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**CULTURAL, POLITICAL AND ECONOMIC ASPECTS
OF THE INTERNATIONAL EXPANSION OF BANKS
FROM CENTRAL AND EASTERN EUROPE
– CASES: POLISH PKO BP AND HUNGARIAN OTP BANK**

1. INTRODUCTION

The transformation of the economies of Central and Eastern Europe (CEE) created unprecedented window opportunity for international expansion in financial markets, which was used mainly by banks from the developed European countries (UniCredit, Erste, Raiffeisen, Societe Generale and others) [Kamerling and Makipaa 2008]. Because of obvious reasons, for local banks (under ownership changes), it was difficult to conduct investment strategy beyond its borders. Also for domestic private banks there were more attractive acquisition opportunities presented in their own backyard (due to much better knowledge of the local market) than investing in the foreign markets. Also an important argument must be added – the lack of appropriate capital, in the case of CEE banks. Changes in this area occurred after the completion of the main wave of privatization and transformation processes. We could observe some successes in the international expansion of the financial sector: in Hungary – the position of OTP Bank (with assets of 34.8 billion EUR, bank-subidiaries in 8 countries) [OTP 2013] and in the Czech Republic – holding company PPF (consumer finance business – the assets of 17.6 billion EUR, operating in Eastern Europe and Asia) [PPF Group 2013]. In Poland, beyond recent attempts to build a presence in the CEE region by the L. Czarnecki group, all other initiatives can be considered marginal. Therefore, it is worth asking why Polish institutions with a proven track record, successes in their own market – as it is the case of PKO BP – have not taken up on a wider scale expansion into other international markets? That is particularly an interesting issue, because these are the countries with seemingly similar socio-economic and political situation in Central and Eastern Europe.

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This paper attempts to answer the question posed above, in the context of political, economic conditions and cultural circumstances related to the both very similar banks: Hungarian OTP and Polish PKO BP.

2. POWSZECHNA KASA OSZCZĘDNOŚCI – BANK POLSKI SA (PKO BP)

Entering into the process of economic transformation Polish banks have operated outside Poland in a symbolic range, and the largest Polish retail bank PKO BP did not exist abroad at all. However, this bank built a strong position over the last 20 years, but only around an internal banking market, in spite of remaining as state-owned in status. Only in 2004 PKO BP started its privatization. It issued IPO and made its debut on the Warsaw Stock Exchange. But the state has retained control of the bank and today, government officials still have the final decision power, despite having minority shares. Therefore, the management was subject to frequent discontinuity, e.g. since 1991 the seat of the CEO was occupied by 11 people [PKO BP 2013].

After the partial privatization, despite the **remaining strong influence of the state owner, the bank has managed to maintain and preserve** the unquestioned leadership among Polish banks (e.g. market share of deposits – 16.8%, and loans 16.1% at the end of 2012). PKO BP will strengthen the dominant position in the Polish banking sector after the takeover of the companies belonging to Nordic financial group Nordea in Poland, including its bank (ranked 12th in 2013, market share: 3% in loans and 1.5% of deposits) [50 największych..., 2013].

PKO BP foreign activity started in 2004 with the acquisition of the Ukrainian subsidiary of Polish Kredyt Bank SA – Kredobank (new name). However, this investment has not turned out to be as profitable as it looked before the transaction. CEO of PKO BP Z. Jagiello said: „It was a defeat – recklessly entering the Ukrainian market and inefficient management of the acquired asset” [Jagiello..., 2012]. In 2010, Kredobank was ranked on the 25th position in terms of total assets. Not surprisingly, the problems of management, bad credit policies, multi-million zloty losses, and unresolved tax issues provoked speculation about a possible sale of this bank by PKO BP several times [Jagiello..., 2012].

It must be mentioned that another foreign initiative of PKO BP – the opening of a branch in London. English „adventure” lasted from 2007 and finally closed in 2012 [PKO BP 2013]. It seemed that, because of creation of a huge Polish minority in the UK after 2004, the concept to start banking services for Polish customers in London should be a good idea. But PKO BP failed. Why? The cause wasn't linked to marketing. The bank was quite active in this field. The problem was related to the lack of knowledge of the local market conditions, the inability to offer satisfactory services for the customers living there.

