logic applies to the rest of wholly and shared entry modes. The emergence of branches, in the first component, is not consistent with Kogut and Singh (1988); Gatignon and Anderson, (1988); and Davidson and McFetridge (1985). However, the second component is consistent with these authors' findings, as it includes shared-owned entry modes (e.g. mergers and acquisitions).

Regarding the effect of severe competition, entering target markets that have severe levels of competition could be through three viable entry components. These are: contractual (e.g. licensing and franchising) and direct exporting; shared owned (e.g. joint venture and partial merger and acquisition) entry modes; and wholly owned (e.g. branches and subsidiaries) entry modes. The first two components that include contractual and shared-owned beside direct exporting entry modes are responsible for 72.18 per cent (39.88 per cent +32.30 per cent) of the variance in responses. This finding represents a contribution to this area, as the effect of competition was debatable and therefore not clear in the literature, and has not been given much attention.

Regarding the effect of moderate competition, entering target markets that have moderate levels of competition could be through two viable entry components. These are: contractual (e.g. licensing and franchising), shared owned (e.g. joint venture), and indirect exporting entry modes;

and wholly owned (e.g. branches, and subsidiaries), shared owned (e.g. partial merger and acquisition), and direct exporting entry modes. These two components represent a contribution to this area. As previously mentioned, the effect of the competition variable in the literature has not been clear, and therefore the current finding represents a contribution here.

Banks having more financial resources could penetrate target markets through three viable entry components. These are: contractual (e.g. licensing and franchising), and shared owned (e.g. partial merger and acquisition) entry modes; joint ventures and direct exporting entry modes; and wholly owned (e.g. branches and subsidiaries), and indirect exporting entry modes. Literature in this area promotes financial resources as making all entry modes viable (Pan and Tse, 2000; Woodcock *et al.*, 1994; Kim and Hwang, 1992; Erramilli and Rao, 1990; and Hill *et al.*, 1990).

Regarding the effect of “less financial resources”, banks having less financial resources could target new markets through three viable entry components. These are: subsidiaries, and purely marketing oriented (e.g. direct and indirect exporting) entry modes; branches and contractual (e.g. licensing and franchising) entry modes; and partial merger and acquisition entry modes.

Literature in this area promotes contractual and shared rather than wholly owned modes (e.g. Erramilli and Rao, 1993); Goodnow and Hansz, 1972). The nature of the banking sector might be responsible for this contradiction. The fact of the matter is that the features and regulations of the banking sector might nullify, or at least neutralize, the effect of less financial resources. More specifically, fixed assets do not account for more than 10 per cent of the total assets by all means; banks financial statements are mainly depend upon deposits, not upon money invested; loan ceiling policy is often within 65 per cent of deposits values; and bank’s capital ranges from 15 to

20 per cent of total assets (Central Bank of Egypt, 2001). Consequently, the effect of less financial resources on the selection of entry modes could be debatable in the banking context.

Regarding the effect of less international experience, banks having less international experiences could target new markets throughout four viable entry components. These are: contractual (e.g. licensing and franchising) entry modes; purely marketing oriented (e.g. direct and indirect exporting) entry modes; branches and joint ventures entry modes; and subsidiaries and partial mergers and acquisitions entry modes. The results here (especially for the first two components) are consistent with the literature in this perspective. Cardozo *et al.* (1989); Forsgren (1989); Juul and Walters (1987); Newbould *et al.* (1978); Johanson and Vahlne (1977); and Johanson and Wiedersheim-Paul (1975) mentioned that entering new international market requires a learning period over which the entrants establish themselves. Contractual and shared-owned entry modes might be suitable tools for this learning period.

Before leaving this section, it is worth shedding light on the deployed technique here, which was the factor analysis (FA). The ability to summarise and interpret sets of concepts is considered amongst the benefits of this analytical technique. Therefore, FA has been used to explore the possible underlying structure in a set of interrelated variables without imposing any preconceived structure on the outcome (Child, 1990, p. 6).

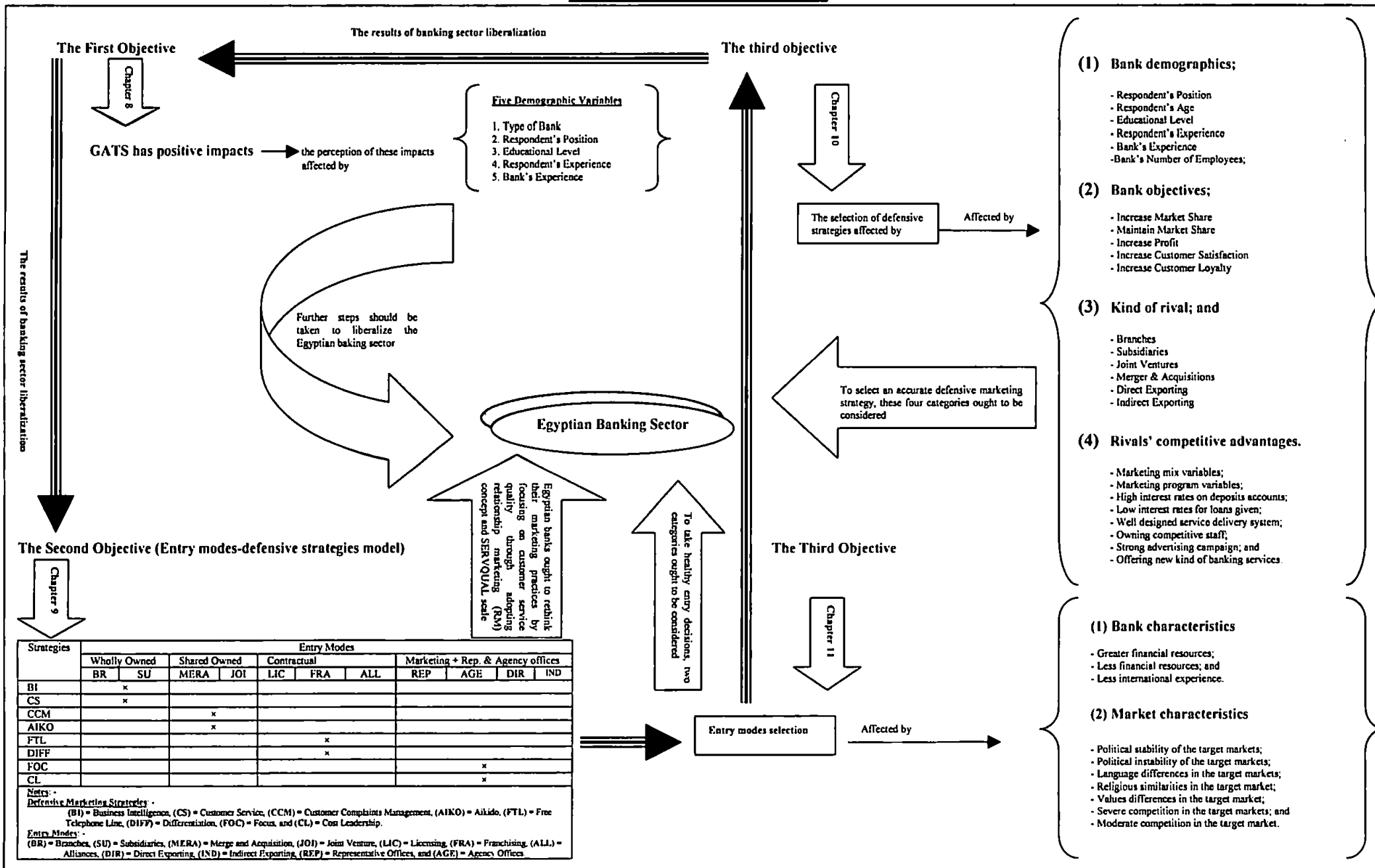
To recapitulate these for sets of results, four messages could be sent to the Egyptian banking, as shown in Figure 12/2. First, further steps ought to be taken to liberalize the banking sector, as GATS has proved to bring positive ramifications. Second, the Egyptian banking sector ought to rethink the applied marketing practices to harvest these positive impacts and sustain its market

