INTERNATIONALIZATION OF SERVICE FIRMS
Case study of Swedbank and SEB Bank

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Authors:
Mazhyrina Yuliya: 820828-7220
Negru Adela: 880425-2784

Supervisor: Gabriel Baffour Awuah
Examiner: Svante Andersson
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Mazhyrina Yuliya                      Negru Adela
ABSTRACT

Rapid internationalization of economic activities takes an important place in the last decades in the world economy. Services make a huge contribution to the international trade and their expansion grows constantly. It is very important nowadays to investigate the internationalization process of business service firms, their motivations and modes of entering into the new unexplored market. Moreover, correct choice of entry mode and evaluation of the incentives can affect the firm’s performance and the duration of the presence in a foreign market. It is also very important to understand the implications of initial mode of operations for different kinds of services.

The purpose of this thesis is to gain better understanding of internationalization process of service firms, their incentives to enter new market and choice of entry mode. This is gained by evaluating such service firms that provide financial services as Swedbank and SEB Bank and their international performance in Baltic countries and Ukraine. These chosen companies provide the study cases for this paper.

The findings of this research are that the main incentive of SEB to internationalize is following its customers and increasing market power in order to become a leader in providing financial services. While for Swedbank customer following and profit incentives are identified as crucial ones when going international. The results show that acquisition is an identical entry mode for both banks and is chosen as most sufficient one.

Key words: internationalization process of service firms, banks, incentives, entry modes and acquisition.
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1. INTRODUCTION

The introduction will present a background of the internationalization process in general, existing definitions of this concept together with the importance of studying this field. A problem discussion will be debated which will lead the authors to present their purpose and research questions. The delimitations of this paper will be also presented in this part.

1.1 BACKGROUND

The internationalization process in international business studies is indicated as a process in which companies start to enlarge progressively their participation and involvement in the international arena (Johanson & Vahlne, 1977). The internationalization concept in itself brings people closer and unites the world economies. Within the process, the borders are disappearing and the distances are becoming shorter due to transferred information and knowledge. The internationalization process has been investigated by many scholars and has been a key subject in international business research (Buckley & Ghauri, 1993). But still the question about research objects in the concept of internationalization is undeveloped and the notion of “gradual internationalization” remains polemical (Welch & Luostarinen, 1988).

As Buckley and Ghauri (1993) claim that internationalizing implies changing state and thus leads to dynamic change. Hence, a lot of questions appear among researchers considering the process of internationalization. How do the firms internationalize? Which stages do they go through? The controversy of the concept cannot be underestimated, but it can be definitely stated that a better understanding of the process can be reached by investigating the behavior of the firms and by learning from their experiences in the world economy.

Blomstermo, Eriksson and Sharma (2004) mention that the behavioral internationalization process has a need to learn and collect knowledge from firms. Internationalization implies collecting new knowledge in order to make sense of unknown situations. For the better understanding of the process of internationalization, it is necessary to reach a deeper understanding of the learning process and the process of shared knowledge among countries.

The literature available in the domain of internationalization focuses upon the manufacturing firms and there is a lack of research about the internationalization of service firms. It is observed that in recent years the interest to explore the internationalization of service firms has increased among researchers. The literature entails different authors’ opinions such as: “The business services sector is undoubtedly becoming increasingly international in scope. However, the internationalisation of firms within the sector has yet to be fully explored” (Roberts, 1999, p.68). “The research addressing internationalization of services has been generally lacking” (Kathuria et. al., 2007, p.968). The majority of the writers agree upon the fact that services and manufacturing firms are different and that more empirical validation is needed (Kathuria et. al., 2008).

The business service sector increases very fast in the international arena (Roberts, 1999). With the globalization of all economic activities, the demand for business service firms to go international and follow their clients rose at the same time. The internationalization process for service firms became a priority in order to achieve profitability and growth (Roberts, 1999).

Services’ characteristics of intangibility, inseparability, variability and perishability make it harder for service companies to go overseas (Kotler and Armstrong, 1994). This can be a
reason why the process of going abroad for the service firms still remains unexplored and needs to be investigated further.

1.2 PROBLEM DISCUSSION

Since the field of internationalization of business service firms is not deeply explored and the theory focuses on the manufacturing sector, this thesis will be focused on investigating the internationalization of service companies. Models concerning the process of internationalization are developed mostly for manufacturing firms. Researchers in the domain of internationalization have contradictory opinions about the applicability of these models for service companies. Some groups of scholars claim that knowledge about entering new markets by manufacturing firms can be used by service organizations (Agarwal & Ramaswami, 1992, Terpstra & Yu, 1988, referred in Ekeledo & Sivakumar, 1998). While Eramilli and Rao (1993) assume that service firms have their own strategy and modes when penetrating a new market.

1.3 PURPOSE

The purpose of the study is to achieve a better understanding of the internationalization process of service companies. The authors want to investigate what are the main incentives for service firms when expanding outside the home country that further lead these companies to choose an entry mode in order to penetrate the chosen market.

1.4 RESEARCH QUESTIONS

1. Which entry modes do service firms use when expanding internationally?

2. What are the main incentives of service companies when entering a new market?

1.5 DELIMITATIONS

“Inseparability of production and consumption of services makes it difficult to export services, such as banking, because inseparability requires direct involvement or the presence of consumers” (Kathuria et. al., 2007, p.970). In this thesis, the writers choose to study banks as firms which provide services since they find it an interesting topic for study. The empirical findings of this paper will be based on two Swedish banks: SEB and Swedbank. These two banks were chosen because of the increased interest of the authors in investigating the Swedish banking sector.
2. LITERATURE REVIEW

The literature review section will cover existing theories, findings and researches concerning the internationalization of business service firms, with focus on such financial organizations as banks. In order to gain a better understanding, an overview of the literature concerning internationalization of service firms is presented. The process of going international for banks is presented with focus on their incentives and entry modes. A theoretical framework will be further developed and gathered with the empirical findings in order to conduct the analysis.

2.1 INTERNATIONALIZATION OF BUSINESS FIRMS

Internationalization is the most common strategy of many large business service firms in order to achieve growth. “The process of internationalization usually occurs in an evolutionary manner with firms increasing their overseas involvement gradually, passing through various stages in the course of entering and establishing a production facility in a foreign market” (Roberts, 1999, p.68).

Some of the existing models in the internationalization theory are Born Global, Transaction Cost Analysis Model and the network model. One of the most known internationalization models is the Uppsala model developed by Johanson and Wiedersheim-Paul in 1975 and complemented by Johanson and Vahlne in 1977. According to Johanson and Vahlne (1977, p.23), “the internationalization of the firm is a process in which the firms gradually increase their international involvement”. The Uppsala model implies that firms increase their international commitment by their continuing acquisition of foreign market knowledge. Johanson and Vahlne (1977) have noticed a similar successive establishment of operations in new countries illustrated in the following figure.

![Figure 1: The establishment chain of firms](source)

The time order of these establishments is connected to the psychic distance between the home and the import/host country. The psychic distance is the “sum of factors preventing the flow of information from and to the market like differences in language, education, business practices, culture, and industrial development” (Johanson & Vahlne, 1977, p.24). Firms tend to enter markets with successively greater psychic distance, in most cases greater geographical distance.
These interpretations of the internationalization process have been criticized (Roberts, 1999). This model was created based on study cases of manufacturing companies, which narrows its application into manufacturing firms.

2.2 INTERNATIONALIZATION OF SERVICE FIRMS

Firms are divided into manufacturing firms and service firms. “The internationalization of business services has attracted much attention in recent years” (Roberts, 1999, p.69). “With the increasing globalization of economic activity, business service firms have come under growing pressure to follow their multinational client” (Roberts, 1999, p.70).

Companies will try first to saturate their domestic market and then go international. In some cases, service firms located in capital or populated cities will choose to expand internationally, before they even start covering their home market, due to the fact that the majority of their clients are globally located clients (O'Farrell and Wood, 1993; Roberts, 19981, referred in Roberts, 1999). In this way, firms can guarantee best service quality, and eliminate the local competition in the strange market. Subsequently, internationalization of services arises with the presence of the company in the foreign market. Also, some services can be exported only if the company is established overseas.

According to Roberts (1999), the costs of internationalization of service firms are relatively lower than of firms in the manufacturing sector. Here, only an office and experienced employees are needed. Consequently, the level of market commitment for creating an establishment in a new market also is lower. Due to these factors, service companies are likely to establish an overseas presence earlier.

With the internationalization of service firms, exports are very important because only by exporting their services and serving clients from foreign markets, these companies can internationalize (Roberts, 1999).

Embodied service exports can be provided to customers from another country in a letter or report. “Personnel travelling may facilitate trans human exports, and finally, business services can be exported through telecommunication networks in the form of wired exports” (Roberts, 1999, p.73). Face-to-face contact is mandatory in the supply of services. “Additional factors necessitating client-producer contact include the need for cultural sensitivity and local knowledge, regulatory requirements, the desire to protect intangible assets such as reputation, and the need for absolute confidentiality” (Roberts, 1999, pp. 76). Therefore the forms of exportation as embodied service exports and wired export are likely to be used most often.

According to Roberts (1999, p.84), the internationalization of business service firms contains the following stages:
- Delivery of services to home clients only (no exports).
- The firm provides its services only to local clients in the domestic market.
- Delivery of services to foreign clients in the domestic market (domestically located exports).
- Delivery of services to overseas markets through embodied service exports, trans human exports and wired exports.
- The service company chooses to export its services outside the country.
- Creation of a presence through which to deliver a service largely produced in the domestic market (intra-firm exports).
· Establishment of service production facility in the foreign market.
· The service firm chooses to establish itself in a new market.
· These stages differ from firm to firm and the time spent in each stage, some firms can internationalize faster by a merger or procurement.

2.2.1 SOFT SERVICE FIRMS

According to Erramilli (1990, referred in Ekeledo & Sivakumar, 1998), services should be classified into two groups: hard services and soft services. Hard services can be life insurance, education, music etc. These services are characterized by separation of consumption from production. It does not mean that movement from producer to customer should have a place in this process. “A hard service has both a manufactured good component and a service component” (Ekeledo & Sivakumar, 1998, p. 278). The example of hard service is when software or architectural services can be moved to documents or some other tangible facility.

On the contrary, soft services imply simultaneous production and consumption. Soft services cannot be exported due to required physical proximity between the service producer and customer (Ekeledo & Sivakumar, 1998). “The soft service provider must be present abroad from their first day of foreign operations” (Blomstermo & Sharma, 2006, p.213). Examples of soft services are banking, health care services etc.