Summarily, at the moment PKO BP has not got any international ambitions beyond casual remark about potential acquisition of the Czech CSOB, now even less realistic because of the acquisition of Nordea. Previously, other sparse bank initiatives to extend foreign expansion ended in failure, including for example the efforts to participate in privatization of Serbian banks. In this situation, the only foreign investment remains the essentially provincial Ukrainian Kredobank in Lviv.

3. ORSZAGOS TAKAREKPENZTAR ES KERESKEDELMI BANK RT. (BANK OTP)

OTP Bank was founded in 1947. It was the state, monopolistic institution dealing with personal customers. Over time, the scope of the bank's operations expanded and in 1989 it stated to be fully universal. Since 1990 it has become a public company. An important event was the election of a new CEO in 1992 – Sandor Csanyi, who belonged to the new generation of bankers. He has managed the bank to this day, reflecting the incredible stability in this position. S. Csanyi started the bank's modernization and preparations for privatization. OTP had reduced its number of senior managers. At the same time, there has been replacement of the bank's existing management with a new, hand-picked team, drawing talents from the young generation. OTP had also cut costs, begun centralizing its back-office operations and implementing new computer technology. Coupled with the strong branch network presence, OTP has not only retained its dominance in the savings market, but also captured a leading share of other banking areas [*Orszagos...*, 2006].

OTP privatization began in 1995. As a result of the three public offers along with the introduction of the bank's shares into the Budapest Stock Exchange, the state's ownership in the bank decreased to a single voting preference (golden) share. Currently the bank is characterized by dispersed ownership of mostly private and institutional (financial) investors. OTP has remained focused on the retail banking sector into the early 2000s, while also building a new commercial and corporate wing. In the early 2000s, the bank attempted to gain more control over the Hungarian banking sector, when it launched a takeover effort for the country's number two retail bank Postabank. But OTP's bid was rejected, amid opposition with the new acquisition would give the bank too much control over the country's retail banking market. Finding its growth limited at home, OTP targeted international expansion. The Bank has completed several successful acquisitions in the past years, becoming one among key players in the region. Besides Hungary, OTP Group currently operates in eight countries of the region via its subsidiaries: in Bulgaria (DSK Bank), in Croatia (OTP Banka Hrvatska), in Romania (OTP Bank Romania), in Serbia (OTP banka Srbija), in Slovakia (OTP Banka Slovensko), in Ukraine (CJSC OTP Bank), in Montenegro

(Crnogorska Komercijalna Banka) and in Russia (OAO OTP Bank) [*Orszagos...* 2006].

In spite of this impressive international development, OTP presents a little bit weaker financial results compared to PKO BP (see table 1). The data show that PKO BP (total assets) is about 35.9% higher than the OTP, per capital only by 9.6%, but profits by as much as 119%¹. Again, the question is: why PKO BP, so strong among the CEE financial institutions, has not been successful at international level. Maybe we should try to find the answers looking at political, socioeconomic conditions and above cultural heritage.

Table 1

Basic financial data PKO BP and OTP – 2012 (billion EUR)

	Total assets	Equity	Net profit
PKO BP	47,3	5,7	0,92
OTP	34,8	5,2	0,42

Source: Financial results: PKO BP and OTP in 2012, exchange rate EUR/PLN i EUR/HUF – 31.12.2012 [PKO BP 2013; *Annual...*, 2013].

4. THE REASONS FOR FAILURES AND SUCCESSES OF PKO BP AND OTP FOREIGN EXPANSION

There are several barriers creating foreign expansion of banks from Central and Eastern Europe [Kurkliński and Najjar 2012]. They appeared with different strength in particular countries.

a) The transformation of the banking sector and ownership structure

During the 90's the CEE banking system was a subject of fundamental systemic changes. At the beginning, it was dominated by state-owned banks, and then majority of them were privatized. Internal turmoil, changes of ownership explain reasons of a lack of initiatives to start foreign expansions. In such situation there were dominations of acquisitions made by international financial groups. For both cases: OTP and PKO BP the governments decided to execute privatization through public offering, maintaining control by the state. This process was proceeded in Hungary between 1995–1999, and in Poland: 2004 and 2012, clearly much later with serious consequences. In both countries, the participation of the state treasury in the bank shareholder structures had been gradual-

