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The Determinants Influencing Foreign Banks' Entry into Saudi Arabia

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Abstract

The study investigates the determinants of foreign banks' entry decisions into Saudi Arabia and their relative importance. Seventy-one questionnaires were analyzed using the Distribution Fitting Algorithmic Approach (DFAA). This paper is situated in the existing literature on the Internalization Theory, Eclectic Paradigm, and Follow-the-Customers hypothesis. While we confirm the Follow-the-Customers hypothesis, we also found that the host market's characteristics influence entry decisions. We envisaged that this paper would not only contribute to the existing literature but also inform policymakers and industry participants to better understand foreign banks' entry into emerging and developing markets.

Keywords: Foreign banks, Determinants, Entry decisions, Saudi Arabia.
JEL Classification: F20, F29, G15, G29.

1. INTRODUCTION

In the last few decades, the world has had an excessive increase in foreign banks' entry into developed, developing, and emerging economies. This trend has been made possible as various countries started eliminating entry barriers or tariffs, encouraging financial integration of businesses and services, and effective globalization of economic systems and services (Claessens and Horen, 2012; 2014). The contributions of the literature illustrate that foreign banks' motivation has strongly been affected by both push factors as well as pull factors. These factors in the entry decision are different and vary from country to country and from bank to bank. In addition, these factors can change in accordance with the trends in economic growth and/or market structure (Focarelli and Pozzolo, 2000).

There is a call to explore the determinants of foreign 'banks entry decisions; Sist (2018:3) stated that "the question about what moves banks to expand abroad is still not yet answered in the literature". There was also a call to use the ranking to assess which determinants are more important (Gopalan 2015). Sist (2018) noted there could be differences in what the foreign banks consider to be the relative importance of factors that motivated their decision to enter a host market, "it is largely silent as to which motives are more important. Such a ranking could be a useful direction for future research" Gopalan (2015: 15). In addition, the literature on why these banks enter emerging and developing markets is limited (Belaounia, Chtioui, and Nekhili, 2016; Gopalan, 2018). It is suggested that future research should focus on the determinants of foreign banks' entry into developing and emerging markets. The Kingdom of Saudi Arabia (KSA) is one such market. Therefore, this study aims to examine the determinants of foreign banks' entry decisions, including the relative importance of these determinants. It is one of the first attempts to provide evidence to comprehend the existence of foreign banks in KSA.

The issue of investigation of foreign banks' expansion into the Middle East region, including KSA, has not received much attention from researchers. This paper has used KSA as a context to understand the entry determinants of foreign banks' entry. Despite being an important emerging and developing market, in the time that foreign banks' entry to the market was not long ago, research that has examined the determinants of foreign bank entry in the KSA is scanty. There are many motives why KSA was selected for the current study. Firstly, KSA is the largest oil producer and

exporter and is considered to be the leading player in the Organization of the Petroleum Exporting Countries (OPEC). It wields a lot of influence on the world's crude oil market and how the global economy functions (Brown and Pirog, 2018). The KSA is also a member of the Group of Twenty (G20) countries, these being the world's 20 most powerful economies. Accordingly, it has increased its influential role in the global economy (Lagarde, 2012). Another motivation for this study is that the Saudi government is currently implementing its economic blueprint called "Saudi Vision 2030", which aims to promote a more diversified economy by developing new income sources and reducing the decades-long dependence on oil (GOKSA, 2022). One way the country can achieve this is by increasing Foreign Direct Investment (FDI) by 133% with the aim of reaching US$18.7 billion in 2030, compared to the 2015 figure of US$8 billion. The aim is to elevate FDI from 3.8% of GDP to reach the international level of 5.7% of GDP (GOKSA, 2022).

The remainder of the paper is organized as follows. Section two is about foreign banks in Saudi Arabia. Section three reviews the literature review of the field of foreign banks expansion. Section four describes the methodology used for exploring the foreign banks' entry decisions into Saudi Arabia. Section five presents the results, followed by providing a discussion. The last section concludes by delivering several contributions and implications.

2. FOREIGN BANKS IN SAUDI ARABIA [1]

The number of foreign banks in developing and emerging countries rose sharply by 113% from 1995 to 2009 (Claessens and Horen, 2014a) [2]. The market share in terms of the number of banks in developing countries increased from 24% in 1995 to 46% in 2013, and in emerging markets, it increased from 18% to 36% (Claessens and Horen, 2017). Nowadays, the importance of developing and emerging countries as host nations for foreign banks is very evident (Murshudli and Zapotichna, 2020). KSA is not isolated from that upward trend. Foreign banks started operating in the Saudi banking market in 2000 when the Saudi Central Bank (SAMA) approved the first foreign bank license in October of that year, and by 2005 only five foreign banks were operating in the country. Currently, the number of foreign banks exceeds domestic banks. By 2022, there are 21 licensed foreign banks in the KSA compared to only 11 domestic banks. As a result, the share of foreign banks rose from 31.2% in 2005 to 65.6% in 2022 [3] (see Table 1). Over a decade ago, in 2009, foreign banks' total assets amounted to 2.5% of the banking market's total assets, reaching 4% by the end of 2017 (SAMA 2018a).

Table 1: The Number of Domestic and Foreign Banks from 2000-2021

Years	No. of Domestic Banks	No. of Foreign Banks
2000	10	1
2005	11	5
2010	12	9
2015	12	11
2020	12	17

Source: SAMA (2022).

3. LITERATURE REVIEW

Most empirical studies and contributions on foreign banks have their roots in Foreign Direct Investment (FDI) and Multinational National Enterprise (MNE) theories. In the banking context, the theories that have been 'mostly used' include the "Internalization Theory", "Eclectic Paradigm", and "Follow-the-Customers hypothesis" to explain the determinants for entering a suitable host country (Rajan and Gopalan, 2014).

