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Institutional Conditions and Foreign Banks' Entry into a Developing Economy's Banking Sector: A Longitudinal Case Study Analysis

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Abstract

This study examines how institutional conditions in developing economies influence foreign direct investment (FDI), focusing on the rise of foreign mergers and acquisitions (M&As) in Egypt's banking sector since 2005. Through six longitudinal case studies of Egyptian bank M&As, it analyzes the drivers behind this trend, emphasizing location-specific advantages such as regulatory quality, legal protection, social factors, infrastructure, and transparency. The findings highlight the need to align the interests of foreign banks, local partners, and the host country for successful M&As. By integrating institutional features into the Ownership, Location, and Internalization (OLI) paradigm, the study demonstrates how host-country conditions shape FDI motivations, offering practical insights for policymakers to attract investment in developing economies.

Keywords: Foreign direct investment, mergers and acquisitions, institutional conditions, OLI paradigm, Egyptian banking sector, case study.

1 INTRODUCTION

Between 2005 and 2010, the Egyptian banking sector[1] experienced a significant influx of foreign direct investment (FDI) as international banks acquired large shares in both public and private banks. By 2010, 14 foreign merger and acquisition (M&A) cases had occurred in the Egyptian banking sector, surpassing the number of local acquisitions. The value of these M&As totaled $5 billion from 2005 to 2008 (CBE, 2011), according to the Central Bank of Egypt. These foreign entries into the sector took place after a series of economic reforms in the country, suggesting a connection between institutional reforms and the influx of FDI.

Originally, entry strategies research was relied on theories based on economics perspective (e.g., Transaction Cost Economics) (Williamson, 1975), anthropological perspectives (e.g., uncertainty culture and cultural differences views) (Ahsan and Musteen, 2011, Kogut and Singh, 1988), and internationalization theory (Johanson and Vahlne, 1977). However, these perspectives typically consider the host country as a perfect market (Götz et al., 2023), wherein there was an underestimate of the possible entry barriers of the host countries (Anderson and Gatignon, 1986). This limitation urged scholars to adopt other theories originating from different fields including sociology (e.g., institutional theory) (Oliver, 1997), and organizational resources (e.g., resource-based view) (Das and Teng, 2000), wherein the global market is perceived as imperfect. Then, seeking further understanding of the entry strategies, scholars adopted a mix of these perspectives by examining institutional dynamics alongside the resource-based view (Hitt et al., 2004), exploring cultural contexts and transaction economies alongside institutional theory (Brouthers, 2002, Li and Ferreira, 2008), and integrating the transaction cost analysis with institutional considerations (Demirbag et al., 2010).

Along with these attempts, Dunning's old eclectic OLI-paradigm received significant attention as it combined different perspectives: the country-specific factors (market size and growth, and country risk),

[1]The Egypt's financial and banking system is a vital component of the country's economy, serving as a cornerstone for economic growth, investment, and financial intermediation. At the heart of this system is the Central Bank of Egypt (CBE), which functions as the primary regulatory authority and monetary policymaker. The CBE oversees the stability of the banking sector, formulates monetary policy, and manages Egypt's foreign exchange reserves. The banking sector in Egypt comprises a diverse mix of public, private, and foreign commercial banks, each offering a wide range of financial services. The financial and banking sector in Egypt operates within a regulatory framework established mainly by the CBE.

and firm-specific factors (reputation, size, international experience) in deciding the entry mode strategy (Dunning, 2001, Dunning et al., 2007). However, this OLI-paradigm was criticized of paying limited attention to the country's institutional features (Dunning, 2006, Stoian, 2013, Tiong et al., 2021). Thus, the paradigm was developed to capture the role of the host countries' institutional features along with the paradigm's main components (Dunning, 2006a). While several studies have investigated the role of the host country's institutional features on shaping FDI entry strategies (e.g., Ang and Michailova, 2008, da Cruz et al., 2020, James et al., 2020, Hitt et al., 2005, Stoian, 2013), we know little about the relevance of the of OLI-paradigm in explaining why FDIs can be attracted to the banking sector that is based in the setting of a developing economy (Contractor et al., 2020, da Cruz et al., 2020, Dimitrova et al., 2022). This critical gap underscores the need for a deeper examination of how institutional features function as foundational conditions for attracting foreign investment and enabling firms to leverage ownership and internalization advantages in the banking sector.

Accordingly, this study draws on the new development of Dunning's work (in regard to Location-advantage that incorporated the host country's institutional features along with his OLI-paradigm), and set the research question as: *Why did Egypt become an attractive host country to the foreign banks? and how did the institutional features in Egypt have led to a wave of acquisitions of local banks between 2005-2010?*

To address these questions, a unique data set was collected from six case studies of foreign M&As took place within the banking sector of Egypt between 2005 and 2010. We focus on the period 2005–2010 because it represents a distinct and transformative phase in Egypt's banking sector and institutional landscape. During these years, a series of major regulatory, legal, and economic reforms (including the 2005 Investment Incentives Law, liberalisation of ownership rules, and significant capital requirements) triggered an unprecedented wave of foreign bank M&As. Therefore, this five-year window captures the *first large-scale opening* of Egypt's financial sector to foreign investors, leading to 14 foreign M&A cases worth USD 5 billion (CBE, 2011). Analysing this period allows us to observe how institutional changes reshape foreign entry strategies from their inception and to isolate their impact before the disruptive effects of the 2011 political upheaval. Thus, this temporal focus offers a rare empirical lens into how institutional transformation interacts with FDI dynamics in a developing economy's financial sector.

Overall, our study offers several key contributions. Firstly, we advance Dunning's OLI paradigm by introducing a framework consisting of five propositions, elucidating the influence of both host and home country institutions on FDI strategies. This underscores the imperative of integrating institutional considerations into multinational enterprises' decision-making processes. Secondly, the study reveals the impact of regulatory environments in both host and home countries on foreign banks' cross-border strategies, stressing the importance of regulatory considerations in FDI decision-making (Ameyaw and Panibratov, 2025). Thirdly, our focus on the unique context of the Middle East region, where expansion activities in bank mergers and acquisitions have recently occurred and may be due to inadequate regulation hindering the growth of the banking sector, distinguishes our study from those that have predominantly focused on developed economies. Moreover, by focusing on Egypt, the study encourages broader geographical explorations of FDI theories, promoting a comparative analysis between developed and developing economies. This enhances the applicability of existing theories and underscores the need for further research on FDI in diverse contexts.

2 THEORETICAL BACKGROUND AND PROPOSITIONS DEVELOPMENT

Before implementing long-term strategies such as mergers and acquisitions, cross-border firms often ensure that their expansion plans are legally, socially, and economically acceptable to the host country to gain support for their activities (Alvarez and Marin, 2009; Ang and Michailova, 2008). The institutional features of a host country, including regulations, economic conditions, and cultural practices, can pose significant challenges to the legitimacy of international firms operating in that country (Kostova and Zaheer, 1999). In his revised OLI paradigm, Dunning expands upon the traditional locational advantage factors to include the host country's institutional features as a motivator for international firms seeking to enter other markets. These institutional factors may include the protection of property and intellectual rights, anti-corruption laws, cultural factors, and transparency in laws and transactions (Dunning, 2006a; Dunning and Lundan, 2008). This expansion of the OLI paradigm offers valuable insights into the role of host country institutions in shaping the internalization strategies of international firms (Ang and Michailova, 2008; Pasiouras et al., 2011). Next we critically discuss the institutional features and their effect on firms' internalization strategy.

2.1 The country's institutional features of regulatory quality

Since the countries' policies and rules can either restrict or facilitate the behaviours of decision-makers and shareholders (Thormpson, 2005), firm's ownership ranges are related to the countries' variations in the quality of policies,rules and regulations(Bhattacharya and Daouk, 2002).The regulatory quality features capture the government's ability to formulate and implement sound policies and regulations, which promote private sector development, especially foreign ones (Kaufmann et al., 2010).

In the international business literature, studies referred to the important role of the countries' regulations features for the firms' adoptions of cross-border strategies in general (Ang and Michailova, 2008) and for the financial firms in particular (Ul-Haq and Howcroft, 2007), such as deregulations, lowering restrictions on the activities of the foreign firms,and high disclosure standards and high capital requirements of the local banks. Next, we discuss further these issues in the context of banks' M&A strategies.

2.1.1 Replacing state ownership with foreign ownership (privatization)

In certain countries, the state may hold a significant stake in banks for societal (El-Haddad, 2020) or political reasons (Shleifer and Vishny, 1998). As a result, they may impose stricter regulations on foreign full ownership in order to preserve market efficiency, prevent cross-holding or family-controlled banks, or block foreign takeovers (Brahma, 2023). However, such policies can lead to a decline in the development of the country's financial system and economy (La Porta et al., 2002). Barth et al. (2001) found that state ownership of bank assets has a negative relationship with the efficiency, development, and stability of the financial system. State ownership of local bank assets can also lead to higher restrictions on the activities and ownership of firms, resulting in less competition among banks in the country.

On the other hand, reducing state ownership has been linked to improved operational efficiency and profitability of firms, improved performance and employment (Boubakri and Cosset, 1998) is often seen as a key instrument for many economies (Boubakri et al., 2011). In this regard, Kandilov et al. (2016) found that when governments implement ambitious privatization programs, they create significant opportunities for firms to enter and grow in the local market, as these policies offer attractive ways for firms to take new actions and make strategic moves in the local market (Kaufmann, 1992). Studies have shown that in highly deregulated environments, foreign firms tend to prefer mergers and acquisitions over joint ventures (Kaufmann, 1992). Conversely, when restrictions on foreign full ownership are a prominent regulatory feature of the host country, firms may turn to other entry strategies besides M&As (Oguji and Owusu, 2017). These restrictions can act as legal barriers to foreign full ownership and impose unreasonable laws on foreign activities (Hitt et al., 2005). This is seen in OECD countries, where foreign M&As in the banking sector occur at the lowest rate due to various restrictions, compared to other sectors in the OECD (Zongo, 2022).

2.1.2 Lowering the restrictions on the working banks' activities.

Sometimes, governments restrict the activities of their local financial institutions to reduce the chances of engaging in risky activities, thereby minimizing the risk of financial crises (Moshirian, 2011). These restrictions can also be implemented to control the country's monetary and political issues (Barth et al., 2004), avoid the creation of complicated banks that are hard to monitor, and prevent the formation of large mergers that might reduce market competition (Barth et al., 2004). Additionally, governments may support their local institutions by enforcing these restrictions, as they have found that such measures significantly impact the local banks' ratings (Pasiouras and Gaganis, 2006).

