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**The growth of narrow banks in the private market -**  
**a study of three banks**

Bachelor thesis in Industrial & Financial management

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## **Abstract**

The present study is a case study with the aim to investigate how narrow banks grow larger, how they take greater share on the private market and which function they fill. To achieve the purpose of this study, we chose to interview representatives of three different narrow banks to closely see how they work with a starting-point from the theory of the balanced scorecard, which consists of four parts, namely the financial perspective, customer perspective, internal business perspective and innovation and learning perspective, all of which being applied to see what impact they have on the study results.

The study shows that the deregulations of the financial market made it possible for new players to establish themselves in the private market, where the narrow banks constitute a growing and vital element, filling a very important function. By taking advantage of some gaps in the market and offer certain financial services which in many respects are not covered by the larger banks, the narrow banks studied demonstrate their ability to maintain their competitive position and even increase their shares in the private market. Their relatively small size has both advantages and disadvantages, the former outweighing the latter. Furthermore, our material shows that the four parts of the theory of the balanced scorecard are, though in varying degrees, well integrated in the strategy of the three narrow banks studied.

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# 1. Introduction

## 1.1 Background

In 1929, the United States of America went through the great stock market crash, which resulted in the great depression that broke out in the 1930s. The crisis spread around the world and banks almost everywhere, among others Swedish banks, underwent major economic problems. In some extent, this led to the fact that the general public conducted criticism against the economic liberalism and its values. Eventually, this resulted in several modifications of the credit market. After World War II, the credit market was now characterized by hard controls and regulations unlike the past. International organizations such as World Bank were now created to conduct economic coordination. In Sweden, the regulatory policy contained regulations regarding, among others, control over interest rates and securities.<sup>1</sup> The regulations lasted until the 1970s. However, the Swedish financial market experienced multiple changes in the mid-1980s. The Swedish Government implemented several deregulations in the financial market. Briefly, this implied simpler regulations in terms of, among others, borrowing and lending rules, currency regulation and reduced demands in terms of mortgage and safety. The deregulations gave rise to lowered barriers which made it possible for new competitors to enter the market. Other significant deregulations, such as technology development, lowered transaction and information costs. Further on, the Swedish financial market underwent another major crisis in the beginning of the 1990s. The crisis in question caused the established large Swedish banks to lose good reputation, which in turn led to a lack of trust among the general public. This helped new entrants to establish themselves in the financial market.<sup>2</sup> A specific example of these new entrants is the foreign banks which since 1986 have been allowed to practice banking in the Swedish financial market. Since then, as much as 30 foreign banks have established themselves on the market. This constitutes approximately 25% of the market on the whole. Nevertheless, these banks still only hold around 10% of the market for deposit and lending.<sup>3</sup> Later on, in 2004, it became possible for

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<sup>1</sup> Rodriguez, Enrique, *Det svenska banksystemets framväxt*.

<sup>2</sup> Lindblom, Ted & Andersson, Martin, *Recent Developments in Retail Banking in Scandinavia - narrow vs universal banking*.

<sup>3</sup> Petersson, Tom, *Vart tog den söta lilla banken vägen? Strukturförändringar på den svenska bankmarknaden sedan 1908-talet*.

credit market companies to also handle deposits. Two companies which took advantage of this are Ikano Bank and ICA Banken.<sup>4</sup>

Before the Swedish financial market went through the above-mentioned deregulations, there existed an apparent difference between retailing and banking. In other words, established large banks generally practiced banking while retailers usually focused on retailing. However, after the deregulations were introduced, the difference was not as obvious as prior to the deregulations. Retailers were now allowed to pursue banking operations. As these new retailer banks, also called narrow banks, broke into the market and grew larger over time, the private customers had larger options to choose which bank to belong to. As a result, a new era of competition in the financial market came into existence.<sup>5</sup>

The Swedish bank market consisted of 114 banks in the end of 2010, that is a drop from 124 ten years earlier. The major category is local savings banks which operate at their local market and primarily offer saving and borrowing services to their customers. During this ten-year period, the number of local savings banks has decreased from 79 to 50, which is a decrease of 29 savings banks. At the same time, eight more foreign banks and eleven regular Swedish banks have started, among others, narrow banks.<sup>6</sup> In spite of this, the market is still dominated by the four large commercial banks, namely Skandinaviska Enskilda Banken, Svenska Handelsbanken, Swedbank and Nordea Bank. Their dominance is quite evident from the fact that their total assets as well as the deposits from the public make up about 80% of the total market. The total growth of all banks' operations in the market has grown clearly during the last years.<sup>7</sup> As shown below in figure 1, the narrow banks have taken a part of this growing market. The large banks have lost market shares among deposit services and the narrow banks have contributed to the fact that the market competition has increased among lending services. The degree of concentration in the Swedish bank market is however high in an international perspective.<sup>8</sup>

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<sup>4</sup> SOU 2008:12, *Långtidsutredningen*.

<sup>5</sup> Lindblom, Ted, *Are Retailer Banks the Future of Retail Banking?*.

<sup>6</sup> Svenska Bankföreningen, *Banker i Sverige*.

<sup>7</sup> Svenska Bankföreningen, *Bank- och finanstatistik 2010*.

<sup>8</sup> SOU 2008:12, *Långtidsutredningen*.

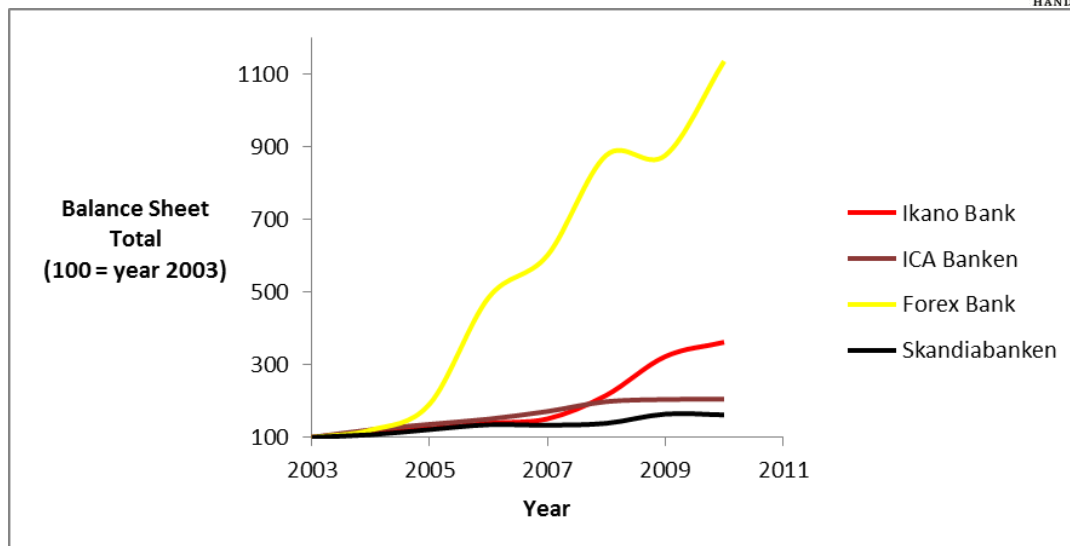


Figure 1: Total assets during 2003-2010, based on the companies' annual reports.<sup>9</sup>

## 1.2 Problem discussion

Although we see a decreasing tendency in the overall number of banks, one specific group of banks, which partly consists of narrow banks, has increased since the year 2000.<sup>10</sup> The term “narrow banking” in itself is not a uniform concept. For example, it could refer to banks which specialize in deposit-taking/payment activities, but it could also include lending money to small firms.<sup>11</sup> In the present study, we define a narrow bank as a bank which manages financial services in a limited supply, which implies that it addresses to a certain part of the private market. This means that narrow banks are partly companies which operate in different retail sectors and now want to manage financial services beside their ordinary business. The general strategies of narrow banks are thus characterized by specializing in a restricted amount of products and services, which usually consists of basic bank services such as lending, borrowing and other payment services. Many of these narrow banks use their webpage as the primary contact area. Some of the narrow banks do not operate own offices, which is why some of them find ways of cooperating with other companies that offer their services through their commercial surfaces.<sup>12</sup> By private market we include participants which mainly consist of large banks, narrow banks and other financial institutes with respect to private customers.

<sup>9</sup> Forex Bank/ICA Banken/Skandiabanken/Ikano Bank, *annual reports*.

<sup>10</sup> Svenska Bankföreningen, *Banker i Sverige*.

<sup>11</sup> Kobayakawa, Shuji & Nakamura, Hisashi, *A Theoretical Analysis of Narrow Banking Proposals*.

<sup>12</sup> Svenska Bankföreningen, *Banker i Sverige*.

As has already been mentioned in the *Background*, the society has witnessed several major reforms in the financial market the latest decades. Since the deregulations occurred approximately thirty years ago, we have seen how the narrow banks and other financial institutes push forward in the private market and how they have managed to increase their share of the market.<sup>13</sup> One fact that we find especially interesting is how the competition between narrow banks and the established large banks has grown. In spite of the fact that the large banks still dominate the market, the emergence of narrow banks have played a significant role in enhancing competition and offering private customers other options.<sup>14</sup> Due to this competition and since the narrow banks mainly offer basic banking services, one suggestion might be that they have lower expectations of profitability. There have been discussions which suggest that banks perhaps have to lower their expectations of profit due to the new financial climate caused by the latest financial crisis. One example is the Swedish Government, which is a shareholder in Nordea Bank. The Government has namely questioned the bank's profitability-target and wonders how to reach the target of 15% return on equity in the long run.<sup>15</sup> While the larger banks' profitability requirements seem to be quite high, it may affect their product offerings and pricing. One example might be that narrow banks generally offer higher deposit rates since the larger banks possibly cannot afford this in order to achieve their profitability requirement. This may open up opportunities for the narrow banks to grow larger and thus take greater share on the private market.