position by focusing on service quality (QERVQUAL) and relationship marketing (RM), as none of the Egyptian banks are currently adopting the appropriate defensive marketing strategy with the perceived threats. Third, in tailoring the appropriate defensive marketing strategies, four main groups of variables ought to be considered: (1) bank demographics, (2) bank objectives, (3) bank rivals, and (4) rival's competitive advantages. Finally, two main groups of variable ought to be considered to take healthy entry mode decisions: bank characteristics, and market characteristics.

Interestingly enough, these four messages are viable options for many similar countries in the Middle East and Africa, as Egypt is considered the heart of this area of the world. For instance, the positive GATS' evidence that has been supported in the Egyptian market might encourage other neighbouring countries to take further steps in liberalizing not only the banking sector but other sectors also.

It is worth mentioning that GATS is a complicated issue and all the current study results could be considered advises, if followed fruitful results could be harvested. Having said that other extraneous reasons and factors could be added to the situation especially in dealing with the assignment model between entry modes and defensive strategies. Consequently, other factors are welcomed to be tested, as the current study opened a new avenue in this perspective.

Figure 12/2
Modeling the study Findings¹



¹ Source: The researcher based on the statistical analysis.

12.6. Research Limitations

The current research was mainly oriented towards investigating GATS impacts and the variables that affect their perception, designing an entry modes-defensive marketing model and evaluating the marketing practices of local banks, exploring patterns of relationships with these defensive strategies, and identifying factors that affect entry modes selection in the banking sector only, and did not extend to any other sectors. Due to time, effort, and budget constraints, other financial sectors (e.g. capital market sector, and insurance sector) were not targeted.

Additionally, the nature of the data collected imposed restrictions that excluded some metric techniques from being deployed. More specifically: the assumptions of MANOVA were not met when modelling variables that affect the perception of GATS impacts, therefore Multiple Regression was deployed instead in Chapter Eight; Discriminant Analysis, and Logistic Regression were excluded when modelling variables that affect the selection of defensive strategies, as DVs (applied defensive strategies) were measured on nominal scales (dichotomies). Therefore, canonical analysis was deployed instead. In retrospect, the same nominal scale would be used, if the questionnaire were redesigned to embark on this exercise again, as this concept (group of questions) is designed to measure current defensive strategies being deployed. It is not logical to ask the respondent; “what marketing actions (that compose strategies) are currently being deployed” on a Likert scale, for instance.

In the local bank’s questionnaire, the design of question number 23 (X_{23}) (relating to the effect of per capita income of inhabitants on the selection of entry modes) was misleading, as the vast majority of respondents did not respond positively to this question. Consequently, important data

regarding the effect of this variable was excluded. Therefore, a redesign is needed in the case of embarking on this exercise again.

Regarding the designed “entry modes-defensive marketing strategies model”, the use of this model within other contexts should take the subjective perception of the application sector into consideration, as differences in entry modes’ perception (based on the four assessment pillars) from one industry to another is expected. These subjective points of views are permitted and encouraged for the appropriate usage of this model.

12.7. Research Recommendations

Recommendations in this research are mainly directed to Egyptian Authorities, banking sector, and further researchers.

12.7. 1. Research Recommendations for the Egyptian Authorities

Compelling evidence from the heart of any economy i.e. the banking sector, has illustrated that with liberalization many gains could be harvested, as stated in Chapter Eight of this research. Therefore, all kinds of restrictions and barriers, that might cause obstacles for all forms of FDI in the banking sector, ought to be removed. Consequently, further steps in liberalization direction are strongly recommended nowadays.

Bearing in mind that the Egyptian GNP = 361 billion L.E. (exchange rate is one UK pound = 6.20 L.E. at 2002), and the value of exporting = 61 billion that equals 16.8 per cent of the GNP (the standard percentage equals 18 per cent). Also, 6 per cent annual growth is targeted for the coming period, that necessitates an additional investment equal to 25 per cent of the GNP, which is not available for the time being (Obid, 2002b). Having said that, liberalization of the banking sector is an immediate prerequisite to attract the required investments.

12.7. 2. Research Recommendations for the Egyptian Banking Sector

The current research reveals that: -

1. Egyptian bankers may need extensive training programs to be knowledgeable about new market trends, and the positive consequences of GATS agreements, especially those with higher positions, age groups, and banking experience. The highest position e.g. general managers category for instance, perceive the positive ramifications of GATS agreements less; however their drawbacks are well perceived by this group. This incomplete perception indicates that they lack a balanced vision about the Egyptian banking industry's future.
2. The history of the Egyptian banking sector goes back to the construction of "Bank Misr" on November 15th 1920 at the beginning of the last century; its marketing practices need rethinking now. Corrective actions are required. Elements, mechanisms, and features of defensive marketing strategies ought to be fully understood to be deployed appropriately. The same argument extends to entry modes, as clarity in their understanding might help deal with them effectively. Consequently, Egyptian bankers need extensive training in this area, especially in setting a dialogue between entry modes and defensive marketing strategies.
3. Any economy encounters transition periods in which dramatic changes occur (e.g. September 11th consequences on the Egyptian economy, Egypt's full commitment of GATS agreements at 2005, during the Egyptian reform program adopted at 1990s, and the mass privatisation program in Egypt). In these cases, adopting CS, BI, and CCM defensive marketing strategies seem to be effective at maintaining current market share. Therefore, it is worth thinking of their execution for keeping the bank's status quo, till bridging these transition periods orients the bank.

4. CS strategy seems to be effective at enhancing customer satisfaction; that in turn is reflected in increasing customer loyalty that might lead to increasing banks' profits, especially in the long run, as strong significant relationships with these bank aims were reported. Therefore, it is worth pursuing this area. This could be achieved through starting immediate market segmentation to better determine the bank's customer groups, finding out customer's expectations in each group, developing a communication plan to influence customers to expect a little less than they will get, hiring and training competitive staff, creating new banking services, modifying the service delivery system in all the bank's branches, and creating a healthy competition among the bank's branches to select branch of the month.
5. CS strategy appears to have strong relationships with most competitive entry modes; therefore by focusing on this strategy local banks can build a competitive edge against all kinds of competitors (i.e. entry modes).
6. CS can function as a strong shield against rivals' sovereignty and competitive advantages (e.g. kinds of services, using advanced technology, pledging high interest rates on deposit accounts, pledging low interest rates for loans, hiring competitive staff, conducting strong advertising campaigns, and components of marketing program e.g. marketing mix and promotional mix), therefore it appears to be the best solution for Egyptian banks and may nullify the competitive edge of rivals.
7. FOC strategy appears to be the option with direct and indirect exporting, therefore Egyptian banks could focus on some customer groups such as tourists, diplomatic missions working in Egypt (as kinds of indirect exporting for Egyptian banks), and businessmen (as a kind of direct exporting adopted by foreign banks located outside

the Egyptian market to attract those local businessmen) to prevent them switching to rivals services.

