Cross-border mergers and acquisitions in the banking sector
- A Swedish perspective
Abstract

In this study we will revise cross-border mergers and acquisitions (M&As) in the banking sector. The purpose of this study is to find out the motives behind cross-border M&As for Swedish banks in order to get an understanding of why they find it necessary to merge and/or take over foreign banks. In order to fully comprehend our results and being able to analyze them we will also look into whether or not banks reach their objected motives after an M&A, which we assume is always an important factor. The research question is twofold; “What are the underlying microeconomic motives behind cross-border M&As among Swedish banks and have they fulfilled their ambitions?”

The research is done through combining several established theories; namely the internalization theory, the eclectic theory, international banking theory combined with a few other theories, such as the portfolio theory and agency theory, that will play a smaller part in this paper. The motives behind cross-border M&As found in previous research are also explained and a conceptual framework is introduced for our study.

We have chosen to make a qualitative study, where one employee at each of the four large banks in Sweden is interviewed. Telephone interviews were used for the study and the interviews were semi-structured, as to get the respondents to speak freely and express the thoughts about the subject.

The results show that when expanding abroad the Swedish banks have moved slowly further and further away from the domestic market. The important motives mentioned were cost efficiency, revenue efficiency, diversification, to follow the customers and the necessity of expanding abroad in order to grow because of the saturated Swedish market. Cultural differences were seen as the biggest problem and may lead to misunderstandings and inefficiencies. Cross-border M&As tend not to show positive results until after a couple of years and are hence considered as long term investments.

We conclude that cost efficiency is not seen as a motive, but rather as a natural part of the acquiring or merging process. Revenue efficiency, diversification, and follow the customers are seen as important motives. However, because the Swedish market is saturated all of the banks emphasized the importance of expanding abroad in order to grow. Hence this could be considered to be the most important motive for the Swedish banks. To answer the second part of the research question, the Swedish banks said that they have reached their goals, which then would imply that in the long run the Swedish banks have fulfilled their ambitions from cross-border M&As.
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1. Introduction

1.1 Background
During the 1990’s the European market experienced an explicit increase in cross-border mergers and acquisitions (M&As). The increase of M&As in Europe during the nineties has several explanations. According to Focarelli it was due to the intensified competition on the international banking market which has led to a diversification of services among banks. Also other macro economic conditions can help explain the sudden and rapid increase in cross-border M&As that has occurred within Europe. Two examples are the globalization and the entry of the European Union, which has led to an increase in competition on the international market, as Focarelli also suggests, as well as a deregulation of the financial market. Further, during the last years there have been technological advances; it is likely that these have had an impact on the behavior of banks too.

The new bank merging and bank acquisition activities have brought a lot of attention to the banking sector. The interest comes from researchers trying to explain the reasons behind cross-border M&As and whether they are profitable. It also comes from the policymakers with regard to market regulations and restricting banks from getting too big a market power. This makes it an interesting subject to research further.

Depending on market position and the economic condition of the particular bank, there will be different micro economic reasons as to why each individual bank merge or take over another bank. We will not look into all possible motives, but are only focusing on the motives most frequently addressed in previous research. These include; 1) diversification, to meet more consumer demands as well as spreading risk on several markets. 2) Profit efficiency; increase shareholder value through economies of scale and scope, and cost efficiency; more efficient management which reduces costs. 3) The banks follow the customer’s abroad. 4) Survival, low creditworthy banks are cleared by the market through take-overs. 5) Banks’ desire to attain a size large enough to fit the category “too-big-to-fail”. 6) Managerial quality, improvement of managerial quality in

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the organization or alter of focus. 7) Managerial motives, the managers could engage in M&As for their own benefit instead of the shareholders.

All the motives that are relevant for banks in general will not be relevant for this study as we intend to look upon the Swedish market, and the four biggest banks in Sweden. We will go through all the seven motives and given the empirical and theoretical support for each motive we will focus on those seemingly most important for our field of study.

Cross-border M&As are not easy to accomplish successfully. There are several previous researches claiming the efficiency and profitability will be reduced rather than increased as a result of a merge or an acquisition.7 There are several factors included in these conclusions, for instance cultural differences and costs from necessary adjustments. Despite this, several banks choose to take over banks in foreign markets, or merge with banks with different corporate cultures. One example of a large international M&A is the acquisition of ABN Amro where three banks from three different countries namely: Fortis (Belgium), Royal Bank of Scotland (Scotland), and Santander (Spain). The acquisition was confirmed on the 8th of October 2007 and was by far the biggest banking transaction to this day.8 This could lead to potential cultural problems, though ABN Amro has been divided among the acquiring banks and thus these problems could perhaps be controlled by each of the banks. This example shows that this topic is up-to-date and brings forward the relevance of M&As in the banking sector. Also Swedish banks have started to acquire other European banks and it is likely to continue in the future.

In the case of Swedish banks there is research suggesting they are fairly strong and competitive.9 As they have, relative to other banks, resisted the financial crises fairly well, and hence are financially stronger than other banks they have the ability to acquire. Now, then, would be the time for them to acquire other banks in order to retain higher profitability, given M&As are successful. Therefore, it is of importance to investigate the genuine reasons for Swedish banks to take part in M&As, and to analyse previous M&As to see whether they have been efficient and successful, and lead to the expected results.

1.2 Purpose
The purpose of this study is to find out the motives behind cross-border M&As for Swedish banks in order to get an understanding of why they find it necessary to merge and/or take over foreign banks. In order to fully comprehend our results and being able to analyze them we will also look into whether or not banks reach their objected motives after an M&A. The bank has an ambition to increase profitability and depending on the

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9 Berger et al. (2000), p.48
motives, it could be accomplished in different ways. This brings us to our research question:

1.3 Research question
- What are the underlying microeconomic motives behind cross-border M&As among Swedish banks and have they fulfilled their ambitions?

We have chosen to do this study in a rather general perspective, going a little bit more in to depth of some of the motives. However, in order to fully capture the way in which the biggest banks in Sweden think when initiating in cross-border M&As we wanted to describe and discuss several possible motives. Also, we did not want to focus on only a limited number of motives and risk loosing important information on other motives. For this reason we start with several motives and throughout the study we will narrow it down more and only include a few. This is also why we will not include any numbers in order to measure the profitability, but rather we want to find out the tendency.

1.4 Narrowing down
Since we are focusing on microeconomic motives we will not include motives such as rules and regulations, political issues etcetera.

Most research done is made on the U.S. market, which is partly why we intend to look for a market not yet excessively researched, and which is also close at hand. In this research we want to put the focus on Sweden. The research will be narrowed down to cover the four biggest Swedish banks, and their activities concerning mergers and acquisitions across the border. Though the U.S market differ from the European market in respect to regulation and structure we will include theories also on the U.S market as theories concerning the M&A activity in general will apply also to our study. Since there are not many studies made on the Swedish market, most of the studies are based on the European market. This is also why we illustrate the important parts of several theories.
2. Conceptual framework

Recently there has been a trend towards deregulation both in the US and in Europe. This has led to an increase in cross-border M&As throughout both of these areas, starting in the US during the 1980’s and then continued in Europe during the 1990’s. In this section we will go through theories concerning this topic, as to why banks merge and acquire. As there is not one justifying theory for our study, we will bring about several different in order to get as an objective picture of the issue as possible. Two of the most important researchers in this field are Berger and Focarelli. Their research will be a base for our study because they have found many important motives for cross-border M&As. As one of the motives is efficiency it is important to consider that many of the studies concerning efficiency gained from cross-border M&As use data from the 1980s. However Berger and Focarelli also use new data and therefore their research is very relevant for our study. Other implications are those of the limitations of this study, which means not all parts of the theories will be applicable, hence only the parts relevant for our research will be used. Furthermore, we will discuss the motives that are the most frequently addressed and connect these to the theories. This leads us to the conceptual framework that will lie as the basis of our study.

2.1 Underlying motives for indulging in M&As

Two of the different theories that have been developed to explain the patterns in multinational investment are; the internalization theory and the eclectic theory. Both are theories that attempt to provide a theoretical framework to explore the observed behaviour of multinational banks and multinational enterprises. A third theory that is highly relevant to this study is the international banking theory, that explains how banks are able to establish abroad, and what may be the motives behind M&As. The theories will be explained and assessed on the relevance for our study.

2.2 The internalization theory

This theory was first put forward in the 1970s by a group of researchers from Sweden, Canada, Britain and the US. The internalization theory tries to explain the emergence and growth of multinational enterprises, in terms of the way cross-border transactions in intermediate products (goods and services used as inputs in a production process) are organized. The theory draws upon the Coasian theory of the firm and the location theory. The Coasian theory discusses how policies may affect the efficiency of externalities. It assumes there are always two parties in an argument, and if these two parties can reach a private agreement that internalizes the externality then this agreement
will ease the damage and hence increase efficiency.\textsuperscript{15} The multinational firm is considered as an extension of the Coasian firm, which means that market failure occurs not only in the domestic market, but also across borders. The Coasian approach describes the why and how of the production decision and the location theory explains the where.\textsuperscript{16} The location theory explains where a multinational company should situate themselves in order to gain positive synergy effects from internalization. Internalization theory is concerned with finding the situations where markets for intermediate products can be internalized, i.e. to have control of all value adding activities also outside of the domestic market by having established facilities on those markets rather than use external firms for intermediating. Information is one of the crucial intermediate products that may become more easily available due to the internalization. This is hence highly relevant also for banks as it is important for the customers to trust the bank in order to be loyal and information is an important factor in creating trust. Furthermore, by acquiring foreign banks Swedish banks will be able to provide the same services also internationally through internalization.

The relationship between internationalization and internalization is that the former happens whenever internalization occurs across a national boundary. Internalization is most likely to occur across a national boundary because of the importance of knowledge for a firm according to this theory. It can best be exploited by expanding abroad, and getting to know the market from an insight perspective of the new established facility. Information has a crucial role in banking, with the bank-client relationships consisting mostly of flows of information. Combining the role of banks in the maturity transformation process with the importance of information as an intermediate input, banks need to maintain representation in foreign countries.\textsuperscript{17}

When looking at the internalization theory and its applications for international banking, one aspect is that bank-client relationships are very important for the bank and that knowledge on how to retain a costumer is very costly to acquire through training. This knowledge can be applied abroad at rather low marginal costs if simply acquiring an existing bank rather than establishing a new one altogether.\textsuperscript{18} As the long-term relationship with the customers is very important for banks, the banks may be more willing to adjust their location to where the clients will be located. The motive of banks following their customers is further discussed in other theories such as that of international banking, as well as in the study of Focarelli. Within the internalization theory, factors such as regulatory arbitrage, market failure and location can be seen as motivating factors for expansion abroad by banks. Furthermore, developed technology and management expertise are also factors that will help a bank to expand abroad.\textsuperscript{19} Internalization can be increased by scale economies, market power, and regulatory protection. Banks also gain from international investments by internalizing portfolio

\textsuperscript{16} Williams (1997), pp.73-74
\textsuperscript{17} Williams (1997), pp.81-82
\textsuperscript{18} ibid, pp.76-77
\textsuperscript{19} ibid, pp.77-78
diversification benefits. We will further discuss the implications of this when discussing diversity. Economies of scope is also regarded as part of internalization and exploited by a bank both domestically and internationally. How economies of scale and scope, market power and portfolio diversification affect efficiency and profitability will be further discussed later on in this paper.

2.3 Eclectic theory

The eclectic theory (ILO theory) by Dunning is closely related to foreign direct investments and builds on his model of multinational corporations. The theory is a combination of internalization theory, industrial organization theory, and location theory. The foreign direct investment decision is seen as a combination of three factors by the eclectic theory. These factors are internalization, location (market mix), and ownership. Each of the three aspects of the eclectic theory is viewed as having an important role in the investment decision for the multinational corporation, and each of these aspects are seen as being interconnected with each other.

Ownership advantages are usually regarded as intangible assets and are, according to Dunning, determined by three factors: access to markets or materials, access to endowments of the parent at low marginal costs, and those arising from multinationality. Examples of ownership advantages include product differentiation, innovation, economies of scope and experience. The eclectic theory speaks of a few of the motives found in research too with market diversification, economies of scale and scope etcetera that may lead to efficiency gains, and experience can be perceived as part of the improved managerial quality.

Internalization advantages of the multinational enterprise come from market failure and are of Coasian form. There are three reasons for internalization. The first one is risk and uncertainty, resulting in the multinational firm to internalise risk, and the risk management process. Internalizing the risk means not having to trust intermediates and external sources, but to have it all under own supervision and thus the risk will decrease. This is the part of the internalization theory. The second is the effect of economies of scale in an imperfect market, which results in efficiency gains. The third is because the market does not put a price on the positive externalities (relations, cost efficiency) from having internal transactions rather than external. According to Dunning, the distinction between ownership and internalization are important and logical. Dunning believes that it is market failure that leads to internalization, while ownership of a particular asset or assets explains why one firm is multinational and not the other. This is because

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20 Williams (1997), pp.77-79
23 Williams (1997), pp.78-79
25 Williams (1997), pp.79-80
26 ibid
27 Dunning (1988), pp.49-50
internalization leads to cost efficiency benefits and ownership to revenue efficiency gains.

Location advantages arrive from both the home country of the multinational enterprise, as well as the host country. According to Dunning, the location decision is the least important factor and rather an indirect effect of, as well as interdependent with, the ownership and internalization decisions.\textsuperscript{28} They are interdependent in the sense that ownership advantages such as product differentiation, economies of scope and innovation will be enhanced when the bank expands to other markets, and these advantages will also act as motivations for banks to establish on other locations, to expand abroad. This in turn will lead to an internalization of intermediates and externalities etcetera which leads to efficiency gains. Examples of location advantages could be input prices, barriers to trade, tax regimes, institutional arrangements, the prospects of the economy, and socio-political situations.\textsuperscript{29} It is the location advantages that explain why the multinational firm chooses to locate in a certain country.