The large banks have lower customer satisfaction in the private market unlike other banks. However, they have improved in the last ten years but still perform worse relative to the other competitors in the market.<sup>16</sup> The fact that narrow banks have more satisfied customers compared to the larger banks, may be one explanation to why the narrow banks use different strategies to achieve success and growth in the private market. Therefore, it would be of value to find out how they actually work with this issue. Today, one fourth of the bank customers see an alternative to their main bank while half of the customers do not share that view.<sup>17</sup> It would be of interest to take a closer look of how narrow banks benefit from this concern. From a customer perspective, the narrow banks may play the role that they offer other options than the large banks.

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<sup>13</sup> Lindblom, Ted & Andersson, Martin, *Recent Developments in Retail Banking in Scandinavia - narrow vs universal banking*.

<sup>14</sup> Lindblom, Ted, *Are Retailer Banks the Future of Retail Banking?*.

<sup>15</sup> Finansdepartementet Erik Thedéen, *Erik Thedéens anförande vid Nordea Bank AB:s årsstämma 2012*.

<sup>16</sup> Svensk Kvalitetsindex, *Bankerna 2011 enligt Svensk Kvalitetsindex*.

<sup>17</sup> *Ibid*.

Preceding paragraphs can lead to the discussion how different banks work with important factors such as customers and availability. Some narrow banks might choose to work harder with identifying different types of customers and segments, and categorize customers' needs and demands. They might try to map diverse needs in the market with respect to the fact that there exist different niches. Availability could be another factor with which banks work today. By showing availability, narrow banks may demonstrate that they care more about their customers, which in turn may deepen the relationship between a bank and its customers. Furthermore, human capital is considered more important in companies nowadays.<sup>18</sup> Since banks in general are quite personnel intensive, human capital might be especially important. The increased use of human capital might generate an additional contribution of bright ideas, which in turn could result in long-term growth of a bank. As technology is continuously growing in importance, some banks might concentrate on technology especially in order to facilitate the growth in the market. To this one may also add the cost-efficiency, which is very important in two respects, namely for the profit and for the saving of resources. All of these mentioned factors could contribute to the fact that narrow banks might work in a different way with the intention of achieving growth.

As is stated above, the narrow banks have grown in the private market. However, it is not clear how they work to achieve growth and how important they are on the private market, which leads to the following questions:

- How do narrow banks grow larger on the private market?
- What role do narrow banks play on the private market?

#### **1.4 The aim of the study**

The aim of this thesis is to identify and analyze factors that can explain how narrow banks grow larger on the private market and gradually strengthen their market position. This includes investigating what purposes narrow banks serve on the private market and examining what influence they have on the private market in general.

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<sup>18</sup> Schütt, Florian, *The Importance of Human Capital for Economic Growth*.



## 1.5 Disposition

This thesis is organized as follows. It consists of six main parts. The first main part is an introduction to the problem area, consisting of the background, followed by the problem discussion and the purpose, including the research questions. The second part consists of the method, followed by the third part, consisting of the theoretical framework dealing with relevant theories. The fourth part presents the empirical studies. The fifth part, which consists of the analysis, is related to the third and fourth parts. The final part consists of discussion and conclusions, where the purpose and research questions are answered. The material consists of both primary and secondary sources.

## 2. Method

As regarding the choice of framework in this thesis, we could have used different ones. For instance, we could have made a SWOT analysis of each bank or we could have used the PEST analysis tool. The PEST analysis only focuses on the external macro-environmental factors, and the SWOT-analysis focuses on strengths and weaknesses, both in an internal and external view.<sup>19</sup> We did not feel comfortable with these ways of working, which is why we instead chose the balanced scorecard approach, which is a tool divided into four parts that focuses on a company's strategies. That gave us a robust frame including varying aspects of a company's way to work. The balanced scorecard has been applied several times before in analyzing banks in different ways,<sup>20 21 22 23</sup> which is why it would also be interesting to use it in our thesis. Our thesis is thus composed in such a way that we have written a comprehensive essay with a starting-point from the theory of the balanced scorecard. We used the tool briefly, and thus did not go into further details in each of the four specific areas.

### 2.1 Qualitative and quantitative study

The survey is a qualitative case study, which is restricted to three narrow banks. Having the fact in mind that our study focuses on explaining three specific cases with starting-point from the theory of the balanced scorecard, we find that a case study is to prefer since it allows us to go into depth with each of the three cases. We have merely concentrated on our cases and therefore our conclusions will only deal with these three cases and thus not with other banks in general.<sup>24</sup> On the other hand, the theoretical frame work underlying this study can be transferred to case studies similar to ours.

On an overall level there are two basic approaches to apply in managing this kind of study. It is either the quantitative approach or the qualitative one.<sup>25</sup> To succeed in achieving our main purpose and answer our most important questions, we have decided to apply the qualitative

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<sup>19</sup> The Chartered Institute of Management Accountants, *Strategic Analysis Tools Topic Gateway Series No. 34*.

<sup>20</sup> Wu, Hung-Yi, et al., *A fuzzy MCDM approach for evaluating banking performance based on Balanced Scorecard*.

<sup>21</sup> Wu, Hung-Yi, *Constructing a strategy map for banking institutions with key performance indicators of the balanced scorecard*.

<sup>22</sup> Lindblom, Ted & Von Koch, Christopher, *Cross-Border Bank Mergers and Acquisitions in the EU*.

<sup>23</sup> Zhang, Yansheng & Li, Longyi, *Study on Balanced Scorecard of Commercial Bank in Performance Management System*.

<sup>24</sup> For a discussion regarding case studies and generalization, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 180-183.

<sup>25</sup> Halvoren, Knut, *Samhällsvetenskaplig metod*, p. 78.

approach. Since our intention in this study is to gain a profound insight to see which function the narrow banks have on the financial market, we find the qualitative method to be the most appropriate one. It allows us to acquire empirical information from basically a few respondents; hence also allowing us to go into deeper details than those we would have been able to do with a quantitative approach.<sup>26</sup> If we would have chosen to go along the opposite path and fulfill a quantitative approach, we would, for example, have executed several surveys. Consequently, we would receive basic facts with no chance to ask attendant questions.<sup>27</sup> Attendant questions would provide us with the opportunity to go into the depth with an issue. A survey is considerably more narrowed down, and accordingly would concern the issue quite shallowly. As a result, to obtain a properly outcome, we find the qualitative approach to be the most favorable one.

## 2.2 Data collection

We have chosen to use personal interviews with a representative of each bank in the collection of empirical data. To achieve high validity, we have talked to people who know their companies' operations very well and we ensured them before the interview that we have good intentions with our questions. In the questionnaires, we have strived to have an explicit and simple language as possible and readily short sentences. The ambition was to set, as far as possible, neutral, non-leading discussion questions with comprehensive answers. In order to formulate the questions we applied an article on banking performance based on balanced scorecard.<sup>28</sup> Except that we chose relevant parts of this article to our study, we discussed interesting parts of banks' strategies. Regarding the questions which we formulated, we chose to divide the questions into the four parts of the balanced scorecard. We chose this approach in order to cover as many aspects as possible of a company's strategies with a starting-point from the balanced scorecard. The questions are formulated in different ways. Some of the questions address the specific bank, while other questions concern comparisons with other banks in the private market. This means that we can relate to questions of the same kind more than once, which gives an opportunity to "control" whether the answers are consistent. In this respect, we are satisfied with the answers that we received from the respondents. Since some

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<sup>26</sup> For a discussion regarding qualitative approach, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 236.

<sup>27</sup> For a discussion regarding quantitative approach, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 223.

<sup>28</sup> Wu, Hung-Yi, et al., *A fuzzy MCDM approach for evaluating banking performance based on Balanced Scorecard*.

of the interview questions deal with sensitive subjects, it was considered important to offer the respondents anonymity.<sup>29</sup>

High level of reliability is attained when the research could be completed over again with the same results as the first time it was conducted. In other words, the result should not be dependent on who is conducting the study.<sup>30</sup> Such dependency is of course inevitable in an interview based qualitative study. In order to receive as “reliable” answers as possible we have made the interviews in an environment in which the respondent was believed to feel comfortable. Our intention was that this hopefully would make the respondent more confident and open-minded. Moreover, we sent the main questions to him/her by e-mail roughly a week before the actual interview was agreed to take place. In this way, the respondent could be prepared and look-up questions he/she was unsure about. After we wrote the empirical part, we sent each part to the respondent in question for a confirmation that the content has not been misunderstood. Two of the respondents wanted us to change a few parts of the content. However, we did not agree on making these changes and, instead, we offered the respondents the choice to be anonymous. That offer was taken by both respondents and the banks they represent are therefore named Bank X and Bank Y, respectively.

Obviously, the gathering of empirical material by making interviews could affect the reliability in a negative way. When reading this thesis one should be aware of the fact that people sometimes tend to change their answers, consciously or unconsciously, depending on which day the interview takes place and which person who is managing the session.<sup>31</sup>

High reliability is achieved when one get stable indications.<sup>32</sup> This could naturally be discussed when one merely makes a few interviews as we do, even if each separate interview yields good answers. In order to achieve higher reliability, we could have interviewed more than one person at each bank. Thus, we could have ensured that what was said by the respondent was not only the opinion of the respondent, but a more general view within the bank. We did not have the adequate time to proceed in this way, but considering other measures taken we are confident that the results from interviews will make a fair foundation for generating relevant hypotheses.

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<sup>29</sup> For a discussion regarding data collection and anonymity, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 289-290, 298-301.

<sup>30</sup> Eriksson, Lars T. & Weidersheim-Paul, Finn, *Att utreda forska och rapportera*, p. 61.

<sup>31</sup> For a discussion regarding interview situations and interview effects, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 301-303.

<sup>32</sup> Eriksson, Lars T. & Weidersheim-Paul, Finn, *Att utreda forska och rapportera*, p. 61.

One of the interviews that we intended to fulfill is a bank in which one of us is working at, namely Forex Bank. Although we are aware of the fact that a risk for subjectivity may occur when writing about Forex Bank, we have decided to attempt to keep an overall objective view through the whole thesis to avoid low reliability.