2.2.2 SOFT SERVICE FIRM’S ENTRY MODES

Rapid expansion of business services should not be currently underestimated. The contribution of trade in services to international trade is estimated around 20-25 percent and it grows constantly. One of the important questions that arises is which entry mode the service firms use when they go international? (Ekeledo & Sivakumar, 1998). Most knowledge about foreign entry modes is obtained from the manufacturing sector. Some studies claim that manufacturing and service firms and their entry modes should be distinguished due to their differences (Erramilli & Rao, 1993).

Service firms can use different entry modes in order to enter a foreign market, such as joint ventures, exports, licensing or through establishing a subsidiary.

Since the service firms cannot use the export option and producer’s inability to separate the product, the process of entering a new market requires high control over the process of production (Ekeledo & Sivakumar, 1998). Service firms also have a need for close seller-buyer cooperation.

According to Blomstermo and Sharma (2006, p. 214), the presence of the service firm in a foreign market can take two forms:
- High control mode (wholly owned subsidiary, majority owned subsidiary)
- Low control mode (licensing, different types of contractual relationships)

High control mode requires more resource commitment in a foreign country due to the high level of risk and uncertainty. High control modes are preferably used when the goal is to gain experience, to obtain the knowledge of a foreign market and to be able to adapt to the consumer’s needs.

Blomstermo and Sharma (2006, p.223) claims that “the internationalizing service firms may achieve its goals better by establishing a high control foreign market entry mode”.

Erramilli (1991, referred in Ekeledo & Sivakumar, 1998) identified unique characteristics in the choice of entry mode of soft services. While manufacturing firms choose low-control modes and follow a more linear process of entry, such as export and establishing mostly sole
ownership after getting some experience, the service firms on the contrary favor more joint ventures in order to gain experience of the foreign market and operate with shared-control modes. After obtaining the required experience, the service firms revert to whole ownership. Another explanation is suggested; when the service firm is motivated to follow its client abroad there is a need to have experience of a new market. In order to gain this experience, service firms prefer to merge with local organizations. After learning the market, its risks and special characteristics, service firms establish wholly owned subsidiaries. Following the client and market seeking are important motives for the soft service firms to internationalize, especially for banks, in comparison with hard service firms. As was found by Erramilli and Rao (1990 referred in Ekeledo & Sivakumar, 1998, p. 280), “greater proportion of market-seeking soft-service firms (compared with hard-service firms) adopted entry modes involving collaboration with external entities”.

Banks are firms providing soft services because, as mentioned earlier, “inseparability of production and consumption of services makes it difficult to export services, such as banking, because inseparability requires direct involvement or the presence of consumers” (Kathuria et al., 2007, p.970).

According to Roberts, J. (1999), banks´ services are usually knowledge and skill intensive services, and not capital intensive services. The internationalization of these entities will often demand the replacement of highly skilled personnel overseas.

Recently, international trade in goods and financial services has become increasingly important. Due to this, many banking institutions have also become international. "Banks have expanded internationally by establishing foreign subsidiaries and branches or by taking over established foreign banks. The internationalization of the banking sector has been spurred by the liberalization of financial markets worldwide. Developed and developing countries alike now increasingly allow banks to be foreign-owned and allow foreign entry on a national treatment basis" (Claessens, Demirguc-Kunt & Huizinga, 2001, p.891).

“The rapid increase in international trade and cross-border financial transactions in the last two decades has been coupled, in more recent years, with an expansion in international banking. This has determined an increase in both the number of acquisitions of foreign banks and the scale of activity of foreign branches” (Focarelli & Pozzolo, 2001, p.2). However, banks internationalized on an unprecedented scale since the 1980s. In 2003, the 30 largest banks held more than USD 7,586bn, or 39% of their assets, outside their home country (Schoenmaker & Van Laecke, 2007).

After reviewing the literature in the domain of the internationalization of firms providing soft services, the authors notice a gap considering the motivations of the firms when they decide to expand, their main incentives in their choice of an entry mode. Our research is addressed to fulfill this gap by investigating the factors which lead the service firm to choose a particular foreign entry mode with the help of a theoretical framework.
2.3 THEORETICAL FRAMEWORK

After reviewing relevant literature about the entry modes that banks use when they go international and their incentives to expand in other markets, the authors have developed a model that will be used in order to analyze collected empirical data. The model represents the main incentives of the banks to go abroad, which motivate them to internationalize and sequentially to choose an entry mode.

Figure 2: Bank’s incentives which affect its choice of entry mode. Source: Developed by the authors.
2.3.1 BANKS´ INCENTIVES TO INTERNATIONALIZE

In order to understand the process of the internationalization of banks, it is very important to explore the reasons behind the process. What makes the financial organization expand abroad? (Slager, 2006). The model illustrated in figure 2 shows a number of incentives for going internationally which are further discussed.

Customer

One of the incentives of a bank to start expanding internationally is following its clients. Usually, the internationalization of banks fits the phenomena of “customer following” or “market seekers”. “This behavior coincides with marketing strategies, where the internationalization can be seen as a way of maintaining a relationship with original clients which are abroad now, and also as a way to search for new clients” (Alavarez-Gil et. al., 2003, p. 111). By going international, banks are not limited only to their home market and customers are able to do transactions worldwide (De Nicolo’, Bartholomew, Zaman & Zephirin, 2003).

The processes of customer following can be described as pull and push effect. The pull effect becomes apparent when the domestic banks in a foreign country are not able to offer the full package of services to the entering firm. So, internationalization of the bank is a driving force when financial innovation in a foreign country is way behind. Another example of the pull effect shows up when a bank simply has a fear of losing the client because of the competitors in the host country. The third incentive of the bank to follow the customer is a benefit to both sides in a host market. The push effect represents the process when the customer is led by the bank into new markets in order to globalize its own business (Slager, 2006).

By following the customers into the markets where the last mentioned want to conduct businesses means expansion and new markets for a bank. Also, the market power is increased which leads to profit.

New markets

The incentive to exploit new markets is divided into three categories.

- A new market with similar demands; it implies the process of entering new market with already existing customers that have the same demands as in the home market. It is a very good opportunity because the service products can be easily transferred there.
- The next category is a market with new demands; it illustrates the situation when firms are motivated to go abroad because of restrictive size of the domestic market and an inability to sell the products there.
- The third category of this incentive is rescaling home boundaries. It can be explained as an incentive to the organization to enlarge the domestic market (Slager, 2006).

Another determinant to enter a new geographical market is when the home market of the bank is too small and “the boundaries in the home market are stretched or has limited further opportunities” (Slager, 2006, pp. 48).

Increasing market power
To increase a bank’s market power can be problematic in a domestic country. This could be due to a high concentration of other financial institutions and their high market shares. It causes a problem to limit a bank’s earnings because of an inability to achieve a greater market share in a domestic market. So, it is an incentive for a bank’s international activity where earnings can be achieved easier and there are no limitations. A bank is considered efficient if its market share takes a leading position among others (Slager, 2006).

Efficiency of the organization can be also achieved by merger and acquisition activity. It provides an opportunity to enlarge their market power and achieve additional revenues. It also leads to diversification of the bank activity, through mergers and acquisitions. In this case the product line can be increased and it broadens the bank’s geographic reach (Slager, 2006).

Banks expand in markets with a high expectation of real growth, inefficient and low-concentration domestic banking systems, and tax regulation (De Nicolo´ et .al. 2003).

Profit incentives

The motives of banks to expand internationally depend on perceived profit opportunities relative to those available in domestic markets (De Nicolo´ et.al., 2003).

For most financial institutions such as banks, the net interest income made on loans is one of the important sources of income. Expanding into other markets provide an opportunity to gain higher profits, due to the fact that the interests are higher in other markets. Loan-deposit spreads can be characterized as pull and push factors. The pull factor appears when the bank sees the opportunity to reach higher spreads in other markets. The push factor describes the situation when the interest rate is lower in a domestic market which motivates the bank to look for better opportunities to increase their income (Slager, 2006).

The goal to gain a lower cost of capital is considered to be a motive to go abroad for the banks. The cost of capital is the cost of funds and implies a minimum return of investments. Costs of capital differ from country to country. Banks are motivated to go international in order to gain minimal return of the investments, which can help the bank to enlarge its market share. If the domestic return decreases and there is no alternative way out, then going international has a place in a bank’s decision, in order to supplement the return (Slager, 2006).

According to Focarelli and Pozzolo (2001, pp. 14), “banks prefer to expand to countries where the expected rate of economic growth is higher and the banking system is on average less efficient”. This can be explained due to the fact that profits of banks are lower in developed countries because of a highly competitive market. Developing countries with a constantly growing economy are expected to have a faster rate of economic growth than wealthier countries.

However, new markets are not chosen only by the customers that the bank wants to follow, but also by the economic structure of those particular markets, by the regulation in that place and by geographical determinants.

Economic structure

Differences in the economic structure between the home market and host country can be an incentive for the banks to expand. High economic growth rates in foreign countries are a driving force for the banks to internationalize. If the economy grows constantly, it automatically means that the perspective for bad loans is lower and in reverse, a high growth economy implies increasing the loans for people, which leads to capitalization for the bank
that tends to enter. Positive economy growth rates and GDP per capita are the incentives for the financial institution to enter, due to the fact that it can result in a bank’s profitability. Changes in economic and financial structures are also an important incentive to enter. Countries with emerging economies start being attractive markets for foreign investments, due to the fact that they become more service oriented. This leads the society in emerging countries to increase their borrowing needs and create saving surpluses. Due to changes in society and economies all over the world, emerging markets become more open to foreign companies to enter their markets (Slager, 2006).

**Regulation**

“(De) regulation, domestic or foreign, has always been a strong incentive to internationalize” (Slager, 2006, p.50). Regulatory entry barriers which were lowered made it easier for banks to expand outside the domestic market (De Nicolo´ et.al. 2003).

Strict regulation in a domestic market can stimulate the bank to go abroad, due to existing freedom and fewer regulatory restrictions in a foreign country. Regulation implies monetary policy, taxation, entry barriers. Banks in countries with high taxes can start expanding abroad in order to set up branches and subsidiaries in countries with lower taxes, which can increase their profitability (Slager, 2006).

**Geographical and cultural determinants**

Geographical proximity and common culture can be a motive for the bank to enter new markets. These determinants make the internationalization process easier, because similar products and the way to promote them can be offered to the customers in a host country, due to their similar administrative system and culture. It provides an opportunity to have low entry and sales costs of financial services. Sharing a common language makes the integration process easier when the local bank is acquired (Slager, 2006).

