BS ritgerð

Tungumál og alþjóðasamskipti

Internationalization of Glitnir 2003-2008
Entering Norway

Anna Guðmunda Andrésdóttir

HÁSKÓLI ÍSLANDS

Viðskiptafræðideild Háskóla Íslands
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Executive Summary

The main purpose of the report is to analyze the internationalization of Glitnir Bank, a leading company in the financial sector in Iceland. The internationalization started in 2003 and ended in 2008.

Over the past few years internationalization of companies has grown rapidly. For that there are many reasons, such as easier communication and lower barriers for international trade than before. The world is getting smaller and now internationalization is much less of a risk than it was before.

An interview was conducted with Rósant Már Torfason, one of the drivers of Glitnir´s internationalization. The company took its first steps into internationalization in 1993 by opening a branch in Luxemburg. After that, the ball began to roll. They started to focus on the Scandinavian market, and after a lot of deliberation Norway became their first and only choice. Glitnir had already established good business relationships in Norway, mainly because of their specialization in servicing the fishing industry.

Glitnir entered the Norwegian financial sector in 2004 when they acquired KredittBanken. KredittBanken was a small local bank on the west coast of Norway mainly servicing the fishing industry. Glitnir knew that if they were to succeed in Norway they had to focus on other things than just the fishing industry. KredittBanken was always supposedly just a springboard into other financial companies in Norway. In 2005 Glitnir acquired BnBank, which was a much bigger bank and had other emphases than KredittBanken. The thing that KredittBanken and BnBank had in common was that 90 percent of their income was from net interest. Glitnir´s goal in Norway was to be an outstanding financial company. Their future goal was to be a leading commercial bank where the income was not mainly built on net interest bust mostly of securities and counsel compensation. After the acquisition of BnBank Glitnir realized that they had a lot of work ahead of them by integrating these two companies. That was going to be their biggest challenge. In this paper the focus will be on following issues:

- Theories about Internationalization
- The internationalization of Glitnir
- Conclusion

Table of Contents

Figures

1 Internationalization

1.1 What is internationalization?

Internationalization can be defined as increased connection between earthlings (Jónsdóttir, 2001). Internationalization involves that actions and decisions in one part of the world affect people in another part. Even though internationalization has grown rapidly over the past years, internationalization is not a new concept. Because of new technology, it has become easier for countries to internationalize. Obstacles like communication, transportation and trade restrictions are barely known today. What is also a big factor in the successful internationalization is the improved mobility of resources (Sigfússon, Landnám, 2000). Even though the internationalization has enriched life, it has also created problems (Chanda, 2002).

1.2 History of internationalization

The internationalization is a new word for many of us, but even though the word is new, the action is old. The internationalization first started with the movement of our ancestors from Africa to other parts of the world (Chanda, 2002). Now global organizations are free to compete with one another, attract customers and also to establish foreign subsidiaries. Before, it was common for countries to have all kinds of tariffs and barriers to protect their economic well being. Most common were import tariffs to protect domestic industries. Today, countries are aware of that free trade is the best way to foster a healthy domestic economy and to gain low unemployment (Jones & George, 2003). Internationalization gives the world great opportunities, but unfortunately it doesn´t divide equally. The gap between rich and poor is getting bigger than it was, and some countries only get to see the treats that come with internationalization (IMF, 2000).

1.3 What causes internationalization

Before, the companies that were expanding were big and well known companies in their home market. They had great financial strength, which made the risk of expanding small. The smaller companies did not dare to even think about expanding to other countries. Today we see a lot of changes in that matter. The main reason for this change is because it became easier to communicate between countries and the small companies started to do business with nearby countries and slowly they expanded to other countries after the success. Many companies have reached their market share in their home market, and their only chance to grow bigger is to expand their companies globally (Sigfússon, Landnám, 2000). Another reason for the changes in internationalization of companies is the employees. Today, many of the key employees are young and are not afraid of risk and making changes in the company (Ólafsson, 2009).