### 2.3 Selection and diversification of banks

We have not chosen the participating banks by some statistical selection procedure, but we have chosen them by subjectivity.<sup>33</sup> To find out which Swedish banks the financial market consists of, we visited the homepage of the Swedish Financial Supervisory Authority. In their register of banks we sorted out all the banks which matched our definition of narrow banks. Subsequently, we contacted them by sending e-mails, in which we described our research project and asked if they were interested. If they showed any interest, we followed up the e-mail by sending more detailed information. In some cases we would send an e-mail to a specific person directly, but for some banks we contacted the information department which afterwards gave us recommendations of an appropriate person to contact. There is one single exception from this procedure. As we mentioned in previous paragraph, one of us is working at Forex Bank. Therefore, we used his personal contacts in the first phase to get in contact with a relevant person.

We managed to receive interviews with representatives of three narrow banks. Two of them have chosen to be anonymous as they did not feel comfortable disclosing the company's name. As mentioned we will refer to them as "Bank X" and "Bank Y". The third bank in this study is Forex Bank, which chose to participate with their company name. Regarding Bank X and Bank Y, we interviewed the vice president respectively the marketing manager. In the case of Forex Bank, we interviewed regional director Pia Bernåker. Several banks never answered our e-mails the first time. Other banks answered our first e-mail, but never followed up by answering the next one. Some of the banks referred to a phone number to an appropriate candidate interview. However, after trying to call several times with no results, we moved on. Nevertheless, we did not find that this affected our thesis in a negative way at large. Since we received interviews with narrow banks that differ distinctively in characterization, we were very content with the situation. It is also worth mentioning that there were other banks that showed interest later on in the process. However, we considered from the beginning that three interviews would be sufficient. Besides, time was a factor that

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<sup>33</sup> For a discussion regarding the interview and selection process, see Esaiasson, Peter, et al., *Metodpraktikan, Konsten att studera samhälle, individ och marknad*, p. 291-297.

we felt was too short for dealing with more than three interviews. We simply chose those banks that answered most quickly.

It may be of interest to give an account for how these three narrow banks differ, since the characterizations between the banks are diversified. Forex Bank was founded in 1965 and they started banking in 2003. Today, they have more than 110 physical offices in the Nordic region and their core activity operates within foreign exchange. Beside the foreign exchange, they manage simpler banking services within following main areas: borrowing, lending and other payment and credit card solutions. Bank X is from the beginning an insurance company that nowadays practices banking. In excess of the above-mentioned areas in which Forex Bank operates, Bank X has a wider selection and is active within, among others, consulting and mortgage loan. Finally, Bank Y is a quite small narrow bank which merely offers two bank products: lending and borrowing.<sup>34</sup> To conclude, we can see that the common thing that these banks share is that they fall under our definition of narrow banks, though in different extents.

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<sup>34</sup> For information regarding Forex Bank, see <http://www.forex.se>. As for Bank X and Bank Y, we have consulted their respective websites.

## 3. Theoretical framework

### 3.1 Balanced Scorecard

All companies operate their own strategies which help them to achieve their individual goals. The strategy will guide them through their daily work and help them to make right decisions. The balanced scorecard is a proper tool which tracks the most important pieces of a company's strategy. One can stipulate an objective for each part of the strategy and then a key performance indicator associated with that objective. To work in such a way, one includes every part of the strategy, which simplifies the acquisition of an explicit way to measure the progress made in each specific area. Traditionally, companies have focused on financial goals. Nonetheless, it could possibly lead to a lack of awareness about the future corporate competitiveness. Traditional financial measures were more common and appropriate during the industrial age in earlier decades. Companies nowadays are far more advanced in their structure and address more focus to customers. When directing focus on customers, internal processes and future growth the financial figures will improve as an effect of this work. This is a different view of the financial part of the company. The balanced scorecard will additionally help minimizing the number of measures used to evaluate the company's performance. It brings together the different parts of the company and avoids information overload due to too many key performance indicators.<sup>35</sup>

#### 3.1.1 Financial perspective

One could ask oneself if the financial perspective is relevant at all. When looking at the financial figures itself, one merely receives the historical view of the company. Those figures are thus the result of historical data. Even though they predict something about the future, they cannot affect the upcoming result. On the other hand, the financial perspective is still widely considered useful by several companies today. All the actions taken in the company will influence the financial status in some way.<sup>36</sup>

In order to measure financial performance one can use different kind of key ratios. They can be divided into six different groups which facilitates the usage and comprehension of the analysis. Those six groups are revenues/costs, return, capital, profit, relationships and progress.<sup>37</sup> They all describe various parts of the companies' progress and status. The Central

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<sup>35</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>36</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>37</sup> Bas-kontogruppern i Stockholm AB, *BAS Nyckeltal*, p. 89.

Bank of Sweden uses return on equity and cost/income ratio in order to measure the development of Swedish banks.<sup>38</sup> Return on equity (ROE) is the measure that normally is applied when measuring profitability among banks. It is calculated from reported data. One can also use market values instead of reported data. However, there is no standardized way to practice those measures and moreover there is no simple way to receive this information from reported data. The cost/income ratio (C/I) measures cost efficiency and is a common key ratio among banks. There is a negative relationship between cost efficiency and profitability since lower cost efficiency yields lower profitability.<sup>39</sup> These two measures are also frequently used by banks themselves, for instance, Ikano Bank, Forex Bank, Länsförsäkringar Bank and Swedbank, which all present these ratios in their annual reports.

Practically all companies have to create and publish an annual report at the end of each fiscal year. There is a special law for annual reports which regards credit institutions and banks that belong to that category. Two of the costs that banks must present in their reports are revenues from commission and interest rates.<sup>40</sup> Banks with high share of revenues from commission tend often to have lower cost efficiency on average due to higher personnel costs. Nevertheless, there are obviously exceptions and the tendency is not strong.<sup>41</sup> On the other hand, the structure of the companies' operations and distribution between commission and interest rates is not the only thing that affects costs in the companies. Synergy effects is another component. There are two ways in which one can take advantage of operational synergy effects to reduce costs; economies of- scale and -scope. Economies of scale imply that a company will experience lower costs from decreasing costs per unit due to operations in a larger scale. This could be referred to as a consequence of a higher output relative to the overhead costs.<sup>42</sup> Some of these effects in banking consist of network effects which mean that the more users there are the more utility from the network one will receive. One consequence of these network effects is that banks cooperate in technical infrastructure.<sup>43</sup> Economies of scope on the other hand involve the possibility to utilize the same group on inputs to offer more products or services in the case of banking.<sup>44</sup> Larger companies are often more effective than smaller ones due to the advantages their size offer them. Nonetheless, there are also

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<sup>38</sup> Sveriges Riksbank, *Finansiell stabilitet 2008:1*.

<sup>39</sup> Sveriges Riksbank, *Finansiell stabilitet 2002:1*.

<sup>40</sup> SFS 1995:1559. *Lag om årsredovisning i kreditinstitut och värdepappersbolag*.

<sup>41</sup> Sveriges Riksbank, *Finansiell stabilitet 2002:1*.

<sup>42</sup> Beusch, Peter, *Modelling Management Accounting and Control in the Integration Processes of Mergers and Acquisitions*.

<sup>43</sup> Konkurrensverket, *Konkurrensen i Sverige 2008*.

<sup>44</sup> Beusch, Peter, *Modelling Management Accounting and Control in the Integration Processes of Mergers and Acquisitions*.



possibilities that the creation of large banks will worsen the effectiveness due to disadvantage of economies of scale.<sup>45</sup> For example, there has been shown that the size does not matter when it comes to the growth rate of a bank. There is however evidence from the Swedish bank market that a more diversified revenue mix yields a higher growth rate than a less diversified mix.<sup>46</sup>

### 3.1.2 Customer perspective

A company has several stakeholders and the numbers of stakeholders vary among different companies. Nevertheless, there is one stakeholder no company can do without, namely the customers. Without customers the company will not receive any substantial income. There are many perspectives to the customer relationship the company has to take into account. For example, they have to perform a high quality service and at the same time manage to keep short waiting time. Moreover, it is essential that their products and services yield higher customer value.<sup>47</sup>

As has been mentioned, the customer segment is very essential for a company's survival. To satisfy the customer's needs, the company must bare multiple factors in mind. There are four different factors one usually emphasizes; price/cost, quality, time and functionality/performance.<sup>48</sup> In the beginning, it is necessary to identify different groups of customers, so called customer segments. One usually analyzes the customers' behavior by looking at elements such as geography, demography and socio cultural factors. Subsequently, the price of the product/service is set along these factors.<sup>49</sup> On the other hand, the company must take its own costs into account, such costs that include, for instance, ordering, scheduling delivery and materials.<sup>50</sup> Time mainly deals with the lead time, that is from the point a company receives an order to the point it sends the product/service to the customer. Time can also deal with how long it takes to get an anticipated item to the market. Quality describes how well a product/service performs, and how large the defect level is measured by customers of products/services.<sup>51</sup>

In old days, the market was characterized by a shallow integration, which simply regarded the price on the market. Nowadays, the shallow integration has developed to deep integration,

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<sup>45</sup> SOU 2008:12, *Långtidsutredningen*.

<sup>46</sup> Sjöberg, Pål, *Essays on Performance and Growth in Swedish Banking*.

<sup>47</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>48</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>49</sup> Hill, Charles W.L., *International business*, p. 571-572.