8. When targeting new markets, banking authorities ought to design a matrix that contains at least ten factors. These factors include bank and target market characteristics. The latter includes political stability and instability, language differences, religious similarities, values differences, severe competition, and moderate level of competition. The former includes greater financial resources, less financial resources, and less international experience.

12.7.3. Recommendations for Further Research

These recommendations include: -

- (1) In modelling factors that affect the perception of GATS impacts, limited effects were reported with bank's type, respondent's position, educational level, banker's experience, and bank's experience. Consequently, other factors than these five regressors might play significant roles in affecting the perception of each GATS impact. Therefore, exploring this approach in further research is strongly recommended to build a solid literature base in this area.
- (2) Investigating GATS impacts on other financial sectors e.g. capital market (stock exchange market), and insurance companies is strongly recommended. Not only this, but the remaining economic sectors in the Egyptian economy need to be targeted in order to construct solid literature in areas never touched before.
- (3) Testing the current model in other similar developing countries is a strongly recommend approach to commence a kind of debate around comparative studies in this area.
- (4) In designing the "Entry Modes-Defensive Marketing Strategy Model", four pillars were used. This is a pioneer endeavour to match two streams of literatures where it was thought

before that no relationship existed between them. This endeavour resembles a thrown stone in a stagnated lake. Consequently, scholars are invited to think about other pillars and assumptions. Exploring this approach is strongly recommended in further research.

(5) During consulting and checking the banking literature, the importance of Data Envelopment Analysis (DEA) emerged. It is a widely accepted managerial technique to evaluate branches performance, and therefore it provides benchmarks for branches. It multiplies the branch outputs {decision making unit (DMU)} to branch inputs. Outputs include net monthly profit, monthly average balance of savings, the monthly average of current accounts, the monthly average of the accounts, monthly mortgages, an index of loans, and the number of accounts. Inputs include many factors such as numbers of employees, employees with college degrees, location index, an index of the rank of the highest authority, an index of expenditures on decoration, average monthly salaries, other operational expenses, equipment, and average number of years of experience (Soteriou and Stravinides, 1997; Thanassoulis *et al.*, 1995; El-Faraj *et al.*, 1992; Oral and Yolalan, 1990; and Sherman and Gold, 1985). The Egyptian banking sector includes 82 banks with 1568 branches, of which the National Bank of Egypt has 308 branches (Central bank of Egypt, 1999). Consequently, DEA could be used to evaluate the performance of these branches.

(6) In determining the factors that affect the selection of entry modes, if the respondents had been asked to choose only one or a few entry modes instead of ranking all of them within each concept by using FA, each concept (eight entry modes) could have been loaded to a few factors with only one item. In other words, one or a few entry modes instead of entry mode components could be produced. Therefore, it is strongly recommended that further research explores this approach. In this case a Table like Table 12/2 could be produced.

Table 12/2
The Factors That Affect the Selection of Each Entry Mode

Market and Bank Characteristics		Entry Modes in Banking Context							
		Wholly-Owned		Shared-Owned		Contractual		Purely Marketing	
Market Characteristics		BR	SU	MER	JOI	LIC	FRA	DIR	IND
	1-Political stability								
	2-Political instability								
	3-Languages differences								
	4-Religion similarities								
	5-Values differences								
	6-Severe competition								
7-Moderate competition									
Bank's Characteristics	8-More financial resources								
	9-Less financial resources								
	10-Less International experiences								

Notes: -
 (BR) = Branches, (SU) = Subsidiaries, (MER) = Partial Merges and Acquisitions, (JOI) = Joint Ventures, (LIC) = licensing, (FRA) = Franchising, (DIR) = Direct Exporting, (IND) = Indirect Exporting.

12.8. Chapter Conclusion

At the end of this study, it is worth reiterating that the study makes four contributions to the growing literature on defensive marketing strategies and GATS impacts, three of which are issues touched for the first time in the literature. It tackled the matching process between two streams of literature where it was thought before that there was no relationship, and designed what is called "Entry-modes defensive marketing strategies model". Therefore, other scholars are invited to explore this approach in other industries. Also, it targeted GATS impacts on one leading developing country (e.g. Egypt); bearing in mind no evidence in this area had been revealed before. Other scholars are invited to explore the same approach in other developing countries. Moreover, it addressed for the first time in the literature the variables that affect the selection of defensive marketing strategies, as these factors were not determined before.

Finally, the extant literature does not offer a theoretically sound and empirically corroborated framework for how service firms could choose between different types of entry modes. While a

significant amount of research has been devoted to understanding the choice between equity and non-equity modes, relatively little is known about how service firms choose between different types of modes (Erramilli *et al.*, 2002). Therefore, the present study attempted to address this issue in the context of the banking sector. It is hoped that it will provide fertile ground for future research.



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Appendices

- Local Banks' Questionnaire and Covering Letter (Appendix A1)
- Foreign Banks' Questionnaire and Covering Letter (Appendix A2)
- Number of Banks and Branches in the Egyptian Banking Sector (Appendix B)
- The Construction of the Composite Variable (Appendix C)
- Relationships between Demographics and the Aggregate GATS Impacts (Appendix D)
- Conferences and Publications (Appendix E)

Appendix (A1):
Local Banks' Questionnaire and Covering Letter

Six Pages

Dear Sir/ Madam

Thank you for your cooperation in achieving this scientific research. This research is aimed at investigating the impacts of GATS on the Egyptian banking sector and supporting the development of defensive strategies by local banks.

Accordingly, the enclosed questionnaire has been designed to cover your distinguished experiences of, and view on, the impacts of GATS on the banking sector, and defensive marketing strategies that your distinguished bank uses.

Thereby, all information will be treated in the strictest confidence. No data will be published which can be identified as a response from a specific bank. There are no right or wrong answers, your opinions are what is interesting. So, your participation is valuable in filling in the literature gap in this body of knowledge.

As a way of expressing appreciation for your cooperation in complete this survey, we will be happy to send you a copy of the results. If you would like a copy, please fill in your details at the end of the questionnaire. With your help the results of this investigation may improve the debate and policy at national level. We are depending on your view to help understand and secure a healthy and developed banking sector in our country.

Finally, if you have any queries or would like further information please do not hesitate to contact me on 3361383.

Thank you very much for your assistance and cooperation with this research.

