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Entry modes

- A banking perspective

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We hope that this thesis will be interesting and useful reading material for future students that want to write a thesis within this area in marketing and also for other people that have an interest in this subject.

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Abstract

In the European Union the borders are being wiped out and this is creating new business markets for companies that before never had dreamt of going international. Today we see it as natural that companies act world-wide to gain success and increase the growth and profit. They need to do this to be competitive on the ever changing market that we have nowadays. One of the most important things to have in mind when thinking of expanding to other countries is which entry mode to choose. There are several ways of entering a market and if you do it right you might be very successful, but if you do not spend time on this decision the internationalization process can become very short and the company can lose a lot of capital.

With this thesis we want to investigate how two large Scandinavian banks made their presence into the Baltic market in the mid 90's, which kind of entry modes they went for and if one of them made a wiser choice than the other. In the thesis we have also gone in to the factors that have been of high importance when making the decision on why they chose the Baltic market and also which kind of entry mode.

Our main findings after having made this thesis is that it was the profit and growth potential that was the main driving force for establishing on the Baltic market, but also the short distance and the low costs of going in on the market. The choice of entry mode differs between the two banks and that was expected since they have different strategies when going international. And even the know-how of the market in question and resources of the company have been important factors.

Sammanfattning

I dagens EU så blir gränserna allt mer otydliga och detta medför i sin tur att det öppnas nya affärsmöjligheter för företag som aldrig tidigare kunnat drömma om att ge sig in på marknader i andra länder. Idag är det en relativt vanlig förteelse att företag agerar över hela världen för att uppnå succé och även för att öka sina vinster och för att kunna växa som företag. Men de behöver också agera världen över för att kunna hävda sig i den allt mera hårdnande konkurrensen som har uppstått. En av de viktigaste delarna att ha i åtanke när man ska in på andra marknader är vilken inträdesstrategi man ska använda sig av. Det finns många olika sätt att gå in på en ny marknad och väljer man rätt så kan inträdet bli mycket framgångsrik. Läger man däremot inte ner tillräckligt med tid på att välja rätt inträdesstrategi så kan internationaliseringsprocessen bli väldigt kort och företaget kan förlora mycket kapital.

I denna uppsats vill vi undersöka hur två stora nordiska banker gjorde och agerade när de gick in på den Baltiska marknaden i mitten på 90-talet, vilken typ av inträdesstrategi de använde sig av och om en av de valde en bättre strategi än den andra. Vi har även i denna uppsatsen gått in på de viktiga faktorerna som styr vilket val av inträdesstrategi ett företag bör välja men även faktorer som var viktiga för inträdet i just Baltikum.

Det vi kommit fram till i den här undersökningen är att tillväxtpotentialen och även vinstpotentialen låg till grund för beslutet att gå in på den Baltiska marknaden. Även det korta avståndet till Baltikum och de låga kostnaderna att etablera sig spelade in i valet av marknad. Valet av inträdesstrategi skiljer sig åt mellan de två bankerna då de har olika synsätt på hur ett företag bör gå till väga vid inträdet på nya marknader. Även kunskapen om den baltiska marknaden var en viktig faktor i valet av inträdesstrategi för de två bankerna.

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1. Introduction

The introduction will contain four subsections. We will begin with a short presentation about the background. After that we will go on with discussing the actual problem. The third part will be the purpose with the thesis and problem questions. We will end up with the limitations.

1.1 Background

Today's Europe with the borderless society that EU is trying to create entering new business markets has been simplified. The EU is trying to create an internal market without boundaries between the member countries. To increase the success of the company, increase the growth and profit, the management has to move their attention from the domestic market and look for opportunities across borders. One crucial part when the decision to expand abroad is taken is the way to enter that specific market. There are several ways to enter a new market, and those are summarized under export modes, intermediate and hierarchical entry modes. (Hollensen, 2007) The success the company will gain on the entered market will depend on the opportunities and possibilities gained in advance from the chosen entry mode. Choosing the most suitable modes of entry in the different countries is one of the most relevant strategic decisions that an enterprise must adopt during its internationalisation process. The specific characteristics of each target country stand out as fundamental among the various factors determining that decision. (Quer, Claver & Rienda, 2007)

One factor of importance when deciding upon an entry mode is the type of business; product or service. A product is anything that can be offered to a market to satisfy a need or want, while a service is any activity or benefit that one party can offer to another which is essentially intangible or doesn't result in ownership of anything. (Kotler, Armstrong, Saunders & Wong, 1999) The way of entering the foreign market may therefore differ depending on the character of the business. A service firm has often been seen as encountering larger risks in internalization than a manufacturer. This is because a service provider must often immediately establish operations abroad while a manufacturer can start by gradually exporting the goods. (Välinkangas & Lehtinen, 1993) Service firms may enter foreign markets using a variety of different entry modes, for example: licensing, joint ventures or establishing a subsidiary abroad. (Blomstermo, Sharma & Sallis, 2005) The choice of foreign market entry mode is critical and related to control. (ibid)

Services are the fastest growing part of international trade and account for the largest share of gross domestic product for all but the lowest income countries. (Albers-Miller & Straughan, 2000) Although services in general have enjoyed growth markets, financial services have not. The financial services market has been characterized as mature, more competitive and facing a continued long-term downward trend. (ibid)

According to Kotler, Armstrong, Saunders & Wong (1999) there is a span of services from *tangible* to *intangible*. Tangible services can be restaurants and car dealers while examples of intangible services are consulting and teaching. (Kotler *et al*, 1999) *Separable services*, like for example education and television programs, allow production and consumption to be decoupled. The way of marketing manufactured goods in foreign countries doesn't need much modification in comparison to separable goods. In contrast there are *non-separable services*,

like restaurants, that require simultaneity of production and consumption. (Ekeledo & Sivakumar, 2003) One non-separable service that is interesting is the banking sector since it is an important service for economic growth on all markets.

In the recent decades there have been radical transformations within the banking sector of most industrialized countries. Banks, which until recently could be seen as highly bureaucratic organizations operating in closed national markets, have expanded the scope of nature of their operations. Today, they are more likely to be efficient and modern institutions operating in a highly competitive environment, and often inclined to search for international markets. (Quintana, 2003)

There are three primary driving forces behind these transformations that can be identified. Firstly, the globalization processes that have characterized the world economy in the last twenty years. It has impacted the banking sector both directly, through the increasing interdependence of national financial markets, and indirectly, through the parallel internationalization of enterprises, which is an important customer base. Secondly, the relaxation of regulations together with the decrease in intervention from the central banks has affected the banking industry in most countries. Finally, the introduction of new technologies has been an important factor behind the transformation. (Quintana, 2003)

But with saturated markets and declining margins, most of the big banks have looked outside their home markets for growth. Banks with an international perspective have to a large extent been adapting the strategy to serve host companies on foreign markets, simply following local enterprises and supporting them in their internationalization process. (Lönnborg, Olsson & Rafferty, 2006) In most cases, the internationalization process of banks and insurance firms seems to fit the phenomenon of “customer following”, or “markets seekers”, which coincides with marketing strategies where the internationalization can be seen as a way of maintaining a relationship with original clients. (Alvarez-Gil, Cardone-Riportella, Lado-Cousté & Samartín-Sáenz, 2003)

Banks play a crucial role in a market economy as an intermediation of capital between savers and investors; in restructuring the economy; in creating viable payment systems; and increasing the rate of savings. The stability of the financial sector and public confidence in the sector are vital to economic growth, and research has shown that these issues have been especially relevant for the post socialist economies. The banking system had to be reformed after the separation from planned economy to a more modern market economy. (Lönnborg et al, 2006)

The re-entry of the Baltic countries into the market system was a unique historical event. The Baltic region used to be a part of the Soviet Union where the society was built on different norms and governmental regulations compared with the western world. The EU enlargement is expected to speed up changes in trade and investment relationships for transition economies. A larger and more integrated area with greater trade and investment liberalisation reduces barriers and differences among countries. (Jaklic, 2007)

The transformation from a centrally planned to a market economy has followed similar stages in each country of the Baltic region. Currencies were pegged to the Deutschmark - now the Euro - and backed by foreign exchange reserves. Monetary and fiscal policies were introduced and developed. Budget deficits were reduced by shrinking the public sector through privatization and cutting welfare payments. Financial and Banking systems have been re-established on commercial lines. Foreign trade legislation has been liberalized and investment laws created to facilitate foreign investment. (Mole, 2003)

Investments by foreign companies have been vital for the Baltic countries. Foreign direct investments can act as a powerful method for economic change, and in this case the change was radical going from planned economy to market oriented economy. Foreign companies bring technology, management know-how and access to foreign markets. The Nordic countries in particular demonstrated interest in trade relations and in making direct investments in the Baltic area. When Nordic companies start operations in the Baltic area the environment is very dissimilar compared with their host country. Dissimilarities in the economic environment, including infrastructure and level of technology, and in the political, legal and cultural environments, pose inducement for and obstacles to successful expansion. Important environmental factors in the establishment phase were ownership relations, underdeveloped infrastructure, culture and history, language, payment problems and the Baltic actors' unfamiliarity with the western management and marketing style. (Ghauri & Holstius, 1996)

The difference between countries is a vital aspect when expanding abroad, and that leads us to the cultural issue. In a research conducted by Hofstede he found that in Scandinavia there is a low degree of acceptance of power distance in organizations. Scandinavians have less individualistic attitudes and less competitive and self-promoting (masculine) attitudes compared with Americans and Britons. The Scandinavian market orientation should be achieved by greater reliance on empowerment, cooperation and teamwork. Sweden has the most "Scandinavian" values in the sense that it has the most "feminine" values. For example it has been shown that Swedish companies often have a much decentralized approach to control. (Flohr-Nielsen, Høst, Jaensson, Kock & Selnes, 2003)

Moving the attention to the Baltic area things is different. First of all, it is misleading to consider the Baltic States as identical. (Gesteland, 2002) However, there are many similarities and in the thesis we will refer to them as one. Estonia is the most northern part of the Baltic area, and the culture here is quite similar to the Swedish and Finnish. They are rather individualistic, deal focused and direct in their way of communicating. (Ibid) The Lithuanians, the southern part of the Baltic region, are more group oriented and relationship focused. (Mole, 2003) The Latvians are somewhere in between, more deal focused and indirect compared with Estonians, but more direct and reserved than Lithuanians. (Gesteland, 2002) So when dealing with the Baltic States you can expect a northern European type of negotiating behaviour, but with significant intra-regional differences.

1.2 Problem discussion

The Baltic Republics have gone through an amazing process of change over the last ten years, not least in their banking sectors where all three countries basically had to start from scratch. Banking systems as we know them in the west did not exist in the Baltic area prior to 1990. (Meigas, 2001) To increase - or create might be a more suitable word - the banking sector in the area a unique partnership was settled between the World Bank and the Swedish Government. Swedfund Financial Markets, a development oriented equity fund, where established to invest in emerging Baltic banks. (Ibid) Examples of factors missing within the Baltic banking sector were the lack of resources in capital as well as in knowledge. The capital base was too small to support the rising demand for credit from the enterprise sector which impeded the development. At the same time going from a planned economy to a market oriented economy is a huge step and the lack of knowledge and governmental regulations where significant. In the case of a transition economy, foreign direct investments can act as a powerful catalyst for economic change. (Ghuri & Holstius, 1996)

When international companies start operations in East European transition economies – or in developing countries – the environment is very dissimilar from that in their home country. Dissimilarities in the economic environment, including infrastructure and level of technology, and in the political, legal and cultural environments, pose inducements for and obstacles to successful expansion. (Ibid) Experience has shown that operating abroad involves many difficulties, such as cultural differences, language, law and regulations, lack of foreign contacts and business connections. These factors are ever so difficult for banks, since their operations involve a high degree of risk taking.

When it comes to the entry mode process there is several different theories possible to use, all of them with advantages and disadvantages from the company's perspective. If an expansion into a foreign market is executed too fast when the experience and customer base is too narrow the risk for failure and withdrawal from the market is impeding. Even the historical experience tends to be of great importance to succeed in a foreign market. It is stated that if a firm achieve a strong position early in the entry process, it is easier to succeed in the establishment phase. (Ibid)

As services are to a great extent produced, consumed and marketed simultaneously, production must be physically close to the market served. Making a service available thus emerges as a key question to international operations. (Välikangas & Lehtinen, 1994) One service that is of importance on all markets is the banking sector. The banking sector is neither separable nor non-separable, it can be found in between the two extremes. A basic service, with standardized production and broad market focus, suggests licensing or franchising as a path to extensive international availability. A specialized service by nature requires a high level of expertise and technology that is not freely available in the market. Hence it will usually have to be made internationally available by establishing foreign subsidiaries or joint ventures. This is due to the fact that banks offers both standardized and adapted services, which makes the decision on entry mode unclear. (Ibid)

Past research suggests that in high-growth markets, firms tend to prefer wholly-owned modes of entry so they can obtain scale economies and establishing a long term market presence. (Agarwal & Ramaswami, 1992)

We will focus on non-separable services because it has been predicted that this category of service firms will differ significantly from manufacturing firms in their choice of entry mode.

1.3 Purpose

The purpose with this thesis is to describe how Swedish banks decided about their expansion to the Baltic area.

- How they decided which kind of entry mode to implement and how to perform the entry into the foreign market.
- What were the underlying factors for that choice of entry mode?

1.4 Limitations

We will narrow down this thesis to just consist of banks participating in the Baltic area. We will simply not use all banks participating in the region, but draw conclusion from the banks in the investigation. Another important thing to notice is the differences between the three Baltic States. Hence to simplify the investigation we will refer to the Baltic States as one entity. Thereby the cultural aspects of the thesis will be limited.

2. Theoretical Framework

This chapter will present the theories that will be used in the thesis. There will be an explanation of the models that will be used and can be seen as the fundamentals for the findings in the research part. Also a discussion of the market and service sector, which the project will be about, will be presented.

2.1. Entry mode theory

Root (1983, 1994; taken from Sharma & Erramilli, 2004) defines an entry mode as an institutional arrangement that makes it possible for a company to enter a foreign market: products, technology, human skills, management or other resources. The definition covers the host country production and marketing modes as well as the export modes including the export, contractual and foreign investment modes, and is regarded as the bedrock of entry mode definitions. (Sharma & Erramilli, 2004)

Within international business there are six major entry mode theories, which are grouped into three different paradigms; imperfection paradigm, behavioural paradigm and market failure paradigm. (Ibid) These are explained in the table below:

Paradigm	Entry mode choice theory	Explanatory constructs	Entry mode choices and explanation
<i>Market imperfection paradigm</i>	Hymer's theory	Monopolistic advantage and degree of market imperfection	FDI mode is chosen if the degree of market imperfection is high. Otherwise licensing is chosen.
	IPLC theory	Life cycle stage of the product	Export mode is chosen in the earliest stage and FDI mode is chosen during the later stages
<i>Behavioural paradigm</i>	Internationalization theory	Market commitment and market uncertainty	The firm enters into a host country through indirect exporting gradually switches over to exporting through independent representatives, sales subsidiary and wholly owned subsidiary mode with the reduction of its market uncertainty.
<i>Market failure paradigm</i>	Internalization theory	Firm specific knowledge and the degree market failure	FDI mode is chosen if the degree of market failure is high. Otherwise, licensing is chosen. Joint venture and export modes are also explained by the modified framework.
	Transaction cost theory	Degree of transaction specificity of an asset	Higher control mode is chosen if the degree of transaction specificity is high. Otherwise a lower control mode is chosen.
	Eclectic theory	Ownership advantage (O), Location advantage (L), Internalization advantage (I)	Export mode is chosen if "L" favours home market. FDI mode is chosen if "L" favours host market and the "I" is higher. Licensing mode is chosen if "L" favours host market but the "I" is low. Joint venture mode is chosen under partial market failure conditions.