The internalization theory [4] posits that a firm's internalization occurs only when the firm notices that the benefits outweigh the costs. Thus, companies expand into the foreign market to maximize profit (Buckley and Casson, 2020) by exploiting their knowledge, such as marketing, technical and managerial know-how (Geroski and Casson, 1987; Buckley and Casson, 1991). To benefit significantly from their home country's knowledge, firms should expand to countries that have environments similar to the home environments. It enables the use of their expertise gained in the home country from transacting businesses in similar climates (Buckley and Casson, 1991).

The eclectic paradigm [5] emphasizes that a firm's expansion overseas is influenced by three fundamental factors: (i) the ownership advantages of a firm; (ii) the locational advantages of a market; and (iii) the firm's internalization advantages. The ownership advantages include intangible and tangible assets such as capital, trademarks, knowledge, technology, bank

[1] In the specific case of the KSA, according to SAMA, a foreign bank refers to "a bank whose head office is located outside the Kingdom, whilst the branches thereof are located inside the Kingdom" (SAMA 2020a). Thus, the only strategy for these banks is to establish a branch in order to enter the Saudi banking market.

[2] Claessens and Horen (2014a) developed a database on bank ownership, referring to 5,324 banks operating in 137 countries.

[3] Measured in terms of the number of foreign banks compared to the total number of banks in the country.

[4] This theory was developed by Buckley and Casson (1976) and Hennart (1982) and then refined by Casson (1983).

[5] It was introduced by Dunning (1977) and then extended by Gray and Gray (1981).

management, skills, company size, international experience, and economies of scale. The location advantages include the concessions that the host country provides (Rugman, 2010; Buckley and Casson, 2020). These advantages include economic, political, and social advantages. In contrast, the internalization advantages refer to the informational advantages and access to local deposit bases. According to this theory, successful foreign bank investments concurrently combine all three factors: ownership, location, and internalization advantages.

Lastly, the "Follow-the-customer" [[6]] hypothesis predominantly used the literature to explore foreign banks' entry decisions. The theory suggests that foreign banks go abroad to follow their customers for their business or investment. That is, if their clients expand abroad, the bank follows them. The two considerations are following the customers for profit as well as maintaining customers' loyalty (Williams, 1998). In addition, this theory emphasized that the ownership of the home customers' information is a crucial asset in the form of a "public" good that banks could exploit through FDI (Williams, 1997).

Following previous theories, several empirical studies have been done based on the different theories' frameworks. These studies investigated the determinants of foreign banks' entry decisions. The literature finds that a number of determinants influence a bank's decision to expand into foreign markets. These determinants can be divided into five categories, including following the customer (internalization advantages); the host country market characteristics (location advantages); the parent bank's characteristics (ownership advantages); distance (both internalization and ownership advantages); and culture (Islamic culture). Each determinant consists of several sub-factors. The current study formulated its determinants based on these five categories.

Follow the customer strategy, which is one of the main determinants of foreign banks' entry into other countries (Chou and Shen, 2014; Massand and Gopalakrishna, 2017). However, this hypothesis has led to theoretical disagreements on foreign banks' expansion (Williams 2002). Some claimed that this hypothesis is not sufficient to comprehensively explain foreign banks going international (Fotopoulos, Siokis, and Papapanagos, 2011). Following customers can be a critical first step before complete immersion in a foreign market. However, this motivation can change over time (Gorshkov, 2017; Hryckiewicz and Kowalewski, 2010).

It is argued that foreign banks seek to expand internationally as they want access to the host country's local customers. It is known as the new customers base strategy. It ensures there will be a customer base in the new country as they already serve the old one (Li, 2019; Williams, 2002). Other scholars argued that foreign banks expanded into certain markets to follow their competitors (Williams, 1996). This happens as the banks do not wish to lose their market share and competitive position in their domestic market (Claessens and Horen, 2014; Ekman *et al*., 2014b). This is known as the 'follow the leader strategy', that bank decides to enter a foreign country, even if it does not have a customer base in that country.

Host market characteristics are the main significant determinants that attract foreign banks to expand in international markets. Based on the eclectic paradigm, this can be considered a location advantage is known as the market-seeking strategy. The hosting market characteristics are deemed to be pull factors that reflect the profit opportunities in the host market and the diversification of how foreign banks can obtain their profits (Ekman *et al.,* 2014). This strategy is viewed as a critical approach for foreign banks' entry into many developing and transitional countries. These countries have high growth potential, less developed domestic banks, and higher returns (Gorshkov, 2015). Bilgrami-Jaffery and Fatima (2013), Fotopoulos, Papapanagos and Siokis (2013), and Molyneux, Nguyen, and Xie (2013) found that the location advantages better explain the foreign banks' decision to enter developing countries.

The market characteristics are related to several sub-factors of the host country, including economic growth, size of the banking industry, country risk, country's regulations, and exchange rate. Economic development in the host country is an important determinant for foreign banks to invest abroad. This economic growth is correlated with opportunities such as a more stable economic environment, a higher expected rate of growth, and banks' inefficiency in the destination country, which might be significant to motivate banks to expand abroad (Ekman *et al*., 2014; Temesvary, 2015). Belaounia, Chtioui, and Nekhili (2016) asserted that the Middle East region was ranked as the third-highest level of development after Asia and Eastern Europe. Hence, it can be one of the key determinants of foreign banks entering Saudi Arabia. Moreover, the importance banking market size of the host country is a natural consideration in an abroad entry decision (Moshirian, 2001). The larger the host banking market's size, the higher the level of development, the better prospects for growth of a particular industry or market, and the more the customers, the more attractive the market (King and Levine, 1993).