However, this policy may consider a discouraging factor for firms to adopt cross-border strategies. Alternatively, lowering the restrictions on banks' activities enables them to diversify their revenues and risks, thus generating more stable banks (Meslier et al., 2014). Additionally, a broad range of bank activities allows banks to exploit economies of scale (Beccalli et al., 2015) and increase their franchise values (Barth et al., 2001). Within this context, researchers have found that loosening these restrictions increases banks' adoption of M&A strategies (Sonenshine and Kraft, 2015, Choi et al., 2010). Imposed restrictions on banks' activities deteriorate the industry settings and, accordingly, indirectly restrict cross-border M&A strategies (Bonaime et al., 2018). In addition, Focarelli and Pozzolo (2005) found that fewer restrictions on foreign banks' activities are a more important factor than economic integration among countries in encouraging foreign banks to internalize their activities and adopt M&A strategies.

2.1.3 Having a strong supervisory power.

The official supervision unit of the host country has the authority to take action to prevent and correct problems in the country's financial institutions. Its role is to prevent risky behavior by financial institutions and recommend corrective actions (De Haan et al., 2020). In this regard, Buch and DeLong

(2004) argue that strong supervision by local banks can increase their reputation and make them more attractive targets for international banks, but excessive toughness by the supervisory power may act as a barrier to cross-border M&As. On the other hand, weak supervision by local banks can present an opportunity for foreign banks to acquire them (Chen et al., 2017), as weak supervision may overlook beneficial actions and facilitate risky behavior by local banks, making them attractive targets for foreign acquirers (Buch and DeLong, 2004). Ito and Rose (2009) also support this view, stating that weak supervision can lead to the failure of local banks, which can only be avoided through risky strategies such as M&As. In this case, weak supervision may allow the target banks to be acquired as "lemons" (Hagendorff et al., 2012). However, insufficient supervision of local banks may also discourage M&A strategies due to the underdeveloped nature of their structures (Rossi and Volpin, 2004).

2.1.4 Orientation of the local market towards fair and free competition

One of the disadvantages of the overruling policies is the state's full ownership of the assets of its local banks, which created unfair competition in the local market and harsh restrictions on the banks' activities (Barth et al., 2001, Langfield and Pagano, 2016). La Porta et al. (2000) reported from (27) countries exercised major overruling policies over the local markets that they considered poor locations for adopting international strategies. On the other hand, when the countries shift towards privatization, this cuts any control within the local market and hence, liberalizes the competition. And that creates fair competition for all working firms in the local market by providing equal chances to all firms in the country. Economists pointed out that reducing state ownership of the local firms creates a competitive environment, disciplines the local market, and then contributed to improve the macro-performance of the economy (Rosenblatt, 2016, Behuria, 2020). These initiatives increased the efficiency of the working firms (Ramamurti, 1992).

Based on the previous discussion, we propose that:

(P1): A foreign bank's motivation to acquire a local bank is reinforced by the country's regulatory quality features, including 1) privatization by allowing full-foreign ownership, 2) relaxing restrictions on the foreign banks' activities, 3) having an orientation to have free and fair competition in the local market, and 4) having strong supervision

2.2 The country’s legal protection features

The concept of the country’s legal protection features captures the perceptions of the extent to which agents have confidence in the country’s rule of law, particularly the quality of contract enforcement and protection of others’ property rights (Kaufmann et al., 2010). Such rights included the accounting laws, which offer the investors the necessary information to exercise their rights (La Porta et al., 1999).

When the country’s legal laws provide the investor’s legal protection against any hostile and exploitation behavior within the country, the foreign investors will provide the necessary funds for their international transactions to invest within the country. On contrary, when the country lacked legal protection for outsiders, which can lead to the exploitation of insiders, foreign investors will be unenthusiastic about making long-term investments in this country (Jensen, 2008, Perrone, 2022). This is because the owners of private businesses will be worried; in the absence of existing formal protection of their private properties; about the possible protection of their assets currently and later (Nee, 1992, Means, 2017). Zhu and Qian (2015) mentioned that the lack of existing essential legal laws for protecting outsiders creates high uncertainties about the countries, and this creates a high perception of transaction costs. Since that is associated with transferring management and production methods across borders. Choi et al. (2016) found evidence that while the rule of law and enforcement of contracts attract FDIs, low investor law protection can discourage FDIs.

Rossi and Volpin (2004) analyzed the determinants of M&As across 49 countries that practiced differences in laws and regulations, and at the same time, announced several M&A strategies in the 1990s. They concluded that by controlling other regulations factors, international M&As were significantly higher in the countries characterized by high protection’s property rights of investors and better accounting standards. As well as, as soon as announcing M&As, scholars found that M&As’ returns decreased with the country's low level of investor protection and increased with the quality of accounting standards (Dell'Acqua et al., 2018, John et al., 2010). Alternatively, local M&As increased more in countries characterized by low levels of legal protection for foreign investors.

In the banking sector, foreign investors require extra protection whether through laws, government agencies or market participants (La Porta et al., 2000, Pacces and Heremans, 2012). Libby (2008) reported that the lack of protection of property rights prevented numerous US banks from moving towards Mexico, whilst the USA’s high protection of property rights encouraged the movement of Mexican banks to the USA. Given that more investor rights protection reflects a low exposure to risks within the country (Choi et al., 2010).

Based on the previous discussion, we propose that:

(P2): A foreign bank's motivation to acquire a local bank is reinforced by the country’s legal institutional features.

2.3 The country’s social features

Firms' strategic behavior is influenced by both the formal and informal institutional frameworks of a country (Holmes Jr et al., 2013). While formal institutions provide legal acceptance through regulations and legal systems, informal institutions provide social acceptance through norms, cultural beliefs, and values (Holmes Jr et al., 2013, Tonoyan et al., 2010). Thus, a firm's legitimacy goes beyond official rules and regulations to be shaped by the societal framework of a country, which can either restrict or facilitate the firm's preferred actions (Uzunca et al., 2018). This is considered a major factor in shaping the volume of business deals within a country (Noland, 2005).

The informal acceptance of a firm within its new environment is known as the social legitimacy of the country, defined as "the degree of cultural support for an organization" (Meyer and Scott, 1983, p. 201) and developed from "shared understandings and meanings that are embodied in the national culture" (Yiu and Makino, 2002, p. 671). The norms, beliefs, and values of the national culture must be taken into account in order to be accepted in the host environment (Leung and Morris, 2015).

One aspect of a country's social environment that demonstrates cultural support for cross-border firms is the ethnocentric orientation of the host culture. Cultural ethnocentrism refers to the extent to which the host culture is opposed to foreigners (Yiu and Makino, 2002). Scholars have found that when the local culture is favourable to foreigners, the country will be easy for firms to operate in, whether through M&As, greenfield investments, or joint ventures (JVs) (Tan and Meyer, 2011), and international firms can benefit from this socially unrestricted country by accumulating social capital at no cost (Yiu and Makino, 2002). On the other hand, in a highly ethnocentric culture, foreign firms may prefer to adopt a JV strategy with local partners to mitigate the drawbacks of constrained institutions (Cui et al., 2011).

Foreign firms also tend to invest in countries with the closest economic, linguistic, and cultural ties (Dow et al., 2016).

Another social unrestricted institution is the local society's positive attitudes towards globalization settings and ideas (Gillan, 2020). It is worth mentioning that cross-border firms are the 'movers behind globalization', which entails the removal of tariff and non-tariff barriers, liberalizing the financial and cultural systems of the societies, promoting hi-tech modernization and the advent of new products and services within the host country (Eden and Lenway, 2001). Therefore, the host country's attitudes towards globalization and its implications are considered as one of the host country's legitimate standards that are responsible for the locals' approval for FDIs activities within the countries. Otherwise, the locals' views, when they were anti-globalization, act as a signal of the host country's potential risks to foreign businesses (Noland, 2005). As cross-border firms could face significant resistance from the locals caused by anti-globalization attitudes and the locals' protection against foreign beliefs, values, and lifestyles. So, the local's attitudes towards the globalization settings and ideas are very important for FDIs activities (Iammarino, 2018), since that might create pressures and then might cause excessive reactions against them that could cause their collapses within the countries (Rodrik, 1997, Krugman, 2017). Accordingly:

(P3): A foreign bank's motivation to acquire a local bank is reinforced by the country's social institutional features.

2.4 The country's infrastructure features

There are differences in the management practices of cross-border firms according to the countries' preparations for their infrastructures for FDIs activities (Pananond et al., 2020). Seeing that countries with better-developed infrastructures are considered more encouraging environments for cross-border firms' operations and productivity (Bergara et al., 1998, Yildirim et al., 2023). So, the country's infrastructure features work as enterprise mediators, which achieved its activities, since, they responsible for facilitating or restricting the firms' activities (Chan et al., 2008). The country's infrastructure features are divided into human, physical, and technological infrastructures.

Human Infrastructure. The availability of skilled human resources in a country can reduce international transaction costs by facilitating the transfer of information within the organization (Ellinger and Ellinger, 2013), which in turn can restrict a firm's growth (Appadu et al., 2016). Thus, the country's education system enhances its location advantage by providing the local market with skilled labour (De Marchi et al., 2018), which determines the productivity and competence of the labour force (Demirbag and Yaprak, 2015). While earlier scholars did not consider the skilled labour force of a country as a significant determinant of FDI (Schneider and Frey, 1985), later literature (e.g., Cleeve et al., 2015, Kheng et al., 2017, Gould et al., 2013) recognized the important role of a country's human resources in attracting FDI due to their impact on the volume of FDI (Zhang and Markusen, 1999).

Physical infrastructure. Several researchers (Asiedu, 2002, Sekkat and Veganzones-Varoudakis, 2004, Quazi, 2007, Globerman and Nielsen, 2007) examined the countries' institutional determinants of government effectiveness, legal and political institutions and the flow of American FDIs to particular countries. They concluded that FDIs varied according to the countries' development levels in government effectiveness that measured by the quality levels of the physical infrastructure institutions: roads, transportation, education, public services and facilities, and electricity. Thus, as long as countries enhanced their physical infrastructures, they encourage FDIs to them, especially, developing ones (Nasr and Al-Tabbaa, 2023). They also concluded that countries were unlikely to receive FDIs when they failed to provide acceptable levels of government effectiveness and legal and political institutions.

Technological infrastructure. In general, the technological capabilities of a country are an important factor in attracting FDIs (Alvarez and Marin, 2013, Guimón et al., 2018). These capabilities increase the "fit" between host and home firms by strengthening local firms, making them more attractive targets for FDIs (Lu et al., 2014). Several studies have studied the determinants of FDIs in developed and developing countries and found that while both skilled labour and technological capabilities had highly significant effects on attracting FDIs in developed countries (Erdal and Göçer, 2015, Salim et al., 2017), skilled labour had a positive but insignificant effect on FDIs in developing countries, and technological capabilities had a highly significant negative effect on FDI inflows, processes, and performance (Ahmed, 2012, Wang and Zhang, 2022). Similarly, Appadu et al. (2016) found that countries' levels of development in technological infrastructure and other institutional features such as financial and political institutions explain differences in M&A volume among countries. Without support for technological development, they concluded that a country will be unable to sustain M&A activity.