Source: Sharma & Erramilli (2004), p. 4

2.1.1. Market imperfection paradigm

This paradigm evolved from Bain's (1956; taken from Sharma & Erramilli, 2004) Industrial Organizational theory of the firm according to which industries with few competitors and high entry barriers obtain above normal returns. These imperfect markets are created by controlling the number of existing and potential competitors by merger/acquisitions, contractual bindings, and/or building higher entry barriers through heavy investments in capital intensive production processes or product differentiation. (Sharma & Erramilli, 2004) From this view two different theories developed: Hymer's theory and the IPLC theory.

Hymer's theory emerged in the 1960's from his work on FDI. According to this theory the entry mode choice of a firm is a function of the degree of market imperfection for its existing monopolistic advantage. The other theory is IPLC (International Product Life Cycle), which explain the advantages a foreign company have in the beginning of an exporting process. After a while companies in the host country will start producing substitutes and the foreign company has to move the production to the host country to strengthen its market position. (Ibid)

2.1.2. Behavioural paradigm

According to Cyert and March's (1963; taken from Sharma & Erramilli, 2004) behavioural theory, a firm's market related knowledge grows gradually over time because of high cost of information acquisition and bounded rationality of managers. (Sharma & Erramilli, 2004) The theory has two important implications: gradual increase of investment in the market and avoidance of inter-firm relationships. From this paradigm the internationalization theory advanced, and it explains the internalization process of firms over time by using the concept of psychic distance and experiential knowledge. (ibid)

2.1.3. Market failure paradigm

This paradigm evolved from Coase's (1937; taken from Sharma & Erramilli, 2004) theory of the firm according to which markets and hierarchies are the alternative modes of performing an economic function, and the choice of one over the other is based upon its relative efficiency. From this paradigm three different theories emerged:

- Internalization theory
- Transaction cost theory
- Eclectic theory

2.1.3.1. Internalization/Transaction Cost (TC) theory

The Internalization and TC theories are both concerned with the minimization of transaction costs and the conditions underlying market failure. Both theories analyze the characteristics of a transaction in order to decide on the most efficient, i.e. TC minimizing, governance mode, the primary difference being that the focus of internalization is on the market for know-how while that of TC is on more micro-level transaction characteristics such as asset specificity. (Madhook, 1997) Thus, internalization theory can be considered to be the TC theory of the multinational corporation. (ibid)

Buckley and Casson (1976) envisaged the firm as an internalized bundle of resources which can be allocated between product groups, and between national markets. (Buckley & Casson, 1998)

Kogut and Zander's (1993; taken from Verbeke, 2003) evolutionary view addresses three alleged weaknesses in the mainstream internalization perspective on MNE expansion. (Verbeke, 2003) First, they argue that internalization theory focuses primarily on the minimization of transaction costs, rather than on the foreign entry's potential to create value, the sole emphasis on transaction cost minimization cannot determine which foreign entry mode is best for the firm. Second, they view the internalization model as 'over determined'. The internalization theory overemphasizes protecting the profitable exploitation of existing firm-specific advantages and neglects the development of new ones. Third, internalization theory focuses on individual 'transactions', in this case the transfer of a distinct, proprietary knowledge bundle across borders. (Ibid)

The transaction cost theory of foreign direct investment predicts the conditions under which the overseas exploitation of the firm's proprietary technologies is conducted internally (through foreign direct investment), or externally through licensing contracts with local firms. (Belderbos, 2003)

2.1.3.2. The Eclectic theory

To overcome some shortcomings of the internalization theory J.H. Dunning (1977, 1980, 1988) propounded the eclectic theory of FDI. This theory has ownership advantage, location advantage and internalization advantage as its key components. (Ekeledo & Sivakumar, 2003)

Ownership advantage refers to competitive, or monopolistic, advantage that helps a foreign firm to overcome the disadvantages of competing with local firms. It can for example be unique know-how, a brand name, the size of the company or the experience and skills of the management. There are two different kinds of ownership advantages; basic and additional. (Dunning, 1980) The basic advantages are of such character that they can be created by the company itself or be acquired from another company. Some examples are technology, organizational skills and brand name. These advantages cannot be seen as exclusive for international companies. To compete on the foreign market with domiciled companies they must possess additional ownership advantages that are sufficient enough to outweigh the costs of servicing an unfamiliar or distant environment. (Hirsch, 1976)

Location advantage refers to market potential and country risks, which means that conducting business in a foreign market is profitable. These advantages can be closeness to the market or even different regulations favoring an entry, like tax level and political policies. (Dunning, 1980) The internalization advantage refers to contractual risks that make control of the foreign business more favorable than other entry modes. (Ibid) Even if the different advantages are explained one by one they are all linked together. When deciding upon an entry mode, or the profitability to enter a foreign market, they are all considered to make a picture of the situation. Dunning (1980) intends that ownership factors (firm-level competitive advantages) provide unique products for which a foreign market can be developed. Location factors (country-level price advantages) dictate the choice of the production place and the

internalization (transaction costs) factors determine whether overseas production will be organized through markets (licensing, franchising) or hierarchies (foreign direct investment).

2.1.4. The resource based theory (Grant)

This theory views the firm and not the industry as the source of competitive advantage, especially in the resources and capabilities of the firm. (Capron & Hulland, 1999) The theory recognizes the fact that resources are both heterogeneous across firms and imperfectly mobile. (Ekeledo & Sivakumar, 2003) Another proponent of the resource based theory is Robert M. Grant (1991). Grant (1991) argues that in a world where the customers' preferences are volatile, the identity of customers is changing, the technologies for serving customer requirements are continually evolving there and externally focused orientation cannot provide a secure foundation for a long term strategy.

“When the external environment is in a state of flux, the firm’s own resources and capabilities may be a much more stable basis on which to define its identity” – Grant (1991)

Resources are inputs into the production process, and the individual resources include capital equipment, skills of individual employees, brand names, finance etc. Resources are only productive when linked together, and not one by one. (Grant, 1991) A capability is the capacity for a team of resources to perform some task or activity. While resources are the source of a firm’s capabilities, capabilities are the main source of its competitive advantage. (Ibid) Grant (1991) further states that a definition of a business in terms of its capabilities offer a more stable basis for strategy than a definition based on the needs the business is trying to satisfy. A firm’s ability to earn money in excess of its cost of capital depends mainly on two factors: the attractiveness of the industry in which they participate and its competitive advantages over their rivals.

The key to a resource based approach to strategy formulation is to understand the relationships between resources, capabilities, competitive advantage, and profitability – in particular an understanding of the mechanisms through which competitive advantage can be sustained over time. (Grant, 1991)

2.2. Foreign Direct investments

When it comes to foreign direct investments in a foreign market there is three ways to conduct. Either you start from the beginning with *Greenfield investments*; you simply start your own subsidiary in the foreign market. Otherwise you can establish strategic partnerships with enterprises participating in the specific foreign market, arrange a partnership thru *joint ventures*. The third way is to *acquire* an enterprise in the host country and participate in the foreign market thru an acquisition.

When the decision is made on foreign investment the company must also count on the desired amount of ownership that they want to have in their foreign investment. The question concerning degree of ownership is basically that of deciding whether the foreign manufacturing facility is to be wholly owned (subsidiary) or partially owned. If the foreign operation is to be only partially owned, then a decision is to be made concerning whether it will be a joint venture, whether an acquisition is involved, or whether stock ownership will be

made available to the nationals of the country in which the operation is to be located. (Albaum, Duerr & Strandskov, 2005)

Buckley and Casson (1998; taken from Meyer, 2001) developed a model that provides an encompassing view of foreign market entry strategies. Some of the deduced conclusions include (Meyer, 2001):

1. Greenfield investments are most likely if the entrant's technology is highly specific or if the perceived successfulness of adopting a new technology is difficult.
2. If there are high cost involved in learning about the foreign market by experience, acquisitions or a joint ventures are usually superior to Greenfield investments.
3. If there are large monopoly rents (or value in profit sharing collusion and therefore high costs associated with increased competition), then the acquisition route is best. This is assumed to be true because an acquisition does not directly add to local competition whereas a Greenfield investment does.

2.2.1. Joint venture

Joint ventures are business agreements whereby two or more owners create a separate entity. (Harrigan, 1988) It can take many forms. When starting a joint venture its rationale is to combine complementary resources. These resources comprise firm-specific knowledge, and the combination is effected by each firm sharing its knowledge with the other. The knowledge provided by a firm may relate to technology, or to market conditions, or both. The firm does not normally share all its knowledge through a joint venture, but only a subset of it. (Buckley & Casson, 1998)

Joint ventures may be either specialized ventures or shared value-added ventures. Specialization ventures are generally organized around functions such as marketing or manufacturing, while in shared value-added ventures, partners equally engage in value-adding activities. Joint ventures are sometimes the best way to get started in an overseas market because they allow a company with limited capital and labor resources to enter more overseas markets than would have been possible if the company would have established subsidiaries. The downside is that the profit may be less, because all profits must be shared. Also, there are many things that can lead to disagreements between the partners. (Albaum *et al*, 2005)

Firms investing through joint ventures have the opportunity to get in touch with the relevant assets of the foreign firm or at least to get more precise information in order to value them without having to fully pay for them in advance. (Lopez Duarte & Garcia-Canal, 2004)

The reasons for a joint venture include:

1.	Explicit pressures by the host government which may include definite ruling.
2.	Implicit pressure by the host government which may include suspicion or fear of discriminatory action.
3.	The desire to spread risk, both normal business risk and the risk of unpredictability of the environment, e.g. national political and economic uncertainty.
4.	The need for local facilities and resources best obtained through a local interest with influences and local knowledge of the customs and legal system.

5.	The opportunity to participate in any local project undertaken by the local partner.
6.	Local identity – the benefits accruing to a locally identified operation.
7.	Internal company reasons, e.g. goodwill, or the desire to spread corporate capital over a wide range of interests and markets.

Source: Paliwoda & Thomas (1998)

2.2.2. Merger/acquisition

If the speed of market entry is important then a merger may be more easily accomplished by acquiring, or merger, with a company already in the market. This effectively purchases instant market information, market share and channels of distribution. (Paliwoda & Thomas, 1998) This may be particularly advantageous for a firm with limited international management expertise, or little familiarity with the local market. (Hollensen, 2007)

In saturated markets the industry is highly competitive or there are substantial entry barriers, and therefore there is little room for a new entrant. In these circumstances acquisitions may be the only feasible way of establishing a base in a host country. (ibid)

The main arguments in support of mergers are as follows: (David Floyd, 2002)

- Merger activity is likely to lead to economies of scale and this will be achieved at a greater rate than in the case of strategic alliance.
- Mergers also have the advantage of expanding market share very rapidly and decisions can be made quickly without having to wait for agreement, as in the case of alliance.
- Mergers can also be used as a defense mechanism, as well as an opportunity for risk spreading of various activities.
- It also offers benefits for the host country in providing a lifeline for firms on the verge of bankruptcy and also allow for more benefits in terms of upgrading local production skills. But there are also disadvantages. It doesn't add new competition to the market place; in fact merger may actually reduce it.

A major advantage of acquisitions is the speed at which the firm can access research capabilities highly embedded in overseas technological networks, in order to overcome the time-consuming and uncertain process of developing these capabilities and linkages through internal growth. (Belderbos, 2003) Because of information asymmetry, the acquirer is going to value the equity of the foreign firm with a discount. As a consequence, those firms having the most valuable resources, and thus a high value will never be sold by their owners. In these cases, joint ventures have an advantage over full acquisitions, because they are a means of protecting the firm against adverse selection. (Lopez Duarte & Garcia-Canal, 2004)

2.2.3. Subsidiary/Greenfield

The ability to integrate operations across countries, and to determine the direction of future international expansion, is often a key motivation to establish wholly-owned operations, even though it takes longer time to build them up than to acquire them. (Hollensen, 2007)

A subsidiary can be defined as a value-adding entity in a host country, and it can perform a single activity or an entire value chain of activities. The meaning of a subsidiary is to build up a representation in a foreign country, an entity that is wholly owned. This is slow to achieve,

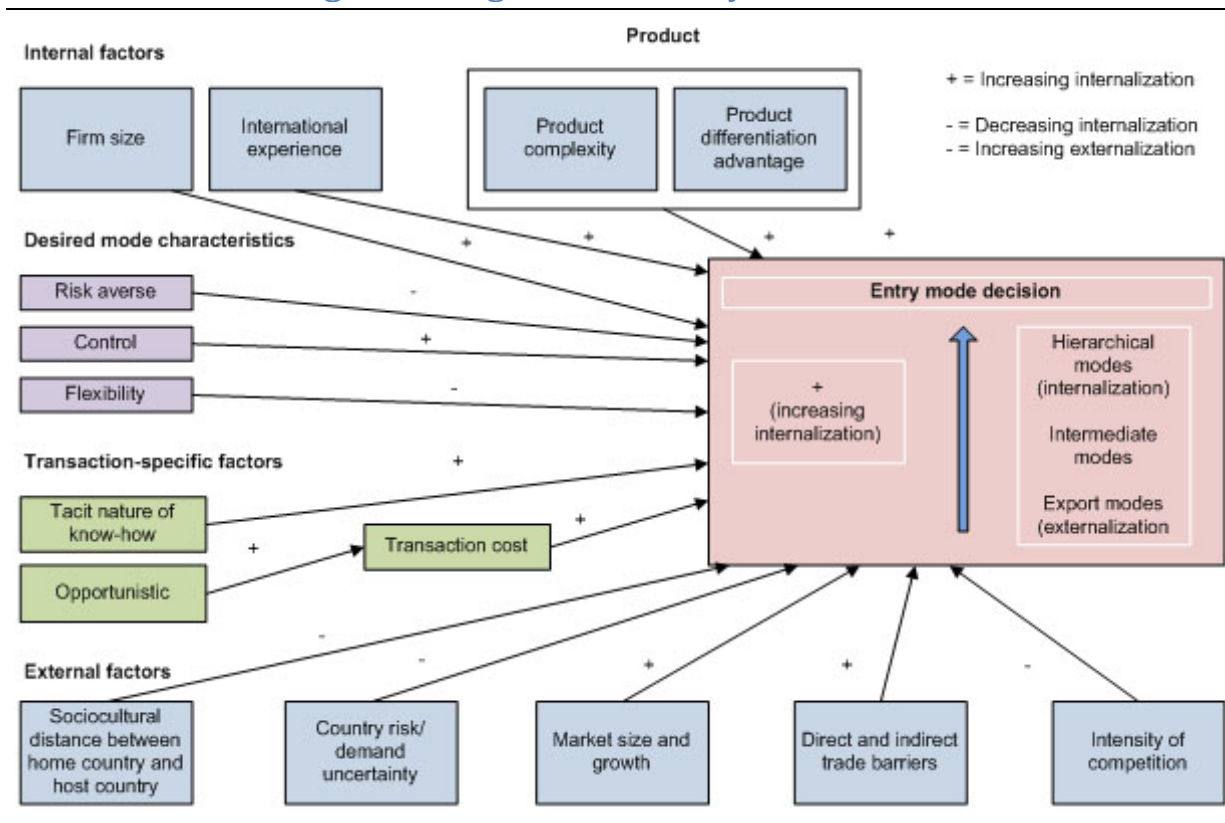
expensive to maintain and slow also when it comes to yield any tangible results. It may be the only effective mode, although costly to maintain, since it allows for flexibility in future strategic shifts. (Paliwoda & Thomas, 1998)