[6] It also known as "defensive expansion", which was initially introduced by Brimmer and Dahl (1975) and later refined by Grubel (1977) and Williams (1997).

Host country risk is an important determinant in a bank's long-term plan, as is determining the location (Buch and Lipponer, 2007; Belaounia, Chtioui, and Nekhili, 2016). This includes both economic and political risks (Wezel, 2004). The level of economic stability can reflect the level of environmental uncertainty and country risk. Generally, foreign banks prefer countries with less economic and political risk.

Another significant determinant is the exchange rate. The fluctuation of theexchange rate is negatively correlated with foreign bank expansion, affecting their profits and operations (Merz, Overesch, and Wamser, 2017). A low tax rate enables a foreign bank to exploit the high-profit margin by reducing operating costs (Eray, 2020). The Saudi unit of currency (Riyal) has been pegged to the US dollar (USD) with a fixed rate of SAR 3.7450 per 1 USD. This action helps prevent the Riyal's fluctuation and reduces international transaction uncertainties (Looney, 2008). However, this may have ramifications for the foreign banks' decision to enter the Saudi market. The regulatory policies in the host country are another determinant for entry decisions. This is a significant factor for foreign banks as the banking industry is highly regulated (Aliber, 1984; The World Bank, 2018). It is considered a more vital determinant compared to host market profit opportunities (Focarelli and Pozzolo, 2005). Foreign banks enter international markets that have fewer regulatory restrictions on their entry and activities (Temesvary, 2014; Merz, Overesch, and Wamser, 2017).

Parent banks' characteristics are one of the significant determinants that push foreign banks to expand abroad. These characteristics are linked to ownership and competitive advantages and include the size of the bank, international experience level, and banks' reputation. The limited ownership advantages can restrict the banks' preference for expansion (Gorshkov, 2013). Previous studies have demonstrated the positive effect of bank size on the entry decision into a foreign market (Gorshkov, 2013; Temesvary, 2014; 2015).

The importance of abank's size lies in the fact that foreign banks require it for successful competition with domestic banks and the development of activities abroad (Blandón 1998). Larger banks are much more international because they want to follow their customers as they are more likely to have more customers abroad (like multinational corporations), which increases the demand for banking services overseas (Hryckiewicz and Kowalewski, 2008). Additionally, larger banks are usually strong in product innovation and finances (Berger *et al*., 2005). They not only enjoy greater scope and economies of scale, but they can also afford to take greater investment risks at low cost (Barua, 2017; Mulder and Westerhuis, 2015).

Larger banks are more advanced and efficient; consequently, they are more likely to expand abroad (Focarelli and Pozzolo, 2003). Gulamhussen, Pinheiro, and Pozzolo (2014) agreed with this conclusion that those additional costs and challenges prevent smaller banks from diversifying across borders. However, inversely, not all the banks which expanded internationally were large. This is what Buch, Koch, and Koetter (2011) found when examining German banks' participation in 63 foreign markets from 2002 to 2006. They found that many small banks expanded abroad.

The international experience of the bank is also an important ownership advantage that encourages the bank to operate internationally (Buch and Lipponer, 2007; Bouslama and Hervé, 2018). With a high level of experience, the banks can take on greater risks associated with expansion into international markets, such as errors in relationship management with local authorities, competitors, or even customers (Mohanty, Nolle, and Seth, 1998). Inadequate international experience can damage or undermine the bank's performance (Mlambo, Mapondera, and Tenderere, 2015), while a good reputation could give the bank a competitive edge in international business. It is argued that intangible assets, such as international experience and bank's reputation, have little influence on the entry decision; however, by operating in the host country for a long period of time, banks build country-specific capabilities and knowledge (Qian and Delios, 2008).

Distance is both a push and pull factor that can be a crucial determinant in motivating foreign banks to expand abroad. It is important for their organizations, operations, and profitability (Cerqueiro, Degryse, and Ongena, 2009). When foreign banks determine what market to enter, it is important to have knowledge and information regarding the state of the banking sector in the host country. To gain this information, there has to be some cost involved. Empirical research found the cost of information gathering increases with distance as familiarity with host county investment opportunities, customs, and culture decreases (Brei and Peter 2018).

Several kinds of distance have been considered, including geographical, legal, and cultural distance (Claessens and Horen, 2014b). The geographical distance between the host country and the foreign bank's headquarters is an important determinant (Buch, 2003; Buch, 2005; Goetz, Laeven, and Levine, 2016; Yildirim and Efthyvoulou, 2018). The notion is that the smaller the geographical distance, the greater the familiarity with the local environment.

Common culture can also be a key determinant for foreign banks' decisions, and markedly different cultures can become a barrier to entry (Buch, 2003; Mariscal, Zhang, and Pascual, 2012; Claessens and Horen, 2014b). Linguistic differences between home

and host countries can be used as indications of cultural distance. However, it is argued that there is a limitation in using language as a measurement of culture, and there is a call to use other factors to reflect culture (Mariscal, Zhang, and Pascual, 2012). Religion, for example, can serve as cultural proximity, which has received rare attention when assessing foreign banks' entry determinants (Hergueux, 2011). Saudia Arabia is the home of Islam, and Saudi culture has long been guided and shaped by Islamic values, practices, and traditions.