<sup>50</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>51</sup> Ibid.

where businesses and customers have stronger bonds and benefit from each other in a more practical way.<sup>52</sup>

When a company manages relationships with its customers, there are several factors to bear in mind. Relationship marketing is a significant concept in which the company analyzes different parts such as customer loyalty, retention and satisfaction to increase customer profitability and strengthen its competitive position in the market.<sup>53</sup> A company's first assignment is to acquire customers, which is done by finding suitable matches for both buyers and sellers. Afterwards, the company has to develop the bonds between buyers and seller, where it is of importance that the seller shows an availability factor. This is followed up by implementing deep integration of trust and loyalty between the parties involved.<sup>54</sup>

In the year of 2002, Christopher, Payne and Ballantyne introduced “the relationship marketing ladder of loyalty”, which describes different levels of loyalty. The ladder consists of six steps. In short, it contains diverse perspectives which pictures how loyalty increases gradually. Initially, one merely considers doing business with the other part. After implementing the first step, one does business continuously with the same part, which in turn leads to developed relationship over time. Finally, the relationship elaborates to a partner relationship between the business and the customer.<sup>55</sup> After developing trust and loyalty, the company should continue the sequence by building customer satisfaction and expectations to improve its relationships with the customers. The expectations of a company's products/services can help to create the customer's opinion, whether the product/service surpasses the customer's expectations or not. If the expectations are surpassed, it implies that the customer reached satisfaction. This part of the series is of great importance since it is assumed to play a significant role in pursuing customer retention.<sup>56</sup> Up to this stage, the company has now managed to establish strong and confident relationships. The situation is now stabilized in terms of trust and commitment, which can lead to greater developments and experimentation of different projects. By implementing the above-mentioned steps, the company increases its opportunity to enhance its customer profitability.<sup>57</sup>

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<sup>52</sup> Dicken, Peter, *Global Shift: Mapping the Changing Contours of the World Economy*, p. 3-32.

<sup>53</sup> Baines, Paul, et al., *Marketing*, p. 686.

<sup>54</sup> *Ibid*, p. 688-689.

<sup>55</sup> *Ibid*, p. 690-691.

<sup>56</sup> *Ibid*, p. 700-701.

<sup>57</sup> *Ibid*, p. 690, 693, 701.

There are several ways of measuring customer profitability. One could for instance analyze the number of new customers and the part of sale which is connected to returning customers. This could be fulfilled by establishing indexes for customer satisfaction and customer evaluations about the company's image and reputation.<sup>58</sup>

### 3.1.3 Internal business perspective

To fulfill the company's achievements, the internal work has to reach an adequate level to meet expectations from the surrounding environment. It is necessary to acquire high quality of the work inside the company to satisfy the customers' needs. That is just one relation between different parts of the balanced scorecard. The internal perspective might involve work with technology status and manufacturing performance. There are many various aspects which have to be taken into consideration, depending on the specific company and situation.<sup>59</sup>

The internal process deals with how organizations handle their internal processes to satisfy their customers' expectations. That is related to the internal efficiency of the bank, which includes things as the most important factors for satisfying customers and then reach financial success. It is hard to create a high customer value that leads to better financial performance without having effective and efficient internal processes.<sup>60</sup> There is an important distinction between the concept of efficiency and effectiveness. Efficiency is a measure of the performance in the actions actually taken; the lower costs given a specific output the better efficiency. Effectiveness on the other hand involves the company's ability to achieve a long-term growth in the market.<sup>61</sup> These internal processes may be divided into three parts. The first part is to identify future customer needs and markets to develop products actual for tomorrow. The second one handles operating efficiency and the production and distribution of products and services. The third and last one handles the processes taken to the customer after the sale has been made. For example, it can involve keeping an eye of the amortizations upon the agreed terms of the customer's loan.<sup>62</sup> In the special case of banks and measures, three researches from Taiwan have selected appropriate indexes to apply when evaluating a bank's performance. Those measures include, among others, indexes that take the case of rationalized processes and efficiency into consideration as well as the internal work focusing on the

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<sup>58</sup> Kullvén, Håkan, et al., *Den nya ekonomistyrningen*, p. 626.

<sup>59</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>60</sup> Lindblom, Ted & Von Koch, Christopher, *Cross-Border Bank Mergers and Acquisitions in the EU*.

<sup>61</sup> Mouzas, Stefanos, *Efficiency versus effectiveness in business networks*.

<sup>62</sup> Lindblom, Ted & Von Koch, Christopher, *Cross-Border Bank Mergers and Acquisitions in the EU*.

customer.<sup>63</sup> These measures relate in a good way to the above mentioned way to break down the internal processes that origin from the balanced scorecard.

Nowadays, the industrial life is growing rapidly in a dynamical environment, which makes efficiency one of the most important issues for a firm. Given the increased competition for banks, it is necessary for them to estimate their own efficiency. It is also crucial since the banking industry has an essential role in the financial system of a country.<sup>64</sup> The efficiency of a company could obviously be broken down in more than one way. However, one way of doing that is by separating the efficiency in two components, namely the technical part and the allocative part. The technical part refers to the firm's ability to acquire maximal output from a restricted amount of resources. When it comes to using the available inputs in an optimal way given their respective prices, we refer to allocative efficiency.<sup>65</sup> A study from 2004 shows that there is potential for improvements in the Swedish banking sector. The study also makes a conclusion that the inefficiency mainly depends on the technical part. The study therefore implicates that the banks could receive more output of the already available inputs.<sup>66</sup>

One can separate the concept of efficiency and effectiveness and come to their corresponding financial performance indicators. By separating return on assets into profit margin and total asset turnover, one get indicators relating to those two terms. The profit margin is then a ratio for the company's effectiveness and the efficiency is represented by the total asset turnover.<sup>67</sup> The definition of profit margin is the net profit divided by net sales. To calculate the total asset turnover one divides net sales by total assets. This is clearly exposed in the Dupont-model that illustrates how return on total assets consists of the profit margin and total asset turnover.<sup>68</sup> Those two components which are related to effectiveness and efficiency can be used to every commercial organization.<sup>69</sup>

In general terms, companies have different visions of how to manage to accomplish achievements. Since the employees constitute a vital part of the organization in general, the company needs to structure its processes in order to satisfy its employees, and hence its customers. The organizational structure involves, among others, the determination of where to

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<sup>63</sup> Wu, Hung-Yi, et al., *A fuzzy MCDM approach for evaluating banking performance based on Balanced Scorecard*.

<sup>64</sup> Gjirja, Matilda, *Efficiency and Productivity in Swedish Banking*.

<sup>65</sup> Farrell, M. J., *The Measurement of Productive Efficiency*.

<sup>66</sup> Gjirja, Matilda, *Efficiency and Productivity in Swedish Banking*.

<sup>67</sup> Ho, Chien-Ta & Zhu, Dauw-Song, *Performance measurement of Taiwan's commercial banks*.

<sup>68</sup> Van Voorhis, Kenneth R., *The Dupont Model Revisited: A Simplified Application to Small Business*.

<sup>69</sup> Ho, Chien-Ta & Zhu, Dauw-Song, *Performance measurement of Taiwan's commercial banks*.

locate the decision-making responsibilities. A company can either centralize its organizational structure or decentralize it. When centralizing the structure, the company could for instance place the decision-making high up in the hierarchy, which is to say at the managers.<sup>70</sup> On the other hand, a study from Community banker indicates that employees tend to work in a more effective manner when they are given more responsibility and freedom. The research shows that it is important that employees are well trusted when performing a task. Furthermore, the study exhibits that autonomy is of great importance to make decisions that affect the employees own work. By enhancing employees' responsibility, it can in turn generate more flexibility. Increased flexibility can result in taking better control, not only over one's work, but also making the employees lives more satisfying.<sup>71</sup> Locating the decision-making lower in the hierarchy at the employees is referred to as decentralization.<sup>72</sup>

#### 3.1.4 Innovation and learning perspective

It is of great importance for the company's survival to perform well and manage to keep high standard throughout the company, not only today but likewise in the future. That is why it is vital to handle those aspects of the company carefully. In other words, the company needs to uphold a strong and competitive position today as well as in the future, partly by accommodating the employees' conditions, partly by continuously developing technology.<sup>73</sup>

In previous chapter we described briefly that the company must look over the employees needs in order to keep them content. One significant factor to take into account is the social climate at the workplace, in which the employees should thrive in. According to the EWCO (European Working Conditions Observatory), a study in the Netherlands exhibits that the social climate at a workplace is among the top three reasons when applying for a job. The research also shows that when the employees are content with the social climate, they tend to work there for a long time.<sup>74</sup> Furthermore, it is of great importance to encourage the employees to career development. Different universities in the USA have published articles in how one should manage to develop their employees. They argue, that by encouraging career development opportunities, one can motivate the employees to reach their best work. Thus, it could imply that the employees eventually could contribute to the organization on a quite

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<sup>70</sup> Hill, Charles W.L., *International business*, p. 434-435.

<sup>71</sup> Community Banker (2001), *What Drives Employee Satisfaction? (Randstad North America survey results)*.

<sup>72</sup> Hill, Charles W.L., *International business*, p. 434-435.

<sup>73</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>74</sup> European Working Conditions Observatory, *Social climate at work important to workers*.

different level.<sup>75</sup> <sup>76</sup> Other ways of satisfying the employees could be to repay the employees' achievements by different rewards, for example, by issuing bonuses.<sup>77</sup>

To continuously evolve, a company has to compete with information technology to support its business operations. Otherwise there is a risk that the company will not survive. Therefore, the company must bear in mind to constantly develop and implement strategies by applying information technology.<sup>78</sup> By information technology, we refer to hardware, software, telecommunications, database management and other components used in computer-based information systems.<sup>79</sup> In 1979 Michael Porter introduced his model of competition, the so called "Porter's five forces", in which he describes how to oppose forces such as rivalry competitors within the industry, the threat of new entrants, the threat of substitute products that could possibly take greater share of the market, customers' bargaining and suppliers' bargaining.<sup>80</sup> To counter these competitive forces, the company must work in several angles. Among others, the company should produce products that cost less, by using information technology. Furthermore, the company should develop new information technology structures to differentiate products and services. When creating new products and services, the company should include new parts of information technology to rationalize the innovation. Information technology should also play a large and critical part when pursuing expansion of the company.<sup>81</sup>

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<sup>75</sup> University of Washington, *Employee Career Development – Manager Resources*.

<sup>76</sup> University of California San Francisco, *Guide to Managing Human Resources*.

<sup>77</sup> Hill, Charles W.L., *International business*, p. 450-451.