Yours Sincerely

Mansour Lotayif

Demographic Information

- **About you:-**

Position:- (X1)

Age:- (X2)

<input type="checkbox"/> Between 25- 35 years		<input type="checkbox"/> Over 55- 65 years	
<input type="checkbox"/> Over 35: 45 years		<input type="checkbox"/> Over 65 years	
<input type="checkbox"/> Over 45- 55 years			

Educational level:- (X3)

<input type="checkbox"/> Sub-University degree		<input type="checkbox"/> Master degree	
<input type="checkbox"/> University degree		<input type="checkbox"/> Ph. D. degree	

Years of Experience in this position and similar positions:- (X4)

- **About your Bank**

Number of years your bank has been in business:- (X5)

Number of Employees:- (X6)

<input type="checkbox"/> Less than 100		<input type="checkbox"/> From 1001-10000	
<input type="checkbox"/> From 101-1000		<input type="checkbox"/> More than 10000	

(1) Which of the following places do you think may be affected more from GATS {General Agreement for Trade in Service}? (X7)

	Strongly agree	Inclined to Agree	Undecided; Don't know	Inclined to Disagree	Strongly disagree
<input type="checkbox"/> Developing Countries (X71)	5	4	3	2	1
<input type="checkbox"/> Middle East (X72)	5	4	3	2	1
<input type="checkbox"/> Egypt in particular (X73)	5	4	3	2	1
<input type="checkbox"/> Developed Countries (X74)	5	4	3	2	1

(2) Please indicate your overall attitude to the impacts of the GATS agreements on the Egyptian banking sector (X8)

Broadly Positive ()

Neutral ()

Broadly negative ()

Please Continue.....

(3) Can you tell me to what extent you agree or disagree with these statements? (X9)

GATS Effects	Strongly agree	Inclined to Agree	Undecided	Inclined to Disagree	Strongly Disagree
<input type="checkbox"/> GATS will allow new banking systems to enter the Egyptian market. (X91)	5	4	3	2	1
<input type="checkbox"/> Improve the level of local banks' services quality. (X92)	5	4	3	2	1
<input type="checkbox"/> Give local banks the motive to offer new banking services (X93)	5	4	3	2	1
<input type="checkbox"/> Improves the total performance of local banks (X94)	5	4	3	2	1
<input type="checkbox"/> Enables the banking sector to perform its role in the Egyptian economy in the coming period (X95)	5	4	3	2	1
<input type="checkbox"/> Employees of foreign establishments may switch to domestic institutions, taking their skills with them. (X96)	5	4	3	2	1
<input type="checkbox"/> Financial market broaden and deepen by helping to develop bond and stock markets. (X97)	5	4	3	2	1
<input type="checkbox"/> Help reduce information gaps (X98)	5	4	3	2	1
<input type="checkbox"/> Increase transparency about the soundness and creditworthiness of financial institutions. (X99)	5	4	3	2	1
<input type="checkbox"/> Risk management becomes easier when certain instruments (such as forward contracts and hedging of foreign exchange and interest obligations) become available. (X910)	5	4	3	2	1
<input type="checkbox"/> Efficiency broad-based liberalization commitments increase competition, leading to lowest cost practices in all market segments generally, and the banking sector in particular. (X911)	5	4	3	2	1
<input type="checkbox"/> Help to transfer skills from outside. (X912)	5	4	3	2	1
<input type="checkbox"/> Help to spread risk more broadly. (X913)	5	4	3	2	1
<input type="checkbox"/> Liberalizing international trade in the banking sector can be a market-based means to improve the quality of capital flows and to strengthen financial systems (X914)	5	4	3	2	1
<input type="checkbox"/> Create pressure to improve regulation and supervision for the Egyptian banking sector (X915)	5	4	3	2	1
<input type="checkbox"/> Improve regulation and supervision across a broad range of financial services. (X916)	5	4	3	2	1
<input type="checkbox"/> Decrease local banks' market share (X917)	5	4	3	2	1
<input type="checkbox"/> Decrease local banks' revenues (X918)	5	4	3	2	1
<input type="checkbox"/> Lead to the collapse of the Egyptian banking sector (X919)	5	4	3	2	1
<input type="checkbox"/> Attract local banks' staff to work in foreign banks (X920)	5	4	3	2	1
<input type="checkbox"/> Agitates price/cost competition among the local and foreign banks (X921)	5	4	3	2	1
<input type="checkbox"/> Lead to increase a defensive reaction expenditures on the local bank side (X922)	5	4	3	2	1
<input type="checkbox"/> Lead to increase advertising budgets of local banks. (X923)	5	4	3	2	1
<input type="checkbox"/> Affect both the monetary and credit policies of Egypt in a negative direction. (X924)	5	4	3	2	1
<input type="checkbox"/> Others (Please mention) (X925)					

Note:- When you add other effects, please put the appropriate number in each column to indicate how you feel about each benefit. Please use the following key: 5 = Strongly Agree, 4 = Inclined to Agree, 2 = Inclined to Disagree 3 = Do not know, 1 = Strongly Disagree

(4) Which of the following describe your marketing objectives? (X10)

Marketing Objectives	Yes	No
<input type="checkbox"/> Increase the bank's market share (X101)		
<input type="checkbox"/> Maintain the current market share (X102)		
<input type="checkbox"/> Increase the bank's profit (X103)		
<input type="checkbox"/> Increase the bank's customer satisfaction (X104)		
<input type="checkbox"/> Increase the customers' loyalty (X105)		
<input type="checkbox"/> Others Please Mention) (X106)		
.....		
.....		

Note:- If you feel there are other objectives should be added, please do not hesitate to add these objectives

(5) From your bank point of view, can you rank the following entry mode according to the degree of risk, the probability of risk continuity, resources needed to respond, and the time needed to respond? (X11)

Note: -

- The first one take Number (one), the last one take number (eight)
- Degree of risk means the threats that the entry mode causes.
- Probability of risk continuity means for how long this threat will last
- Resources needed means the amount of money needed to avoid the threats of this entry mode
- Time needed means.... The time period to prepare yourself to respond or the time lag between perceiving the threats of the entry mode and taking the action to respond

Kind of Entry Mode	Degree of Risk	Probability of risk continuity	Resources needed	Time needed to respond
(1) Branches	(X111)	(X121)	(X131)	(X141)
(2) Subsidiaries	(X112)	(X122)	(X132)	(X142)
(3) Licensing	(X113)	(X123)	(X133)	(X143)
(4) Franchising	(X114)	(X124)	(X134)	(X144)
(7) Joint Venture	(X117)	(X127)	(X137)	(X147)
(8) Partially Merger and Acquisition	(X118)	(X128)	(X138)	(X148)
(10) Direct Exporting	(X1110)	(X1210)	(X1310)	(X1410)
(11) Indirect Exporting	(X1111)	(X1211)	(X1311)	(X1411)

(6) What kind of the following entry modes do you consider your competitors to be mainly concerned with? (X15)

Kind of Entry Mode	
(1) Branches (X151)	
(2) Subsidiaries (X152)	
(3) Licinsing (X153)	
(4) Franchising (X154)	
(7) Joint Venture (X157)	
(8) Partially Merge and Acquisition (X158)	
(10) Direct Exporting (X1510)	
(11) Indirect Exporting (X1511)	

(7) What do you think the strong elements are in their Marketing program? (X16)

Competitors Marketing Program	
<input type="checkbox"/> I can not determine (X161)	
<input type="checkbox"/> Their marketing mix variables (X162)	
<input type="checkbox"/> All their marketing program variables (X163)	
<input type="checkbox"/> Using advanced technology (X164)	
<input type="checkbox"/> Offering new kind of banking services (X165)	
<input type="checkbox"/> High interest rates on deposits accounts (X166)	
<input type="checkbox"/> Low interest rates for loans given (X167)	
<input type="checkbox"/> Well designed service delivery system (X168)	
<input type="checkbox"/> Owning competitive staff (X169)	
<input type="checkbox"/> Strong advertising campaign (X1610)	
<input type="checkbox"/> Others (Please mention) (X1611)	
.....	
.....	

