Banking on Global Success: Internationalization Strategy and Its Limitations (The Case of Allied Irish Banks)

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Executive Summary

This article explores the choices and challenges facing Ireland's leading financial services corporation, Allied Irish Banks (AIB), in its strategy for international market growth. It begins with an examination of the company's internationalization strategies within the global banking context. It then considers the limitations of international market expansion and transnational management control for a company with low brand recognition outside of its home market and limited experience of international operations. Finally, it elaborates on the strategic challenges that face the organization and reflects on the lessons for other midsized international companies competing in consolidating, globalized industries. © 2006 Wiley Periodicals, Inc.

INTRODUCTION

The strategies of banks are increasingly dominated by the need to maximize economies of scale and scope. A once-localized business has become globalized, as a wave of transborder mergers and acquisitions has resulted in a consolidated industry and a diminished number of international competitors. Two broad tiers can be identified among these transnational competitors: the major players such as Citigroup, with a market capitalization in excess of U.S.$245 billion, and the minor contenders like Allied Irish Banks, with a market capitalization of just under U.S.$13

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billion.[1] With the wide resource—and brand—disparity between these two groups, can both tiers survive and prosper in nondomestic markets?

This question is considered through a case study of international expansion strategy at the leading Irish banking and financial services group—Allied Irish Banks (AIB). The company made a gradual transition from being an Irish domestic bank to an organization with operations in several regions of the world. At the same time, the company cannot be considered a major force in the worldwide banking industry, either in terms of assets or brand reputation. Instead, AIB has carved out a regional niche in key overseas markets and has taken advantage of emerging customer trends and developments.

Although an interesting and instructive case, the AIB story is merely one example of the opportunities and challenges that confront a mid-sized company beyond the confines of its domestic market.

Our main objective is to examine how a bank from a small domestic market base diversified its revenue streams through international investment and acquisition but ultimately overstretched its resources and capabilities. What are the lessons for other medium-sized banks and other companies around the world? We begin with a brief discussion of the dynamics of international banking, followed by an overview of AIB's route to international market presence. Next, through examining its market entry into the United Kingdom, the United States, Poland, and Singapore, we consider the limitations of international market expansion for a company that is relatively small in terms of structure and resources and lacks global brand recognition. These issues are particularly acute in an industry that is consolidating, with the emergence of several large global players. The article concludes with a reflection on the transnational management control issues arising from the large-scale fraud perpetrated at AIB's U.S. subsidiary, Allfirst, and raises questions concerning the future of AIB's international operations.

RESEARCH DESIGN

Although an interesting and instructive case, the AIB story is merely one example of the opportunities and challenges that confront a mid-sized company beyond the confines of its domestic market. In addition, the market and nonmarket contexts of the banking business are substantively different from other industries. Regardless of these shortcomings, the case study method is particularly appropriate to situations where process is an important factor: how and why decisions were taken. As Yin notes, case studies are best utilized when the "boundaries between phenomenon and context are not clearly evident" (1994, p. 13). More specifically, through an exploration of

AIB's internationalization process, we attempt to establish and understand the linkage between international market growth boundaries and resource and reputation restraints.

We use purposive sampling as the basis for interviews. This technique does not generate a scientifically representative sample but is useful in case study research where it is difficult to identify an appropriate population. The sample was generated via a staged process, where material from the first interview round shaped the subsequent round of interviews (Saunders, Lewis, & Thornhill, 2000, p. 174). The sample group was bound to be heterogeneous, since interviewees would be useful because of their knowledge of the case, rather than their functional specialism. Interviews were in-depth and semistructured, focusing on why, how, and where AIB internationalized.

The network model describes the internationalization process of a firm as a reaction to the strategic moves of other actors within the firm's business network.

AIB's internationalization is conceptually framed by each of the three dominant schools of thought on corporate internationalization: the stage model (Johanson & Vahlne, 1977, 1990), the eclectic paradigm (Dunning, 1981, 1995), and the network model (Forsgren & Johanson, 1992; Johanson & Mattson, 1988). All three approaches can rationalize the AIB case, but each is also limited in its analytical scope. The stage model, for example, is useful to explain how psychic distance (similar culture, language, local customs, etc.) and experience learning influenced AIB's selection of entry markets and entry modes. However, it cannot explain why AIB originally used foreign direct investment (FDI) to implement its internationalization strategy, when the firm had little or no prior knowledge of the markets in which it was investing. Nor can it explain why the company subsequently pursued joint venture strategy when the firm had already established international experience. The network model describes the internationalization process of a firm as a reaction to the strategic moves of other actors within the firm's business network. However, the model ignores other proactive factors that influence a firm's decision, such as managerial ambitions or the desire to leverage a core competence or a firm's competitive advantage beyond the domestic market. Therefore, we must look at all three models in order to develop a holistic framework to understand AIB's internationalization process.