Wholly owned Greenfield affiliates are preferred because the firm can exercise full management control, while joint ventures run the risk of opportunism on the side of the foreign partner and the potential loss of proprietary technology in case of technology transfer to the foreign venture. (Belderbos, 2003) Greenfield entry is generally viewed as impractical, particularly in relation to personal markets because of the high costs associated with the establishing of a physical presence in the foreign market. (Ennew, Wright & Thwaites, 1993)

2.2.4. Partially owned versus wholly owned

Kogut and Zingh (1998; taken from Chen & Mujitaba, 2007) found that industry firm and country- or location specific factors influence the selection decision among the three ownership-based entry modes, joint venture, acquisition and new venture. (Chen & Mujitaba, 2007) While a Greenfield investment is wholly owned by the company entering the market a joint venture and acquisition end up in a contingency perspective; they can be owned to different degrees. When expanding abroad through an acquisition the firms managers may decide not to acquire 100 percent of the equity of the foreign firm, but rather only a part of this equity in which case a partially acquisition arises. (Lopez Duarte & Garcia-Canal, 2004) A partial acquisition may thus combine certain characteristics of both joint ventures and foreign acquisitions. (Ibid)

2.3. Factors affecting the foreign market entry mode decision



Source: Hollensen (2007), Factors affecting the foreign market entry mode decision

2.3.1. The internal factors

The first factor is the firm size, which states the resources of the company. The greater resources the company have available, the higher is the probability to be involved in international markets over time. (Hollensen, 2007) The international experience, which reduces the cost and uncertainty observing a market, is of importance. The more experienced the management is the higher is the chance to succeed when deciding about a new market and the way to enter it. (Ibid)

2.3.1.1. Service (Product)

Even the service (or product) itself is an internal factor, and when it comes to services they can be separated into hard and soft services.

Services are defined as:

...an activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in interactions between customer and service employees and/or physical resources or goods and/ or systems of the provider, which are provided as solutions to customer problems (Grönroos, 1990, p. 27; taken from Blomstermo *et al*, 2006)

The definition states that services are characterized by intangibility, inseparability of production and consumption, perishability and heterogeneity. Intangibility entails that there is no physical product to act as a catalyst to bind international business units together. This leads to a higher importance of internal marketing and stable partner relationships, and it also affects perceptions of service quality. (Blomstermo *et al*, 2003) Many services are delivered in real time, which means that both the supplier and the customer must be present during the performance of the service (e.g. management consulting and education). At the same time customers might demand specific adaptations and information exchange to suit local requirements in foreign markets. As services are to a large degree experience based and dependent on individual perceptions in time and space, they are hard to evaluate before and even after consumption. (Ibid)

In a hard-service; production and consumption can be separated, and it may involve a limited or no local presence of the service firm. Hard services may not be affected by the inseparability aspect. (Javalgi, Griffith & White, 2003) They can often be standardized, making mass production possible, like for example software services. Soft services are inseparable in the sense that production and consumption occur simultaneously, which is requiring a local presence of the service firm. For this kind of services exporting is not a viable entry mode, while joint ventures or owning a facility are viable options. (Ibid) The soft service provider must be present abroad from the day of foreign operations. (Blomstermo *et al*, 2003)

2.3.1.2. Firm size

Researchers indicate that the probability of international activity increases with firm size, mainly as international expansion requires a great deal of resource commitment by the expanding firm. (Javalgi *et al*, 2003) According to the resource based theory a firm is a package of linked and individual resources and resource conversion activities. (Barney, 1991)

Each firm is unique and this uniqueness arises from resources it acquires, their compability with other and the way they are organized. (Erramilli & Sharma, 2004) And since the resources are relatively immobile this uniqueness will last for a rather long time. (Barney, 1991) These resources are developed over long time and are hard to trade in the market. Examples of resources include all assets and capabilities, like distinctive competencies, technology, corporate culture, customer loyalty, brand name, processes and procedures, market orientation, relational and intellectual assets. These resources can be tangible and/or intangible and can exist in any functional area of the firm. (Erramilli & Sharma, 2004)

Srivastava, Shervani and Fahey (1998) have classified market based assets into two categories:

- *Relational assets*: the firm's relationship with customers, distributors, suppliers and other relevant stakeholders.
- *Intellectual assets*: knowledge about market conditions and appropriate interest groups and stakeholders.

The firm specific factors are valuable for the company and give a competitive advantage when entering a foreign market. The strategy literature points out that a firm must determine if its competitive position based on existing strategic capabilities is sustainable at a particular location. (Erramilli, Agarwal & Kim, 1997)

From the transaction-cost perspective, larger firms that have a greater ability than smaller ones to expand resources and absorb risks will conceivably be more likely to establish integrated modes. (Chen & Mujtaba, 2007) Also, larger firms may have greater bargaining power to negotiate a greater ownership and control in foreign countries with restrictive investments policies. (Erramilli & Rao, 1993) High-control ventures in to new markets involve higher levels of resource commitment and risk, therefore large firms that are better able to absorb such risks will be more likely to opt for high-control modes. (Ibid)

2.3.1.3. International experience

Research on service firms shows that the process of going abroad is slow and gradual. (Blomstermo *et al*, 2003) There is a distinctive line drawn between objective and experiential knowledge. Objective knowledge is a type of public good readily available to any firm, while experiential knowledge is firm specific and gained by being active on the market. The internationalization process of the firm is driven by a firm's experiential knowledge. A firm's foreign market entry is explained as a process of increasing accumulation of experiential knowledge about business partners, and of committing human, technical and administrative resources. Experiential knowledge is important in the detection of opportunities and risks. (Ibid) Gatignon and Anderson (1998; taken from Blomstermo *et al*, 2003) observed an increasing propensity to select wholly owned subsidiaries as experiential knowledge increased.

Firms with little foreign market experience prefer markets at a short cultural distance. This is due to the fact that a firm's existing experiential knowledge is less relevant in culturally

dissimilar environments. There is evidence that firms prefer to enter foreign markets that are culturally similar the domestic market. (Blomstermo *et al*, 2003)

The evolutionary view of the (multinational) firm further emphasizes the importance of the firm's capability to learn from each transfer abroad and accumulate knowledge on how to apply tacit knowledge across borders in different geographic locations. In this view, international experience is a prime source of organizational learning in multinational firms. (Belderbos, 2003)

An experienced firm that has accumulated local market knowledge is likely to avoid hazards by internalizing market transactions. Thus, the longer a firm operates in a market, the more it comes to know about functioning of its market, the culture, and the foreign market behavior, and in turn, the more the firm can expect higher expected profitability. (Chen & Mujtaba, 2007)

Only by doing business in a specific country is it possible to learn how customers, intermediaries, competitors, and public authorities act and react in different situations. This subtle understanding of the market can never be replaced by general market information and surveys. This means that it takes time to developed foreign business skills and knowledge. (Johanson & Vahlne, 2003)

2.3.2. Desired mode characteristics (Management attitude)

The distinguishing variables among the management and the company will affect an entry mode decision. Depending on how risk averse the management is, the degree of control over the target market the management want to reach and the possibility to be flexible in that new market. A risk averse management wants to avoid risk, simply looking for solutions that minimize the risk. A management that want control over the situation goes for an entry mode that limits the dependence. Another factor is flexibility, which gives the management the possibility to adapt to changes in the environment and market. (Hollensen, 2007)

2.3.2.1. Control

Control refers to the level of authority a firm may exercise over systems, methods and decisions over the foreign affiliate. Control is the most important determinant of risk and return. (Ekeledo & Sivakumar, 2003) Each entry mode can be place into one of two levels of control:

1. High or full control modes (sole ownership)
2. Low or shared control modes (collaborative modes of operation)

In general a full-control mode requires the highest commitment of company resources, which means that the company exposes the highest level of risk, but at the same time it brings the highest return on the investment. The shared control mode requires low to moderate commitment of resources, means low to moderate risk and a low to moderate return on the investment. (Ekeledo & Sivakumar, 2003) Research conducted by Blomstermo, Sharma and Sallis (2003) concludes that managers in soft service firms are more likely to choose a high control entry mode than hard service firms. It is important for soft-service suppliers to interact

with their foreign customers. Hard-service firms suppliers can learn from the experience from manufacturing firms going abroad since the issues they face in foreign market entry mode is very similar. The majority of evidence suggests that firms with high foreign market experience seem to prefer high control foreign market entry modes. (Blomstermo *et al*, 2003)

2.3.2.2. Risk averse

Risk aversion means the level of risk the management is willing to take, basically they want to avoid risk to as high degree as possible. Agarwal & Ramaswami (1992) found out that smaller less experienced companies tend to use low involvement entry modes in high potential markets. They also found that firms with high product differentiation abilities tend to use more integrated entry modes in high contractual risk markets. In the same study they even found out that in markets with high potential and high investment risk firms tend to utilize a more independent entry mode. Basically, when the market risk is high firms tend to go for an entry mode with low costs and less involvement. (Agarwal & Ramaswami, 1992)

2.3.2.3. Flexibility

The flexibility originates from the ability of the company to shift value chain activities - including sourcing, manufacturing, and distribution activities - across its foreign subsidiaries located in different countries as external conditions change. Such shifts can be triggered by changes in labor and other input costs, exchange rate movements, other macroeconomic conditions, tax and tariff considerations, competitors, and so forth. (Tong & Reuer, 2007) Firms will give up ownership and control of a foreign subsidiary when local parties offer valuable resources. Sharing ownership with local parties therefore has two effects on the firm's ability to operate flexibly by shifting value chain activities across borders. First, it increases the likely hood of value chain incompatibilities with other foreign operations due to the reliance on local resources. Second, it also puts control rights in the hands of parties in the host countries, whose objectives are more likely to be local, or country specific, rather than consistent with the MNC's system wide interests. (Ibid)

In the international environment, the essence of the flexibility strategy is the decreasing the cost of internal organizational adaptation to changing international circumstances. Flexibility in terms of design, manufacturing, workforce size, employee skills, and cost structure provides a firm with the capability of responding rapidly and effectively when prices, demand, or technological standards change. Flexibility of these types may be an important competitive advantage of new ventures over established firms in the international marketplace, and the desire to have such flexibility may help determine which countries a new venture enters and which modes of entry are used. That is, countries and entry modes, such as foreign direct investment, that requires greater commitment undoubtedly limit firm flexibility and increase the risk of losing revenues, profit, and assets. (Shrader, Oviatt & Phillips-McDougall, 2000)

2.3.3. Transaction-specific factors

2.3.3.1. Tacit know-how

Tacit know-how is something that is intangible and distinguishes the company in some way that gives them an advantage on the market. In contrast to common know how, which can be

transferred between companies. If it is beneficial for the firm to exploit an advantage - the tacit know-how - themselves they will go for an internalization method. (Madhook, 1997) The internalization perspective reasons that the market mechanism for the transfer of know-how will fail under the assumption of opportunism, when the know-how is of tacit nature. Therefore the firm finds it more efficient to internalize the transaction and exploit the know-how thru an own subsidiary. On the other hand, when know-how isn't tacit, contractual arrangements such as licensing tend to be more efficient for exploiting the know-how. (Ibid)

2.3.3.2. Opportunistic behaviour

The essence of relational contracting as a form of governance revolves around the notion of trust and resulting self regulation. Trust can be defined as the belief that an exchange partner's words can be relied on. Trust can also be viewed as the expectation that an exchange partner will not engage in opportunistic behaviours even when such opportunities exists. Trusting implies adopting a belief without fully information and acting as if the uncertainty that one faces is reduced, although it may not reduce that actual uncertainty. Trust can influence a focal firm's behaviour in two distinctive ways: via the fear of expected cost and attraction of expected benefits. Word of the opportunistic firm's behaviour is likely to spread and this notoriety will increase the difficulty, and thereby the costs, of finding replacement exchange partners. A reputation for trustworthiness is an asset a firm can use to form future business relationships. (Gao, 2004)

According to Verbeke (2003), opportunism reflects the propensity of individuals to engage in imperfect disclosure of information, thereby pursuing not just self-interest, but possibly also intentionally deceiving contracting partners. The danger of opportunism, when transaction-specific investments need to be made, leads individuals and organizations to focus on appropriate safeguards in contracting, thereby reducing the occurrence of opportunism and mitigating its impact when it occurs. (Verbeke, 2003)

2.3.3.3. Transaction costs

Transaction costs emerge when markets fail to operate under the requirements of perfect competition; the cost of operating in such market would be zero, and there would be little or no incentive to impose any impediments to free market exchange. (Hollensen, 2007)

From the transaction cost perspective, a firm's ownership decision requires minimizing total transaction and production costs. Market failure is the primarily precursor to a firm's decision to integrate and assume greater control. The most important determinant of market failure is the presence of transaction specific assets. The high transaction costs of transferring proprietary assets incurred by multinationals, leads to internalizing market choices. (Chen, 2007)

2.3.4. The external factors

When a multinational enterprise starts its involvement in foreign market, it engages in internationalization. The main reasons for internationalization are to resist against the international competition, domestic market saturation, business expansion, new market development and diversification, all of which are the impacts to continuous business operation. (Liu, 2006) However, there exist many uncertainties and risks in the emerging

global market and the transitional business environment, such as market demand uncertainty, high competition among industries, high political risk, high extent of cross-cultural difference, high technological intensity. Therefore, it is important for MNC to understand how to measure the business environment in order to reduce many uncertainties and risks in the host country. (Ibid)

2.3.4.1. Sociocultural distance between home country and host country

The sociocultural distance between home country and host country can create internal uncertainty for the firm. The greater perceived distance may lead to joint ventures instead of own direct investments as an entry mode. (Hollensen, 2007)