Therefore, we propose that:

(P4): A foreign bank's motivation to acquire a local bank is reinforced by the country's infrastructural institutional features

2.5 The country's transparency institutional features

Transparency institutions are attractive to FDIs, as firms often compare transparency among countries when deciding where to invest (Anwar and Iwasaki, 2022). Therefore, countries must be transparent in order to attract foreign investments (Shittu et al., 2020, Vishwanath and Kaufmann, 2001). Conversely, poor transparency in a country can lead to poor FDI decisions towards that country, as FDI decisions often require transparent, accurate, and trustworthy information in order to assess the quality and risks of an investment portfolio (Blonigen, 2005; Florini, 1999). One aspect of a country's transparency is the accessibility of information (Kaufmann et al., 2010). Clear and accessible information leads to a reliable assessment of investment decisions, which in turn leads to accurate final decisions (Shanmuganathan, 2020). Access to information provides transparency in the formulation of firm actions and policies, and any attempts to reduce the flow of information lead to low transparency in the country (Adam and Fazekas, 2021). On the other hand, a lack of information can create ambiguity in a firm's strategy (Relly and Sabharwal, 2009) and may cause problems for the firm (Kaufmann et al., 2002). At the international business level, Buch and DeLong (2004) found that M&A activity is less frequent in countries with high-cost information, which requires target firms to provide foreign investors with timely, accurate, and complete information. DeLong and Buch (2001) also found that mergers are less frequent when information costs are high, supporting the proposition that a more transparent business environment fosters M&A strategies. Therefore, when countries increase their transparency levels, they make their local banks more attractive targets for foreign acquisitions (Gonchar et al., 2022, Karolyi and Liao, 2017). Accordingly:

(P5): A foreign bank's motivation to acquire a local bank is reinforced by the country's transparency institutions.

3 METHODOLOGY

3.1 The study context

The study employs a case study approach (Eisenhardt, 1989), where qualitative interviews were conducted as part of a multiple case study approach to gain a deep understanding of the acquisition phenomenon (Al‐Tabbaa et al., 2025).

As study context, we focused on the period from 2005 to 2010. Targeting this period is connected to significant economic and regulatory changes that occurred during this time. Specifically, this period witnessed a notable increase in FDI due to economic reforms and changes in regulations, which made the Egyptian banking sector more attractive to foreign investors. In specific, the period from 2005 to 2010 witnessed a wave of foreign M&As in the Egyptian banking sector. During this period, foreign banks began acquiring Egyptian banks, a departure from the previous trend of joint banks and branches of foreign banks. The period from 2005 to 2010 was characterized by a significant increase in FDI in Egypt through M&As and greenfield projects. According to UNCTAD (2015), FDI in Egypt started to increase in 2004 and reached its peak in 2007. This increase in FDI represented 7.5% of GDP from 2005 to 2008 and contributed to Egypt's share in global FDI, which rose to 0.6% during that period compared to only 0.06% in 2001 (Kamaly, 2011b). The financial services sector received approximately 10% of the total FDI (CBE, 2011). The Egyptian banking sector, in particular, attracted a significant amount of FDI, resulting in 14 foreign M&A cases compared to only 7 local M&A cases between 2006 and 2010, with a total value of US$5 billion (CBE, 2011). This influx of foreign acquisitions led to a decrease in the number of banks operating in Egypt from 62 to 39 (Ragab and Omran, 2006). Finally, the Egyptian government's efforts to improve regulatory quality, including the liberalization of ownership rules and enhancing transparency, made the banking sector a more attractive target for foreign investors. The Central Bank of Egypt’s policies during this time required local banks to increase their capital, which many were unable to do, thus creating opportunities for foreign acquisitions.

Table 1 provides a detailed breakdown of the foreign acquisitions of Egyptian banks from 2005 to 2010, and also identifies our six case studies.

[Table 1]

3.2 Data collection

For this study, a qualitative research approach was employed, specifically utilizing semi-structured interviews as the primary data collection method (Al-Tabbaa, 2023). The aim was to create, verify, and extend the theory of Dunning's new development of the OLI paradigm in the context of cross-border mergers and acquisitions (M&As). The demographic features of the ten qualitative interviews conducted are provided in Table 2. All interviewees were managers from the acquiring banks (the international banks).

[Table 2]

To select participants for the interviews, snowball sampling was employed within each of the six selected acquisition cases. This sampling technique involved identifying and engaging additional participants who had relevant knowledge about their banks' M&A decisions. The snowball sampling approach facilitated the identification of individuals with valuable insights into their banks' strategies and decision-making processes, enriching the overall data collection process. More specifically, the interviews were conducted with social actors who had first-hand experience and knowledge of the phenomenon under study, namely members of the acquiring banks' top management who were involved in their banks' M&A processes and decision-making. A total of ten interviews were conducted, allowing for an in-depth understanding of the banks' M&A strategies.

The interviews were semi-structured, combining structured and unstructured questions. The interview questions were based on the study's themes and factors identified in the literature review. The semi-structured nature of the interviews provided flexibility, allowing the researchers to explore the research topic in-depth while ensuring consistency across interviews. Open-ended questions were used to encourage participants to provide detailed and comprehensive responses, enabling a nuanced understanding of the phenomenon (Ibrahim and Al‐Tabbaa, 2024).

Secondary data from various sources, including publications from the World Bank, United Nations, Central Bank of Egypt (CBE), financial reports of the studied banks, and international reports, were also collected, as summarized in Table 3. This secondary data complemented the interview data and provided additional insights into the research context.

[Table 3]

3.3 The analysis

In our study, we employed a rigorous and systematic approach to analyze the data collected from both primary interviews and secondary sources. The analysis process involved several key steps aimed at uncovering patterns, themes, and insights relevant to our research objectives.

For the primary interview data, we transcribed and meticulously reviewed each interview to extract meaningful insights and identify recurring themes. We utilized qualitative data analysis techniques such as thematic analysis to systematically categorize and code the data. This process involved identifying patterns, concepts, and relationships within the data, allowing us to explore and interpret participants' perspectives comprehensively.

To enhance the reliability and validity of our findings, we employed techniques such as member checking, whereby participants were given the opportunity to review and validate the analysis findings, ensuring that their perspectives were accurately represented.

In parallel, we conducted an in-depth analysis of secondary data sourced from international and local reports, as well as official documents, including publications by the World Bank, the United Nations, the Central Bank of Egypt (CBE), and financial reports of the studied banks. These collected international reports were summarized in Table 3. The secondary data will be combined with our primary data analysis to evaluate the study's initial theoretical propositions, thereby balancing and validating the primary findings (Ibrahim and Al‐Tabbaa, 2024). Throughout this process, we critically examined secondary data sources to extract relevant information and contextual insights, ensuring they complemented and enriched the primary data analysis.

Throughout the analysis process, we remained cognizant of our research questions and propositions formulated in the literature review, using them as guiding frameworks to organize and interpret the data. We iteratively refined our analysis, revisiting the data to ensure that emerging themes and patterns were robustly supported by the evidence.

4 THE FINDINGS

4.1 The role of the host country's institutional aspects

This section validates the first proposition (P1): *A foreign bank's motivation to acquire a local bank is reinforced by the country's regulatory quality features, including 1) privatization by allowing full-foreign ownership, 2) relaxing restrictions on the foreign banks' activities, 3) having an orientation to have free and fair competition in the local market, and 4) having strong supervision*

Next, we present and discuss our findings in relation to these four aspects.

4.1.1 Privatization by allowing full-foreign ownership

As informed by the analysis, we realized that the state was pushing towards the privatization of this sector by allowing foreign entries to the Egyptian banking sector only through fully owning existing local banks' shares rather than establishing a new subsidiary in the host market. This, in turn, explains why foreign banks adopted M&As rather than greenfield strategies. For instance:

"The only opportunity that was available for foreign banks to enter the Egyptian market at this time was through buying fully an existing license of an existing local bank. Since the regulations of the Egyptian banking sector did not permit any new license for any new entrant to the Egyptian banking sector. Accordingly, the local bank was sold to Kuwait National Bank which had the desire to enter the Egyptian market at this time" (Interviewee#10, Executive Manager, National Bank of Kuwait).

The secondary data supported the above claim. Figure 1a, and Figure 1b shows the Regulatory Restrictiveness Index (RRI[2]) of Egypt, OECD, and non-OECD countries (RRI of Middle-East and North African countries and other developing and developed countries) during the period of the first wave of acquisition (2006-07). While Egypt's RRI is higher than the OECD average in seven of the nine sectors (including tourism, construction, distribution, business services, telecommunications, transport, and electricity), Egypt was the least restrictive regulatory average in comparison to these countries in only the financial services sector (banking and insurance services), and manufacturing sectors (OCED, 2007).

[Figure 1a],

[2]The restrictions are evaluated on a 0-1 scale with '0' corresponding to a completely open sector and '1' to a ban sector to FDI. Given their evident importance, ownership restrictions receive a substantial weight.

This is because the state's policymakers issued the Investment Incentives Law No. (94) in 2005, which cancelled a previous legal restriction of foreign full ownership within several sectors of the country. This Law gave opportunities to foreign firms to enter the Egyptian market acquiring all the public shares of at least 660 state and partially state firms. This paved the way to Egypt to become above of non-OECD countries in terms of removing the restrictions on regulations of their firms in 2009-2010, closing to OECD countries, the United States and Sweden FDIs' regulations (See Figure 1b).

[Figure 1b]

These country' institutions features interpret why Egypt has become an important recipient of FDIs among the other developing countries in Africa and other parts of the world (See Figure 2a). (WB, 2010) reported that Egypt is one of the most open economies to foreign ownership, since the country opened up the majority of its economic sectors to foreign ownership.

And interpret also why the country transferred from receiving about US$500 million of inward FDIs in 2001 to receiving US$12 billion and US$9.5 billion in 2007 and 2008, respectively (See Figure 2b).

[Figure 2a and 2b]

These inward investments were in agriculture, manufacturing industry, construction, financial services, IT and communication, and tourism. These FDIs inflows into the country represented 07.5% of GDP from 2005 to 2008, and this was reflected in that increase of Egypt's share in global FDIs inflows that reached 0.6% during that period, compared to only 0.06% in 2001(Kamaly, 2011), see Figure 3a.