Internationalization has grown rapidly over the past years. Barriers to international trade are much lower than it was. Also, communication has improved fast over the past decade. Now it is both easier and cheaper to travel between countries. After the emergence of the internet it has become easier to spread ideas and information around the globe.

In Georg Yip´s Drivers of globalization theory he talks about four internationalization drivers. First we have the market drivers. In some markets, the taste and needs of customers are the same. When that is the case, the companies expand to new countries and markets because they know that they have customers there. Second we have the cost drivers. Companies can gain competitive advantage by offering their product at a lower price than their competitors. They can lower their cost if taxes, rate of exchange, labor force or manufacturing costs are lower in other countries. Third we have the government drivers. Governmental policy is a big factor in why companies choose to internationalize. Elements like environmental policy, tariff barriers and currency and capital flow controls plays a big role in the decision of internationalization. Finally we have the competitive drivers. A change in the external environment has increased internationalization of companies. If import and export between countries is easy, it will increase the competition. Also, if a company is relying on a foreign operation it can stimulate competitors to globalize (Johnson, Scholes, & Whittington, 2008).

2 How do companies internationalize

As the world becomes smaller, it becomes harder for companies to get rid of international competition. While some companies are well prepared for the foreign competition, others are not. It is crucial for companies to be prepared, even though there are no plans about taking the step towards internationalization. Most theories and models that have been proposed over the last years admit that internationalization happens in steps and people learn from their mistakes, even though internationalization often is a chain reaction.

2.1 Internationalization in steps

As mentioned earlier, according to most theories internationalization happens in steps. For many countries export and import was a part of an experiment where men were supposed to learn from their mistakes. It was not until in the seventies, scholars from Uppsala University in Sweden suggested that internationalization was not only a big jump into the unknown, but a rational decision based on economic logic and research. Their studies were based on research on Swedish companies that had come far in globalizing their companies. After these studies, they proposed their theory called The Uppsala Internationalization Model (Sigfússon, Straumhvörf, 2005). The model described how companies internationalize in steps, and why they choose that. The model is focusing on four crucial steps. The first step is always that they are focusing on domestic market, and then they begin export to other countries, most of the time through a commercial agent in the country that they are exporting to. The third step is that they convene their own sales office, or a subsidiary. The fourth and final step is that the companies start their production in other countries than their own. Johansen and Wiedersheim-Paul (1975) also added a very important point to the Uppsala Internationalization Model, and that was the importance of knowledge on new markets. They posited that to be a successful international company you need to know the market that you are entering and be aware of the problems that might arise. Doing business in another country requires knowledge about the market, such as business behavior, competition, culture and language.

2.2 Internationalization in jumps

The theory that internationalization happens in jumps has a lot of similarities with The Uppsala Internationalization Model. Oviatt and McDougall (1994) agree that most companies still internationalize in small steps, but the speed and level of complexity is growing rapidly. But there is now a small group of companies that are born global. They jump over the steps that Uppsala University thought were the criteria for a successful internationalization. Oviatt and McDougall point out that markets are getting homogeneous and executives are depending more and more on international markets. They have analyzed three types of new international business. The first one is new international companies that are in exporting or importing products or service. They get competitive advantage with the talent to discover new opportunities, knowledge on the market or the ability to keep loyal business relationships with other companies. Another type of new international business is companies that are regional startup companies. They get competitive advantage by providing the service that the area is expecting. The last type that Oviatt and McDougall talk about is companies that are international startup companies. These companies do not only respond to increased internationalization of companies, but also exploit opportunities in buying resources and selling products no matter where, just as long as they get the best price.