According to Ekeledo and Sivakumar (1998), there are different factors as well as barriers which influence the choice of company’s entry mode. The authors suggest that attractive incentives such as market potential of a host country, good economic infrastructure favor the firms to choose Foreign Direct Investment. When service firms’ main motives to internationalize are market seeking and following the customer, they also prefer Foreign Direct Investments. The firms face less risk and can avoid competitive pressure because of the protection that is provided by their domestic customers. The choice of entry modes is further discussed.

**2.3.2 MARKET ENTRY STRATEGIES OF BANKS:**

“After a firm decides to enter a certain foreign market, it must choose a mode of entry, select an institutional arrangement for organizing and conducting international business transactions, such as contractual transfers, joint ventures, and wholly owned operations. The choice of the correct entry mode for a particular foreign market is one of the most critical decisions in international marketing” (Erramilli & Rao, 1993, p.19).

This is because this choice determines the degree to which the firm gets involved in developing and implementing marketing programs in the foreign market, the extent of control
the firms have over their marketing activities and how much they will be successful in new markets.

According to Erramilli and Rao (1993), service’s characteristics of intangibility, perishability, heterogeneity and inseparability between the production and consumption are major factors influencing the entry mode.

Internationalization can arise by a merger, an acquisition or an establishment from zero. Mergers and acquisitions have many benefits. It is very hard to create a new enterprise, especially in a new and unknown market. The firm that chooses acquisitions or mergers can enlarge its network faster and doesn’t suffer from losses, until it launches itself into the new market. However, every company chooses the way which suits it the best, depending on the age of the firm and the time when it wants to go abroad. “Internationalization through acquisitions and mergers is of particular importance to firms which are latecomers to the international market” (Roberts, 1999, p.76).

The acquisition of foreign bank shareholdings is the most common way chosen by banks when expanding outside the domestic market. Even though most of the banks provide online banking services worldwide, personal relationships with the client still remains very important for many banks. “Therefore, banks that wish to gain a significant market share in a foreign country often find it more profitable to buy an equity share in an already established bank: though a foreign bank may have a comparative advantage in terms of its organization of banking activity, it is very unlikely to be in a better position than local banks with regard to building new relationships with local clients” (Focarelli & Pozzolo, 2001, p.2).

In their study (Kathuria,et.al., 2008), found out that banks emphasize more on domestic growth activities and less on international growth activities. Banks that internationalize, using a wholly owned strategy, also use and prefer a collaborative approach.

Acquisitions and mergers

The speed of a chosen market entry will influence the short-term profit of the firm that chooses to expand internationally. This profit can be easier achieved by acquiring a company which exists in the chosen market. By acquisition, the new establishing company will already have a trained work force, current customers, supplier contacts, recognized brands, an established distribution network and an immediate source of profit.

The decision of which firm to acquire may depend on the availability of the companies for potential acquisition. This is the reason why this decision may be based very much on the opportunities available, rather than on suitability.

Acquisition has also its disadvantages, for example, it is not always a time-saving alternative for growth. Searching and assessing possible acquisition firms, having long negotiations and then integrating the acquired company into an organization’s structure may take a large amount of time. Also, the acquiring company may take over demotivated employees, a bad reputation or image and expired products or processes. The acquisition of companies which are part of a country’s heritage by foreign firms can be seen as disadvantaged. Every state wants to encourage the development of its own manufacturing and technology; it does not want to be bought by others.

“Through the past few years there has been considerable debate about acquisition and mergers as a method of achieving rapid expansion” (Doole &Lowe, 2007, p.238). The scope of acquisition is helping an ineffective firm to grow by being purchased by an effective and more experienced company. This does not happen always; sometimes successful companies cannot save other firms.
**Wholly owned subsidiary**

This type of market entry mode is characterized as the most expensive mode among others and requires greater commitment in management time and resources. When the firm takes a decision to set up a wholly owned subsidiary, the incentive to do it is dictated by the firm’s desire to take up a long-term presence in the market. It happens when the company that establishes a wholly owned subsidiary in a foreign country is confident about a positive future of its product and believes in a long-term potential in the market. Full ownership implies high level of control that is needed in order to follow the company’s strategic objectives.

There are certain risks that exist when establishing a wholly owned subsidiary, such as financial risk, because this entry mode costs an extreme amount of money and reputation risk in the market, mostly with customers and shareholders (Doole & Lowe, 2007).
3. METHODOLOGY
This chapter of the thesis explains the methods that are used by the authors. In other words, the way of conducting the research will be further presented.

3.1 RESEARCH APPROACH

3.1.1 DEDUCTIVE APPROACH

An inductive approach is used when researchers tend to create a new theory, moving from specific observations into general and broad implications. By using the inductive strategy, the purpose is to understand the nature of the investigating problem (Bryman & Bell, 2007). First it begins with collecting the data and then analyzing it. Later, the theoretical part must be developed on a basis of analysis.

A deductive approach is opposite to induction. It represents the process of general observations of the theory and empirical findings into specific instances. The deductive strategy is more linear than the inductive one where “one step follows the other in a clear, logical sequence” (Bryman & Bell, 2007).

The deductive approach is presented by Saunders, Lewis and Thornhill (2009, p. 124) in five steps:
“(1) Deducting a hypothesis from theory, (2) Expressing how the variables are to be measured, (3) Testing the hypothesis, (4) Examining the outcome, (5) Modifying the theory if necessary”.

The following table shows summary of inductive and deductive approaches.

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<th>Deductive approach</th>
<th>Inductive approach</th>
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</thead>
<tbody>
<tr>
<td>- Positivist</td>
<td>- Interpretative</td>
</tr>
<tr>
<td>- Quantitative</td>
<td>- Qualitative</td>
</tr>
<tr>
<td>- Questions such as “what”, “when” and “how many”</td>
<td>- Questions such as “why” and “how”</td>
</tr>
<tr>
<td>- Follows a predetermined design</td>
<td>- Follows a flexible research design, that may be continually adapted</td>
</tr>
<tr>
<td>- Establishes causality</td>
<td>- Explains causality</td>
</tr>
<tr>
<td>- Confirms theory</td>
<td>- Develops theory</td>
</tr>
</tbody>
</table>

*Table 1: Two broad research traditions*  
Source: Gratton and Jones (2004, p.27)

It must be taken into consideration that this summary is not concrete and it is possible to use quantitative methods in inductive research and vice versa (Gratton & Jones, 2004).

In this thesis, the deductive method is used in order to draw more specific conclusions from theoretical and empirical findings. We started with the general observation of the theory concerning the internationalization of service firms and then we continued with a theoretical
explanation of this process for such financial institutions as banks, in order to draw specific conclusions while testing the theoretical process and collected empirical data.

3.1.2 QUALITATIVE STUDY

There are two types of approach that can be discussed when it comes to conduct the process of research: quantitative and qualitative. The difference between these two approaches is in the characteristics of collected data (Gratton & Jones, 2004). Quantitative research refers to numeric information and analysis and serves to measure “quantities”. All the data has a statistical form and is collected from questionnaires or some other type of quantitative survey. This process cannot be influenced by the researcher. Alternatively, qualitative research refers to qualities that cannot be counted; there are no numbers here, but thoughts, feelings and experiences are present (Gratton & Jones, 2004). These concepts are connected with an interpretive approach to obtain knowledge. In order to understand the participant’s intentions, it is allowed for the researcher to take an alternative approach, such as defining the reasons of what cannot be done in the future. It is impossible to convert such thoughts into numbers, because the information must be interpreted by the researcher in the form of words.

According to Shank (2002), qualitative research is “a form of systematic empirical inquiry into meaning”. A qualitative research strategy focuses more on words rather than on “quantification in the collection and analysis data” (Bryman & Bell, 2007). Qualitative study specializes looking for the answers, collecting evidence and creating findings. The researchers can be more flexible in qualitative analysis rather than in quantitative which allows researchers to be more spontaneous in their implications.

Since the purpose of this thesis is to gain a better understanding of the internationalization process of service firms and to investigate their main incentives in choosing an entry mode, a qualitative approach will be exploited in order to find the main characteristics of the internationalization of the banks. Qualitative research is used, in order to describe and explain the process utilized by the SEB Bank expanding to the Ukraine and Swedbank to the Baltic countries. This approach is used to collect evidence from the very beginning, when the first international branches of both banks were established out of Sweden, to the present day.

3.2 RESEARCH DESIGN AND STRATEGY

According to Saunders et. al. (2009), it is very important to have a well thought out research design. Research strategy and design are directly influenced by a research question. The main goal of the research design is to be a plan for the researcher in order to answer the main question of the thesis. Saunders et. al (2009) mentions that the research strategy is also very important for the research process. As well as the research design, the strategy depends on the stated research question and on knowledge that the researcher possesses. There are different types of strategies: experiment, survey, case study, action research, ethnography, archival research and grounded theory. Case study is the correct strategy when the researcher tries to achieve an understanding of decisions made by the company, how they were made and to analyze the incentives behind these choices.

The selection of SEB Bank and Swedbank for the study was made due to the fact that these banks are the biggest in the Swedish financial market with a strong focus to internationalize.
The Baltic countries and the Ukraine were chosen according to the authors’ interest in the internationalization process towards emerging economies. For this dissertation, a case study strategy is utilized in order to gain a better understanding of the problem, by creating interviews in the two different cases, i.e. SEB Bank and Swedbank.

3.2.1 EXPLORATORY RESEARCH

The purpose of the research defines the choice of this design. Research design falls into three categories: descriptive, exploratory and explanatory research designs. Descriptive research is focused on describing various aspects of different situations or social settings. Saunders et. al. (2009, p. 140) assumes that “the object of descriptive research is to portray an accurate profile of persons, events or situations”. Explanatory study can be used when the main goal of the research is to investigate a particular problem or situation in order to find out the connection between variables. An explanatory study aims to answer the question why and statistic data is used in order to answer the research question, or to help the researcher to gain a deeper understanding of particular research. If the purpose of the study is to gain an accurate and deep understanding of the problem and to look for the insights, then the exploratory research is used (Saunders et.al., 2009). A clear problem such as the stated research question, is in the main focus of exploratory research. The main characteristic of it is that this study is flexible and allows the researcher to change the direction if it is needed. Since the purpose of this research is to investigate the process of expanding service firms into international markets and to achieve better understanding, the exploratory research is employed in order to explore the process on an example of entering Swedish banks into the Ukrainian and Baltic market and to answer the question: what is behind the internationalization process, what are the banks’ incentives to choose the particular markets and which entry mode do they use?

3.3 DATA COLLECTION

Collection of data plays an important role in a research process (Ghauri & Gronhaug, 2005). To investigate the stated research questions, every study has a need of different forms of data. Data is divided into primary and secondary, where interviews and information collected by researchers for original investigation are considered as primary ones. At the same time, secondary data is the data that has already been collected. There are three types of data collection, according to Saunders et. al. (2009): survey, documentary and multiple sources. To survey secondary data implies academic, government and organization surveys. Examples of documentary secondary sources are newspapers, journals, and organization websites. Multiple kinds of sources are a company’s statistics, report and publications.