The Saudi constitution is based on Islamic principles that are defined in the *Quran* and/or *Sunnah* [7] (Lippman, 2002). These are the sources of authority and teaching that influence the KSA's political and economic systems, social interactions and cohesion, public governance, and a whole swathe of ethical and legal issues related to all business activities (Abbasi, 2014; Brown, 2015). Furthermore, Islamic law (*Shariah* law) is totally enforced in KSA (Robertson *et al.*, 2001). Having a non-codified *Shariah* makes KSA unique among modern Muslim countries (Bolanos, 2016). Lundgren (1998) stated that Islam is strongly rooted in Saudi life, and consequently, to distinguish between Saudi culture and Islam is difficult, if not impossible. Additionally, Wrampelmeier (2006) noted that Saudi culture has significantly affected the methods of doing business in the KSA. Nonetheless, both Saudi citizens and their government generally are in favor of some form of dedicated Islamic banking. Mababaya (2003) examined international business success in a "strange cultural environment" and noted that Islamic culture represents a significant cultural distance between the home and host country, which is a factor when making an entry decision. Thus, foreign banks that expand into the Saudi banking market may consider this factor when deciding to enter this market.

4. METHODOLOGY

In order to examine both the foreign banks' entry determinants and the relative importance of these determinants, a quantitative approach has been employed. The current study examined 23 entry determinants that were divided based into five categories, as mentioned before. The selected determinants under each category have been detailed in table 2. The study data was collected by questionnaire conducted from December 2019 to February 2020. The sample comprised all foreign banks operating in Saudi Arabia by the end of 2019. Fourteen foreign banks were operating in the Saudi market at the time of the data collection. These were Bank of Tokyo – Mitsubishi UFJ, BNP Paribas, Deutsche Bank, Emirates NBD, First Abu Dhabi Bank (FAB), Gulf International Bank (GIB), Industrial Commercial Bank of China (ICBC), JP Morgan Chase, Muscat Bank, National Bank of Bahrain (NBB), National Bank of Kuwait (NBK), National Bank of Pakistan (NBP), Qatar National Bank (QNB), and TC Ziraat Bankasi.

The study involved conducting questionnaires with Chief Executive Officers (CEOs), Chief Operation Officers (COOs), and other senior managers of these institutions. A total of 92 questionnaires were distributed personally; 71 responses were received, which reflect a 77.2% response rate. This rate was statistically sufficient to be accepted for statistical analysis (Lawrence *et al*., 1985: Nulty 2008). Based on Cochran's (1997) formula [[8]], the recommended questionnaire's sample size for a population of 95, a confidence level of 90%, and a margin of error (degree of accuracy) of 5% would be (70).

The questionnaire used a "five-point Likert scale" (1- not important to 5- extremely important) to identify the relative importance of each determinant that influences foreign banks' entry. Using a five-point Likert scale provides a strong internal validity of the results and findings (Cooper and Schindler, 2014). The Likert scale data collected is considered qualitative in nature; it is important to subject it to statistical transformation to enable parametric statistical approaches (Stacey, 2012). Following Luiz and Charalambous (2009) and Luiz and Ruplal (2013), the quantitative data were analyzed using the Distribution-Fitting Algorithmic Approach (DFAA). This approach was developed by Stacey (2005) and its technique. It converts ordinal data into interval-level data, which can then be subjected to parametric analysis methods [[9]]. According to Stacey (2005), this method is more reliable and valid when compared to converting data from ordinal to interval form, especially for a small sample size (Stacey, 2012). This approach is unique and provides more valid and accurate results (Venter, 2015).

The mean values obtained from this approach is helping to determine the importance of agreement of each factor. If the mean for an entry determinant is greater than "0" ($\mu > 0$), this indicates that the factor will be considered as statistically significantly "more important" of all factors. It can be then interpreted as "very important". If the mean is close to "0" ($\mu \sim 0$): it indicates that the factor will be statistically "no more and no less important" of all factors. It can be then

[7] The *Quran* is the traditional and core text of Islam while the *Sunnah* are the pronouncements of the Prophet Mohammad.

[8] Formula is $S = (Z\ score)^2 * p * (1-p)/m^2$

[9] The approach calculates the sample's item means and standard deviations rather than respondent-level data. Respondent-level data can, however, be generated from estimated threshold values and the estimated means and standard deviations. In the case of normal underlying distributions, the rescaled values can be calculated as the mean or expected value of the truncated normal distribution between the two threshold values.

interpreted as "important" with reference to other factors. If the mean is less than "0" ($\mu < 0$) it indicates that the factor will be significantly "less important" of all the factors. Subsequently, this can be interpreted as "less important" with reference to other factors. P-value (which was set to be significant at the 5% confidence level) was calculated to assess the significance of each element.

Table 2: Summary of Foreign Banks Entry Determinates

Determinants related to Follow the Customer Hypothesis
Following the existing corporate customers
Following the existing non-corporate customers
Follow banks' competitors
Get new customers' base
Determinants related to Market Characteristics (Location Advantages)
Economic growth in KSA such as growth rate of GDP, GDP per capita)
High-profit opportunities: *differences in interest rate*
Tax consideration
Size of host country's banking market
Demand for banking products and services from the Saudi population
Economic stability
Political stability
Pegging of the Saudi Riyal with the US dollar
Entry regulation
The regulation allowing other non-banking activities
Determinants related to the Parent Bank (Ownership Advantages)
The size of the parent bank
International experience
Bank's Reputation
Determinants related to Distance (cost of information)
Geographical distance
Similarity in language
Determinants related to Islamic Culture
Need to provide Islamic banking products in the Saudi market
Prior experience in providing Islamic products outside the Saudi market
The similarity of the Legal system (Islamic law)
Applying Islamic principles (e.g., *Zakat*)

5. RESULTS AND DISCUSSIONS

5.1 RESULTS

The data collected for investigating the determinants of the foreign banks' entry decisions into the Saudi banking market were ordinal level data which were then transformed into interval level data by applying the DFAA. Table 3 summarizes this approach's results (Table 4 illustrates in detail the approach analysis – Appendix A); it demonstrated each determinant's relative importance and statistical significance. The DFAA analysis found that 11 determinants emerged as very important factors influencing the foreign banks' decision to enter Saudi Arabia: following corporate customers; the size of the Saudi banking market; the Saudi economic and political stability; Saudi economic growth; building a new customer base; bank's reputation; level of demand for banking products and services; geographical links; entry regulations; and the Riyal pegged to the US dollar. Foreign banks use these factors as predictors of future profit. These determinants are especially significant for doing business in developing and emerging markets. These countries usually have high growth potential, less developed domestic banks, and higher returns. Thus, foreign banks can take advantage of new growth opportunities. Most of these determinants are part of locational and internalization [[10]] advantages (refers to the eclectic paradigm).

