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Foreign Banking in Russia: An Analysis of Inward-Outward Expansion

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Abstract: This paper examines the activities of Russian banks expanding their businesses abroad. By looking at their outward foreign direct investment, we apply the existing multinational banking theory in order to explain motivation, entry modes, and strategies of Russian banks. Through the Russian example, we demonstrate that idiosyncratic features of the banking sectors of the host and home countries and the institutional context in fact do matter and should be considered when analysing foreign expansion of banks. We also show that factors such as offshore business of Russian banks, hidden forms of expansion via third countries, role of banks in other outward foreign investments, non-transparency of legal actors of foreign banks and their strong interrelation with the state, resource-based TNCs and large financial and industrial groups, and cultural and historical background among the host and home countries are crucial in determining the microeconomic, macroeconomic, and institutional contexts that influence the foreign expansion of Russian banks. We provide some preliminary suggestions in order to extend the existing theoretical base on multinational banking theory.

Keywords: multinational banking theory, foreign banks, motivation, entry modes, strategies, Russian banks, foreign banking.

JEL Classification Numbers: F23, F30, G20, G21, P29, P33.

1. Introduction

The role of emerging economies, especially the BRICs (Brazil, Russia, India, and China), in the export of capital has increased in recent years. This phenomenon is mostly explained by the growing liberalization process in these countries, especially in the financial sector. Generally speaking, this group of countries became more open, successfully implemented financial and capital markets reforms, and adopted measures for integrating their national economies into the global financial system. From simply being importers of capital, they have now become the sources of foreign direct investment (FDI) (Shishkina, 2011; Shavshukov, 2012). In accordance with UNCTAD statistics, with respect to overall global outward foreign direct investment (OFDI), Russia, following China, has the biggest share, which in 2009 was 4.1%[1].

The total share of BRICs in the export of capital is only 5%, but the absolute volume of outward FDI from these countries increased by 12 times over the last 15 years[2]. While the statistics on Russian FDI have their own peculiarities [due to methodological issues[3] there are considerable discrepancies in the volume of both inward foreign direct investment (IFDI) and OFDI in the data provided by the Central Bank of Russia (CBR) and the Russian Federal State Statistics Service (Rosstat)], we mostly rely on CBR data[4] for this study.

The investment boom in OFDI in Russia is largely driven by the emerging transnational corporations (TNCs). Research on Russian TNCs is a prominent issue in the context of the global economy and international economic relations. Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011, 2012), Ivanov (2009), Bereznoy (2008), Filatotchev et al. (2007), Kalotay and Sulstratova (2008), Panibratov (2012) and many other researchers have closely studied the Russian TNCs: how they emerge, why they expand their business abroad, and their major business strategies in foreign markets. Some studies focus on specific features of Russian TNCs and argue for the revision of the multinational corporations theory (Mizobata, 2011, 2012).

On the other hand, studies of transnational (multinational) banks (TNBs or MNBs) from emerging economies including Russia are lower in number in comparison with those on non-financial TNCs. In the process of liberalization and globalization of the financial system both IFDI and OFDI should be considered. While the literature on foreign banks' activity in Russia is quite extensive and the topic is hotly debated, the activities of Russian banks are not fully covered. Issues of MNBs from Russia are often addressed in relation to the general analysis of Russian TNCs (Panibratov, 2010), or with respect to the internationalization of the Russian banking sector (Panibratov and Verba, 2011). Sometimes they are examined as part of FDI analysis (Abalkina, 2010) or within the context of studies on Russian TNCs in the service sector (Kuznetsov, 2011).

In our opinion, the most detailed survey that is similar to this study was done by Panibratov (2010, 2012) and Panibratov and Verba (2011) who concluded that OFDI of the Russian banking sector is mainly going to the Commonwealth of Independent States (CIS), with some flows to the U.S., the U.K., and a few Western European countries. Further, the survey showed that Russian banks had limited interest in China, Singapore, and Africa. The author defined subsidiary banks and representative offices as the main conduits of Russian banks abroad, and noted that their approach towards foreign expansion is a conservative one: through organic growth and a series of strategic acquisitions (mostly in countries that actively trade with Russia). Panibratov (2010) also highlighted the role of the state in the foreign expansion of Russian banks, showing its significant importance for the state-owned banks. However, the author has not fully explained the reasons for the emergence of Russian MNBs within the framework of the existing literature and limited his research only to the largest banks — Sberbank, Alfa-Bank, Gazprom, and Vneshtorgbank. In Panibratov (2012) and Panibratov and Verba (2011), the key points regarding international expansion of the Russian banking sector are presented in more detail; the author argues that while being significantly state-owned, Russian banks are most likely guided by economic motives (as opposed to political ones) and are leaning towards relatively safer destinations, given the limited depth of the domestic sector.

Two more studies on Russian OFDI worth mentioning are Liuhto (2005) and Hanson (2010). Though the surveys do not fully target Russian banking OFDI, both consider the role of the Russian state as either a source of guidance for FDI or a reason to "escape". Hanson (2010) provides empirical evidence and case studies showing that motivation of OFDI is "largely commercial" as far as the host-country pattern of OFDI is concerned. He also finds an element of "escape" by indicating tax-havens as major destinations of Russian OFDI.

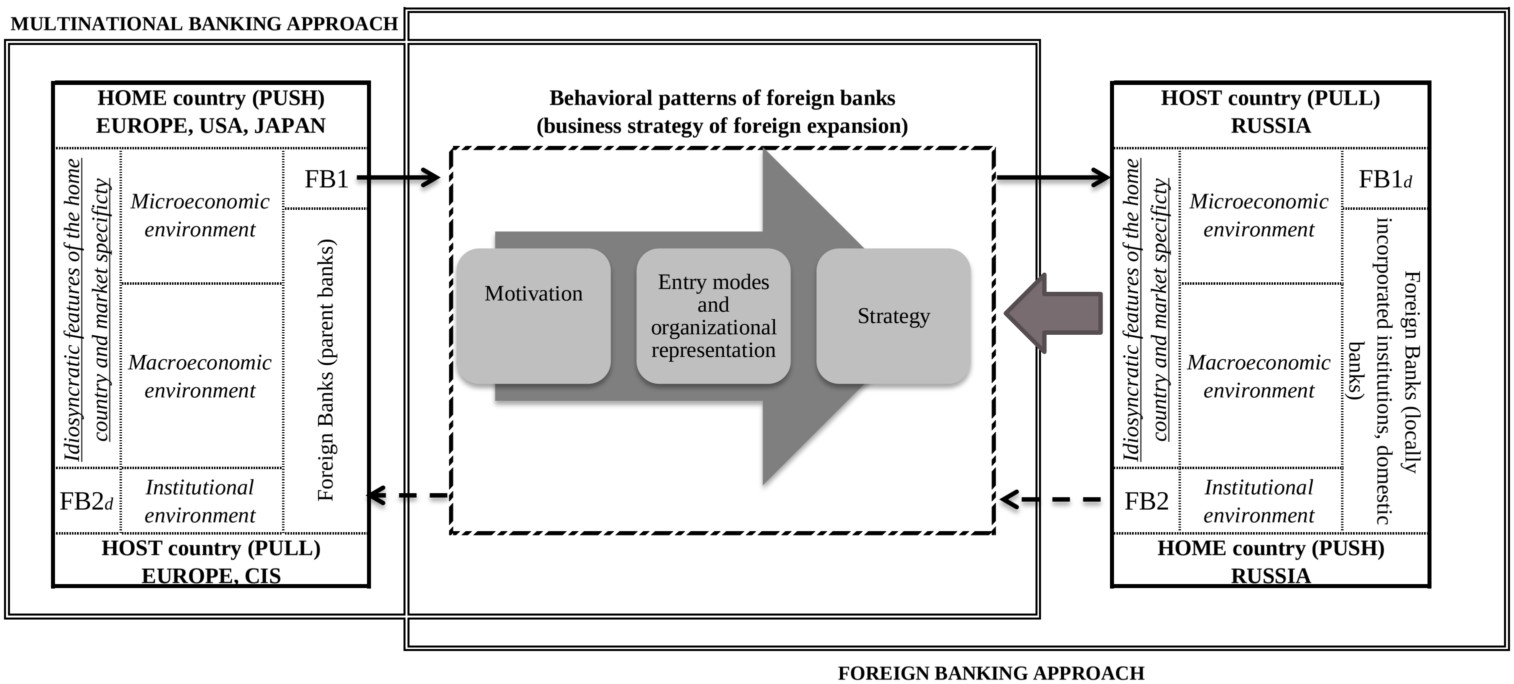
In this study, we stress the importance of multinational banking theory[5] in explaining the issues with Russian banks' foreign expansion; however, we are not advocating for its full acceptability. Therefore, we selectively, not comprehensibly, use the approaches of MNBs in exploring the activity of Russian banks abroad. In particular, we aim to summarize and re-assess the existing literature on motivation, entry modes, organizational representation, and strategies of Russian banks abroad. Using the approaches of MNB theory we aim to define the driving forces that motivate Russian banks to go abroad (PULL/PUSH reasons) and stress that behavioural activity of banks cannot be fully explained within the framework of the existing literature on MNBs. We highlight that the institutional context plays a crucial role in the foreign expansion of Russian banks.