Ownership advantages are crucial in the eclectic framework, since possession of these advantages allow a bank to overcome the advantages that the domestic banks have. This is also relevant for our study, as the ownership advantages are rather related to the motives investigated in this study. An important ownership advantage is product differentiation, which comes from two sources: the importance of certain key currencies in international trade and finance, and the importance of non-price competition in the market for banking services.\textsuperscript{30}

Further application of the eclectic framework to multinational banking has provided clearer examples of ownership and internalization advantages. According to Cho, the ownership advantages include access to skilled personnel and managerial resources, favourable financial sources, widespread and efficient banking networks, knowledge and experience in multinational operations, expertise in servicing a particular costumer type, established creditworthiness, differentiation of banking products, and prestige.\textsuperscript{31} Furthermore, information provides an opportunity for the bank to differentiate itself by means of positioning its products to a certain market or customer group with the use of superior knowledge. The research done supports this theory and they emphasize the importance of diversification, managerial quality and efficiency.

2.4 International banking theory
This theory deals with the questions; what enables certain banks to set up new facilities abroad? What are the advantages to other banks that will make it possible for these banks to compete on the host-country market? One answer may be that the banks establish amenities where the host-country cannot serve the market properly. However, lately the trend has been that the new establishments are set in industrial countries where the

\begin{footnotesize}
\textsuperscript{28} Dunning (1988), pp.49-50
\textsuperscript{29} Williams (1997), p.80
\textsuperscript{30} ibid, pp.81-82
\textsuperscript{31} Cho, K. R. (1986), "Determinants of international banks." Management International Review, 26, pp.10-23
\end{footnotesize}
market has been well served; hence, this is not likely to be the answer. Aliber and Focarelli, among others, argue that the banks follow their customers when going cross the border in order not to lose their customers to a bank on the host-country market. Further, Aliber argues that the waves of cross-border bank M&As follow the waves of that of industrial firms.32

One of the shortcomings of the international banking theory is that it builds heavily on the foreign investment theory, which has not been put to extensive empirical testing and hence cannot be completely trusted. We will still use it, together with other theories which support the main points and thus it will be of relevance for this study.33

2.5 The internalization theory versus the eclectic theory and international banking theory

One of the key distinctions between the theories is whether ownership is a needed condition for multi-nationality. The eclectic theory states that the multinational firm must have monopoly advantage to overcome the natural advantage of the home country firms. In the research done by Focarelli in his study he found similar results, though expressed it rather as competitive advantages as supposed to monopoly advantages. The condition of monopoly advantage is not needed to be satisfied when looking at the internalization theory nor international banking theory.34 Another distinction concerns the way the theories consider the costs of expanding abroad. The critic against the eclectic theory concerns the focus on a single cost-benefit relationship; the cost of overcoming the domestic firm’s advantage, are overcome by the firm’s ownership advantage. Internalization theory considers the cost of overcoming the domestic firm’s advantage to be part of the cost for global operations. The decision to go abroad is not made on the basis of the cost for competing with the domestic firm’s versus ownership benefits, but rather on the basis of total costs versus total benefits.35 In the international banking theory, it considers the benefits gained from new customers versus the costs of attaining them. It can be difficult to apply these to a specific situation, because of their general nature; however, this can also be an advantage and can be used as a general framework of the study. As the theories are conflicting in some aspects it is interesting to compare them and apply them to the Swedish banks.

2.6 Theories as applied in our study

The eclectic theory speaks of efficiency gains retained from internalization, market differentiation (location) and ownership advantages. The internalization leads to cost efficiency gains due to decreased costs per output (economies of scale). Location, or market differentiation, means a spreading of risk, as well as an improved knowledge about that particular market as well as its customers retained at a lower cost than would it have been attained externally (positive externalities which are not priced). Ownership advantages include that of economies of scope, and experience which may be an

33 ibid
34 Williams (1997), pp.82-83
35 ibid
improvement of managerial quality and may result in revenue efficiencies. The internalization theory builds upon the Coasian theory, meaning internalization leads to cost efficiency due to internal intermediary. This theory, similar to the eclectic theory, also emphasizes the importance of information and the knowledge about the market and how to attract new customers.

Whether a bank will be beneficial in a foreign market, according to the internalization theory, depends on whether the benefits of the M&A exceed those of the costs. The international banking theory explains the cross-border M&As as a result of more international customers and transactions, and the need for the banks to follow these customers in order not to loose them to foreign banks. Also, all theories brings forth the influence of technological advances, suggesting banks merge and acquire more when being capable due to technology.

Hence, theory suggests that cross-border M&As are beneficial when the market diversification leads to ownership advantages and thus revenue efficiencies, as well as internalization, which results in cost efficiencies. The revenue efficiencies include; economies of scale and scope, of cheaper information gathering, improvement in managerial quality etcetera. The cost efficiencies on the other hand include; less transaction costs, reduced costs per units due to the elimination of intermediaries, and could also come from improved managerial quality etc. As long as the revenues from increased efficiency gains exceeds the additional costs from adjustments and set up etcetera the merge or acquisition can be considered to be profitable.

The motives of the banks will thus, in this paper, be addressed in relation to a combination of the internalization theory, the eclectic theory, and the international banking theory. Furthermore, the underlying motives of M&As will differ from each and every bank depending on current situation and the character of the bank. In order to answer our research question we, therefore, need to investigate the motives separately. Consequently, in this section we will go through each motive, explaining possible benefits as well as drawbacks, and how it may affect the individual bank. When discussing the motives we will also refer to the theories, and certain motives will also be applicable to more specific theories such as that of the portfolio theory and agency theory. We will start with explaining the concept of diversification, as it is closely related to most of the other motives.

2.7 Diversification

There are several ways in which to diversify, namely; concentric strategy, horizontal strategy or conglomerate strategy. Beginning with concentric strategy, it means when the firm expands the product mix with new products that are still fairly related to old products, and are appealing to a new segment of customers (e.g. a segment of another country). Horizontal strategy is when the firm is targeting the same segment, but with new types of products. Finally conglomerate strategy is when the firm seeks new customers providing completely new services or products. For our study the first two ways of diversifying are the most applicable, and will be used.

Focarelli discusses the motive of diversification, and argued it was used in order to meet customer demands on a growing international market with increasing competition. Customers continuously demand alternative ways of carrying out their financial transactions and investments. From the beginning, according to the studies of Focarelli as well as the internalization theory, banks expanded internationally in order to provide services for the domestic customers doing international transactions. This developed into also providing services for the foreign market. The demand give banks profit opportunities by diversifying and by providing new services, and technological advances makes it possible for banks to more easily seize these opportunities. The possible opportunities of efficiency gains from technological advances are something the international banking theory, internalization theory as well as the eclectic theory brings forth as well. As both the research and the theory suggest following the customers as a likely motive for cross-border bank M&As, it is also an important factor for us to investigate.

Focarelli also mentions that it is usually the banks with a fairly big market share in the domestic market that will find the incentives of diversification in order to reach new opportunities to earn profits. Also, the larger more diversified banks having a larger share of non-interest income seem to be more likely of having foreign shareholdings. This may be due to them being more innovative and aggressive in their business behaviour, as they are continuously diversifying. Further, he says that larger banks, operating in several countries, tend to have customers who are themselves internationally active. This is rather natural as banks operating in several countries will attract more international customers, and also they have the resources to expand further and reach new customers in new markets. It is interesting for us, and this study, that it is the bigger banks that diversify more, since we are investigating the four biggest banks in Sweden. The bank may not always know just how to develop in the future, what services will be demanded. A merger allows the bank to enter new markets and activities with the potential to gain high profits, without having to develop new services themselves.

When a bank expands to another market and hence to another customer segment they will have to adjust their product mix for this market. This concentric diversification may lead to higher profits as the banks are able to take higher risks when investing due to the reduction of systematic risk, the market risk. If one market fails, or if there is new political activity etcetera this may not be as severe for the bank if the risk is spread to several different markets. This is connected to the essence of the portfolio theory; if one market fails the losses will be offset by gains from other markets. The portfolio theory

37 Focarelli et al. (2001), pp.2305-2338
38 Watson Thomas (2003), "What merger still mean to you", Canadian Business, March vol. 76, Issue 4, p.2
39 Cantwell et al. (2002), p.411
40 Focarelli et al. (2001), pp.2307,2337
41 ibid
42 Focarelli et al. (2002), pp. 2305-2338
has been used extensively by investors, and it is a well known fact that the spreading of risk increases the chances of high profitability. When diversification generates efficiency there may be diversification gains.\textsuperscript{44}

When diversifying, the bank can earn more from off-balance-sheet operations (such as certificates, securities etcetera) rather than from traditional activities such as savings accounts. This has led to a restructuring in the banks’ supply of services from traditional activities with less growth potential into off-balance-sheet activities, which usually involve less personal relationships and hence less personnel costs.\textsuperscript{45} This results in higher potential profits for the diverse and internationalized banks. This is what is sometimes referred to as horizontal diversification as the banks are still targeting the same segment, only with a new product mix.

The results as to whether M&As create more value are inconclusive. However, according to Cantwell, M&As related to motives of diversification seems to have a positive effect among the shareholders and hence on the final shareholder value of the bank.\textsuperscript{46} This then means that diversifying acquisitions may lead to larger portions of own equity, and larger resources in turn may lead to greater profits. Thus, there is evidence on diversification being a successful motive. Whether or not it will be, in reality, has to do with how successful the management is to enhance the efficiency among the new set ups and how well the management manages to integrate the two banks. More specifically, whether the diversification generates lower costs per product/customer or the revenue becomes higher per product/customer.\textsuperscript{47} Therefore, we will now continue to discuss how efficiency effects the decision of M&As.

2.8 Efficiency

Efficiency is whether or not the input requirements per unit of output is being reduced as a result of an M&A.\textsuperscript{48} The research on M&As in banking at domestic level has shown that larger and more efficient banks tend to take over smaller and less efficient ones, mostly to spread their expertise and acquire additional resources, this has also to do with managerial quality which will be further addressed later on in this paper.\textsuperscript{49} M&As could also enhance efficiency if diversification improves the expected risk-return trade-off. The motive of diversification and that of efficiency are hence somewhat interdependent. With the right amount of diversification the bank can enhance efficiency, also, efficiency may lead to diversification due to economies of scale and scope. The essence of this research, that of how diversification (economies of scale and scope) affects efficiency and increases managerial quality, can be found also in the eclectic theory, which is why both of these are of great importance. The efficiency gains from cross-border M&As are partly also due to internalization, which support the other theories and research.

\textsuperscript{44} Byrd et al. (1997), p.41
\textsuperscript{45} Focarelli et al. (2001), pp.2305-2338
\textsuperscript{46} Cantwell et al. (2002), pp.402-403
\textsuperscript{47} Byrd et al. (1997), p.41
\textsuperscript{49} Focarelli et al. (2001), pp.2306-2307
Efficiency is one of the important factors, possibly the most important, when talking about consolidations between financial institutions like banks, even more so than the general level of economic integration between the two banks. Though, efficiency and economic integration are likely to affect each other.\(^{50}\) Therefore it is an important factor, also for us, to consider in our study. Efficiently managed organizations should, according to both the internalization theory and the international banking theory, be able to export their expertise or policies to other nations and by doing this operate in a profitable way in another country. However, the empirical evidence in the literature typically states the opposite; foreign institutions are in general less efficient than domestic ones.\(^{51}\) Hence, the empirical evidence supports the eclectic theory, although monopolistic advantages are not necessary, but rather just competitive advantages like Focarelli suggested. Only if the bank has competitive advantage over the domestic competitors the bank will profit from the internationalization.\(^{52}\) Hence it is easier to acquire a domestic institution compared to a foreign one. Berger et al concluded that on average domestic banks in the countries that were examined have both higher cost efficiency and higher profit efficiency than foreign banks that operate in that particular country.\(^{53}\) They also stated that some organizations can operate in foreign markets at, or above the efficiency levels of domestic banks and this could lead to further consolidation in the future.\(^{54}\) According to Berger’s research, then, generally it is not profitable for banks to undertake cross-border M&As, although at times it could be. It is therefore an interesting theory as well as useful in our study, as most cross-border bank M&As in previous research have been found unprofitable. The theories emphasize some benefits though, and according to them economies of scope and scale will decrease the costs per unit. Also they suggest that due to internalization there will be cost benefits. This will now be further discussed.

### 2.8.1 Cost Efficiency

Cost efficiency is about having large scale operations that will lower the average cost and therefore become more competitive. This is connected to concentric diversification and economies of scope, and as mentioned above both the internalization theory and the eclectic theory brings forth evidence of this. It is important for a large organization to have high cost efficiency and Focarelli have found empirical evidence to support the theories of this in his research.\(^{55}\) Diversification, like large scale operations, that leads to economies of scale and/or scope thus affects efficiency positively. These facts are hence important for banks to consider and are likely motives for M&As.

Most research on bank scale economies has found that the average cost curve has a flat U-shape, with medium size banks being more cost efficient than small or big banks.\(^{56}\) This suggests that no gain or even losses could occur in cost scale efficiency from additional consolidation of large institutions involved in global activity.\(^{57}\)

\(^{50}\) Focarelli et al. (2001), pp.2306-2307  
\(^{52}\) Focarelli et al. (2001), p.2337  
\(^{53}\) Berger et al. (2000), pp.105-106  
\(^{54}\) ibid  
\(^{55}\) Focarelli et al. (2001), p.2334  
\(^{56}\) Berger et al. (2000), p.35
suggests that there might be cost efficiency gains if a rather efficient bank acquire a relatively inefficient bank and superior management talent and efficiency spreads to more resources. Generally, cost efficiency gains are not the case though.\textsuperscript{58} Tools such as derivatives, off-balance-sheet operations (such as certificates, and securities) and risk management might be easier to use for a large institution. As well as new methods of delivering service such as, internet banking, phone services, automated teller machines, and advances in payments technology, may also be a source for exploitation by consolidation.\textsuperscript{59}

\textbf{2.8.2 Revenue Efficiency}

It is important to also look at the revenue efficiency when assessing the cross-border M&As. The increase in scale related to the M&As could create revenue scale economies since some of the customers may want the services of a large institution. However, some small customers may prefer the more relationship-based services that usually are connected to small institutions, creating revenue scale diseconomies.\textsuperscript{60}

By cross selling different types of financial services, a financial institution may also be able to utilize revenue scope and product mix economies. This may then lead to an increase in customers and hence revenues. Therefore this is an important factor to look at when studying the motives behind M&As, as both increase in customers and revenues are generally what inspires firms to expand. The revenue scope economies could happen because of the reduction in consumer search and transaction cost.\textsuperscript{61} For example, some customers may be willing to pay more for the convenience of shopping for different services and products at one place. Also, corporations could feel that it is easier to deal with one financial institution rather than many which may improve the relationship in both ways.