Determinants considered average importance were the bank's experience, bank's size, and interest rate differences. The first two reflect the parent bank characteristics and ownership advantage (eclectic paradigm). The current study results show that ownership advantages that can be used to gain a competitive advantage over local competition are not crucial factors in foreign banks' entry decisions. In fact, most of the foreign banks that entered Saudi Arabia are usually large operations. For example, ICBC, Mitsubishi UFJ Financial Group, JP Morgan Chase and BNP Paribas, Deutsche Bank, Qatar National Bank First Abu Dhabi Bank, and Emirates NBD were among

[10] Generally, internalization advantages are explicitly derived from the "follow-the-customers" hypothesis and internalisation theory.

the largest 100 banks (Brand Finance Banking report 2019). Others such as Bank Muscat and the National Bank of Bahrain (NBB) are among the largest ones in their home countries. Moreover, it can be suggested that most foreign banks in Saudi Arabia have previous extensive international experience; it would not be a big issue for them to decide to operate in Saudi Arabia. Although foreign banks consider their ownership advantages as essential, it does not play a critical role in influencing the decision to invest in the Saudi market.

Significantly less important were: following non-corporate customers, tax rate consideration, regulations allowing other non-banking activities, providing Islamic banking products in the Saudi market, prior experience of providing Islamic products outside the Saudi market, following the competitors, the legal system similarity (*Sharia law*), language similarity, and applying Islamic principles. While Islamic culture has significantly affected the way of doing business in Saudi Arabia; it does not appear to be a key determinant. Moreover, foreign banks operating in the Saudi market offer Islamic products and services. They provide Islamic banking products and services outside of that country (11 out of 14 (78%)). Foreign banks invest in Saudi or other Islamic countries such as Malaysia, the United Arab Emirates, and Egypt, as well as in non-Islamic countries like Canada and the USA. Those banks acknowledge the benefits of minimizing the geographical distance between their home country and the host country.

Table 3: Summary of interpreted importance of entry determinants factors

Category	Factors Description	μ	SD	*t* value	*p-value*	Significance	Interpretation	Rank
The most influential factors	Following Corporate customers	0.78	0.37	10.77	0.000	+	Very Important	1st
	Saudi banking market size	0.78	0.64	8.20	0.000	+	Very Important	1st
	Saudi Economic stability	0.77	0.35	10.92	0.000	+	Very Important	2nd
	Saudi Political stability	0.69	0.50	8.23	0.000	+	Very Important	3rd
	Economic growth in KSA such as growth rate of GDP, GDP per capita)	0.49	0.36	6.93	0.000	+	Very Important	4th
	New customer base	0.44	0.33	6.62	0.000	+	Very Important	5th
	Bank's reputation	0.38	0.63	4.03	0.000	+	Very Important	6th
	High demand for banking products and services from the Saudi population	0.30	1.21	2.27	0.026	+	Very Important	7th
	Geographical links	0.25	1.01	2.09	0.040	+	Very Important	8th
	Entry regulations	0.20	0.38	2.77	0.007	+	Very Important	9th
	The pegged of SAR to US Dollars	0.18	0.46	2.27	0.026	+	Very Important	10th
Medium influence	Bank's experience	0.05	0.52	0.59	0.557	Not	Important	11th
	Interest rate	-0.07	0.67	-0.69	0.489	Not	Important	12th
	Bank's size	-0.12	0.50	-1.40	0.166	Not	Important	13th
The less influential factors	Following non-corporate customers	-0.23	0.88	-2.10	0.039	–	Less Important	14th
	Tax rate considerations	-0.39	0.63	-4.17	0.000	–	Less Important	15th
	Regulations allowing other non-banking activities	-0.50	0.61	-5.40	0.0000	–	Less Important	16th
	Providing Islamic banking products	-0.56	1.26	-4.23	0.000	–	Less Important	17th
	Prior experience of providing Islamic products	-0.56	1.27	-4.20	0.000	–	Less Important	17th
	Following Competitors	-0.57	0.58	-6.33	0.000	–	Less Important	18th
	The similarity of the legal system	-0.65	1.06	-5.36	0.000	–	Less Important	19th
	Language similarity	-0.67	1.49	-4.61	0.000	–	Less Important	20th
	Applying Islamic principles	-0.99	0.90	-8.73	0.000	–	Less Important	21st

5.2 DISCUSSION

The current study found that foreign banks appear to follow their corporate customers in the Saudi banking market. It was found to be the first major determinant. This finding does not support the literature views that show that following corporate customers is important 'only' in developed countries (Clarke *et al*., 2003; Hryckiewicz and Kowalewski, 2010) [11]. They believed that foreign banks are motivated to exploit profit opportunities in developing markets rather than following their corporate customers. The lack of competition in the local banking market of developing countries, which allows foreign banks to acquire existing local banks, is one possible explanation for this phenomenon (Miller and Parkhe, 1998). Therefore, the main motivation for foreign banks within developing nations is to get market share instead of solely following customers from their home country (Clarke *et al*., 2003). In contrast, the current study results are very different from those documented for Latin American countries (Mariscal, Zhang, and Pascual, 2012), South-East Asia (Molyneux, Nguyen, and Xie, 2013), and Turkey (Bumin, 2017). In these parts of the world, following the corporate customer is not a significant determinant of foreign banks' entry decisions.