The “liabilities of foreignness” or “psychic distances” come from all kinds of differences between the home country and the host country. Differences between the host and home country increase the cost of entry, decrease operational benefits, and hinder the firm’s ability to transfer core competencies to foreign markets. (Tihanyi, Griffith & Russell, 2005) Such differences are usually also viewed as environmental uncertainties to a certain extent. It is argued that such uncertainties in the host environment magnify difficulties in collecting, interpreting, and organizing the information necessary for a successful FDI entry, increasing the relative cost of FDI, and increasing the barrier rates of return. (Zhang, Zhang & Liu, 2007)

When firms enter foreign markets, greater similarities between cultures enable them to access new customers at a lower cost, establish and successfully manage manufacturing corporations and compete with a relatively homogeneous group of local firms. (Tihanyi *et al*, 2005) Gatignon and Anderson argue that, under conditions of high cultural distance, MNE’s may require greater flexibility, resulting in preferences for modes of entry with lower control, such as licensing or a joint venture. (Taken from Tihanyi *et al*, 2005)

According to Hofstede cultural distance involves differences in a country’s legal system, incentives, administrative practices and working styles that increase an international company’s cost of integration. (Sakarya, Eckman & Hyllegard, 2006) Psychic distance usually refers to the obstacles to information flows between countries due to differences in business laws, education levels, business language, etc. (Johanson & Vahlne, 2003)

2.3.4.2. Country risk/demand uncertainty

When the time comes to reflect on the possibility of entering a foreign country, the firm must take into account that country’s social, legal, economic and political framework. In this context we find one of the most influential variables of the internationalization decision: country risk. (Quer *et al*, 2007) The country risk plays a major part since the higher insecurity on the target market the management will likely go for a entry mode that involve low resources commitments. Examples of risk are exchange rate risk and political risk, and the company must make a risk analyse of both the market and the method of entry. (Hollensen, 2007)

When there is a high-target country risk, the firm will have to find a flexible position that allows it to modify its decisions if environment conditions should change and even to leave

the country without incurring substantial losses. For this reason, the firm will prefer non-ownership-based or low investment modes. (Quer *et al*, 2007)

Market specific uncertainties consist of imperfect property rights protection, imperfect industry structure, relationships with suppliers and clients, and variance in consumer preferences. Country specific uncertainties include political hazards, government interference, and absence of legitimacy etc in the host country. (Zhang *et al*, 2007)

2.3.4.3. Market size and growth

The size and growth of the target market affects the entry mode decision, high potential markets tend to get more involvement from the management and they simply chose an entry mode with much own commitment. (Hollensen, 2007)

Past research suggest that in high-growth markets, firms tend to prefer wholly-owned modes of entry so they can obtain scale economies, hence reducing per unit costs and establishing a long-term presence. In slow growth markets, firms may find less integrated modes provide better opportunities because they do not increase the capacity in the market, and hence do not impact competitor pricing strategies as severely. These less integrated modes can provide better returns on investment by minimizing the resource commitment, based on lower expected returns, or reducing the switching costs of market exit if product or service sales are low. (Chen & Mujtaba, 2007)

The market size of the host country has a positive impact on the inflow of manufacturing FDI. This relationship has also been observed in the internationalization of multinational Banks. (Li & Guisinger, 1992)

2.3.4.4. Direct and indirect trade barriers

Market characteristics of concern to managers include host government regulations and/or restraints on market entry, prohibition or limitation of foreign ownership, local content requirements, and financial and fiscal controls. (Javalgi *et al*, 2003) In a service context, Lovelock and Yip indicate that host governments use import tariff, non-tariff barriers, local content requirements, currency and capital flow restrictions, ownership restrictions and requirements on technology transfer in an attempt to overtly control the degree of foreign competition in the service industry. (Ibid)

Promoting competition in product and financial markets by enacting new laws to eliminate barriers to business entry and trade, and price liberalization are essential ingredients for a successful transformation of command and emerging economies. (Ashkeboussi & Tootoonchi, 2007)

2.3.4.5. Intensity of competition

If the competition in the host market is high firms will do well in avoiding entering that market, as such markets tend to be less profitable and therefore do not justify heavy resource commitment. The greater the intensity of competition in the host market the more it will favour for entry modes with less commitment. (Hollensen, 2007)

3. Methodology

The methodology section will contain and describe the tools we will use to gain information about the subject. The chapter will be divided into eight parts; research purpose, research approach, research strategy, case selection, data respondents, data collection, data analysis and validity/reliability.

3.1. Research purpose

According to Dag Ingvar Jacobsen (2002) the purpose of a research can be explorative, descriptive or explanatory.

An explorative research means to develop new and relatively unknown knowledge, research that develops theories and hypothesis. The aim might be to raise questions and to evaluate a phenomenon or to explain it from another angle. More descriptive formulations are said to be theory and hypothesis testing. An explorative method is said to be more open, and gives no possibilities to set up clear hypothesis. (Jacobsen, 2002)

A descriptive research is basically to describe characteristics of a population or a phenomenon. The description is often limited in time and therefore often limited to say something about a state of mind in a given time period. (Ibid). It strives to give answers to questions asking; who, what, when, where and how.

An explanatory research is to look at the underlying reasons to things that happen. The aim is to explain the cause and the effect relationship between given variables. Explanatory investigations shall in the ideal case elucidate the connection between phenomena, connections that we often assume is causal in the nature. (Ibid)

The first thing to question yourself when analyzing a problem formulation is whether or not it's clear or unclear. In our case it is clear, which means that we shall go for a descriptive or explanatory research method. We would say that our thesis is of a descriptive type with some small influences from the explanatory research criteria. We will describe a phenomenon and the underlying reasons that cause the certain phenomenon.

3.2. Research approach

When writing a thesis you can use either a deductive or inductive approach, which can be seen as two antitheses. A deductive approach, also known as going from theory to empiry, means that you first create certain expectations about the phenomenon and thereafter collect data to see if the expectations correspond to the reality. (Jacobsen, 2002) The expectations are built on earlier studies and theories. (Ibid) Criticism against this approach is that the author has pre knowledge and pre conceived notions about the subject and might look for answers that suit his own theories. The other approach is the inductive which might be hard to reach since we live in an information society. In this case the author enters the research without any pre knowledge about the subject and almost without any expectations. (Ibid) The data collection occurs before the author formulates the theories.

Since we have pre knowledge, preconceived notions and already formulated the research questions the inductive approach cannot be used. Basically, we will use a deductive approach when writing this thesis proving facts with theory.

According to Jacobsen (2002) data collection can be made either with a qualitative or a quantitative approach. The method to use depends on the phenomenon and the purpose of the research. (Kvale, 1997)

The qualitative research means individual interviews, group interviews and observations, which are the most important types when gathering primary data. (Jacobsen, 2002) Characteristics of the method are closeness to the respondent, it's based on meanings based on words and it gives the researcher the opportunity to capture values, attitudes and perceptions distinguishing the interviewed.

The quantitative method means that you test a limited amount of variables with a large sample size, you test phenomenon instead of investigate them. The problem formulation means to strive towards a broad perspective, and investigate on a larger number of units. (Ibid)

	Quantitative method	Qualitative method
<i>Should be used when we got:</i>	Good knowledge about the study phenomenon	Less knowledge about the study phenomenon
<i>When we shall:</i>	Test theories and hypotheses	Develop new theories and hypotheses
<i>When we want:</i>	Generalize (know little about many units)	Get a lot of information about few units (not generalizing)
<i>When we want:</i>	To know how a phenomenon appear	To know what a phenomenon consists
<i>Pros:</i>	<ul style="list-style-type: none"> *many units *possibilities to generalize *from selection to population *with a high grade of security *relatively low cost 	<ul style="list-style-type: none"> *deep and detailed understanding *complete understanding about phenomenon/situation/the individual *flexibility in the data collection
<i>Cons:</i>	<ul style="list-style-type: none"> *shallow information *rigidity in the data collection *views are forced thru standardized questions and answering alternatives *analytical distance can give bad comprehension 	<ul style="list-style-type: none"> *unforeseeable and to detailed information *high costs, especially in the analytical pace *closeness to the respondent can disturb the ability to analytical distance *to large flexibility can lead to a never finished investigation

Source: Jacobsen, 2002, p. 150

Since we want deep information about a certain subject we will go for a qualitative approach. Our problem formulation forces us to search for many variables, but the amount of units to be investigated is few and limited. The method will even give us the possibility to be flexible and give us deeper understanding about the phenomenon itself.

3.3. Research strategy

According to Robert K. Yin (1994) there are three different conditions that the researcher should use to determine which strategy to apply. These are:

1. The type of research question posed
2. The extent of control an investigator has over actual behavioral events.
3. The degree of focus on contemporary as opposed to historical events

Further on Yin gives an explanation of the three conditions by displaying them in a table, which shows how each is related to five major research strategies.

Strategy	Form of research question	Requires control over behavioral events?	Focuses contemporary events?
<i>Experiment</i>	How, why	Yes	Yes
<i>Survey</i>	Who, what, where, how many, how much	No	Yes
<i>Archival analysis</i>	Who, what, where, how many, how much	No	Yes/no
<i>History</i>	How, why	No	No
<i>Case study</i>	How, why	No	Yes

Table 1. Relevant Situations for Different Research Strategies; Source: Yin, 1994, p. 6

The problem formulation in our case, the research questions, has a how/why character, which leaves us with the possibility for an experiment, history or case study approach for the research. Those strategies contains are seen as mote explanatory. By going further we can exclude experiment since that means that you can manipulate behavior, which can occur in a laboratory and focus on isolated variables (Yin, 1994). This is because such questions deal with operational links needing to be traced over time rather than simple frequencies or incidents. (Ibid) This leaves with either a history or a case study approach, and the one to use depends on the contemporary aspect of the research. The history approach means far back in time, when dealing with the “dead” past. That is when no relevant persons are alive to report, even retrospectively, what occurred, and when an investigator must rely on primary documents, secondary documents and cultural and physical artifacts as the main source of evidence. (Ibid) In the end it leaves us with one approach – the case study. The case study is preferred when the question is how/why, the researcher does not have control over the event and the focus is on a contemporary phenomenon.

Andersen (1997, p. 8-9) explain and demarcate case studies, as follows:

“The description of a “Case” comes from the latin casus and underlines the meaning of the single case.”

So far we have narrowed the research method to be made in form of a case study. According to Jacobsen (2002) there are other research strategies to have in mind when deciding about research method. Jacobsen (2002) is mentioning little N-studies as a possible way to go if you

want to use a case study with multiple nuances. N-studies are preferred when you want a rich description of a special phenomenon, while a case study is preferred when we want to describe a special place or situation. (Jacobsen, 2002)

		Focus of research	
		<i>Context</i>	<i>Phenomenon</i>
Nr. of units	<i>Few</i>	1. Case study combined with a little number of units	2. Small N-studies
	<i>Many</i>	3. Case study combined with selection survey	4. Selection survey

Source: Jacobsen, 2002, p. 102

Column one is referring to just one context, in our case it would be one bank, while asking more persons at that specific bank about entry modes. Column number two is referring to more than one bank, but still a few, researching the same phenomenon with a wider perspective. You are not locked in to one banks situation, you will get a wider picture about the phenomenon and not just the phenomenon limited to one banks situation. We are interested in the phenomenon itself. Number three and four will be left without explanation.

This research focuses on a few and limited units and the purpose are to get deeper understanding about a specific phenomenon, which are entry modes for Swedish banks in the Baltic area. To gain information we find it important to go deeper with a few units, which will give us a better knowledge about the phenomenon. As we are going to investigate a few units, and the phenomenon as we want to investigate it doesn't belong to a specific context, we believe that little N-studies are the most suitable method to use.

3.4. Case selection

Having decided which kind of source of evidence to use it is time to find relevant samples from which you can collect the empirical data. In this case we will describe the entry mode into the Baltic banking sector. The banking sector is an important part of a country's welfare and growth, and the first thing to develop after the independence from the Soviet Union and planned economy was a functional banking sector. This reform needed knowledge and capital from abroad due to the limitations on the local market, and foreign investment and capital were important for the increase of the welfare and to maintain a growth in the country's industry. The Swedish government had rooted connections in the Baltic area and participated in the development thru Swedfund which was an institution to help the Baltic area to grow. Since Sweden have a highly developed banking sector, and the government helped rebuilding the infrastructure in the Baltic area, we would like to investigate the entry of Swedish banks into that area.

We have chosen to limit our research to two banks; Swedbank and Nordea. Otherwise the research will be too extensive for us to handle and it would even be too time consuming for this type of investigation. There are three Swedish banks that have foreign affairs in the Baltic Area; Swedbank, Nordea and SEB. Since SEB just handle out information and answer questions about topics they state on pre-hand they fell short for our investigation. Since Swedbank and SEB are main players at the Baltic Banking market, referred to as key

competitors, the comparison would have been interesting. We will write about Swedbank compared to Nordea instead, which also will be interesting due to the fact that they have entered the Baltic region in different ways.

3.5. Data respondents

We will interview two persons at each bank; Swedbank and Nordea. The persons will have insight in the entry mode issue within the company. Important to note is that the only part of the company with full insight in the entry mode decision is the board and the board of those two banks are impossible to reach for the purpose of a thesis. The respondents at Swedbank worked as consultants, direct supervised by the board, with the market entry in the Baltic area. We believe that the validity in their answers is high. The respondents at Nordea are both settled in Finland, since the head office of Nordea is located in Finland. One respondent being the head of corporate banking while the other is the credit manager.

3.6. Data Collection

As we are going to research according the norms of little N-studies, and the little N-studies are a form of case studies, we will use the literature on case studies by Yin and Jacobsen when conducting the data collection chapter.

Yin (1994) mentions six different ways to collect data, six sources of evidence, namely: documentation, archival records, interviews, direct observation, participant observation and physical artifacts. None of the sources are better than the other, and the author recommends a combination of the sources to increase the validity of the study. Using multiple sources gives an opportunity to obtain multiple measures of the same phenomenon. (Ibid) The sources are explained below.