The paper is divided into four sections. Section 1 provides some theoretical background for the present study; we shape the methodology of the study and analyse the dynamics of both IFDI and OFDI of the Russian banking sector. Section 2 deals with motivation of the Russian banks in expanding their businesses abroad. In Section 3 we outline entry modes and strategies of Russian banks in foreign markets and provide short case studies on foreign expansion of Sberbank, VneshTorgBank (VTB), and Alfa-Bank. Section 4 summarizes the major problems in the foreign expansion of Russian banks and shows the idiosyncratic features of Russian MNBs. In conclusion, we summarize the major ideas of each section and conditionally propose some revisions to the existing multinational (transnational) banking theory.

2. Some theoretical background and overview of the inward and outward investments of the Russian banking sector

First, we make some remarks on the subject of the present study. We aim to selectively investigate inward/outward expansion cases of Russian banks, namely their activity and behavioural patterns that expand their businesses. Some clarification is required with regard to the definition of a foreign bank (transnational bank, multinational bank)[6]. For the purposes of this paper, we consider a bank to be a foreign one if it is registered as a banking institution in a

Figure 1. Conceptive representation of the foreign banking theory



Source: made by author

foreign country. This definition is used by the CBR and is common in some other countries such as Japan. Therefore, organizational representation forms like representative offices are also considered to be foreign banks, although they are usually not engaged in banking operations[7] in the host countries. Therefore, Russian banks are considered foreign from the point of view of the host countries in which they operate. Simultaneously, we consider large banks like Sberbank, VneshTorgBank, and Gazprombank to be multinational (there is only small foreign participation in the ownership structure) and transnational ones (these banks operate in many countries and are actively engaged in transnational transactions). We recognize that this distinction is a controversial and conditional one but we argue that perhaps such a classification of foreign banking[8] allows for a better analysis of the behaviour patterns of banks from the perspective of both home and host countries and with a more careful consideration of the idiosyncratic features of their banking sectors (for details refer to Figure 1).

We provide some explanation regarding Figure 1. The upper part of the figure considers the case of FDI into the banking sector of Russia, which is not our primary interest at this point. FB1 stands for parent banks of host countries that invest in the Russian financial sector by establishing domestic banks (FB1d). We are mostly interested in the lower part of Figure 1, which shows the case of parent banks located in Russia, such as Sberbank, Vneshtorgbank, and Gazprombank (FB2) that expand their businesses by establishing locally incorporated institutions abroad (FB2d).

Home country in the present paper refers to Russia, which is the origin of financial investments into the banking sector (banking investments). Therefore, this category includes countries of origin where the parent banking institutions of foreign banks are located.

Host country refers to the country that receives banking investments, namely CIS and Western Europe, which are the major destinations of Russian banking OFDI.

We conditionally assume that both home and host countries have their idiosyncratic features (specific features) and hold a sort of market specificity, referring to peculiarities of micro and macroeconomic factors, institutional development of banking sectors in both countries, as well as general market quality issues. These idiosyncratic features and market specificity play a crucial role in influencing, and in some cases determining, the motivation, entry modes, organizational representation, and strategies of foreign banks. Our main argument is that the existing theories on foreign expansion of banks, for example, the MNB theory, are inclined towards the home country viewpoint (parent bank) and, therefore, market specificity of host countries, especially the institutional components are often excluded from the analysis.

To begin with, we outline the general dynamics of investments in the Russian banking sector. Table 1 below shows that Russian banking sector is a net-debtor, due to the fact that the international banking position was negative at the beginning of 2012. Inward investment into the banking sector amounted to USD 216 million, with other investments[9] accounting for more

Table 1. Dynamics of inward and outward FDI of the Russian banking sector (million dollars)

	2005	2006	2007	2008	2009	2010	2011	2012
Assets	*25,989*	*39,182*	*65,351*	*96,843*	*167,825*	*165,965*	*170,212*	*215,359*
FDI from Russia	818	1,498	1,570	2,533	3,413	5,062	6,665	6,870
Portfolio investments	3,714	6,964	7,645	12,855	15,774	26,258	29,727	33,673
Other investments	21,304	30,669	55,914	80,032	143,336	132,423	132,211	169,697
Financial derivatives	153	51	222	1,423	5,302	2,222	1,609	5,119
Liabilities	*37,337*	*60,009*	*123,927*	*214,771*	*206,259*	*179,123*	*204,621*	*216,017*
FDI to Russia	3,020	4,975	9,127	20,682	22,670	25,911	28,674	29,091
Portfolio investments	3,756	6,858	17,171	36,445	12,160	26,516	34,740	25,149
Other investments	30,372	48,124	97,451	156,769	161,033	121,614	138,392	156,198
Financial derivatives	189	52	178	875	10,396	5,082	2,814	5,579
Net investment position	*-11,348*	*-20,827*	*-58,576*	*-117,928*	*-38,434*	*-13,158*	*-34,409*	*-658*

Source: compiled by author from www.cbr.ru, data as of January 1st for each year

than 72%. Inward FDI and portfolio investments were approximately the same in volume. However, in comparison to 2005, IFDI into the banking sector increased almost 10 times, underscoring further gradual expansion of foreign banks into Russia[10].

A similar trend is observed with the dynamics of OFDI. As of January 2012, total assets of the Russian banking sector abroad were USD 215 billion. The breakdown of the assets was as follows: other investment (78.9%), portfolio investment (15.6%), OFDI (3.2%), and financial FDI (2.3%). Therefore, the majority of Russian outward investments in the banking sector are in the form of trade credit and intra-banking loans. This is typical for the whole international investment position of Russia. The relatively low share of OFDI seems to be astonishing at first sight, in a sense indicating low-motivation of Russian banks to expand their business abroad. However, in comparison to 2005, FDI from Russia in the banking sector increased 8 times, which is a significant increase. Below we consider how the increase in banking OFDI is related to the activity of Russian banks abroad.