The entry of foreign banks into Saudi Arabia is also attributed to getting a new customer base. After their setting-up stage, they tend to advance their bank services by using a local customer base and then directly compete with local banks (Williams, 2002). Bouslama and Hervé (2018) and Li (2019) found that foreign banks want a customer base in a new country to help consolidate their established customer base. The current study's result is in line with these previous studies and with some who noted that banks first follow their customers overseas, then they might start to serve host country customers (Bouslama and Hervé, 2018).

Other determinants that were found to be significant in the current study are the Saudi market characteristics. Many banks are motivated by the country's economic growth such as (GDP); GDP per capita growth rate, the size of the Saudi banking market, local demand for banking services and products, Saudi economic and political stability; and pegging the Saudi Riyal to the US dollar.

The host country's economic growth is closely linked to profit opportunities (Temesvary, 2015). The finding of economic growth in KSA as a significant determinant is in line with Molyneux, Nguyen, and Xie (2013), who found that foreign banks usually seek to enter transitioning and/or emerging market countries to take advantage of new growth opportunities. The current study's results show that foreign banks entered the Saudi market as a growth strategy and benefited from economies of scope and scale. Focarelli and Pozzolo (2000) infer that banks prefer expanding to developing countries where the anticipated economic growth rate is higher. This characteristic is existed in the KSA.

KSA is one of the world's largest and fast-growing economies, its banking market is relatively large, and the prospects for its growth are bright. According to KPMG (2020), KSA is one of the MENA region's biggest financial drivers of assets. The size of the banking market was an important antecedent for foreign banks' desire to enter the KSA. Buch (2000) reported a significant correlation between the entry of foreign banks into the markets and constructs that capture foreign market sizes, such as GNP per capita and total GNP.

The current business sector and banking market's size constitutes an important aspect that influences the entry of foreign banks into host countries. The banking market size tells us much about the potential revenues to a bank, probable customer expenditure, and potential customers that foreign banks can attract in a specific country. This is particularly true because the host country should have sufficient local demand. The larger the local banking market, the larger the volume of potential customers, which translates to increased profitability. Large population numbers can provide the prospect of reducing the marginal production cost and exploiting economies of scale (Bilgrami-Jaffery and Fatima, 2013). It increases foreign banking operations and provides the ability to expand activities into large overseas markets.

Macroeconomic instability is increased by the host country's economic risk (Buch and Lipponer, 2007). Emerging markets still exhibit a greater likelihood of unprecedented economic downturns, regardless of their high macroeconomic stability (Wezel, 2004). The current study results emphasize that the KSA economic stability was no doubt significantly important in affecting the probability of foreign banks' entry. This current finding is in line with several analyses done in developed and developing countries [12].

[11] Yamori (1998) and Qian & Delios (2008) in Japanese banks; Buch (2000) and Wezel (2004) in multinational German banks; Moshirian (2001) in the USA, UK, and Germany; Magri et al. (2005) in Italy; and Gorshkov (2011) and Gorshkov (2013) in Russia.

[12] Fisher and Molyneux (1996) in the case of foreign banks in London, Yamori (1998) on Japanese financial institutions' expression, Wezel (2004) in the case of multinational German banks' expansion, and Cetorelli and Goldberg (2006) on USA banks' international expansion; Cerutti et al. (2007; 2012) investigated the top 100 multinational banks' expansion into Latin America and Eastern Europe, Buch et al. (2014)

Political risk is highly correlated with foreign banks' entry, such as economic development (Wezel, 2004). Political stability impacts a country's components, particularly its economy, and creates an ideal environment for development and growth (Aisen and Veiga, 2013). It is an important feature of emerging markets. A country with high political risks and economic uncertainty becomes less attractive for foreign banks because the transaction costs will be much greater (Fotopoulos and Louri, 2011), as seen in the case of German banks' expansion plans (Wezel, 2004). KSA enjoys political stability, which means the country has a low level of political risk. Consequently, the KSA has been deemed a stable country economically and politically, which helps foreign banks enter the Saudi market.

The fluctuations in the exchange rate increased the country's risk, which negatively correlated with foreign banks' entry decisions (Buch, 2000; Hryckiewicz and Kowalewski, 2008; Merz, Overesch, and Wamser, 2017). However, financial policymakers in KSA rely on pegging the Saudi Riyal to the US dollar considers as a basic monetary policy. There are many positive aspects of this pegging in that the Saudi Riyal is stable. Foreign banks have benefited significantly from this policy because it enables them to have a solid investment base with minimal risks of exchange rate changes.

It is difficult to clearly demarcate the influence of market attractiveness and "following-the-customers" (Lensink and Haan, 2002). The current study findings suggest that foreign banks combine "follow-the-customer" with the host marker characteristics and market-seeking strategy instead of taking customer retention as the only factor in market entry decisions. In contrast, the expansion of business in one of the world's largest economic regions is what motivates banks to enter Saudi Arabia. It appears to be the case that banking operations, indeed, serve existing global customers who currently hold significant investments. At different stages, foreign banks may focus on specific strategic goals because of heterogeneity in the business segment (universal, retail, and corporate banking) and in internal resources, which individual banks own. Market-seeking strategy and "follow-the-customer" could be combined by larger banks.

There is no conflict between "following-the-customers" and host market characteristics (market-seeking). Indeed, the two are inseparable. Moreover, the rationale behind the entry of foreign bank customers into Saudi Arabia is mainly attributed to the great opportunities the emerging market provides. Like other multinational companies, profit maximization drives banks. It can be said that the major motivation for entering new markets is market-seeking, and it must be combined with the strategy of "following-the-customers". Hellman (1996) argued that, to some degree, banks had sought markets and customers as part of their internationalization drive. Furthermore, he assumed that market-seeking or following the customer is dynamic over time. Based on local market knowledge and experience, serving foreign and local customers in the host market seems to be the primary motive of new foreign banks, as demonstrated in this study.