Another aspect of efficiency benefits could be improvements in the risk-expected return trade-off which would motivate cross-border consolidation. There are a couple of factors that will help to improve the risk-expected return trade-off, such as greater scale, more diverse scope or mix of financial services, or increased geographic spread of risk linked to cross-border M&As.\textsuperscript{62} The efficiency gains have already been explained, and the logic behind the risk management will be further addressed when discussing diversification and the portfolio theory. However an improvement in the risk-expected return trade-off will not necessarily mean that an institution will have a lower risk, they may want a higher risk.\textsuperscript{63} The efficiency is closely related to diversification, and the concept of the

\textsuperscript{58} Akhavein et al. (1997), p.98
\textsuperscript{60} Berger et al. (2000), p.38
\textsuperscript{61} ibid, p.39
\textsuperscript{62} ibid, p.40
\textsuperscript{63} ibid
portfolio theory, which can hence be used to help explain the motives of M&As in order to reach efficiency. The bank, when assessing an M&A, will likely consider both in relation with each other; how an increased market mix is likely to affect the level of efficiency of the bank.

Revenue economies could also take place from sharing the reputation of a brand name that customers recognize, when an M&A occur. When two institutions merge it could be very positive if their brand becomes stronger, however the opposite is of course also possible. This could be part of the motive of wanting an increased market power, in order to take upon larger market shares.\textsuperscript{64} This is not directly connected to our research question but may act as a positive side effect when banks follow their customers abroad, as they eventually will want to reach new customers and a stronger brand name may then be necessary.

Sometimes it has been suggested that the cost efficiency measure is not as valid as that of profit efficiency. This is due to the fact that cost efficiency takes cost and revenue effects of the choice of output for given whereas profit efficiency takes both of which into account making it more comprehensive. This then implies that a merger may affect profit efficiency but not cost efficiency if revenues increase more than costs, or reduces costs more than revenues as a result of the merger, due to a restructuring of the output connected to the merger.\textsuperscript{65} In our study both of these measurements are necessary as they will both influence the final result as to whether the banks have been profitable after the merge or acquisition.

\textbf{2.9 Follow the customers}

The possibility to serve customers that operate in different countries may be a motive for cross-border M&As and may also lead to increased revenue efficiency. This implies that following the customers abroad leads to an increased market mix, which in turn leads to increased efficiency due to internalization as well as ownership advantages.\textsuperscript{66} Multinational non-financial firms may, due to this, want to do business with multinational financial institutions. Furthermore, part of the revenue efficiency comes from financial institutions following their customers across the borders and trying to sustain their positive relationships with these clients.\textsuperscript{67} Focarelli also found evidence of banks following their customers abroad, and this research then supports the research of Berger. Also the internalization theory addresses this issue from a customer relations point of view, as the long term relationship with the customers is of great importance for banks. Hence the motive of following the customers can be regarded as a genuine and important one to consider when implementing cross-border M&As. This motive is highly related with that of efficiency as well as diversification. When the bank follows its customers it leads to market diversification which leads to internalization and efficiency gains.\textsuperscript{68}

\textsuperscript{64} Berger et al. (2000), pp.38-39 \textsuperscript{65} Akhavien et al. (1997), p.96 \textsuperscript{66} Williams (1997), pp.80-82 \textsuperscript{67} Berger et al. (2000), p.38 \textsuperscript{68} Williams (1997), pp.76-78
2.10 Managerial quality

With company diversifications, there will also be managerial diversifications which may affect the efficiency and hence the profitability of a bank after a merge or acquisition. Enhancement of the X-efficiency (managerial efficiency) could, thus, also be a vital motive as the effects of cross-border M&As may lead to more efficient management which saves both time and money.

Improvements of X-efficiency mean moving towards the optimal point on the best-practice efficient frontier, this can be accomplished if the M&A improves the managerial quality of the organization or alter its focus. Berger explains that the X-efficiency could be improved if for example the acquiring organization is more efficient and brings the efficiency of the other institution up to its own level by sharing the managerial expertise or policies and procedures throughout the whole organization. Alternatively, when an M&A occur the need for restructuring may be more evident and management might have to face this fact during the consolidation. Berger also brings forth the concepts cost and profit X-efficiency. Cost X-efficiency improvements happens when an institution moves towards what a best practice institution’s costs would be for producing the same output of a product/service using the same input prices. Profit X-efficiency is a more comprehensive concept than cost X-efficiency. Profit X-efficiency includes cost X-efficiency, the effects of scale, scope, and product mix on both costs and revenues, and to some extent the effects of changes in the risk-expected return trade-off.

The existing research suggests that M&As can have the potential to improve the X-efficiency considerably. Average increases in X-efficiencies have been found to be about 25 percent of costs and about 50 percent of potential profits. Evidence from simulated experiments also put forward that large X-efficiency gains are possible if the best-practice acquirer restructure the practices of the inefficient institution. The research also suggests that many institutions engage in M&As to be able to improve the X-efficiency. Many studies have found that acquiring institutions are more efficient before the M&A than the target institutions are. Furthermore, banks bid more for targets if the consolidation would lead to considerable diversification gains. This is consistent with the intention to improve the risk-expected return trade-off and increase profit efficiency and

69 Berger et al. (2000), pp.43-45
70 ibid
hence with the reasoning behind the portfolio theory. Several studies compare the average X-efficiency of institutions in different countries, focusing on operation within each nation, rather than cross-border. There are studies with focus on countries all around the world, for example one study evaluates the efficiency of banks operating within Sweden, Norway and Finland. The results from the studies show that there are a few institutions in a number of nations that are considerably more efficient than that of other countries, while the ordering of the countries will occasionally differ in different studies. According to Berger, Swedish banks are considered as superior performers and are generally more efficient than other banks in other nations; hence they tend to be take-overs rather than the one being acquired. According to this research managerial quality seems to be superior in Swedish banks. Thus, there is no great need for Swedish banks to improve the managerial quality, but rather the importance is to diversify the management. What is meant by this is to include the competence and culture of the acquired bank. For this reason managerial quality will be included in the motive of diversification.

2.11 Managerial motives and consequences (Agency theory)

Cross-border M&As could sometimes be driven by managerial motives instead of the goal of maximizing shareholder value. Managers in professional organizations may use the decisions on cross-border consolidation for their own benefit; such as for compensation, bonuses, power, and job security. There is evidence consistent with the agency problem which shows that banking institutions may overpay for acquisitions when corporate governance structures do not have the same incentives for managers compared with the owners. Furthermore, bank managers with more stock holdings or compensation tend to make fewer acquisitions. These findings suggest that managers with little compensation linked to performance or a small amount of constraints from outside directors might engage in M&As that do not maximize shareholder wealth. Compensation studies in both corporate finance and in banking generally demonstrate links between managerial compensation and both performance of the corporation and the size, which are consistent with both the efficiency and managerial motives for consolidation. Furthermore, another study that is consistent with managerial motives show that CEO compensation rose after bank M&As, even when the stock price fell. This is an interesting theory to take into consideration, though it may not be the most vital of motives. This is rather presented to give the reader an understanding of all the motives that could effect the decision to acquire or merge.

76 Berger et al. (2000), p.48
77 Berger et al. (2000), p.60
80 Bliss and Rosen (1999), pp.135-136
There are also several banks having bad creditworthiness and no other choice but to merge, or being acquired by another bank, or they will be liquidated. This is something Akhavein brings forward and discusses in one of his papers.\textsuperscript{81} This fear of failing has also led to yet another motive for banks, even those having good liquidity, to merge and acquire in order to grow in size and become “too-big-to-fail”, or being taken over by other banks\textsuperscript{82}. We will now continue to discuss these two motives.

\textbf{2.12 Survival}

This is typically a bank which is in default, or close to default, and which is the motive of the one being acquired. These have as an only option to merge or being acquired by another bank in order to survive on the market. An alternative reason could be if the merge or acquisition would generate remarkable results.\textsuperscript{83} It is commonly a bank with superior knowledge and efficiency that take over a bank with slow internal growth,\textsuperscript{84} which was also found in the research done by Berger. This implies that the acquiring bank will infer its know-how and efficiency to the acquired bank, possibly resulting in one larger and more efficient bank. This is an important and a common motive for M&As including inefficient banks, and has been fairly common recently due to the financial crisis. This thesis will be concentrated on the four biggest banks in Sweden, thus the motive of survival is not likely to be much applicable, something that is supported by the findings of Berger and therefore not further discussed.

\textbf{2.13 Too-big-to-fail}

A major factor for cross-border M&As is the desire to gain market power in order to strengthen the competitiveness of the bank. This could be seen as a defensive strategy of not wanting to become acquired by another bank, but also in order to prevent other banks from becoming too big. A negative side effect of this tactic is that if, in the end, there will be a take-over, the price of the acquired bank will have increased. Hence, though it may favour the target bank, it will harm the shareholder value of the acquiring bank.\textsuperscript{85} This motive is not much discussed in theories, and though a possible motive it will not be further investigated due to the limitations of this study.

From previous research we found several likely motives for cross-border M&As, when applied also to theories and to the character of the Swedish banks, we ended up being able to reject a few. Therefore, the motives still highly relevant are as follows; 1) diversification including a diversified management, 2) efficiency gains, 3) to follow customers.

\textsuperscript{81} Akhavein et al. (1997), pp.97-104
\textsuperscript{82} Brewer III (2000), p.1067
\textsuperscript{83} Rydén (1972), p.106
\textsuperscript{85} Cantwell et al. (2002), pp.402-403
2.14 Problems that may arise due to M&As

According to Rydén the firm’s (or bank’s) behaviour is best described as “…a process of searching for optimal solutions in which various lower limits impose constraints on action “satisfying”.86 The limits spoken of could be interpreted as the problems that banks may face when looking for opportunities of profitability. These problems could be cultural differences, high costs of adjustments and set up costs, which may offset the estimated profit. During M&As there are several efficiency barriers which effect the transition, and hence the profitability negatively. This is why we will continue to discuss some of the implications from a merge or an acquisition, in order to answer the second part of the research question. There are several reasons for banks to provide services in foreign markets. Different theories point out different motives that encourage a merge or an acquisition. Together with these M&As there are, as mentioned, factors that may lead the merge or acquisition into failure. Previous research brings forth several issues that can lead the cross-border M&A to being unsuccessful. Therefore, when banks are thinking of cross-border M&As, they need to consider these factors.

As the confidence of a bank depends a lot on trust, it is important that the customers have faith in the bank. The information asymmetry that exists in this sector hence has a strong effect on all bank activities. A cross-border merger or acquisition will strengthen this asymmetry even further as there will be very difficult for customers on the new market to judge the value of the bank. The larger the bank the easier it will be for the customer to make a value judgment of the bank and hence the bigger banks may overcome the problem of information asymmetry.87 With concentric diversification banks may overcome this problem, as being on a diverse set of markets the brand will be more recognised, and hence it is easier for international customers to make a value judgement of the bank.

The success of an M&A depends largely on the banks ability to assess the relatedness of the assets of both banks as well as to being able to integrate the two banks. A cross-border merge or acquisition may make this process of integration more difficult due to cultural differences. Misunderstandings due to cultural differences may cause delays in the work which will cause increased costs88. Furthermore, cross-border M&As also create a communication problem as Europe is composed of many countries with different languages. There are, however, also positive side-effects as a cultural diverse bank will have better knowledge and understanding for how the customers of different cultures will act and react to different offers. Though the language barrier within the company may cause a problem, it can also provide benefits when acting on an international arena.89 This will also positively affect the managerial quality of the bank.

Yet another implication is that of distance. When taking over a foreign bank, the process of managing and monitoring the business activity will be more troublesome due to the

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86 Rydén (1972), p.104
87 Buch (2004), p.2080
89 Byrd et al. (1997), p.41
distance, as well as the larger size to keep in control. Furthermore, the increase in labour costs due to the fact that the salaries of the workers need to be equalized between the workers of the two banks may result in raising the lowest salaries. These factors as well as others will give rise to adjustment costs as adjustments will be necessary when merging two banks with different backgrounds. Not only are there differences between countries but also among the banks themselves. All of these adjustment costs may offset some, if not all, of the post merger additional profits. Whether the cross-border M&A will be successful or not may to a large extent depend on whether it leads to efficiency gains.

There are, according to Thomas Watson as well as Jalal Akhavein, potential negative side-effects of mergers from a customer point of view, including higher loan-rates, lower deposit-rates (the subsequent price differences are found to be fairly small though) as well as reduced service and no improvement in efficiency. This is what Akhavein refers to as “quiet life”, the banks are large enough to exploit their position in pricing and can afford being less devoted in efficiency maximization and hence the profits may default if gains from higher prices are offset by lower efficiency. Therefore, efficiency is an important factor to investigate and seemingly rather the measurement and final result of other motives and actions.

There is no consensus really as to whether M&As are profitable or not. Some theories have found evidence of profitability while most have not. However, banks will yield higher profits if they have high efficiency as well as large market shares, and are active on a concentrated market.

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90 Focarelli et al. (2002), pp.1048, 1063
91 Berger et al. (2001), pp.119,125; Buch (2004), p.2079
3. Method

In this section we will explain the process when looking for and choosing relevant literature, what approaches we used as well as argue why they were used. We will discuss our methods of collecting data and we will argue for the choices that have been made during the progress of this thesis.

3.1 Selection of topic
Both the authors have previous interest in finance and are currently studying this subject. We were both eager to write about something that we both found interesting which is why we decided upon writing within the field of finance. Banks are a central and natural part within finance which is why it caught our attention.