[Figure 3a]

It is reported that because of its recent liberalization policy, in particular the reduction of equity requirements in several sectors, Egypt had considerably improved in its global ranking in investment regulations (OCED, 2007). When exploring this change by the state, one of the senior interviewees explained the main aim of privatizing the assets of public and partially-public banks within the country was to restructure these banks financially and structurally (sub-theme).

"The policy makers' motivations for this decision (privatization via fully ownership acquisition) was related to restructuring the local banks' financially and managerially" (interviewee #2, General Manager, Intesa Sanpaolo bank)

In summary, while the state's new regulations had directly encouraged the selling of state and partial-state banks, the state's new regulations had indirectly encouraged the selling of private banks to foreign banks.

4.1.2 *Relaxing restrictions on foreign banks' activities*

While the sold local banks were mainly investing in long-term activities such as large manufacturing and service enterprises, however, this was against the interest of the foreign banks (as the latter were more interested in a quick return on their investment). Thus, lowering restrictions on the foreign banks' activities to invest in short-term activities encouraged the acquiring strategy of these banks. As explained by senior staff:

"Pre-2005, the focus of local banks was primarily on long-term activities. However, this approach was not conducive to attracting foreign banks for deals, as investors typically seek shorter-term profitability. Yet, the emphasis on long-term investments failed to deliver on that front. Consequently, the relaxation of restrictions on short-term activities, aligning them with long-term investment practices, bolstered our investment decisions within the country" (Interviewee #7, Union-National Bank, General Manager for the Strategic and Financial Zones).

Concerning the secondary evidence, the overall restrictions on bank activities measured through the extent to which a bank can both engage in securities, insurance and real estate activities and own nonfinancial firms (Barth et al., 2013). This sourced through the reports of the OECD and the World Bank reports about the country in the overall restrictions on the bank activities.

Figure 3b provides detailed information on the change in the index of overall restrictions on bank activities. While positive numbers indicate an increase in restrictions, negative numbers indicate a decrease in restrictions. The country that increased restrictions the most was Seychelles, and the country that decreased restrictions the most was Romania. As seen in the figure, Egypt is placed among the countries that decreased their restrictions on banks activities between 1999 and 2011. Within this context, using data from the World Bank,(Barth et al., 2004) reported that lowering the restrictions on the working banks in Egypt caused the growth of its banking sector to resemble the developed countries.

[Figure 3b]

In confirmation with that, Figure 4, shows also the FDIs post-entry barriers in the form of restricting the procedures of screening, management and operating. As seen in Figure 4, Egypt's score of FDI operational restriction referred to the country's low ranking in imposing barriers on FDIs' functioning and operating within the country, resembling the developed and less developed countries (See Figure 4).

[Figure 4]

4.1.3 Having an orientation to have free and fair competition in the local market

The analysis indicated that, by privatization, the state showed its intention and orientation towards creating a fair and free competitive environment, whereby the state had disposed of its financial shares in the local banks, and in turn, that freed competition in the banking sector. Two of the senior interviewees described the competition condition within the Egyptian banking sector, before and after adopting M&As and how it transferred to a free competition sector after that.

"Prior to privatization, government ownership in local banks was predominant. This stance posed a hurdle to fostering fair competition within the banking sector and stifled competition among local banks. However, with the government's decision to privatize state and joint banks, its grip on the banking sector loosened. Consequently, privatization led to the establishment of fair competition among operational banks in the local market. It's worth noting that these policy shifts were aligned with the principles of globalization, particularly financial globalization, advocating for diminished state control over the banking sector" (Interviewee #2, General Manager, Intesa Sanpaolo Bank).

It is noteworthy that, to organize the competition within its Egyptian banking sector, the Egyptian Competition Authority issued several laws such as competition laws Nos. 190 and 193 and their amendments in 2008. These were responsible for ensuring free competition in the local market, prohibiting anti-competitive practices, serving customer and investor concerns, preventing monopolism, and mitigating the abuse of dominance. However, the country faced challenges to implement the competition laws (ICS, 2014).

4.2 The role of the legal protection institutions

This section aims to validate the second proposition *(P2): A foreign bank's motivation to acquire a local bank is reinforced by the country's legal institutional features.*

The important role of Egypt's legal protection institutions for FDI can be explained through their ability to protect foreign investors' assets against any opportunistic behaviours from locals and governments, as well as from any political instability. These issues are elaborated further next.

4.2.1 *Protecting against expropriation*

The analysis showed that the country's policy in preventing the risk of expropriation was vital in the acquiring decision. In specific, the informants demonstrated how their banks' presence within the country –Egypt- related to their banks' protection against the country's expropriation:

"We would not invest in a country that did not have protection against the country's expropriation. When we made the acquisition deal, we take precautions against the country's expropriation and nationalization" (interviewee #1, Vice Chairman, Intesa Sanpaolo Bank)

Supporting the above finding, Egypt has issued several laws to emphasize and improve investor protection against expropriation within the country, as the country's regulators amended Investment Law No. (94) of the year (2005), to include basic requirements for protecting investor property rights, such as protection from nationalization, cancellation, and imposition of obligatory pricing (OECD, 2014). Furthermore, the Egyptian authorities have issued laws on commercial arbitration and courts stated pro-arbitration policies (WB, 2010). Additionally, the country has signed several international bilateral investment agreements with countries from the Middle East, European Asia and Africa to protect their investors' rights (ICS, 2014). One of these agreements, the Law of Economic Zones of a Special Nature No. (83) of the year (2002) to prohibit the expropriation of foreign investors of these zones. For instance, Article No.(43) of this law states that companies working in such zones shall not be nationalized (OECD, 2014). Furthermore, these international agreements included free financial transfers and procedures for the settlement of investment disputes, including international arbitration, alongside international legal standards against expropriation and compensation in crises (ICS, 2014). Accordingly, these international agreements ensure the fair, equitable and non-discriminatory treatment of foreign investors within Egypt (ICS, 2014).

This interpreted why FDI flows increased significantly to the Middle East region, including Egypt, especially between 2005 and 2008, as soon as the region's countries lowered the risk of expropriation for foreign investors (See prior Figure 2a).

4.2.2 *Protecting investor's property rights*

A senior interviewee of one of the acquiring banks referred to the importance of protecting foreign banks' property rights in encouraging their strategies, he noted:

"Before M&As, we make sure that the local laws protect our property rights very well and that encouraged foreigners to come and invest in the country" (interviewee#7, General Head of Business Sectors, Union National Bank)

By reviewing the secondary data of Egypt's protection level of physical and intellectual property, in general, in Table 4 it can be concluded that during the time of the foreign acquisitions of the Egyptian banks, Egypt was placed in the second third of the global rankings. This implies that the country did not have a unique position globally in protecting individuals' physical and intellectual property. However, at a regional level, the country was placed in the top 5 countries in protecting physical and intellectual property, which attracted FDIs to the country particularly among other Middle-East countries (see Table 4). Furthermore, Egypt's laws protect foreign investors' physical property, according to Article No. (9) of Egypt's Investment Law No. (94) of the year (2005) (mentioned previously).

[Table 4]

In detail, the protection of physical property, registering property and ease of access to loans are all a proxy of the country's physical property that recorded in total 6.224/10, 6.20/10, 6.833/10, 6.100/10 in 2007, 2008, 2009 and 2010 respectively, which could be considered further acceptable. Similarly, protection of intellectual property, patent protection and copyright piracy are a proxy of intellectual property that recorded in total 4.252/10, 4.30/10, 4.167/10 and 4.4/10 in 2007, 2008, 2009 and 2010 respectively, which could be considered marginally acceptable. These all ranked the country as one of top 5 countries in its region in protecting physical and intellectual property rights in the years 2007 and 2008, where most foreign M&As occurred in the banking sector.

4.2.3 ***The country's arrangements for law enforcement***

In this context, one of the senior interviewees revealed the weak commitment of individuals to laws after execution, especially, their obligations regard to buying and selling contracts:

"After the 2011 revolution, it became clear to us that the commitment to the implemented laws is weak, as cases are now being filed against those who bought Egyptian banks in the courts in preparation for

the termination of contracts, as we do not know what will happen to us" (Interviewee#1, Vice Chairman, Intesa Sanpaolo Bank).

By reviewing Egypt's International Property Rights Index (IPRI) in the time of the M&As wave, the country's scores of property rights were sounded to be acceptable scores since they ranged between 4.6~5/8.5, where a value of (8.5) indicates the maximum protection of the property rights of the foreign investors, and a value of (0) indicates the opposite (See Figure 5). While the highest score was Egypt's protection of the individual's physical property that fluctuated between 4.9~5.7/8.5, the lowest score was about its law enforcement that fluctuated between 4.6~4.7/8.5. It is worth mentioning that the study's data collection started after Egypt's 2011 revolution which witnessed a fall in the country's scores of law enforcement to 4.0 and 3.7/8.5, since there were several foreign M&As cases started to be charged in the Egyptian courts to cancel these contracts (according to the qualitative data result). This is interpreted as why the participants consider the country's law enforcement appeared disabled factor.

[Figure 5]

4.3 The role of country social institutional features

This section aims to validate the fourth proposition *(P3): A foreign bank's motivation to acquire a local bank is reinforced by the country's social institutional features.*

4.3.1 *The local society's openness to other foreign cultures*

As part of the social institutional features, the role of the openness of the national culture to other foreign cultures emerged as significant in facilitating the international banks' activities and operations in the host country.

"There was openness to the foreign culture, especially, to the Gulf region culture(same culture). This helped the bank to exist in the country and promote its financial instruments in the banking sector" (interviewee #6, Executive Manager, Abou-Dhbi Islamic bank).

4.3.2 *The local society's positive treatment of foreigners compared to its citizens*

One of the senior interviewees referred to the distinctive treatment of foreigners in general in the host country –Egypt-, stating that:

"The host country did not distinguish between foreigners and native citizens in the issue of investing within the country, however, foreigners are usually treated especially compared to nationals" (Interviewee #4, executive manager, National Societe General Bank)

It is noteworthy that in 2007, Egypt signed a 'Declaration' on International Investment and Multinational Enterprises. One of its main points is 'the National Treatment', a commitment by a country to treat foreign enterprises the same as domestic enterprises in comparable situations. Because of that, Egypt should provide protection, peace, and security for all international enterprises and guide all society to provide the same treatment.

In 2007, Egypt adopted the OECD's 1976 Declaration on International Investment, committing to National Treatment principles for foreign investors (OECD, 1976). As Chung and Alcácer (2002) demonstrate, demographic trends reflect development readiness. Table 5 shows during Egypt's M&A wave: (1) growing working-age population indicating economic engagement, (2) declining male unemployment (majority workforce), though female unemployment rose marginally (minority share). These patterns suggest improving conditions for foreign investment.