Table 2 below demonstrates the OFDI dynamics of both banking and non-banking corporations (balance of operations) from 2007– 11. In general all indicators (FDI from Russia, participation in capital, reinvestments of earnings, and other capital) show positive growth dynamics. The only exception is the crisis year 2008–09, when there was a slump in all types of outward investments of the banking sector. Outward investments abroad (non-CIS region) significantly exceed those to the CIS region. Major destinations of OFDI in 2011 are also presented in Table 2. The majority of all investments are directed to offshore zones[11] (Cyprus[12], British Virgin Islands, St. Kitts and Nevis, Bermuda, and Gibraltar), which reflects the general situation with

Table 2. Outward investments of the banking sector and non-banking corporations in 2007−11 (million USD), balance of operations

Years	2007	2008	2009	2010	2011	Main destinations in 2011 (share in total investments, %) TOP 5 destinations for both non-CIS and CIS
FDI	45,897	55,540	43,632	51,886	67,221	Cyprus (33.3%), Netherlands (14.7%), St. Kitts and Nevis (6.9%), British Virgin Islands (6.2%), Luxemburg (6.2%), Switzerland (5.8%), Belorussia (4.8%), Ukraine (1.2%), Kazakhstan (0.95%), Uzbekistan (0.14%), Armenia (0.09%)
Non-CIS	42,423	51,977	39,734	50,618	62,748	
CIS	3,473	3,563	3,898	1,268	4,473	
Participation in capital	17,770	29,355	26,823	19,620	23,255	Cyprus (19.4%), Belorussia (11.1%), Switzerland (10.3%), Luxemburg (6.7%), Turkey (4.9%), Australia (4.8%), Germany (3.8%), British Virgin Islands (3.6%), Spain (3.6%), Ukraine (1.8%), Kazakhstan (0.9%), Armenia (0.27%), Uzbekistan (0.12%)
Non-CIS	16,338	26,930	23,940	18,675	19,950	
CIS	1,382	2,425	2,883	945	3,305	
Reinvestment of earnings	16,667	24,654	7,571	14,049	15,831	Cyprus (55.8%), British Virgin Islands (14.8%), Gibraltar (7.4%), Bermuda (4%), Kazakhstan (2.4%), Germany (2.32%), Ukraine (1.3%), Belarus (1.03%), Uzbekistan (0.4%)
Non-CIS	15,775	23,780	7,103	13,462	15,008	
CIS	902	874	468	587	823	
Other capital	11,450	1,532	9,238	18,216	28,136	Netherlands (34.7%), Cyprus (34.6%), St. Kitts and Nevis (16.9%), Switzerland (5.4%), UK (4.6%), Ukraine (0.75%), Kazakhstan (0.22%), Belarus (0.21%), Tajikistan (0.17%)
Non-CIS	10,259	1,269	8,692	18,481	27,792	
CIS	1,190	263	546	-264	344	

Source: compiled by author from www.cbr.ru, accessed September 2012

Russian IFDI and OFDI. The capital is circulated through offshore (tax haven) territories in order to avoid taxation and regulation in the domestic market (capital flight[13]) or simply to attract cheaper financing (Mizobata, 2011; Kheyfets, 2011). Needless to say, the CBR statistics include illegal investments and pseudo-investments, for example, one-day companies and illegal establishment of juridical entities. The weight of the CIS region in the distribution of both total FDI and OFDI is also significant, with Belorussia, Ukraine, and Kazakhstan being prominent[14]. As demonstrated below, for the banking OFDI, geographical, historical, cultural, and institutional proximity plays an important role. In other words, banks prefer to invest in countries where they already have contacts and can easily form business networks.

The significant role of offshore business for the banking sector does not necessarily imply that Russian banks actively penetrate those regions. Instruments of other investments are mostly used as speculative mechanisms, methods of legal "capital flight" of Russian companies abroad or simply intra-banking loan and deposit activities. For the analyses of motivation and entry modes of Russian banks expanding their businesses abroad we focus on OFDI, that is, banking institutions established by Russian banks abroad.

3. Motivation of inward-outward expansion

To start our analysis we briefly consider market specificity of the home country (Russia). This will allow us to understand the conditions under which the expansion of Russian banks abroad is taking place. While omitting deeper analysis, we recognize the extensive research results on the Russian banking sector and assume that it has distinctive features that have deep historical roots. In the former USSR, banks were established by the state for implementing particular functions in the major industries of the economy. This has resulted in a very high concentration level of the current banking sector (Panibratov, 2011). The Russian banking sector has some idiosyncratic features[15] that exert an influence on the foreign expansion of its banks.

The Russian banking landscape was highly fragmented at the end of 2000. Some researchers show that there has been a rapid increase in banking and financial services in Russia during 2000–08 (Panibratov, 2010). The diversification of banking and financial products as well as further liberalization and integration of the banking sector continues. There were 982 banks operating in Russia as of January 1, 2012 and even the largest private banks had less than 4–5% of the market. In turn, state-owned banks held about 50% of the market[16]. On the other hand, foreign banks had only about 10% in 2009 (Panibratov, 2010) but their share in total assets, capital, deposits, and lending shows stable growth.

"Technology in the Russian banking sector was somewhat simplistic, with corporate loans usually extended against collateral rather than against forecast cashflows. Fee-based products played a negligible role, rendering many Russian banks overly dependent on interest and trading income" (Panibratov, 2010). The distortion of the market represents opportunities for some foreign banks and simultaneously there are cases of Russian banks aiming to internationalize their business by opening subsidiaries in neighbouring countries.

The large number of Russian bank-like institutions and their special functions indicates that the Russian banking sector has not reached a high level of maturity in servicing its clients either domestically or abroad. Therefore, it is understandable that the foreign activities of Russian banks abroad are rather limited (Jumpponen et al., 2004).

However, by the time of the collapse of the former USSR, banks were in a leading position in outward investments. In 1991, OFDI from the banking sector was USD 2–10 billion, while total share in capital of foreign banks amounted to USD 540 million. Therefore, a few banks (namely Sberbank, VneshTorgBank, and VneshEkonomBank) in some cases simply inherited the banking assets of the Soviet foreign banks (as the government transferred its credit institutions and shares in foreign banks to them).

Before analysing the motivation of inward-outward foreign expansion of Russian banks we briefly introduce the geographical representation, entry modes, and strategies (where applicable) of Russian MNBs in Table 3.

The CIS region and Western Europe can be identified as the major destinations where Russian banks establish their affiliated credit and financial institutions. Top Russian banks, namely Sberbank, VTB, Gazprombank, and Alfa-bank established their subsidiaries and representative offices there. In the CIS region, the most popular destinations are Ukraine, Belarus, Kazakhstan, and Armenia; while in Europe, Russian banks are mostly represented in the U.K., Luxemburg, Austria, Germany, and Cyprus. However, the presence of Russian banks is very limited, and in most cases, there are no extensive branch networks. Banks registered in offshore regions (Cyprus) or countries with simplified tax systems (Netherlands, Luxemburg) are mostly geared to work with Russian capital going abroad. The astonishing fact here is that the major destinations of Russian banking OFDI are not identical. The category "other investments" tends to be concentrated in offshore regions, while direct representation of banks in the form of subsidiaries and representative offices is salient in the CIS and EU regions.

Another interesting feature is that expansion abroad is mostly driven by the largest state-owned banks (or banks with a strong direct or indirect state influence like Sberbank, VTB, and Gazprombank, which underscores the view that only banks that possess significant financial resources (sometimes in the form of government assistance) can "go global". Among private banks, only Alfa-bank has the widest foreign network, with representation in the CIS, Europe, and the U.S. Asian and African regions are not major destinations for Russian banks as trade and investment relations with these countries are less developed. VTB has the leading position here, as it has the most diversified foreign geographical network among Russian banks. Some other private banks (Promsvyazbank, Petrokommerz, and Centrocredit) also try to establish their businesses abroad driven via industrial financial groups that are closely connected to them.