THE EMERGENCE OF ALLIED IRISH BANKS

Since its formation through a merger in 1966,[2] AIB established itself as a dynamic and successful international banking and financial services organization (Figure 1).

Figure 1. The Internationalization of Allied Irish Banks: Key Points of Evolution

	International Expansion						*International Contraction*	
1966	1970s	1983	1995	1999	1999	2001	2001	2003
Founded	U.K.	U.S.	Poland	Allfirst	Singapore	BZWBK	Singapore	U.S.
Merger of three older Irish banks	Creation of branch network	Invested in First Maryland Bancorp	Took minority stake in WBK	Merged U.S. interests	Invested in Keppel Tat Lee Bank	Merged Polish interests	Divested of Keppel Tat Lee stake	Alliance with M&T Bank

The company is widely recognized as Ireland's leading financial services organization, slightly ahead of its largest domestic rival, Bank of Ireland. Both banks have reaped the benefits of a booming domestic economy and large increases in credit growth during the latter half of the 1990s and early 2000s. In this context, it is important to highlight the nature of AIB's internationalization process. The main point is the way that the AIB brand has not been developed outside of Ireland and the United Kingdom. Their internationalization process has been largely about buying into respected and established regional banks in other countries (Poland and the United States) and continuing to operate under these names. They therefore have a "chameleon-like" approach to internationalization: *blend into the existing market, develop the existing brand, and siphon off the profits.* According to sources within the organization,[3] there is no desire within the company to expend time and money on developing the AIB brand globally. This strategy runs contrary to that pursued by other domestically dominant companies undertaking market expansion and global strategy. For instance, Anwar (2002) illustrates how in telecommunications, NTT DoCoMo, the largest cellular/wireless company in Japan, has leveraged its brand association with parent company NTT to enter into foreign markets and create global alliances with companies as varied as Microsoft and Disney. Although not yet a household name in North America or Europe, the company has invested heavily in international brand development.

The nature of AIB's internationalization strategy can be explained in part through an understanding of the bank's competitive context, both in Ireland and internationally. Retail banking in Ireland is dominated by the main clearing banks that provide a full range of financial services based on comprehensive nationwide accessibility and the integration of service provisions across all sectors (small and large, business and personal, etc.). This contrasts with many countries where there is still a strong segmentation in the banking sector between retail and wholesale banks. In Ireland, a significant number of smaller banks and building societies also compete with the major banks for retail customers. The two largest Irish banks, AIB and Bank of Ireland, are both publicly quoted companies and have raised the bulk of their capital through the Irish Stock Exchange. In each case, ownership is widely diversified, with over 100,000 shareholders, most of whom are private individuals with relatively small holdings. In the case of AIB, 41% of shareholders own fewer than 1,000 shares each, while in the case of Bank of Ireland, this figure is 54%.

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While banking institutions provide an important service to Irish customers, their role has changed and continues to evolve due to wider changes in the business environment. In particular, customers can now expect to receive a wider range of services from their banks and experience new ways of receiving such service. As Irish banks face increasing competition from international operators and nontraditional financial outfits such as retailing organizations (e.g., Tesco or Marks & Spencer), they have been forced to rethink their attitude and approach to product development in general and customer service in particular. This has been intensified by the ongoing process of financial liberalization at a European level, combined with technological developments, particularly the advent of e-banking. These forces have enabled Irish banks to increase the range of services that they offer to customers and improve the speed at which they respond to client queries and concerns. This process has been accompanied by the creation—although not yet completion—of a single EU market in financial services. The introduction of the euro also facilitated the integration of markets for financial services and increased the transparency of pricing across member states. With technological advances facilitating entry into the Irish banking market, or particularly profitable segments of it, these developments have contributed greatly to increasing the competitive environment in which banks operate.

AIB'S INTERNATIONALIZATION STRATEGIES

U.K. Market Entry

The depressed economic conditions of 1970s Ireland prompted AIB to consider alternative routes to growing its business. There was a general consensus that the bank would need to look abroad for growth opportunities. Some commentators argued that the company had neither the resources nor the strategic vision to acquire or develop substantial market presence overseas. The group did lack the scale to compete directly with larger banks in markets such as the

United Kingdom. As Aidan McKeon, managing director of AIB (U.K.), explains, retail banking in the United Kingdom is a scale business (price- and efficiency-driven), and AIB had neither the capabilities nor the competencies to compete in this area. Other strategic avenues would need to be explored if the group were to compete effectively in the U.K. banking market. One such avenue was to exploit the Irish ethnic market in the United Kingdom. Through effective marketing and event sponsorship within the Irish expatriate community in Britain, AIB emerged as the bank of choice for many—both individual customers and Irish-owned businesses. In this way, the group established a viable bridgehead within the U.K. banking market.