[Table 5]

4.4 The role of the country's infrastructure institutions

This section aims to validate the third proposition *(P4): 'A foreign bank's motivation to acquire a local bank is reinforced by the country's infrastructural institutional features'.*

4.4.1 ***Country's home base of human assets***

The analysis identified that Egypt's human assets were critical in facilitating the acquisition process of Egyptian banks. These assets referred to trained and experienced local staff in implementing the local banks' operations and activities. These also referred to the communication skills of the local staff by speaking another language besides their native language. As such, one informant explained

"*The foreign entrants need educated staff to affect the bank's operations efficiently and this was available in the acquired bank, as most of the bank staffs are highly qualified and a number of them have postgraduate degrees" (Interviewee#7, General Head of Business Sectors, Union National Bank).*

Although the Competitiveness Report of Egypt (GCR, 2010 update) reported that Egypt's education system did not rank globally, indicating a poorly educated populace. This gap of poorly educated citizens can be filled by providing advanced training programs (Nasr, 2010). In OECD's list of FDI incentives policies, career training is considered as one of the host country's incentives of FDIs (OECD, 2014). The review of the investment climate of Egypt, (Nasr, 2010)reported that the main dilemmas faced by the banking sector in Egypt, which had a large amount of poorly qualified staff, could be addressed by enhancing training programs. Thus, between 2004 and 2009 the Egyptian regime adopted a financial system reform plan to match the international banking system criteria (AmCham, 2010)**.** This involved banking staff training programs, which the Central Bank of Egypt held the responsibility for executing these programs. According to reports of the Central Bank of Egypt, along with the wave of foreign banks M&As, the bankers who participated in the training programs accounted for 4,313 trainees in 2004-05(CBE, 2005-06),which further increased to 23,719 and 23,018 trainees in 2005-06 and in 2006-07 respectively(CBE, 2006-07)(See Table 6).

[Table 6]

Continue on these training programs, in 2009-10, the participants in training programs were about 23,100 trainees(CBE, 2010-11). These training programs aimed to raise the awareness of the banking sector's labor force concerning the procedures of key economic and financial development. Parallel to that, the policymaker employed new staff for a range of middle to top-level positions. These new employees came from the private banks, to help the local government to professionalise its public and joint banks.

Then, during 2009-10, in cooperation with Cairo University, IoB organised seminars called 'Training Programs for Employment' for bank staff, which trained 879 bankers over 2,097 training hours in order to fill the gap between the banking staff's educational degrees and the requirements of the labor market in order to prepare banks' leaders. Moreover, in cooperation with the Development Dimension International Foundation (DDIF), IoB provided training programs for the local banks' junior leaders in order to develop their performance and innovation abilities (CBE, 2010-11).

4.4.2 *Country's preparations of technological readiness*

The interviewees referred to how the country was having the main base of technological infrastructures to facilitate performing the acquiring banks' operations efficiently. A senior interviewee explained that:

"The country's infrastructures -ATM services, communications, hi-tech, and staff -were prepared carefully before acquisition operations. Between 2003 and 2005, the country's banking sector had a leap

in technological development and in staff training. The local banks had been developed in technology applications and in accounting practices to match with international criteria of Basel I and II" (Interviewee#4, Executive manager, National Société Générale Bank).

We found support for the above claim from secondary sources. As shown in the following Table 7, in the course of Egypt's preparation for foreign M&As, the country jumped significantly in its technology infrastructures between 2003-04 and 2004-05. For instance, in the technology transferring sub-index, Egypt has jumped 12 rankings from 44^{th} to 32^{nd}. In the firm-level technology absorption of innovation sub-index, the country jumped (24) rankings from 71^{st} to 37^{th}. In the government privatization of ICT (Information and Communication Technology) sub-index, the country jumped 29 rankings from 42^{nd} to 13^{th}. In the promoting ICT sub-index, the country jumped 19 rankings from 35^{th} to 16^{th}. Finally, in the ICT readiness sub-index, the country jumped from 71^{st} to 63^{rd} and jumped from 63^{rd} to 51^{st} the ICT usage (ENCC, 2004-05). Within this context, (ENCC, 2004-05) reported that Egypt had improved, albeit slightly, in its technology infrastructure, which created positive perceptions among the firms' executive managers regarding the capacity for technological readiness in the country and its economic capability.

[Table 7]

Furthermore, with regard to Egypt's ICT development stage, initially, in 1992, Egypt issued Law No. 95 to establish the Technology Development Fund to support emerging companies in the field of ICT. Then, the Technology Development Fund was established to meet the needs of firms and citizens in telecommunications and information technology (MICT, 2009). This facilitated the establishment of the Ministry of Information and Communication Technology (MICT) in October 1999. MICT has quickly established nationalised plans for providing information and communications technology to all firms and citizens and providing training programs for developing their technological competencies. One of these nationalised plans is the establishment of 450 Information Technology Clubs in communities and remote areas in order to familiarise citizens with computers by increasing their awareness of information technology(MICT, 2011).

Therefore, by the end of the 1990s, the country was in the initial stages of preparing its technological readiness. Between 2005 and 2011, the number of Information Technology clubs doubled (See Table 8). Furthermore, MICT supported the partnership between the public and private sectors in ICT. This encouraged the country to be a member of the Basic Telecommunications Agreement (BTA) set up by the World Trade Organisation (WTO) and a member in the General Agreement on Tariffs and Trade (GATT)in June 2002, which enabled the country to catch up with modern technology and information system in all fields. In addition to that, in 2002, MICT adopted a number of programs to provide PCs and high-speed Internet(ADSL)for each entrepreneur and citizen in order to increase the number of electronic commerce users within the country (MICT, 2008). Then, in 2003, MICT established the *Smart Village* as a regional hub and headquarters of cross-border firms in Egypt, raising the efficiency of Egyptian and foreign institutions (MICT, 2011). As a result of all these prior stages, the number of telecommunication and information technology firms within the country increased from 600 in 2000, to 4000 in 2010. Furthermore, the number of PC and internet users have doubled dozens of times in 2005 and 2011(see Table 8) (MICT, 2011).

[Table 8]

Thus, in 2004-05, the Global Information Technology Report (GITR) referred to that while developing countries were quickly marching toward decreasing the gap in IT, Egypt recorded a high rate of IT diffusion compared to other Arab countries (López-Claros et al., 2004-05, López-Claros et al., 2003-04). Then, the country carried on its plans of technological readiness.

4.5 The role of the country's transparency institutions

This section aims to validate our final proposition *(P5): A foreign bank's motivation to acquire a local bank is reinforced by the country's transparency institutions.*

4.5.1 *Transparency in the acquisition procedures*

In explaining the acquisition procedures, all the senior staff decided collectively that there was due diligence rule for the sold assets of the acquired banks during their banks' new strategies. A senior interviewee noted:

"M&A rules were definite and logical to us when M&As were adopted. The policymaker issued a rule which facilitated the acquisition of local banks. This rule was the due diligence examination of the local bank's assets and databases" (Interviewee #1, Vice chairman, Intesa Sanpaolo bank).

This note is also confirmed by the following interviewees:

This is because Egypt signed 'Declaration on International Investment and Multinational Enterprises' in 2007, which was considered a commitment to provide an open and transparent environment for international investment and to encourage the positive contribution of multinational enterprises to economic and social progress.

4.5.2 Adequate implementation of M&A procedures

In this context, one of the senior interviewees of the studied banks explained that his bank experienced lots of bureaucracy in executing the acquisition procedures, he noted: *"I agreed with that there was a transparency in the M&As procedures, however, I remembered that there was bureaucracy in implementing the acquisition procedures, which was very difficult at that time'(interviewee #1, Vice Chairman, Intesa Sanpaolo bank).*

So, it can be concluded that while there were laws of the exile of ignorance examination of the sold banks, which reflected explicitly the existence of transparency in the M&A strategies, the foreign banks did not practice perfect transparency in their M&A strategies, since the country's bureaucracy was existing, which reflected implicitly the existing of low transparency in the M&A procedures within the country.

Within this context, the Executive Opinion Survey (EOS) reported that 'inefficient bureaucracy' in Egypt is one of the most challenging factors for doing business in the country (ENCC, 2004-05).

Concerning the secondary data, the country's transparency features has been measured through the political factors, which involved the country's control of corruption and political stability and violence of the country (See Table 9).

[Table 9]

As seen in the Table 9 (table of control of corruption scores), Egypt had modest scores of control of corruption between 2004-2010. The international reports such as World Governance Indicators (WGI), Transparency International(TI)rating, and Global Competitiveness Report (GCR)of the countries consider Egypt to be one of the low transparency countries(Kaufmann et al., 2010, Kaufmann et al., 2005, Treisman, 2000),as since the early 1980s, Egypt has been perceived to be a low transparency country (Treisman, 2000). Although of that Egypt's ranking of control of corruption was much better than other countries in the region and in the world (See Table 9). It is noteworthy that the country's political stability affected the country's transparency level (Rosendorff, 2004, Menes, 1999, Rose, 1993, Crook and

Manor., 1998) .As seen in the Table 10 that the country's political instability and violence caused the country's low transparency.

[Table 10]

5 DISCUSSION

The Egyptian banking sector witnessed a significant surge in FDI between 2005 and 2010, marked by international banks acquiring substantial stakes in both public and private banks. This inflow of foreign capital coincided with a series of economic reforms in the country, hinting at a correlation between institutional reforms and the influx of FDI. While previous research on entry strategies in host countries has relied on theories from economics, anthropology, and internationalization, it has underestimated the effect of the possible entry barriers of the host country.

To address this gap, scholars have turned to theories from sociology and organizational resources, combining different perspectives to enhance our understanding of entry strategies. Dunning's eclectic OLI-paradigm garnered considerable attention for its integration of country-specific and firm-specific factors in determining entry mode strategies. However, criticisms emerged, particularly regarding its limited consideration of the host country's institutional context. Consequently, the paradigm evolved to incorporate the role of the host country's institutional features.

While numerous studies have explored the influence of host country institutions on shaping FDI entry strategies, little attention has been given to the applicability of the OLI-paradigm in elucidating why FDIs are drawn to the banking sector in developing economies. This study builds on the advancements in Dunning's framework by incorporating the institutional features of the host country alongside the OLI-paradigm. It seeks to understand why Egypt emerged as an attractive destination for foreign banks and how institutional features within Egypt facilitated a wave of acquisitions in the banking sector between 2005 and 2010. To this end, we developed and validated four propositions.