2.3 Internationalization in relations

While The Uppsala Internationalization Model focuses on the company itself as the segment in globalization, the Network Theory focuses on the relations. To successfully internationalize the company must have good business relationships and knowledge. Valuing companies by their investments is of course easier, but as the internationalization evolves it becomes clearer that the business relationships are very valuable. The network theory emphasizes on the importance of social connections between parties that are doing business. Good reputation and relationships is a big factor in successful internationalization. According to the theory there are three ways in internationalization of companies. The company either establishes relationships in a new country or strengthens the relationships that are already there. Their third choice is to intertwine the relationship that they have between different countries. The internationalization does not only include moving the production to another country, but also the possibility to make relationships that could be crucial later (Sigfússon, Straumhvörf, 2005).

2.4 Internationalization in clusters

Michael Porter’s theory about clusters explains why nations reach competitive advantage (1990). For nations to get competitive advantage they need to develop clusters of companies that are competitive on their home market and connected to several support companies. When developing a cluster there are certain factors that need to exist. These factors are workforce and material, demand, support service and active competition. All these factors that are mentioned affect each other. Porter emphasizes good conditions around the company clusters. By focusing on the factors mentioned above, the company cluster will maintain the competitive advantage. Even though Porter´s cluster theory isn´t one of the internationalization theories, it still has been used as a model when studying internationalization of companies (Sigfússon, Straumhvörf, 2005).

The theories mentioned here above all emphasis on different objects. Looking at them in a context can make it easier for us to gain competitive advantage.

3 International Sources of Advantage

As for any strategy, internationalization needs to be based on possession of some sustainable competitive advantage. Most companies that enter new markets overseas have reached competitive advantage on their home market. They have the experience of competing for competitive advantage. But even though companies have superior market knowledge and relationships with local customers, it is not a given that they will overcome the threats that they face in new markets overseas.

3.1 Michael Porter´s Diamond framework

Porter´s Diamond helps us explain why some nations tend to produce firms with sustained competitive advantages in some industries more than others (Johnson, Scholes, & Whittington, 2008). Porter suggests that there are four base determinations that give industries competitive advantage in their home market. The four determinations together make up a diamond shaped figure. The four determinations are:

Factor conditions: They refer to factors like raw material, land and labor. Having an advantage in these factors can give companies not only competitive advantage in their home market, but can also translate to the international market that they are aiming at.

Home demand conditions: Having a sophisticated and demanding group of customers at home helps companies to train for their customers overseas. Because of that, they will be determined to produce a good product or service, and anything less than that is not sufficient for the company. While other companies, that are not used to that kind of demanding customers are putting on the market less sufficient product. In that way, they will soon reach the competitive advantage in the international market.

Related and supporting industries: As mentioned earlier, Porter talks about the importance of clusters to get competitive advantage. In a cluster you have a company and their supporting industries. Companies that are together in the cluster benefit from each other. They are working on mutual goal and aims, which is to get competitive advantage. Without cooperation it gets harder and even impossible for each company to get competitive advantage.

Firm strategy, industry structure and rivalry: Different strategies and industry structure in different countries can be bases of advantage. Different firm strategy can give company characteristic advantage and create a company with expertise on certain area that no other company has. The company’s industry structure is also important, but if the company is too dominant in their domestic market it can lose that advantage overseas. It is important that companies do not get to self-confident, because if they do, they stop being aware of the threats that hide. This is an especially important factor when you are entering markets overseas.

Porter´s Diamond has been used a lot by governments all over the world. Governments are trying to increase the competitive advantage of their local industries. A lot has changed after it became clear that rivalry can have positive effect on markets. Now governments focus on creating clusters in the domestic market and by fostering new local industries in a much more natural and fair way (Johnson, Scholes, & Whittington, 2008).

4 Market selection and entry

Before entering new markets and countries there is a lot of research that has to be done. It is not enough to only look at the new market, but there is also necessary to look at the country that we are entering. Not all countries are likely attractive to enter. To compare countries that we are entering it can be useful to look at the environmental analyzes that have been introduced over the years.

4.1 Five Forces

The Five forces analysis looks at five key areas: Competitive rivalry, power of suppliers, power of buyers, threat of substitutes and threat of new entrance. The Five forces analysis can be used both in the domestic market and the market overseas. We use the five forces model to analyze the global environment that we are working in. Some of them can increase tour opportunities, while others cause threats to the company. It is crucial for a company to know the global environment that entered to succeed (Jones & George, 2003).