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In considering the firm's options for further growth, AIB executives pointed to the value of pursuing a niche strategy and concentrating on particular markets where the bank might compete effectively. In this sense, the bank's U.K. strategy would emphasize organic growth and market differentiation. Heracleous (2001) argues that this tailoring of competitive strategy to the local environment is the key to market success. Being different was important for the organization. AIB would work hard to prove itself as more customer-oriented than any of its competitors. They would strive to work with the values of clients and to innovate in terms of service and product whenever possible. As Aidan McKeon commented:

> AIB's business in the U.K. is largely niche and concentrates on providing quality service to SMEs [small and medium-sized enterprises], professional customers, and the not-for-profit sector.[4]

The company specializes in the "straightforward approach" to banking, tailoring services to meet customer needs and providing relationship banking. Strategy in the U.K. market is therefore differentiation focused (Porter, 1980)—AIB does not attempt to compete on cost or price. AIB (U.K.) emphasizes relationship banking, focusing on providing personalized, quality service to SMEs and professional customers. This strategy appears to be paying dividends for the company. Independent surveys of banking practices reinforce the success of the AIB formula. In biannual Forum of Private Business (FPB) surveys,[5] AIB significantly outperforms all the main high street banks as a provider of banking services and expertise to business. In 2002, AIB (GB)[6] was voted "Britain's Best Business Bank" for an unprecedented fifth time in a row. The FPB survey, produced in conjunction with the University of Nottingham, analyzes the responses of more than 6,500 British business owners and is widely regarded as the

United Kingdom's foremost benchmark of business banking. Since 1994, AIB has been placed ahead of large British and global organizations such as HSBC and Barclays. This is an important independent measure of the bank's strategic approach and provides the group with an opportunity to evaluate itself against key players in the market. Clearly, the differentiated, customer-focused approach is working for the company. Aidan McKeon attributes the success to the bank's ability to develop and sustain quality relationships with customers. The superior service of AIB (GB) was exemplified in the FPD surveys by fewer customers considering switching banks, much lower rates of complaint and a higher level of customer confidence in advice from the bank. AIB (GB), one of the forerunners in relationship banking, scores highest in the survey for knowledge and understanding. The bank also scored highly on efficiency, reliability, and customer satisfaction.

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Through its relationship-oriented approach, the bank has earned a reputation for quality service that has proved difficult for others to imitate. AIB has invested heavily in developing its staff to meet the requirements of a more diverse and knowledgeable customer base. The group has gradually developed a banking presence and model that others are eager to learn from. The key success factor is that each AIB branch operates as a full-service local bank and offers a full range of first-class banking products, predominantly catering to the SME market. The results show that AIB (Great Britain and Northern Ireland) is a significant profit earner for the wider group. For the year ended December 31, 2002, it turned a pretax profit of €240 million, up 8% from the previous year. This sum accounted for more than 17% of total group profits.

U.S. Market Entry

The second stage in AIB's internationalization strategy came in 1983, through investment in the U.S. regional banking sector. This wider and more ambitious entry into the large and highly competitive U.S. retail market emerged from a willingness among AIB's senior management to extend their overseas market formula into selected parts of the U.S. market. Although AIB had established a foothold in the U.S. market during the 1970s with the opening of a New York branch (primarily serving the Irish expatriate community), U.S. expansion began in earnest in the 1980s. AIB began by buying a stake in First Maryland Bancorp and increased this investment to 100% in 1989. It made further acquisitions in the Maryland, Pennsylvania, Washington, D.C., northern Virginia, and Delaware regions before re-branding the entire U.S. operations under the Allfirst banner in 1999. Allfirst Financial Inc. became a regional, diversified financial services company headquartered in Baltimore, Maryland, offering a full range of financial services, including banking, trust, investment, and insurance, to retail, business, and commercial customers. Allfirst had 250 branches and employed almost 6,000 people.

…the success of the company could be explained by its ability to anticipate and respond to changing customer demands and to keep abreast of nontraditional banking formats.