(8) How you can defend your bank's objectives? (X17)

(More than one option is possible)

Defensive Marketing Actions	
<input type="checkbox"/> Collect published and field data about competitor (s) to make them an open book (X171)	
<input type="checkbox"/> Classify these data (X172)	
<input type="checkbox"/> Catalogue these data and constructing a competitor library (X173)	
<input type="checkbox"/> Analyze these data and take the appropriate action (X174)	
<input type="checkbox"/> Start market segmentation immediately to better determine the bank customer groups (X175)	
<input type="checkbox"/> Find out customer's expectation of each group (X176)	
<input type="checkbox"/> Develop a communication plan to influence customers to expect a little less than they will get (X177)	
<input type="checkbox"/> Hire and train competitive staff (X178)	
<input type="checkbox"/> Create new banking services (X179)	
<input type="checkbox"/> Modify the service delivery system in all the bank' branches (X1710)	
<input type="checkbox"/> Create healthy competition among the bank's branches to select branch of the month. (X1711)	
<input type="checkbox"/> Create a customer service department (X1712)	
<input type="checkbox"/> Investigate and understand the attacking intentions regarding the Egyptian banking sector (X1713)	
<input type="checkbox"/> Wait until the service delivery system is settled and the competitors intentions appear (X1714)	
<input type="checkbox"/> Bend for a while and keep using the previous marketing program (X1715)	
<input type="checkbox"/> Modify the existing marketing program (X1716)	
<input type="checkbox"/> Add a customer complaint department to the current bank's hierarchy (X1717)	
<input type="checkbox"/> Train all the bank's staff to deal with customer complaints (X1718)	
<input type="checkbox"/> Use a free line telephone for customer voicing (X1719)	
<input type="checkbox"/> Focus on attracting and satisfying specific customer categories (X1720)	
<input type="checkbox"/> Design a marketing program for each customer category (X1721)	
<input type="checkbox"/> Increase deposits' rates (X1722)	
<input type="checkbox"/> Decrease loans' interests (X1723)	
<input type="checkbox"/> Exercise tight control on all kinds of costs within the bank (X1724)	
<input type="checkbox"/> Avoid marginal customers i.e. those customers who do not produce more profits for the bank (X1725)	
<input type="checkbox"/> Design an intensive marketing campaign (X1726)	

Name:-
Address:-

Thank You Very Much

Appendix (A2):
Foreign Branches' Questionnaire and Covering Letter

Eight Pages

Dear Sir/ Madam

Thank you for your cooperation in achieving this scientific research. This research is aimed at investigating the Egyptian banking sector. Besides that, it investigates the impacts of GATS on the Egyptian banking sector.

Accordingly, the enclosed questionnaire has been designed to cover your distinguished experiences of, and views on, the impacts of GATS on the banking sector, the entry modes and the factors that determine the selection of each one of them.

Thereby, all information will be treated in the strictest confidence. No data will be published which can be identified as a response from specific bank. There are no right or wrong answers; your opinions are what is interesting. So, your participation is valuable in filling in the literature gap in this body of knowledge.

As a way of expressing appreciation for your cooperation in completes this survey, we will be happy to send you a copy of the results. If you would like a copy, please fill in your details at the end of the questionnaire. With your help the results of this investigation may improve the debate and policy at national level. We are depending on your view to help understand and secure a healthy and developed banking sector.

Finally, if you have any queries or would like further information please do not hesitate to contact me on (3361383).

Thank you very much for your assistance and cooperation with this research.

Yours Sincerely

Mansour Lotayif

Demographic Information

About you:- Position:- (X1) Age: - (X2)

<input type="checkbox"/> From 25- 35 years		<input type="checkbox"/> Over 55- 65 years	
<input type="checkbox"/> Over 35: 45 years		<input type="checkbox"/> Over 65 years	
<input type="checkbox"/> Over 45- 55 years			

 Educational level:- (X3)

<input type="checkbox"/> Before University degree		<input type="checkbox"/> Master degree	
<input type="checkbox"/> University degree		<input type="checkbox"/> Pd. D degree	

 Years of Experience at this position and similar positions:- (X4)**About your Bank** Number of years your bank in business:- (X5) Number of Employees:- (X6)

<input type="checkbox"/> Less than 100		<input type="checkbox"/> From 1001-10000	
<input type="checkbox"/> From 101-1000		<input type="checkbox"/> More than 10000	

(1) Do you think the GATS {General Agreement for Trade in Service} agreements can affect both the developing and developed countries in the same way? (X9)

Yes () No ()

(2) Please indicate your overall attitude to the impacts of the GATS agreements on the Egyptian banking sector (X10)

Broadly Positive ()

Neutral ()

Broadly negative ()

(3) Can you tell me to what extent you agree or disagree with these statements? (X11)

GATS Effects	Strongly agree	Inclined to Agree	Undecided; Don't know	Inclined to Disagree	Strongly Disagree
<input type="checkbox"/> GATS will allow new banking systems to enter the Egyptian market (X111)	5	4	3	2	1
<input type="checkbox"/> Improve the level of local banks' services quality (X112)	5	4	3	2	1
<input type="checkbox"/> Give local banks the motive to offer new banking services (X113)	5	4	3	2	1
<input type="checkbox"/> Improves the total performance of local banks (X114)	5	4	3	2	1
<input type="checkbox"/> Enables the banking sector to perform its role in the Egyptian economy in the coming period (X115)	5	4	3	2	1
<input type="checkbox"/> Employees of foreign establishments may switch to domestic institutions, taking their skills with them (X116)	5	4	3	2	1
<input type="checkbox"/> Financial market broadens and deepens by helping to develop bond and stock markets (X117)	5	4	3	2	1

<input type="checkbox"/> Help reduce information gaps (X118)	5	4	3	2	1
<input type="checkbox"/> Increase transparency about the soundness and creditworthiness of financial institutions (X119)	5	4	3	2	1
<input type="checkbox"/> Risk management becomes easier when certain instruments (such as forward contracts and hedging of foreign exchange and interest obligations) become available (X1110)	5	4	3	2	1
<input type="checkbox"/> Efficiency broad-based liberalization commitments increase competition, leading to lowest cost practices in all market segments generally, and the banking sector in particular (X1111)	5	4	3	2	1
<input type="checkbox"/> Help to transfer skills from outside (X1112)	5	4	3	2	1
<input type="checkbox"/> Help to spread risk more broadly (X1113)	5	4	3	2	1
<input type="checkbox"/> Liberalizing international trade in the banking sector can be a market-based means to improve the quality of capital flows and to strengthen financial systems (X1114)	5	4	3	2	1
<input type="checkbox"/> Create pressure to improve regulation and supervision for the Egyptian banking sector (X1115)	5	4	3	2	1
<input type="checkbox"/> Improve regulation and supervision across a broad range of financial services (X1116)	5	4	3	2	1
<input type="checkbox"/> Decrease local banks' market share (X1117)	5	4	3	2	1
<input type="checkbox"/> Decrease local banks' revenues (X1118)	5	4	3	2	1
<input type="checkbox"/> Lead to the collapse of the Egyptian banking sector (X1119)	5	4	3	2	1
<input type="checkbox"/> Attract local banks' staff to work in foreign banks (X1120)	5	4	3	2	1
<input type="checkbox"/> Agitates price/cost competition among the local and the foreign banks (X1121)	5	4	3	2	1
<input type="checkbox"/> Lead to increase a defensive reaction expenditures on the local bank side (X1122)	5	4	3	2	1
<input type="checkbox"/> Lead to increase advertising budgets of local banks (X1123)	5	4	3	2	1
<input type="checkbox"/> Affect both the monetary and credit policies of Egypt in a negative direction (X1124)	5	4	3	2	1
<input type="checkbox"/> Others (Please mention) (X1125)					

Note:- When you add other effects, please put the appropriate number in the column to indicate how you feel about each effect. Please use the following key: 5 = Strongly Agree, 4 = Inclined to Agree, 3 = Do not know, 2 = Inclined to Disagree, and 1 = Strongly Disagree

Please Continue....