3.3.1 PRIMARY DATA

Since the authors want to answer the research question, primary data will be collected from interviews with competent employees with the focus on the internationalization process.

Interviews are an important tool for collecting data and in order to obtain specific knowledge of the area the investigator is interested in. Interviews help the researcher to find out the interviewee’s point of view. An interviewer is a direct participator in collecting the data and has an opportunity to control the process.
Saunders et. al.(2009) distinguishes between three kinds of interviews: structured, semi-structured and unstructured. We will use the semi-structured interview format for this thesis. The questions are formulated before the interview and we have a clear idea of the answers that we want to get in order to collect the data. Asked questions are similar to each interviewee but still the conversation will be open to additional questions. Before the interviews, questions were sent to the contact persons by mail with the information about our subject and topic in order for the participants to be prepared.

The interview about SEB Bank was made with Mats Kjaer through the telephone conversation which was recorded on 8th of May 2012 and lasted 30 minutes. Mats Kjaer was an SEB Executive President and Head of the Eastern European Banking division and currently he is semi-retired, but still acts as an adviser for SEB Bank in Eastern countries. The interview with Swedbank was made with Johan Rosen, Swedbank’s Head of Risk Control Division-Baltic Banking, Russia &Ukraine. The interview was also conducted through a telephone conversation which was recorded in 9th of May 2012 and lasted 37 minutes.

These two persons were chosen for answering the interview guide because of their competence and knowledge about the studied cases.

3.3.2 SECONDARY DATA

Secondary data will be used in order to obtain further information. Relevant literature which concerns the internationalization process of banks will be overviewed and used. In this thesis it is used the mix of multiple and documentary secondary sources such as the Banks’ Annual Reports, their publications and presentations. Documentary sources include relevant articles in newspapers, journals and research papers. Official information in the banks’ websites is also scrutinized in order to explore their internationalization process. The article ‘The internationalization of business service firms’ is used as guideline for this thesis and helped us to collect the data.

3.4 VALIDITY AND RELIABILITY

According to Yin (1994) the research design should illustrate a logical structure and set of statements based on collected evidence.

Validity can be defined as the ability of research instruments to measure according to the investigator’s requirements.

The data collection on this thesis was obtained to attain the highest validity. In this thesis, the evidence was collected from official documentation and interviews. The interview was designed by the authors, according the research topic and the purpose. First, the knowledge was gathered and after interviews were conducted, questions for the interviews were designed on the basis of this knowledge.

Reliability shows, as Yin (1994) assumes, that the procedures of the research such as collecting of the data can be repeated. In other words, reliability refers to the extent that the procedure of conducting the research can be followed by somebody else and can lead to similar results.

In order to provide the reliable information, the questions for interviews were prepared and sent to the participant before interviewing day. The interviews were recorded to help the authors not to miss the important information and allowed to increase the reliability of this paper.
4. EMPIRICAL DATA

In this chapter is presented the data gathered by the authors about Swedbank and SEB. The information is obtained through interviews, annual reports, articles and literature.

4.1 EMPIRICAL DATA FOR SEB BANK

4.1.1 BACKGROUND

SEB (Skandinaviska Enskilda Banken) is a leading Nordic financial services group. It provides all kinds of bank services to corporate clients and private individuals in more than 20 countries in the world, including Scandinavian countries and the Baltic States, Germany, Russia and Ukraine. Over 4 million people all over the world are SEB’s customers and approximately 17,000 employees work in order to provide a wide range of financial services. The key foundation of SEB is a long-term commitment to its customers and society (SEB Annual Report, 2011).

SEB bank consists of several divisions and offers the following services:

- **Merchant banking** – banking services to large corporations and clients in 18 countries with strong focus on Nordic countries and Germany.
- **Retail Banking** – services for private individuals and small and medium-sized customers, card operations, etc.
- **Wealth Management** – Asset and investment management and private banking services to high net individuals and institutional clients
- **Life** - products of life insurance for private individuals mostly for Sweden, Denmark and the Baltic States
- **Baltic** – Banking services for private individuals and small and medium-sized business customers in Lithuania, Latvia and Estonia

Around 80% of Skandinaviska Enskilda Banken capital is owned by Swedish companies and funds. According to the SEB Annual Report (2011), the largest shareholders are: Investor AB (20.8%), Trygg Foundation (8.1%) and Alecta (7.2%). Despite the fact that the previous few years were marked by global imbalances, the capital ratio increased and currently is ranked as the highest in Europe. SEB’s balance sheet was recognized as strong by Standard & Poor’s in credit rating upgrade. The last year an increased customer demand was observed. Operating profit of SEB for 2011 was 15.3 billion. It is 35 percent more than in 2010 (Appendix 1). It showed that customers have a strong trust in SEB and are willing to do business with it. So, the result was very positive, because the operating income increased by 3 percent (Annika Falkengren¹, SEB Annual Accounts, 2011). The SEB’s Group total assets for 2011 amounted to 2.363 billion SEK (EUR 265 billion).

The history of the bank covers approximately 155 years. It was started in 1856 by André Oscar Wallenberg and was the first Swedish private bank (Stockholms-Enskilda-Bank). The main characteristic of SEB is its innovations and commitment to society since those days and currently it is a leader among Nordic Financial Institutions. In the early 90’s SEB was mainly operated in Sweden, with the strong focus on large institutions and high-profit corporations. An acquisition with Baltic financial institutions in 1998 changed the name into the present one (Skandinaviska Enskilda Bank). Another big event had place for SEB bank, in 2001 the German BfG was purchased and soon established SEB AG in Germany.

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¹ President and Chief Executive Officer of SEB Group
4.1.2 SEB GROUP INTERNATIONAL PRESENCE

As was mentioned above, the SEB Group is present in more than 20 markets all over the world. It proves its strong position in an international arena and illustrates their strong focus in worldwide business. The SEB Group has more than 600 branches, including Nordic countries, Poland, Germany, Baltic countries as well as Great Britain, Switzerland and Luxemburg (Appendix 2). SEB branches are presented in Asia and USA.

In May 2005 Mats Kjaer², inspired by success of Baltic branches, announced the strategy to expand more and develop the business in Ukraine and later to Russia because of their strong economic ties. But, the opportunity that appeared allowed SEB make decision to enter Ukrainian market.

4.1.3 SEB’S INTERNATIONALIZATION TO UKRAINE

4.1.3.1 INCENTIVES TO ENTER

The Ukrainian market was estimated by SEB experts at that time as a quickly growing economy and they noticed an increase in purchasing power. These factors were important in order to start entering the Ukraine. It was an aim for SEB to develop the Ukrainian banking sphere and to strengthen the position of the bank in Eastern Europe. SEB received a support from the President of the European Bank for Reconstruction and Development, which encouraged this step of SEB Bank and he expressed his opinion that it was a positive incentive for other investors as well (SEB acquires Ukrainian Bank, Press Release, 2004).

CUSTOMER

The Ukrainian market became an attractive place because of the increasing number of corporate customers in Nordic countries, Germany and Baltic States which deal in the Ukraine.

It was calculated that more than 6600 of SEB’s clients have activities in the Ukraine: 125 Swedish companies, 1700 Baltic, 2300 Polish enterprises and 2600 German. The Ukraine is also one of the biggest countries in Europe with a population of 46 million.

In order to support the already existing corporate home market, clients that started to expand internationally such as Volvo, Scania, and Erikson. It was very important to provide financial services for Swedish companies in such developing country like Ukraine (M.Kjaer, personal communication, 2012-05-08).

NEW MARKETS

The main strategy of SEB bank is to enlarge the business power and to become a leading provider of financial services, which can be achieved by expanding into more territories. It was very important to increase the domestic Scandinavian market of SEB Group during that time and to expand in Eastern Europe and the Ukraine was a next step forward this goal, due to the size of these countries and number of potential clients. The Ukrainian market was assumed as having potential, due to its size in comparison to Sweden (M.Kjaer, personal communication, 2012-05-08).

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² SEB Executive President and Head of the Eastern European Banking division
The driving force for the SEB bank to expand the boundaries and to move towards the East rather than the West had a lot of reasonable circumstances (SEB acquisition of Bank Agio in Ukraine, 2004):

- High growth economies
- Intense Trade flows
- Increasing number of business clients, especially in Russia and Ukraine

The Russian market was assumed as potential one, so one of the incentives to establish the branch in the Ukraine was dictated by the decision for further expansion into Russia (M.Kjaer, personal communication, 2012-05-08).

**INCREASING MARKET POWER**

Since the SEB’s Group focus was to reach a leading position among northern European banks, entering the Ukraine was some kind of ‘broadening platform’ by stepping into every possible country.

![Exhibit 2. Broadening Platform step by step](image)

Source: SEB acquisition of Bank Agio in the Ukraine, 2004

**PROFIT INCENTIVES**

One of the main goals to expand to the Ukraine was to achieve long term profitability and increase volumes of the SEB Group (M.Kjaer, personal communication, 2012-05-08).

In order to make a good investment, SEB examines the organization it will invest in, makes calculations and completes an analysis. In 2004 the total assets of the Agio Bank were 533 million SEK and equity was 127 million SEK. The Bank served approximately 2000 clients, mostly individual and small and medium corporate clients.

A clean audit opinion was reported from international auditors. The Agio Bank was considered to be small and had 28th place among other Ukrainian banks in terms of earned profit (SEB acquisition of Bank Agio in Ukraine, 2004).

**ECONOMIC STRUCTURE**

Before entering the market, SEB estimates the market situation and the establishment in which the investment will be made. As for the Ukraine, the investigation showed that it was one of the highest growing economies in the world and it had a good potential in the future (Appendix 3).

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In order for SEB to penetrate the Ukrainian market, the analysis of economic growth was made. During 2000-2004, GDP increased by an average 8 percent annually. The Ukrainian economy was showing good results due to export benefits and international trade, especially with Russia.

Rapid economic growth leads to gradual improvement in the standard of life to a lot of people. As was assumed by SEB Bank and taken as a strategy, economic development leads to an increased demand for the usage of financial services and those services became affordable (Appendix 4).

So, it was a strong motive for the SEB Group to provide their customers in the Ukrainian market with financial services that are already present in the Scandinavian market. It was very important to transfer this knowledge and to satisfy the potential demand of Ukrainian customers (M.Kjaer, personal communication, 2012-05-08).