Despite the increasing uncertainties and general slowdown in economic activities, Allfirst reported net income to common shareholders of $184.4 million for the year 2000, representing a 7% increase over the year 1999 figure of $172.3 million. Revenue grew a further 6% the following year.[7] In 2001, Allfirst benefited from strong growth of 8% in noninterest income from core banking activities—most notably, 17% growth in electronic banking income and 14% growth in corporate deposit fees. These income streams were driven by both the acquisition of new customers and increased penetration of the existing customer base. Allfirst did not experience loan growth due to a decline in indirect retail loans but was buoyed by a 13% growth in home equity lending activities. Deposit growth of 10% was achieved in the period, which primarily reflected growth in commercial deposits and resulted in Allfirst achieving the number-one market position for deposits in the Greater Baltimore region. At the end of 2001, the company had financial assets of $18.8 billion (€21.4 billion).[8] According to Susan C. Keating, president and CEO of Allfirst at the time, the success of the company could be explained by its ability to anticipate and respond to changing customer demands and to keep abreast of nontraditional banking formats.

Despite these positive signs, some analysts questioned the rationale behind AIB's ownership of Allfirst, given its relatively listless revenue growth and high operating costs.[9] However, investors were willing to allow the bank time to consolidate its mainstream U.S. market beachhead, seeing it as a key element in AIB's strategy to gain competitive advantage over archrival Bank of Ireland.

To its credit, AIB (Allfirst), along with the Royal Bank of Scotland (First Citizen) and ABN-Amro (La Salle), were at that point the only foreign banks to have successfully penetrated the U.S. retail market. The key to the success of each has been a focus on building market share within specific regions.

Polish Market Entry

Buoyed by the success of AIB's entry into the U.K. and U.S. markets, and following on from the firm's World Bank consulting work in the early 1990s, the bank's senior executives saw an opportunity to enter emerging markets. The former Soviet bloc countries of Central and Eastern Europe held particular appeal. This decision was not without its detractors. Concern arose about the logic behind the move. Some commentators questioned the company's ability to manage the transition to fundamentally different markets. The challenges were clear. First, there was the issue of successfully applying Western management practices in a former Communist country. Second, there were the cultural issues that at that time loomed large. Michael Buckley, AIB Group CEO, explained that from the group's perspective, language and cultural issues were major challenges for AIB:

Some commentators questioned the company's ability to manage the transition to fundamentally different markets.

> Language in Poland is a major problem. A different language means different concepts, different ways of thinking and different ways of reaching consensus and communicating decisions.[10]

Despite these challenges, independent accounts pointed to the strategic benefits of entering the Polish market. These included:

- a domestic market of 39 million people;
- a developing middle-class/affluent segment;
- an estimated SME segment of 650,000 companies;
- projected EU accession in 2004[11];
- significant levels of foreign direct investment into Poland; and
- low banking penetration among the general public.

Even so, there was a slight air of opportunism about AIB's entry into mainland Europe in general and Poland in particular. In the late 1980s, AIB had a surplus of senior managers and many were consequently "hired out" to undertake consultancy projects—e.g., for the World Bank in the newly opened economies of Central and Eastern Europe (particularly Poland, Hungary, and the Czech Republic). These managers reported back to AIB Head Office on market opportunities in these countries. In 1993, the World Bank and the European Bank for Reconstruction and Development (EBRD) provided AIB with an opportunity, when they asked them to twin with a Polish bank. A common practice at this time was to twin companies in the post-Communist Central and Eastern European countries with a Western partner in order to tutor them in free market principles and practices. AIB had done due diligence on the Polish market and therefore chose WBK in Poznan. This twining led to AIB, in 1995, buying 16% of the company for IR£16 million (€18 million). By 1997, they had increased their stake to 60%, costing the company

£95 million (€114 million). The remainder was quoted on the Polish Stock Exchange and proved difficult for AIB to purchase. The situation suited AIB in that it was happy to maintain the image of WBK as a Polish bank. By 1999, AIB had bought the ninth-largest bank in Poland, Bank Zachodni, based in the southwest of the country. This move further strengthened its "local branding, local profile" approach. AIB subsequently acquired permission to merge Bank Zachodni with WBK. The new entity was called Bank Zachodni WBK, or "BZ WBK." To reinforce their strategy of "local brands for local markets," AIB has not chosen to put its name on the newly merged organization. The merged Bank Zachodni WBK is a top-tier bank in Polish financial services. Its major shareholder, with 70.5% of shares, is Allied Irish Banks plc. The new bank has its head offices in Wrocław, while its corporate centers are located in Wrocław, Poznań, and Warsaw. Postmerger, AIB became the fifth-largest bank in Poland, with 7% of the market.

