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The International Expansion of the Norwegian Banks

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The International Expansion of the Norwegian Banks [1]

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Abstract: We discuss the expansion of Norwegian banks abroad in the post-World War II era. The Norwegian case gives us an opportunity to examine the determinants of the strategies that banks from a small county have followed in their international expansion. At least two issues emerge as important. The first issue is the role of regulation as goad and handicap to internationalization. Regulations influenced when, where, how and why the Norwegian banks expanded abroad. The second issue is the role of the competition and cooperation (including joint ventures) between banks.

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The International Expansion of the Norwegian Banks

1.0 Introduction

Norwegian banks represent a small part of international banking and foreign direct investment in banking. Norway is a small country with a population of only about 4.2 million people; Oslo, the largest city, has less than half a million people. On a world scale, Norwegian banks too are small. In a recent (Banker 1997) list of the top 1000 banks in the world, Norway's largest bank shows up at position 165. The second and third largest show up at positions 213 and 306.

We have three reasons for examining the international expansion of Norway's banks. What ties these three reasons together is that the Norwegian case is different in whole or in part from the now well-described US (e.g. Huertas 1990), UK (Jones 1990) and Japanese cases (Ozawa and Hine 1993). Wilkins (1990) provides a compact but comprehensive overview for the period before the first World War.

First, we examine the Norwegian banks and their expansion because examining such perhaps peripheral cases is an important research tactic. The first contribution that examining peripheral cases can make is to enhance our understanding of the dominant case; peripheral cases prove (i.e., test) the rule. The second contribution that examination of peripheral cases may make can be to provide directions for revising theory to widen its coverage.

Second, we examine the Norwegian banks because of the role that domestic regulation played both in encouraging and in limiting their expansion. Norwegian governments' long-standing discomfort with both inward and outward foreign direct investment in banking had a major effect on the form of the Norwegian banks' international expansion. The literature on the role of host country restrictions in international banking is growing; however the literature on the role of home country restrictions is still small.

Arguably, regulation is a more important factor in foreign direct investment (FDI) in banking than in FDI in manufacturing. As Wilkins (1991) points out, the legal environment influenced the form and the functions of foreign banks engaged in business in America from the earliest days. Even so, the literature on the interaction between regulation and FDI in banking is limited. Typically, authors have looked at regulation as a barrier to the entry of foreign banks (Tschoegl 1981, 1985 and 1988) or as a factor in inducing overseas investment (Poulsen 1986). In a recent article ter Wengel (1995) tested the utility of various trade theories in explaining international banking. His main finding was that none of the trade theories was well-supported but that economies of scale were important; he also found that regulation acted as both a goad to and a constraint on international expansion.

For the Norwegian banks too, regulations acted both to goad and to constrain the banks' internationalization. Domestic legislation also influenced when, how and where the banks went abroad.

Lastly, we examine the Norwegian banks because they provide evidence for another theme that has emerged in the literature on foreign direct investment -- strategic interaction between firms as a factor in foreign direct investment. The argument dates back at least to Knickerbocker (1973), Flowers (1976) and Graham (1978) and takes into account the roles of rivalry between and collusion among firms as factors in the FDI decision. The theoretical work in this area uses a game-theoretic perspective, modeling the interaction between firms as an open-ended, repeated game. Graham (1990) provides a model for an exchange of threat scenario. Veugelers (1995) offers a model that enables one to analyze when strategic considerations may dominate and possibly counteract the effect of location and firm-specific motivations for FDI. Recent empirical work includes Yu and Ito (1988), Terpstra and Yu (1989), Ito and Rose (1994) and Hennart and Park (1994). Choi *et al.,* (1986 & 1996) incorporate variables designed to measure strategic interactions in their examination of the factors influencing whether banks from one financial center establish operations in another center. Engwall and Wallenstål (1988) address the issue in their examination of the internationalization of Swedish banks as do Laakso (1984) and Hellman's (1994) examinations of the internationalization of Finnish banks.

We divide the paper below into two substantive sections. The first of these two sections is an historical overview of the evolution of Norway's banking sector, and especially of the sector's international evolution. The section focuses on the when of the banks' international expansion. A major issue throughout is

the role of the home country regulatory environment in the banks' internationalization.

The second of the two sections examines the (micro) part of the why of the banks' international expansion. In particular we detail where the banks went in following their customers' business and in seeking business, and the role of strategic considerations.

2.0 Norwegian banking history

2.1 The period before W.W. II: domestic banking

The three Norwegian commercial banks that make up the bulk of our story are Christiania Bank og Kreditkasse (CBK; est. 1848), Bergens Privatbank (est. 1855) and Den norske Creditbank (DnC; est. 1857). CBK, established in Oslo where it still has its headquarters, was Norway's first commercial bank. Savings banks had existed since 1822 but these were community welfare organizations whereas merchants needed a bank to discount bills (Nordvik 1994). CBK was a response to the growing demand from the merchant community for short-term financing but did little until spurred by the founding of DnC (Nordvik 1994). CBK and DnC (also based in Oslo) catered to customers on the eastern side of the country. Bergens Privatbank, based in Bergen, served the west coast.