<sup>78</sup> O'Brien, James & Marakas, George, *Introduction to information systems*, p. 42.

<sup>79</sup> *Ibid*, p. 523.

<sup>80</sup> *Ibid*, p. 42.

<sup>81</sup> *Ibid*, p. 47.

## 4. Empirics

*In the following chapter we will present the interviews which we have conducted. In each and every part we will merely give an account of each respondent's answers. Therefore, everything which is presented below comes entirely from the respondents and their view of the company. The structure follows the same pattern as the theoretical framework.*

### 4.1 Financial perspective

#### 4.1.1 Bank X

The overall financial objective for Bank X, which is not listed on the stock exchange market, is return on equity. The company thinks it is a relevant measure since the bank's balance sheet is quite large. At present, the company's owners' long-term requirement is quite highly. In 2011, Bank X's return was far away from the goal and the last time it passed the target was several years ago. Some banks are working hard with the goal cost/income ratio (C/I), but Bank X do not prioritize this ratio. Instead Bank X uses cost budgets which respective manager is responsible of. If a manager would exceed such a budget, he/she has to discuss the matter with his/her manager higher up in the hierarchy to find a solution. Most of Bank X's revenue derives from interest incomes and only a smaller part from commission incomes. This large part of interest income is acquired mainly from mortgages, and in combination with keeping the administration relatively automated, the company is confident in achieving lower costs. The key to achieving low costs also deals with handling large volumes of business.

It is not a way for Bank X to compete in the market by having lower profitability requirements than its competitors, which mainly consist of the four large banks. Bank X as well as the four large banks has a complete offer for the average client. These profitability requirements depend more on the owner's preferences, affected by the risk the owner considers the operations involves. Bank X's risk is estimated to be quite low compared to the other players in the market, which is why its demand of return yet could be quite highly. On the other hand, the company point out that the form of the ownership might open up various ways to compensate customers. One possible way is dividends, but it could also deal with offering lower prices on their main products. This makes it hard to compare Bank X's and its competitors' profitability with each other. Nevertheless, it is important for the company to achieve a good return, which in turn leads to having the possibility to expand and still succeed in the future.



#### 4.1.2 Forex Bank

Forex Bank's financial requirements are decided by its owners, the family Friberg. Each year the family gives the board of directors an owner directive. The company has a lot of different targets, both financial and non-financial ones. Forex Bank's newly opened offices have to be profitable in 3-5 years, but the company does not have a specific profitability target for the complete company. Instead, according to its business plan, the net profit for 2011 should amount to at least SEK 250 million for the Forex Bank corporate group. The net profit could be used for increasing the company's equity, which in 2013 should amount to at least SEK 1 billion, according to the bank's goals. Preferably, the costs will be lower, but at worst the costs will be equal to the preceding year. The bank uses the ratio C/I by tracking every single bank office and region as well as the complete country, however that not being an important financial goal for the bank. The company argues that if it improves the C/I-ratio, it has control over the costs and hopefully the bank will also have higher income. Forex Bank has a little different structure in their bank offices than others. The bank has long opening hours and is quite labor-intensive compared to its competitors. For instance, the office at Landvetter in Gothenburg opens up at 5 AM in the morning every day and closes at 21 PM. This makes it harder for the bank to compete with lower costs, yet this being a part of its strategy.

Forex Bank is at present increasing their investment rate and therefore they have a special investment goal. Among others, the company pays 75 million a year to improve the work environment in the bank offices. As a bank, Forex Bank by law has capital adequacy requirements which cannot fall below 12%. The company's goal is 15% and right now they reach about 14%. Although Forex Bank practices banking, they do not have products such as mortgages which require that the company holds much capital. Besides these financial measures, the company also has a goal that at least 17% of the population in year 2014 will recognize them as a bank and not only a currency converter, which is the bank's main activity. Today 85% of the population knows that Forex Bank exchange money. Two more nonfinancial goals the company applies are that its market share in foreign exchange should amount to at least 80%, and that the bank will sign at least one new strategic agreement with another company each year. One example of such an agreement from this complementary strategic approach is the deal signed in 2008 with Länsförsäkringar.

There is no possibility that Forex Bank in the near future will become a large bank which offers a complete set of products. As a narrow bank the company is driven by other factors. Compared to one of the four large banks, Forex Bank can have a more long-term view of the



company's development. That opens up the possibility to realize investments and make decisions the company otherwise could not have done. Forex Bank argues that it does not have any disadvantages due to its relatively small size. Quite opposite, the bank considers it an advantage. The size makes it possible to make quick decisions and the company is not as immobile as large organizations tend to be. For example, if a seller in one of the offices has an idea of improvement, there is no problem for him/her to call a higher manager in the company and discuss that idea. Despite the fact that the bank expand intensively at present, it believes that it can keep the advantages of being a smaller bank.

#### 4.1.3 Bank Y

Since the owners of Bank Y are private investors, the bank is not obligated to be as transparent as a regular listed company. Bank Y does not communicate their financial goals in an active manner. The owners have not defined a specific goal for the company's profitability, but each year the company works to increase the profit which should exceed the results of the previous year. When the bank expands its operations, it still has to be profitable despite higher marketing, system, and personnel costs. The bank's statement about the return on equity, which is related to the profit, is that it will exceed its main competitors' return on equity. The reason to why the company is able to have such a high return is that it benefits from a relatively non-explored gap in the market. Bank Y has a significantly higher interest rate on lending in contrast to the interest rate of deposits. This high marginal yields a very good return for the bank.

Regarding main competitors, Bank Y refer to companies which handle deposit accounts and offer unsecured loans. Some indirect competitors they compete with are ICA Banken, Ikano Bank and Forex Bank. On the other hand, the company does not view the four large banks as competitors in spite of the fact that the large banks offer similar products as the company itself. One reason is that the large banks offer different counseling services and more advanced products. As many other banks Bank Y actively uses the capital adequacy ratio, which was well above the target last year. The large banks frequently offer unsecured loans like Bank Y, but for higher amounts than Bank Y offers. Bank Y is able to do this as it is a very cost-effective bank. There is a possibility that the large banks think these loans of smaller amounts cause to much administration, and therefore it will not be sufficiently profitable for them. Although Bank Y is very cost-effective it does not have a specific goal for the costs. For instance, they do not use the ratio C/I to measure costs. Even if the bank performs low costs, it considers it being more important to grow and increase its market share

instead of only pressing the costs further lower. In other words, the company prioritizes growth which results in high costs, instead of merely keeping its market share and achieving lower costs. It is of importance for Bank Y to handle large business volumes. As the company grows, it will come to a point where it needs to expand its business operation through additional investments. Bank Y has recently made investments in its internal information technology systems; hence the bank feels confident of being prepared for growing in future. The company thinks it is an advantage to be quite small since the low number of employees makes it possible to make quick decisions and immediately discuss an issue with a co-worker if necessary. At present, Bank Y does not have an own lawyer hired to handle legal issues and rules, since the bank does not consider itself being large enough to be necessary. If the company grows larger and reach a certain size it may hire a lawyer for these topics.

## 4.2 Customer perspective

### 4.2.1 Bank X

Bank X is basically an Internet bank, which makes technology and infrastructure a vital part of its business. This reflects its way to attract customers and build further relationships with them, by applying, among others, its webpage, mobile interface and Facebook-channel. The company does not use Facebook as a direct sales channel, but it merely works as a communication tool. Customers, who want to express their own views and complaints, use Facebook to emphasize their opinions and to ask questions. For instance, during the year 2011 Bank X experienced an outage. Through the communication via Facebook, where they posted information, the company received great commendation from the people around. Bank X is meticulous to stress that it is of great importance to be present on the Internet and that the company provides great service, which in turn hopefully attracts more customers. The fundamental attitude is to have an operating Internet bank with reasonable prices, where it is easy to navigate oneself. The customer service department, which handles communication and indirect sales, is also an important factor. It was voted the best customer service department in Sweden for three years. Hence, the Internet and the customer service department are Bank X's unique selling points. A while ago, Bank X introduced an application, which operates transaction information by posting budgets. Applying this sort of information about the customers creates customer benefit.

From time to time, Bank X also concentrates on product-oriented campaigns. However, the company does not market their campaign products through physical offices. In fact, Bank X merely has one single physical office. The reason for this is that Bank X has chosen to meet

the customers' needs over the Internet and over the phone. The company believes that the customers can/want to handle simpler matters by themselves, and pay a little less for the service, while qualified issues such as counseling and different kind of supports should be done through the Internet and customer service department. That is Bank X's philosophy. Nonetheless, the company points out that physical offices in general are wonderful distribution channels, but to build up an office network at the same time implies high costs, and therefore there is not in its plan to develop such a network. One could imagine that all this self-help would not attract elderly customers, since such category of people usually prefer some help when dealing with bank businesses. On the other hand, Bank X emphasizes that it has more elderly customers than one could imagine.

When it comes to customers in general, Bank X is more focused on keeping existing customers than attracting new ones, partly because it is cheaper, and partly because it already has an adequate customer basis. Besides, it is easier to perform a new deal with an already existing customer. Each and every existing customer is thus important, which makes trust and loyalty critical within the company. However, Bank X does not measure profitability per customer, but rather at segments and products. The bank finds it hard to measure profitability per customer since their activities are based on standardized operations and products.

#### **4.2.2 Forex Bank**

To attract new customers and retain existing ones, Forex Bank proceeds partly through advertising and branding, and partly through handing out information about the products. The company also ensures that it provides products and services of high quality. In excess of this, the bank invests large amounts of capital to be modern, attractive and develop computer systems. Forex Bank does however emphasize that it will take time to implement all this. The physical offices, where the employees use the word of mouth method to inform and attract customers, are very important, since roughly 95% of the customers enter through the bank office. This method has proved to be very effective in order to attract customers for the bank products. The company has a concept, called ReseEkonomer, the idea of which is that a person travels around the world and writes a diary that brings up tips about currencies and money savings and also stories about his experiences. This is also a way of building relationships with customers and market the products. Forex Bank therefore continuously strives to be strongly linked to travelling.