Source of evidence	Strengths	Weaknesses
<i>Documentation</i>	<ul style="list-style-type: none"> *<i>Stable</i>: can be reviewed *<i>Unobtrusive</i>: not created as a result of the case *<i>Exact</i>: contains exact names, references and details of an event *<i>Broad coverage</i>: long span time, many events and many settings 	<ul style="list-style-type: none"> *<i>Retrievability</i>: can be low *<i>Biased selectivity</i>: if collection is incomplete *<i>Reporting bias</i>: reflects (unknown) bias of author *<i>Access</i>: may be deliberately blocked
<i>Archival records</i>	<ul style="list-style-type: none"> *(Same as for above for documentation) *Precise and quantitative 	<ul style="list-style-type: none"> (Same as above for documentation) *Accessibility due to privacy reasons
<i>Interviews</i>	<ul style="list-style-type: none"> *<i>Targeted</i>: focuses on case study topic *<i>Insightful</i>: provides perceived causal inferences 	<ul style="list-style-type: none"> *Bias due to poorly constructed questionnaire *Response bias *Inaccuracies due to poor recall *Reflexivity: interviewee gives what interviewer wants to hear

<i>Direct observations</i>	* <i>Reality</i> : covers event in real time * <i>Contextual</i> : covers context of event	*Time consuming * <i>Selectivity</i> : unless broad coverage * <i>Reflexivity</i> : event may proceed differently because it is being observed <i>Cost</i> : hours needed my human observes
<i>Participant observations</i>	*(same as for direct observations) *Insightful into interpersonal behavior and motives	*(same as for direct observations) *Bias due to investigator's manipulation of events
<i>Physical artifacts</i>	*Insightful into cultural features *Insightful into technical operations	*Selectivity *Availability

Table 2: Six sources of evidence: Strengths and weaknesses; Source: Yin, 1994, p. 80

The methods most suitable for our research will be documentation, archival records and interviews. Documentation and archival records are quite the same, but since annual reports are found under documentation we will go for that method. Annual reports and documentations found on the sample companies' websites will be used as secondary data, and we find the validity and reliability for those sources to be high. Interviews will be our primary data, and according to Yin (1994) it is one of the most important sources for a case study. An interview can be conducted in three different ways: open ended interview, focused interview and structured interview. The most common when conducting a case study is to use an open ended strategy which will give the researcher the possibility to ask the respondents for the facts of a matter as well as for the respondents' opinions about events. In some situations, you may even ask the respondent to propose his or her own insights into certain occurrences and may use such propositions as the basis for further inquiry. The focused interview is the second strategy and here the respondent is interviewed for a short period of time. In such cases the interviews may still remain open ended and assume a conversational manner, but you are more likely to be following a certain set of questions derived from the case study protocol. The third and last method is described by more structured questions, following the outline of a formal survey. (Yin, 1994) The type of interview that we will use is the focused interview, since the time perspective is limited. We will conduct the interview thru telephone and use a questionnaire underlying the progress of the interview. During the interview we will even go around the questions asking sub questions on own initiatives, and we will also record the interview which gives us the opportunity to transcribe the interview word by word afterwards.

3.7. Data analysis

According to Jacobsen (2002) the analyzing of qualitative data consists of mainly three things:

A: *Describing*, which means that we as investigators shall try to, without affecting the information, get such a truthful and detailed description as possible of our data. Situations,

interviews and conversations shall be registered as clearly as possible. This is known as thick descriptions, rich in details, analyses and variations.

B: *Systematization and categorization* is the second phase which means to reduce the unforeseeable information that always lies before an analysis. In all phases of the analyze process a simplification and screening of the information is done. The systematization is necessary for us to present what we have found.

C: *Combination* takes place when the systematization is finished and we can start to interpret data, which means looking after meanings, causes, trying to generalize or structuring the data. In this phase we as investigators can find the true and the more hidden relationships which can be of great interest for the research.

3.8. Validity and reliability

The validity means that the research was conducted about what it was supposed to research, while the reliability relates to the consistency of the research. (Kvale, 1997) There are four tests commonly used to establish the quality of an empirical research. (Yin, 1994) These are:

- *Construct validity*: establishing correct operational measures for the concepts being studied.
- *Internal validity*: establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships. (For explanatory studies only, not descriptive studies)
- *External validity*: establishing the domain to which a study's findings can be generalized.
- *Reliability*: demonstrating that the operations of a study, such as the data collection procedures, can be repeated with the same results.

Validity and relevance means that we measure what we are supposed to measure, and that the things we have measured is seen as relevant and the things we measure among a few can be applied to a larger population. (Jacobsen, 2002)

4. Data Collection

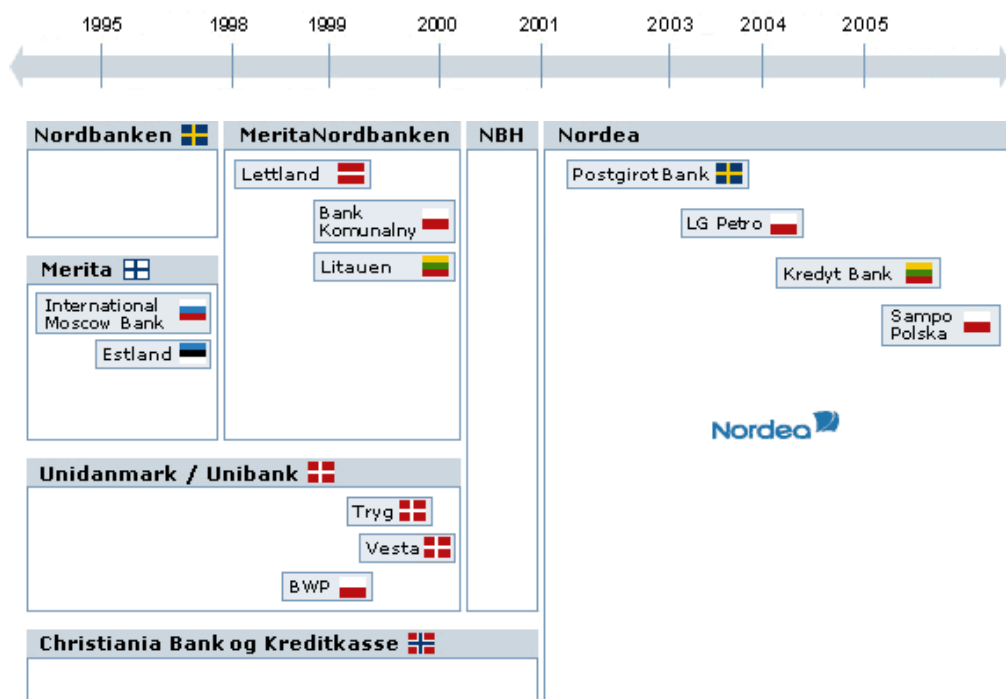
In this chapter we will present the empirical data collected for our case study. The first part gives a presentation about the two banks and after that we present their activities in the Baltic region. We will begin with Nordea and move on to Swedbank. Further on we will present the information gathered from the interviews we have conducted with the banks. The outline of the interviews are under the topics; “motives for entering the Baltic countries”, “methods and strategies for entering the Baltic countries” and “factors influencing Baltic countries selection”.

4.1. Nordea (Secondary data)

4.1.1. History

In 2001, four Nordic banks were brought together to form one bank under the brand name of Nordea. These banks were Merita Bank, Nordbanken, Unibank, and Christiania Bank og Kreditkasse, from Finland, Sweden, Denmark and Norway respectively.

Currently Nordea AB includes Nordea Bank Finland, Nordea Bank Sweden, Nordea Bank Denmark, Nordea Bank Norway. Further it includes the insurance companies Vesta, Livia and Nordea Life, and various subsidiaries dealing with leasing, real estate and securities services.



Source: <http://www.nordea.com/About+Nordea/Nordeas+history/Nordea++recent+years/867372.html>

4.1.2. The Nordea Group

Today Nordea is the largest financial services group in the Nordic and Baltic region. By their strong Nordic base they can create fully integrated Nordic production and distribution networks, which is an essential part of their ambition to offer the best financial solutions.

Nordea’s vision is to be the leading Nordic bank, acknowledged for its people, creating superior value for customers and shareholders. With their mission they are making it possible

for their customers to reach their goals by providing a wide range of products, services and solutions within banking, asset management and insurance.

Nordea has around 10 million customers, more than 1,300 branch offices and a leading net banking position with 4.8 million e-customers. The Nordea share is listed on the OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen. The three largest shareholders are the Swedish state with 19.9 percent of the shares, Sampo Group with 10 percent and Nordea Danmark fonden with 3.9 percent (March 2008). Nordea's total assets are EUR 389 billion.

Nordea has, since its foundation in 2000, always been focused on values. The Nordea brand is built on the two components Nordic Ideas. Traditional values in the Nordic region are much focused on community, good citizenship and caring for people and the environment. Nordea practice three fields of activity: retail banking, business and institutional banking, and asset management and life insurance.

Nordea's organization includes three customer areas:

- Nordic Banking,
- Private Banking and
- Institutional/International Banking

The organization also includes two product areas:

- *Banking & Capital Market Products*, including account products, transaction/finance products and capital market products
- *Savings and Life Products*, including savings products, asset management and life/pensions products.

4.1.3. Nordea International

Besides Nordea's home market which is the Nordic countries, the Baltic region and Poland, Nordea operates in 13 countries around the world through full service branches, subsidiaries and representative offices. Nordea is presented through branches in USA, United Kingdom and Germany. Through a jointly owned bank in Russia and in Brazil, China and Singapore Nordea has representative offices. They also have a private banking entity, Nordea Bank S.A., presented in Switzerland and Luxemburg with representative offices in Spain, Belgium and France.

4.1.4. Estonia

Nordea operates in Estonia through the Nordea Bank Finland Plc Estonia Branch. The branch was founded in 1995, preceded by a representative office since 1992. The Regional Bank, Poland and Baltic countries, which the Estonian branch is part of, was established within the group in April 1999. The first office of Nordea Bank (formerly known as Merita Bank) was opened in Tallinn on 27 February 1995, and was the first foreign bank office in Estonia. Nordea Estonia presently employs 460 people and has over 70,000 customers and nearly 20 branch offices and service centers in Tallinn, Tartu, Pärnu, Viljandi and Rakvere. Nordea keeps raising their profits, with 240 million crores as of the end of the third quarter of 2007, which is 49 percent more than last year in the same period. They offer a full range of offers to

both private and corporate customers. Their services include payment services, cash services, currency exchange, deposits, investment funds, documentary payments for import/export, loans and guarantees, corporate and private banking services.

4.1.5. Latvia

In Latvia Nordea also operates through Nordea Bank Finland Plc Latvia Branch. In January 2000 Scandinavia's MeritaNordbanken Group announced expansion plans in Baltic countries. It has been decided to buy Riga branch of the French bank Société Générale. This acquisition doubled business volume of the bank in Latvia. In April 1, 2000 Merita Bank Plc Riga branch took over functions of MeritaNordbanken Latvia and Société Générale Riga branch. On December 3, 2001, in the process of uniting all banks in Nordea group and establishing an integrated name, Riga's branch name Merita Bank was replaced with Nordea Bank Latvia Branch. At present Nordea Bank Latvia branch is the only foreign bank branch in Latvia. Nordea Finance Latvia branch - a branch of leasing company, which is part of Nordea group, is also set up for operation in Latvia. Today the branch offers a broad range of products and services for corporate and private customers.

4.1.6. Lithuania

Nordea Group entered the Lithuanian market in 2000. They operate through Nordea Bank Finland Plc Lithuania Branch. Nordea Bank Lietuva is now one of the most rapidly growing banks in Lithuania. The Lithuania Branch started its operations in May 2000 and now has 12 locations; the main office is in Vilnius. The following years Nordea will continue to launch advanced banking products and expanding branch network in the biggest cities of Lithuania. 2007 was a really successful year, the Lithuanian Branch gained a profit of 19.101 billion litas. In order to strengthen its position in the retail banking sector, Nordea Bank Lietuva rapidly expanded its network and opened bank branches in locations that would ensure maximum comfort for present and future customers. In 2007 Nordea Bank Lietuva opened seven new branches, and at the end of the year it operated 16 branches situated in Vilnius, Kaunas, Klaipėda, Panevėžys and Šiauliai. In the previous year, Nordea Bank Lietuva employed 300 people. It provides all the main banking services to individual and corporate customers.

4.2. Swedbank (Secondary data)

4.2.1. History

Swedbank's history traces back as far as 1820 when the first Swedish Savings Bank was founded in Göteborg. In 1997 two Swedish banks Sparbanken Sverige and Föreningsbanken merged together. With their broad customer base of nearly five million people and the widespread branch network provided the basis for a strong and efficient bank. The bank was called FöreningsSparbanken AB. The name changed again in 2006 to Swedbank AB. Swedbank has its historical roots in the savings bank group and works in accordance with the fundamental savings bank ideology, being a bank for everyone and with strong links within the local community. In addition, the bank's largest owners are the savings bank foundations, whose principle task is to advance the savings bank concept and to conduct operations that promote saving.

4.2.2. Swedbank Group

Swedbank's mission is to be the leading financial institution in the markets that they are presented in. By leading they mean the highest customer satisfaction, the best profitability and the most attractive employer. Their vision is to understand and react to their customers' needs, to offer them the best financial solutions and in so doing help them to improve their quality of life. In this way, Swedbank can constantly increase their company's value and serve as a positive force in society. Today they have total of 9 million private customers and 500.000 corporate customers. In Sweden they have 459 offices.

Swedish Banking is Swedbank's main business area, comprising a network of 459 branches. The cooperation with the savings banks and partly owned banks adds another 261 branches, which gives Swedbank the largest branch network in the Swedish market. The responsibility for their Swedish customers rests with the local bank branches, special business units and private banking units in the four regions. Of the business area's 6,200 full-time employees, around 4,900 are in the branch network. Swedbank also operates through their service branches; Swedbank Mortgage is responsible for the bank's long-term mortgage financing, with real estate and tenant-owned properties as collateral. Swedbank Finans offers leasing, factoring and installment financing. Swedbank Fastighetsbyrå offers brokerage agency services through franchisees. Swedbank Juristbyrå offers legal services through franchisees. Swedbank Företagsförmedling offers support services for small and medium-sized businesses through franchisees. Asset Management and Insurance comprises Swedbank Robur, offering mutual funds, insurance, pension products and discretionary asset management for individual investors, institutional clients and businesses. Shared Services and Group Staffs comprise IT and other service functions in Sweden, Treasury, Group Executive, Group Staffs and the group's own insurance company, Sparia.

4.2.3. International banking

International Banking is responsible for fulfilling and implementing Swedbank's international strategy on emerging markets outside their present home markets. Beside the home market which Swedbank refers to as Sweden and the Baltic countries, they operate through international subsidiaries in Luxembourg, Russia and Ukraine. Further they have international branches in Finland, Norway, Denmark, USA and China. Finally they have representative offices in Spain and Japan. Swedbank Markets offers a broad range of products and services in the capital markets. Operations mainly contain fixed income and currency trading, equity trading, corporate finance, diverse forms of project and corporate financing and syndication, and trade finance - products that meet the payment and delivery needs of buyers and sellers in international trade.

4.2.4. Swedbank in the Baltic region

Swedbank expanded in the Baltic region through the acquisition of shares in Hansabank. With almost 2 million active customers, 300 branches and 9000 employees, Hansabank is a leading financial institution in all three Baltic countries.

In 2004, Hansabank became part of Swedbank and the expansion in the east continues. As of 2005, Hansabank is a fully-owned subsidiary of Swedbank Group. The Group shares common

vision, mission and core values. Its joint vision is to create leading financial institution in the Nordic and Baltic region. Therefore, they are aiming for the highest customer satisfaction, biggest profitability and attractiveness as an employer in each geographic market. Hansabank Group is the largest financial institution in the Baltic countries with total assets exceeding EUR 23.6 billion and shareholders' equity over EUR 1.75 billion (based on the September 2007 results). Hansabank Group have a market share of one third of the regions total banking market, with over 2.5 million customers and 5900 employees.