5.1 Theoretical implications

The findings of this study have several important theoretical implications for the development of existing theories in the field of foreign direct investment (FDI) and international business. First, the study's results provide empirical support for Dunning's (2006a) recent theoretical and conceptual views on the expansion of the OLI (Ownership, Location, and Internalization) paradigm to incorporate institutional factors. By considering the institutional factors of both the host country and the home country, the study validates the notion that institutional factors play a significant role in motivating the adoption of FDI strategies. This finding reinforces the importance of considering institutional factors in explaining the decision-making processes of multinational enterprises (Ameyaw and Panibratov, 2025). Supporting this theoretical implication, previous studies have highlighted the role of institutions in shaping FDI strategies. For instance, Cuervo-Cazurra and Genc (2008) emphasize the impact of host country institutions on foreign direct investment flows. This study adds to the growing body of literature that recognizes the importance of institutional factors in the context of FDI decision-making.

Second, the study reveals the influence of both host country and home country regulations on motivating foreign banks to engage in cross-border strategies. While the host country's regulations, such as the privatisation of state-owned banks and the promotion of free and fair competition, play a significant role in attracting foreign acquisitions, the home country's regulations, particularly anti-trust regulations, also impact the decision to expand abroad. This finding underscores the need to consider the regulatory environments of both the host and home countries when examining FDI strategies. To support this theoretical implication, studies such as Buckley et al. (2018) discuss the influence of home country factors, including regulations and policies, on the internationalization strategies of multinational enterprises. This study contributes to the understanding of the dual role of regulations in shaping FDI strategies.

Third, the study addresses a research gap in the banking sector by employing primary data through interviews in addition to secondary data sources. Previous studies in the field of M&As have primarily relied on secondary data, and the application of mixed research methods provides a more comprehensive examination of the formation of M&A strategies. This methodological approach offers a deeper understanding of the complex decision-making processes involved in FDI strategies within the banking sector. While the M&As concept has been examined widely and in different industries (Cartwright and Schoenberg, 2006, Kumar and Sengupta, 2021, Battisti et al., 2021), this study contributes to the limited literature specifically focused on the banking sector. By employing primary data, the study enhances the understanding of the unique dynamics and factors influencing foreign acquisitions in the banking industry.

Finally, the study's application to the context of Egypt highlights the importance of examining different locations worldwide as potential fields of study for the application of FDI theories. By exploring the role of institutional features in a developing country, this study encourages researchers to investigate similarities and differences between developed and developing economies regarding the impact of institutional factors on the adoption of FDI strategies. This broader geographical scope enhances the generalizability and applicability of existing theories in international business. This theoretical implication aligns with the call for more research on FDI in developing economies. The study's focus on Egypt contributes to expanding the knowledge base and encourages future research to explore FDI strategies in diverse settings.

5.2 Managerial implications

Based on the key findings and analysis, several managerial implications can be drawn to guide policymakers and managers in the banking sector. We structure these implications across our five propositions. *First*, tailored regulatory reforms are essential to address unique challenges within the banking industry. Streamlining banking activities and enhancing supervision mechanisms are critical for improving the efficiency and feasibility of foreign acquisitions. As such, a robust regulatory framework would be necessary to create a conducive environment for foreign investments, making the host country more attractive to international banks. *Second*, a rigor legal framework and effective enforcement are crucial for instilling investor confidence and protecting their rights. Improving judicial systems, promoting transparency in legal processes, and combating corruption are integral to this effort. Effective legal enforcement helps maintain investor trust and ensures a stable investment environment. *Third*, cultural integration plays a pivotal role in creating an attractive environment for FDIs. Initiatives such as business forums, international collaborations, and cultural awareness programs can bridge cultural gaps and foster mutual understanding. An open national culture towards foreign cultures further supports the operations of international banks. *Fourth*, strengthening transparency and governance mechanisms is essential for building investor confidence. Implementing robust governance frameworks and promoting coordination among regulatory bodies can minimize uncertainty for foreign investors. Transparent processes in regulatory and legal frameworks are crucial for maintaining investor trust. *Finally*, encouraging cross-country collaboration through aligned regulatory frameworks, knowledge sharing, and bilateral agreements is crucial (Bugarčić and Skvarciany, 2024). Such collaboration creates a mutually beneficial environment for both the host and home countries of foreign banks. Continuous monitoring and evaluation mechanisms should be established to assess the effectiveness of institutional features in attracting foreign acquisitions.

In conclusion, when considering the implications of this study, it is important to acknowledge its limitations. Most notably, the analysis focuses on the period 2005–2010, a window that captures a unique phase of institutional transformation and an unprecedented wave of foreign M&A activity in Egypt's banking sector. However, political, economic, and regulatory developments (particularly following 2011) may have reshaped the dynamics of foreign bank entry. Future research should therefore extend this analysis to more recent periods and examine how institutional effects evolve across different reform waves and emerging market contexts.

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Table 1: Total population and sampled cases of foreign acquisitions of the Egyptian banks, 2005-2010.

International bank (Acquiring bank)	Home Country	The local bank (Acquired bank)	Pre-strategy of the local bank	Acquisition date
1. Piraeus bank	Greece	Egyptian Commercial bank	Joint bank	2006
2. Credit Agricole Group(Calyon)	France	American-Egyptian bank	State Joint bank	2006
3. Blom bank.	Lebanon	Misr Romania bank	State Joint bank	2005
4. National Société Générale Bank(NSGB)	France	Misr International bank	State Joint bank	2005
5. Arab International bank	Group of countries	Seuz Canal bank	State Joint bank	2007
6. Ripplewood-led Consortium	USA	Commercial International Bank	Joint bank	2009
7. Audi Bank	Lebanon	Cairo Far East Bank	Joint bank	2006
8. Union National Bank of Emirates	Eimrates	Alexandria Commercial and Maritime Bank	State Joint bank	2006
9. Abou-Dhabi Islamic Bank	Eimrates	National Bank for Development	State Joint bank	2008
10. National Bank of Kuwait	Kuwait	Al-Watany Bank of Egypt	Private bank	2005
11. Intesa Sanpaolo Bank	Italy	Alexandria bank	State bank	2006
12. Ahli-United Bank	Eimrates	International Delta Misr	Joint bank	2006
13. BNP Paribas Bank.	France	Commercial National Bank.	Private	2005

Table 2: The demographic features of the qualitative interviews

Element		**No.**
1. Distribution of interviews within each bank:	- Intesa Sanpaolo Bank - National Société Générale Bank	2 2
	- Abou-Dhabi Islamic Bank	2
	- Blom Bank	2
	- Union National Bank	1
	- Kuwait National Bank	1
2. Interviewee Designations:	- Member of Board Directors - Sector Manager	2 1
	- General managers	3
	- Executive managers	4
3. Interviewee Gender:	- Male	10
	- Female	-
4. Interviewee Age:	- 46-49	5
	- 50-54	2
	- 55-59	3
5. Interviewee experience:	- From 10-19 years - More than 20 years	4 6
6. Interviewee education Level:	- BSc. Degree - Master's Degree	9 1
Total qualitative interviews		**10**

Table 3: The items of the host country's institutional factors.

The institutional factors	The items	Origin source
1.1 The regulatory quality institutions.	1.1.1 Deregulated the restrictions on foreign ownerships.	WB (2009).
	1.1.2 Lowering restrictions on the business activities.	
	1.1.3 Government-owned local banks' assets did not hinder the bank's strategy.	
	1.1.4 Strength of authority supervision of the local banks.	
	1.1.5 Orientation towards fair competition.	
1.2 The country's legalised institutions.	1.2.1 The property rights laws over the investors' financial assets.	WB (2009).
	1.2.2 The government arrangements for protection of investor property rights.	
	1.2.3 The government arrangements for enforcement laws.	
	1.2.4 The government's arrangements against expropriation.	
1.3 The country's social institutions	1.3.1 The local culture's treatment of the foreigners.	WCR(1995)
	1.3.1 The local culture's treatment of the foreigners.	
	1.3.1 The local culture's treatment of the foreigners.	
1.4 The country's infrastructure institutions.	1.4.1 Country public infrastructures.	WB (2009).
	1.4.2 Country's human resources.	
	1.4.3 Country's technological infrastructure.	
1.5 The country's transparency institutions.	1.5.1 Transparency of the country's policies and procedures.	WB(2009)

Table 4: Egypt's regional and global rankings in physical and intellectual property rights, between 2007- 2010

Year	Regional ranking (21)	Global ranking (130)
2007	4*	65*
	3**	51**
2008	4*	66*
	4**	54**
2009	9*	83*
	8**	71**
2010	11*	73*
	10**	67**

Source: https://international property rights index

** Overall physical property ranking*

*** Overall intellectual property ranking*

Table 5: Egypt's demographics features.

Indicator	***1990***	***2000***	***2008***	***2009***	***2010***
Total population	57,412,215	69,905,988	80,953,881	82,465,022	84,107,606
Population ages 0-14(% of total)	41.0	36.6	32.3	32.1	32.1
Population ages 15-64(% of total)	54.0	58.5	62.9	63.1	63.1
Population ages 65 and above(% of total)	4.5	4.9	4.8	4.8	4.8
Total labour force	15,785,901	20,449,271	26,560,780	27,333,918	28,162,941
Labour force participation rate, male(% of male population ages 15+)	72.5	72.6	74.1	74.8	75.8
Labour force participation rate, male(% of female population ages 15+)	21.3	19.9	22.8	22.9	22.8
Unemployment, male(% of male labour force)	-	5.4	5.1	4.7	7.7
Unemployment, female(% of female labour force)	-	21.9	19.7	23.6	25.7

Source: World Bank Reports

Table 6: Training programs of the Egyptian Bankers,2005-2007

During FY	**2005/2006**		**2006/2007**	
	Number		**Number**	
	Programs	**Participants**	**Programs**	**Participants**
First: Short-Term Training	980	20900	1066	22065
1-Training Programs	747	15114	734	14624
-Banking and Management Programs	444	8835	399	8257
-Finance & Credit	102	1918	85	1691
-Banking Operations	177	3788	136	2772
-Treasury & Investment	23	834	25	457
-Accounting & Auditing	25	440	18	354
-Legal Features	44	903	38	1000
-Economic Programs	6	92	3	39
-Management and HR	48	895	76	1541
-Marketing & Customer Service	19	361	18	403
-Complementary Programs	303	6279	335	6367
Computer	216	3649	226	3770
English Language	87	2630	109	2597
2-Special and Contractual Programs	233	5786	332	7441
Second: Specialised Certificates	106	711	137	733
Third:Senior Management Programs	25	22	20	22
Fourth: Seminars and Conferences	36	2086	9	198
Total	**1147**	**23719**	**1232**	**23018**

Source: Egyptian Banking Institute.

Table 7: Egypt's rankings on the components of technological readiness,2003/04 and 2004/05 (high ranking started from =1).

