Entry Strategies into the P.R.C. for Post Recession Wealth Management Service

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ABSTRACT

Trillions of dollars were evaporated worldwide as a result of the financial tsunami that shocked the world in 2007 (Soros, 2008). This paper argues that in a time of global recession, banks seeking to expand wealth management service in the People’s Republic of China (P.R.C.) need to evaluate their entry strategies thoroughly to gain a competitive edge. Through applying the theory of planned behavior, a sequential mixed methods study was conducted post recession with the aim to identify wealth management service entry strategies into the P.R.C. A sample of 227 Taiwanese nationals based in the P.R.C. indicated three managerial implications consisting of the bank entry identity, deployment of expatriates, and brand-image position.

Keywords: Bank Strategic Management, Global Recession and Financial Tsunami, Market Entry Tactics, The People’s Republic of China (P.R.C.), Theory of Planned Behavior, Wealth Management Services

INTRODUCTION

The financial tsunami and global recession posted great business pressure to banks. Sharp drop in revenue along with the number and wealth of their high net-worth customers stimulated the bank management in searching for opportunities globally (Capgemini & Merrill Lynch, 2007, 2008, 2009; Posner, 2009). The P.R.C.’s accession to the World Trade Organization created unprecedented opportunities for businesses around the world to gain a share of this huge and growing market. This research analyses the causes and aftermaths of the financial tsunami and proposes that the banking sector exercises discretion to device their entry strategies into new markets like China by taking into consideration customers’ attitude and preferences that influence their choices of WMS (see Isdale, 2006; Maude, 2006). Our study has attained the following three objectives: first it evaluates the global recession to suggest ways to restore confidence in its aftermaths; second our Mainland China survey tests the factors in attitudinal preference that influence bank customers’ choice of WMS by applying the ‘Theory of planned behavior’ (Ajzen, 1991, 2008), and finally the study proposes strate-
gies for overseas Chinese banks if they were to flagship a foothold in China beyond 2010 (Cousin, 2007; EIU, 2009).

LITERATURE REVIEW

Summarizing the extant literature, four dynamics originating and radiating from USA and Europe have contributed to the global financial crisis in 2008 (Lane, 2009). They are, first, the laxity of monetary policy and housing bubble. The low treasury rates and long term real interest rates created an ease of monetary environment (Calomiris, 2009; Ritholtz & Task, 2009). Speculations (Baker, 2009) coupled with aggressive mortgage packaging (Taylor, 2009; Schwartz, 2009; Muolo & Padilla, 2008; Sowell, 2009) were the factors leading to a housing bubble (Bonner & Wiggins, 2009). Second, financial innovation and risk-taking. Credit default swaps along with over the counter trading platform were central to the explosion of structured finance (Unterman, 2009; Chorafas, 2009; Leopold, 2009; Taub, 2009; Barbera, 2009). Third, misguided incentives. The compensation schemes in the finance industry and substantial fees garnered by the rating agencies were the contributing factors to the crisis (Barth et al., 2009; Immergluck, 2009; Steil, 2009). And last, securitization and the legal structure of special purpose vehicles facilitated the regulatory arbitrage to excel (Mason, 2009; Vines, 2009; Wessel, 2009). Altogether these policy blunders (Baker, 2009), corporate misbehavior (Leopold, 2009) and ricochets of human greed (Ritholtz & Task, 2009) have caused the 2008 HNW Wealth Distribution total global amount to shrink by US$7.9 trillion, compared with that of 2007 (Capgemini & Merrill Lynch, 2009).

In the literature of overseas Chinese business practices, culture plays a vital role in building relationships (e.g., Lee & Dawes, 2005; So & Walker, 2006; Reuvid, 2008). It generally indicates an imperative in very prudent strategy execution in relationship-oriented high-context ‘Chinese business culture’, with guanxi as a vital ingredient in successful Chinese business activities (Orru, Biggart, & Hamilton, 1997; So & Walker, 2006) especially in personal financial services (Huang, 2000; Pompano & Long, 2004; Li, 2000; Zhou, 2000). Language forms part of the cultural components and affects the relationship in doing business (Singh, 2004a, 2004b). Hence, the following hypotheses are expected:

H1: Behavioral Intention of home nationals to choose home country banks’ WMS is positively related to Attitude toward the Behavior.

H2: There is a positive relationship between the Behavioral Intention and the Subjective Norms of home nationals to give business to home country banks which provide WMS when available.

H3: Perceived Behavioral Control is positively related to the Behavioral Intention of the PRC based home nationals to choose their home country’s WMS products when made available to them.

H4: There is a positive relationship among the Behavioral Intention and Attitude Subjective Norms, and Perceived Behavioral Control.

METHODS

Data were collected through survey questionnaires distributed through the Taiwanese Businessmen’s Association in May, 2009 targeted at home nationals who were resident in China at the time. The sampling frame consists of 1060. To ensure the level of significance and the eligibility of our total number of responses, we employed Cohen’s (1988) statistical power analysis to secure robustness among power for significance criterion (alpha), sample size (N), and population effect size (ES). A minimum sample size of at least 195 is required and we have obtained 227 valid returned questionnaires. The survey consists of three pilot tests and a main study between December 2008 and July 2009. An elicitation study plus three pilot tests were administered for questionnaire
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