The existing literature on the motivation of Russian banks (and MNCs) is quite extensive. Table 4 briefly summarizes the key motives that drive Russian banks to go abroad. We attempt a simple PUSH/PULL analysis here.

The motivations behind inward-outward foreign expansion are quite diverse. In general, many studies name geographical, historical, and economic proximity to the CIS as the major driving force behind Russian banks establishing their businesses there. We summarize these

Table 3. Geographical representation of Russian banks abroad

Bank	Major destinations	Entry modes	Strategy
Sberbank (state-owned)	CIS, Eastern Europe, China, India (branch), Germany	Subsidiaries	Expanding subsidiary network via green-field, brown-field investments, mostly major deals supported by the government
VneshTorgBank (VTB) (state-owned)	Subsidiary banks in Ukraine, Armenia, Georgia, Belarus and Azerbaijan; banks in UK, France, Austria, Germany, Cyprus, Switzerland, Angola, Singapore, India; financial company in Namibia. Representative offices in Italy, Kazakhstan, Kyrgyz Republic, China, Vietnam; Shares in Donau-Bank (Austria), East-West United Bank (Luxemburg), Ost-West Handelsbank (Germany)	Subsidiaries, branches, representative offices	Widest network of foreign presence. Expansion strategy is driven by both bank's management and government as the main shareholder
Alfa-Bank (private)	Subsidiaries in Kazakhstan, Netherlands (full European banking license), United States, Luxemburg, UK; branches in CIS (Ukraine)	Subsidiaries, purchase of major shares	Careful expansion via greenfield/brownfield investments into CIS or developed markets without state support, hence the affinity to maximizing control
Gazprombank (indirect government control)	Branches in Armenia, Belarus, Switzerland; representative offices in China, Mongolia	Branches, representative offices	Clearly biased towards parent company interests in gas industry and portfolio investments
Promsvyazbank	Cyprus, Kyrgyzstan		

Table 3. Geographical representation of Russian banks abroad (continued)

Petrokommerz (79.3903% of shares belong to Reserve Invest Holding (Cyprus)	Subsidiaries in Ukraine	Subsidiaries	Petrokommerz holds 96.48% of shares in Petrokommerz (Ukraine). Mainly engaged in corporate banking and serving employees of corporate companies
Bank of Moscow	Belarus, Latvia, Estonia, Serbia	Subsidiary	VTB is the main shareholder of Bank of Moscow (94.87%)
Moscow Industrial Bank	Austria	Representative office	N/A
Centrocredit	UK	Representative office	N/A
Krasbank	UK	Representative office	N/A
Rosbank (Russia, France)	Switzerland, CIS	Subsidiary	Rosbank is at present owned by Societe Generale (France)

Source: compiled by author with references to Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011, 2012), Jumpponen (2004), Ivanov (2009), Panibratov (2010, 2012), Panibratov and Verba (2011) official information of banks, homepages of banks

factors within the institutional context. Many Russian TNCs operate in the region; therefore, Russian banks are pushed to penetrate here in accordance with the “follow the customer” strategy applied in the theory of multinational banking (microeconomic context). The same is partially true with respect to the European countries. Russian banks tend to establish their presence here in order to serve the interests of large Russian industrial financial corporations mainly in mining, metallurgy, crude oil, and gas sectors. Close trade relations with the CIS and Europe (both regions account for about 70% of total Russian trade) also create favourable conditions for inward-outward expansion (the institutional and macroeconomic context).

At the end of 2005, there were 1,600 banks in the CIS region but their financial resources did not allow them to actively pursue economic integration. 77% of these banks were based in Russia (Murichev, 2006).

Foreign expansion of banks in the CIS region has intensified. At present, there are 30 credit institutions in the CIS with their home countries located in the CIS region. Needless to say, Russia is a prominent investor in the region. As of end-2008, there were 60 banks with capital from CIS countries (Abalkina, 2010).

Table 4. Motivation of foreign entry

Motivation	PUSH/PULL	Example of banks
Growing interest to CIS, similarities in transformation process of the banking sector, potential of growth. Expansion on already existing directions	PULL (macroeconomic, institutional context)	Sberbank, Vneshtorgbank (VTB Austria, VTB France, VTB Deutchland, Russian Commercial Bank Ltd).
Providing services to companies in post-Soviet region ("follow the customer") and Europe	PUSH (microeconomic context)	Vneshtorgbank, Promsvyazbank, Gazprombank, International Bank of St. Petersburg
Acquisition of low-estimated assets in CIS	PULL (macroeconomic context)	Sberbank, Vneshtorgbank
Presence in international financial centres of EU and CIS	PUSH /PULL (microeconomic context)	Alfa-Bank, Vneshtorgbank
Expansion as the result of the domestic environment in Russia (state pressure, non-transparent legislation, political and economic instability, M&A as a way to keep distance from government intervention)	PUSH (institutional context)	N/A
Competitive advantages on the CIS market; cheap financial resources in CIS	PULL/PUSH (microeconomic, macroeconomic context)	Ukraine – Alfa-Bank, VTB, Sberbank; Belorussia – VTB, Gazprombank; Kazakhstan – Sberbank, Alfa-Bank; Georgia – VTB; Armenia – VTB, Gazprombank

Source: made by author with references to Kuznetsov (2007, 2008, 2009, 2010a, 2010b, 2011, 2012), Kuznetsov and Koszalin (2008), Panibratov (2010, 2012), Panibratov and Verba (2011), Kalotay and Sulstratova (2008), Filippov (2008), Jumpponen J. et al. (2004); official information of banks; homepages of banks

Table 5. Dynamics of assets and capital in CIS region controlled by investors of the region, million dollars

Year	Intraregional investments into the banking capital of CIS	Assets of banks controlled by investors from CIS
2005	384.2	2,355.5
2006	1,034.4	7,949.8
2007	2,354.1	16,552.9
2008	4,035.5	26,771.2

Source: Abalkina (2010), p. 30

At the initial stages of internationalization banks tended to use the so-called "follow the customer" expansion strategy (PUSH factor, microeconomic context). Banks provided services to their clients expanding their businesses in the CIS region. Today the situation has changed, and the motives of penetration into the CIS region have diversified. Banks have shown an interest in foreign stock markets; for example, Russian banks were attracted by the low level of capitalization of Ukrainian banks (macroeconomic context).

Expansion of Russian banks into CIS should also be considered from the viewpoint of host countries. Difficulties with expanding businesses to the developed countries (for example, institutional barriers of entry, regulations on charter capital, difficulties with competition) and competitive advantages in CIS motivate the penetration of Russian banks into this region.

Intra-regional investments into the banking sector within CIS increased 10 times (Table 5), with Russia having the most prominent position. Russian banks actively penetrate by M&A due to the abundance of undercapitalized banks in the region. The major investors into the CIS banking sector in 2008 were: Russia – 65% (29 affiliated banks, mostly Ukraine, Belarus, Kazakhstan); Kazakhstan – 30% (20 affiliated banks, mostly Russia); Ukraine – 5 affiliated banks; Georgia and Azerbaijan – 2 banks each; Uzbekistan and Armenia – 1 bank each (Abalkina, 2010). The biggest players in the market are undoubtedly Russian, as demonstrated in Table 6, with VTB being the most active.