Competitive rivalry:

Generally competitive rivalry will be high if there is little differentiation between the products sold to customers, competitors are at the similar size, competitors have similar strategies, it is costly to leave the industry, exit barriers are high, switching cost is low and finally when a customer can freely switch from one product to another there is a greater struggle to capture customers.

Power of suppliers:

Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. Suppliers are powerful if they are the only supplier or one of few that have a particular raw material, if it is expensive for the company to switch supplier, (also known as a switching cost) and if there is no other substitute for their product.

Power of buyers:

Buyers or customers can have an influence over or in an industry in circumstances when buyers are concentrated - there are a few buyers with significant market share, the supplying industry is made up of a large number of small players, buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized, buyers possess a credible backward integration threat - can threaten to buy producing firm or rival, the material costs are a high percentage of cost of goods sold and the cost of switching suppliers is low.

Threat of substitutes:

A threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A close substitute product constrains the ability of firms in an industry to raise prices. The threat of substitute is high when price of the substitute product falls, it is easy for buyers to switch from one substitute product to another or buyers are willing to substitute.

Threat of new entrants:

If it is easy for new companies to enter the industry the entry barriers are low. A company thinking of entering a new market has to consider things like; how loyal the buyers are, how quickly they can achieve economy of scales, if they will have access to suppliers and focus on the government legislation (Porter, 2008).

4.2 SWOT analysis

When you are developing a strategy for a company, the SWOT analysis can be useful to generate strategic options and valuating the next step. This method can be good to analyze the internal and external environment of the organization. Strengths and weaknesses deal with the firm’s capabilities and resources and opportunities and threats deal with the firm’s external environment. (Johnson, Scholes, & Whittington, 2008)

SWOT analysis is the first step in strategy planning, and the main purpose with the analysis is to identify organizational strengths, and weaknesses, and environmental opportunities, and threats (Jones & George, 2003).

Strengths: A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. A company’s potential strengths can be a well developed strategy, strong product lines and manufacturing competence.

Weaknesses: In companies, the absence of certain strengths may be viewed as a weakness. A company’s potential weaknesses can be the lack of the strengths mentioned earlier.

Opportunities: The external environmental analysis may reveal certain new opportunities for profit and growth. Company´s potential opportunities can be to expand core businesses, widen their product range or to expand into foreign markets.

Threats: Changes in the external environment also may present threats to the firm. Company´s potential threats can be because of increase in the domestic competition or in foreign competition, fall in barriers to entry or because of a change in consumers taste.

After having identified these factors, the company is ready to begin the planning process. Being able to identify the factors, the company now has the knowledge to decide it´s strategy. The strategy is an important factor to achieve the company’s goals and mission (Jones & George, 2003).

4.3 PESTEL Framework

A PESTEL analysis fits into an overall environmental scan. PESTEL is used to rank country markets against each other and to map the country and the market that the company is thinking about entering (Pest Analyzes, 1999-2007).

Political factors

The political environment can be very unlike between countries. Different regulations in environmental issues and tariffs on import or export are critical factors that need to look into before entering the country. There is also important to look at the countries stability in politics, their political risk level.

Economic factors

The economic environment consists of factors such as Economic growth, Interest rate, Exchange rate and Inflation rate. Economy is the key comparator in deciding market entry. The GDP level and income are the used to estimate the potential market size. Companies must also be aware of the stability of a country´s currency which may affect its income stream. There can be considerable currency risk.

Social factors

The markets social factors are very important for the strategy. The social environment includes factors like workforce, population growth, cultural variation, age distribution, demographics, income, education and tourism (Johnson, Scholes, & Whittington, 2008).

Technological factors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include research and development activity, automation, technology incentives, rate of technological change (Pest Analyzes, 1999-2007).