¹ OTP – the biggest Hungarian bank – comparing to Polish banks – would be ranked at third position, just after the second bank in Poland – Bank Pekao SA.

ly diminishing, and consequently followed weakening of the impact of government on both banks. However, in Poland still the final decision power is still located in the politicians' hands. From this point of view OTP situation is less clear. In the case of PKO BP undoubtedly the dominance of short-sighted national interests represented by the government (e.g. orientation on the temporary budget needs), had an influence on the inhibition of naturally occurring international expansion plans. Certainly this reason is one of the main justifications for the different recent history of the two banks. Generally the banking sector in both countries is dominated by foreign capital, that's why the initiations of international expansion are made in the headquarters of TNCs located mainly in the developed countries of Western Europe. Hence, it is difficult to expect that the strategic decisions and capital commitments would be decided in Warsaw and Budapest. However, there was an exception in 2007 – mBank project (Polish BRE Bank SA belonging to Commerzbank Group) opened operations in the Czech Republic and Slovakia. But, finally after one year the further expansion was halted by the decision-makers in Frankfurt.

b) Leadership factor

The international expansion of the bank requires clear leadership, supported by an active shareholder approval. Leader (sponsor) of such a project must have confidence in the management team, the determination of success and adequate capital resources. Polish experience, though relatively modest cases, is confirming these observations (L. Czarnecki's role in building the presence of the group in Ukraine, Russia and Belarus and the entry into Slovakia and the Czech Republic made by mBank – the leadership position of CEO of BRE Bank SA S. Lachowski). The same confirmation is related to the Czech Home Credit – Peter Kellner's PPF Group and its expansion into Eastern and Asian markets. With respect to PKO BP the significant frequent changes of the bank executives made the creation of a strong leader impossible. Who could initiate and consistently lead the strategy to enter into foreign markets? However in Hungary, the current CEO of OTP Sandor Csanyi has been serving since 1992, it means more than 20 years! He managed the successful reconstruction of the bank, adapted it to the new challenges of the market economy and created the foundation for expansion. Initially focused on the domestic market, because of the local limitations, opened bank to establish subsidiaries in neighboring countries.

c) Management barrier

Foreign investments require a lot of attention and commitment of the management, establishing a special task force within the parent bank. It is necessary to create good understanding of the nature of new activities, sufficient support, new competency matrix and finally new business model. These efforts are usually different from previous experience, related to the domestic market. The inter-

national expansion verify the ability of organization to act in very different economic and cultural conditions (e.g., issues of trust between supervisor – subordinate, particularly sensitive in the Polish experience in Ukraine). Some PKO BP managers delegated for this task (but this remark applies to a larger part of the Polish bankers) didn't meet these challenges. Many persons refused to expand their careers abroad, especially in the East. Furthermore, no wider past experience and weaknesses of previous foreign projects pointed that it was not a good practice to follow. Lack of properly educated human resources, capable carrying out such tasks complete this picture. In addition, when a foreign initiatives have marginal importance for the parent banks, they are often not guided by the best managers. Also in the group's development strategy this kind of activities are peripheral. This situation occurred in Poland (especially in PKO BP), where the attractiveness and development potential of the domestic market has been significant. On the other hand, limitations of the scale of the Hungarian economy (problem of the space for growth), the additional administrative restrictions (fear of monopolisation – domination OTP position in the local banking market – observed during the case of bid for Postbank in 2001) have been pushed to look for challenges outside of Hungary in a large extent.

d) Image barrier

Financial institutions from the CEE region have not got international image. Often the management of banks presents the lack of confidence in their own ability to start foreign expansion, especially having in mind the history of these countries. They had struggled with getting their own independence until World War I, and then there was a 45-years communist period under the Soviet domination. In these circumstances it was impossible to collect colonial experience, and because of ideological doctrine the way to foreign capital expansion was practically closed (minor cases). These countries hadn't had chance to create international banking brands to take competitive advantage. Even more, because of the absence of traditions and foreign experiences, other markets did not perceive banks from CEE region as guarantee of security and development. It is so important to note that banks are treated as institutions of public trust. In the case of Poland, these negative circumstances have continued. However, Hungary has overcome these barriers, at least when we are talking about OTP Bank.