In the past, Forex Bank was characterized by strict rules. Nowadays, the company is based on values, which impregnates the company. For example, the employees are encouraged to think

for themselves and take own responsibility in different business contexts. The core values of the company are characterized by the fact that the values are related to each and every customer meeting. The company focuses on what is most important for the customer's personal finance, and therefore provides basic products and services based on simplicity. Forex Bank is also clear in that respect not making any distinction between customers based on how much capital one possesses. Therefore, all customers are welcome regardless their financial status. Moreover, the company does not concentrate on comparing costs between attracting new customers and retaining existing ones, since Forex bank argues that it would give a misleading key ratio for their business.

#### 4.2.3 Bank Y

In order to attract customers, Bank Y mostly undertakes direct marketing activities, such as sending direct marketing offers to people's homes and use online marketing. The company also ties different partnerships with companies to gain new customers. Otherwise, Bank Y does not have a particularly active customer relationship building. Despite this, the company has content customers in general. The latest CSI (Customer Satisfaction index) showed a customer satisfaction index of 79%, which is well above the average standard in the banking industry. Customers who borrow are specifically pleased, since they usually cannot borrow elsewhere due to poor creditworthiness. This type of customers usually returns for further borrowings. The deposit customers are, on the other hand, a more demanding type of customers. If they see that the bank lowers the deposit rate, there is a great risk that they will end their savings accounts and move their capital elsewhere. Therefore, Bank Y feels that it should put more effort in building more relationships with the deposit customers. However, Bank Y points out that its number one priority is its lending operation, and as long as enough capital flows in to cover the lending, the company is quite satisfied.

Bank Y does not use Facebook or any other social media service, since it does not think it will receive good commendations due to its high lending rate. The company collaborates with other companies from which it buys customer records to get in touch with customers. The bank has a customer service department, which only operates incoming calls. As regards outbound calls, the bank enlists help of external parties to sell supplementary insurances. As for measuring profitability, the company focuses on customer segments and products. Since it merely offers two products, namely borrowing and lending, the bank thinks a general measure is more promising with respect to that it does not offer several products and services as other banks.

## 4.3 Internal business perspective

### 4.3.1 Bank X

Every single bank is obligated to follow the rules that the Swedish Financial Supervisory Authority monitors. These rules determine in a general manner how a bank has to act in different situations. Besides that Bank X ensures that these rules are known by respective employee, the company tries to keep its internal work quite simple in general. If it would be very strict, then processes would be too slow and unnecessarily complicated. On the other hand, if Bank X would skip all control it cannot ensure that it would follow the compulsory regulations. The bank thinks that it handles the work in a simpler, less standardized and strict way compared to its competitors.

To perform a good work it is important for Bank X that all its employees know their authorities and responsibilities. If the employees would be unsure in making a decision on their own, they would have to ask their manager, which would take too much time and would not contribute to increased value. Moreover, it could cause the manager to handle more than he/she is capable of, which would slow down his/her more important tasks. However, there are obviously situations, in where a manager higher up in the hierarchy has to step in and interfere in a necessary decision. For example, it could deal with a chief who exceeds his/her cost-budget and by that going beyond his/her authorities.

It is also characteristic for Bank X that it can be effective in its internal work and by that perform well. Everything is actually about interaction between people, and in a larger organization there are many contacts between different persons and functions within the company. Bank X on the other hand does not have many points of contact, which is one reason to why the bank can be more effective in its work. Consequently, Bank X's organization and size is important, but its internal culture is also of significance since the culture supports engagement, and that the employees go beyond the traditional limits.

### 4.3.2 Forex Bank

Forex Bank is in a large extent affected by the obligated regulations which concern the banking market. One example of such a regulation, which is highly relevant to Forex Bank, is the law of anti-money laundering. If one will exchange money above a certain amount, Forex Bank is obligated to ask about the origin of the money and what he/she will use them for. This is one example showing how the bank's work is affected by the rules. Forex Bank has a

history of being quite strictly managed. A consequence of this was that the employees did not have the possibility to present their own ideas and proposals as well as take more responsibility in their daily work. This in turn led to the fact that they did not take full advantage of the personnel's full capability. Approximately three years ago, Forex Bank underwent an apparent change which softened many of the strict rules. Instead, a value-driven way was implemented through the whole company. Forex Bank has six values: simplicity, customer-focus, responsibility taking, business-focus, cooperation and openness. These values reflect how the employees work in the company. More changes followed in that period due, among others, to a penalty issued by the Swedish Financial Supervisory Authority. The penalty in question was issued because Forex Bank had deficient control regarding the anti-money laundering rules. Two additional important changes which took place were the recruitment of a new Chief Executive Officer and the strengthening of the compliance department. Today, the Swedish Financial Supervisory Authority sometimes even use Forex Bank as an example of good internal work with the anti-money laundering rules.

The internal work overall is handled in an effective manner since the company is fairly small in size. Instead of being stuck in a slow progress, which delays the upcoming change, the company has the possibility to directly contact the responsible person in the specific area. The bank is also good at noticing the employees' initiative, which is an advantage of the company's small size and its values which impregnates the work.

#### **4.3.3 Bank Y**

Since Bank Y practices banking, it needs many internal controls. There are specific internal processes and regulations that the company has to follow. In the daily work the company uses documents, checklists and limited restrictions to its systems as a way to keep control of the regulatory compliance. As an example of how the employees at the customer service department are restricted by a checklist, one may mention that the employees use a specific manuscript, which tells them what to say to the customers. This manuscript only contains what they should tell their customers. Bank Y even believes that its personnel are not constrained in their work against the situation in a large bank. Despite this formalized way to work the company does not think it puts so much effort to this work in contrast to the larger banks.

Larger banks tend to have a specific department that continuously works with internal audits while Bank Y makes an internal audit once a year. That the company acts in this way is a direct consequence of the regulations. Despite the fact that Bank Y spends less time on these

activities, the bank feels that it has a good control over the internal processes. The extra available time can instead be used to activities yielding more customer value. The bank can perform its internal processes effectively since it is small in size which, among others, results in more rapid decisions and quicker response from colleagues of a special issue. The small size is however a disadvantage, as Bank Y does not consider having a lawyer or a human resource manager hired to handle questions related to those areas, as the company simply does not think it benefits from it. If the bank was larger in size, it could have been more economically defensible to hire a lawyer and then implement new regulations as well as changes in the existing ones more rapidly.

## 4.4 Innovation and learning perspective

### 4.4.1 Bank X

Bank X considers its employees' needs and conditions by ensuring them a working environment in which they thrive, both physically and mentally. Furthermore, the company applies indexes of different sorts to measure how pleased the employees are. Among others, Bank X's employees have generally worked in the company for a long time, which can be regarded as a measure of employee satisfaction. Bank X means that it facilitates to implement changes if the employee satisfaction is high. The company also stresses that it has a good social atmosphere. For instance, something that the employees really appreciate is that they have an open staff coffee room on the ground floor of the company, where the employees can relax. However, one area in which Bank X feels that they can improve is the goal-steering.

Moreover, Bank X encourages opportunities for careers. For instance, many students start their careers by working part-time at the customer service department. After they graduate, some of them want to move on in the company. Bank X also encourages workers that want to change careers from bank to insurance within the company, and vice-versa. As has been mentioned before, technology and infrastructure are extremely important parts of Bank X. The company has many employees who work and develop these parts as far as trends and new changes are concerned. One example, which Bank X brings up in this connection, is that it was quite late with launching its mobile application. The bank simply realized that it had fallen behind in this area, and therefore decided to make a lunge to get the project started. The company emphasizes the fact that it went quick, much thanks to a simple and developed infrastructure.



Bank X points out that smaller banks, like itself, probably have an advantage since they have fewer, more basic and modern systems. This in turn facilitates the company's way of presenting new products and services. Even within the company, one can see an obvious difference regarding the technological systems between the bank and insurance department. The insurance division has existed for a much longer time than the bank division. Therefore, it is harder for the insurance division to present new products and services with respect to that it has more obsolete systems compared to the bank division. Bank X also emphasizes that the large banks experience these problems on a large scale. On the other hand, large banks have more resources to compete with. Bank X points out that it is vital to reserve resources to pursue development in this type of industry. The company for its part has fewer resources, which also means that it has fewer priority problems and less complexity in the company.

#### 4.4.2 Forex Bank

Forex Bank has in recent years invested large amounts of capital to increase the employee satisfaction, since the working environment previously was less pleasant. For example, by toning up the bank offices, the company has enhanced the satisfaction among the employees. Nowadays, the bank also has a new dress code, with hard-wearing clothes of good quality. The working clothes is an important factor in order to thrive at work, which makes the employees feel much more professional in their customer meetings. In addition to this, a regional conference is organized every year, where the Chief Executive Officer, the board of directors and the regional director speak to provide the employees a better insight of the company. The company also organizes the so called "Forexresan", where 30 employees are nominated for a conference trip, which has been proven to be motivating for some of the employees. In excess of this, it is up to every business manager, who operates his/her own bank office, to be creative on his/her own way and make fun activities and the like.

In the past, there has not prevailed any cultural competence training in the company. However, during the last three years it has increased significantly. Today, the company values cultural competence training highly and has requirements that employees have to undergo certain education programs. It could, for instance, deal with management programs and trainee programs. The trainings are partly based on the Internet, and partly based on physical sales training. This is an input, which is believed will generate new skills within the company. The wage policy has improved as well, since the company started with collective agreement three years ago. Furthermore, Forex Bank encourages its employees to a career within the company. In most cities, the most common positions are bank seller, deputy business



manager, business manager and regional director. In the capital city, where the headquarters is situated, one can also specialize in other fields, such as a product developer and as a specialist on loans. If an employee does well, there is a great chance to make a rapid career.