Thus, Russian banks view CIS as a potential emerging market (Panibratov, 2012), where there is a high demand for financial services (PULL, macroeconomic context). However, we argue that this motive does not fully explain the behaviour of Russian banks here. Market specificity of host countries does matter but the Russian banking system lacks capital; the total level of capitalization is rather low, and therefore, it is difficult for the banks to go abroad. Only large state-owned banks or large private banks (the only suitable example is Alfa-Bank) can expand their businesses in CIS. Despite the brand awareness of many Russian banks operating in CIS, the bulk of their operations is directed to support the Russian TNCs. Moreover, physical

Table 6. Biggest Russian TNBs in CIS region in 2008

Bank	Total assets, million USD	Total capital, million USD	Number of subsidiary banks in CIS
VTB	4,887.9	520.1	5
Alfa-Bank	4,608.3	521.9	3
Vneshekonombank	4,283.1	621.3	2
Sberbank	1,436.0	422.6	2
Moscow Bank	945.7	110.2	2
Gazprombank	790.9	160.4	2
Rosbank	494.1	31.7	1

Source: Abalkina (2010), p. 32

representation of Russian banks abroad is mostly limited to state-owned banks, where the motives for penetration might be significantly “politically-oriented”. The oil and gas sector, which is strategically very important for Russia determines the overall strategy to a large extent and the role of Russian state-owned banks is undoubtedly relevant here. For example, the expansion of Gazprombank to Belarus is difficult to explain by simply “economic motivations for entry”. Here the expansion strategy is closely correlated to that of Gazprom and the Russian government (its main shareholder), thereby being somewhat “customer-oriented” and “state-oriented” (Panibratov, 2012). We do not claim that the political motives explain the expansion of all Russian state-owned banks but such factors should not be underestimated in a country like Russia where only large state-owned banks are successful in foreign markets (PUSH factor as the result of domestic institutional environment and idiosyncratic features in the strategy of banks). Some researchers also point to the fact that Russian banks tend to behave like typical natural-resource-based TNCs (Panibratov, 2012; Kuznetsov, 2011).

Thus, the behaviour of Russian banks might be explained to some extent within the framework of multinational banking theory, namely Dunning’s OLI paradigm[17]. Russian banks have a better structure of assets and capital in comparison to the banks from CIS, and as a result, they have a competitive advantage. In addition, the lower level of development of the banking sector in the region and extensive possibilities for location-specific advantages for foreign entry create opportunities for Russian banks. In Europe, the situation is quite different. Here it is difficult to imagine Russian banks having any competitive advantages (ownership, location, internalization), as they have to compete with the financial giants from Europe and the U.S. Russian banks’ entry into European banking markets is mostly driven by an aspiration to establish an image of “global presence” or to follow Russian companies operating in Europe. Participation of banks in syndicated loans, investment schemes, or corporate lending to European companies is not common.

Some literature provides the rationale for foreign expansion of Russian banks being the result of the domestic environment in Russia (state pressure, non-transparent legislation, political and economic instability, M&A as a way to maintain distance from government intervention), which in multinational banking theory is mostly explained by the "escape hypothesis" (PUSH, unfavourable conditions on the domestic market). However, we have not found any persuasive reasoning for this, nor could we find any examples of banks that actually implemented this approach of foreign expansion. In our view, the PUSH motives for foreign expansion are mostly explained by direct and indirect influence on Russian banks by the government, which makes it difficult to successfully distinguish the government's strategy from that of the banks. In addition, the behaviour of banks is strongly correlated with its major Russian clients and foreign expansion is therefore a sort of synergy of banks, Russian TNCs (Panibratov, 2012), and the Russian government to some extent.

In the existing theory on multinational banking, issues of historical, non-economic, and political motivations of entry are not explicitly covered. However, we find that in the case of Russian banks' foreign expansion, such driving forces for building a global strategy are present. Some banks acquired credit institutions abroad in the form of the "Soviet legacy". This trend is typical for some Russian TNCs as well. Therefore, the institutional context is a crucial component of the domestic environment that exerts influence on inward-outward expansion cases.

4. Entry modes and strategies of inward-outward foreign expansion

As for the entry modes of Russian banks, the most common are establishment of wholly-owned subsidiaries and representative offices. By contrast, in the Soviet times, banks tended to establish correspondent relations and actively participated in the capital of foreign banks, mainly in countries that were leading trade and investment partners of the USSR. After the collapse of the Soviet system, banks like Sberbank and VTB simply inherited capital shares abroad (we cover the details below in the analysis of foreign strategies of select banks), so the preconditions for entry existed in the form of the "Soviet legacy" (Mizobata, 2011; Panibratov, 2012). Representative offices are mostly established for fulfilling the market-research function, evaluating the opportunities of growth in the market, as well as for providing consulting services about the Russian market and general trends in the Russian economy for foreign investors planning to enter the market. This motivation of business expansion is a salient feature of the Russian banks trying to attract investors to the Russian economy but without providing any particular banking services. According to various estimates, there were 44 representative offices abroad (13 in CIS) (Abalkina, 2010). Representative offices are normally established in countries where direct penetration in the form of a subsidiary is somehow bound by high institutional barriers, coordination by financial supervising authorities, and so on. The practice of conversion of representative offices into subsidiaries is not very common. Therefore, Russian banks tend to use the so-called “organic growth strategy”[18] in expanding their foreign business. The subsidiary choice, as shown in the existing literature (Panibratov, 2011, 2012), is provided with the knowledge that Russian banks have no other entry modes and therefore have to make this “forced choice”.

M&A has historically not been a common form of entry into the foreign market for Russian banks. However, in the CIS region this trend has been quite strong recently (for example, the entry of Gazprombank into the Belorussian banking market). Some researchers report on the growth of M&A in the CIS region (Abalkina, 2010; Vinokurov, 2010) due to the low level of capitalization of banks and cheap financial resources. In Europe, on the contrary, Russian banks can hardly allow themselves to merge with or acquire domestic banks. Therefore, within the existing MNBs theory, we conclude that both brown-field and green-field strategies of expansion are being used by Russian banks.

However, there are some distinctive features in foreign expansion. At present, banks like Rosbank and Petrokommertz are owned by foreign capital. The share of Societe Generale (France) in Rosbank is 82.3%, while 94.87% of shares in Petrokommertz belong to Reserve Invest Holding (Cyprus). Therefore, further foreign expansion of these banks is purely driven by the motivation of Russian capital. Foreign banks operating in the Russian market are also active; for them expansion through Russian subsidiaries to CIS might be a strategic move and the easiest way to expand their presence in the region. Further research on the motivation of such banks in the form of “hidden expansion under other countries’ flags” will be somewhat difficult to explain within the framework of existing TNB/MNB theory[19].

In general, Russian banks are quite conservative and their direct presence abroad is limited. Nevertheless, as mentioned earlier their role in other investments is unquestionable. As the motivations for entry into the foreign markets differ, so do the strategies of specific banks. Internal linkages with the state and natural-resource-based TNCs that are major clients of Russian banks are significantly strong and clearly have an impact on the strategies of some banks. Below we briefly consider the international expansion strategy of three major banks: Sberbank, Vneshtorgbank, and Alfa-Bank.