e) Cultural considerations

For successful international expansion there are very challenging problems with cultural differences, unfortunately quite often marginalized. Looking into G. Hofstede cultural dimensions, at least two of them seemed to be of particularly important: UAI – uncertainty avoidance index and LTD, which is related to a long-term orientation. In both cases, there is a close connection between decisions and foreign investments (usually represented higher risk [Kurkliński

2011: 81] and longer return). Countries with high UAI are characterized by a relatively low level of acceptance of behavior different from the typical and common rules, with a very strong cultural background. It is one of the key factors influencing the success in carrying out expansion. In this respect, Poland is among the countries with one of the highest rates – 93 points. on a scale from 23 points (Denmark) to 112 points (Greece). The difference between the Poles and Hungarians (82 pts.) is not huge, but visible – 11.8% [Hofstede 2013].

Table 2

Geert Hofstede – culture dimensions. Comparison between Hungary and Poland

	Hungary	Poland	Comparison H/PL (%)
Power distance	46	68	-32,4
Individualism	80	60	+33,3
Masculinity/Femininity	88	64	37,5
Uncertainty avoidance	82	93	-11,8
Long term orientation	50	32	+56,3

Source: Hofstede [2013].

With respect to the LTD, Hungary are ahead comparing to Poland by as much as 56.3%. According to G. Hofstede, societies with a long-term orientation (Hungarians are included into this category, despite the fact that the countries from South-East Asia exceed LTD over 100 pts.) show an ability to adapt traditions to a modern context i.e. pragmatism, a strong propensity to save and invest, thriftiness, perseverance in achieving results and an overriding concern for respecting the demands for virtue. These features should be conducive to foreign investment. On the other hand, countries of origin of the banks mentioned at the beginning of this article, with the largest scale of operations in the CEE region have high UAI (France – 86 pts., Austria – 70 pts., And Italy – 75 pts.) and LTD very low (France – 39 pts., Austria – 31 pts., and Italy – 34 pts.) [Hofstede 2013]. That's why, reviewing intensity of cultural dimensions, in the context of foreign direct investment, can't be seen in isolation but together with other considerations related to making decisions processes. In addition, for some time it has been a continued discussion on the proper measurements and adequateness of the G. Hofstede definitions of cultural dimensions. In particular, they have been subjected to criticism in the context of another very comprehensive cultural research – GLOBE project (especially UAI). For the Poles and Hungarians results are shown in table 3. We don't observe significant discrepancies (which would confirm adherence to a common cluster of CEE). GLOBE project concentrates not only on cultural dimensions, but also on the difference between the declared (desirable) cultures and actually occurring. In this category, uncertainty

avoidance index doesn't differ so significantly – for Hungary is lower by 13.8%, but the future indication is almost the same for both countries (difference 3.2%). Despite much weaker intensity of differences among cultural dimensions according to G. Hofstede and GLOBE project researches, they are directionally consistent with analysis about discussed topics and fit into the reasons of higher tendency for foreign investment represented by Hungarians then Poles.

Table 3

GLOBE Project – culture dimensions. Comparison between Hungary and Poland

	Hungary	Poland	H/PL(%)	Hungary	Poland	H/PL (%)
	as is:			should be:		
Uncertainty avoidance	3,12	3,62	-13,8	4,66	4,71	-1,1
Future orientation	3,21	3,11	3,2	5,70	5,20	9,6
Power distance	5,56	5,10	9,0	2,49	3,12	-20,2
Institutional collectivism	3,53	4,53	-22,1	4,50	4,22	6,6
Humane orientation	3,35	3,61	-7,2	5,48	5,30	3,4
Performance orientation	3,43	3,89	-11,8	5,96	6,12	-2,6
Group and family collectivism	5,25	5,52	-4,9	5,54	5,74	-3,5
Gender egalitarianism	4,08	4,02	1,5	4,63	4,52	2,4
Assertiveness	3,23	3,75	-13,9	4,49	3,74	20,1

Source: Gyula et al. [2002: 76].