External opportunities and threats

When looking at opportunities and threats in the external environment we use the opportunities and threats that we have discovered in the SWOT analyzes.

Legal factors

Countries vary widely in their legal regime, determining the extent to which businesses can enforce contracts, protect intellectual property or avoid corruption (Pest Analyzes, 1999-2007).

4.4 Entry Modes

When the market has been selected, it is necessary to choose how you will enter this particular market. The key entry mode types are exporting, joint ventures and alliances, licensing and foreign direct investments (Johnson, Scholes, & Whittington, 2008).

Exporting is the sale of a domestic produced product in another country. This is a very common and easy way to begin internationalization. When exporting products to another country it is not necessary to produce the good in the country that is entered, and because of that no investment in foreign production facilities is required (Foreign Market Entry Modes, 1999-2007). The biggest disadvantage of exporting is that you may have limited contact with the local market. To avoid this, many companies have chosen to hire a local person to be in touch with the customers.

In alliances companies share their organization´s resources with other foreign companies. Joint venture is a strategic alliance among two or more companies that agree to jointly establish or share the ownership of a new business (Jones & George, 2003). When considering joint ventures and alliances you must consider things such as ownership, control, length of agreement and pricing. Joint ventures are often used when it is favorable for you to work with others to achieve you goal. It can be very time-consuming to identify appropriate partner and getting the terms that you need. Therefore, when deciding to focus on joint ventures or alliances, you must be sure that that is what the company needs (Johnson, Scholes, & Whittington, 2008). The risk is highly reduced when choosing alliances and joint ventures (Jones & George, 2003).

Licensing essentially permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques (Foreign Market Entry Modes, 1999-2007). The advantage about choosing this kind of internationalization is that it limits economic and financial exposure. The disadvantages on the other hand are the same as in joint adventures, difficulty of identifying appropriate partner and agreeing on appropriate contractual terms (Johnson, Scholes, & Whittington, 2008).

Foreign direct investment, in its classic definition, is defined as a company from one specific country making a physical investment into building a factory in another country. Foreign direct investment has become very common in the global business and is still growing. Foreign direct investment includes investment in buildings, machinery and equipment. Portfolio investment on the other hand is considered to be an indirect investment (Graham & Spaulding, 2005). The main advantages on choosing this way is that you gain full control over resources and capabilities. You also have the opportunity on rapid market entry because of your possibilities on acquisitions. The acquisition part can also be considered as a disadvantage because of the problems that can occur in the integration and coordination process (Johnson, Scholes, & Whittington, 2008). Foreign direct investment has contributed greatly to world development and is closely linked to technology transfer. It includes the introduction of not only new hardware to the markets but also the techniques and skills to operate it (Czinkota, Ronkainen, & Moffett., 2005).

5 The internationalization of Glitnir

The Icelandic entry into foreign markets over the past years has become a well known phenomenon. Some would say that it has become a national characteristic for Iceland. The Icelandic financial sector is small. By entering new markets and introduce their companies around the globe they have managed to multiply their companies.

The internationalization of the Icelandic financial sector in 2003 can be seen if we look at the credit growth in foreign exchange. In the year 2006, 77 percent of all loans from Glitnir, Kaupthing, Landsbanki and Straumur-Burdaras were issued in foreign exchange. 60 percent of these loans were issued to foreign customers, and 17 percent to Icelandic customers. The high percentage of loans in foreign exchange to Icelandic customers gives us the idea that other Icelandic companies that are starting their internationalization chose to do business with an Icelandic bank when they Another scale that is referred to when looking at the internationalization of a company is to look at their income. In 2006, 52 percent of Glitnir´s income was from abroad.

What characterizes the Icelandic banks is high equity and equity ratio. The banks equity is a good scale on their possibility to internationalize, because high equity ratio gives them a chance to grow. As seen on the chart below, the Icelandic banks, Glitnir, Landsbanki, and Kaupthing have redoubled their assets since the year 2000 (Samtök Fjármálafyrirtækja, 2007).