During the last year there has been a lot of reading about the financial crises which was rooted among the banks with their troubles of sub prime loans. This resulted in the banks attaining a bad credit worthiness which was to affect the entire economy as the banks work as an intermediary of the government when controlling the national economy. This has lead to several mergers and acquisitions lately, and there has also been articles suggesting now is the time for Swedish banks to acquire. After many discussions as to what angle to write from and what interested us the most among banks we arrived to the conclusion that we wanted to know why Swedish banks have chosen to merge and acquire foreign banks. Our perspective is thus from the banks’ point of view.

3.2 Theoretical method
Our study wants to capture the motives behind cross-border M&As in the banking industry and if they are successful. We want to explain which motives that are of importance when consolidating with another institution and try to go in depth in the matter. Because of the fact that we want the banks to explain their approach to M&As and thereby explaining the motives behind cross-border M&As a qualitative study fits our purpose of the study. It enables us to get the insights from the person we are interviewing and their perspective of the subject. This will enable us to go in depth into the reasons behind M&As and get the perspectives from the employees of the banks. Our point of departure was finding relevant literature and articles that could explain the motives behind cross-border M&As. The findings led us to build up a conceptual framework of motives that could explain why cross-border M&As occur. The conceptual framework will be the basis of the study and help us too, in the other parts of the study. We start with our research question and build the conceptual framework on that and then use the conceptual framework to answer the research question and at last get the findings through interviews. From this study we want to lay the foundation for future research and theories.

3.2.1 Epistemological and ontological stance
In our research we want to find out the underlying motives of the banks to indulge in M&As. The motives are part of the decision making process which is conducted by people with subjective views on the reality. Though each individual will be as objective
as possible, and the motives are of economic character of which the results are possible to measure in numbers, there will always be a valued judgement behind the decision. We do not consider value free knowledge as the only acceptable knowledge, like that of positivism. We are rather more towards interpretivism in the sense that we think social interactions in their respective situations may affect the decision of cross-border M&As and are hence of importance.\

Due to our view of the social character having influence on our surroundings and are part of constructing an evolving reality we also find ourselves as having a view of constructionism. Though there are rules and regulations to follow, there are no typical ways of conducting an M&A but rather the situation at hand will determine the result and the ways in which the M&A will be implemented. For example; if a Swedish bank wants to expand to Russia through a merger or an acquisition they will have to follow the laws of how to conduct an M&A. However, they will also have to take into consideration the culture and will have to adopt their operations to the way of conducting business in Russia; “when in Rome do as Romans do”. Also, even the rules and regulations will differ in these different countries, as culture reflect how the society is built. Due to these difficulties the motive of entering Russia may differ that of entering Denmark. Hence the social factors are of great importance for us to take into consideration. The way we look upon the world can be illustrated by the words of Potter; “the world…is constituted as one way or another as people talk it, write it and argue it”.\

Furthermore, we will do a qualitative study and capture the knowledge from these individuals we are interviewing as well as to capture the corporate knowledge that exists in the institutions. This too implies that we will be closer to the interpretivistic view. A reason for not choosing a quantitative study approach is due to the interdependence of our variables. A quantitative study would thus have given inconclusive results as the variables are related to each other.\

3.2.2 Research approach

The starting point of this thesis is finding relevant theories in the field of banking and M&As. In our research we test several existing theories and apply them to this study and our empirical findings. The findings of this study can then lie as a foundation for further research and possibly be the starting point of a new theory. Initially, we assume several motives could have an impact on the decision making. However, in order to go more into depth we reject a few motives right away due to them not seemingly important for our field of study. We will hence not empirically go through every motive from the hypothesis and reject or accept them, but rather we will go through those which seem relevant given the previous research and theories. Furthermore, motives that are not included in the conceptual framework may be introduced by the respondents in our study and affect the final results. This is also part of our approach in this thesis. The overall approach can be seen below:

93 Bryman Alan, Bell Emma (2003), ”Business research methods”, Oxford University Press inc, New York, pp.13-19
94 Bryman et al. (2003), pp.21-23
95 ibid, pp.25-26
1. We mix internalization theory, eclectic theory as well as international banking theory, together with a couple of others to strengthen the trustworthiness of the study

2. Some of the motives that we found important for cross-border bank mergers and acquisitions are rejected right away in the theory section

3. Empirical findings from interviews with the four biggest banks in Sweden

4. We present our results

5. The motives that has not been rejected in theory section but may be of importance for Swedish banks will be either confirmed or rejected

6. Our study will be a starting point for a future new theory

### 3.3 Practical method

#### 3.3.1 Literature search

To get an overview of the research field we started to search in the economic databases that the University library have to their disposal. We used the databases: Business Source Premier, EconLit, Emerald Fulltext, Helecon and Affärsdata. We found the articles used in these databases and other literature were found in the University library. Our main search words in the databases have been: Mergers & Acquisitions (107,400 hits), Mergers (232,728 hits), Acquisitions (215,987 hits), Banks (406,425 hits), Consolidation (172,144 hits), cross-border M&As (916 hits), cross-border bank M&As (216 hits), cross-border banking mergers (371 hits), increasing profits banking (2,075 hits), banking acquisitions (13,431 hits). We also searched on the names of the four big Swedish banks; Handelsbanken, Nordea, SEB and Swedbank, to be able to get the relevant research on the same subjects as our study. We have mostly used middle-range theories as they are of less abstract character and hence more useful in the empirical enquiry.

There were only a limited number of studies that was relatively close to our subject in respect to the Swedish banks. When we found interesting articles we looked at their references and search for the authors of those articles. In this way we could find all the relevant research in our area and the important researchers in our field, such as Berger. We also searched for books, and found a few concerning this subject.

Most of the studies have been based on either the US or Europe, however, there are some minor studies made on the Swedish market. It became apparent that more studies would be helpful in this field and therefore we felt that our research topic could contribute to the existing literature in the field. After the relevant research had been found we started to get a better picture of how the research in this area had been developed. We could then create a conceptual framework on the motives we had found in the literature, which could form the base for our further study.
3.3.2 Research method

The purpose with our thesis is to describe the motives behind cross-border M&As, more specifically among the four biggest banks in Sweden (Handelsbanken, Nordea, SEB and Swedbank). This was accomplished through interviews with employees that have knowledge in this area from the respective bank. In order to reach appropriate interviewees we phoned each bank and asked for someone with experience in this area, someone having been involved with mergers and acquisitions. Furthermore, we sent an e-mail giving each individual bank some information about what the interview was about as well as sending them an outline of what kind of questions that could be expected. The e-mail and the outline can be found in the appendix. We wanted the interviewees to be able to speak freely and express their thoughts about the subject; therefore we felt that a semi-structured interview guide would be the best alternative for our study. A semi-structured interview is much more flexible than a structured interview and the interviewees can answer the questions with their own words.\footnote{Bryman et al. (2003), p.343; Patel Runa, Davidson Bo (2003), "Forskningsmetodikens grunder", Studentlitteratur, Lund, p.78} This kind of interview, though it will be a lot of information to go trough, would give us rich information that we could use to interpret and analyze the answers in a good way.\footnote{Maxwell, Joseph A. (2005), “Qualitative research design: an interactive approach”, 2 edition, Sage Publications, California, p.110} This data should give us the tools to be able to find the motives behind the cross-border M&As for Swedish banks. Furthermore, the interview was conducted the same way each time so as to get the most accurate results possible. It was the same person who carried out the interviews and they were conducted at the same place each time.

3.3.3 Respondent selection

The research area was the Swedish market and as only the four biggest banks have been involved in cross-border M&As, all the four biggest bank had to be represented in the interview selection. We were thinking of whether to do further interviews, but as the interviews required for this study had been satisfied we found no reason to include more, and we thus only have four interviews. When selecting our interviewees we first called all of the four biggest banks and tried to get hold of someone in position to participate in an interview. It was very difficult of reaching anyone knowledgeable within this area and for this reason we had to call several times, as well as sending several e-mails. After a couple of weeks we managed to get hold of one respondent from each bank and were able to conduct the interviews. The one to be interviewed had to be knowledgeable within the subject, and preferably been involved with the decision making as well as the establishment process. The respondent did not have to have worked there for a specific period of time, but the longer period of time spent on the bank the better it would be for our research. This is because experience of the “company culture”, will give knowledge of how the bank acts in certain situations and how it have been acting in past, how it acts in present, and how it most likely will act in the future. All of the interviewees proved to be knowledgeable as well as having a great deal of experience of the bank as well as of M&As. However, the respondents did not have a decision making position in their respective bank, such as a CEO. This made it difficult to assess any agency problems that could exist in these kinds of international banks for example. It was difficult to get a
hold of the persons with a leading position at the banks. This could have made the study even better if they could have been interviewed, however, they are usually extremely busy and very hard to get a hold of. Instead we interviewed competent people within each organization and we believe their contribution was sufficient for our study.

3.3.4 Design of interview guide
As described above, we chose a semi-structured interview guide in order to get what we wanted but still letting the respondent talk freely. We started by telling them about us as well as of our study and our research question. After this, we asked them five demographic questions, namely: the interviewee’s name, their age, their position in the bank, what other positions the interviewee had have, as well as for how long the interviewee had worked there. Following were sixteen questions concerning mergers and acquisitions and the underlying motive for the bank to merge or acquire abroad as well as questions as to whether it had been profitable. Where needed we asked follow up questions that were not included in the interview guide. This could be due to them speaking of interesting facts for us that were more specific for the bank and hence not included in the interview guide. Furthermore, in order to get as rigorous answers as possible we asked a few questions related to each other. By doing this, the respondent had the possibility to give a complete answer and also, if the interviewee did not understand it the first time we were still able to get an answer. Another way, in which we made sure to get as thorough answers as possible was by having control questions that were more exact than the first question. The questions were of open ended character because we believe that by not directing the interviewee in their answers we were able to get as realistic and trustworthy answers as possible.

3.3.5 Execution
Before the actual interview we talked to the interviewees and quickly told them of the study and what we wanted to interview them about. We also sent them an e-mail with a short description of the study as well as an outline of the interview in order for them to get properly prepared.

The interviewees were positioned at their headquarters in Stockholm for the most part. Due to distance we were not able to interview the respondents face to face, which could be considered optimal. However, we conducted the interview through telephone conversation which we believe gave us as good results as had they been carried out face to face. We conducted the interviews with the aid of a cell phone and in order not to miss anything we recorded the interviews with a dictaphone. For this reason we also always told the interviewee that the interview was to be recorded. Furthermore, we had a computer present with our interview guide. The interview was conducted in Swedish and later translated into English, however, we do not think anything has been missed due to this but rather it enabled the respondents to speak more freely. To diminish the risk of misinterpret their answers and loose valid information, we sent the transcribed material to each of the respondents. We also sent the translated version, however none of the respondents had any comments.
The interview included, as stated above, five demographic questions, after which we asked sixteen open ended questions concerning the motives of the bank to merge or acquire abroad. We also asked follow up questions if needed. We do not think the follow up questions affected the result or the validity of the study as they acted more as a way of clarifying the answer of the interviewee. Finally we also had a question as to whether or not the interviewee wanted to be anonymous or not. One of the interviewees wanted to be anonymous and this made it impossible to use the respective names of the banks and connect that to their statements. Instead we used the names bank A, bank B, bank C, and bank D for each of the bank so they could stay anonymous. We could however refer to the bank in the appendix, as long as we removed the name of the respondent. It could have made our study better and more credible if we could have used their respective names. However, we respect the integrity of our respondents and we have therefore no choice in the matter.

In general all the interviews went very smoothly, with rare interruptions. During the interview we sat in a quiet room, where there were no disturbances, and during none of the interviews did we have any interruptions in our part. However, there were a few disruptions occurring at the part of the interviewee’s. At one time the phone rang, and during another interview someone entered the room where the interviewee was sitting. None of these events, though, seemed to intervene much and we do not believe it disturbed the interviewees, hence the results were not likely to be jeopardized. Furthermore, the interviews were carried out in the same manner for each time with the same conditions. One person held the interview during every occasion, while the other could enter with questions at any time if there was something missing or needed to be clarified further that the person holding the interview did not think of. We do not think this distracted or confused the interviewees, but rather we reckon it made sure the interviews held a higher quality as we were two to control nothing was being missed. The interviews were between 30-45 minutes long and we believe that it was enough to capture the essence of the subject in question. The respondents seemed to answer the questions truthfully and with their best effort. However, sometimes it felt as though the answers were promoting the bank and that they had answered this sort of questions many times before. There is a risk that they do not want the bank to be considered to have problems and thus only present a favourable picture. The semi-structured interviews made it possible to ask follow up question and to let them speak freely, and this made their answers more of their own and it was possible to get a clearer picture of how they perceived the issues. We believe that we have received answers that are favourable as well as unfavourable for the banks and therefore we do not believe that the issue of promoting the bank has been much of a problem.

3.3.6 Quality

Preconceptions

Prior to this study we had limited information of the subject, and hence gained most of our knowledge within the area from previous research as well as theories. From this we found out what had previously been found to be the underlying factors and motives, and how they affect the profitability of banking. We wanted to be open-minded and hence included many of the motives, though from more reading we realised some of them were
not applicable for our study. However, in order to be as free from preconceptions as possible we still included them in our research. When conducting the interviews we were open for further motives and arguments as to whether the Swedish banks were profitable when initiating in cross-border M&As. Despite this, it is difficult to be completely value free and it is thus possible that when writing the interview guide as well as during the actual interview we were more receptive towards the motives already found in previous research. The results, however, are not likely to have been affected much though.

Confirmability
We have conducted this study free from as much values of our own as possible, which is why we chose to let the interviewees talk freely without being steered as to how they were to answer. All questions were asked with regard to previous theory as well as our research question, rather than prior knowledge or the attitudes of ours. It is, however, impossible to completely eliminate all of our values. The study has been carried out with self-reflection in mind and without letting prior knowledge, experience and attitudes affect the execution of the study so as to make the results affected by our values as little as possible. We have, thus, tried to be as open minded as possible.