It appears that the parent banks' characteristics were not factors to be significant, except banks' reputation. This suggests that the presence of the foreign banks' branches in Saudi Arabia does not require banks to demonstrate a strong firm-specific competitive edge, probably due to the fact that foreign banks may just follow their customers to preserve the existing relationship between customers and banks and when deciding whether to invest in Saudi Arabia. A bank will not only be influenced by its own operational performance but also by the investment environment in Saudi Arabia and the restrictions that may be imposed on banking operations. The current study result is with line Belaounia, Chtioui, and Nekhili (2016), who found that bank size and international experience are not an important determinants of foreign banks' location choice; and Qian and Delios (2008), who found that banks' reputation positively affected Japanese multinational banks' expansion.

The current study found that similarity in language determinants was interpreted as less critical. However, the geographical distance appears to be a significantly important factor. It suggests that the branches' geographical proximity in the Saudi banking market and their head offices could help them be flexible in decision-making and receptive to the branch wanting specific management methods to put in place. This is not surprising as further distance means the less likely the bank will operate there. This is due to the level of familiarity with the local environment as differences in legal, institutional, and other factors will complicate borrower and trustworthiness information, transaction costs, bargaining, negotiation, etc (Buch, 2004). This finding is in line with Claessens and Horen (2014b) and Goetz, Laeven, and Levine (2016), who noted that foreign banks' participation correlated negatively with great geographical distance.

Surprisingly, the Islamic culture determinant was the least important one for foreign banks' decision to enter the Saudi banking market. This finding could be explained by the fact that foreign banks entering the Saudi banking market are influenced mainly by following their corporate customers; this factor is the most important determinant. Thus, they are already aware of those customers and their needs. Another justification is that most foreign banks functioning in

evidence that emerged for both developed and developing countries.

the Saudi market provide corporate banking, targeting companies or multinational companies which usually do not demand these products. Therefore, those customers typically do not really care about Islamic banking products.

Entering a foreign market is a dynamic and risky process. Results confirm that a bank's entry decision is helped by several determinants rather than only one or two factors. Multiple motives drive foreign banks when they initially enter a foreign market, and the strategic orientation dominance may change over time. Rahman and Anuar (2011) found that most banks have multiple motivations, for example, when entering the Malaysian market. Meng (2009), in the context of foreign banks in China, and Mulder and Westerhuis (2015) draw similar conclusions in respect of the largest banks around the world.

6. CONCLUSION

A unique aspect of the current study's methodology is the use of the unparalleled approach that is the DFAA. This paper finds that several diverse determinants influence foreign banks' entry decisions into Saudi Arabia. Most of these determinants reflect the "follow-the-customers" hypothesis; these partially follow the corporate customers and support building a new customer base. Other significant determinants are connected to the characteristics of the Saudi banking market: size of the banking market; economic and political stability; economic growth (GDP and GDP per capita); high demand for banking products and services; entry regulations; and pegging the Saudi Riyal to the US dollar. The current study suggests that instead of taking customer retention as the only factor in market entry decisions, foreign banks combine follow-the-customer with the host market characteristic (market-seeking) motives. In contrast, the expansion of business in one of the world's largest emerging economies is what motivates banks.

The current study formulated an explanation of the phenomenon of foreign banks entering Saudi Arabia. The study contributes to the existing literature by delivering comprehensive results on the foreign banks' entry determinants and the relative importance of these determinants. It filled a significant gap in the literature, as identified earlier, as most research has been done in the world's advanced economies, so more needs to be done in developing and emerging market economies. Subsequently, the current research provides comprehensive results on the foreign banks' entry determinants into one of the world's most significant developing and emerging countries, KSA. Knowing the foreign banks' entry determinants in Saudi Arabia can benefit regulators, policymakers, and bankers to better understand why and how foreign banks want to do business not only in Saudi Arabia but also in other emerging and developing markets. Based on these findings, the Saudi government, regulators, and policymakers, particularly SAMA, may need to consider the importance of Saudi market characteristics and the overall economic conditions to attract more foreign banks into the market.

Based on our findings, the Saudi government, regulators, and policymakers, particularly SAMA may need to consider the importance of economic conditions when foreign banks decide to enter the country. For example, in order to attract more foreign banks, the government has to encourage economic growth by encouraging wealth creation. Saudi Arabia could gain certain advantages by expanding the number of foreign banks, principally by improving banking services to customers, introducing new services and products, gaining market share through technology that is linked to the parent foreign banks, reducing non-performing loans, and improving monitoring systems. In this way, Saudi Arabia can benefit from foreign banks because they have the expertise to enhance efficiency and stability by eliminating barriers to investment such as information asymmetry. Consequently, the financial system's reforming and streamlining are essential.

Future analyses could examine whether current study findings factors exist in other developing and emerging market economies and compare them to the Saudi experience. An analysis can be broadened to incorporate variations in the competitiveness of banking systems between host and home countries. In addition, it would be interesting to investigate the effect of foreign banks on the Saudi banking market and the whole Saudi economy.