REGULATIONS

The political environment in the Ukraine was getting better and satisfied the SEB’s criteria to avoid different kinds of investment risk. The new government started with reforms in order to increase investments and private capital flows (SEB Eastern European Outlook, 2005). Western orientation of a new government towards European integration in political and economic spheres was a positive moment for international cooperation. Furthermore, the European market was opened to textiles and steel in the Ukraine.

The Ukraine is a country with a difficult political situation and the SEB Group faced some complications considering the regulatory system of National Bank and government. The differences in regulations between Sweden and the Ukraine created difficulties, but due to experience obtained in Baltic countries, expansion to Ukrainian market continued (M.Kjaer, personal communication, 2012-05-08).

GEOGRAPHICAL AND CULTURAL DETERMINANTS

Due to the successful experience of operating in Baltic countries with their already established subsidiaries and existing network, the process of penetrating to the Ukraine was made easier. Previously obtained knowledge and experience in Baltic countries regarding cultural differences was the incentive to start dealing with the Ukraine. Geographical closeness also played a crucial role in the internationalization process to the Ukraine and further exploration of the Russian market (M.Kjaer, personal communication, 2012-05-08). Russia was accounted as an important strategic partner for business with Baltic countries and an interesting country generally due to its size, low wages and economic growth (SEB Annual Report, 2006).

SEB’s strategy at that time was expanding to the markets that are geographically close to the Baltic Sea countries due to huge trade flows between Germany and Russia (M.Kjaer, personal communication, 2012-05-08).

Russia was considered an important resource for Ukrainian export and for keeping it more or less stable (SEB Eastern European Outlook, 2005).
The strong connection and interdependence of these two countries could not be underestimated and was taken into consideration by SEB for further expansion. The forecast in the short term was positive; the growth of the economy was still expected.

Culture in the Ukraine differs from Sweden, especially in the way of doing business. However, the Ukraine is a European country and there is no huge culture contrast to compare with Asian countries. SEB faced some complications when the expansion started, but they were successfully resolved (M.Kjaer, personal communication, 2012-05-08).

4.1.3.2 SEB ENTRY MODE CHOICE

After the procedure of making Baltic banks fully owned by SEB, the economic position in this area was strengthened and co-operation was very successful. It resulted in increased customer satisfaction and expanded business for both sides. The following graph illustrates this success:
With such a strong economic position and market share, with the traditional principal to follow its corporate customers, SEB continues to expand in an Eastern direction. In 2005 SEB acquired more than 90 percent of shares of the Ukrainian bank Agio with 500 employees and 22,000 corporate customers. The choice to enter the Ukraine through acquisition was dictated by the SEB Group’s ambitions to straighten its position in Northern Europe and to respond on increased to business activity in the Eastern countries. This bank was established in the Ukraine in 1991 and had 12 branches. It was ranked as 53rd in terms of the amount of assets. In 2004 it was approximately 58 million EUR in total assets (SEB Group Press Release, 2004). Later it was fully integrated into SEB under the name SEB Bank Ukraine.

As was assumed, the Ukraine was the source of new opportunities in the near future and the annual economic growth rate was reported at about 10 percent for the last couple of years (SEB Annual Report, 2004).

Acquisition of Ukrainian Bank was a stepping stone to expand further into Russia due to its huge size and potential customer base. As was mentioned by Bo Energen3 (SEB Eastern European Outlook, 2006), “the outlook for Russia’s economy is positive in the short term. However, low investment level is a cause for concern when it comes to long-term growth. Investments are growing, but at low level compared to growth economies”.

Despite on pessimistic forecast about the Russian economy, SEB announced at the beginning of 2006 the acquisition of PetroEnergoBank, which is based in St. Petersburg. It happened in order to strengthen the position of the bank in Russia, including the representative office in Moscow (SEB Annual Report, 2006).

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3 Representative of SEB Economic Research
In 2007 SEB announced the acquisition of 97.25 percent of the Factorial Bank in the Ukraine with further integration as well as with rebranding in order to enlarge its regional presence. Following the acquisition, SEB will serve more than 110,000 customers in the Ukraine. The choice to operate through acquisition is in line with SEB’s strategy to expand its presence in Eastern Europe through organic growth and add-on acquisitions. This consolidation in one of the fastest growing banking markets among European countries offers an opportunity to continue SEB’s growth in Ukrainian region (SEB Group Press Release, 2007).

4.1.4 SEB BANK UKRAINE NOWADAYS
In November 2011 SEB signed an agreement to sell its retail banking operations in the Ukraine. At the present time the business in the Ukraine is limited and it is planned to finish the sale by the middle of 2012. The retail operations were sold to the Eurobank Group. These operations were announced as discontinued operations but at the same time the Bank will continue to serve its corporate clients (SEB Annual Report, 2011).

After the global credit crisis, Eastern Europe was the region that got the hardest hit. It happened because the extensive expansion was built on the basis of foreign loans, and as a consequence, the growth stopped at once and the financing level fell drastically. The Ukraine was defined as the worst affected country by the crisis among other eastern countries. The Ukraine economy suffered from large external imbalances and had huge financing needs. High external borrowing and dependence on several export products made the Ukrainian economy very vulnerable when it faced the global crisis. An unstable political situation and system helped to achieve a deplorable result for the country. The Ukraine was the first country that strongly needed the IMF aid (SEB Eastern European Outlook, 2009). The following graph illustrates the economy situation more clearly:

![Economy has bottomed out](image)

Exhibit 4 SEB Eastern European Outlook, 2009

All this troubled economic performance influenced the SEB’s presence in the Ukraine and its economic activity. The SEB Bank did not get through the crisis without difficulties. Their total assets were decreased in 2010 by nearly 9%. The loss that SEB had sustained in the Ukraine over the last few years amounted to SEK 265 million.
As the Ukrainian newspaper “Investgazeta” (2012) informs, the Ukraine was not a hub of the market; Swedish investors have a better understanding with the Baltic States and prioritize them. Ukraine was an attractive market because of its size of the market and perspective of continuously growing economy. When the perspective of economic growth disappears, or the business climate worsens, the attitude towards future business prospects may be revised and terminated.

4.2 EMPIRICAL DATA FOR SWEDBANK
4.2.1 BACKGROUND
Swedbank (Föreningenssparbanken) was founded in 1997 by a merger between two old Swedish banks-The Saving Bank (Sparbanken-founded in 1820) and The Agricultural Bank (Föreningbanken-founded in 1956). In 2006, FöreningsSparbanken AB changed its name to Swedbank AB (Swedbank, 2012).

The bank believes in a traditional banking model, focused on close customer relationships and personal advice. Its goal is to satisfy the customer’s needs and wishes. Swedbank offers a broad range of products and banking services both to private individuals and companies. The bank has 7.8 million retail customers and around 600,000 corporate and organizational customers with 315 branches in Sweden and over 200 branches in the Baltic countries (about Swedbank).

Swedbank is the leading bank in its home markets: Sweden, Estonia, Latvia and Lithuania. The international subsidiaries are in Luxemburg, Russia and Ukraine. Swedbank has also international branches in Finland, Denmark, Norway, USA and China; and offices in Spain, London and Tokyo (Group’s presence).

The total assets of Swedbank on 31March, 2012 were SEK 1889 billion (appendix 5).

Exhibit 5: Swedbank’s profit for the quarter
4.2.2 INTERNATIONALIZATION TO THE BALTIC COUNTRIES

4.2.2.1 INCENTIVES TO ENTER

Swedbank had many incentives when going international into the Baltic Region. These incentives are described below:

CUSTOMER

The authors deduced from the interview with Johan Rosen1 (personal communication, May 9, 2012), that Swedbank’s main incentive to invest in the Baltic countries was following their customers. Many of Swedbank’s clients in Sweden were interested in investing in the Baltic Arena and the bank wanted to be there for its customers. Swedbank was and is still confident that its shareholders would benefit long-term from that. This is what Johan Rosen said:

“A lot of attention was put into the Baltic countries and that would further fuel growth in these economies. Obviously the Swedish banks realized that we want to be part of this business; that we want to follow our customers and their needs across the Baltic Sea because a lot of our corporate clients wanted to do business in these developing economies so obviously they wanted us to be there. Emerging cash and landing money for setting up new businesses was needed.”

The decision to invest in the Baltic countries previous to 2005 was not so much about growth; it was about attracting and serving clients. Swedbank wanted to be a player in the Nordic part; it saw that region as its home markets (Johan Rosen, personal communication, May 9, 2012).

NEW MARKETS

By following their customers in the Baltic Region, Swedbank enlarged its market with three additional countries – Estonia, Lithuania and Latvia. The economic structure of these countries at that time made them very interesting as an investment prospect for Swedbank (Swedbank, 2012).

INCREASING MARKET POWER

Swedbank noticed the possibility of becoming the leading bank in the Baltic region by investing very early in that arena, before other banks did it. This fact has helped Swedbank to deliver very strong growth statistics for some years and at present the bank is still in the leading position, compared to other institutions of the same kind (Swedbank’s official website).

“In a developed country banking is a kind of a commodity, everyone enjoys banking services. It is easier to be the leading bank in a developing country. In Estonia almost everyone is client in our bank and huge responsibility comes with that” (Johan Rosen, personal communication, May 9, 2012).

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1. Swedbank Head of Risk Control Division-Baltic Banking, Russia & Ukraine
PROFIT INCENTIVES

From their interview with Johan Rosen (personal communication, May 9, 2012), the authors found out that the incentives of Swedbank changed through time. Before the full acquisition of Hansabank in 2005, the main incentive of Swedbank was following the clients, but after this acquisition things changed. Shareholders invested much more of their money in the Baltic Region and wanted to see some profit back.

“Closer to 2005, when Hansabank became a fully owned subsidiary of Swedbank, the expectations of the shareholders grew, it was more about financial growth and not so much about following the customers, as it was before” (Johan Rosen, personal communication, May 9, 2012).

ECONOMIC STRUCTURE

The economic structure of the emerging markets in the Baltic countries was also a main incentive in expanding to this area.

In the mid-nineties, After the Soviet Union crashed and the Baltic countries gained EU-membership, Swedbank saw the opportunity in investing in the Baltic region. Being part of the European Union, the Baltic countries started rapidly catching up in growth, compared to Western European countries. Being a relatively undeveloped financial region has helped the Baltic countries in being more attractive to potential investors. Baltic countries had a really high growth potential compared to more mature Western markets. Until the financial crisis spread, the Baltic economies became the fastest growing in Europe with much higher GDP records than other European economies (Swedbank’s official webpage). Our interviewee, Johan Rosen1 (personal communication, May 9, 2012), also explained the interest of Swedbank in financial growth:

“If you look at the mature Scandinavian markets, that were our basic home markets in early mid-2000 and you compare that with the possibilities for growth in economies on the other side of the Baltic Sea, where were still emerging markets with very high growth rates; than obviously developing top bank growth that would benefit the shareholders was the main incentive. One way you have an opportunity to grow in fast growing societies and if you have looked at the historical media coverage and political discussions about the Baltic countries you see very strong political and media contribution to the picture of these countries as being growth countries. They were described as tiger economies.”