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As in other regions, the Polish acquisitions underscore the nature of the bank's internationalization strategy: to be a top-tier *regional*—not national—operator in overseas markets. Notwithstanding the company's ability to compete in this market, there will be challenging times ahead for AIB in Poland. In 2001, gross domestic product grew by just 1.1%—down from 4% in 2000. Unemployment hit a record high at the end of 2001, reaching 17.4% (3.1 million people). Also, domestic demand fell by 2%, with the overall figure being kept in positive territory only by strong exports. However, the Polish economy stabilized during 2002, and BZ WBK strengthened its market position. As a result, performance improved by 71%, with a pretax profit of €61 million by the end of 2002, up from €36 million the previous year.[12]

Entering and Exiting Singapore

While AIB placed considerable emphasis on developing its U.K., U.S., and Polish operations, management was also keen to establish a presence in East Asia. Market developments suggested that locations in East Asia represented strong growth opportunities, and AIB was eager to capitalize on this opportunity. AIB had treasury asset management and private banking operations in Singapore since the mid-1980s. The bank entered the Asian market in earnest in 1999 through a strategic alliance with Singapore-based Keppel Tat Lee Bank, acquiring 1% of shares with an option to buy a further 25%. The bank's holding company, Keppel Capital Holdings, was a financial services group offering a comprehensive range of services, including consumer banking, corporate finance, international banking, treasury, asset management, capital market activities, stockbroking, bullion/futures trading, and insurance.

In line with its strategic approach in other foreign markets, AIB was interested in Keppel Tat Lee due to its niche business in the mid-/high-end consumer and SME markets. The Singaporean bank was also committed to providing innovative quality products and good customer service. These market positions and organizational competencies coincided with those of AIB's operations in the United Kingdom, United States, and Poland. AIB's initial premise for taking a stake in Keppel Tat Lee was to investigate whether or not the AIB banking model would work in Singapore. Due to impending government-backed consolidation of the Singaporean financial services industry, they realized that they might have to withdraw from the market at a relatively early stage. This did in fact occur, and AIB withdrew from direct involvement in the Singapore banking market in mid-2001. In doing so, the company gained a substantial profit of €93 million, from a minimal initial capital investment. The group maintains an investment management presence in Singapore.

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CHALLENGES AHEAD: OVERCOMING THE ALLFIRST FRAUD

The internationalization process created problems of its own for the company. Not least among these has been management control of foreign subsidiaries. As Vermeulen (2001) argues, the key to success is to stay in control of the internationalization process. The Allfirst/John Rusnak affair is the most visible example of control problems at AIB. In February 2002, AIB uncovered fraudulent activities in the foreign exchange trading operations at the Baltimore headquarters of its U.S. subsidiary, Allfirst. John Rusnak, an Allfirst trader, had accrued huge losses on currency options over a five-year period.[13] The total pretax loss figure as of February 8, 2002, the end of the week the fraud was discovered, was \$691.2 million (€789 million). That amount consisted of \$291.6 million in bogus assets, \$397.3 million in unrecognized liabilities, and \$2.3 million in legitimate trading losses incurred in 2002.[14] The crux of the problem was that the bank failed to detect very large sums passing through the books of a tiny foreign exchange trading business. Although definitive responsibility rested with Allfirst's treasury unit management, responsibility ultimately resided with AIB group headquarters in Dublin.

The fraud dealt a severe blow to the bank's stakeholders. In and of itself, the financial damage was heavy, though absorbable. Unlike the

Nick Lesson fraud that brought about the fall of Barings Bank in 1995, AIB was sufficiently large and financially robust to sustain the losses. More damaging was the way in which the episode preoccupied and undermined AIB's management for a considerable time afterward. In particular, questions were asked both from within and outside the bank about how a midsized bank not known as a major player in treasury markets could have made losses of this order.[15] Furthermore, shareholders needed to be reassured of the bank's continued viability as an independent organization. Speculation abounded during 2002 of merger with archrival Bank of Ireland and even a possible takeover by non-Irish companies such as the Royal Bank of Scotland.

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Once the fraud story was released to the markets, senior management began the daunting task of restoring credibility and repairing the damage done to the bank's brand image. A core task was to rapidly overhaul the internal controls set up by the group to monitor its subsidiaries. As the then Allfirst chief executive, Susan Keating, admitted in a press statement:

> Clearly, controls broke down and we don't wholly understand how these broke down.[16]

On March 12, 2002, the independent report commissioned by AIB's board was released.[17] Dubbed the Ludwig Report after the report's principal investigator, former U.S. Comptroller of the Currency Eugene A. Ludwig, its findings exonerated the bank's senior management of any culpability but reproved them for failing to detect Mr. Rusnak's fraudulent activities at an earlier stage. According to the Ludwig Report, there were a number of reasons why the fraud occurred and why it was not discovered for a period of years. These reasons included:

1. The architecture of Allfirst's trading activity was flawed. The small size of the operation and the style of trading produced potential risk that far exceeded the potential reward.
2. Senior management in Baltimore and Dublin did not focus sufficient attention on the Allfirst proprietary trading operation.
3. Mr. Rusnak was unusually clever and devious.
4. Treasury management weaknesses at Allfirst also contributed to the environment that allowed Mr. Rusnak's fraud to occur.
5. The proprietary currency trading business was inadequately supervised.