Norway's banks were only a secondary factor in the building up of Norwegian society, industry and commerce during this period of political union

between Norway and Sweden. Knutsen (1991) argues that the structural characteristics of the Norwegian economy were such that Norway did not need a strong commercial banking sector. Savings banks, government credit and private arrangements sufficed.

After Norway became independent in 1905, the banking system continued to grow but the banks themselves remained small and local. Other than the Den Norske Handelsbank (Trade Bank of Norway) none developed branches outside the locality of their incorporation. Furthermore, all concentrated on short-term lending (Lange 1994a and Knutsen 1994).

Domestic legislation appears to have caused both the decentralization and the focus on short-term lending. The Storting (Parliament) made branching difficult in response to local concerns that branch banks would drain funds from local towns (Knutsen 1991). Until just before World War I, domestic laws forbade or discouraged private bond issues (Knutsen 1991). Unable to borrow long, the banks were probably reluctant to lend long. As a result, Norway relied on foreign sources for long-term funds.

After the dissolution of the union with Sweden, the Norwegians negotiated their own international loans (Lundström 1991). For their international transactions the banks operated through a network of correspondent banks that over the years became quite extensive. Working through correspondent banks was an easy and convenient way to serve the limited international needs of the banks' Norwegian customers while avoiding the high costs of establishing

offices abroad. Foreign exchange business was negligible, but in the interwar period the banks, particularly DnC, developed an expertise in international payments.

The Norwegian financial system saw crises in the 1920s and early 1930s. The banking crisis of 1920 to 1924 resulted in the failure of the Den Norsk Handelsbank, the largest bank in the country. The Centralbanken for Norge, a major Norwegian participant in the international loan clubs, also failed (Johansen 1991).[1] The crisis led to the first legislation providing for public supervision of the banking system (Knutsen 1994).

In the 1930s many Norwegian banks went bankrupt, as the world financial crisis reached even this remote corner of the Europe. Thousands of depositors lost all their savings when the government was unable to bail out all the small banks that failed. Of the five largest commercial banks only one (CBK) survived without government help (Lange 1994a). Two went bankrupt. Two (DnC and Bergens Privatbank) survived liquidity crises and runs by depositors due to a moratorium supervised by Norges Bank (Knutsen 1994). Altogether, 143 banks disappeared as independent banking entities during the period 1914 to 1939, and 104 were still in existence in 1939 (Nordvik 1995).

2.2 The '50s and '60s: tentative steps abroad

After the war, with the 1920s and 30s still fresh in their minds, the Norwegian authorities instituted strict prudential policies. As Cassese (1984) has

pointed out with respect to Italy, the policies established in response to the crisis in the 1930s proved to have long lives.

Norway's official policy after the war was to keep unemployment and interest rates low. To achieve these goals the government imposed controls on interest rates. As a result Norway's credit market was one of the most regulated in Europe. The government regulations differed by type of institution, further distorting competition. The interest rate restrictions applied only to the banks and insurance companies. Other credit institutions (mortgage banks, finance companies, etc.) could charge market rates.

On the international scene, US companies were expanding at a rapid pace, and American banks began to establish subsidiaries and branches abroad. European banks followed suit, though at a slower pace. The emergence of the Eurodollar market made it increasingly easy to borrow abroad.

At the time, Norwegian banks did little international business. As late as 1957, only 1.2% of the industry's total loans were in currencies other than Norwegian kroner. Most of the major shipping and industrial companies borrowed directly from foreign banks rather than going through their Norwegian banking partners. This was especially true for the shipping industry, which often had capital needs beyond the scope of the Norwegian banks.

Furthermore, as a prudential measure, the Commercial Bank Law of 1961 required the banks to keep 25% of borrowed money as liquid reserves. In addition, the banks had to place 40% of their capital in government bonds.

Consequently Norwegian banks found it difficult to compete with the foreign banks. The Norwegian banks had to contend both with limitations on the quantity of funds available for lending and the implicit tax of the required reserves. Instead, foreign banks became particularly noteworthy suppliers of credit to Norwegian firms.

The OECD (1970) reported that in 1958-67, by far the largest part of net capital imports to Norway reflected capital transactions by the private sector. The shipping sector alone accounted for between two-thirds and four-fifths of these capital imports. Concern with the balance of payments impact of capital imports led the Norwegian government to demand that the financing take place abroad (Den norske Creditbank 1982). This provided one impetus to the Norwegian banks to develop a capability to borrow and lend in foreign currencies.

At the same time the Norwegian reserve requirements made it difficult for the Norwegian commercial banks to borrow abroad (Bjørland 1985). After 1965, the ratio of loans in foreign exchange to total loans steadily declined at the Norwegian banks, and the banks began a collective lobbying effort to have the government reconsider the laws and regulations.

Establishing a foothold in the European Economic Community was also important to all the major Nordic banks as none of the Nordic countries were members of the EEC. Many business-people feared that European economic cooperation would result in a closed capital market. After 1972, when Norway

voted to reject membership, it became even more important to have a foothold behind the "wall" that many feared the EEC would build.