Swedbank's goal with the Baltic Banking is to be a clear leader in each Baltic market by having the biggest growth in volumes, the highest profit and the highest customer satisfaction. They offer mainly the same products in Estonia, Latvia and Lithuania; retail banking, corporate banking, asset based financing, risk and investment management. Under the year of 2007 the decrease in portfolio growth has been most visible in Estonia and Latvia, while the Lithuanian portfolio growth rate has been more stable.

4.3. Nordea (Primary data)

4.3.1. Motives for entering the Baltic countries

According to Rauno Paivinen Nordea entered the Baltic market 11 years ago when UBS Merita started a unit in Estonia. At that time Estonia was a growing market and they wanted to follow their Nordic customers, who had an interest in the Baltic market. Also the closeness to Finland was an influencing factor of the entry. When Merita Nordbanken formed, they became aware of the fact that Baltic countries were on its way into the European Union, and therefore they decided to be more involved in the Baltic countries. In the beginning their customers in the new market were Nordic corporate customers, but it was not just enough with Nordic related business. The main purpose of the entry was to follow their Nordic corporate customers and to announce their presence in the countries, which could ease the Nordic companies to make business in the Baltic region. At that time they just had 15-20 percent of local business and the remaining business was connected to the Nordic corporate customers. According to Esa Toumi Nordea wanted to increase their business volumes and grow as a company. The Baltic countries were and are a natural choice of new market due to the historical relationship between Finland and the Baltic region. It was a step in their strategy to find new markets, new roads and to increase their business volumes.

Mr. Toumi states that the decision was both affected on the internal and external factors. The share holders were waiting on an increase of business through the strategy that was agreed on. Mr. Paivinen point that the closeness to the Nordic countries and that the fact that their corporate customers were involved in the new market were the main factors. Following they started to see to the Baltic market and the already existing Baltic companies and tried to lure them to increase Nordea's return on equity.

In relation to the current market situation Mr. Toumi states that in Finland they had and still have the biggest market share compared to the other Nordic countries, which makes it difficult to increase. In Sweden and Norway they have less market share which still makes it possible to increase. The Baltic market was growing and with a high business activity which made it possible for new banks to enter and to take a part of the market. While Mr. Paivinen

states that they were going to do big investments at that time and they did not see any possibilities to make them at the domestic market. They had to seek for an appropriate market abroad with a good growth potential. The domestic market was saturated.

Further Mr. Paivinen points out that the closeness between the Nordic countries and the Baltic countries, especially Estonia, is close to the Nordic countries in a cultural way while Latvia and Lithuania are situated further away from the Nordic countries. Latvia has had and has good relationship to Sweden. He further states that Nordea's core-competence is a low risk taking, which is a clear difference to the other Nordic banks in the Baltic market.

Mr. Toumi says that since the Baltic countries became independent and chose to introduce "free market economy", it was relatively easy for Nordea to establish them there. There were not many administrative obstacles, compared to Russia where everything takes much longer time. Mr. Toumi further states that they began entering the new market with following the corporate customers from the Nordic countries and secondly they started to work with local corporate customers to eventually move on to retail customers. In this way their knowledge about the products and customers increased over a couple of years of presence. This led to knowledge of the market and the different players. Mr. Paivinen means that their core-competence is to start with the part that they know before, and later moving on with the local market.

Mr. Toumi states that it helped a bit with the fact that the Baltic countries entered the European Union, but even before that their legislation and mentality, and the entrepreneurship which was strong under the 20's and 30's, return fast. It had a big influence on the decision that these characteristics were similar to the one we have in the Nordic region. But he further states that it took a long time and takes time to change, it is not on the same level, but they are of same mind and philosophy. So it was easy to enter and make business. Of course there are differences but the base is the same.

While Mr. Paivinen describes the Baltic market at the time of entry as a relatively developed market technological and that they could easily exploit all of the electrical equipment that they entered the market with. Especially Estonia was a long way ahead, but they are certain differences and Lithuania is behind the two other countries.

4.3.2. Methods and strategies for entering the Baltic countries

Mr. Paivinen states that Nordea wanted to grow organically as they entirely did in Estonia. They bought in Latvia some minority shares in the Latvian investment bank, and a couple of years later they bought the remaining shares and changed it to a local branch of Nordea Finland. In Lithuania they bought relatively small bank services of Generale Societe and later on they bought Polish credit banks operation in Latvia and Lithuania. They saw it as a good way of entering the market and it made it easier to grow organically and therefore their choice of strategy has been a success.

Mr. Toumi claims that they wanted to start with some small bank acquisitions, they did not want to buy the same way as their Nordic colleagues did, to buy the biggest banks on the market. They wanted to begin more from scratch and thereafter build on their strategy. This is

how they did in all the three countries. They bought one bank in Latvia and two in Lithuania, but they were relatively small in comparison to Nordea's business volumes in the Baltic region. Meaning that they have had a more organically growth, with two small acquisitions. They started in Estonia in 94'-95' with just organically growth. Mr. Toumi further claims that the reason why they chose this strategy was their risk strategy which they had then, they did not want to take to big risks. They wanted to start with what they knew best, meaning Nordic companies. And after that grow organically and when they know the market they can expand more. They are satisfied with their choice of strategy. But of course if they would have bought a bigger company their market share would have been bigger. But they are content with their return on equity from their operations. The effectiveness is good and they have earned pretty good in comparison with the other Nordic countries in the market, even better than them. Finally to be able to acquire big companies you have to put in much capital in the beginning.

4.3.3. Factors influencing Baltic countries selection

Mr. Paivinen claims that the biggest difference is not the cultural difference but rather the fact that Merita Nordbanken in the beginning was a big unit. And to enter and have small units made that the insight in the Baltic market was smaller than the insight in the Nordic countries. He further states that the closeness between the Nordic countries and the Baltic played an important factor in their decision.

Mr. Toumi points out that there was and still is cultural differences, but that they are getting smaller and smaller. The Baltic market works almost the same as the Nordic market, and the entrepreneurship is the same as they have in Finland. If you go into details there are many differences but the base is the same. It was because of the historical relationship, same geographical region between Finland and Estonia especially that played an important decision factor.

Mr. Toumi says that there were no social or legal obstacles that he knew of. Neither Mr. Paivinen says that there were because of the fact that the Baltic countries are easy to operate in. They are pretty small economies and therefore no direct obstacles.

According to Mr. Paivinen it is mostly Nordic banks that are competing in the Baltic market. The biggest bank is Hansabank which is a subsidiary to Swedbank. Number two is SEB, and Nordea is on third or fourth place depending on which country you refer to. He further states that the Baltic countries are affected by each other but you cannot treat them as one single market. The countries have little trade between themselves. The risk situation is pretty similar, but the thing that differs is the fact that Estonia and Latvia are two-three years ahead of Lithuania concerning development and GDP. There is more Russian interest in Lithuania than in the other two countries.

According to Mr. Toumi Nordea was one of the first foreign banks in the Baltic market. And that they are today number three, four or five depending on which country you refer to. In some specific business areas they are number one, four and five. Nordea has been specialists on corporate business but have invested more on the retail business. They came to the Baltic market as a corporate bank but are now also a retail bank. Their biggest competitors are Swedbank and SEB. He further states that if you compare the three countries they are totally

different from the sales side. But from the product, management and administration side it is one market. It is the same products. Today the differences are more visible than they were when Nordea entered the market.

Mr. Paivinen points out that they do not see themselves as a foreign player in the Baltic market; they are accepted by the Baltic habitants. They see Nordea as their own bank and not a foreign bank and therefore they trust more on the foreign banks than they do on their own banks.

Mr. Toumi claims that they are trying to position themselves both as a Nordic and as a domestic player. It is important to be local, you have to be a local bank to succeed and to know your customers. They have local employees that control the business locally and also the employees on national level are local. The disadvantage is if you operate too much on an international level, then you never will be a local bank. You have to find the right balance between the fact that the owners comes from the Nordic area and at the same time act local and know your customers well. Another disadvantage is that the time of making decision takes longer than if you were a local bank. But on the other hand as a foreign player you have more resources on the product, product development and IT side, and more experience of macro economical problems than the Baltic countries have. On the management level there is a natural difference in comparison to the Nordic countries. If you are a small bank you do not see different trends and possibilities as you do when you are a big bank. Mr. Toumi ends by saying that the Nordic name is well known in the Baltic countries and that the Baltic people look on the Nordic countries with a positive feeling.

4.4. Swedbank (Primary data)

4.4.1. Motives for entering the Baltic countries

According to Gitte Sundqvist the Swedish market was stagnated from a bank perspective, there did not exist that many new business areas but was a market that just kept rolling. The Baltic market was close to hand and had an enormous growth potential. They see the big knowledge among the company as a strength that they can bring to the Baltic market. They see profit potential and business possibilities and have the knowledge that could favor the Baltic market. And they have even followed Nordic customers that are competing on the Baltic market. Anders Ragvald relates to the Baltic area as a market with a very high business potential. It is a new market and it is relatively underdeveloped, but in the long run there is a very high potential among the market.

Mr. Ragvald states that in Swedbank there has been a long-term international strategy, since the time as Förenings Sparbanken, which led to a purchase at 60 percent of the shares in Hansabank (Estonia) in the end of the 90's. That was part of a strategy to grow into the eastern European market. The external factors are the potential that exist in all three Baltic countries and the fact that it is a rather underdeveloped market with a very high potential. According to Mrs. Sundqvist Swedbank had plenty of capital to invest but it was not lucrative to invest in the domestic market, due to the low return on equity. They had the possibility to receive a high return on the invested capital, they had the resources to establish themselves and the market had a high growth potential.

Mr. Ragvald says that the establishment to the Eastern Europe was on own initiative, since it was the strategy, and due to the potential of the market. In 2005, under the new brand Swedbank, the board formed a new international strategy which states that Swedbank should own 100 percent in the banks they invest. That is part of their new ambition, to be more active in the market and even as a target to be market leaders. Hence they even have a policy to follow their customers in their expansion.

According to Mr. Ragvald the market situation in Sweden at the time, in the middle of the 90's when the banks started to look to the east, was quite saturated when it comes to financial services. The potential to grow was bigger abroad than on the domestic market. Mrs. Sundqvist mentions the expansion of actors on the domestic market, which lead to higher competition and the limited size on the market. That led to a decision to go from being a domestic bank to being an international bank so that they could survive in the long-run. To survive you had to expand into foreign markets.

According to Mrs. Sundqvist the closeness and the good historical connections to the Baltic States have played a crucial role in the entry decision. Mr. Ragvald mentions the good reputations of Sweden and the Swedes. The Swedish stands for stability, safety and security which there might have been missing in the region before. There is strength in the Swedish brand.

As core competences Mr. Ragvald refers to the experience within the financial sector, the high level of competence and a high level of knowledge that exist within the company. A knowledge that is superior and well adjusted even to the Baltic market. It is hard to point at one single point, there are many combined factors.

Mr. Ragvald says that during the time of entry Swedbank saw the Baltic market as relatively underdeveloped, even if there had been big efforts made during the years as independent states. Hansabank, in which Swedbank bought 60 percent, was very well-established and successful in all three countries. They had a strong position in Estonia, but even in Latvia and Lithuania, so Swedbank didn't have to start from the beginning on the markets.

4.4.2. Methods and strategies for entering the Baltic countries

According to Mrs. Sundqvist Swedbank used the same method of entry into all the Baltic countries. They started with buying smaller shares in Hansabank and in 2005 they bought the remaining shares and which means that nowadays they own Hansabank to 100 percent. Mr. Ragvald mentions the new brand strategy formed by Swedbank, which means that they shall own their entities completely in all markets. In the near future they shall act under one brand in all markets they participate in. At the moment they act under different names and the thought for the future is that all entities shall go under the brand name Swedbank.

According to Mrs. Sundqvist the reasons to own 100 percent is the control aspect, Swedbank wants 100 percent control in the banks they invest in and it's all in line with their new strategy from the beginning of the 21th century. It's stated in the new agenda that when the bank enters a new market they will do it by acquiring 100 percent. One reason for acquiring an existing bank was the lack of resources to start a new entity on their own. In the ambition to

be market leader they acquired a bank with high potential to be number one. They bought a bank with a wide net of offices and a large clientele. Both Mr. Ragvald and Mrs. Sundqvist feel that the mode of entry has been successful. Swedbank is market leader or number two on most market segments in all three countries.

4.4.3. Factors influencing Baltic countries selection

Mr. Ragvald mentions the comparison Swedbank made between the Baltic States and Sweden. They saw differences in the way to look at the existence. The relation the Baltic people in general have towards the work, the family and leisure time. They value those three variables differently than Swedes do. They see the work as a very important part of life and people in the Baltic's in overall work much harder than the Swedes.

Mrs. Sundqvist refers to the impression the board of Swedbank had of Hansabank's way of handling and adapting to the values and business concept of Swedbank, and that they take distance from the corrupt and old eastern European way of practice banks. They had a very competent management and which complied with the values and the brand of Swedbank.

Mr. Ragvald mentions that since the entrance into the EU the Baltic States have become more close to the western standards. They have a very strong ambition to close the gap between east and west when it comes to welfare. He also says that there is a minor conflict between east and west in the countries. The western part is more open to western influences while the east still is more rooted in the former Soviet Union. Mrs. Sundqvist mentions the different phases that the countries are in. They have a similar product range but everything depends on how far they have come in their development.

There are several advantages being a foreign player on the market. Mr. Ragvald states that Sweden is seen as a role model. We bring new knowledge, have an appreciated history and traditions. We bring safety and are in the front when it comes to development, we are good at innovation and can contribute with a wide range of know-how which there is a lack of in the Baltic States. Disadvantages can be that it is seen as we force our self into the market and take over their businesses. With that in mind the entry should be smooth and respect the values and culture in the countries. Mrs. Sundqvist highlights the enormous growth potential in the Baltic States and the lack of resources in the region which the Swedish banks can contribute with. The disadvantage is the pride among the Baltic people and the banking sector is seen as something very valuable which they have built up by themselves after the separation from the planned economy system.

5. Data analysis

In this chapter we will apply the theoretical findings and compare with the gathered empirical data from the interviews. We will strive to find connections and differences in order to answer the research question. The data analysis consists of two parts. The first part is a within-case analysis of Nordea and Swedbank. And the last part is a cross-case analysis of both companies.

The transaction cost theory claims that the minimization of transaction costs is of great importance when going international. (Madhook, 1997) When looking at the entry mode issue from a TC perspective we can see that the banks have followed the theory since they have moved to the Baltic States where no transaction cost exists. But at the same time the theory focus primary on the internal strengths and the transaction costs, and the potential of the market is neglected. And since the transaction cost is the same in both cases, the terms are the same for both banks, we have decided to ignore the transaction cost theory.