Reviewing the national cultural factors attention should be paid to the level of ethnocentrism of individual societies. I means the degree of belief in the superiority of own society values, rules – and therefore tolerance for diversity of other cultures. UAI index for Poland suggests a deep-rooted ethnocentrism. The confirmation can be based on foreign experience of the Polish BRE Bank (project mBank) in the Czech Republic and Slovakia. Poles involved into this initiative showed a special kind of mix of arrogance, superiority and national inferiority complexes, causing difficulties to convince local employees of the bank corporate culture and presenting a little patience for understanding other country's culture. Hungary being a small country (for example, because of the size of the internal market), but also taking into consideration the significant expansion of international tourism, Hungarians have been forced to a much greater degree of openness to foreign parties. Looking at the comparison of these two countries in terms of management style, there are no material differences, except in the sense of leadership autonomy. This rate is higher (25.6%) for Poland than for Hungary. It is primarily a result of the response from a group of Hungarian middle managers. In certain circumstances, with strong leadership at the top of the

organization (like it looks in OTP), this situation may facilitate the implementation of the vision of the main boss. Generally, the combined characteristic of Hungary's managerial features ranks this country to a group of Latin Europe (Italy, Spain), and whether the banks are very active in the CEE region (UniCredit, Intesa Sanpaolo and Santander) come from these countries not accidentally.

Table 4

GLOBE Project – leadership scales. Comparison between Hungary and Poland

	Hungary	Poland	Comparison H/PL(%)
Charismatic	5,91	5,67	+4,2
Team-Oriented	5,91	5,98	-1,2
Self-Protective	3,24	3,53	-8,2
Participative	5,23	5,05	+3,6
Humane	4,73	4,56	+3,7
Autonomous	3,23	4,34	-25,6

Source: Gyula et al. [2002: 77].

5. RECAPITULATION

The Position of Polish PKO BP and Hungarian OTP Bank is similar on their national markets. They are major, dominant banking institutions of a similar nature – universal banks with a strong emphasis on retail operations. However, their international activities differ them significantly. PKO BP has only a local, even provincial, bank in Ukraine, and the OTP group is present in 9 countries in CEE and can be classified as one of the major international players in these markets. The strong economic position of both banks (PKO BP being relatively very strong), with similar history would indicate their activities related to foreign expansions should develop in the same way. However, this hasn't happen. Among a number of reasons for this situation we can include cultural aspects and other political and geoeconomic factors such as different time of privatizations, the stability and the leadership role of OTP management, forced openness to other countries, because of the small size of Hungary. In the case of Poland the situation has been opposite – big and attractive domestic market.

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Polish PKO BP and Hungarian OTP Bank are the largest, dominant national banking institutions of a similar nature – universal banks with a strong emphasis on retail operations. However, they differ significantly because of international activities. PKO BP has only local bank in Ukraine, and the OTP group is present in 9 countries in CEE. The relatively strong economic position of both banks, similar history would indicate that their activities related to foreign expansions should develop in the same way. However, this hasn't happen. Among a number of reasons we should include cultural aspects, closely bound up with the legacy of the past, political and economic circumstances for both countries.

**KULTUROWE ASPEKTY MIĘDZYNARODOWEJ EKSPANSJI BANKÓW
EUROPY CENTRALNEJ I WSCHODNIEJ
– PRZYPADKI: POLSKIEGO PKO BP I WĘGIERSKIEGO OTP BANKU**

Polski PKO BP i węgierski OTP Bank to największe w swoich krajach, dominujące instytucje bankowe o podobnym charakterze – banki uniwersalne, z silnym zaakcentowaniem działalności detalicznej. Jednakże odróżnia je zdecydowanie odmienna międzynarodowa aktywność. PKO BP posiada tylko lokalny bank na Ukrainie, natomiast grupa OTP jest obecna w 9 krajach Europy Centralnej i Wschodniej. Stosunkowo silna pozycja ekonomiczna obu banków, zbliżona historia wskazywałyby, że także w dziedzinie aktywności zagranicznej instytucje te powinny rozwijać się podobnie. Jednakże tak się nie stało. Wśród szeregu przyczyn tego stanu zaliczyć należy aspekty kulturowe, ściśle wiążące się z uwarunkowaniami historycznymi, politycznymi oraz gospodarczymi.