The banks' first destination was Paris because many felt that Paris might well become Europe's financial center. When it became clear that London, rather than Paris, was becoming the financial hub of Europe, the Nordic banks established a major presence there. In time the United Kingdom became "the country in which Norwegian banks engage in universal banking to the largest extent" (DnC 1982).

2.3 1970 to 1985: Expansion

In 1971, the Federal Reserve released the US dollar from its previous connection with the price of gold, which led to instant turbulence in the international capital markets, and great shifts in exchange rates. The new exchange rate regime was a major catalyst for the emergence of international banking if for no other reason than its impetus to the creation of foreign exchange trading.

The rise in oil prices after 1974 provided a second impetus to the international expansion of the Norwegian banks. One reason was that the banks wanted to gain access to the OPEC members surplus funds (Petersen 1982). More importantly, the Norwegian banks ended up going abroad in order to defend their position with their domestic clients.

As oil companies found more and more oil in the North Sea and Norway's wealth increased, foreign banks became increasingly aggressive in approaching Norwegian firms. The foreign banks sought to serve the firms' domestic business as well as their foreign business. Ongena and Smith's (1997) data shows that in 1979, companies quoted on the Oslo Stock Exchange listed Chemical Bank (US), Hambros Bank (UK) and Lazard Bros. (UK), as well as other foreign banks, among their most important bank relationships.

The Norwegian government facilitated its banks' response by expanding a loophole rather than by lifting its domestic restrictions. The government eased permission for the banks to establish subsidiaries (but not branches) abroad and exempted the foreign subsidiaries from the domestic rules.[2] Earlier, the process for receiving permission to establish a subsidiary abroad had been rather cumbersome.

In 1973-74, given the official go-ahead, the largest Norwegian banks (CBK, Andressens, DnC and Bergens Privatbank) moved quickly to establish subsidiaries in Luxembourg.[3] Luxembourg gave the Norwegian banks a base in Europe and complete freedom regarding international transactions. However, the subsidiaries in Luxembourg added little to the diversification of the banks' international portfolio. In 1979, 73% of DnC's subsidiary's loans went to Norwegian customers, with 24% going to the oil industry, 27.5% to shipping, and 6.8% to the ship yards.

Also in 1973, the Norwegian government finally authorized foreign banks to establish representative offices in Norway. The government still forbade foreign banks to establish branches or subsidiaries. This prohibition limited the Norwegian banks' freedom to operate in those markets, such as Japan or New York State, where the host governments insisted on reciprocity.

Restrictions in the other Nordic countries on entry by foreign banks also skewed the international expansion of the Norwegian banks. Denmark (until 1971), Finland (1979 and 1982) and Sweden (1986) pursued exclusionary policies like those of Norway. Barred from the nearest, arguably most logical markets to enter, the Nordic banks had to go farther afield.

In 1977, the Labor government enacted legislation that allowed the government to appoint a majority on the banks' representative councils which elect the bank boards. In 1982, shareholders regained the right to elect a majority on the councils and hence regained effective control. The period of de facto government control was not one of extensive international expansion; geographic expansion picked up in 1982 and after (Table 1). However we cannot infer much about the government's influence from this.

In 1978 and 1980, the government revised the bank law and Norges Bank relaxed its regulations further. At the end of 1980, the Norwegian commercial banks reported that they had NOK 19.3 billion in assets in overseas banks (Norwegian Commercial Banks 1981). This amounted to about 21% of the banks' total assets in Norway. The geographical breakdown was: 53% in Luxembourg;

31% in London; 9% in Switzerland; and 7% in the USA, France and the Netherlands. In terms of the parent bank ownership of the foreign assets, the breakdown was: 45% DnC; 29% BB; 15% CBK; 14% Forretningsbanken; 9.5% Bøndernes; and 6% Fellesbanken.

Geographically, in terms of the weight of their expansion, the Norwegian banks expanded first to Europe, then to America and lastly to Asia (Table 2). From 1975 to 1990, Europe always accounted for the bulk of the banks' activities.

2.4 1985-1990: Deregulation

The most important change in the Norwegian banking laws occurred in 1984 when the government substantially deregulated banking. The government removed the prohibition against Norwegian banks establishing branches abroad. Within four years Norwegian banks had thirteen foreign branches. However a number of these, for instance in London and New York, complemented or replaced existing operations.

Norway also finally permitted foreign banks to establish *de novo* subsidiaries (but not branches) in Norway. Seven foreign banks entered immediately in 1985; the number peaked at nine before falling back to the current five (Tschoegl 1996).

At least one study (Berg *et al.*, 1992) suggests that deregulation may have brought efficiency gains to the domestic market. Productivity appeared to regress prior to deregulation and Berg *et al.* argue that this may have been due to

the banks preparing for an expansion in their activities. The reduction in the range of productivity after deregulation appeared to have been the result of the larger banks reducing the gap vis-à-vis the banks in the smallest quartile. Several domestic banks merged and several new domestic banks emerged.