Dunning's eclectic theory mentions ownership-, location- and internalization advantages as the key components when entering a new market. (Ekeledo & Sivakumar, 2003; Dunning, 1980) Here we can see differences among the two banks. Swedbank bought a share in the leading bank in the foreign market, later acquiring the whole company, and by doing that they could gain a large market share immediately. They bought their presence in the market. So according to Dunning's theory we think the ownership advantage is the main difference since Swedbank bought a share to earn money and learn about the new market while Nordea had the capital to start an own entity and build a strong brand based on their Finnish reputation. Nordea built their presence organically one step at a time, and by time even got even more knowledge about the market and increased their business. Since Nordea is a Finnish bank, and the connection between Finland and the Baltic states, especially Estonia, is very rooted they had a location advantage when entering. But even this theory will be neglected in the analyze part. We would say that the situation from a Dunning perspective is quite the same, and we do not find it interesting to analyze this theory.

This leaves us with one theory; the resource based theory. We believe that this theory would be most interesting to use in the analyze part since it shows the different aspects of why the banks did choose the specific entry mode.

5.1. Theories applied to Swedbank

The motives when Swedbank decided upon foreign investments were that the market in Scandinavia had become saturated, especially in Sweden. Ghauri and Holstius (1996), claims that the prominent economic growth that took place in the former socialist countries was a great motive for international firms to enter these markets. For Swedbank that led to a decision to go from being a domestic bank to an international bank so that they could survive in the long-run. Or more honestly increase their profits, since that is what it is all about in the market economy. Grant (1991) argues that in a world where the customers' preferences are volatile, the identity of customers is changing, the technologies for serving customer requirements are continually evolving there and externally focused orientation cannot provide a secure foundation for a long term strategy. To survive in the long run in the new market the

company had to look at its internal strengths, the resources and capabilities. While resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage. (Grant, 1991) The management experience of Swedbank was wide and their tacit know-how was seen as a big strength. But the knowledge about the Baltic market and the overseas situation might have been limited. We believe that speed of market entry was of importance for Swedbank, and then acquiring a company in the local market might be an efficient solution. This effectively purchases instant market information, market share and channels of distribution. (Paliwoda & Thomas, 1998) This may be particularly advantageous for a firm with limited international management expertise, or little familiarity with the local market. (Hollensen, 2007) They had the financial resources to establish themselves by buying a share in the market. They cannot point at any specific core competence, instead many different parts linked together gives the bank its competitive advantages. Sweden is seen as a role model in the area who brings new knowledge, has a respected history and appreciated traditions. We bring safety and are in the front when it comes to development, we are good at innovation and can contribute with a wide range of know-how which there was a lack of in the Baltic States. Here is another great factor, connected to competitive advantage; the product life cycle. The Nordic countries have a strong banking sector with a developed system and technology, while the situation in the Baltic States was on a lower level. The technology, know-how and products once, and still, offered in the Nordic area can quickly be offered and implemented to the Baltic Area. And that is a distinctive competitive advantage that foreign banks have in favor offer their local rivals in the Baltic area.

Since Swedbank had the financial power, and wanted to enter the market as quick and smooth as possible, they decided to acquire a local bank. A major advantage of acquisitions is the speed at which the firm can access research capabilities highly embedded in overseas technological networks, in order to overcome the time-consuming and uncertain process of developing these capabilities and linkages through internal growth. (Belderbos, 2003) The prime reason for acquiring an existing bank was the lack of resources to start a new entity on their own. In the ambition to be market leader they acquired a bank with high potential to be number one, a bank with a wide net of offices and a large clientele.

5.2. Theories applied to Nordea

Nordea points out that the closeness to the Nordic countries and the fact that their corporate customers were involved in the new market was the main influences. It was relatively easy for Nordea to establish themselves, the Baltic countries were a natural choice due to the historical relationship between Finland and the Baltic region. It was a step in their strategy to find new markets, new roads and to increase their business volumes. Nordea further states that the closeness between the Nordic countries and the Baltic played an important factor in their decision. They point out that they do not see themselves as a foreign player in the Baltic market; they are accepted by the Baltic inhabitants. They see Nordea as their own bank and not a foreign bank and therefore they trust more on the foreign banks than they do on their own banks. Nordea is trying to position themselves both as a Nordic and as a domestic player. It is important to be local, you have to be a local bank to succeed and to know your customers. The disadvantage is if you operate too much on an international level, then you never will be

a local bank. You have to find the right balance between the fact that the owners comes from the Nordic area and at the same time act local and know your customers well. Applying Grant's RBV theory to Nordea we can see another approach than in the case of Swedbank. Nordea had a greater advantage in the connection to the Baltic countries, on a cultural level as well as the knowledge about the market, and they used another concept when entering. They wanted to be small and personal with their customers but at the same time think big by being a multinational bank, which gives them the opportunity to see the fluctuations in the market.

Nordea felt the confidence with the Baltic market, they had sufficient knowledge to enter by a Greenfield investment, and decided to enter on their own. This is slow to achieve, expensive to maintain and slow also when it comes to yield any tangible results. It may be the only effective mode, even though it is costly to maintain, since it allows for flexibility in future strategic shifts. (Paliwoda & Thomas, 1998) And Nordea's core competence is to be risk averse, and this strategy gives them the opportunity to be more flexible, but at the same time the entry might be more costly and takes time. But even if the profits are smaller, the profitability might be higher. The key to a resource based approach to strategy formulation is to understand the relationships between resources, capabilities, competitive advantage, and profitability – in particular an understanding of the mechanisms through which competitive advantage can be sustained over time. (Grant, 1991) We believe that Nordea is aiming for a long term success and to build their presence to a degree that they find satisfactory. Since they are risk averse risk is the prime factor, blended with the capabilities of the bank and the resources in advance they have gained a profitability they find acceptable.

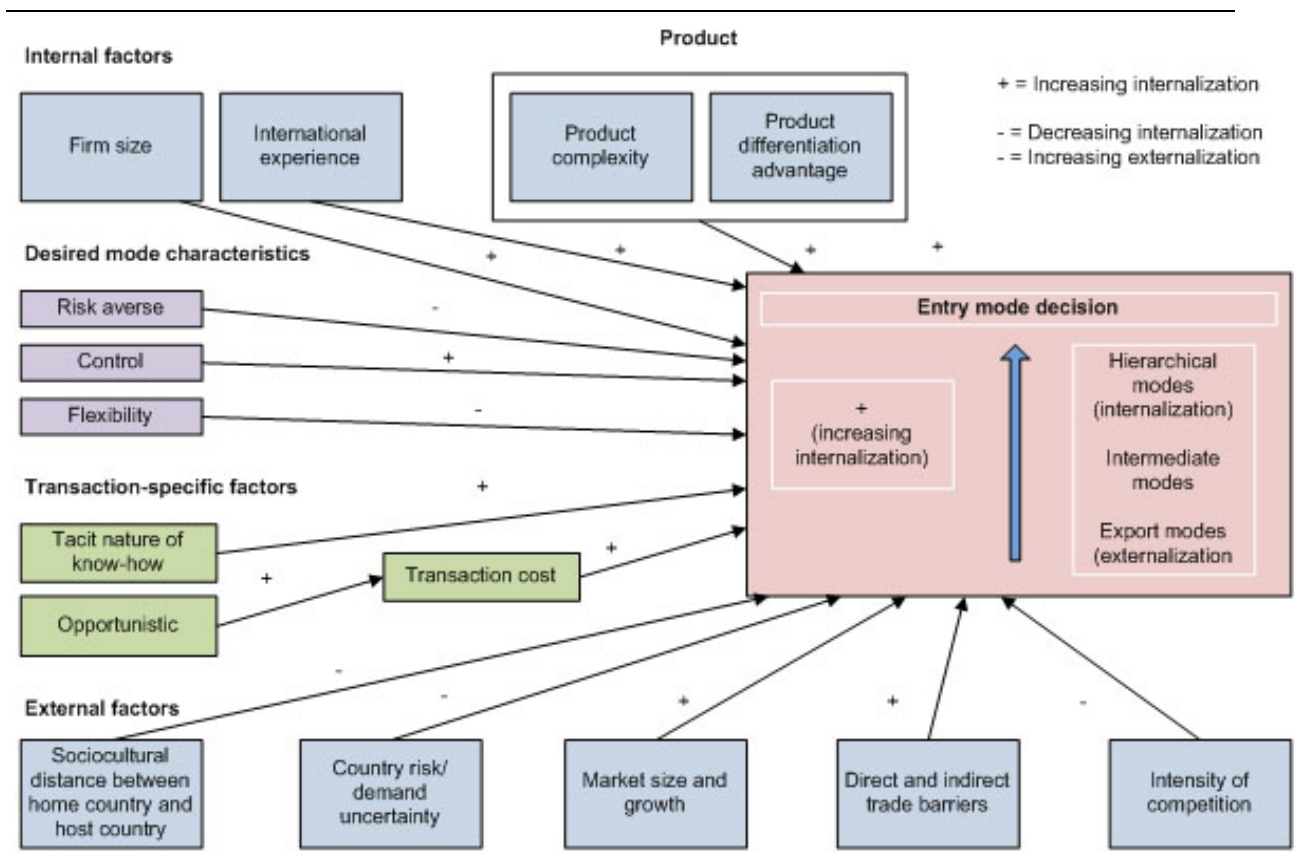
In the case of Nordea they wanted to grow organically and while expanding from zero in Estonia they bought minor shares and operations in banks in Latvia and Lithuania. The reasons for this method are to limit risk which is in line with the core competencies of the bank. In the beginning they wanted to limit risk by working against Nordic companies operating in the Baltic region and by time they have started working with retail banking in all three countries. This can be drawn to the theories by Hollensen (2007) that the company is risk averse, wants to have full control over their operations and the possibility to be flexible. According to Ekeledo & Sivakumar (2003) control is the most important determinant of risk and return. Nordea is satisfied with their return on equity which is in line with the level of risk they are willing to take.

The resource based theory (Grant) sees the firm and not the industry as the source of competitive advantage, especially in the resources and the capabilities of the firm. (Grant, 1991; Capron & Hulland, 1999) Robert M. Grant (1991) argues that in a world where the customers' preferences are volatile, the identity of customers is changing, the technologies for serving customer requirements are continually evolving there and externally focused orientation cannot provide a secure foundation for a long term strategy. Resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage. (Grant, 1991) Since the Nordic market and the services provided by Nordic banks is in the front when it comes to development, and we live in a society which for many other parts of the world is the future, the life-cycle perspective can be applied. The resources of the banks were not just the money, it was the updated technology and products that could be offered to

the Baltic market, products that host country banks could not offer in the same sense as the Nordic banks. Nordea even mentions risk averse as their core competence, and that can be seen as a competitive advantage, compared with Swedbank who took a greater risk when entering the Baltic States.

5.3. Cross case analysis

In this section the two cases will be compared with each other. This will form an overview of our case studies with three short tables based on the three headlines in the data analyze; motives for entering, factors influencing and methods and strategies for entering. This summarizes the analysis we have conducted and the answers will be further discussed below.



Source: Hollensen (2007), *Factors affecting the foreign market entry mode decision*

With this framework we want to evaluate which factors that Swedbank and Nordea used for their entry and how well it goes with the theory. We want to show if the theory is correct according to how the two banks have made their choices when choosing entry mode. On the sides we have put a plus or a minus for each bank to show if they are in line with the theory. We have used the model above and the different factors it contains to do a comparison of the banks in question.

Factors	Theory	Nordea	Swedbank	
<i>Internal</i>				
<i>Product/service</i>	Customers might demand specific adaptations and information exchange to suit local requirements in foreign markets. The more complex the product is and the degree of differentiation from competitors increase the favour for the company to go for a hierarchical mode.	The knowledge of customers and the product increased after some years of presence in the market. Develop products after demand, start in Estonia and spread to Latvia and Lithuania due to the growth level in the different countries.	+ They have similar product lines over the Baltic countries, but local differences occur due to the level of development in the different countries.	+
<i>Firm size</i>	The greater resources the company have available, the higher is the probability to be involved in international markets over time. Larger firms may have greater bargaining power to negotiate a greater ownership and control in foreign countries with restrictive investments policies.	They went for organic expansion and by time grow into the market.	+ When deciding to enter they did not have enough resources to enter 100% directly. They acquired a 60% in Hansabank 1999 and took 100% control in 2005. Today they are market leaders in the Baltic Area.	+
<i>International experience</i>	Research on service firms shows that the process of going abroad is slow and gradual. The internationalization process of the firm is driven by a firm's experiential knowledge.	Have a wide net of international offices, except the Nordic and Baltic regions which are seen as domestic they participate in 13 international markets.	+ The Baltic area is seen as home market, but prior the entry to Baltic the international experience was limited.	-
<i>Risk averse</i>	Risk aversion means the level of risk the management is willing to take, basically they want to avoid risk to as high degree as possible. When the market risk is high firms tend to go for an entry mode with low costs and less involvement.	A low risk taking which is a clear difference from other Nordic banks on the Baltic market. Being risk averse is part of the core competences of the company.	- From the beginning of entrance they were risk averse since they enter thru a merger. When they acquired 100% the where already on the market, but the risk also increased.	-
<i>Control</i>	Research concludes that managers in soft service	The bank had experience from	Less experienced from international	

	<p>firms are more likely to choose a high control entry mode than hard service firms. The majority of evidence suggests that firms with high foreign market experience seem to prefer high control foreign market entry modes.</p>	<p>international markets and was going for a high control entry mode.</p>	<p>+ markets and entered thru a merger which means less control over the business.</p>	<p>-</p>
<p><i>Flexibility</i></p>	<p>Flexibility in terms of design, manufacturing, workforce size, employee skills, and cost structure provides a firm with the capability of responding rapidly and effectively when prices, demand, or technological standards change.</p>	<p>Less flexible since they created an own subsidiary in the market.</p>	<p>- High flexibility in the beginning of the market entrance, they only owned a part and could resign from the market.</p>	<p>+</p>
<p><i>Opportunistic behavior</i></p>	<p>The danger of opportunism, when transaction-specific investments need to be made, leads individuals and organizations to focus on appropriate safeguards in contracting, thereby reducing the occurrence of opportunism and mitigating its impact when it occurs.</p>	<p>Since they created their own subsidiary they took distance from opportunistic behavior in the sense of contractual agreements as in joint ventures, license and mergers.</p>	<p>+ The board of Hansabank takes distance from the corrupt and made a great impression on Swedbank when they acquired the Baltic bank.</p>	<p>+</p>
<p><i>Tacit nature of know-how</i></p>	<p>The internalization perspective reasons that the market mechanism for the transfer of know-how will fail under the assumption of opportunism, when the know-how is of tacit nature. Therefore the firm finds it more efficient to internalize the transaction and exploit the know-how thru an own subsidiary.</p>	<p>Is seen as a domestic bank in the area, the relations to the region is strong due to historical happenings. The Nordic brand is strong in the area. The well developed banking system with products suitable for the Baltic region.</p>	<p>+ The Swedish brand is very well known and accepted in the Baltic area. Sweden stands for stability, safety and security which there have been a lack of in the region. Swedbank brings new knowledge and experience and are innovative.</p>	<p>+</p>
<p><i>Transaction cost</i></p>	<p>The high transaction costs of transferring proprietary assets incurred by multinationals, leads to internalizing market choices.</p>	<p>Non existing</p>	<p>Non existing</p>	

The table above shows the differences of the internal factors of Swedbank and Nordea. Factors that will affect the decision of entry mode based on the resources of the company. When looking at the theory and comparing it with the two banks we found that there are some differences of importance.