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6. Risk-reporting practices should have been more robust.
7. No policy and procedures review existed.

The report made it clear that the AIB Group, including Allfirst personnel, deserved credit for having taken immediate corrective and responsive action after discovering the fraud. Overall though, the report concluded that a flawed control environment existed at Allfirst's treasury operations department. A key recommendation was that AIB should conduct a careful and thorough review of risk management architecture throughout the group. The report findings and recommendations were accepted and rapidly acted upon by the AIB Group Board. Industry commentators argued that the scale of the breakdown in management control revealed by Eugene Ludwig's report presented AIB's chief executive with a serious strategic dilemma.[18] Was AIB's international presence sustainable, particularly in the United States, or had the organization overstretched its resources and competencies? The implications for AIB's internationalization strategy were likely to be significant and far-reaching.

EXPLAINING AIB'S INTERNATIONALIZATION PROCESS

In our earlier discussion of internationalization theory, we noted that no single approach completely captures the AIB experience. Following our discussion of the company's individual international market-entry strategies, let us revisit each of the dominant conceptual lenses to explain the nature of internationalization at AIB.

Lens 1: The Stage Model

AIB's internationalization pattern suggests that psychic distance played an important role in the group's decision-making process. Table 1 shows the entry modes that AIB employed in different nations.

AIB's approach to internationalization can be described as an incremental process. First, AIB chose the markets with the closest psychic

Table 1. AIB's Overseas Market-Entry Modes

Country	Year/Period	Entry Mode
United Kingdom	1970s	Foreign direct investment (FDI)
United States	1980s	FDI and acquisition
Poland	1990s	Acquisition and merger
Singapore	1999	Joint venture

distance (and, to a lesser extent, geographical distance; i.e., the United Kingdom and the United States) and then expanded into other markets with relatively close psychic distance. There are two more facts that support this view. AIB took a direct investment approach in the United Kingdom but pursued a more conservative approach in Singapore. Stage model studies suggest that psychic distance from host markets, together with a firm's past international experience, can influence the selection of entry modes (Cavusgil & Godiwalla, 1982; Chung & Enderwick, 2001; Kotler, 2003). These studies suggest that a firm with more international experience will choose more direct entry modes in other host markets. The AIB case does not seem to support this conclusion, but psychic distance did appear to have a significant influence on AIB's choices of entry modes.

After a firm possesses an ownership advantage, it can then start to think about where to use its advantage (location) and how to use or add its advantage (internalization).

Second, we can find that three of the four host markets AIB selected are English-speaking countries (English is one of Singapore's official languages). Although, AIB did not purposefully take an incremental approach to its internationalization process, psychic distance, which is the main assumption of the stage model, did play an important role in the strategic choices made.

Lens 2: The Eclectic Paradigm

Dunning's eclectic paradigm (OLI theory) is a second more appropriate model for explaining the internationalization process of multinationals such as AIB. In Dunning's model, "ownership advantage" (capital, technology, information, management and organizational skills, R&D, and other capacity) is the first strength that firms should possess before they can exploit overseas markets (Dunning, 1993a, 1993b). After a firm possesses an ownership advantage, it can then start to think about where to use its advantage (location) and how to use or add its advantage (internalization). AIB does have ownership advantage in Ireland, but this advantage would be lost in the U.K. and the U.S. markets, if compared with British or American banks. We may advance "experience of servicing Irish firms in home market "and "focus on SME market" as AIB's ownership advantages. However, we could not explain why AIB exploits different markets with different entry modes and how this mode can use or add AIB's ownership advantages.

Lens 3: The Network Model

The network model explains a firm's internationalization process in a reactive way. The model argues that firms can be pulled into international markets by their business partners, which include customers, suppliers, or even competitors (Johanson & Mattson 1988). Ireland's external trade (imports and exports) data from 1992 to 2001 suggest that Ireland has had large amounts of external trade with the United Kingdom, the United States, Singapore, and Poland. The United Kingdom, for example, has accounted for half of Ireland's export and import total with other EU countries. The United States is the largest trade partner in the Western Hemisphere (almost 95% of Ireland's trade with the Americas), and both Poland and Singapore are also top trading partners of Ireland in Central Europe and Asia. Obviously, these countries are important to Ireland in the realm of international trade. AIB has a beneficial position to exploit these markets because it can serve Irish international firms in both host and home markets. Therefore, AIB might be pulled into these markets by its existing customers in the home market, or AIB may have gone into these markets to serve the Irish firms who have entered. Because the United Kingdom and the United States are relatively large markets for AIB, it pursued a more direct entry mode to serve these markets. On the other hand, Asia is not Ireland's main market, and this may be a reason that AIB formed a joint venture with a local bank in Singapore. Of course, the pulling force is not the only factor that may have influenced AIB's approaches to internationalization. Many factors, including psychic distance factors, economic factors in both home and host markets, governmental regulations, long-term development goals and managers' characteristics, are also important factors in AIB's internationalization strategy and process.