Dependability
The answers from the interviews are consistent with each other, as well as with several theories and researches and could hence be seen as reliable. Since the answers are consistent also with theory, which have been developed over several years, it is assumed that the results are stable. Also, during the interview the respondents emphasised a lot on the actions being part of the company culture. The actions taken can hence be interpreted as being part of their long-term plan of the bank and not a rational decision. The method of this research is spelled out, and follows a logic structure. No special circumstances occurred for this research and there are hence no specifications to take into consideration in the results. For this reason, it is likely that an interview also in the future will receive similar answers and thus similar results. However, the time and place would likely differ if a new study would be done, this could then affect the results. Also, it could be hard to get interviews from the same respondents especially as one of the respondents in our study wanted to be anonymous, which could also have an impact.

Credibility
The findings seem to be rather expected, given the theory and previous research and can thus be considered believable. Though the variables are highly related with each other, which would imply a low internal validity, the logic behind it is fairly clear and hence the result can still be considered to be reliable. Our research question is twofold, and the first part of it where we want to find out the underlying motives can be answered even though the variables are related. The second part, whether Swedish banks have fulfilled their ambitions is possible to assess as well, though the variables leading to the M&As are interrelated. In order to increase the credibility we used the approach of a qualitative study, and thus were able to receive much of the logic behind the motives. From the interviews together with the theory we were able to understand how the variables were related. Hence, the credibility of the study can be considered to be fairly high in some senses though fairly low if considering the interrelation between the variables only.
Transferability
The transferability will be fairly poor as we only look into the market of Sweden and the four biggest banks in this market. This market is small and will not affect other markets much, nor will research done only on this small market be applicable to a global setting. Hence the results may be applicable to markets and banks with similar character as those of this study, while markets and banks beyond this, will not be able to fit the context of this study. The results found in this research will, thus, not be generalized to fit other markets or to a world-wide setting.

Authenticity
There are several authenticity issues to cover, namely; fairness, ontological, educative, catalytic and tactical. However, we find only the issue of fairness of importance for our study and will hence only discuss this matter. We wanted to represent the four biggest banks in Sweden and hence all of which were interviewed, although we were only able to conduct one interview per bank. The selection of interviewees is still representative and hence the issue of fairness can be considered to be fairly viable.
4. Results

We conducted four interviews with the four biggest banks in Sweden. We will in this section go through the empirical findings from these, beginning with the findings from each bank, named; bank A, bank B, bank C and bank D, with no specific internal order. After this we will present the results from all four banks more generally for the Swedish market.

4.1 Bank A

The person interviewed at bank A worked within corporate finance as an expert in analysis and value assessments. The interviewee had worked at the same department for 22 years and had been involved with several M&As.

Cross-border mergers and acquisitions can be compared also to national M&As as the motives are of the same character. According to bank A, the reason for M&As are in order to reduce the cost per customer. By growing in size they can develop a better computer program, which demands a lot of resources as it costs a lot of money. Having a good computer system means the marginal cost for each new establishment will be much less. During the 1970’s and 1980’s new establishments only resulted in increased competition and hence less marginal.

Today, there are no more Swedish banks to merge with or to acquire, therefore it is necessary for Swedish banks to cross the border in order to grow further. Due to economies of scale mergers and acquisitions will result in reduced costs. When growing, the banks will attain more customers and hence the costs per customer will diminish as it is spread on more customers. When decreasing the costs per customer, the bank will become more competitive.

Bank A uses their resources to grow, and follow their customers when expanding abroad, though the final goal of an acquisition is to attain new customers. Though most M&As done by Swedish banks are among banks within the Nordic countries, there are still cultural differences to consider. Therefore, in order to get to know the market and the customers of a new market when wanting to expand abroad, bank A usually opens an office, and expand organically from there. When already being established on the market, it is easier to understand it and to discover new opportunities available. This has always been the motive and methods used for this bank. In order to ease the transition of the merge between the two corporate cultures a common culture is needed and the one of the acquiring bank, bank A, will be the one implemented. The bigger the acquired bank is the more difficulties this will be, as the corporate culture of that bank will be stronger and they are likely to be more resistant to change. M&As between big banks are hence less likely to be profitable.

In the decision making process the whole department of corporate finance of the bank will be involved and a special group of people will be the head of the project of evaluating the merge or acquisition. There are several aspects to consider, not only
business numbers, but also the personnel situation in order to create a team working together and striving towards the same goals.

Diversification is a way of increasing profits rather than expanding world-wide. Financial services are rather generalized world-wide, however, the product mix of the bank may be somewhat adjusted to fit the specific market better. Over the years, though, the differences of product mix decrease.

The efficiency of the acquired bank will increase when sharing the know-how of the acquiring bank, however, the efficiency will not increase the other way around. Therefore, it is mostly the cost efficiency that will increase when cutting unnecessary costs of the acquired bank. This means that it will take a few years before the acquisition will show profitable, as it will take a while to detect where the cuts of costs are needed and then it will take a while further for the results to show. According to our interviewee it usually takes the bank two years. There are always unnecessary costs, and it is crucial to stop them. When merging or acquiring there may be contracts that are valid for yet a few years and this too will postpone the results. What is important is to seize the opportunities available and make sure the two banks will integrate as well, and as soon, as possible, and then gradually cut costs where needed. It has never been necessary to cut back on personnel as a result of M&As, as the costs have already been taken into consideration in the planning process. The costs of salaries will not be changed, as the salaries will continue to be what they were during the negotiation.

4.2 Bank B

The person we interviewed at bank B was vice president at the strategic planning department. The interviewee had been working at various places in the company and had been working there for 22 years, and been part of the decision making process as well as the implementation of several cross-border M&As.

The cross-border M&As that had occurred the last 10 years was acquisitions in all of the Baltic countries, Germany, Ukraine, and Poland. They have mostly bought banks that are smaller than themselves, but still fairly big in their domestic market. At one time they bought a bank that was not very profitable, but provided a service within a sector of which bank B wanted to expand. Bank B sees the Baltic countries as their home market and they have integrated these banks into their organization. However, the Nordic countries are the natural home market and where they have been established for many years.

According to our respondent, the most important motive for bank B to merge or acquire is to grow into new markets. For example, in Germany they acquired another bank so as to establish a base in the German market and from there be able to grow further in Europe. When entering the German market savings products, such as stocks and funds, was the edge of Bank B, in which they believed they had a competitive advantage. There had not been many cross-border M&As in the Swedish banking market in the late 90’s and the acquirement of the German bank was one of the first larger ones. Most banks did not feel there were any positive synergy effects from cross-border M&As at this time.
When acquiring other banks, the normal view on M&As is that it is important to look at the cost synergies. This means reduced costs and increased volumes. Another view is that of revenue synergies connected to M&As, when a bank expands abroad to a new market with new potentials, for example new customers. This will result in the bank growing, meanwhile the costs, though increasing in total, will be less per output as the costs are divided on a larger number of outputs. When crossing the border there are, of course, other legal systems and regulations that will complicate matters. Because the domestic market in Sweden has limited growth potential, our interviewee believes it is necessary to expand abroad in order to grow. There is only that much an investor can save. Domestic M&As are usually due to cost synergies, while M&As across the border is due to revenue synergies, as there is a larger market potential there.

Bank B also made acquisitions in niche areas recently, which contribute to their product mix offer. The bank also states that the new markets offer great growth potential, but that there are problems needed to consider concerning M&As. The most prominent problems are those of diverse culture and communication within the organization. M&As will initially increase costs before the cost synergy kicks in. The interviewee says it takes between one to two years before the cost synergies are visible, depending on the size of the bank with which the bank merge or acquire. It will take more time to merge with, or acquire, a big bank rather from that of a small. Experience from different cultural problems and learning what to think of while merging two banks will make future M&As less problematic. The bank learns from its mistakes, which include learning to see the big picture, not to underestimating management, personal and cultural issues and hence the transitions of integrating the two banks will be more efficient and smooth.

Management is very important when dealing with cross-border M&As. The goal is to practice the same kind of management in both of the countries in which the bank operates. The countries are different, though, and are in different stages of development and therefore adjustments must be made from a case to case basis. Another of their goals is to be on several international markets, in order to satisfy their customers. Hence, the bank follows the international customers in the world, but also wishes to be ahead of their customers. They thus expand abroad where they believe their customers will find need for the bank and international transactions in the future, but have not done so yet. Bank B want to be good at what they do and satisfy their customers and the customers want the banks to be more international. This is why they think it is of great importance to be on several markets so as to satisfy the need from their customers. Consequently they can be more competitive and offer a base for further development. The respondent also states that the less developed countries start to approach the industrialized countries, which leads to an increase in trade between banks of industrialized countries and those of developing countries. This give raise to an immense profit opportunity, of which bank B wants to be part of.

Future M&As depend on the need for further growth, and how profitable they are at their existing markets. Acquisitions are not a goal in itself, but rather they will see what the future holds for them. They look beyond the Baltic countries, as these markets are rather limited and already well established. The region that is the most important is Eastern
Europe and especially Ukraine, Russia, Poland, and also countries outside of Europe, such as China and India. The bank has opened local representation offices in China and India recently, to be able to learn how those markets function. They use a mix of opening branches in different countries with M&As. It depends on the demand from the customers and the development of that market. One should remember that they have customers in many different countries and the needs of these customers may differ. Sometimes it is easier to open an office in a country and first study the market and then look for banks that could be acquired, while at other times it may be more suitable to simply acquire a bank right away.

4.3 Bank C
The person that we interviewed at bank C was head of Investor Relations and had been working at the bank for 12 years. Except for his current position, he had also been working as an analysis manager at their market section.

Bank C has been involved in several cross-border M&As the last 10 years. The bank has undergone a number of mergers with several Nordic banks and has become a big player in the Swedish market. They have established themselves in the Baltic countries as well as in Poland. Recently they bought a bank in Russia. They have not merged or completed any acquisitions with banks having financial problems. The motives behind the M&As have been economies of scale, reaching new markets and spreading the risk according to our interviewee.

It is the Östersjö region that bank C have defined as their home field. Other markets that are interesting are markets near Poland and Eastern Europe, as well as maybe Ukraine and Germany. They have bought medium size banks in the Baltic countries, Poland and Russia, to be able to get a platform in those countries that they can grow from. The banks want to go into markets where they have something to contribute with, a unique costumer offer that is not present in these markets. They do not want to establish themselves in a mature and already over established market. Bank C wants something unique, which they believe they have in their markets today.

The bank had problems in the beginning of the merger between the four Nordic banks and the integration was very slow in the beginning too. There were also a lot of compromising and the costs were not going down as fast as predicted. The cultural differences have also been an issue and one should respect those even when merging with banks in the Nordic countries. They believe that when being on several international markets it is very important to be able to serve the large Nordic companies. The corporations are everywhere in the world and around Europe. Being able to serve them is a precondition to be able to be competitive on the global market, according to our interviewee. Hence, in order for them to satisfy the needs of their customers in the Nordic countries they need to be international, providing services globally.

Bank C has almost the same products in all the different countries, but the product mix may differ at times depending on local laws and regulation, e.g. in Islamic countries the rules and regulations differ a lot and the product mix need hence too be adjusted. The
goal is to provide as similar products as possible in all markets, and where possible the very same ones. For example they offer the same products and commercials, and have the same system in both Poland and the Baltic countries. Almost everything is standardized, in order to catch the efficiency synergies of economies of scale and scope, and also they want to increase the awareness of their bank on the Polish market.

They have an important drive for improvement in the organization and it is called best practice. This means that they use the best proposal and it does not matter where it comes from. All decisions are taken on a basis of discussions between several regions and what will be the best for the bank in the future. Their organization is divided in different regions and they can therefore compare each region and see which one that performs the best. This will also lie as a base when deciding upon how to conduct and/or implement decisions etcetera. After the cross-border M&As the bank have seen improvements in their management, also other positive results include; lower costs, increased revenues and more diversification. The most obvious edge would be on the cost side, where they have accomplished to lower the costs, as a share of the revenues, from 64 percent prior to the M&As to 53 percent now. Furthermore, the bank has positive diversification effects of lower risk and less need for capital. Also, it is easier to attract competent co-workers when being a big bank operating in a multiple of countries. Having a wide spread of risk and low volatility in earnings will benefit the credit ratings from e.g. Standard and Poor’s and Moody’s.

The goals communicated prior to the M&As have been reached, however, it is a continuous process and there are always more that can be done. The short-term goals such as collision profits and economies of scale have been accomplished. Some parts of the integration take time, such as computer systems. They have chosen to integrate the computer systems in different areas of the banking business, and are now going into a new phase and trying to integrate the retail banking sector. They believe IT investments are mainly a fixed cost, which means they can serve more customers without much additional cost. This is a typical example of economies of scale and it can be exploited in respect to the IT systems in the bank.

The bank also see increased revenues, mostly on the corporate side and now when they are bigger they can handle bigger business deals, that would have been impossible if they would have been the original small bank. The expansion in Russia and the Baltic countries has foremost been a corporate expansion and in second hand a private customer expansion. They have followed their Nordic customers to these markets, but they have started to get more and more businesses from big local companies in, for example, Russia. The bank has gotten more competitive after the M&As, more efficient; lower costs and they can also offer better prices. The strategies will be kept in the near future too, and they believe in economies of scale, best practice and M&As. This is necessary in order to be competitive on an international arena. The bank wants to offer their corporate customers good service and be as big as their customers are. If their customers grow in size, the bank must also grow so they still will be able to lend money to their customers, and not be dependent on a small number of customers. This means they may loose their corporate customers if the do not expand. Therefore, they are not unfamiliar with the idea
of doing further cross-border takeovers or mergers in the future. They are not finished with this journey and more will happen in the next 3-5 years ahead.

4.4 Bank D
The person we interviewed at bank D was the region manager for the northern part of Sweden. She had been working for 5 years at the bank and has had various positions within the company.

Bank D has established themselves through cross-border M&As in the Baltic countries, Russia and Ukraine. They have also been part of establishments in all the other Nordic countries and these markets are also important. Bank D has not been involved in any M&A where the other bank has had financial problems.