Would you please express your opinion regarding the following variables?

Notes related to the following Questions

- (1) **Political Stability** of the target market means...the smoothly transfer of authority from party or ruler to another.
- (2) **Severe Competition** in the target market....is related to the number of banking service providers and the quality of banking services.
- (3) **Language Differences** means..... the native language of the target market is different than that of the home market.
- (4) **Religion difference** means....whether the religion of the target market inhabitants' majority is similar or not to the religion of the inhabitants' majority in the home market.
- (5) **Target market values** means.....the accumulated behavior that is reflected by inhabitants' behavior in the target market.
- (6) **International experience** is the accumulated knowledge acquired from working in international markets.

(4) Political Stability of the target market encourages the bank to enter this market via (X12)	Strongly agree	Inclined to Agree	Undecided; Don't know	Inclined to Disagree	Strongly Disagree
(X121) <input type="checkbox"/> Branches	5	4	3	2	1
(X122) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X123) <input type="checkbox"/> Licensing	5	4	3	2	1
(X124) <input type="checkbox"/> Franchising	5	4	3	2	1
(X127) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X128) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1210) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1211) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(5) Political Instability of the target market encourages the bank to enter this market via (X13)					
(X131) <input type="checkbox"/> Branches	5	4	3	2	1
(X132) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X133) <input type="checkbox"/> Licensing	5	4	3	2	1
(X134) <input type="checkbox"/> Franchising	5	4	3	2	1
(X137) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X138) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1311) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(6) The MORE the bank's financial resources, the MORE the tendency to use (X14)					
(X141) <input type="checkbox"/> Branches	5	4	3	2	1
(X142) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X143) <input type="checkbox"/> Licensing	5	4	3	2	1
(X144) <input type="checkbox"/> Franchising	5	4	3	2	1
(X147) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X148) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1410) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1411) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(7) The LESS the bank's financial resources, the MORE the tendency to use (X15)					
(X151) <input type="checkbox"/> Branches	5	4	3	2	1
(X152) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X153) <input type="checkbox"/> Licensing	5	4	3	2	1
(X154) <input type="checkbox"/> Franchising	5	4	3	2	1

(X157) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X158) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1510) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1511) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(8) Different target market language from the home market language encourages the use of (X16)					
(X161) <input type="checkbox"/> Branches	5	4	3	2	1
(X162) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X163) <input type="checkbox"/> Licensing	5	4	3	2	1
(X164) <input type="checkbox"/> Franchising	5	4	3	2	1
(X167) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X168) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1610) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1611) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(9) Similarities between the target market language and the home market language encourage the use of (X17)					
(X171) <input type="checkbox"/> Branches	5	4	3	2	1
(X172) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X173) <input type="checkbox"/> Licensing	5	4	3	2	1
(X174) <input type="checkbox"/> Franchising	5	4	3	2	1
(X177) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X178) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1710) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1711) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(10) Different Religions in the target market and the home market encourage the use of (X18)					
(X181) <input type="checkbox"/> Branches	5	4	3	2	1
(X182) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X183) <input type="checkbox"/> Licensing	5	4	3	2	1
(X184) <input type="checkbox"/> Franchising	5	4	3	2	1
(X187) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X188) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1810) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1811) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(11) Similarities between target market's Religion and the home market's religion encourage the use of (X19)					
(X191) <input type="checkbox"/> Branches	5	4	3	2	1
(X192) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X193) <input type="checkbox"/> Licensing	5	4	3	2	1
(X194) <input type="checkbox"/> Franchising	5	4	3	2	1
(X197) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X198) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X1910) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X1911) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(12) Similarities between target market's Values and the home market's values encourage the use of (X20)					
(X201) <input type="checkbox"/> Branches	5	4	3	2	1
(X202) <input type="checkbox"/> Subsidiaries	5	4	3	2	1

(X203) <input type="checkbox"/> Licensing	5	4	3	2	1
(X204) <input type="checkbox"/> Franchising	5	4	3	2	1
(X207) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X208) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2010) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2011) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(13) Differences between target market's Values and the home market's values encourage the use of (X21)					
(X211) <input type="checkbox"/> Branches	5	4	3	2	1
(X212) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X213) <input type="checkbox"/> Licensing	5	4	3	2	1
(X214) <input type="checkbox"/> Franchising	5	4	3	2	1
(X217) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X218) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2110) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2111) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1

(14) Do you think that the target markets per capita income affect the type of entry mode used to target this market? (X22)

Yes () No ()

(15) If yes, what do you think the appropriate entry mode with each per capita income (X23)	Less than \$1000 Annually	From \$1000 to \$4000 Annually	Over \$4000 to \$10000	Over \$10000 to \$20000	Over \$20000 Annually
(X231) <input type="checkbox"/> Branches					
(X232) <input type="checkbox"/> Subsidiaries					
(X233) <input type="checkbox"/> Licensing					
(X234) <input type="checkbox"/> Franchising					
(X237) <input type="checkbox"/> Joint Venture					
(X238) <input type="checkbox"/> Merger and Acquisition					
(X2310) <input type="checkbox"/> Direct Exporting					
(X2311) <input type="checkbox"/> Indirect Exporting					

(16) Do you think the level of competition in the target market affects the kind of entry mode selected?(X24)

Yes () No ()

(17) Severe Competition in the target market encourages the bank to enter this market via (X25)	Strongly agree	Inclined to Agree	Undecided; Don't know	Inclined to Disagree	Strongly Disagree
(X251) <input type="checkbox"/> Branches	5	4	3	2	1
(X252) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X253) <input type="checkbox"/> Licensing	5	4	3	2	1
(X254) <input type="checkbox"/> Franchising	5	4	3	2	1
(X257) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X258) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2510) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2511) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(18) Moderate Competition in the target market encourages the bank to enter this market via (X26)					
(X261) <input type="checkbox"/> Branches	5	4	3	2	1
(X262) <input type="checkbox"/> Subsidiaries	5	4	3	2	1

(X263) <input type="checkbox"/> Licensing	5	4	3	2	1
(X264) <input type="checkbox"/> Franchising	5	4	3	2	1
(X267) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X268) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2610) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2611) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(19) <u>Low levels of Competition</u> in the target market encourage the bank to enter this market via (X27)					
(X271) <input type="checkbox"/> Branches	5	4	3	2	1
(X272) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X273) <input type="checkbox"/> Licensing	5	4	3	2	1
(X274) <input type="checkbox"/> Franchising	5	4	3	2	1
(X277) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X278) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2710) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2711) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1