REGULATION

The low work force costs and taxes in the Baltic countries represented an incentive for the share-holders to invest in this area. According to Johan Rosen (Personal communication, May 9, 2012):

“The shareholders would benefit from being income generated because it was also very clear that in a high growth environment with low labor cost and low taxes you can get very high satisfaction of that investment.”

GEOGRAPHICAL AND CULTURAL DETERMINANTS

As Sweden and the three Baltic countries-Estonia, Latvia and Lithuania are in close proximity to each other and having a connected history, have also been factors in Swedbank’s decision to make the Baltic markets its home markets (Swedbank’s official website). These factors
were also emphasized by the government at that time. This fact was deduced from Johan Rosen’s (personal communication, May 9, 2012) statement:

“Our prime minister at that time was the biggest spokes-person for the opportunities in the Baltics and our relationship with these countries that goes back in centuries and that we should be part of the future as well.

The incentives presented above determined Swedbank to expand into the Baltic countries (Lithuania, Estonia and Latvia) through the acquisition of shares in Hansabank, Estonia.

4.2.2.2 SWEDBANK’S ENTRY MODE CHOICE

Swedbank chose to enter the Baltic region through the acquisition of 50% of Hansabank’s shares in Estonia in 1998.

According to Johan Rosen (personal communication, May 9, 2012) Estonia was the first chosen country for expansion because of several reasons:

Estonia was the most developed in the structure, in the political system, in the financial system etc. out of the three countries. It has managed to reform and consolidate its public, political and financial affairs much more than Lithuania or Latvia after the Russians left in 1991. From this perspective, it was logical to start in Estonia because that was the most mature market, but it also had to do with coincidences, which opportunities were available.

“And then partly it was also due to the fact that you do not make only financial investments, you also invest in people and management and we clearly saw an opportunity in going together with then Hansabank.

We targeted Hansabank, and Hansabank was controlled from Estonia. We clearly liked Hansabank’s management team, what they were doing and the strategy that they had. Also including their acquisition into Latvia and Lithuania, so we kind of followed Hansabank’s success story” (Johan Rosen, personal communication, May 9, 2012).

Hansabank was the product of two parts very much as Swedbank, a corporate bank and a savings bank. Swedbank could relate to that story and clearly see that Hansabank had a good strategy. They were well positioned, they knew what they were doing and they had sort of a formula of how they would grow. They were very successful and reputable in their own country, they were perceived in Estonia per example as a national champion almost.

But also Hansabank realized that there is a limit of how they can grow on their own because in a small country, a small institution had still limited access to funding and to capital. They needed someone to partner with them. And it could have been someone else, but it became Swedbank. And Swedbank became a sort of the provider of funding that Hansabank needed for the growth in the area (Johan Rosen, personal communication, May 9, 2012).

The reason of Swedbank to choose acquisition as an entry mode in the beginning, and not a fully owned subsidiary can be explained by Johan Rosen’s answer (personal communication, May 9, 2012):
“Money of course, but also it is more about the general sentiment of the politics and economics at that time. Only after the Baltic countries left the Soviet union, did their first reforms, started to make their internal economical market and started to stabilize the political they could receive new investors. Swedbank was cautious about the entry mode, but after they saw how these countries grow they have decided to be fully part of this. We had the chance first to learn about these countries. After a while it became encouraged in Sweden to invest in the Baltic countries. We were also not ready to make such a decision, to be fully owned subsidiary.”

But the bank also regrets some of its decisions at that time regarding their acquisition:

“…I think that one of the lessons learned was that we should have had more integration earlier in the process. If we had bought and invested in these markets earlier, coming up to a sort of full ownership of our subsidiaries, then we would probably also have had come further with the integration between the Swedish and the Baltic organizations. I think that will have also created sort of a preparation for the fix of the financial crisis. It was now very clear that there were three subsidiaries acting relatively sort of on their own court, and then showing great numbers all the way up to until everything crashed "(Johan Rosen, personal communication, May 9, 2012).

In 2005, Swedbank acquired 100% of Hansabank’s shares and made it into a fully-owned subsidiary of Swedbank Group. In autumn 2008 Hansabank changed its name in the Baltic States to Swedbank (Swedbank’s official page).

According to Johan Rosen (personal communication, May 9, 2012), Swedbank went from financial investments to fully owned subsidiaries because the local organizations believed that it will provide them with additional financial growth and it would strengthen their future financial ratios in a way that it will serve their shareholders.

4.2.3 SWEDBANK NOWADAYS IN THE BALTIC REGION
Baltic Banking is continuing its stable development (Swedbank interim report January-March 2012). As can be seen from appendix 6 and 7; the profit of the shareholders in 2012 was of SEK 891 million, compared to a little higher one in 2011-SEK 1071 million. Estonia is making the biggest progress, but the position is also better for Lithuania and Latvia. The Baltic countries’ financial markets are still less developed and capital-rich than several other EU countries, the region has a significant long-term growth potential that will benefit Swedbank. Swedbank is the leading bank in these three markets-Estonia, Lithuania and Latvia; having on 31 December 2011 about 5.7 million private and corporate customers and over 200 branches. Its largest market share is in Estonia (Swedbank’s homepage).

Although the crisis in the Baltic region has also affected Swedbank, the bank still wants to continue its activities in these countries.

“…Also we went into double financial crises were three Baltic opened economies were very vulnerable to that crisis. We had participated in that because we had lending out too much money to quickly .And we did not have the appropriate systems in place in the banks to monitor those credit portfolios and fully see the fix to what we were doing. Our shareholders have paid the price for that in a lot of money. We invested after the crisis in the Baltic countries because we still believe that in the long run it is good for our bank and our shareholders to be in the Baltic countries” (personal communication, May 9, 2012).
Swedbank’s commitment to these countries is very deep and for a long-term. The bank wants to be dedicated to its clients and to be always available for them. Swedbank is aware of the fact that if it helps the economy of the country to grow, then also the bank will gain higher financial returns. This is enforced by Johan Rosen’s (personal communication, May 9, 2012) declarations:

“…We are very much committed in a new way and we have changed our operating model in these three countries and we have changed the culture of Swedbank in these countries. One of the lessons learned was that because they were so successful in our subsidiaries in the Baltic countries in mead. 2000, the management in mother company and head office thought that they should not interfere too much in the daily basis of the local banks.

… There is little discussion about healthy banking systems. The growth of the economy in a society depends on society’s education and employees. Swedbank changed its profile a lot; we focus in education and employment. We involve very much in the society, in making reforms to contribute to the growth of the economy. Because if the society and the economy grow and are healthy, then also the bank is healthy and more gain for the shareholders.”
5. ANALYSIS
This chapter represents the analysis of SEB with collected empirical findings. This part of the thesis is based on the incentives of the bank when going abroad and entry mode choices with the focus on internationalization to Ukraine conducted with gathered theory.

5.1 SEB BANK
The SEB Group is a successful financial institution in the Nordic market with a gradually increasing business power, number of clients and countries it enters. The SEB Group has a significant international experience, due to the fact that it is presented in many countries in the world and offers financial services to its customers in order to make business relationships easier between nations. The main strategic focus of SEB is its innovativeness and establishing trust among consumers all over the world by providing a variety of qualitative services. De Nicole et. al. (2003) mentions that by offering services worldwide, the bank is not more limited to the domestic market.

The result of being presented in more than 20 countries worldwide was achieved by the constantly growing customer’s demand for SEB’s financial services which led to increased operating income. The SEB Group is notable for its ambitious goal, which is to increase their financial power and to straighten its position in Northern Europe. So, the decision was made to expand into new markets with potential economic growth, in order to spread more into the international arena (Focarelli & Pozzolo, 2001).

For the last decades, international trade became extremely important in the world, due to changes in political situations in many countries and opening borders for foreign investments. The financial markets’ liberalization gave the opportunity to financial organizations such as banks, to expand worldwide and to set up their branches with enormous speed (Claessens et. al., 2001). By having an aim to take a leading position in Northern Europe, SEB started exploring new markets by entering less developed countries in order to provide already existing experience and financial services. Nordic countries have a strong banking sector and internationalization to the countries with low level of financial system is assumed as perfect opportunity to enlarge the business power. One of the strategic destinations became Eastern Europe, including the Ukraine after the successful establishment in the Baltic countries. In the beginning of 2000, progress in the economic sphere of the former Soviet republic was examined and considered to be positive. The chosen direction of the Ukraine towards European integration opened borders for investors and the constantly increasing economy were important factors to explore the potential market.

5.1.1 INCENTIVES

CUSTOMER
The main priority for the SEB bank is its customer during all periods since the bank was established. Globalization of the economy played its role when the companies started to go abroad. The process for Swedish companies to trade between different countries had its impact on spreading around Europe. SEB evaluated the number of customers that were already present in the Ukrainian market and the number was impressive. The increased
number of corporate customers that was dealing in the Ukraine served as a driving force for SEB to start operations there. Following the customer is one of the main motives for the bank to start expanding in a new market (Slager, 2006). SEB’s expansion was dictated by interest to support their biggest corporate customers. This process occurred as a pull effect when the bank follows its clients in order not to lose them (Slager, 2006) and to support an already existing business relationship (Alavarez-Gil, et. al., 2003).

NEW MARKETS

Expanding into new markets is an important step in order to follow SEB’s strategy to become a strong player in the international and domestic arena. The Ukrainian market became a strategic destination after successfully operating in Baltic countries and was the next step in broadening platform between Eastern and Western Europe. The incentive of SEB to come to the Ukraine is explained by Slager (2006) as an alternative to rescale domestic boundaries and to increase the home market of financial services. The Ukraine was also considered as a platform in order to expand further and try to get the huge Russian market that had a great potential, due to its big size and population. The motive to explore new markets by SEB can be explained also by the small domestic market and as was mentioned by Slager (2006), the opportunities in developing there further are limited. One of the factors influencing the decision to establish in the Ukraine is SEB’s competitive advantage over other banks there.