They want to create long term profitability by creating opportunities for revenues, which should be seen from a growth perspective. Bank D is on a mature market in Sweden and therefore they have taken part of cross-border M&As that has created growth opportunities in the long run, and especially Ukraine will be a long-term project. They have changed their objectives from 10 years ago until today. Bank D wanted to be a competitive bank in the Nordic countries, looking back 10 years from today. This is still true, however, they are focused on other parts of Europe as well. Previously they wanted to be partners with other banks, they either merged with or bought only shares of another bank. Today, on the other hand, they prefer to own other banks in its entirety, to acquire them, or to hold a majority interest in them instead.

Bank D’s cross-border expansion is because they want to reach new customers as well as to satisfy their existing customers, to go where they go. In the Baltic countries there are a large number of private customers and bank D wants to develop this potential and reach out to more customers. However, they are primarily following and helping their existing customers, like those on the Swedish market. The expansion into Denmark and Copenhagen was foremost an expansion for the existing customers in Sweden, to provide services to Swedish customers being in Copenhagen, but they have also a small number of Danish customers there. Bank D wants to be a leading financial institution in both Sweden and the Baltic countries and to be able to achieve this they need to be on several different markets. For example they have offices in New York and Moscow so as to be able to provide world wide services.

The risks in banking are mostly concerned with credit risk and thereby the customers credit worthiness. The bank sees more credit losses when expanding to growth markets such as the Baltic countries compared to that of the mature Swedish market. This implies that they see higher risks when growing into these underdeveloped countries. Another side of the risk issue is concerned with the diversification effect. Being on several different markets, the overall risk will be lower, because if one economy slows down, another may not, or increase even and thus offset the effects. The diversification effect will then have a positive effect on a multinational bank, and there are several opportunities when the bank establishes itself on several international markets.
The bank feels it has become more competitive after the M&As, and the Swedish corporate customers have been more attracted to do business with the bank afterwards. The bank believes it has built a solid base for the future, with the strong establishment in Sweden and a growth potential in the Baltic countries. Also, both Ukraine and Russia offers a huge potential for future growth, which should be developed in the future. The business climate in the world will of course also effect the future decisions, however, the objectives will still be the same. They always look for good opportunities to grow, although in their own pace.

These M&As also contribute to the enhancement of their brand and make them more recognizable. Recent polls show they rank very high compared with other big Swedish banks, in respect to their brand name and how people perceive their brand.

Bank D feels they have reached their goals objected prior to the M&As so far. The interviewee says they have seen both increased revenues and increased profitability, which are also the main reasons for them to expand abroad. Furthermore, she says that being involved with M&As lead to opportunities to become more efficient, although this is not one of their main objectives. This kind of activity, M&As, will always have some problems. However, our interviewee had not noticed that anything unexpected had happened during the processes of the M&As. Bank D states that the transition of the M&As have been working better than expected, which have been very positive for the bank.

Local establishment and local decision making are two of the key terms for the bank which can give raise to diverse implementations and necessary adjustments due to cultural differences. Although cultural differences have caused some problems in the different countries, they have not been unexpected, according to our interviewee from bank D. Further, she says there are cultural differences also within the Swedish market. Naturally there are cultural differences between Sweden and the Baltic countries, as well as between the Baltic countries. It may not be as obvious to think of the diverse cultures within Sweden, but they are still there and important to consider. Bank D says they try to see the cultural differences as an advantage and something they can make use of rather than to perceive it as a problem. However, the cultural differences will put higher requirements on the leadership and the leaders that will have to face this issue.

It is too early to be able to see the effects of the efficiency synergies from the M&As for bank D. According to the interviewee it will take between 3 and 5 years to be able to see the efficiencies from an M&A, and it will take between 2 and 3 years before they can make any good estimations of this issue. The acquisition in Ukraine, for example, happened only recently, and therefore no good estimates are visible at this time. The main reason behind M&As similar to this one is not the efficiency factors, but to increase their distribution net for their products. Through an improved distribution net they are able of reaching more customers and new markets, and thereby increasing their revenues. This will lead to stronger long term growth and development of the bank in the future.
4.5 Summary of all the results
When expanding abroad the Swedish banks have moved slowly further and further away from the domestic market – Sweden. All of the banks see the Nordic countries as their main market in which they want to establish themselves first and foremost. Some of the banks also consider the Baltic countries as rather close to their home field. When expanding further than this, the Swedish banks have established themselves within the eastern European countries. Depending on what the market is like, and how different the customers are from those of the domestic market, the bank will first set up a branch. Using the branch the bank will be able to explore the culture of both the market as well as its customers in order to valuate whether to expand further. Some of the countries in which Swedish banks have set up branches are; China and India.

Cultural differences are what the banks consider to be the most prominent of problems when initiating cross-border M&As. One of the interviewee said it could lead to a lot of compromising as each bank has its own culture, and being from different countries will further enhance these differences. The problems of different corporate cultures were something all of the banks discussed. They said the bigger the banks are that they acquire or merge with, the bigger the problems would be as well due to a stronger corporate culture. Something to be considered, though, is that it is not only the culture of the country to take into consideration but also of the region and of the particular bank. The problems of different cultures will also show in difficulties of communication, as different cultures have their own way of communicating. It is also important to look at the positive synergies from the cultural differences, such as those of diversification and improved managerial quality.

One way, in which, the banks have solved the problem of diverse cultures, have been to improve their knowledge and to get a better understanding of cultural differences by opening a representation office or a branch in that market. Through these the bank will be able to explore the markets as well as the customers of that market and from there grow organically. Another way, of which one of the banks spoke of, is that of the implementation of a common corporate culture, in order to quickly integrate the two banks. This is more troublesome when the merging or acquired bank is bigger as it will have a strong corporate culture already.

The motives spoken of were mostly cost efficiency gains, revenue efficiencies, diversification, to follow their customers, and to create long term growth potentials. We will begin with discussing the motive of cost efficiencies. When expanding and increasing the number of customers, they also increase the number, upon which the costs are shared, resulting in a lower cost per output. The acquiring bank will also share its know-how to the bank being taken over, which will enable that bank to increase its efficiency. This will make it possible to redirect ways of doing things, and eventually cut costs where needed.

Technological advances have made it possible to grow more efficiently, having only a start up cost and from there the costs will decrease due to more efficient ways of conducting services. This is a typical example of economies of scale. During the
interviews the respondents spoke of how technological advances have changed the attitudes towards M&As. One said; “During the 70’s and 80’s new establishments only resulted in increased competition and hence less marginal.” Another said; “most banks did not feel there were any positive synergy effects from cross-border M&As at this time...(beginning of 90’s)” This shows the importance of this measure, and one of the banks specifically also said this is an important measure to take into consideration.

Also, the banks found revenue efficiencies from the increase in total savings as the total number of investors, customers, increased when being on more and bigger markets. According to one of the interviewees; domestic M&As are due to cost efficiencies, while cross-border M&As are due to revenue efficiencies.

The second motive was the gains through diversification, which will lead to an increasing distribution net for products and hence to stronger long term growth and development of the bank in the future. When establishing on several markets there will be a spread of risk, and some of the initial risk is eliminated because if one market fails another may raise. There is also the possibility of diversifying the product mix through niche acquisitions, and thus increase the competence of the bank in certain areas. Typically, the banks prefer providing the same set of product mix on all markets, though they said it could be adjusted if needed. For example in the Islamic countries rules and regulations may force the bank to adjust some of its products and services.

With a diverse bank, there will be higher requirements on the management in order to integrate all the different cultures and to communicate without having too many misunderstandings. One of the banks talked about the concept of “best practice”. What is meant by this is that instead of implementing all of the culture and ways of doing things from the acquiring bank, there will be a discussion of the best way of doing it, taking all of the parties in consideration. Another alternative may be to implement the culture of the acquiring bank throughout the organization.

All of the banks also mentioned that the initial motive for expanding abroad was due to serve their domestic customers also internationally. One of the banks said, since firms are all over the world, we need to be all over the world too in order not to loose them. Also, by following the customers world wide they have grown bigger, which has attracted local companies in the foreign market. Hence, though the initial goal was to follow their customers, part of it was also to attain new ones.

Another motive, of which all banks spoke a lot of, was the potential to grow. They were all in accord of the Swedish market being saturated with limited growth potential. There are no more banks to acquire. They said it is necessary to expand abroad in order to grow further and to create long term growth potential.

According to all of our respondents it takes time before the result from the M&As are visible. This can be due to time to detect what costs to cut, or due to contracts that need to expire etcetera. When merging or acquiring a big bank the transition period before the visible synergy effects of improved efficiency will be longer. The time, hence, differ and
all of the banks had different time perspectives but generally it is around 2 years. The
time it takes can also depend on previous experience. Having done several M&As in the
past will improve the knowledge of how best to proceed, what to think of and what to
avoid. The transition will thus be smoother and more efficient, and take less time.

The banks spoke primarily of having attained lower costs, and increased revenues mostly
on the corporate side. They further thought they had achieved better diversification, and
thus managed to lower the risk through the elimination of some of the systematic risk.
However, expanding abroad does not only result in lower risk. One of the respondents
said that in the developing countries the number of credit losses is more common, which
will increase risk rather than lower it. There is always a risk-return trade off, there is risk,
but also great opportunities for increased profits. Some of the banks also mentioned that
they had improved the leadership, now having a more diverse and dynamic management
due to the expansion. Being larger and better known, according to one of the respondents,
makes it easier to attract more competent co-workers.

One of the objectives is to improve competitiveness, which has been accomplished and
improved as well. One example of this is that after the cross-border M&As one of the
bank increased the trust of its brand name and Swedish corporate customers have been
more attracted to do business with the bank.
5. Analysis

In this section we will analyse the motives found in previous research and in theory with the results found in our study. We will go through the motives, but as they are highly related they will not be dealt with separately but we will rather describe the different effects of them. The second part of our research question is related to if the banks have fulfilled their ambitions and whether the cross-border M&As of Swedish banks have been successful. Also, we will shortly analyse what the future may hold.

5.1 Motives

5.1.1 Effects of cost efficiency

As can be seen from the result section, efficiency is an important aspect in respect to cross-border M&As. This is also confirmed by the research in this area and by studies from researchers such as Berger and Focarelli.

All the banks talk about costs and how important it is to cut costs to be able to be competitive in the business world today. The cost efficiency after a merger or acquisition will therefore be very important for the banks and will be discussed further. The banks are also growing when they engage in cross-border consolidation, which means they can utilize economies of scale and therefore reduce the fixed costs per unit of output associated with banking activity. We found in our results that the Swedish banks when expanding to new markets wanted to provide the same products, although sometimes they needed to adjust the products and services somewhat. This means there will be opportunities for economies of scale as the costs per output will decrease when provided in larger scales; cost efficiency. Though there may be some adjustment costs they are likely to decrease over time and as there are no big changes they will probably not cause much additional costs. The findings in our study are in accord with previous findings of Berger concerning cost efficiency gains from economies of scale. In addition, the banks will receive more customers which mean the costs can be spread on more customers and therefore the bank can become more cost efficient. When talking about cost efficiency, most of the banks said that costs usually increase in the beginning of the M&A and after a while the cost will go down and then they get more cost efficient. This shows that it takes a while for an organization to integrate another firm, however, when the integration process has started to kick in the results are usually that the organization will become more cost efficient. Therefore M&As seem to be profitable only in the long-run.

Some of our respondents spoke of technological issues that could be a factor when looking at cost efficiency. In order for the banks to be as efficient as possible, and to take advantage of the opportunities of economies of scale they need the technology to exploit the efficiency gains. This is also discussed in, and supported by, theory, see internalization theory, eclectic theory as well as international banking theory. One of the main objectives when diversifying is to make use of the enlarged operations to find

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98 Berger et al. (2000); Focarelli et al. (2001)
99 Williams (1997)
efficiency gains. When trying to integrate two IT systems when undertaking an M&A, there are usually mostly fixed costs associated with the service and when the company is growing bigger the costs per output will decrease. When the bank attracts more customers, there will only be a low cost for each new customer if the IT systems are well integrated and therefore the cost efficiency will increase when the customer base of the bank grows. Further, having a program which will make the process of work more efficient will reduce the time spent on each service which will enhance the profitability of the work. Also, the technological progress of the 90’s has made the bank services more efficient and for example internet banking has helped the banks cut costs, because of the decreased need for personal services for parts of their banking service. This has also been seen in studies such as that of Radecki. During the end of the 90’s there was an increase in Swedish cross-border M&As, and this could be coupled to this hype of technological advances. In a firm, as well as in a bank, there is great need of well functioning computer programs. Though this may not be a motive per say it is one of the underlying factors behind cross border bank mergers and acquisitions between Swedish banks and foreign banks. This is connected to efficiency gains that may offset the adjustment costs from integrating two banks when initiating in M&As. This factor is what enables Swedish banks to grow and establish themselves abroad and is thus important to include.

It has been shown in studies such as that of Akhavein, that when larger and more efficient organizations are acquiring less efficient ones they show potential of cost efficiency. This is due to the practices and efficiency of the efficient organization is spreading to the new organization. It has been shown in a study from Berger that Swedish banks tend to be among the more efficient ones. This would then mean that when they engage in M&As, they transfer their cost efficiency to the other banks rather than becoming more cost efficient themselves. The gains from cost efficiency thus seem to be mostly in favour of the acquired bank. The Swedish banks have mostly acquired healthy and fairly efficient banks, which would imply that though there is a certain degree of cost efficiency gains for Swedish banks from economies of scale etcetera it seems as though when initiating in cross border M&As there are other motives in focus. The Swedish banks, hence, tend to focus rather on revenue efficiency, to follow their customers, and growth which we will discuss further later on.

One of our respondents said that cost efficiency is not one of their motives for M&As, it is rather part of the normal operation as the acquired bank will be less efficient than the Swedish bank. Usually when engaging in some sort of consolidation either the cost synergy effects or the revenue synergy effects will be more prominent than the other. The cost synergies will be most apparent when engaging in domestic M&As and the revenue synergies is more connected to cross-border consolidations. Hence, cost efficiency seems to be the first step that the banks are taking in order to increase efficiency and was rather a motive during the earlier domestic M&As. Today the motives are more concerning increasing revenues and in the end also profitability. Cost efficiency seems essential in order to later receive revenue efficiency and is thus an important issue to consider when

100 Radecki et al. (1997) 
101 Akhavein et al. (1997)
engaging in cross-border M&As. Researchers like Berger discuss this topic and its importance in their studies.\textsuperscript{102} This implies that the motives of the Swedish banks for expanding abroad would rather be due to revenue efficiency gains.