Table 4: Appendix A: DFAA analysis

Observed Response Frequency																							
Determinates	Corporate Customers	Non-Corporate Customers	New Customer Base	Competitors	Economic growth	Interest rate	Tax rate	Banking market size	High demand	Economic stability	Political stability	Pegged SAR to USD	Entry regulations	Non-banking activities	Bank's size	Bank's experience	Bank's reputation	Geographical links	Language similarity	Providing Islamic products	Islamic Prior experience	Legal system	Islamic principles
Not Important	0	9	0	11	0	4	7	0	5	0	0	1	0	9	3	2	2	5	21	18	18	23	14
Less Important	1	14	2	22	2	13	22	0	11	0	0	6	6	23	13	10	1	10	17	10	10	9	8
Important	8	22	18	25	17	26	23	16	11	10	16	27	26	25	29	26	21	11	12	9	9	6	2
Very Important	25	16	29	10	28	16	13	16	20	24	20	22	25	9	18	21	24	24	13	18	18	23	14
Extremely Important	37	10	22	3	24	12	6	39	24	37	35	15	14	5	8	12	23	21	8	10	10	9	8
"Solver" Parameters																							
μ	0.6193	-0.1860	0.3608	-0.4547	0.3904	-0.0536	-0.3127	0.6201	0.2354	0.6087	0.5492	0.1449	0.1614	-0.3995	-0.0932	0.0403	0.3012	0.1979	-0.5309	-0.4475	-0.4473	-0.5206	-0.7835
σ2	0.2349	0.5595	0.2106	0.3669	0.2251	0.4231	0.3996	0.4060	0.7640	0.2205	0.3159	0.2892	0.2414	0.3882	0.3145	0.3319	0.3961	0.6356	0.9426	0.7961	0.8049	0.6690	0.5719
Expected Frequency																							
Not Important	0.02	8.40	0.06	10.96	0.07	4.18	8.17	0.28	4.79	0.01	0.14	0.84	0.43	9.98	2.88	1.91	1.04	3.96	20.51	17.20	17.28	17.78	24.98
Less Important	0.70	15.31	2.02	22.10	2.01	13.07	18.76	2.45	9.26	0.61	2.00	7.16	5.74	20.66	13.47	10.24	6.03	9.42	15.69	16.41	16.34	18.19	20.65
Important	9.10	22.07	17.72	24.91	16.70	24.53	25.53	11.72	16.82	9.00	12.62	24.70	25.33	25.08	28.32	25.88	19.18	18.37	16.30	18.02	17.93	18.91	16.60
Very Important	24.04	14.61	29.34	10.04	28.35	17.81	13.12	19.76	15.85	24.82	22.85	23.86	25.95	11.31	18.43	20.94	21.85	17.18	9.71	10.69	10.68	9.94	6.32
Extremely Important	37.15	10.61	21.86	2.99	23.87	11.42	5.43	36.79	24.28	36.56	33.39	14.44	13.56	3.97	7.90	12.04	22.90	22.08	8.80	8.68	8.77	6.18	2.45
χ2 Contributions																							
Not Important	0.0173	0.0429	0.0640	0.0002	0.0733	0.0076	0.1676	0.2820	0.0092	0.0123	0.1397	0.0295	0.4301	0.0953	0.0050	0.0047	0.8939	0.2759	0.0116	0.0023	0.0045	0.0837	0.0000
Less Important	0.1315	0.1119	0.0001	0.0004	0.0000	0.0003	0.5602	2.4484	0.3284	0.6094	1.9973	0.1882	0.0121	0.2644	0.0163	0.0056	4.1978	0.0363	0.1102	0.0210	0.0269	0.9663	0.0879
Important	0.1319	0.0002	0.0046	0.0003	0.0054	0.0881	0.2503	1.5658	2.0128	0.1118	0.9068	0.2137	0.0178	0.0003	0.0162	0.0006	0.1734	2.9565	1.1323	0.0000	0.0003	0.8855	0.4061
Very Important	0.0383	0.1323	0.0040	0.0001	0.0044	0.1830	0.0011	0.7163	1.0863	0.0269	0.3560	0.1446	0.0346	0.4718	0.0101	0.0002	0.2107	2.7044	1.1158	0.0448	0.0434	0.0886	0.4467
Extremely Important	0.0006	0.0349	0.0009	0.0000	0.0007	0.0296	0.0608	0.1327	0.0033	0.0052	0.0773	0.0220	0.0144	0.2659	0.0014	0.0001	0.0004	0.0525	0.0723	0.0120	0.0059	0.0053	0.0841
Standardized Parameters																							
μ	0.78	-0.23	0.45	-0.57	0.49	-0.07	-0.39	0.78	0.30	0.77	0.69	0.18	0.20	-0.50	-0.12	0.05	0.38	0.25	-0.67	-0.56	-0.56	-0.65	-0.99
SD	0.37	0.88	0.33	0.58	0.36	0.67	0.63	0.64	1.21	0.35	0.50	0.46	0.38	0.61	0.50	0.52	0.63	1.01	1.49	1.26	1.27	1.06	0.90
t-value	10.77	-2.10	6.62	-6.33	6.93	-0.69	-4.17	8.20	2.27	10.92	8.23	2.27	2.77	-5.40	-1.40	0.59	4.03	2.09	-4.61	-4.23	-4.20	-5.36	-8.73
p-value	0.000	0.039	0.000	0.000	0.000*	0.489	0.000	0.000	0.026	0.000	0.000	0.026	0.007	0.000	0.166	0.557	0.000	0.040	0.000	0.000	0.000	0.000	0.000
Significance	+	-	+	-	+	Not	-	+	+	+	+	+	+	-	Not	Not	+	+	-	-	-	-	-
Ranking	1st	14th	5th	18th	4th	12th	15th	1st	7th	2nd	3rd	10th	9th	16th	13th	11th	6th	8th	20th	17th	17th	19th	21st
Interpretation	V	L	V	L	V	I	L	V	V	V	V	V	V	L	I	I	V	V	L	L	L	L	L

***Negative coefficient (sample mean negative). ** V= Very Important, I= Important, L= Less Important.**

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