INCREASING MARKET POWER

The incentives such as increasing market power and new markets are strongly correlated to each other. To increase market power in a home market is very difficult when there is a high concentration of financial organizations (Slager, 2006). Due to the fact that the Swedish market is quite saturated, it was a need for SEB Bank to go into other countries in order to follow the main strategy in becoming a leader of financial services among northern banks. The “Broadening platform” strategy took place in SEB’s decision to enter Eastern countries, such as the Ukraine in order to increase their market share and to enlarge financial power. Pursuing the main aim to capture a leading position, SEB enters gradually into Eastern Europe where the Ukrainian market is some kind of a stepping stone on the way to the top.

PROFIT INCENTIVES

Financial motivation cannot be underestimated when the SEB Bank goes international. Achieving a leading position and increase of business volume created additional revenues. Profit opportunities are strong motivations for the banks to spread globally (De Nicolo’ et. al., 2003).

SEB’s financial incentive can be explained as a pull factor (Slager, 2006), when the bank can see the opportunity to gain higher loan-deposit spreads in foreign countries rather than in the domestic market.

The expectation of the SEB Bank to gain long-term profitability in the Ukraine can be explained by Slager’s (2006) observation that profits in developing countries can be higher due to the low level of competition and in reverse; profits in developed countries such as
Sweden can be limited because of the high concentration of financial institutions and competitive advantage can be very low.

**ECONOMIC STRUCTURE**

In order to start its operations in the Ukraine, SEB estimated first of all the economic situation of the country. The Ukraine is considered as a country with an emerging economy and with a low level of technology and know-how.

Slager (2006) asserts that high economic growth rates and GDP per capita in a foreign country are very important incentives for the bank to enter, because it leads to potential profitability and bank’s capitalization due to the increasing number of loans for the people.

Evaluation of economic growth in the Ukraine which was observed over previous years showed high growth rates and gradual economic improvement in comparison to other countries in the world. These positive changes allowed the SEB bank to see a good future in the financial market and the possibility of successfully establishing the branch.

Economic growth in the Ukraine allowed people to demand more financial services and as Slager (2006) mentions, it is an important motive for the bank to internationalize, due to the fact that societies in countries with emerging economies raise their borrowing needs and create saving surpluses. It was the right time for SEB to enter the Ukraine, to transfer their knowledge and to satisfy increased needs of their Ukrainian customers.

**REGULATION**

Strict regulation in the home market can be a strong incentive for the bank to internationalize, in order to find fewer barriers in a foreign country (Slager, 2006). However, the Ukraine is not notable for having a better regulation system than Sweden, but vice versa. The complicated regulatory system of the National Bank and lack of proper reforms created some complications for SEB’s expansion to the Ukraine, even though the political environment improved since the 1990’s. The monetary policy was and still is a big dilemma there.

**GEOGRAPHICAL AND CULTURAL PROXIMITY**

Geographical proximity plays an important role in expansion into new markets (Slager, 2006). SEB’s incentive to enter the Ukraine was dictated by cultural and geographical closeness to the Baltic countries where they had successful investments and performance. Acquired experience in Baltic countries was a driving force for SEB to penetrate the Ukrainian market and provide customers with financial services. As was mentioned above, the Ukraine was assumed to be an important market in order to expand further to Russia, due to their geographical and cultural equivalence, strong economic relationships and close ties in export between the two countries. These countries have huge trade flows with Germany and the Baltic States, which served as an important incentive for the SEB Bank to start operating and serve their clients.
There are no major differences in the cultural aspects between the Ukraine and Sweden, as with Asian countries. Hence, insignificant differences in some cultural obstacles were overcome.

5.1.2 ENTRY MODE

After careful examining the Ukrainian market with all its negative and positive effects, the SEB Bank takes a decision to acquire a bank which already in existence there. According to Eramilli and Rao (1993), the decision to choose the correct entry mode is a very important decision and can influence a wider presence in a host country. SEB takes a decision to enter through acquisition pursuing the strategy of becoming a leader in Northern Europe. The company chooses acquisition when the goal is to increase business volumes rapidly and at the same time to have fewer risks to suffer from losses (Roberts, 1999). The decision of SEB was to establish a high control entry mode such as acquisition, it was the safest solution in order to start its operations in the Ukraine and achieve organic growth in the region. This choice was also made due to obtained experience in the Baltic countries, where SEB started its operations through acquisition and then slowly acquired minor shares of banks. According to Roberts (1999), to create new organization from zero is very hard. This statement is observed in SEB’s choice of acquisition entry mode, SEB purchases a major part of a bank’s shares which provides the opportunity to start operating immediately and significantly increase the customer base. With acquisition, a newly established organization can have immediately trained personnel available, current customers and establishment of the distribution network. These factors can lead to short-term profits (Doole & Lowe, 2007).

5.2 SWEDBANK

Swedbank is the leading bank in its home markets: Sweden, Estonia, Lithuania and Latvia. These markets are of considerable importance in the international arena, they represent a significant part of the Nordic market.

5.2.1 INCENTIVES

The main incentives of Swedbank that led to the internationalization in the Baltic countries are presented below:

CUSTOMER

The main incentive of Swedbank to be in the Baltic Region, before the acquisition of Hansabank in 2005, was to follow up its customers in these countries. This fits Slager’s (2006) and Alavarez’s-Gil, et.al. (2003) theory which states that one of the incentives of banks to internationalize is “customer following” or “market seekers”. Banks want to follow their clients and especially their corporate customers. This process can be described as a pull and push effect. The case of Swedbank is achieving benefit for both sides in the host market, both the bank and clients. The push effect represents the process when the customer is led by the bank into new markets, in order to globalize its own business. Swedbank wanted to serve its clients in the Baltic countries, but also to be players in that area. According to De Nicolo’, Bartholomew, Zaman & Zephirin (2003), by going international, banks are not limited only to their home market and customers are able to do transactions
worldwide. A lot of Swedbank´s corporate clients wanted to do business in the Baltic countries and they needed to land money to set up new businesses. So, Swedbank needed to be present there.

NEW MARKETS

Due to the fact that Swedbank chose to follow up its customers into the Baltic countries, the bank had three new markets: Estonia, Lithuania and Latvia.

Slager (2006) divides the incentive to exploit new markets into three categories. Swedbank fits the third one, rescaling home boundaries or enlarging the domestic market. Sweden was and is a country with a small population and with a small market. By expanding into the three Baltic States, Swedbank could expand its home market. The economic structure of these countries at that time represented a good chance for growth of the bank. This fact has helped Swedbank to achieve a leading position in these markets.

INCREASING MARKET POWER

A bank is considered efficient if it has a leading position in the market. This can be achieved by acquisitions and mergers because by broadening a bank´s geographic reach, automatically the market power increases (Slager, 2006). Swedbank wanted to raise its market power and that could be enabled only by expanding outside its small home market. The acquisition of Hansabank was the easiest solution to penetrate the Baltic region. Swedbank fits the theory of De Nicolo´, Bartholomew, Zaman & Zephirin (2003), who stated that banks expand into markets with expected real growth and low tax regulation. The countries in the Baltic area were perfect markets into which Swedbank could expand. These were emerging countries with high potential of growth and low tax regulation.

PROFIT INCENTIVES

According to the interview conducted by the authors, the main incentive to be part of the Baltic economy of Swedbank after 2005 was not following their customers anymore, but profit incentives.

According to De Nicolo´et.al. (2003), banks chose to expand internationally due to perceived profit opportunities relative to those existing in the domestic market. Also, banks prefer to expand to countries where the economic growth is higher and the banking system is less efficient. This is because developing countries are expected to have faster rates of economic growth than developed countries (Focarelli and Pozzolo, 2001). Swedbank also preferred to enter developing countries like Estonia, Lithuania and Latvia. These countries had an appropriate economic structure for Swedbank, they had a real potential for growth. By acquiring Hansabank, a win-win situation was reached both for Swedbank and both for Hansabank. Both banks had the opportunity to grow. Hansabank did not have access to funds for investing and Swedbank had an inadequate home market. The two banks could raise their profits by a merger. After the full ownership of Hansabank in 2005, the shareholders invested very much in the Baltic region. Of course, they wanted to see results, they wanted to see profits.

ECONOMIC STRUCTURE

High economic growth rates in foreign countries are a driving force for the banks to internationalize. Due to changes in societies and economies all over the world, emerging
markets become more open to foreign companies to enter their markets (Slager, 2006). After the Soviets left in 1991, Swedbank saw an attractive long-term potential in the Baltic region. Baltic economies became the fastest growing in Europe with very high GDP records. These three countries were emerging markets with very high growth rates. Swedbank saw the opportunity to grow in these markets.

According to Slager (2006) the society in emerging countries increases their borrowing needs and creates saving surpluses. If the economy grows constantly, it automatically means that the prospect for bad loans is lower and in reverse, high growth economy implies increasing loans for people, which leads to capitalization for the bank that tends to enter. But this was not the case of Swedbank; the bank landed too much money too quickly. Then the crisis came and the bank did not have the appropriate systems in place in the banks to monitor those credit portfolios and people were not able to return the money. This has determined losses for Swedbank’s shareholders. People in the three emerging countries increased their borrowing needs, but contrary to Slager’s (2006) assumption, the prospect for bad loans was not low at all when the crisis hit.

REGULATION

According to Slager (2006), strict regulation in a domestic market can stimulate the bank to go abroad, due to existing freedoms and less regulatory restrictions imposed in a foreign country. Banks in countries with high taxes can start expanding abroad in order to set up branches and subsidiaries in countries with lower taxes that can increase their profitability. Swedbank’s home market, Sweden was a country with high taxes. Labor costs and taxes in the Baltic countries were very low compared with Sweden, so Swedbank saw the advantage in investing in this area, the bank could increase its profitability by having low taxes, and the shareholders could get very high satisfaction from their investment.

GEOGRAPHICAL AND CULTURAL DETERMINANTS

Many times, banks chose to enter markets with close geographical proximity and a common culture because similar services can be offered to customers in the host country (Slager, 2006). Sweden saw the Baltic region as a very important market to be present in. According to the author’s interview, the prime minister at that time in Sweden emphasized the old relationship that Sweden had with the Baltic countries, and that needed to continue. The similarities between the Baltic countries and Sweden could be also observed by looking at Hansabank’s organization, which was very similar to Swedbank’s.

The incentives presented above, pushed Swedbank to expand into the Baltic zone. In order to do this, the bank needed to choose the appropriate entry mode for that time. The internationalization process of Swedbank into the Baltic countries follows the model in the theoretical framework, presented by the authors in the theory section.