Bank deregulation in 1985 led to a doubling of loans outstanding as banks pursued market share (Lindblom 1994). By 1987, the banks' credit losses had begun to rise markedly. The government then introduced newer, stricter accounting standards and forced the banks to set aside large loan-loss provisions. In the late 1980s, several smaller banks did fail or underwent forced mergers. By 1990, the problems engulfed even the largest banks: DnC, Bergen Bank, CBK and Fokus.

2.5 1990 and beyond: failure and reorganization

The banking crisis in Norway was part of a worldwide phenomenon of financial system problems associated with deflation of real estate values (Bartholomew 1994; Ball 1994). Koskenkylä (1994) reports that the crisis in Norway peaked a year or so before that in the other Nordic countries. Furthermore, loan losses were more severe in Norway than in Denmark and Finland but less severe than in Sweden. One reason the crisis started earlier in Norway was the fall in oil prices when the price for Brent (North Sea) crude oil fell from its peak of over US$35/barrel in 1982 to US$9/barrel at the low point in 1986. Bartholomew (1994) and others suggest that lax supervision and loose

monetary and fiscal policies also played a role in the severity of the problems in Norway.

On April 17, 1990, DnC and Bergen Bank, merged under the name Den norske Bank (DnB). A large restructuring followed in both the bank’s domestic and international operations (Table 3).

Loan losses continued to mount. Norway's three largest commercial banks, DnB, CBK and Fokus, were close to collapse. By the end of 1991, the government owned DnB, CBK and Fokus Bank. It liquidated one smaller bank, Norion Bank, arranged some mergers and demanded wholesale restructuring of the banks it owned. At least a third of the banks' staff lost their jobs. Banks closed headquarters buildings, slashed loan portfolios and sold collateral at fire-sale prices (Kochan 1995).

After recapitalization, the banks recovered quickly. By 1993 they were showing solid profits. The main reason was that past provisions for bad loans proved too have been too cautious as companies started repaying their loans. Furthermore, the carry-forward of loan losses sheltered profits from taxes. By January 1995, the government had recouped two-thirds of its initial outlay.

The Norwegian government presently owns 69% of CBK, 73% of DnB and 97.9% of Fokus. In April 1994, the government released a paper on the banking situation. The government proposed a medium-term goal of retaining a 50% ownership in DnB and CBK. The government’s long-term goal is to retain a substantial minority position (20-33.3%). The government does not plan to retain

any position in Fokus Bank. Fokus Bank does not present the same national considerations that DnB and CBK present.

Although the Norwegian people again voted not to join the EEC, Norway became a member of the European Economic Area (EEA) in 1994 through its membership in the European Free Trade Area (EFTA). One consequence was that the Ministry of Finance agreed to permit foreign banks based in other EEA member countries to open branches in Norway. Later, the Ministry extended the opening to banks from non-EEA countries, providing that the parent countries' authorities exercised a satisfactory level of supervision.

3.0 Why the Norwegian banks went abroad

Den norske Creditbank (DnC), Bergen Bank (BB), and Christiania Bank og Kreditkasse (CBK) have been responsible for most of the international expansion by Norwegian banks (Table 2). In 1990, DnB (DnC+BB) accounted for 49% of Norwegian banks' foreign assets; CBK accounted for 39%. Sparebanken NOR accounted for 12%.

Then DnC and BB (now DnB) and CBK are the most important banks for Norwegian corporations. For most of the 1970 to 1990 period, the three ranked 1, 3 and 2 in terms of total assets. As Table 4 shows, these banks accounted for about three-quarters of all the bank relationships reported by the banks listed on the Oslo Stock Exchange. It is not surprising then that the Norwegian banks' main motivation for going abroad was to follow their principal Norwegian

industrial customers, especially in shipping and later oil (Flatraaker and Husevåg 1991).

In this, the Norwegian banks behaved like their colleagues in the other Nordic countries. For Danish, Finnish and Swedish banks, Vastrup (1983), Laakso (1984) and Engwall and Wallenstål (1988) too argue that the primary motive for going abroad was to follow their customers. With respect to the Finnish banks, Hellman 1994) contests the point. Hellman suggests that the Finnish banks went to international financial centers seeking business rather than following their customers. However neither motive precludes the other.

The Norwegian banks did more than follow their customers. They also sought new business and took into account the behavior of their domestic competitors.

3.1 Business following

As Kindleberger (1983) points out, banks have been following their customers' business abroad throughout European history. In following the business, the foreign banks may establish in a foreign location before or after their clients. Heinkel and Levi (1992) report that the establishment by foreign banks of branches in a location is highly correlated with exports to the foreign location from the banks' home countries. To the degree that exports precede FDI, the foreign banks may precede some clients while following others.

In reviewing its own operations, DnC (1982) reported that its moves abroad took place in three phases. First, DnC guaranteed loans in the foreign location for the bank's Norwegian customers. Second, DnC itself borrowed and lent to its customers in foreign exchange. The third and last step was to establish a joint venture or subsidiary when the volume of business warranted an organizational presence in the market.

Because the banks' customers operated in different sectors that had their own geographical imperatives, the banks ended up opening offices on every continent. The four most important corporate sectors for the banks were (in temporal order) lumber (including paper and pulp), shipping, oil, and fisheries. The needs of Norway's tourists and retirees represented a fifth sector.