…clear and efficient management control systems are vital to ensure that overseas subsidiaries are operating by the same norms and procedures as the parent company.

EMERGING AGENDAS

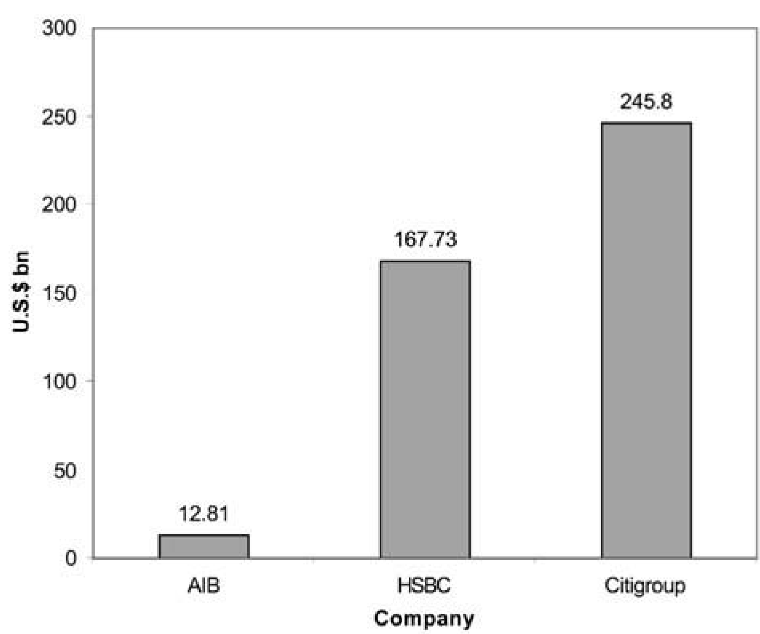
AIB is not a multinational financial services company in the way that most of its competitors in overseas markets are. Rather, it is an Irish company that has migrated its approach to different places around the world. The approach is opportunistic and entrepreneurial in nature. However, with such an approach to strategy development, a clear sense of focus and direction is essential. Also, clear and efficient management control systems are vital to ensure that overseas subsidiaries are operating by the same norms and procedures as the parent company. Transnational banking is increasingly about scale, and AIB does not have the resources to compete with the bigger global players. Therefore, it has adopted a more customer-focused, niche approach to international growth. Some analysts question the appropriateness of such a strategy in the era of banking megamergers. Although AIB is more internationally diversified than most other banks of its magnitude, it remains a midsized European bank. As

Figure 2 illustrates, it is a fraction of the size and worth of global players such as Citigroup and HSBC.

A related strategic challenge for AIB is industry consolidation. As already emphasized, the company remains a small player internationally, lacking any significant global presence or brand. In this context, questions arise as to whether AIB will continue to act as an independent niche player in international banking or whether it will become more appropriate for the group to ally with or be subsumed by a larger global bank.

Within a year of the Allfirst debacle becoming public knowledge, confidence in AIB had been largely restored.[19] This was due in no small part to the decisive and transparent action taken by CEO Michael Buckley and his team. In addition, it was apparent by early 2003 that AIB's "Main Street USA" market presence was on the wane. The de facto acquisition of Allfirst by U.S. regional banking firm M&T Bank was approved by both M&T and AIB shareholders in December 2002. The U.S.$3.1 billion deal created a top 20 U.S.

Figure 2. AIB vs. the Global Giants: Comparative Market Capitalizations



Note: NYSE market capitalization data valid at close of business on June 7, 2004.

bank with pro-forma combined assets of approximately $49 billion. AIB management described this deal as an alliance allowing AIB to "reposition and strengthen" its involvement in U.S. regional banking. However, AIB emerged as very much the junior partner in the new, combined company (controlling just over 22% of the shares), indicating that AIB was in fact gradually withdrawing from large-scale U.S. retail banking.

The AIB case study illustrates the limitations of existing research on corporate internationalization.