The banks are working in the service industry and the hard thing in that industry is that you have to always see to new changes and trends to stay ahead of competition, in the banking industry this can be seen as being in the front line when producing new solutions and different kind of offerings that will suit the customers on the market.

When looking at the firm size we can see large differences between the two banks, Swedbank bought a large share in one of the biggest banks in the Baltic area and Nordea went for a Greenfield investment and built their business from scratch. So the conditions for making a large profit is very different between the two banks, Swedbank have a large market share with their majority interest in Hansabank while Nordea have to build up a business step by step which makes it harder for them to do large profits in the beginning.

The international experience was also a big influencer when deciding on which entry mode to chose, Swedbank had little international experience which made them a little bit isolated in their decision. The easiest way for them was to buy a share of an existing bank to get more knowledge of the market and also to gain more international experience. Nordea already had a wide knowledge of the Estonian market and for them the most obvious choice was to start a Greenfield investment and build their own brand in the country.

The way of seeing risk, and the way of handling risk is of great importance when going abroad. While Nordea has risk aversion as a core competence, they want to avoid risk to every degree, Swedbank decided about a different mode of entry, namely acquisition which can be seen as less risky since they can get out of the market fast. The both banks had similar resources before the entry, while Nordea had more experience from international markets. Nordea wanted to grow into the market a gain experience on the way and they did it by using their good connection with Estonia and went in to the market one step at a time. Swedbank did not have the knowledge to go for a Greenfield investment with own entities like Nordea had. They wanted a fast entrance with a high return so they bought a large share of one of the largest banks on the Baltic market.

When looking at the control part it is easy to see that Nordea has more control since they have built up their business from scratch and in Swedbank's case they bought shares in a bank and does not have the same amount of control in the business, the lack of total control makes them vulnerable for corruption and even sudden changes on the market because they are not in the position to make fast changes when necessary, but this is no longer a problem since they have 100 percent share capital today.

When we go on to the next point, which is flexibility, Swedbank has the advantage according to the theory because they can easily back away from the market and in Nordea's case it is

more difficult since they own the whole operation. When looking at Swedbank they told us in the interviews that their main reason when entering was to earn money and they saw a good potential in earning a lot on their share in the bank, but they did not want to take too much risks in going in with a 100 percent owning in the beginning since the market was still unstable after the switch from planned to market economy. Nordea on the other hand have it a little bit more complicated to just leave the market since they have built up there business from scratch, but since it was still a quit small business entity the cost for leaving the market was pretty low but still harder than in the case of Swedbank.

When it comes to opportunistic behavior the theory talks about it when doing business in transition economies as a threat, Nordea did not have to think so much about it because they started a Greenfield investment and therefore limit the risk of opportunistic behavior to zero. Swedbank took a chance when they acquired shares in Hansabank, but they had the opportunity to withdraw very quickly if they would have gotten influences that something did not go the right way and one important part when buying the share was that they got a good first impression of the management in the bank. And today they own the bank 100 percent.

Both Swedbank and Nordea came to the Baltic area with new knowledge and a tacit know-how that did not exist in the area. The Baltic area needed capital and new technology which both banks could offer to the market. Especially new technology was an important resource that both banks came with because after the shift to market economy the banks in the Baltic area was lacking in technology and also the offerings that we in Scandinavia take for granted.

By comparing the two banks with the model created by Hollensen (2007) the banks should go for an internalization entry mode. But, theory does not always reflect the reality. Nordea is using Greenfield investments but according to their core competence that they should limit risk this goes against the theory which says that if you want to limit risk you should be able to easily withdraw from the market and that is quite hard when you have started up a business from scratch in a host country. The flexibility is diminishing, for Swedbank it is still quite high but if we look at their new philosophy they want to own their foreign subsidiaries 100 percent which goes away from the flexible way of thinking to a more control way of thinking.

Factors	Theory	Nordea	Swedbank
External			
<i>Sociocultural distance</i>	When firms enter foreign markets, greater similarities between cultures enable them to access new customers at a lower cost, establish and successfully manage manufacturing corporations and compete with a relatively homogeneous group of local firms.	The closeness to the market and the similarity with the culture were an important factor which made the entry smoother.	The near distance made the entry easier. The cultural similarities where of great importance for the entry process.

<i>Country risk</i>	When there is a high-target country risk, the firm will have to find a flexible position that allows it to modify its decisions if environment conditions should change and even to leave the country without incurring substantial losses. For this reason, the firm will prefer non-ownership-based or low investment modes.	Risk averse and decided to enter in a small scale to get to know the market, starting with Estonia which is most similar to the Nordic countries.	-	Bought a share in Hansabank in Estonia which is the most secure market in the Baltic area.	-
<i>Market size and growth</i>	The size and growth of the target market affects the entry mode decision, high potential markets tend to get more involvement from the management and they simply chose an entry mode with much own commitment.	The market had a very high potential.	+	The market had a very high potential and the growth were expected to increase. From the beginning a small market.	+
<i>Direct and indirect trade barriers</i>	Market characteristics of concern to managers include host government regulations and/or restraints on market entry, prohibition or limitation of foreign ownership, local content requirements, and financial and fiscal controls.	No direct barriers.	+	No specific barriers, easy to enter concerning rules and regulations.	+
<i>Intensity of competition</i>	The greater the intensity of competition in the host market the more it will favour for entry modes with less commitment.	New and small market with lack of capital. Many foreign banks entered, but the competition was quite low.	-	New and small market with lack of capital. Many foreign banks entered, but the competition was quite low	-

When looking at the external factors we can see that there is not any difference between the two banks and their way of looking at the Baltic area. When it comes to the sociocultural distance they are both very clear that the Baltic area is seen as their domestic area when conducting business, so they did not see any problems when entering the market. The largest difference between the banks is that Nordea as a Finnish bank have more rooted connections with the Baltic area than Swedbank which is a Swedish bank from the start. So the sociocultural distance is a little bit better in the case of Nordea which we can see when looking at the choice of entry mode. Moving on to the country risk both banks decided to go in on the market in a small scale, Nordea chose to start a Greenfield investment and Swedbank bought a share in an existing bank. They both acted carefully when entering the

market because there were still great risks in doing business in the area since they had just gone from a planned economy to a market economy.

They both saw a great growth potential in the market and that was one of their main reasons why they entered and with a high growth potential comes a high profit potential which both banks saw. And it was still a quite small market which had its advantages in the low entry costs. Neither of the two banks had any problems with direct or indirect trade barriers when entering the area.

The intensity of competition was low when both banks entered and it was one of the reasons why they entered this specific market, but there were a lot of banks that entered into the market at the same time. Since the market was so new and underdeveloped there was room for a lot of new foreign investees to go in on the market at the same time, but it was the Nordic banks who went in first and this can be seen now when looking at the market share of the banks. The area needed capital to grow so it was a win-win situation for all parties when they entered the market in the mid 90's.

To summarize the chapter we have made a discussion about the entry mode choice. After the conduction of this cross-case analysis we can see some obvious differences between the two banks and their way of going international. Swedbank have chosen the acquisition entry mode which is a good entry mode if you seek a fast entrance into the market and you have little or no knowledge of the market. They gain knowledge of the market from the acquired entity and their employees which would have taken a very long time to gain if they had started from scratch. The downside of this entry mode is that you do not get complete control of the business and you have to have trust in the acquired firm's management in how the business is conducted in the country. There is always a risk in opportunistic behavior when you as a foreign investor are going in on a market that you do not have much or any knowledge about. But during the interviews we were told that one of the main reasons why Swedbank bought a share in Hansabank was because of the trust and the good opinion they established about the management in the bank.

Nordea went for a completely different entry mode than Swedbank. They started up from zero with a Greenfield investment and building their own brand in the market. They started in Estonia because they felt that it was there they had most knowledge and has after that continued to grow further in the other two Baltic countries. But this strategy takes time and you need to have very good knowledge about the market and the customers to be successful. If you seek control a Greenfield investment is to recommend because you have full control of everything that happens in the business but the downside is that it takes time and it can take years before you start to make satisfying profits. For Nordea this was a good solution since they are very risk averse when seeking out new markets to enter. A Greenfield investment is fairly cheap to start up and you can limit the risk by not going in with a lot of capital before you have gotten an understanding of the market and you know how safe or unsafe the market is.

6. Conclusion

How they decided which kind of entry mode to implement and how to perform the entry into the foreign market

When Swedbank decided among entry mode, how to implement it and how to perform it, we believe that they saw a potential in the Baltic area, an opportunity to earn money and they wanted to enter the market as fast as possible. The domestic market was stagnated, the possibility to earn money was low and the possibility to increase the profit was limited, and to increase is the built in mechanism in the market economy. Swedbank's only way to grow was to go abroad and since they didn't have the funds to grow to the west, which is very expensive but more secure, they turned their eyes to the east. The Baltic area had an enormous potential since they just had left the planned economy system for a market economy. The labour was cheap, more foreign companies were exploiting the area for profit and the banks followed their customers, so even Swedbank.

They choose acquisition since they wanted to enter the market fast, to get a large share quickly in the fast growing economy. We think that Swedbank had a lack of knowledge, or less knowledge, about the Baltic area and therefore went for an acquisition. When they acquired the share in Hansabank they got market knowledge in a way they had never gotten as fast if they had gone for a Greenfield investment. We think acquire, learn and earn are three key stones in their decision. They decided to enter buy acquiring 60 percent of Hansabank, during some years there were satisfied with the return on capital and they learned the market and the culture. By time they increased their knowledge and later bought 100 percent of Hansabank, a decision that we think is based on the updated knowledge as well as the new policy adapted by the company. But one thing that is confusing is that Swedbank mentions resources as well as lack of resources. They had the resources in terms of human capital and knowledge; but they were lack of knowledge about the Baltic market. And they didn't have the financial resources to enter by a Greenfield investment and start a new entity on their own, which means that acquiring a local bank was the closest option. In Nordea's case they had the knowledge and connections, and it's important to notice that Nordea is a Finnish bank while Swedbank is Swedish; even if we threat Nordea as a Swedish bank. So Nordea had an advantage of being Finnish and by having deeply rooted connections to the Baltic Area.

Nordea went for another entry mode by building their presence from the beginning by establishing an office in Estonia. They had the knowledge about the market, and the Finnish reputation among the Estonians was good. The connections were well rooted from historical connections. They felt they had the knowledge to start an own subsidiary and grow organically into the market. By time the knowledge would increase, and so even the market share. The core competence of the company is to be risk averse, and they felt that it was the less risky way to enter the market. The Greenfield entry mode gives the company the possibility to be flexible and adapt to the ever changing environment, and even if the market share and the profits where smaller than compared with competitors they had a satisfying profitability.

6.1. Further research

We think that it would be interesting to look further into the banks situation today, what has happened the last ten years and why. The Baltic area is very insecure at this moment, and we believe that it would be interesting to see the reasons and how the banks tackle the problems that have occurred in the Baltic area in year 2008.

We would even find it interesting to dig deeper in the transition economies like Russia to find out which problems that arises for foreign investors and how they deal with them. Russia is a giant market with lots of potential, but there are a lot of trade barriers that companies must go around and this would be interesting to look into, especially in the banking industry.

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Gitte Sundqvist, Design manager in Group Communication, Swedbank, 080513

Anders Ragvald, Senior Manager Corporate Branding, Swedbank, 080514

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Interview guide English version

Introduction

We are doing a research and comparison on two Swedish banks, Nordea and Swedbank, and how they entered the Baltic markets. Relating to your bank we want to have information on:

The history of your bank in the Baltic countries

The motives for entering the Baltic countries

The methods and strategies your bank used for entering the markets

Factors that influenced the decision on entering the markets

Motives for entering the Baltic countries

Why did your bank decide to enter Estonia, Latvia and Lithuania?

Was the decision to enter affected of external or internal factors?

Did you follow any other banks or companies internationalization?

How did your current market situation look in Sweden when you decided to go abroad?

Would you consider that the market situation affected your decision?

Did you have any firm- or country specific advantages that would help your establishing in the new market?

How was your image of the Baltic market?

Methods and strategies for entering the Baltic countries

Which strategy did you apply for entering respectively Estonia, Latvia and Lithuania (subsidiary, representative office, branch, and affiliate)?

Do you consider your choice of strategy successful?

Factors influencing Baltic countries selection

Where there any cultural differences to consider?

Did the closeness between Sweden and the Baltic countries affect your decision and how?

Were there any legal or social obstacles that restrained your entry?

Where there other foreign banks operating in the Baltic market?

How would you describe the Baltic market? Any main differences between the countries?

Do you consider the entering in the Baltic more difficult than your other foreign entries?

Are there any benefits or disadvantages of being a foreign actor on the market?

Interview guide Swedish version

Introduktion

Vi gör en undersökning och jämförelse med två svenska banker, Nordea och Swedbank, och hur de gick in i de baltiska marknaderna. I relation till din bank vill vi ha information om:

Er banks historia i de baltiska länderna

Era motiv för inträdet till de baltiska länderna

Metoderna och strategierna ni använde er av när ni gick in

Faktorerna som influerade beslutet att gå in på marknaderna

Motiv för inträdet i de baltiska länderna

Varför beslutade er bank för att gå in Estland, Lettland och Litauen?

Påverkades beslutet av inträde av externa eller interna faktorer?

Följde ni andra banker eller företags väg till internationalisering?

Hur såg er aktuella marknadssituation ut i Sverige när ni beslutade er?

Skulle ni hävda att marknadssituationen påverkade ert beslut?

Hade ni några företag- eller lands specifika fördelar som skulle hjälpa er att etablera i den nya marknaden?

Hur var er bild av den baltiska marknaden?

Metoder och strategier för inträdet i de baltiska länderna

Vilka stragier valde ni för inträdet i respektive Estland, Lettland och Litauen (representative office, dotterbolag och filial)?

Hävdar ni att ert val av strategi var lyckad?

Influeraande faktor till val av de baltiska länderna

Fanns det några kulturella skillnader att ta ställning till?

Hade närheten mellan Sverige och de baltiska länderna någon inverkan på ert beslut och hur?

Fanns det några juridiska eller sociala hinder som hämmade ert inträde?

Fanns det några andra utländska banker som var verksamma i den baltiska marknaden?

Hur skulle du beskriva den baltiska marknaden? Är det stora skillnader mellan länderna?

Anser ni att inträdet i de baltiska länderna svårare än er andra internationella inträden?

Finns det några fördelar eller nackdelar att vara en utländsk aktör på marknaden?