Technology components(Global Competitiveness Index)	Year	
1. *Technology index*	2004-05	2003-04
1.1 *Innovation subindex*	38	39
1.1.1 Firm-level technology absorption	37	71
1.2 ICT subindex		
1.1.2 Government proritization of ICT	13	42
1.2.2 Government success in ICT promotion	16	35
1.3 Technology transfer subindex	32	44
1.1.3 FDI and technology transfer	44	57
1.2.3 Prevalence of foreign technology licensing	58	64

Source: (ENCC, 2004-05) (ENCC, 2004-05) The Egyptian National Competitiveness Council (ENCC,2004-05)

Table 8: Data of Information Technology in Egypt in 1999,2005,2011.

Description	***1999***	***2005***	***2011***
- Total capacity of internet(in million pulse/sec)	400	502	122,296
- Number of internet providers(firms)	41	305	218
- Number of Information Technology Clubs	450	962	2162
- Number of internet users(million)	0.3	5	23,98

Source : Ministry of Information and Communication Technology (MICT, 2011).

Table 9: Control of corruption in a number of countries including Egypt, 2007-10

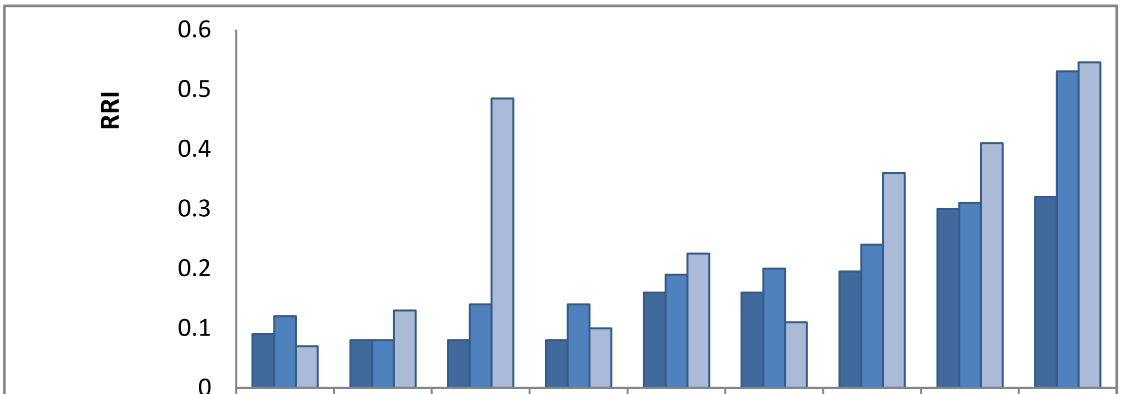
Country	Year	Score (high=10)	Middle-East rank(21)	Global rank(130)
Egypt (Middle-East and North Africa)	**2007**	**3.2**	**3**	**45**
	2008	**3.4**	**3**	**46**
	2009	**3.87**	**10**	**81**
	2010	**3.666**	**12**	**95**
Tunisia (Middle-East and North Africa)	2007	4.90	2	27
	2008	4.90	2	28
	2009	5.089	7	51
	2010	4.920	9	57
Algeria (Middel-East and North Africa)	2007	-	-	-
	2008	-	-	-
	2009	4.004	9	75
	2010	4.123	11	79
Morocco (Middle-East and North Africa)	2007	3.200	4	46
	2008	3.200	4	48
	2009	4.458	8	61
	2010	4.473	10	72
Jordan (Middle-East and North Africa)	2007	-	-	-
	2008	-	-	-
	2009	5.5.62	6	42
	2010	5.813	7	44
Kuwait (Middle-East and North Africa)	2007	-	-	-
	2008	-	-	-
	2009	5.897	5	35
	2010	5.995	5	39
Saudi Arabia (Middle-East and North Africa)	2007	-	-	-
	2008	-	-	-
	2009	-	-	-
	2010	5.127	8	53
Nigeria (Africa)	2007	1.900	7	68
	2008	1.900	7	69
	2009	2.939	16	106
	2010	3.162	17	108
South Africa (Africa)	2007	4.500	1	29
	2008	4.500	1	30
	2009	5.562	3	43
	2010	5.605	3	47

Source: International property rights index, 2007-2010: https://internationalpropertyrightsindex.org

Table 10: Egypt's Worldwide Governance Indicators of the country control of corruption scores, 2004-2010 (Lowest=1,Highest=100).

Indicator	2004	2005	2006	2007	2008	2009	2010
Control of corruption	35.12	38.05	28.78	28.64	27.18	41.15	34.29
Political stability and Violence	20	23	20	25	28	25	-

Source : (Kaufmann et al., 2010)



	Manufacturing	Tourism	Construction	Distribution	Business	Finance	Telecoms	Transport	Electricity
OECD average	0.09	0.08	0.08	0.08	0.16	0.16	0.195	0.3	0.32
Non-OECD average	0.12	0.08	0.14	0.14	0.19	0.2	0.24	0.31	0.53
Egypt	0.07	0.13	0.485	0.1	0.225	0.11	0.36	0.41	0.545

Figure 1a: A comparison between Egypt, OECD and non-OECD countries averages in RRI by industry in nine sectors (1=closed, 0=open).

Source: (OCED, 2007).

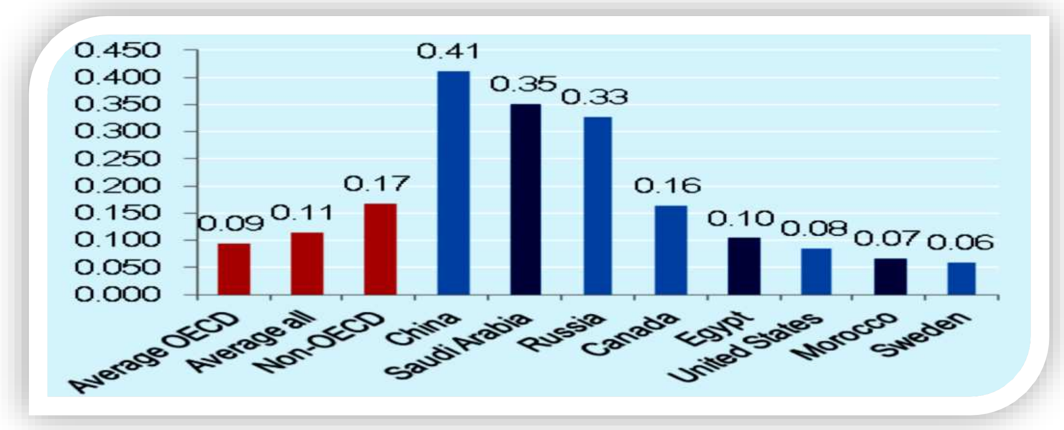


Figure 1b: Regulatory Restrictiveness Index, 2009-2010 (1=closed, 0=open)

Source: (WB, 2009).

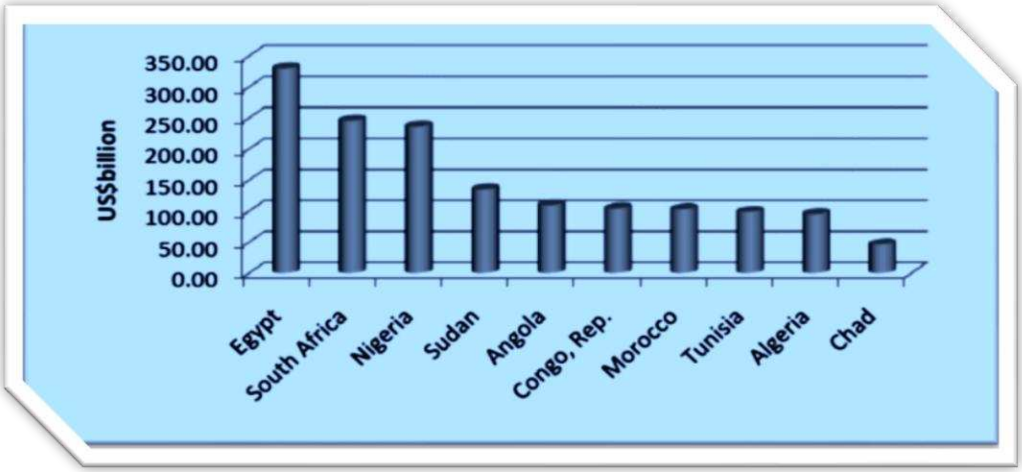


Figure 2a: Top Ten Recipients of FDI in total (in US$ billion),1998-2007
Source: Africa Competitiveness Report (ACR, 2008)

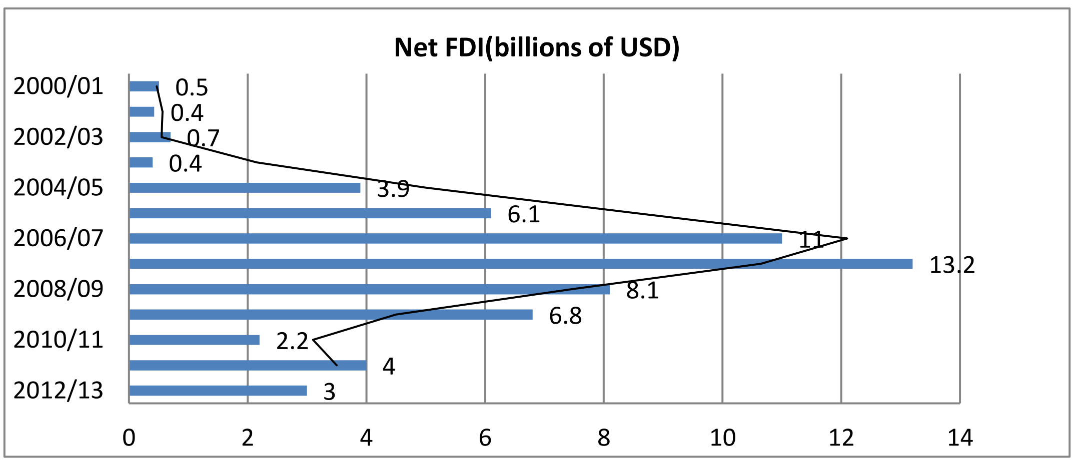


Figure 2b: Net FDIs of Egypt between 2000--2012 with its dramatic increase between 2004 and 2008
Source: (Mina, 2011)