A. Sberbank

Sberbank is the largest bank in Russia[20] and Central and Eastern Europe (CEE) and considers international expansion to be an important part of its strategy. The bank acquired a considerable stake in foreign assets as part of the “Soviet legacy”. At present Sberbank aims to attract foreign capital in foreign markets on favourable conditions for the financing of the Russian economy, and to support its clients engaged in foreign trade and investments. The bank is expanding its

Table 7. Affiliated foreign institutions of Sberbank

Name	Sberbank share	Note
OJSC "BPS-Sberbank" (Belarus)	97.91%	One of the leading banks in Belarus. The share of corporate loans on the market is planned to be increased to 12% by 2015
JSC "Sberbank" (Kazakhstan)	100%	Acquired by Sberbank in 2006. Wide branch network (13 branches, 100 offices)
Volksbank international AG (Austria)	100%	First acquisition of Sberbank out of CIS region. 2012 – 100% shares acquired. The bank has 295 affiliated divisions and more than 600 000 clients. The bank is widely present in CEE
JSC "Sberbank" (Ukraine)	100%	Acquired in 2007. Regional network is about 80 divisions. Mainly serving Russian companies working on the Ukrainian market or Ukrainian companies with Russian investments
Representative office of JSC "Sberbank" (Germany)	-	Representation and protection of interests of Sberbank and its clients in Europe; consulting services; business relations with state and commercial institutions of the EU
Representative office of JSC "Sberbank" (China)	-	Expansion of opportunities in order to serve client doing business on the Chinese market; consulting services to both Russian and Chinese companies
JSC "Sberbank" branch office in New Deli (India)	100%	Strategic development on the market is declared as the major motivation

Source: compiled by author from www.cbr.ru (accessed 10.07.2011)

international influence and, at present, has correspondent relations with 220 leading banks in the world. The expansion of Sberbank started in 2006 when it acquired a bank in Kazakhstan. In 2007, Sberbank entered the Ukrainian market and launched its business in Belarus in 2009. At the next stage of its international expansion, Sberbank opened representative offices in Germany and China, and a branch office in India. The bank aims to acquire new assets in these countries, establish subsidiaries, branches, and representative offices, as well as non-banking financial corporations. It plans to increase the share of its international activity to 5% by 2014 and is actively participating in IPOs[21]. Table 7 represents the list of affiliated foreign institutions of Sberbank as of July 2012.

B. VneshTorgBank (VTB)

Vneshtorgbank is the largest transnational financial corporation in Russia. The bank was established in October 1990 as a closed joint-stock company aimed at furthering foreign economic relations of the Russian Federation. According to the VTB web-site, it currently operates in 15 countries.

The main motivation is supporting foreign operations of its clients in the EU and CIS markets. The foreign correspondents network of the bank is large and includes over 100 units (Jumpponen, 2004).

The VTB Group (comprised of JSC VTB Bank and its subsidiaries) is a leading Russian financial group, offering a wide range of banking services and products in Russia, CIS, Europe, Asia, Africa, and the U.S. The government holds 75.5% of the shares and 10% belong to foreign investors. The group conducts its banking business in Russia through VTB bank as the parent company with five subsidiary banks. The group's largest subsidiary banks are VTB 24, Bank of Moscow (95% of shares), and TransCreditBank (78% of shares). The group operates outside Russia through 15 bank subsidiaries located in CIS (Armenia, Ukraine (2 banks), Belarus (2 banks), Kazakhstan, and Azerbaijan); Europe (Austria, Cyprus, Germany, France, U.K., and Serbia); Georgia; Africa (Angola); two representative offices in Italy and China; 2 branches in China and India; 4 branches of VTB Capital in Singapore, Dubai, Hong Kong, and New York. The CIS region is the secondary direction for the VTB group. The main goals here, in accordance with the company's strategy, are an increase in market share, improvement of the credit portfolio, client base and maintenance, and an increase in deposits. VTB aims to establish institutions with universal banking services for Russian companies operating in the region and local and international corporate clients, and develop retail banking. The group also entered Asia and Africa as there are many joint investment projects in this region. South-East Asia and the Middle East are important regions for the development of investment banking; therefore, VTB has institutions in Singapore and Dubai.

In the former Soviet Union, there existed a system of Soviet foreign banks that were controlled by Gosbank. At the beginning of 2000, these banks were bought by VTB in accordance with the strategy of the development of the Russian banking system. This is how VTB received shares in Soviet-controlled foreign credit institutions: Moscow Narodny Bank; BCEN-Eurobank (France); Donau Bank (Vienna); Ost-West Handelsbank (Austria); Russiche Kommerzial Bank (Switzerland); and East-West United Bank (Luxemburg). These banks were mostly oriented towards supporting international trade of the Soviet Union.

Kuznetsov (2007) considers VTB to belong to the Russian TNC-type institutions, named "successors of the Soviet Union", as VTB inherited the oldest foreign assets under Russian control. For example, the main subsidiary of state-owned Vneshtorgbank is Moscow Narodny Bank (a part of VTB Europe), which was established in London in 1912. It was nationalized

Table 8. Affiliated foreign institutions of Alfa Bank

Name	Alfa Bank share	Note
Alfa Capital Markets (UK)	100% owned by Alfa Capital Holdings (Cyprus) Ltd.	International investment banking, attracting international investors to the Russian equity markets, providing expertise and assistance to Russian and Ukrainian companies accessing London capital markets. Branch of Alfa Capital Holdings (Cyprus) Ltd.
Alfa Capital Holdings (Cyprus) Ltd.	N/A	Brokerage services to international clients in the Russian, Ukrainian and UK capital markets
Alforma Capital Markets, Inc. (US)	N/A	Brokerage and investment services to US institutional clients investing in Russia and CIS
Amsterdam Trade Bank N.V (Netherlands)	100%	Standard and tailor-made products in the field of Russian, CIS and East European related structured trade and commodity finance, corporate banking and international money transfers. Amsterdam Trade Bank has a representative office in Moscow.
Alfa-Bank (Ukraine)	Second largest shareholder	9th largest bank in Ukraine in terms of assets. All types of traditional services, investment banking, online banking
Alfa-Bank (Belarus)		Established in 1999, one of the most reliable and dynamic banks. Head-office in Minsk and 17 branches across the country. Large companies in crude oil refining, wholesale of oil products, metallurgy, building material and food industries are major customers. Also engaged in business with government bonds, short-term bonds of the National Bank, corporate bonds and shares, auto lending and consumer financing, individual deposits, money transfers.
Alfa-Bank (Kazakhstan)		Established in 1994. Full package of banking services to corporate ad individual clients. 4 branches and 3 representative offices.

Source: compiled by author from www.alfabank.com (accessed on 11.07.2012)

after the Bolshevik revolution and VTB controls 88.9% of its shares. Another VTB subsidiary is the former Banque Commerciale pour l'Europe du Nord – EUROBANK, which was acquired in Paris in 1925 (VTB controls 87% of the shares at present). Several VTB subsidiaries were established in other countries in the 1970s to support Soviet trade. Therefore, their status became unclear in the 1990s, but later the government gave them to VTB. In these market conditions VTB tried to transform itself into the "classic" bank and develop its business mainly within Russia; it also established subsidiaries in countries where Russian trade reputation is relatively high (Ukraine, Armenia, Vietnam, Angola, and China).

VTB reconstructed these banks considerably: banking institutions in Luxemburg and Switzerland were sold; the office in London was merged with VTB capital; and banks in Austria, Germany, and France were consolidated within the framework of European sub-holding. Currently, the share of the foreign network in the total amount of profits is about 10%, the number of employees in foreign subsidiaries is about 9,000 (Profil, June 2012, p. 56–57).

C. Alfa Bank

The bank was founded in 1990 and is a member of the Alfa Group. Alfa Bank offers a wide range of services: corporate and retail lending, deposits, payment and account services, operations with foreign exchange, investment banking, and others. Alfa-Bank is the largest private bank in Russia, which is consistently among the Top-10 banks in terms of assets, capital, deposits, and lending. The bank's management team has both Western and European specialists who have a solid understanding of the needs of the Russian market. The bank consistently builds its strategy both in domestic and international spheres. Emerging markets were considered a great opportunity for business expansion; therefore, Alfa Bank established a subsidiary and three representative offices in Kazakhstan. By the end of the 2000s, the Alfa Group operated in Belarus and Ukraine, and entered several European markets. The banks affiliated with Alfa-Bank are presented in Table 8. The motivation of entry is to have a presence in the major international financial centres of EU and CIS.