Lumber, paper and pulp: A customer in this industry led DnC to open its first representative office in São Paulo, Brazil. As its representative DnC chose Mr. Arne Visser, a Norwegian with extensive local business experience.

The large Norwegian company Borregaard A/S had opened a factory in Rio Grande do Sul in Brazil to produce unbleached cellulose and needed financing and bank assistance. Though Christiania Bank og Kreditkasse (CBK) had traditionally been Borregaard's bank, CBK, ever cautious, was reluctant to pursue something in this unknown market. DnC heard about the project through its membership in ADELA and seized the opportunity.[4]

This became the start of a long and profitable Brazilian involvement for DnC. Although Borregaard later decided to abandon the project, DnC stayed

due to the business created by Mr. Erling Lorentzen who had large commercial interests in Brazil.[5] Lorentzen's Aracruz Cellulose project, with a yearly production of 400,000 tons of unbleached cellulose, was a profitable investment, and well worth financing.[6] DnC also invested heavily in the Lorentzen group.[7]

Eventually CBK opened representative offices in São Paulo and Rio de Janeiro that it has since closed. The Rio de Janeiro office supported the wood-processing industry.

Shipping: In going to London, DnC also held high hopes for the potential shipping business. London was an international shipping center (insurance, financing, chartering, brokering), and many Norwegian and foreign shipping companies operated from London. The success of DNC's consortium bank, Nordic Bank Ltd., justified these hopes and eventually DnC acquired all the shares of Nordic Bank, together with the operations in Singapore and Hong Kong. Bergen Bank too operated through a consortium bank in London but also established a subsidiary in Singapore to handle its clients' shipping business there. CBK opened representative offices in Sydney and Frankfurt especially to support its shipping clients.

Oil: After the first oil shock, DnC tried to build part of its expansion around the oil industry. In the Middle East, DnC established offices in Abu Dhabi and Dubai (1974) to tap the large capital sources created by rising oil prices. DnC wanted to open a subsidiary in Dubai and had taken the preliminary steps to buy a local bank when the authorities proclaimed that the area was

"overbanked." DnC then abandoned its plans. As part of its strategy to serve the oil industry strategy, DnC later opened offices in Houston and Denver though it later closed the Denver office.

Fisheries: CBK opened representative offices in Tokyo and Seattle to serve the Norwegian fishing fleet. Eventually CBK upgraded the Seattle office to a branch that it is now closing. In 1994, CBK sold a third of its Seattle loan portfolio to the Trust Company of the West and is trying to sell the remaining part as quickly as possible. Losses for 1994 on CBK's loans to the international fishing industry totaled NOK 360 million. Even with the write-offs, the bank acknowledges that the portfolio remains a problem (CBK 1994; p.l3).

Tourism: Fokus Bank opened a representative office in Marbella and CBK opened a representative office in Fuengirola through its Luxembourg subsidiary. Both of the offices in Spain exist to serve Norwegian tourists and retirees and thus represent a form of ethnic banking.

General business: Two countries where Norwegian banks could not follow their customers were Finland and Sweden. Finland was closed to foreign banks, in effect, until 1982; Sweden was closed until 1986. Gjester (1984) reports that there were around thirty Norwegian-owned companies operating in Finland, and 140 Norwegian-owned companies with a total turnover of around Nkr3.5Bn. Explicit or implicit undertakings in alliances with other Nordic banks caused the major Norwegian banks to abstain from FDI in other Nordic countries for some years after the demise of the restrictions. By the early 1990s,

all external or self-imposed constraints on cross-border investment had evaporated.

After Norway's citizenry voted in 1994 to remain out of the European Union, CBK announced that it would open branches in Denmark and Sweden. CBK's rationale is to follow its customers who are now relocating there. As of mid-1996, CBK had a representative office in Copenhagen and a branch in Stockholm. DnB now has a subsidiary in Stockholm.

3.2 Business seeking

As the banks began expanding abroad, a new element entered the discussion. Leading bankers began to assert that the banks should no longer tie their international expansion exclusively to that of their Norwegian clients. In 1969, the then CEO of DnC, Johan Melander, said in a speech, "I will claim that in principle it must be a natural thing that one does banking -- the same way as any other type of business -- wherever it is profitable, whether it is in Europe, the USA, Africa or Asia" (Melander 1978). Thus the Norwegian banks began to seek access to markets that appeared to offer greater growth potential than the domestic market.

For instance, in Asia, DnC opened representative offices in Beijing and Osaka to build its presence in these emerging financial markets. The bank stated that it had no intention of establishing subsidiaries in these markets as the amount of business done by Norwegian companies in the area was fairly small.

However, even if DnC had wanted to establish subsidiaries, it could not have done so.

Both the PRC and Japan prohibit the establishment of subsidiaries and until 1985 Norway forbade its banks to open branches abroad. Furthermore, Japan requires reciprocity; Norway was closed to subsidiaries of foreign banks until 1985 and branches until 1994.