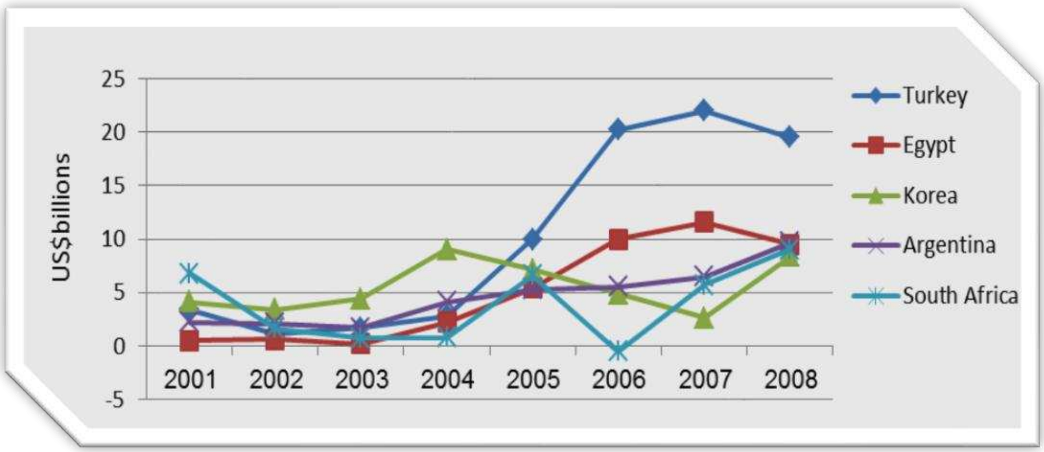


Figure 3a: Inward FDI inflows in comparable economies 2001-2008 (in US$ billion).
Source: (Kamaly, 2011)

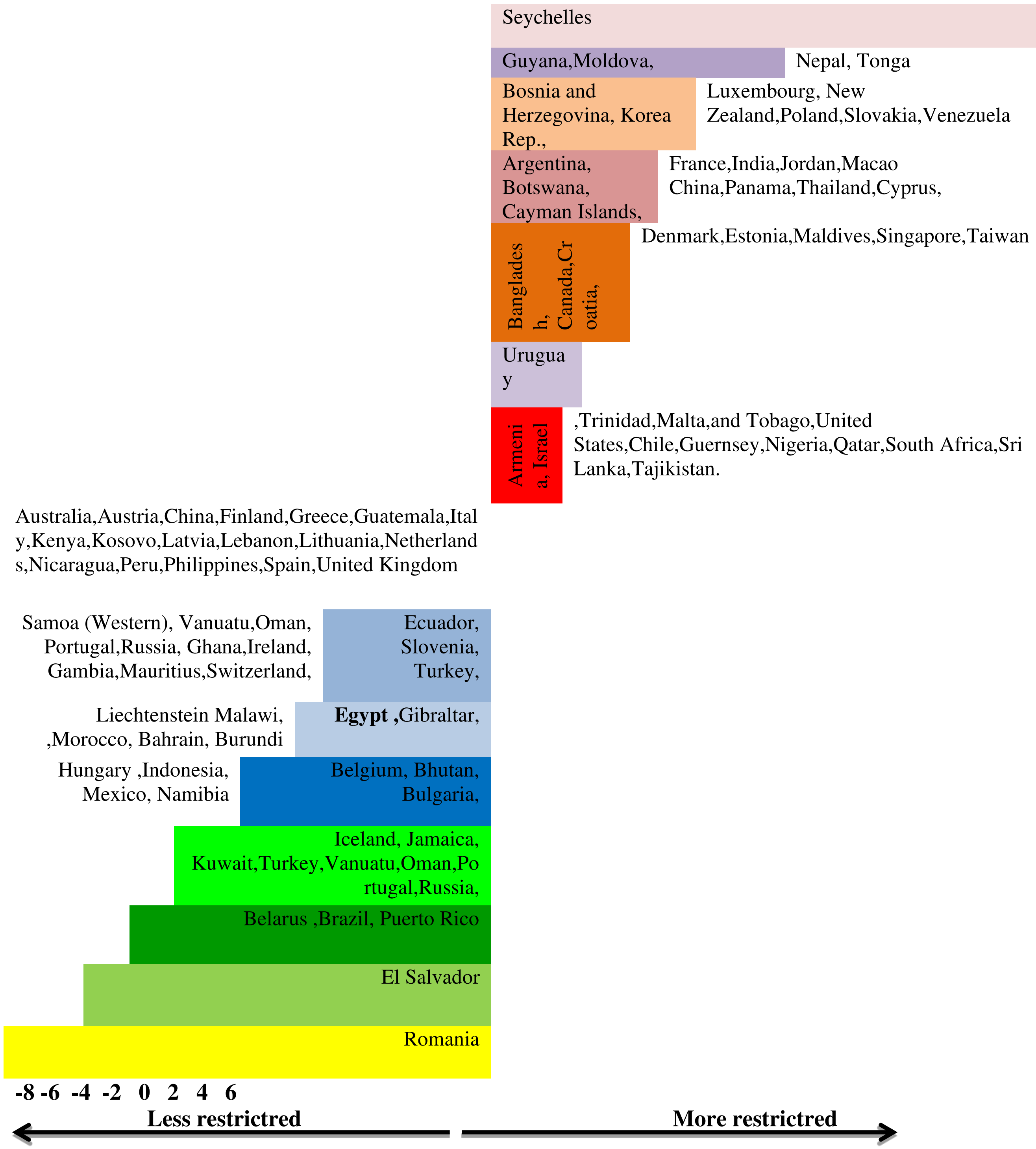


Figure 3b: Change in the index of overall restrictions on bank activities 1999-2011.
Source : (Barth et al., 2013).

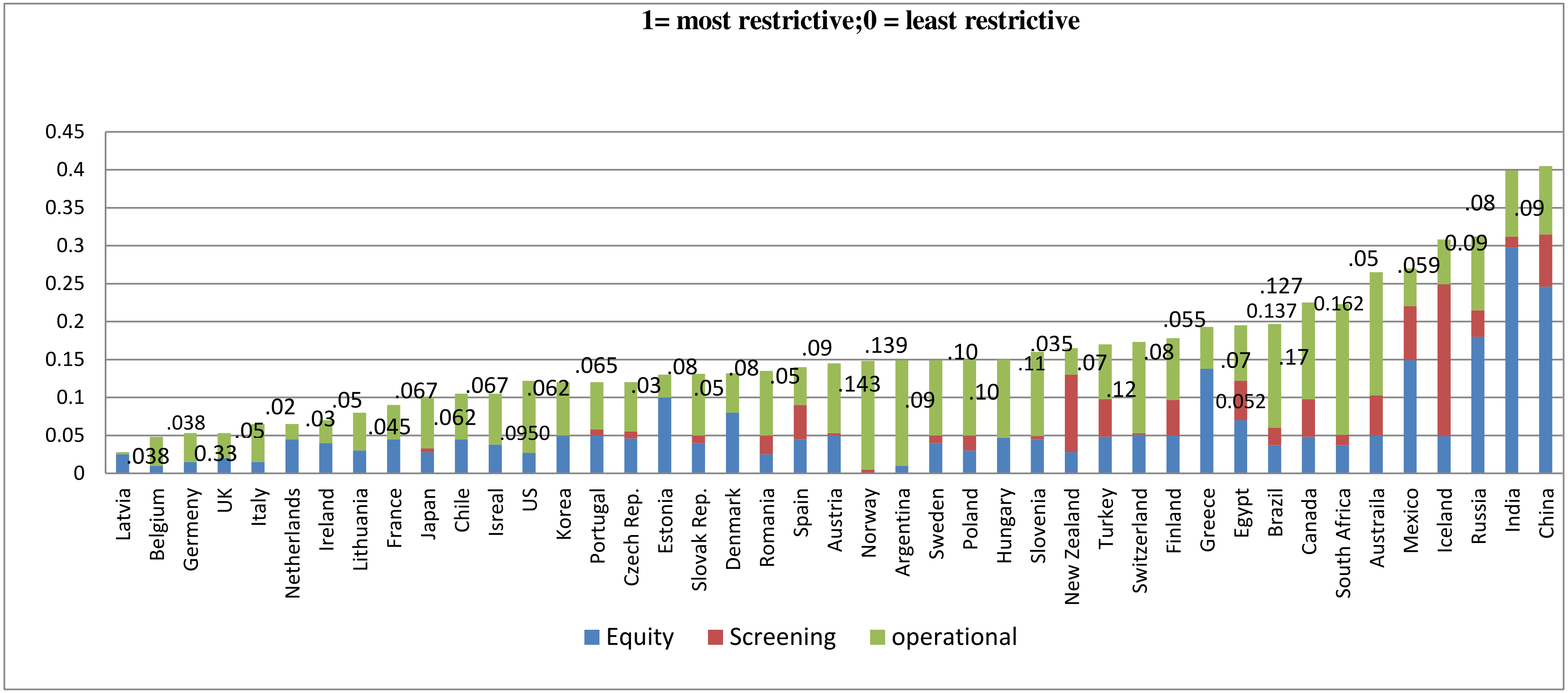


Figure 4: FDI's regulatory restrictiveness by type of restriction: Equity, Screening and operational in nine sectors including financial services sector 2007.

Source:(OCED, 2007).

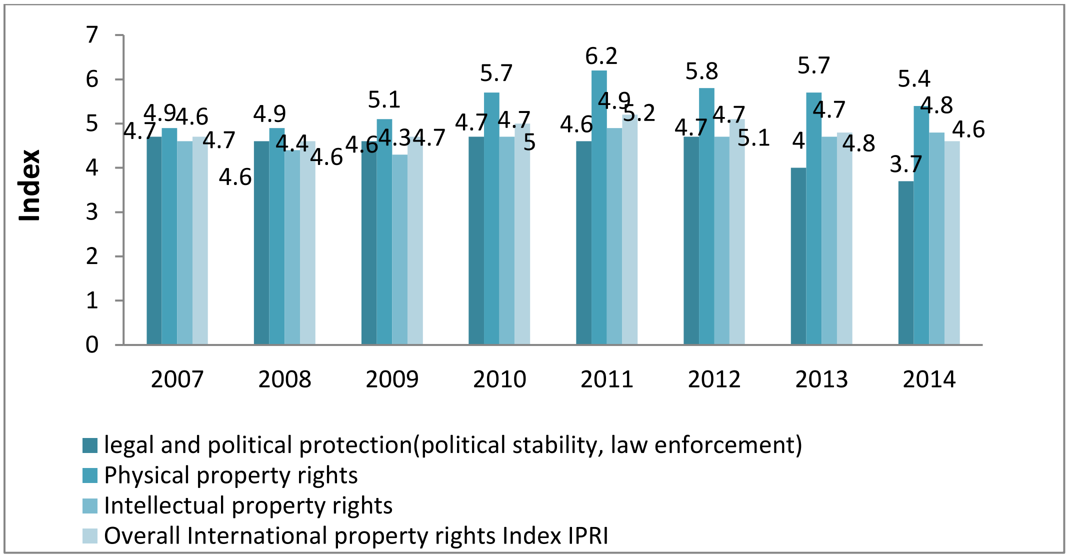


Figure 5: Egypt's overall property rights protection components, 2007-14

Source: International Property Rights Index: http://internationalpropertyrightsindex.org/