5. Major obstacles in foreign expansion and idiosyncratic features of Russian banks

While there is no clear policy towards Russian outward investments, expansion of Russian banks abroad is an ongoing process. However, there are many boundaries or restrictive factors that influence the banks' strategy of foreign expansion and determine their behaviour. We categorize obstacles of foreign expansion of Russian banks into three major groups.

The first group of factors consists of home-country related issues. The specific structure of the Russian banking sector (which is highly concentrated and overly segmented), strong participation of the government in banks, the global image of Russia, the level of corruption and political instability, among others contribute to the image of Russian banks abroad (Kuznetsov, 2010b). Only large banks and mostly state-owned ones have access to foreign markets. Some Russian TNCs are viewed negatively abroad due to political issues, their profit-oriented and "cherry-picking behaviour". Some studies hardly consider Russian TNCs to be the "classic" ones (Kuznetsov, 2012). The same is true for the Russian foreign (transnational, multinational) banks. The majority of banks do not have sufficient resources or experience to expand beyond neighbouring countries with whom they have close historical economic and political ties. In other words, limited competitive advantages limit their choice of expansion to CIS. However, among CIS countries, Russian banks still enjoy ownership and location advantages.

The second group of factors is represented by host-country boundaries. These might include concerns existing abroad towards Russian investment expansion, peculiarities of banking systems of host countries accepting Russian banking investments, high standards of institutional barriers (regulation on minimum charter capital, successful history of business (€5 million and three years of successful history in many European countries as a precondition)), and "economic nationalism and protectionism of host countries" (Vernikov, 2005).

The third group of boundaries consists of the subjective limitations of the Russian banks themselves and their idiosyncratic features formulated by the domestic market specificity of the banking sector (interrelations with the state and large industrial groups). These might also include quality characteristics and the scale of banks, scarcity of banking capital (called the "objective restrictive factor" by Vernikov (2005)), as well as the distinct strategies of Russian foreign banks (historical, cultural ties predetermine motivation of entry in neighbouring countries; follow the customer approach; difficulties in understanding the real actors of management strategy).

In general, all three above-mentioned categories represent the domestic environment of both home and host country that consists of microeconomic, macroeconomic, and institutional factors that stipulate the form of foreign entry (IFDI) or expansion (OFDI). In case of Russia, we believe the institutional context is one of the critical factors.

A banking poll conducted in 2011 (Vedev and Grigoryan, 2011) defines the following obstacles regarding the limited expansion of Russian banks: (a) banking in Russia is more profitable than abroad; (b) no financial resources for expansion; (c) restrictions in the foreign target market to establish banking institutions; (d) no need to expand abroad; (e) no experience in operating abroad; and (f) the Russian government makes it difficult to expand abroad[22].

Thus, Russian banks can be regarded as rather conservative investors abroad. The share of OFDI is extremely low and existing obstacles minimize the number of banks operating abroad. However, the role of Russian banks in providing trade credits, loans to other banks, as well as attracting them is rather high. This explains the high proportion of other investments in the total structure of outward investments of the banking sector.

6. Conclusions

Recent trends in OFDI position BRIC countries as exporters of capital. In accordance with the theory of investment development, BRICs might be regarded as potentially strong suppliers of FDI in the near future. This view is partially corroborated by the emergence of TNCs (MNCs) from emerging economies.

Simultaneously with the expansion of TNCs, expansion of TNBs (MNBs) from emerging economies is of increasing interest. Contemporary national financial and banking systems are implementing important functions from the point of view of national economies. Within the context of globalization, liberalization of foreign markets, and integration of financial resources and capital, national banking systems get more opportunities to access foreign capital markets in order to diversify their risks and to achieve additional speculative income. Some financial institutions are prone to increase their presence abroad as part of their overall international strategy.

We conditionally introduce the foreign banking theory approach and consider the foreign expansion of Russian foreign banks within the framework of existing multinational (transnational) banking theory. Soviet and Russian banks started foreign expansion in the late-1980s and actively expanded their businesses abroad, first as correspondent banks and later in the form of representative office and subsidiaries. Needless to say, the internationalization of the banking sector stimulates competition, which places limits on concentration and centralization of capital, and spurs M&A.

The motivation behind foreign expansion of Russian banks is mostly driven by "follow the customer" strategy into CIS countries where there is cultural and historical proximity and where they are still relatively competitive. Both PUSH/PULL reasons can be identified as factors driving the expansion of Russian banks. We particularly stressed the historical factor (close ties with CIS and the "Soviet legacy") as having a key role in explaining reasons of foreign expansion. In other words, the institutional context of the domestic environment predetermines the behavioural patterns of inward-outward expansion cases. With references to the existing literature we confirmed that Russian banks generally penetrate foreign markets by establishing representative offices and subsidiary banks, and mostly use both green-field and brown-field expansion modes. The strategies of many banks are sometimes dependent on government policy since the majority of banks are directly or indirectly controlled by the state. Foreign expansion is limited to state banks and large private banks, although there are cases of expansion of banks that are members of large industrial corporations (for example, Promsvyazbank and Gazprombank); VTB is the pioneer in international expansion.

Geographical destinations for expansion might be a result of business motives or environmental constraints. As other researchers show, affinity to CIS, Europe, and BRICs markets is likely to be caused by traditionally close ties, some brand awareness, other Russian companies' activities in those markets, and high demand for financial services in relatively developed or rapidly developing emerging economies (banks behave like typical natural-resource-based TNCs here). Non-transparency of the real actors of Russian banks' international expansion strategy, high involvement in offshore businesses (tax havens) in the form of other investments, and "hidden penetration under other countries' flags" are other distinct features that characterize Russian foreign banks (TNBs).

In this study, we found that there are some limitations in the MNB theory approach. While it is possible to conduct a general analysis of motivation, entry modes, and strategies of Russian banks going abroad, multinational banking theory needs revision with respect to understanding the essence of foreign banks going abroad (ambiguity of definitions among TNBs and MNBs) and the role of host and home country approaches in investigating the activities of foreign banks. Needless to say, there is some research in this sphere targeting the salient features of the banking systems of both host and home countries, which should perhaps be summarized to theoretically extend the existing theory of multinational banking. We humbly attempted to suggest an eclectic approach in the form of a foreign banking theory that relies on the approaches of MNB theory and points out the necessity of investigating the expansion of foreign banks from the point of view of home and host countries, as well as from the viewpoint of banks' strategies. As demonstrated in the Russian example, the distinctive features of banking sectors of host and home countries; offshore businesses of banks; hidden forms of expansion through third countries; role of banks in other outward foreign investments; non-transparency of legal actors of foreign banks and their strong interrelation with the state and resource-based TNCs and large financial and industrial groups; cultural and historical ties among the host and home countries, are factors that do matter and should be considered when investigating the foreign expansion of banks. The form of internationalization (multinational, transnational, or simply foreign) in fact is not the priority here when we try to understand why banks go international and identify the driving forces behind it.

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Notes

[1] UNCTAD (2010), p. 6. For instance, Russian outward FDI in 2004 was USD 13.9 billion; USD 12.8 billion in 2005; USD 20 billion in 2006, USD 56 billion in 2008, and 46 billion in

2009. The general trend is positive.

[2] Kuznetsov (2012), p. 3.