When it comes to technology and infrastructure, Forex Bank is developing a new computer system which will become the basis for its technological system. In the past there has been a patchwork of different systems, which has made it difficult for all the systems to work well together. This has led to the fact that the technology was seen as an obstacle before. Today, Forex Bank also has different external partners from which it purchases services instead of building own systems. Thus, the company achieves a more rapid development progress. Forex Bank emphasizes that it mainly focuses on modern technology, which is based on simplicity, to possess competitive advantages in the market.

Regarding trends and changes in the market, one of the most important issues is to pursue a seasonal adjustment as far as the currencies are concerned. It is of great importance to keep right amount of each currency in stock, depending on which season we are in. The inventory turnover is measured every month and often it shows good outcomes, sometimes too well, which results in running out of currencies too soon.

#### **4.4.3 Bank Y**

Bearing in mind that Bank Y is a small bank with few employees, the company organizes activities and celebrations of different sorts in a simpler manner. Of its employees, most of them work at the customer service department with similar roles. The remaining number of employees consists of various types of managers and officers. Some of the employees, who work at the customer service department, do not want to develop their existing role. Many of them have worked at the company for many years and are satisfied with their current situation. They simply do not feel the urge for trying to get further on with their careers. In other words, one can say that the customer service department is regarded more like a final goal at Bank Y, while it is more viewed as an entry gate in other companies. However, the company encourages its employees to develop their existing roles if they would like to do that. For instance, if the employees would like to develop their own skills, they are more than welcome to take external courses.

Given the fact that the company is small in size, the employees probably enjoy working in a smaller entrepreneurially business. The ones who come here is thus a different kind of persons. When it comes to technology and infrastructure, Bank Y emphasizes that it

continuously has to be quick, standardize and optimize the work to attain as many customers as possible in a short time. The company also keeps up with the progress and development at a rapid pace compared to the private market in general. The bank is not first out on the market presenting new technology, but it is rather somewhere in the middle. The company argues that it is not to prefer to be first out on the market, since it can imply that one can walk into a trap. Bank Y means that their limited resource is personnel. On the other hand, capital is a resource the bank has plenty of. Sometimes the company wants to do more than its employees are capable of doing. One suggestion would be to hire more staff. On the other hand, it takes time to recruit someone with regard to the learning process. In excess of this, the company does not want to prolong the decision-making process by spending too much time on presentations with several groups so that everybody has a chance to comment. The decision-making process should proceed as quickly as possible, thus earning time. Regarding new trends in the market, Bank Y argues that it perceives changes quite quickly. Compared to the larger banks, it takes longer time for Bank Y to comprehend trends and new changes. Nevertheless, Bank Y is quicker in translating the changes into practice in contrast to the large banks.

## 5. Analysis

*In the following chapter we analyze the different parts of the balanced scorecard. Even in this case we concentrate on the four parts as they were treated in the previous chapters. However, we decided to have a coherent text without dividing it in headlines in order to better connect the various parts together and thus obtain a better flow in the analysis.*

In their article, Kaplan & Norton give an account for how important it is to meet the employees' conditions and keep them satisfied.<sup>82</sup> By keeping the employees content, it facilitates the fact to attain a competitive status in order to grow larger on the private market. All three banks consider the employees' conditions being important. It has been demonstrated that they all emphasize the importance of having a good social climate among the employees at the place of work, although the way to achieve this varies among the banks. Both Forex Bank and Bank Y emphasize the laidback time that employees spend together, which, for instance, could involve different activities outside the work or something extra for the coffee break. Bank X has an open coffee room where the employees can relax and meet each other. This is a way to meet people they otherwise would not have met. Forex Bank gather the employees once a year at a regional meeting where they have time to meet each other and get more insight in the company's progress.

The human resource department of the University of Washington claims that it could improve the employees' work if they are offered career opportunities. They claim that career opportunities can contribute to develop the company's long term strategy by benefiting from increased human capital; hence strengthening the company's position on the market.<sup>83</sup> Both Bank X and Forex Bank seem to have made use of that fact as they encourage their employees to move on with their careers within the company. It is a way to inspire the employees to do a good job and feel that they can develop themselves together with the company. This way of working is not possible to carry out in Bank Y, since the number of employees is few and their operations are clearly divided into two separate parts. The kind of work that is divided in the management team and customer service department differs a lot, and the employees who belong to the latter do not aim to become a part of the management team. One can see that the mentality is quite different between these banks. In both Bank X and Bank Y the employees generally have worked for a long time. This could be a sign of a good working environment,

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<sup>82</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>83</sup> University of Washington, *Employee Career Development – Manager Resources*.

which would be consistent with the European Working Conditions Observatory, whose research claims that the social climate in a company plays a major role.<sup>84</sup>

O'Brien & Marakas state that a company has to compete with information technology in order to support its business operations.<sup>85</sup> The technology is a vital part in all the three bank businesses. Nevertheless, it plays a more central role in Bank Y and Bank X, since they mainly communicate with their customers via the Internet and over the phone. Given the fact that O'Brien & Marakas assert that information technology has become more central and commonly used by people in today's society,<sup>86</sup> Bank X and Bank Y serve the customers an important and growing purpose on the private market. Forex Bank on the other hand mainly uses its physical bank offices where they meet the customers face-to-face. The offices, which represent an availability factor, ties stronger links between the company and its customers in such a way that customers can receive help in place if they are in need of support. The generous opening hours also shows that the company values its customers highly, which is consistent with the facts that Baines brings up when describing how to manage relationships with the customers.<sup>87</sup> One common thing, shared by the three banks, is that they have new and modern information systems, which they believe is an advantage in the market. Bank Y experiences that it does not get in contact with new changes in the market as quick as the larger banks. Instead, the bank feels that it has an advantage in implementing the changes quicker, since its small size allows it to be more rapid in the implementation progress. Altogether, all three banks believe that they have a technology advantage compared to their competitors in the market, which is of great importance to keep one's competitive position and increase it in order to grow larger on the market. One common matter both Forex Bank and Bank X share, is that they emphasize the fact that their systems do not have the high degree of complexity, which is more common among larger and older companies. Altogether, all three banks' systems are quite new, modern and adjusted for today's needs. This is consistent with Porter's arguments that companies should apply information technology to counter strong rivalry competitors and new threats entering the market. By differentiating products and continuously developing new information technology structures, the company should be able to expand in the market, according to Porter.<sup>88</sup>

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<sup>84</sup> European Working Conditions Observatory, *Social climate at work important to workers*.

<sup>85</sup> O'Brien, James & Marakas, George, *Introduction to information systems*, p. 42.

<sup>86</sup> Ibid, p. 42.

<sup>87</sup> Baines, Paul, et al., *Marketing*, p. 686.

<sup>88</sup> O'Brien, James & Marakas, George, *Introduction to information systems*, p. 42.

The use of and approach to technology is therefore reflected in their view of the customers. As Hill describes it, is necessary to identify different groups of people, so called customer segments, to satisfy the customers' expectations and needs.<sup>89</sup> Satisfying customers is in turn critical to a company's success and survival, according to Kaplan & Norton state.<sup>90</sup> Bank X divides the customers in two parts: the ones who are comfortable to handle banking issues on their own with support of information technology, respectively the ones who are not quite comfortable. Bank X focuses on the customers who are more self-driven and prefer to handle some of their business on their own and therefore get some better terms and prices. Forex Bank does not divide the customers in different segments according to some of Hill's criterias of segmenting. As one can recall from previous chapters, Hill's criterias of segmenting contain different factors such as geography, demography and socio-cultural ones to analyze different groups of customers and their behavior.<sup>91</sup> Since all customers are equally important to Forex Bank, the bank does not change its way of relating to the customers depending on their financial status, which is in contrast to Hill's criteria of demography, where the income plays a major role.<sup>92</sup> However, things work in the quite opposite way in Bank Y, where respective customer's financial status is rather important. There lies a notable difference between the two products they offer. The customers who borrow money generally have a poorer financial status in comparison to the people who place some of their excess money into a deposit account. To sum up, one can say that all three banks view the customers in different ways and focus on different characteristics.

Both Forex Bank and Bank X work persistently to build relationships with their customers. Bank X, for instance, use social networks, while Forex Bank, for instance, tries to tie the customers closely in matters relating to travel in different ways. Forex Bank launched the concept ReseEkonomer for this purpose. In a large extent, Bank Y does not work on building relationships with savings customers who, however, could be fairly mobile. Therefore, Bank Y thinks that it should build stronger relationships to this category of customers. In Baines way to describe relationship marketing, Bank Y has passed the first step to acquire customers, and now has to work further with the second step to implement deeper integration of trust and loyalty with the customers. Since customer relationship building plays a central role in both

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<sup>89</sup> Hill, Charles W.L., *International business*, p. 571-572.

<sup>90</sup> Kaplan, Robert S. & Norton, David P., *The Balanced Scorecard - Measures That Drive Performance*.

<sup>91</sup> Hill, Charles W.L., *International business*, p. 571-572.

<sup>92</sup> *Ibid*, p. 571-572.

Bank X and Forex Bank, one can state that they have reached a more advanced position on “the relationship marketing ladder of loyalty”.<sup>93</sup>

The three banks in question share the common fact that they think their relatively small size is a competitive advantage to compete with in the market. They argue that their small size facilitates decision making and makes it more effective to work in contrast to a larger organization. Forex Bank does practically not find that the small size results in any disadvantages at all. Although Forex Bank is expanding intensively right now, the bank thinks that it will keep its advantage of working in a small organization also further on. As mentioned before, Bank Y thinks that it attains advantages of being small, but at the same time the bank can also see that there exist disadvantages of being too small in size. This stands in conflict with what “Långtidsutredningen” states, namely that larger companies are often more effective than smaller ones due to their size. However, “Långtidsutredningen” also states that there are possibilities that large banks will worsen their effectiveness due to disadvantage of economies of scale.<sup>94</sup> The small size also affects how they work in the organizations. Both Forex Bank and Bank X tend to give the employees quite large possibilities to affect their own work. Forex Bank has begun to educate the employees and implemented a value-driven way to work, which have increased the employees’ possibilities to affect their work. Bank X strives for making it possible for the employees to take greater responsibility and handle issues on their own, instead of constantly asking a manager. This is the kind of organizational structure that Hill describes as a decentralized one.<sup>95</sup> This is also consistent with the article from Community banker, the idea of which is, among others, that if some of the decision-making is located at the employees, it might lead to better results in general.<sup>96</sup> In other words, all the three banks, more or less, strive for giving the employees possibilities to be quite independent in their work. Despite this fact, they all stress that they are slightly constrained in their way to work internally. The regulations by law and the Swedish Financial Supervisory Authority apparently affect how they have to work. The banks have to handle certain things in a special manner and cannot feel completely free to decide how to organize and manage their internal work.