The Norwegian banks, like banks from other countries (Cho *et al.,* 1987) used representative offices as an easy and cheap way to get a feel for individual foreign markets and their potential. A representative office required only a small staff (a representative, who might well not even be a full-time employee, and one or two clerical employees) and an office. In many cases the representative office represented not just the Norwegian bank but also worked on behalf of one or more of the other Nordic banks with which its parent bank cooperated elsewhere. For instance, when CBK opened its first representative offices in New York the American who headed the New York office also represented Sveriges Kreditbank and Den Dansk Landmandsbank.

In DnC's (1982) words, the task of the representative offices was "to maintain contact with the banks in the area, and find possible business for [the bank’s] customers. The offices were to inform about the services the bank offered, as well as receive and guide customers who came to visit." The parent bank could use the experience of the representative office to discover whether the market was big enough to warrant establishing a subsidiary.

Johan Melander, the CEO of DnC during the 1970s, stated in a speech (Melander 1978) that

> "the representative offices are, as one might notice, placed in Latin-America, the Middle East, and the South-East area of Asia, including Japan. This has been done because one finds that it is particularly in these areas that Norwegian businesses should have the greatest potential for growth, of course in addition to the main areas of Western Europe and North America. It is the task of DnC to serve its customers while obtaining as good of an understanding as possible of these parts of the world."

The Norwegian banks appear to have tried many experiments only to curtail most. We do not know how typical of international banks their strategy and experience was. Tschoegl's (1982) study of foreign banks in California and Japan suggests that exit from markets is rare. However, Tschoegl's data covers the 1970s, a period when international banking activity was growing rapidly in both countries. The behavior of the Norwegian banks suggests that the stability that Tschoegl found is probably due to the attractiveness of the host markets. Interestingly, the attractiveness did not extend to the Norwegian banks. All the Norwegian banks that entered either California or Tokyo established no more than representative offices and left within a few years.

After DnC and Bergen bank merged in 1990, they closed many offices abroad (Table 3). The consolidation of overlapping operations and the sale of others resulted in the release of 200 international employees. DnB now has

branches only in London, New York and Singapore. Each of these three branches has about 50 employees. Bergen Bank and DnC also merged their Luxembourg subsidiaries into a successor subsidiary that the new bank still retains.

The closures reflected not just the removal of overlapping operations and even some financial exigencies but also a sense that the parent banks' strategies had been too ambitious. DnC and Bergen Bank had gone into areas (both geographic and sectoral) that looked interesting but where the banks had no comparative advantage.

DnB now intends to focus on oil, gas and shipping and the cashflows between Norway, Germany and Sweden that grow out of these industries.[8] DnB has announced that it is planning to open branches in Hamburg and Stockholm in the last quarter of 1995.

When the government took over CBK, it reduced the international division drastically. Now CBK maintains branches only in London, Singapore, New York and Seattle. It has also retained its wholly owned-subsidiary in Luxembourg. CBK's 1994 annual report states, "The goal of the bank's activities abroad is to supplement the domestic activities, so that CBK's competitiveness towards its customers which operate abroad can be maintained."

3.3 Strategic behavior

We can describe at least three types of strategic behavior: oligopolistic reaction (Knickerbocker 1973 and Flowers 1976), exchange of threat (Graham

1978) and mutual avoidance. With oligopolistic reaction, firms from the same country see each other as rivals and mimic each other's investment behavior to prevent the other from gaining a decisive edge. Engwall and Wallenstål (1988) and Hellman (1994) argue that the Swedish and Finnish banks exhibited just such behavior in their international expansion. The empirical problem is distinguishing oligopolistic reaction from parallel responses to similar situations. The anecdotal evidence for oligopolistic reaction exists, but one can usually make the case that each firm in question would have invested in a particular market even if their competitors had not.[9] Ball and Tschoegl (1982), in one of the few statistical examinations of the idea in banking, did find that the number of a bank's competitors in Japan or California increased the probability that the bank would itself be in Japan or California, even after they had accounted for other indicators of market attractiveness. Even so, one could still argue that the oligopolistic reaction variable was simply picking up factors missed by the relatively crude control variables.

The same problem exists in the Norwegian case. For example, all three big banks entered Luxembourg within about two years of each other. However the triggering event was an exogenous (to each bank) change in government regulations. Similarly, all three went to London within two years of each other. Here there was probably no external trigger. Still, at that time London was emerging as the premier banking center in the world and some 32 other banks from around the world went there between 1969 and 1971.

With exchange of threat, rivals in different countries invest in each other's home market to prevent the foreign rival from having a sanctuary. Thus a Swedish bank would establish an office in Oslo and a Norwegian bank would establish an office in Stockholm. Each would primarily serve its domestic clients' local needs but each would be aware that if it tried to poach the other's clients it would be open to retaliation.

In the Nordic case, the Nordic governments' ban on inward FDI in banking until the 1980s, ruled out any exchange of threat. Instead, the Nordic banks entered into strategic alliances across borders to counter their domestic rivals' alliances in a pattern that Fenema (1982) describes as "enemies of one's enemies' friends." When the prohibitions on intra-Nordic FDI in banking fell, the alliances dissolved (Jacobsen and Tschoegl 1997).