(20) Do you think that the bank's international experience affect the type of entry mode selected? (X28)

- Strongly agree ()
 Inclined to Agree ()
 Undecided; Don't know ()
 Inclined to Disagree ()
 Strongly disagree ()

(21) The <u>MORE</u> international experience the bank has, the <u>MORE</u> the tendency to use (X29)	Strongly agree	Inclined to Agree	Undecided; Don't know	Inclined to Disagree	Strongly Disagree
(X291) <input type="checkbox"/> Branches	5	4	3	2	1
(X292) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X293) <input type="checkbox"/> Licensing	5	4	3	2	1
(X294) <input type="checkbox"/> franchising	5	4	3	2	1
(X297) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X298) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X2910) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X2911) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1
(22) The <u>LESS</u> the international experience the bank has, the <u>MORE</u> tendency to use? (X30)					
(X301) <input type="checkbox"/> Branches	5	4	3	2	1
(X302) <input type="checkbox"/> Subsidiaries	5	4	3	2	1
(X303) <input type="checkbox"/> Licensing	5	4	3	2	1
(X304) <input type="checkbox"/> Franchising	5	4	3	2	1
(X307) <input type="checkbox"/> Joint Venture	5	4	3	2	1
(X308) <input type="checkbox"/> Merger and Acquisition	5	4	3	2	1
(X3010) <input type="checkbox"/> Direct Exporting	5	4	3	2	1
(X3011) <input type="checkbox"/> Indirect Exporting	5	4	3	2	1

Name:-

Thank You Very Much

Address.

Appendix (B):
Number of Banks and Branches in the Egyptian
Banking Sector

Two Pages

Table (B/1)
Taxonomy of Egyptian Banking Sector' Branches¹

Public Banks' Branches		Private Banks' Branches	
Banks	No. Of Branches	Banks	No. Of Branches
National Bank	308	Commercial Banks	294
Misr Bank	282	Foreign Branches	28
Cairo Bank	253	Investment Banks	150
Alex. Bank	192		
Property and Industrial Banks	43		
Development and Agricultural Banks	18		
Total	1096	Total	472

Table (B/2)
Number of Employees and Board of Directors in the Banking Sector¹

Items	Public Banks				Private Banks			
	Central Bank and Commercial Banks	Property and Industrial Banks	Development and Agriculture Banks	Total	Commercial Banks	Branches	Investment Banks	Total
Number of Banks	5	2	18	25	24	22	11	57
Board of directors	51	27	195	273	267	150	110	527
Employees	40585	1835	23119	65539	12362	1133	4145	17640
Workers	9591	968	5757	16316	2716	191	1435	4342
Total	50227	2830	29071	82128	15345	1339	5690	22374

¹ Source: - Central Bank of Egypt, 1999.

Appendix (C):
The Construction of the Composite Variable

Three Pages

Eight composite variables were created to represent the eight defensive marketing strategies. These eight's composite variables are T17₁ to represent BI strategy, T17₂ to represent CS strategy and so on as presented in Table (C/1) below.

Table (C/1)
The Creation of Composite Variables

Value	$\{T_n = A + 2B + 4C + 8D + 16E + \dots + \infty\}$								No. of Variables	New Variables
	1	2	4	8	16	32	64	128		
X17	X17 ₁	X17 ₂	X17 ₃	X17 ₄	X17 ₅	X17 ₆	X17 ₇	X17 ₈ ...X17 ₂₆	26	T17
	X17 ₁	X17 ₂	X17 ₃	X17 ₄					4	T17 ₁
	X17 ₅	X17 ₆	X17 ₇	X17 ₈	X17 ₉	X17 ₁₀	X17 ₁₁		7	T17 ₂
	X17 ₁₃	X17 ₁₄	X17 ₁₅						3	T17 ₃
	X17 ₂₂	X17 ₂₃	X17 ₂₄	X17 ₂₅					4	T17 ₄
	X17 ₁₂	X17 ₁₇	X17 ₁₈						3	T17 ₅
	X17 ₂₀	X17 ₂₆							2	T17 ₆
	X17 ₂₁								1	T17 ₇
X17 ₁₉								1	T17 ₈	

The selected variables could be identified through the following formula: $\{T_n = A + 2B + 4C + 8D + 16E + \dots + \infty\}$, as this formula guarantees a unique value for each variable (Ashour, 2001) as shown in Tables (C/2) and (C/3). According to the number of the sub-variables within each main variable, the equation values could be 1, 2, 4, 8, 16, 32, 64 values and so on.

Table (C/2)
An Explanatory Example

A	B	C	Value	Meaning (selected Variables)
1	0	0	1	A
0	1	0	2	B
1	1	0	3	A and B
0	0	1	4	C
1	0	1	5	A and C
0	1	1	6	B and C
1	1	1	7	A, B, and C
$\{T_n = A + 2B + 4C + 8D + 16E + \dots + \infty\}$ Where: - > T _n = is the Composite variable > A, B, C.... are the sub-variables within this composite variable				

To illustrate the use of this equation, suppose you have three variables; A, B, and C. Consequently, the values and the selected variables could be presented as shown in Table (C/2).

The appearance of number seven in a frequency table for this variable for instance means the three variables (A, B, and C) were selected; the appearance of number six means that B and C were selected and so on, as shown in tables (C/2) and (C/3).

Using the “transform” function in SPSS, each defensive marketing strategy has taken one label from T17₁ to T17₈. The logic behind using the recoding equation is that the total number that each composite variable takes is equal to the summation of its inner values. In other words {and based on Table (C/1)}, the maximum frequency with T17₁ is 15 { $\sum 1 + 2 + 4 + 8$ }. Therefore, in the case of conducting a frequency analysis for T17₁, the appearance of 1, 9, 11, and 15 have specific meaning as presented in Table (C/3). The same logic applies for the rest of these composite variables; consequently the maximum frequencies with T17₁, T17₃, T17₄, T17₅, T17₆, T17₇ and T17₈ are 12, 7, 15, 7, 3, 1, and 1 respectively. Two things should be mentioned here (a) all the zero values have been considered missed values by using the “select cases” option in the SPSS, as they represent those who did not select the defensive action, and (b) this equation does not affect the original “nominal scale” of the sub variables i.e. the scale of variable seventeen (X_{17,1,26}) stays nominal as it was.

Table (C/3)
Business Intelligence (BI) Strategy’s Frequencies (T17₁)

The selected options	Frequency	%
1= The number who have selected X17 ₁ only	21	4.8
9 = The number who have selected X17 ₁ and X17 ₄	35	8.1
11= The number who have selected X17 ₁ , X17 ₂ and X17 ₄	32	7.4
15 = The number who have selected X17 ₁ , X17 ₂ , X17 ₃ and X17 ₄	346	79.7
Total	434	100.0

To sum up, these eight composite variables do not change the original scale of their components sub-variables; therefore they facilitate the analyses for conducting both bivariate and multivariate analyses.