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<sup>93</sup> Baines, Paul, et al., *Marketing*, p. 690-691.

<sup>94</sup> SOU 2008:12, *Långtidsutredningen*.

<sup>95</sup> Hill, Charles W.L., *International business*, p. 434-435.

<sup>96</sup> Community Banker (2001), *What Drives Employee Satisfaction? (Randstad North America survey results)*.

Swedish Central Bank states that the ratios return on equity and costs divided by income are common measures to evaluate a bank's performance.<sup>97</sup> However, none of our three analyzed banks focus on C/I, and only Bank X uses the return on equity as a financial goal. All three feel that they can achieve low costs as they are quite small in size, but they focus on costs in different ways. Both Forex Bank and Bank Y do not have any specific goal for costs at all, but they apparently think that it is important to reach low costs. Bank X applies cost budgets, which is their way to keep control of and measure the costs. Forex Bank's and Bank Y's approach to profitability and returns are more easy-going. Their different attitudes may depend on their mutual difference in size and business structure. Since Bank X is quite large in size, they believe return on equity is more relevant to focus on. Their balance sheet total is considerably larger than both the other banks. Even though Forex Bank's balance sheet total is also quite large, its kind of business does not require as much capital as Bank X. The fact that Forex Bank has a large number of offices implies that they could not be equally competitive compared to the other banks regarding costs. Regardless of these differences among the banks, the owners among all three banks seem to have an appreciable influence in affecting the company's financial goals and orientation. The type of ownership of the three banks in question differs, but none of them are listed on the stock exchange. Bank X accentuates that the financial targets are not an effect of the business environment itself, but it is its owners who set the targets based on their own views and preferences.

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<sup>97</sup> Sveriges Riksbank, *Finansiell stabilitet 2002:1*.



## 6. Discussion and conclusions

The aim of this thesis has been to identify and analyze possible factors which can explain how narrow banks grow larger and gradually take greater share on the private market. We have also looked upon what purpose the narrow banks serve on the private market and what influence they have on the private market in general.

From our material it is evident that the main reason to how these three narrow banks have grown is that they all have taken advantage of a specific gap in the market after that the deregulations in the financial market took place. Forex Bank's main activity deals with currency exchange and investments in a widespread office network. As one can see, many banks in general shut their physical offices down in a larger extent due to high costs. Forex Bank on the other hand, has chosen to use their physical offices to provide its customers services face-to-face, and thus get better acquainted with the customers, which we think can give a more serious impression.

The fact that the offices represent an availability factor can tie stronger bonds between the bank and its customers. The generous opening hours can also contribute to this fact, since the customers do not have to rush after work in order to get to the bank. This is probably widely appreciated by the customers, which can create high customer satisfaction. We think that this leads to deeper relationships between the bank and its customers. In long-term, it might also generate growth and thus lead to increased market shares in form of a new flow of customers. From this we may draw the tentative conclusion that the presence of the offices is very important for the company's survival. It may also be of interest to discuss whether these basic bank services in the offices will still be demanded in the future. We argue that, given that technology is constantly developing, perhaps fewer people will need support of these kinds of services in the future.

Another fact is that other banks in general stop handling cash to a larger extent, since they argue that it costs a lot. However, Forex Bank has taken advantage of this possibility to offer the customers on the market a service, which other banks apply to a lesser extent. We can imagine that this is also probably generally appreciated by customers, for instance, elderly people, who are accustomed to handle cash such as deposits and withdrawals in the bank. On the other hand, Bank X is a modern internet bank that has invested large amounts of capital in developing technology. The respondent argues that their customers should handle most of



their business on their own. We consider this way of working does not address all customer segments on the market, especially not the elderly one. However, Bank X has actually proven to have a very large customer base from diverse customer segments. Indeed, this shows how much technology has affected generations, both young and old ones. Bank Y offers higher deposit rates compared to other participants in the market, while they also offer unsecured loans in small amounts. A possible explanation to this may be that larger banks do not consider it to be profitable enough to grant loans in small amounts, since it implies insufficient profit in relation to high administration costs. All three banks in question have taken advantage of these different gaps and made it as a part of their strategy.

From our material, we get the picture that the difference between narrow banks and the rest of the private market is that the narrow banks differ more in the strategic issue compared to the operational one. The narrow banks studied seem to have succeeded to meet the customer needs that the already existing participants in the markets have not utilized, or they have abandoned these needs because they consider them not being profitable enough. This might, at least partly, depend on the fact that the narrow banks are not listed on the stock market and therefore could focus more on long-term decisions based on their strategies instead of laying too much emphasis on working to achieve as high quarterly results as possible, which could be the case in the listed companies.

It seems to be of great importance for these three narrow banks to have the customer's confidence as well as from the beginning have an already existing customer base before they begin practicing banking. Something these three narrow banks have in common is that they, before entering the banking market, managed another kind of business. They have all taken advantage of this fact when they started practicing banking. Having this fact in mind, we find that it might be difficult to enter the banking market today without already having an established business, from which one could take further advantage. A newly established bank without any other business operation behind it might have considerable difficulties to attract customers, since especially bank customers require a high degree of trust and loyalty. By already managing a business operation, it might facilitate the attraction of customers. This is an important aspect, which can explain how these narrow banks in question have managed to grow at such a high rate.

Another aspect of the growth process indicates to deal with human capital. Caring for the employees and encouraging them to education and career can contribute with bright ideas

which in turn can influence a bank in a positive way and eventually lead to growth. Our material indicates that the use of human capital in the banks concerned is a well-integrated part and thus plays an important role in their business operation and growth.

As regards the financial issues, we can state that the three narrow banks concerned perform well economically since they are profitable and have a good financial position. However, we have noticed that they generally do not focus on financial issues in such a high degree. There are discussions arguing that companies nowadays should not put so much emphasis on financial issues, since financial numbers cannot affect the upcoming result of the company. Nowadays, there are people who argue that one instead should concentrate on non-financial issues, such as customers and technology which have a greater impact on the future development. According to our view, this might be one reason to why these narrow banks have grown and achieved success.

Finally, we shall briefly take up for discussion the advantages and disadvantages regarding the size of the banks concerned. The Swedish bank market is often described as an oligopoly, which is why one could believe that it would be hard for new small banks to break into the market. All the three banks concerned are quite small in size. Despite this fact, they perform good results and operate well in their specific niche of the market. One main advantage seems to be their small size. During this study, we have encountered several examples demonstrating that the small size and relatively young age of the banks facilitates their progress in the market. They all seem to operate in an effective way and their information systems are modern and well adapted to meet today's requirements. There are a few examples showing the disadvantages of the small size. However, the advantages outweigh the disadvantages. In this connection, one can ask how long these advantages will last, since the narrow banks in question all seem to grow considerably fast and grow old with the time. One may wonder if they will manage to keep the same effectiveness if their information systems will not remain modern in the future.

To sum up, we can say that the deregulations of the financial market has opened up opportunities for new participants to establish themselves and operate in the private market. Our material shows that narrow banks constitute a growing and vital element among these participants and fill a very important function in the private market. Furthermore, our material demonstrates that the four parts of the theory of the balanced scorecard are, though in varying degrees, well integrated in the strategy of the three narrow banks studied. In this study we

have contributed with a view over some of the Swedish narrow banks. As our findings are based on interviews with three bank representatives they are mainly to be seen as a basis for generating hypothesis that can be tested on narrow banks in general. In that respect our findings can be a starting point for studying more narrow banks, where data can also be collected from other sources than interviews in order to draw more general conclusions. Moreover, it would be of interest to examine why the already established larger banks allow new competitors into the market. Another interesting study might be to analyze in a deeper way how technology works as a competitive tool for advancement, since narrow banks in general seem to apply technology in a large extent.

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## 8. Appendix

### 8.1 Interview questions

#### Financial perspective

- Vilka finansiella mål har ni?
- Hur är era finansiella krav jämfört med övriga bankmarknaden?
- Hur ser ni på att konkurrera med lägre avkastningskrav än övriga banker?
- Hur ser ni på era möjligheter att uppnå samma/högre lönsamhet än övriga bankmarknaden?
- Hur ser ni på möjligheten att konkurrera med/uppå lägre kostnader än övriga bankmarknaden?

#### Customer perspective

- Hur går ni tillväga för att locka kunder?
- På vilket sätt bygger ni relationer till kunderna?
- På vilket/vilka sätt skiljer sig er syn på kundrelationer gentemot övriga bankmarknaden? Vad i er kundrelation gör ni bättre än övriga banker?
- Hur ser ni på kostnader att värva ny kund kontra att behålla kunden?
- Mäter ni lönsamhet på varje enskild kund, eller mäter ni lönsamheten i grupper och segment?

#### Internal business perspective

- I vilken grad är ert arbete systematiserat/formaliserat (dokument, checklistor, software etc)? Finns det någon fördel gentemot storbankerna?
- Kan ni genomföra ert arbete/processer snabbare/effektivare för att ni är en mindre bank? Varför/varför inte?

#### Innovation and learning perspective

- Hur jobbar ni för att personalen ska trivas?
- Känner ni, att ni som mindre bank behöver konkurrera inom teknologi? I så fall, vad gör ni för att hänga med i den teknologiska utvecklingen?
- Hämmar era begränsade resurser er möjlighet att hänga med i utvecklingen?
- Vilken förmåga besitter ni att uppfatta nya trender och förändringar i marknaden för att därefter omsätta dessa i praktiken?