CONCLUSIONS

In this article, we have examined the strategy pursued by AIB in its attempt to be a transnational banking and financial services organization. The company's internationalization process has been evaluated, with particular emphasis on the challenges it faced in pursuing and managing overseas operations. We have also highlighted the limitations of international market expansion for a company that is relatively small in terms of structure and resources and lacks global brand recognition. In particular, we have shown that AIB learned a costly lesson with Allfirst, forcing them to realize the management control limitations that can arise when operating a transnational enterprise. This resulted in a partial de-internationalization, with the group's top management team preferring to concentrate resources and effort on more lucrative and less risky elements of their international operations.

The AIB case study illustrates the limitations of existing research on corporate internationalization. Individually, none of the main schools of thought—stage model, eclectic paradigm, and network model—are comprehensive enough to explain the dynamics of a varied entry strategy approach. Instead, it is necessary to take selectively from each approach to explain AIB's internationalization process. Moreover, there is an absence of work explaining why and how a company de-internationalizes.

The AIB example generates several lessons for other midsized international companies competing in consolidating, globalized industries. The general inference is that survival—and success—in nondomestic markets is possible for firms in this strategic group. However, two significant strategic issues exist. First, AIB's acknowledged difficulty in developing a global brand renders it difficult if not impossible to exploit economies of scale and the associated cost benefits. This means that a differentiated approach, based on service quality or local embeddedness, for instance, will prove more sustainable than a price leadership strategy. Second, the bank's management control problems, manifest in the Allfirst fraud, indicate the limitations of internationalization processes and structure for midsized organizations. Entering large, complex, and highly competitive markets like the United States may not bring an optimal return on investment and may in fact lead to organizational overstretch. Instead, small-to-midsized companies are better served by a cautious internationalization strategy based on leveraging domestic competencies such as personalized customer service into similar or familiar overseas markets. This approach is likely to result in the internationalizing company occupying a niche position within select overseas markets. This niche can be highly lucrative (witness AIB's market leadership in U.K. small business banking) and may prove easier to defend during periods of market uncertainty or vigorous price competition.

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NOTES

1. These market capitalization figures were taken from NYSE data listed on Yahoo Finance and valid on June 7, 2004.

2. AIB was formed by combining three Irish banks: the Provincial Bank, founded in 1825, which pioneered branch banking in Ireland; the Royal Bank, established in 1836 as a mercantile bank; and the Munster and Leinster, formed in 1885, the largest of the three, with the most extensive branch network.

3. This argument is based on numerous discussions with senior AIB executives during 2001–2002.

4. Aidan McKeon was interviewed for this article at the head offices of AIB (U.K.) in Uxbridge, Middlesex, on November 29, 2001.

5. Established in 1977, the Forum of Private Business is a U.K. pressure group working on behalf of more than 25,000 private companies to influence laws and policies that affect businesses (www.fpb.co.uk).

6. The award was given to AIB GB and not AIB U.K., as Northern Irish businesses are not included in the survey.

7. These figures are prior to the February 2002 revelation that a trader at Allfirst had lost the company $691.2 million as a result of fraudulent activities ongoing since 1997. As a consequence, Allfirst amended and refiled financial statements for 1998, 1999, 2000, and 2001 to account for the

fraudulent foreign exchange trading activities. This put the restated net income to common shareholders at $197.8 million for 1998, $141 million for 1999, and $47.3 million for 2000, with a net loss to common shareholders of $36.8 million for the year ending December 31, 2001.

8. Figures are prior to the 2002 fraud disclosure.

9. Saigol, L. (2002, March 15). AIB rules out any early disposal of Allfirst arm. *Financial Times.*

10. Michael Buckley, quoted in *Decision* magazine, February/March 2001, p. 38.

11. Poland did in fact join the EU on May 1, 2004.

12. All figures are derived from AIB's Annual Report and Accounts 2002, for the year ended December 31, 2002.

13. At the time of writing there is no evidence to suggest that Mr. Rusnak actually stole any money. Rather, it appears that he defrauded the bank by developing a scheme to cover up losses he had incurred.

14. These figures are derived from the report of the independent investigation (the so-called Ludwig Report) commissioned by the Boards of AIB and Allfirst, March 2002.

15. When Irish eyes are crying. (2002, February 7). *Financial Times.*

16. Susan Keating, cited in Brown, J. M. (2002, February 7). Internal controls to be scrutinized. *Financial Times.*

17. *Report to the Boards of Directors of Allied Irish Banks, p.l.c., Allfirst Financial Inc., and Allfirst Bank Concerning Currency Trading Losses,* submitted by Promontory Financial Group and Wachtell, Lipton, Rosen and Katz, March 12, 2002.

18. See note 9.

19. Although this confidence was again shaken, in mid-2004, due to allegations of tax evasion levied against several of AIB's senior executives.

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