5.2.2 ENTRY MODE

According to Erramilli and Rao (1993), the choice of a correct entry mode will determine how involved the internationalizing company wants to be in the new market. From the interview
conducted with Johan Rosen, it can be seen that Swedbank was cautious about its entry mode into the Baltic countries. The bank wanted first to learn about the Estonian market and gain some experience. The bank regretted its decision at that moment, because if it had chosen fully owned subsidiary as an entry mode, it would have come further with the integration between the Baltic and Swedish organizations and could have handled the crisis in these regions more efficiently. Also, the bank did not dispose of enough money to invest in a fully owned subsidiary. As Doole & Lowe (2007) mentioned, wholly owned subsidiary is the most expensive type of market entry mode and also it happens when the company is certain about the positive future of its products. Swedbank did not have the money to invest in a full ownership and also did not know how successful the bank would be in Estonia and therefore they needed to be very vigilant.

These are the main reasons why Swedbank chose acquisition as an entry mode in the Baltic region when beginning to acquire Hansabank shares in 1998. This confirms Focarelli’s and Pozzolo’s (2001) statement that the acquisition of foreign bank shareholdings is the most common entry mode chosen by banks when expanding outside the domestic market. Despite the existence of internet banking, maintaining personal relationships with the client remained very important for Swedbank, they wanted to be there for their clients and satisfy their needs in the Baltic Sea area. Many of banks’ corporate clients wanted to do businesses in these countries, so Swedbank needed to be there for them.

According to Doole and Lowe (2007), acquisitions and mergers have their advantages and disadvantages. The acquisition of Hansabank in Estonia had more advantages than disadvantages. By acquisition, the new company will get a trained work force, current customers, reputation… This is the case of Swedbank, which chose to follow Hansabank’s success story, also choosing acquisition as an entry mode into Latvia and Lithuania. Hansabank was very similar to Swedbank; it was also a merger of two banks, a corporate and a savings bank. The bank was very successful and reputable in Estonia, they were almost perceived as a national champion. The acquisition of Hansabank was viewed positively in Estonia, because Hansabank realized that there is a limit to how much it can grow as a small institution that had no access to funding and to capital. Hansabank needed someone to partner with them and provide them with funding and that was Swedbank. Johan Rosen confirms Dolle and Lowe’s (2007) assumption that the decision of which company to acquire may depend very much on the opportunities available at that moment. Swedbank chose to expand first into Estonia because this was the most prepared market for investors after the Russians left in 1991. This also happened because Swedbank targeted Hansabank as a company to acquire, which was controlled from Estonia.

In 2005, when Swedbank acquired 100% of Hansabank’s shares, the bank had gained some experience about the Baltic market. Swedbank’s confidence grew, the bank was prepared to get involved and face more risks in those markets. Also, Swedbank went from financial investments to fully owned subsidiaries because the local organizations believed that it will provide them with additional financial growth and it would strengthen their future financial ratios in a way that it will serve their shareholders.

Although Swedbank has faced some difficulties in the Baltic countries, the bank still provides good statistics in present. Swedbank is the leading bank in the three countries: Estonia, Lithuania and Latvia.
6. CONCLUSION
The research questions of this paper were which entry modes service firms use when expanding internationally and what are the main incentives when entering a new market. The conclusion section will follow these questions in order to answer them.

The findings of this paper showed that Swedbank’s main incentives to expand into the Baltic Region depended very much on the time context. Before 2005, when the full acquisition of Hansabank happened, the incentive to invest in the Baltic countries was following the customers and being present in that market. Many corporate customers wanted to invest in the Baltic parts, so Swedbank needed to be there for them in order to provide them with the same services as in Sweden. After 2005, when Swedbank acquired 100% of Hansabank’s shares, Swedbank’s involvement in the market also grew. More money was invested and the shareholders were interested in seeing results, mainly financial results. This is why, in that period, Swedbank’s main incentive became profit gain and not following the customers.

SEB’s strongest motivation during the entire period since establishment was customer following, in order to provide qualitative financial services all over the world. So, exploring new markets was dictated by the need of SEB’s customers and to satisfy increasing demands in foreign countries. Increasing market power is another strong incentive of the SEB Group to internationalize, due to the main aim to achieve a leading position among financial organizations in Northern European countries. The incentive of new markets is considered as not very important, even if it is strongly related to other incentives. Less important motivations (as our investigation showed) were regulation, due to the fact that it did not give any advantage to SEB to enter into new markets, but rather complications. Profit incentive is considered as important, but still not a crucial factor.

After analyzing the paper’s findings about the study cases of two Swedish banks, SEB in Ukraine and Swedbank in the Baltic countries as two firms providing services, the authors have noticed some similarities and differences between the incentives of these entities to enter new markets. Both companies had as their main incentive following their customers into these countries. Also, they wanted to increase their market power and gain profit.

A pattern could also be seen in the choice of the entry mode of the two service firms studied in this paper. Both companies chose acquisition in the beginning, in order to obtain an experience and proper knowledge that could help to prevent losses and risks in a new, unexplored market. Swedbank and SEB were aware of the fact that the countries in which they wanted to expand had a real growth potential, but were still skeptical about long-term growth. By this, it could be noticed that the main incentive influencing the choice of the entry mode of these banks was the economic structure of the chosen countries. Consequently, acquisition is the most efficient mode for banks to enter a new market because they can start operating immediately with an already formed customer base. This leads to a very quick profit.

If the presence through acquisition shows positive results, the bank goes further and establishes wholly owned subsidiary, as happened with Swedbank in the Baltic countries as well as with SEB in Ukraine.

These findings are supported by the theoretical observation of Focarelli and Pozzolo (2009) which states that such business service firms as banks mostly choose the acquisition mode of entry in order to make rapid establishment in a new market.
6.1 IMPLICATIONS
The research in the area towards internationalization process of business service firms is still insufficient, especially which entry modes they choose and what stands behind these decisions. The focus of most investigations is more dedicated to manufacturing companies and their ways of going international. But internationalization of business service firms should be distinguished from manufacturing ones and cannot be generalized. Thus, the findings of this study can contribute to the academic implication due to the fact that they provide particular knowledge about the internationalization of business service firms, the reasons of choosing specific modes of operation in foreign markets and the motivations that are behind it. Furthermore, the results of this study can contribute to practical implication. Obtained knowledge can be used by owners of service companies when they decide to go internationally.

6.2 FURTHER RESEARCH
Since there is a lack of knowledge in the internationalization process of business service firms, this domain can be investigated additionally. Services become more and more important in the international arena. This is why it is very important to study about business service firms and their ways of operation in foreign countries.

As the conducted study was limited to only two companies and two interviewees, other firms can be supplementary studied in order to achieve more information and different points of view. It may be that other service firms choose another entry mode, not necessary acquisition.

The authors are aware of the fact that only a number of motives for service firms to expand were investigated and propose a further identification of more incentives.

The Baltic Region is still an area with high growth potential and in continues changes and this is why future studies of these markets should be conducted

This paper investigates companies that provide financial services and their international performance. Further research can be dedicated to some other kinds of services in order to see how it works for these companies.
REFERENCES

BOOKS:


ARTICLES:


INTERVIEWS:
Interview 1: Mats Kjaer (former SEB Executive President and Head of the Eastern European Banking who still acts as an adviser for SEB Bank in Eastern countries), May 08, 2012.

Interview 2: Johan Rosen (Swedbank’s Head of Risk Control Division-Baltic Banking, Russia &Ukraine), May 09, 2012.

INTERNET SOURCES:


INTERVIEW GUIDE:

1. What was the reason or driving force for the bank to start expanding into the Baltic countries/Ukraine?

2. How did you examine the markets you have entered?

3. Did you have any previous connections or networks in the Baltic countries/Ukraine before entering this region?

4. How did Swedbank/SEB expand into the Baltic countries/Ukraine?

5. Did you choose a “follow-up” strategy or which other strategy have Swedbank/SEB used?

6. What incentives were behind the decision of expanding into each country (Estonia, Latvia, and Lithuania/Ukraine)?

7. Why did you choose to expand first into Estonia?

8. Can you explain Swedbank’s/SEB’s decision of expanding into developing countries and not developed countries?

9. What were the main complications that the bank faced when establishment of the branches out of Sweden started?

10. Can you describe the demand for bank services in the new market and how did you adapt your services to the clients in the new country?
APPENDICES

APPENDIX 1

SEB Annual Accounts 2011

APPENDIX 2

SEB's markets

SEB Annual Report 2011
APPENDIX 3

Annual GDP growth in Ukraine (%)

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<tr>
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<tr>
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<td>2002</td>
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SEB acquisition of Bank Agio in Ukraine

APPENDIX 4

Gradually improving standards of living in Ukraine makes the use of financial services affordable

GDP per capita (EUR) | Average monthly salary (EUR)

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SEB acquisition of Bank Agio in Ukraine
## Quick facts about Swedbank

### 31 March 2011

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### Key figures 31 March, 2012

- **Total assets:** SEK 1 889 bn
- **Result for the period:** SEK 4 556 M
- **Lending to the public:** SEK 1 213 bn
- **Return on equity:** 14.0%

**APPENDIX 6**

<table>
<thead>
<tr>
<th>Jan-Mar 2011</th>
<th>Large Corporates &amp; Institutions</th>
<th>Baltic Banking</th>
<th>Asset Management</th>
<th>Group Functions &amp; Other</th>
<th>Eliminations</th>
<th>Group</th>
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</thead>
<tbody>
<tr>
<td>SEKm</td>
<td>Retail</td>
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<td>Net gains and losses on financial items at fair value</td>
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<td>Credit impairments</td>
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<td>193</td>
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<tr>
<td>Profit for the period</td>
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<td>1 257</td>
<td>1 071</td>
<td>145</td>
<td>-234</td>
<td>3 856</td>
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<td><strong>Profit for the period attributable to the shareholders of Swedbank AB</strong></td>
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<td>1 257</td>
<td>1 071</td>
<td>145</td>
<td>-234</td>
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Source: Swedbank – Interim report January-March 2012

**APPENDIX 7**

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<tr>
<th>Jan-Mar 2012</th>
<th>Large Corporates &amp; Institutions</th>
<th>Baltic Banking</th>
<th>Asset Management</th>
<th>Group Functions &amp; Other</th>
<th>Eliminations</th>
<th>Group</th>
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Source: Swedbank – Interim report January-March 2012
APPENDIX 8:

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<th>Parent company and major subsidiaries</th>
<th>Subsidiaries</th>
<th>Companies NOT included in the CAD calculation*</th>
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<td>Swedbank Varakindlustus AS</td>
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<td>SIA Hansa Apdrošināšanas Brokeris</td>
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<td>Swedbank Atliktnais Pemiju Ponds AS</td>
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<td>Swedbank AS (Latvia)</td>
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<td>„Swedbank autoparko valdymas“ UAB</td>
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<td>„Swedbank valda“ UAB</td>
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<td></td>
<td>„Swedbank draudimo brokeris“ UADB</td>
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