5.1.2 Effects of diversification on revenue efficiency

The revenue efficiency is also an important aspect for an international bank that is involved in cross-border M&As to take into consideration. According to Berger the increase in scale related to the M&A could create revenue scale economies since some of the customers want the service of a large institution.\textsuperscript{103} The banks interviewed for this thesis are the four largest banks in Sweden and they have become even larger after their cross-border M&As. The scale of the banks after their cross-border consolidation activities have made them more attractive for companies in the Nordic countries, as well as other parts of Europe. The private customers in the banks also benefit from these activities, but maybe not as much as the corporate customers. These facts show how important it is for a bank to reach out to new markets and be able to attract new customers and retain the existing ones. When the banks attract more company customers and satisfy the existing ones, their revenues will increase and there will be more business and more capital.

When the banks engage in M&As they get larger, which means they can satisfy the large customers and they can also offer a wider range of products. Furthermore, the customers can get a lower transaction cost because of the size of the institution as well as the increased product range and the customer only has to deal with one bank for all its business. Especially companies like to have a relationship with one bank and if they can get all the resources and information from that bank, it will benefit both parties. When the banks grow bigger they can satisfy the growing need for companies and their need for banks that are established in several international markets. The customers could be willing to pay a higher price if they can get all the services they need in one place, this will give the banks increased revenues. These explained factors are part of the concept revenue scope economies that has been discussed in a study by Berger.\textsuperscript{104}

Another aspect of the revenue efficiency that we found in our study and which can also be found in previous research done by Berger, is the improvements in the risk-expected return trade-off which could motivate cross-border consolidation.\textsuperscript{105} When the banks are expanding to international markets, the result may be higher revenues as the risk is lower due to greater scale operations and the efficiency has increased. Greater scale, more diverse scope or mix of financial services, and increased geographic spread linked to cross-border M&As will help to improve this measure of revenue efficiency. Spreading the risk to increase long term profitability is a widely known concept and can be linked to the portfolio theory, though it is not commonly associated with M&As. However, the essence is the same. When the bank operates in many different markets they are not

\begin{footnotesize}
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\item\textsuperscript{102} Berger et al. (2000)
\item ibid
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\item ibid
\item ibid
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dependent on one single market and hence increase the likelihood of increased profits. This is an important implication for the bank, as there may be further consequences of this. Banks are dependent on their reputation, as a bad image will lead to a loss of customers and thus also revenues. If they lower the risk associated with the bank through diversification they may improve their image as the bank will be coupled with a better reputation of being a safer bank. This in turn may lead to an increase in the number of customers. For other industries being associated with risk may not be as severe, but as banks are in control of individuals’ as well as companies’ investments their operations are of more sensitive character. What is important to keep in mind, though, is that there may be negative effects of diversification as well. When the bank expands in developing countries there is a certain risk involved. As the customers there may not have the same creditworthiness as those of developed countries the risk of loosing credits will be higher for those markets.

The objected goal may not be to lower risk however, but rather to increase profitability. When the banks diversify, and lower the systematic risk, there is an opportunity to shift its operation from more traditional savings activities to more potentially profitable activities such as certificates and securities etcetera. From this it seems as though the bank shifts the risk from market risk to that associated with the particular investment. The implication of this is that there is higher profitability to be earned both for the bank as well as for the customers. The bank will increase the number of customers by expanding to new markets, while the customers can earn more from better investment possibilities at the bank. Being on several markets will most likely improve the bank’s knowledge of other markets which will improve their overall knowledge of international financial services and investments. If this is the case, the customer will have a better selection of financial investments at a bank with better knowledge of these investments than prior to the M&As. There are those who suggests that M&As rather result in increased prices and less service. Akhavein refers to this as “quiet life”, meaning the bank uses its strengthened position to increase prices rather than efficiency. Also Watson and Berger speak of the possibility of increased prices and/or reduced efficiency. The results from our study challenge these findings though; the efficiency among the Swedish banks has not been reduced, nor has the prices increased. This could be due to differences in the collection of data between the studies, since we use a qualitative study and he used a quantitative. Increased knowledge of international markets is very important with today’s society of globalization where the private investor is demanding being able to invest in new and developing markets. As all investors do not know as much about all markets and investments it is important that they can trust the bank to know the market and perhaps invest for their disposal, as is the case with funds for example. Focarelli found similar results in his study where he suggests one of the motives for banks to expand abroad is to meet an increased customer demand of international transactions and investments.

106 Byrd (1997)  
107 Focarelli et al. (2001)  
108 Akhavein et al. (1997); Berger et al. (2000); Watson (2003)  
109 Focarelli et al. (2001)
This concept is highly related to diversification, which should be regarded in the sense of market diversification rather than as an increase in the product mix. In our study we found the Swedish banks seemingly had improved their competitiveness, increased their profits and reached their objected goals which motivated them to expand to new markets. This is in contrast to most prior research suggesting cross-border M&As are usually unprofitable.\textsuperscript{110} Evidence of improved competitiveness has already started to surface as at least one of the Swedish banks has strengthened its brand name as a consequence of cross-border M&As. Hence, if the Swedish banks continue to initiate M&As there is great potential to grow in size, become more profitable and better known around the world.

5.1.3 The effects of globalization and more international customers

The Swedish market is a very saturated and mature market and as cross-border M&As are about reaching new markets and to follow customers the bank will improve the potential profits if increasing revenues more than costs. The acquisitions of domestic Swedish banks together with better IT systems have increased the cost efficiency, and combined with a saturated Swedish market makes cross border M&As more desirable for Swedish banks today than it was ten years ago. They are now efficient enough to rather think of expanding than to cut more costs, and as it is not possible to expand on the Swedish market they will have to go abroad. In order to be profitable abroad, the Swedish banks need to have a stable foundation on the domestic market. As the Swedish banks expand abroad they become more and more attractive for Swedish customers, and especially corporate customers. The reason behind this is possibly that the confidence of the bank increases as it expands to more markets. The synergy effects of M&As in the perspective of the customer is likely to be seen as more diversified, more knowledgeable and better known on the market. The more well known the bank is, and the more diversified it is the safer it is likely to seem for the customer. This has to do with the decreased risk due to elimination of some of the systematic risk discussed previously. A lower risk may have positive synergy effects such as better credit ratings, which in turn may lead to more customers and hence also revenues due to increased trust for the bank.

In previous research information asymmetry has been found to be a problem when establishing abroad as it will be difficult for the bank to gain trust on the foreign market.\textsuperscript{111} Foreign customers will have difficulties in making a value judgement of the Swedish bank which may lead to the bank not attaining any new customers. According to our findings as well as the internalization theory the banks are nursing their long term customer relationship and thus follow their customers\textsuperscript{112}. This diminishes the problem of information asymmetry as the bank is still targeting the same segment that already has an opinion of the value of the bank. Therefore, having the motive to follow the existing customers when expanding seems to improve the chances of a profitable cross-border M&A, which is also supported by the findings of Focarelli\textsuperscript{113}. Further, as discussed before, one positive side effect of M&As may be that of strengthening of brand. If the

\textsuperscript{110} Berger et al. (2000)  
\textsuperscript{111} Buch (2004)  
\textsuperscript{112} Williams (1997)  
\textsuperscript{113} Focarelli et al. (2001)
M&A leads to a strengthening of brand it will be easier for customers to make a valued judgement.

Today, firms in Sweden can be found all over the world and they conduct international transactions on a daily basis. The banks need to follow this trend of globalization in order to keep up with their customers, or they will risk loosing them to foreign banks. Focarelli too argued diversification was first introduced as a motive for banks in order to meet increased demands from customers in response to a growing international market with increasing competition. This is in complete accord with our findings that the Swedish banks need to expand abroad in order to meet the increased demand for international transactions and to be able to grow further. The banks are, then, more or less forced to expand abroad in order to stay strong and competitive on the domestic market. Firms continuously need more capital in order to be able to continue to expand their businesses. If this demand for more capital can not be met by the bank, they will have no other choice but to switch to another bank that can provide them with the capital needed. It thus seems as though the motive of diversification is linked to the bank having a large number of internationally active customers. The motive of following the customers abroad has been discussed both in previous research of Focarelli and in theory, internalization theory, and thus supports the empirical findings of ours. This is a fairly new trend, and hence a fairly new motive of the banks too, but it most likely reflects the development of the future.

5.2 Ambitions fulfilled?

Our second part of the research question was concerning whether the Swedish banks have fulfilled their ambitions prior to the cross-border M&As. In order to successfully reach their goals the bank needs to consider the problems of M&As and how to limit its negative effects.

5.2.1 Effects of cultural differences on management as well as on efficiency

In our study we found that one of the most prominent problems was that of cultural differences, which can result in immense misunderstandings and hence costs. It is important for the bank to understand the market in which it operates and how the customers react to different offers et cetera. For further reading see Varner and Byrd. The Swedish banks have only just started with cross-border M&As and may thus be considered to be fairly inexperienced. One way in which they have limited the problems of cultural differences and misunderstandings have been to establish branches on the market they are interested in. Through the branch the bank will have good opportunities to expand further in this country, after having already explored it and learned how it works. Also in theory (eclectic theory and internalization theory) the importance of getting to know the market and its customers has been emphasized.

114 Focarelli et al. (2001)
115 ibid
116 Focarelli et al. (2001); Williams (1997)
117 Varner et al. (2005); Byrd (1997)
118 Williams (1997)
Most of the problems can be found at the initiating phase of the process, at which point the two banks need to integrate. Not only do they need to combine the product mix and services provided by the two banks, but they need to join together two, perhaps, completely different cultures. In order for the bank to succeed with this very sensitive task there needs to be very sophisticated management in charge. They need to adjust the two banks so as to function together. Merging two different banks will mean merging two different ways of conducting business as well as how the bank is communicating among the employees and also towards the customers. This gives rise to potential problems and misunderstandings if not managed properly. In much of the literature stating M&As are unprofitable and lead to failure this particular issue is emphasize a lot. Whether the bank will turn the costs of adjustments and integration into something profitable or not, will depend a lot on the understanding of each other’s culture and being able of working together as a team. This is the responsibility of the management.

Expanding abroad through cross-border M&As will increase the bank’s knowledge of other cultures, which will make the transition process of the next cross-border M&A easier. A bank having been through several cross-border M&As and gained more knowledge of other cultures thus seems to have better chances of succeeding, or at least to integrate the two banks more efficiently. This is due to improved experience and having learned from previous mistakes. This has also been proven important in theories such as the eclectic theory and the internalization theory\textsuperscript{119}. Another reason may be because the bank is more likely of having adopted a more diverse leadership which reflects the business world of today, than a bank implementing its first M&A. The Swedish banks are thus likely to increase the efficiency of the integration process in the future, when being more experienced, and thus decrease the adjustment costs. A cultural diverse management is then likely to smooth the process of future M&As, and also lead to increased profitability. Hence, if the acquiring bank includes the competence and different culture of the other bank in the management, the cross-border M&A is more likely to be successful due to a more diverse leadership. Previous research also speaks of problems that may arise subsequent to a cross-border M&A. These problems concern the increased difficulty in managing the bank due to its size and the distance between the offices. Furthermore, when two banks are merging the salaries of the acquired bank is generally lower which may be necessary to equalize. These adjustment costs could offset the gains attained from increased efficiency and improved managerial quality.\textsuperscript{120} However, these problems have seemingly not been present among the Swedish Banks. A diverse leadership will not increase profits per se, but if it leads to a management that is more open minded the managerial quality may very well increase.

If the M&A results in an increase of the managerial quality or change the way in which the management is thinking, there is great potential for improved profitability. This is connected to efficiency; a more diverse management may enhance efficiency if moving toward the optimal point of the best practice frontier of which Berger speaks of.\textsuperscript{121} Cross border M&As could mean a lot of compromising and alteration from the usual way of

\textsuperscript{119} Williams (1997)  
\textsuperscript{120} Focarelli et al. (2002)  
\textsuperscript{121} Berger et al. (2000)
conducting business. For this reason, in the beginning it may be more costly. However, by time they will learn how to cooperate and the quality of the management will increase and the bank will become more efficient. More efficient ways of conducting business may lead to reduced costs and increased profits. A more diverse and dynamic management may be part of the motive of diversifying as it is likely to enhance the understanding of different cultures. The enhanced understanding could increase efficiency of future M&As and thus increase the likelihood of it being profitable. If the process can be done rather efficiently it may lead to Swedish banks initiating in more M&As and spreading themselves around the world and thus grow further.

If, for example, bank 1 is the acquiring bank and bank 2 is the acquired bank then they will end up close to bank 1 on the efficiency frontier which would imply a common corporate culture of the acquiring bank. The further down the frontier we are moving the more culture of the acquired bank will be included in the common corporate culture of the two banks after the M&A. According to Berger it would be more profitable for the banks to adopt a corporate culture lying closer to the optimal point in between the two banks, because this would imply being on a higher efficiency curve. In reality, however, it is not always like this. The Swedish banks will end up at different points on this frontier. Where the bank will end up on the frontier may depend on the character of the bank and what kind of acquisitions the bank is involved with. If the bank only acquires small banks, it is more likely the bank will implement the culture of its own all over the organization in order to make it more effective. However, if the bank will acquire a bigger bank it may have to adopt its culture somewhat and will then end up more in the middle of the frontier. A bigger bank will have a stronger corporate culture prior to the acquisition and it will not be as easy to simply change it to the one of the acquiring bank. Also, it is more likely that a bigger bank will be somewhat effective and thus it is not as vital to introduce the culture of the Swedish bank to improve the efficiency but rather a combination of the cultures of the two banks is likely to give the best result. Thus, a bank may very well be profitable laying further up the frontier. It is important that the bank thinks of the efficiency implications in order for the M&A to be profitable and meet the objected goals of the bank. The reason for focusing a lot on cultural differences and its implications is because it seems as the way the bank deals with this issue will determine whether the M&A will lead to profits or failure. It is important that the bank turn the cultural differences to something positive rather than to consider it as a problem. Improving efficiency is commonly a motive of Swedish banks and it is likely to be improved by a diverse management using the cultural differences within the bank at their advantage.