Appendix (D):
Relationships between Demographics and the
Aggregate GATS Impacts

Four Pages

Table 8/D1

The Relationship between Perceiving the Aggregate GATS' Impacts and Respondents' Positions

Variable	Sub- variable	Q ₈ : GATS' Aggregate Impacts (X ₈)			
		Negative Effects	Neutral	Positive Effects	Total
Q ₁ : Position (X ₁)	Credit Manager	52	28	213	293
		35.4	58.8	198.8	293.0
	General Manager	0	51	158	209
		25.2	42.0	141.8	209.0
	Manager	10	50	89	149
		18.0	29.9	101.1	149.0
	Marketing Manager	27	19	40	86
		10.4	17.3	58.3	86.0
	Total	89	148	500	737
		89.0	148.0	500.0	737.0

N = 737, $\alpha = 0.05$
 Contingency Coefficient = .353, P-Value = .000
 Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D2

The Relationship between Perceiving the Aggregate GATS' Impacts and Respondents' Ages

Variable	Sub- variable	Q ₈ : GATS' Aggregate Impacts (X ₈)			
		Negative Effects	Neutral	Positive Effects	Total
Q ₂ : Age (X ₂)	30 Years	27	0	16	43
		5.2	8.6	29.2	43.0
	40 Years	0	0	74	74
		8.9	14.9	50.2	74.0
	50 Years	25	109	309	443
		53.5	89.0	300.5	443.0
	60 Years	37	39	101	177
		21.4	35.5	120.1	177.0
	Total	89	148	500	737
		89.0	148.0	500.0	737.0

$\alpha = .05$, P-Value = .000, N = 737
 Kendall's tau-b value = -0.251, P-Value = .000
 Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D3

The Relationship between Perceiving the Aggregate GATS' Impacts and Respondents' Educational Levels

Variable	Sub- variable	Q ₈ : GATS' Impacts (X ₈)			
		Negative Effects	Neutral	Positive Effects	Total
Q ₅ : Educational Level (X ₃)	Before University	0	0	17	17
		2.1	3.4	11.5	17.0
	University Degree	25	33	308	366
		44.2	73.5	248.3	366.0
	Master Degree	44	69	56	169
		20.4	33.9	114.7	169.0
	Ph.D. degree	20	46	119	185
		22.3	37.2	125.5	185.0
	Total	89	148	500	737
		89.0	148.0	500.0	737.0

N = 737, $\alpha = .05$
 Contingency Coefficient = 0.410, P-value = .000, N=737
 Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D4

The Dependency Relationship between the Aggregate GATS' Impacts and Respondents' Experiences

Variable	Sub- variable	Q ₈ : GATS' Impacts (X' ₈)			
		Negative Effects	Neutral	Positive Effects	Total
Q ₄ : Respondents' Experiences (X ₄)	10 Years	42	0	139	181
		21.9	36.3	122.8	181.0
	20 Years	30	45	193	268
		32.4	53.8	181.8	268.0
	30 Years	0	73	154	227
		27.4	45.6	154.0	227.0
	40 Years	17	30	14	61
		7.4	12.2	41.4	61.0
	Total	89	148	500	737
		89.0	148.0	500.0	737.0

N = 737, $\alpha = .05$
 Kendall's tau-b value = -.135, P-Value = .000
 Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D5

The Dependency Relationship between the Perception of the Aggregate GATS' Impacts and the Banks' Experiences

Variable	Sub- variable	Q ₈ : GATS' Aggregate Impacts (X' ₈)			
		Negative Effects	Neutral	Positive Effects	Total
Q ₅ : Bank Experiences (X ₅)	25 Years	62	127	438	627
		75.7	125.9	425.4	627.0
	50 Years	17	0	24	41
		5.0	8.2	27.8	41.0
	75 Years	0	0	21	21
		2.5	4.2	14.2	21.0
	100 Years	10	0	17	27
		3.3	5.4	18.3	27.0
	125 Years	0	21	0	21
		2.5	4.2	14.2	21.0
Total	89	148	500	737	
	89.0	148.0	500.0	737.0	

N = 737, $\alpha = .05$
 Kendall's tau-b value = -.122, P-Value = .001
 Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D6

The Dependency Relationship between GATS' Impacts and Bank' Number of Employees

Variable	Sub- variable	Q_8 : GATS' Aggregate Impacts (X_8)			
		Negative Effects	Neutral	Positive Effects	Total
Q_6 : Number of Employees (X_6)	100 Employees	10	0	100	110
		13.3	22.1	74.6	110.0
	550 Employees	52	108	286	446
		53.9	89.6	302.6	446.0
	5500 Employees	27	19	82	128
		15.5	25.7	86.8	128.0
	10000 Employees	0	0	15	15
		1.8	3.0	10.2	15.0
	12000 Employees	0	21	0	21
		2.5	4.2	14.2	21.0
	13000 Employees	0	0	17	17
		2.1	3.4	11.5	17.0
	Total	89	148	500	737
		89.0	148.0	500.0	737.0

> N = 737, $\alpha = .05$, P-Value = .000
 > Kendall's tau-b value = -.129, P-Value = .000
 > Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Table 8/D7

The Relationship between Perceiving Aggregate GATS' Impacts and Bank's Type

Variable	Sub- variable	Q_8 : GATS' Aggregate Impacts (X_8)			
		Negative Effects	Neutral	Positive Effects	Total
Bank's Type	Foreign Branches	20	30	96	146
		17.6	29.3	99.1	146.0
	Local Banks	69	118	404	591
		71.4	118.7	400.9	591.0
	Total	89	148	500	737
89.0		148.0	500.0	737.0	

> N = 737, and $\alpha = 0.05$
 > Contingency Coefficient = .027, P-Value = .766
 > Bold Style and Normal Style Represent the Expected and Actual Count Respectively

Appendix (E):
Conferences and Publications

Two Pages

The following articles (three journal and four conference papers) were published from the current thesis: -

- (2004), "Factors that Affect the Selection of Defensive Marketing Strategies: Evidence from the Egyptian Banking Sector", *the Journal of American Academy of Business, Cambridge*, Vol. 4, No.1 & 2, (March), pp. (152-158).
- (2004), "Investigating and Modeling GATS Impacts on the Developing Countries: Evidence from the Egyptian Banking Sector", *the Journal of American Academy of Business, Cambridge*, Vol. 4, No. 1 & 2, (March), pp. (496-502).
- (2003), "A Theoretical Model for Matching Entry Modes with Defensive Marketing Strategies", *The Journal of American Academy of Business, Cambridge*, Vol. 2, No. 2 (March), pp. 460: 466;
- (2002), "**The Impact of GATS on the Developing Countries: Evidence from the Egyptian Banking Sector**", presented at the APEE {The Association of Private Enterprise} Conference in Mexico in the period from April 7th to 9th;
- (2002), "**Factors that Affect the Selection of Entry Modes: A Study of the Foreign Banks in Egypt**", presented at Hawaii Conference; in Hawaii in the period from June 18th - 22nd; Co-sponsored by: University of Hawaii -West Oahu; College of Business Administration, University of Hawaii; College of Tropical Agriculture and Human Resources, University of Hawaii;
- (2002), "**Entry Modes-Defensive Marketing Strategies Matching Model; Evidence from the Egyptian Banking Sector**", presented at the first International Conference on Information and Management Science (IMS2002); in Xi'An, China in the period from May 27th - 31st; and
- (2002), "**Dependency Relationships with Defensive Marketing Strategies; Evidence from Egyptian Banking Sector**", presented at the first International Conference on Information and Management Science (IMS2002); in Xi'An, China in the period from May 27th - 31st.