[3] The amount of accumulated inward FDI in 2010 was USD 369.1 billion (15% less than preliminary calculations). So-called reinvestments (return of Russian capital in the form of FDI) are also calculated in CBR statistics. Affiliated businesses of Russian companies are registered in offshore regions (Cyprus, British Virgin Islands, and Bermuda) and are the main sources of these so-called pseudo-FDI (for further details refer to Kuznetsov, 2012a, 2012b; Kheyfets, 2008). Kalotay (2005) distinguishes legal FDI (including investments in oil tankers), pseudo-FDI (mainly round-tripping FDI via Cyprus, other offshore centres, and some other categories of investments), illegal FDI, and other forms of "capital flight".

[4] For the purpose of comparison some data from Rosstat and UNCTAD is also being used.

[5] Multinational bank theory (MNBs) emerged from the theory on multinational corporations (MNCs). Researchers in the sphere of foreign banking and multinational banking currently apply the term "theory of multinational banking" in their studies, although initially the United Nations Center on Transnational Corporations introduced the term "multinational bank" in 1981. According to their definition, a multinational bank is "a bank having more than five affiliates or subsidiaries abroad and one engaged in organizing commercial banking activity". Grubel (1977) developed his theory of multinational banking based on the theory of FDI in manufacturing. According to it, MNBs have some comparative advantages. Banks go abroad to better serve their domestic clients ("follower strategy" or "gravitational pull effect"). Banks' internationalization grows in parallel with FDI as banks try to meet the demand for banking services of MNCs abroad. However, due to the diversification and complication of the banking transactions at the present stage of development of banking activity in general, we argue that the definition of MNB (TNB) needs some revision. In essence, any foreign bank doing business abroad nowadays can be categorized as a multinational to some extent. For the simplicity of analysis here we assume that Russian banks having foreign affiliates or subsidiaries can be regarded as MNBs (or TNBs), due to the fact that the main condition (expansion of business to other countries is fulfilled and the ownership structure of major banks going abroad, namely Sberbank, Vneshtorgbank, and Gazprombank) is represented by participation of foreigners (though only through minority shareholder participation).

[6] The difference between transnational banks (TNCs) and multinational banks (MNBs) is often vague in academic literature and causes a lot of confusion. We support the general definition of the UN Center on Transnational Corporations, in accordance with which TNBs are banks operating in more than 5 countries (though operating even in more than 1 country is a sufficient condition, in our view). The transnationality of banks is shown by the Transnationality Banking Index (TNBI), while multinationality of banks mainly refers to their ownership structure, meaning participation of foreign investors. However, for the simplification of our

research, we use the term "foreign bank" in relation to Russian banks going abroad in order to avoid misunderstanding. However, we apply the methodology of TNB theory (motivation: PUSH/PULL analysis; follower, escape, leadership strategies, comparative advantages of banks (location factors, ownership, internalization); entry modes; entry strategies; host and home country approach, etc.). We compare the MNB theory and foreign banking theory in Figure 1.

[7] There are two definitions of a foreign bank: one juridical and the other quantitative. According to the juridical definition, a foreign bank is one that is registered in accordance with the foreign country's legislation (non-resident), a bank with foreign participation (less than 50% shares), a bank controlled by non-residents (more than 51% shares). However, as per the quantitative definition, the classification of banks as domestic or foreign is in accordance with the share of foreign investments. For details see Vernikov (2006).

[8] Some studies stress the importance of analysing the activity of foreign banks in national economies (Vernikov (2002, 2004, 2006) and Rozinskij (2006, 2008, 2009)). The theory of foreign banking as a definite concept is not acknowledged in the literature. While acknowledging the importance of the MNBs approach, we argue in this paper that this approach enables a more thorough investigation of foreign banks' behaviour from the viewpoint of both host and home countries.

[9] Other investments (both inward and outward) in CBR statistics include lending.

[10] There were 230 banks with foreign capital participation as of January 1, 2012 (versus 130 in 2001) in accordance with CBR statistics. Their share in capital of the Russian banking sector was 27.7%.

[11] Offshore regions are the major destinations of Russian banking OFDI due to the existence of so-called tax havens there.

[12] As of November 2009, €10 billion of Russian deposits were placed in the banking sector of Cyprus (total volume of foreign deposits: €15 billion). The majority of these deposits return to Russia in the form of reinvestments; in 2010, Cyprus' investments in the Russian economy amounted to USD 52 billion, including USD 36 billion in the form of FDI. A low tax rate on dividends attracts Russian business into this offshore region (Kuznetsov, 2010b).

[13] CBR statistics classifies "dubious transactions" plus errors and omissions, which can be regarded as "capital flight". This presumably applies to funds moved abroad in order to launder criminal earnings or to evade (legally escape) taxation (for details see Hanson, 2010).

[14] In general the CIS and EU are the main recipients of Russian FDI. The share of CIS is about 30%, but more than 80% of these investments are concentrated in three neighbouring countries (Ukraine, Kazakhstan, and Belarus). The share of EU is almost 40%, with offshore regions dominating in this segment. Thus, Russian investments are distributed in accordance with the so called "neighbouring effect" (for details see Kuznetsov, 2008).

[15] These include the following: 1. strong government participation; 2. strong linkages of some

banks with financial industrial groups; 3. the function of converting deposits into investments is not working effectively (companies tend to issue bonds or attract capital from foreign markets; 4. concentration towards large banks with the existence of many small banks; 5. difficulties with attracting long-term borrowings; 6. low share of loans in GDP (Germany – 108%; UK – 105%; Ukraine – 76%; Russia – 40% (corporate loans – 30%, retail and consumer banking – 10%)); 7. the revenue structure of banks is unbalanced (revenues from foreign exchange operation are considerably high; 8. high interest rates; 9. low level of capitalization; 10. low productivity (assets/number of employees) of the banking sector (Ireland – 35.1%; Netherlands – 24.1%; Poland – 28.5%; Russia – 1%); 11. low level of return on equity (ROE) (Brazil – 28.9%; Indonesia – 28.5%; Russia – 22.7%); and 12. increasing presence of foreign banks. For details see our earlier work. For details on idiosyncratic features 6, 9, and 10 refer to Vedev and Grigoryan (2011).

[16] Share in banking assets of Top-5 banks (including Sberbank, VneshTorgBank, Gazprombank, VneshEkonomBank, and Rossselhozbank) was 49.6% as of January 1, 2012. They also account for the majority of deposits and lending. www.cbr.ru

[17] Proposed by Dunning (1980) in order to explain the behaviour of MNCs abroad. Subsequently, the OLI paradigm was applied in the theory of multinational banking. Ownership-specific advantages, location specific advantages, and internalization advantages were later extended to eclectic theories.

[18] Organic growth strategy is aimed at expansion of business that is fully based on the internal resources of a foreign bank. It is normally very costly and takes a lot of time to implement.

[19] Similar issues were found by the author for the Toyota Group that established Toyota bank in Russia through Toyota Kreditbank GmbH (99.75% of shares) and Toyota Leasing GmbH (0.25%), both located in Germany. Therefore, from the Russian point of view and in accordance with the conservative approach to foreign banking, FDI in this case should be counted as German, although it is obvious that Japanese capital (namely Toyota Financial Group and Toyota Group as the whole) is behind it.

[20] As of January 1, 2012 Sberbank is rated as the top bank in terms of assets, capital, deposits to both corporate and individual customers, and lending (see rating of Russian banks).

[21] Although we do not consider IPOs within the frameworks of the present study, we note that IPOs are very important for Russian banks. According to Bloomberg™, in November 2012, 46.3% of the turnover in Sberbank shares was on the London Stock Exchange.

[22] In the poll (2011) obstacles are presented in the ascending order from (a) the most frequently mentioned answer to (f) the least mentioned one.

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