All the banks told us they had fulfilled their ambitions linked to the cross-border M&As. The mergers and acquisitions made by the Swedish banks can thus be seen as successful. It is difficult to say how successful they have been, as it takes time for the integration process of the two banks to show the results and efficiency. It takes time for the costs to go down and also to see all the synergy effects. This means that the banks can see the positive results of a merger or an acquisition only after a few years. The initial phase of the M&A is usually a slow process where the two companies must blend together and establish the new organization. These findings show that a cross-border M&A will
usually not become profitable before the second year after the consolidation. In the short run it seems as though cross-border M&As are not profitable due to start-up costs etcetera. However, in the long run the advantages of diversification and efficiency may exceed the costs of the M&A as both the eclectic and internalization theory suggests is possible. A few of the previous studies also conclude that it may be profitable in the long run, however, most research done do not support this, as stated before.

The profitability of a cross-border M&A should occur in the long run, and be the foundation upon which the bank grows. It is, therefore, good for a bank to reach out to new international markets to build new customer relations which will raise profits for many years to come. In order to be profitable the Swedish banks establish themselves in markets where they consider themselves having competitive advantage. This will increase the chances of succeeding in reaching also the local customers of that market, which is part of the motive when following the domestic customers. These findings are in accord with those of Focarelli. However, the eclectic theory suggests that in order for a cross-border bank M&A to be profitable the bank needs to have monopolistic advantages. This has not been found to be the case among the Swedish banks. None of the Swedish banks have monopolistic advantages but have still seen results of profitability due to cross-border M&As. If the bank succeeds to grow and to reach new customers, the cross-border M&A is more likely to be successful. The banks stated that growth was one of their motives for engaging in cross-border M&As, this is also something they have managed with. When the banks grow and become bigger, they will have a larger market share. This implies that they will get a larger customer base and therefore larger revenues in a near future. If the costs can be controlled and the revenues increase the profitability will increase too.

It seems as though the Swedish banks have a long term prospect and are investing to grow and become more competitive in the future. There has been a lot of activity among the Swedish banks during the last 10 years, with several cross-border M&As. The first years will include plenty additional costs, as mentioned also in previous research, before the positive efficiency synergies have began to show. This makes it an interesting future to see how well the Swedish banks are doing. We will during the next years observe the results from many recently made acquisitions and make out to what extent the efficiency gains of which Berger as well as eclectic and internalization theory speaks of will affect the profitability. We have already seen some positive results and are likely to see even more in a near future as the efficiency synergy effects of the most recent take-over will kick in during the years to come. So far the M&As have indicated better competitiveness, more customers and decreased systematic risk which point to a profitable future for the Swedish banks. Though some theory stated cross-border M&As are not profitable we can see this is not the case for Swedish banks. This could be due to the research having been done before the technological advances had affected the activity as much as it has. As mentioned in the beginning of the conceptual framework chapter most of the research on

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122 Williams (1997)  
123 Focarelli (2001)  
124 Williams (1997)  
125 Berger et al. (2000); Williams (1997)
efficiency is based on data on financial institutions from the 1980s. It is most likely that recent technological progress have increased scale economies for financial services and thereby created opportunities to develop cost scale efficiency through M&As.126 This would then help explain the increase in cross-border M&As lately, as this period is shaped by great technological advances. Another reason could be that the studies were more of a short term character, and thus mostly saw the negative effects of different additional costs and the problems of cultural differences etcetera.

Looking historically all the big Swedish banks started out merging and acquiring small domestic banks, then expanded in the Nordic countries, and slowly further and further away from Sweden. In the future it is highly likely they will continue to expand internationally, but where and when needed, the global financial climate is highly likely to affect the decisions of the banks. For the moment Swedish banks are internationally considered as competitively stronger than many other banks due to the destruction of many bank’s creditworthiness as a result from the financial crises. At the same time, the costs of other banks are likely to have been reduced, and it could then be argued that this is the time to invest in take-overs. Whether or not the bank indeed should acquire depends on the character of it. If the bank is of a more aggressive nature an acquisition can be more expected, however, the profile of the Swedish banks is rather one of less risk. This can be seen also when looking at their motives and ways of implementing cross-border M&As; they prefer diversification which will lower risk, cost efficiency gains through cost reduction and economies of scope and scale both of which are rather safe ways to grow. None of the Swedish banks have acquired very big banks nor very many in a short period of time. They prefer to mature in there own pace and to merge and acquire when needed. Some banks are leaning more towards a safer strategy whilst others are a little bit more aggressive when expanding abroad.

126 Berger et al. (2000)
6. Conclusion

In this section we will go through the main findings of our study and also propose suggestions as to how to continue to research within this field.

The motives that we found are the most important among the largest Swedish banks when merging or acquiring abroad are; cost efficiency, revenue efficiency, diversification and to follow the customers as well as to expand in order to grow.

- The Swedish banks consider cost efficiency as an important factor to include when initiating in cross-border M&As. However, it is not really regarded as a motive but rather it is a natural part of the acquiring or merging process.

- When initiating in cross-border M&As Swedish banks want to increase their scale operations in order to attain more customers so as to increase their revenues. Hence revenue efficiency is an important motive. This is one of the main measures to assess the profitability of a bank and the successfulness of an M&A.

- Diversification is also a fairly broad concept. It includes market diversification with a decreased risk as a consequence. It also possibly includes a more diversified management which could lead to higher efficiency and possibly also an improved product mix.

- Follow the customers is necessary for the Swedish banks in order not to loose them to other banks, and to stay competitive on the Swedish market. This motive has grown in importance since the globalization as the customers becomes more internationally active.

- Expanding abroad due to the market being saturated was found to be an important motive as well. This was something we found in our study and may in a sense be specific for our market, as the Swedish market is fairly small and concentrated. It can, however, probably be found in other countries as well, as concentrated markets can be seen in other European countries too. Since previous research has not been concentrated on the Swedish market there is not much mentioned about this.

All the motives are related to each other. When the bank follows the customers abroad the bank naturally also diversifies. This then leads to improved cost efficiency due to economies of scale as well as possibly improved revenue efficiency. The Swedish banks, during the interviews, stated that they wanted to expand in order to reach higher profitability. They emphasized the importance of following the customers abroad in order to increase strength and competitiveness on the Swedish market. This is clear enough, however, the reason for why the expansion leads to profitability is likely to be due to efficiency gains as well as reduced risk due to diversification. It is important that the bank knows all of the implications of the expansion and how the factors affect one another. We
can therefore conclude that it is important to have well defined goals as well as objections of how to fulfil their ambitions in order to be profitable. Due to the interrelation between the motives it is thus difficult to rank the motives in order as to how influential they are on the decision of cross-border M&As. However, as the Swedish market is saturated all of the banks emphasized the importance of expanding abroad in order to grow. Hence this could be considered to be the most important motive for the Swedish banks.

We have in this study found supporting evidence of diversification, revenue efficiency and to follow customers as motives for Swedish banks to merge with or acquire foreign banks. It seems like cost efficiency is not a motive, but rather an important part of the process. Furthermore we found that growth was a motive; the Swedish banks need to expand abroad in order to grow as the Swedish market is saturated.

6.1 Ambitions fulfilled?

The biggest issue of cross-border M&As are cultural differences, which was something all of the banks spoke of during the interviews. This causes a lot of adjustment costs and the integration process is something the banks are trying to make more effective and smooth. To solve this problem the banks have set up branches in several different countries and regions in order to research the market and get a better understanding as to how it works. This has led to the banks also initiating acquisitions in these countries, with the acquisition of the bank in Russia as one example. The more cross border M&As the bank takes part in, the more knowledgeable it will be of other cultures which enhances the chances for success of future M&As. The bank will be more efficient due to prior experience and thus the integration process will be smoother. If the M&A result in a change of how the management is thinking or increases the quality of it, it is likely to result in improved profitability. A way in which to change the set up of the management is to increase its diversity and bring in the culture of the other bank. When the management works more efficient, it will reduce costs which can lead to improved profitability.

In order to be profitable in the long run the banks have expanded their customer base and also become more knowledgeable of the international market due to cross-border M&As. Furthermore, they have lowered the risk associated with them as well as increased efficiency due to the diversification. This has led to increased revenues as well as improved profitability. The Swedish banks have become more attractive to companies in the Nordic as well as the European countries. Also, the number of Swedish customers, mostly corporate customers, has increased due to cross border M&As. It is necessary for Swedish banks to expand internationally in order to grow on the Swedish market. This is because as firms grow they need more capital and hence the bank needs to grow together with its customers. This is in order not to lose their existing customers to foreign banks. Being a large bank means possibilities to provide services to big customers which may lead to increased profitability. Furthermore, companies prefer receiving all of their financial services from one place, which requires the bank to grow in order to be able to provide all of the services demanded. These are the revenue scope economies which will lead to improved profitability. This motive is, thus, linked to the number of international active customers of the bank. Also, at least one of the banks has improved the image of
its brand name. From these finding we can see that there is great potential for the Swedish banks to increase the confidence of their brand names and thus also to become more internationally well known. The Swedish banks have somewhat different attitudes towards expansion. Some of the banks are more aggressive whilst others prefer having a calmer approach towards growth. However, generally none of the Swedish banks can be seen as highly aggressive, and are rather focusing on long term growth. It seems as though the Swedish banks have reached their objected goals prior to the M&As. According to themselves they have become more competitive and stronger, which then would imply that cross-border M&As is successful in the long run for the Swedish banks. Our results are hence rather contradicting from that of many other studies concerning profitability and efficiency.

6.2 Future research
Future research can focus more on the possible agency problems, and when researching smaller banks the motive of survival may also be applicable. Also, we believe we have built a good foundation for future studies within the field of synergy effects of efficiency and how it is affected by diversification and expansions. With a quantitative approach future research can explore the relationship between the variables more, and try to explain them better. There are many possible angles of looking at this issue of cross-border M&As, and more research is required within the area of banking.
7. References

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8. Appendices

8.1 Interview guide sent to the interviewees

1) Vilka sammanslagningar/uppköp har skett mellan er bank och andra banker utanför Sveriges gränser de senaste 10 åren? Har du varit med vid dessa tillfällen?

2) Har ni tagit över eller sammanslagit med någon bank som har haft finansiella problem?

3) Vilka motiv ligger bakom de nämnda internationella sammanslagningarna/uppköpen?

4) Var motivet annorlunda när (om) ni tog över banken med finansiella problem?

5) Har motivet förändrats från de första internationella sammanslagningarna/uppköpen, för 10 år sedan, mot hur det är nu?

6) Har ni uppfyllt de önskade målen med de internationella sammanslagningarna/uppköpen? Hur? Om ej, varför?

7) Vilka är de positiva resultat (minskade kostnader, ökade intäkter, ökad diversifiering, bättre ledarskap etcetera) av den internationella sammanslagningen/uppköpet? Hur?

8) Vilka är de negativa resultat (ökade kostnader, minskade intäkter, minskad diversifiering, sämre ledarskap etcetera) av den internationella sammanslagningen/uppköpet? Hur?

9) Att finnas på flera olika internationella marknader är det ett av era mål?

10) Har ni blivit mera konkurrenskraftiga efter den internationella sammanslagningen/uppköpet?

8.2 Interview guide

Vi, Pernilla Lindblad och Andreas Östlund skriver en C-uppsats om varför svenska banker går samman med och köper upp utländska banker. Vi vill även kolla på huruvida dessa har varit lyckosamma, och lönsamma.

Vår forskningsfråga lyder;
– Vilka är de underliggande motiven bakom sammanslagningar och uppköp mellan svenska banker och utländska banker?
– År dessa sammanslagningar och uppköp lyckosamma, är de lönsamma?

Frågor

1) Vad heter du?
2) Hur gammal är du?

3) Vad har du för tjänst?

4) Vilka andra positioner inom företaget har du haft?

5) Hur länge har du jobbat där?

6) Vilka sammanslagningar/uppköp har skett mellan er bank och andra banker utanför Sveriges gränser de senaste 10 åren? Har du varit med vid dessa tillfällen?

7) Har ni tagit över eller sammanslagit med någon bank som har haft finansiella problem?

8) Vilka motiv ligger bakom de nämnda internationella sammanslagningarna/uppköpen?

9) Var motivet annorlunda när (om) ni tog över banken med finansiella problem?

10) Har motivet förändrats från de första internationella sammanslagningarna/uppköpen, för 10 år sedan, mot hur det är nu?

11) Har ni uppfyllt de önskade målen med de internationella sammanslagningarna/uppköpen? Hur? Om ej, varför?

12) Vilka är de positiva resultat (minskade kostnader, ökade intäkter, ökad diversifiering, bättre ledarskap etcetera) av den internationella sammanslagningen/uppköpet? Hur?

13) Vilka är de negativa resultat (ökade kostnader, minskade intäkter, minskad diversifiering, sämre ledarskap etcetera) av den internationella sammanslagningen/uppköpet? Hur?

14) Hur påverkas er verksamhet av tekniken? Har det blivit några förbättringar på sistone?


16) Har ni stött på andra problem efter eller under den internationella sammanslagningen/uppköpet? Varför?

17) Har er organisation visat tecken på effektivisering efter de internationella sammanslagningarna/uppköpen?

18) Att finnas på flera olika internationella marknader är det ett av era mål?

19) Har ni blivit mera konkurrenskraftiga efter den internationella sammanslagningen/uppköpet?
20) Hur ser ni på diversifiering och risker i kontakt med internationella sammanslagningar och uppköp?

21) Framtiden? Kommer ni att fortsätta med de internationella sammanslagningarna och uppköpen? Vart och varför?

22) Vill du vara anonym?

8.3 E-mail sent to interviewees before the interview

Hej,

Med vänliga hälsningar

Pernilla Lindblad och Andreas Östlund