Choi *et al.,* (1986 & 1996) find evidence for mutual avoidance in Europe in the 1980s. However their unit of analysis is the financial center and so they can say little about relationships between pairs of banks.

The final problem that impedes the documenting of the existence of strategic behavior is that firms do not have to follow one simple pattern either diachronically or synchronically over space. The Norwegian banks may well have met for parallel reasons in some critical centers such as Luxembourg, London and New York, matched each other in the Far East with some combination of offices in Singapore, Hong Kong and Tokyo, and avoided each other in smaller markets.

4.0 Conclusion

Regulation played a major role in the expansion of the Norwegian banks. The desire to continue to serve their customers' international needs, especially in the face of competition from foreign banks, spurred the Norwegian banks to go abroad to avoid the constricting effect of domestic regulations. Regulations limited the Norwegian banks in terms of both the forms of their international expansion, and occasionally the locations to which they could go. Lastly, by blocking all foreign banks from the domestic markets, regulation may have facilitated cooperation between the Nordic banks.

The Norwegian banks went abroad in the post-war era to serve their customers, particularly in the lumber and pulp, shipping, oil, and fishing industries. In time the banks came to participate in the international wholesale markets, especially in the area of foreign exchange. Retail banking, except for some minor ventures for retirees in Spain, was not a factor. The pattern of the internationalization of the Norwegian banks over time, geography, and form was like that of most of the other major Nordic banks.

In going abroad, it is clear that all the banks engaged in many experiments. Not only did the Norwegian banks experiment with the form of expansion (joint or solo) but also with location. All the Norwegian banks exhibit numerous instances of short-lived ventures, especially representative offices opened and closed within a few years or even less than a year. This is consistent with Kogut's

(1983) view of foreign direct investment as a process of the sequential exercise of options to invest. Frequently the Norwegian banks withdrew, i.e., they let the option expire unused.

Clearly, the Norwegian banking industry has undergone some major changes in the last three decades. The bank crisis of 1991 forced the banks to curtail their international activities and to trim back the expansion of the 1970s and early 1980s. With the failure and reorganization behind them, the banks are carefully beginning to rebuild their presence abroad. They are concentrating on well-known markets with a solid, existing customer base of Norwegian companies doing business in the area.

One issue for future research that the case of the Norwegian banks raises is that of one element of corporate culture -- temperament. By analogy to human temperament what we mean is a tendency to caution or to adventure. DnC, BB and CBK all faced objectively similar situations after World War II. All three were the major banks for corporate customers and in 1979, DnC and CBK at least had the same number of relationships with quoted companies. Still DnC and BB followed a more aggressive policy on international expansion than did CBK. CBK was even, at least at first, willing to loose a customer to its competitors rather than go abroad to a far away, exotic place such as Brazil. DnC and BB on the one hand and CBK on the other not only differed in their willingness to go abroad, but also in their willingness to ally with other Nordic banks to do so. The question then is, can we meaningfully speak of a firm's temperament?

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Endnotes

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[1] The Central Bank for Norway was not Norway's central bank. Norway's central bank is Norges Bank, the Bank of Norway.

[2] Because subsidiaries are separate legal persons with limited liability, their bankruptcy does not imperil the parent. A branch is an integral part of the parent and its liabilities are the parent's liabilities.

[3] In 1975, Bergens Privatbank merged with Bergens Kreditbank to form Bergen Bank. CBK acquired Andressens Bank in 1979.

[4] In 1964 some 226 banks, companies and other institutions from 23 countries established the Atlantic Community Development Group for Latin America (ADELA) to provide long-term development financing. Loan losses forced a reorganization in 1981.

[5] Interview with Mr. Tor Hestvik, District Manager for DnB, Haugesund, on January 12, 1995.

[6] The total market value of the company has increased from US$500 million to US$2 billion in the last ten years. The company has been listed on NYSE since 1992.

[7] Totaling NOK 300 million by 1995. Recently DnB announced that it intends to sell its interests in the company, despite the positive development of the Brazilian cellulose industry over the last few years. Reportedly DnB believes that the investment is not part of its primary competencies (Strømen 1995).

[8] Conversation with Bjørn Erik Lippestad of Den norske Bank.

[9][9] The second author of this paper can attest from personal experience and interviews with bankers that bankers from countries with two or three leading banks are very aware of their competitors actions and frequently ask the question, "What is ______ doing?" One reference pair that the author is familiar with is the Dutch banks, ABN-AMRO and ING Bank. A reference triad is Credit Suisse, Swiss Bank Corporation, and Union Bank of Switzerland.

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Table 1
The Number of Employees in Norwegian Bank Branches and Subsidiaries

	1975		1980		1985		1990	
	No.	%	No.	%	No.	%	No.	%
Europe	97	100	180	88	479	59	433	62
Americas			25	12	148	19	132	19
Asia					180	22	128	19
TOTAL	97		205		807		693	

Source: Flatraaker and Husevåg (1991)

Table 2: The Evolution of the Norwegian Banks' Presence Abroad

		Representative Office, Branch or Subsidiary					Consortium			
1st entry	Location	DnC	BB	DnB	CBK	Other	DnC	BB	CBK	Other
1958	Zurich						1964	**1958**	**1958**&69	**1958(d)**
1964	Geneva							1964		
1967	Paris		1985			1986 (b)	1967		1968	
	São Paulo	1967	1972		1980					
1969	Amsterdam								1969	
	London			***1969***	**1974**	1984 (f) 1986 (b) 1979?(a)	1971	1969	1982	
1970	Singapore			***1970***	**1980**		1970	1983		
1972	Abu Dhabi	1972								
1973	Tokyo	1978	1973		1986					
	Luxembourg				**1973**	**1985(a)**	1974	1975		1973(g) 1975(c) 1975(e) 1986(h)
1974	New York	1988	1981	***1981***	**1974**	**1983 (a)**	1979		1980	
	Dubai	1974								
1976	Hong Kong		1976		1980		1976		1982	
1977	Cairo	1977		***1977***						
1979	Houston	1979	1979	***1979***	1982					
	Sydney	1979								
	Dusseldorf	1979			1979					
1980	Rio de Janeiro		1987	***1987***	1980					
1981	Stockholm		1985	**1995**	1981	**1984 (a)**				
1982	Beijing	1982	1985	***1982***	1984					
	Denver	1982								
	Osaka	1982								
	Monaco		1982							
1983	Sundsvall					**1983 (c)**				
	Sydney				1983					
1984	Chicago				1984					
	Copenhagen		1986		1986	**1984 (a)**				
	Frankfurt		1988	***1988***	1988			1984		
	Hamburg	1984		1984	**1995**			1984		
	Helsinki		1985			**1984 (a)**				
	Los Angeles		1984							
	Rotterdam	1984								
	Madrid		1984							
1985	Gothenborg	1985	1986							
	Mexico City		1985	***1985***						
1986	Moscow		1986	***1986***						
1987	Birmingham	1987								
	Cayman Islands	1987	1988		1987					
	San Francisco				1987					
	Seattle				**1987**					
1988	Marbella					1988 (b)				
1990	Berlin			1990						
	Budapest			1990						
	Mexico City			**1990**						
	Prague			1990						
	Warsaw			1990						
	Fuengirola				**1990**					

a) Sparebanken NOR; b) Fokus Bank; c) Forretningsbanken
d) Fellesbanken; e) Bondernes; f) Joint: Sunnmorsbanken & Vestlandsbanken
g) Andresens; h) Nordlandsbanken; **Bold** = continuing presence
Italics = presence inherited from DnC, BB directly or from consortia in which they were members.

Table 3
The merger and subsequent failure caused a substantial shrinkage in DnC, Bergen Bank and then DnB's international network

Location	DnC	Bergen Bank	DnB
Europe			
Amsterdam	Subsidiary *		
Berlin			Rep office #
Budapest			Rep office #
Copenhagen		Rep office	Rep office**
Frankfurt		Subsidiary *	
		Rep office	**Rep office**
Gothenburg	Subsidiary *		
	Rep office	Rep office	Rep office**
Hamburg	Rep office *		**Rep office**; Branch in 1995
Helsinki		Rep office	Rep office**
London	Subsidiary	Subsidiary *	**Subsidiary**
		Branch	**Branch**
Luxembourg	Subsidiary	Subsidiary	**Subsidiary**
Moscow		Rep office	**Rep office**
Prague			Rep office #
Stockholm		Rep office	Rep office**; **Branch 1995**
Warsaw			Rep office #
The United States			
Delaware		Branch *	
Houston	Rep office	Rep office	**Rep office**
Los Angeles		Rep office *	
New York	Branch	Branch	**Branch**
	Subsidiary?	Subsidiary?	
Asia			
Beijing	Rep office	Rep office	**Rep office**
Hong Kong	Subsidiary *		
	Branch *		
	Rep office	Rep office	Rep office**
Osaka	Rep office *		
Singapore	Branch		**Branch**
		Subsidiary	**Subsidiary**
Tokyo	Rep office *	Rep office *	
Africa			
Cairo	Rep office		**Rep office**
South America			
Cayman Islands	Branch	Branch	**Branch?**
Mexico City		Rep office	**Rep office?**
Rio de Janeiro		Rep office	**Rep office?**

* = closed or sold in 1990 — # = opened in 1990 together with SBP partners
** = closed since 1990 — **bold**= open today, wholly owned by DnB

Table 4
Den norsk Creditbank, Bergen Bank (later Den norsk Bank) and Christiania Bank og Kreditkasse account for about three-quarters of all bank relationships of Norwegian listed companies.

	1979		1984		1989		1994	
Bank	No.	%	No.	%	No.	%	No.	%
DnC	44	29	51	28				
BB	24	16	36	20				
DnB					52	42	65	44
CBK	42	28	51	28	46	37	47	32
Foreign banks	24	16	14	9	6	5	9	6
All others	19	12	29	16	19	15	26	18
TOTAL	153	100	154	100	123	100	147	100

Source: Ongena and Smith (1997)