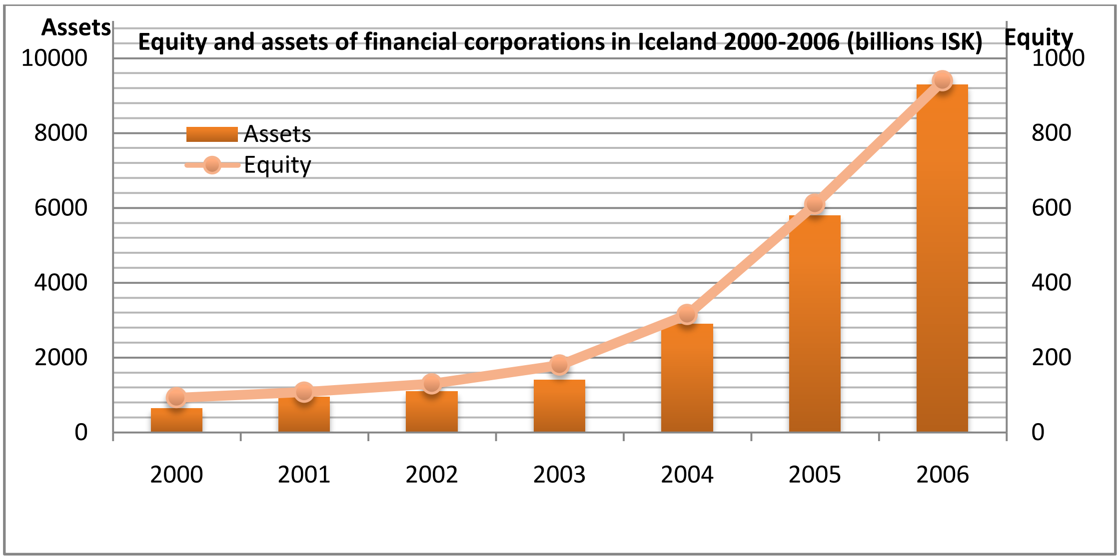

Figure 5-1

5.1 The background of Glitnir

The name Íslandsbanki dates back to 1904, when the first Íslandsbanki was founded, to provide financing especially for the fisheries sector and the country's emerging industries. It operated until 1930, when its activities were taken over by Útvegsbanki, the Fisheries Bank of Iceland. 60 years later, three smaller banks, Iðnaðarbanki Íslands (the Industrial Bank of Iceland), Verzlunarbanki Íslands (the Iceland Bank of Commerce) and Alþýðubankinn (the Union Bank) were merged with Útvegsbanki to form a new Íslandsbanki, which later became Glitnir.

In the year 2003 the bank began operating outside of Iceland. First step was Luxenburg and a year later they had made an aqusition in Norway.

Glitnir, former Islandsbanki looks at Norway and Iceland as their home market. Glitnir´s operation is based on a good foundation of many banks and funds that have been a part of economic progress in Iceland for over 100 years (Íslandsbanki, 2009).

5.2 First steps into internationalization

In the year 2003 Glitnir, then known as Islandsbanki were looking to start their internationalization. They had been looking for an opportunity to expand outside of Iceland and started by looking at the neighboring countries. Glitnir´s expansion outside of Iceland was the only way for the company to grow. The financial sector in Iceland was full, and to be able to reach some growth, weather it was an organic or bought, they needed a bigger market (Torfason, 2009). In September 2003 Glitnir announced that they had bought the Icelandic insurance company Sjova. Their goal with that buy was to expand inside of Iceland and to be able to grant their customers integral financial service, including insurances. Sjova became their unconsolidated subsidiary (Sjóvá, 2003). After the buying Sjova, Glitnir started to look at banks and financial companies outside of Iceland. Glitnir had for a long time been looking at buying a bank in Latvia and a lot of time and afford had been put in the planning and research process. That process ended very quickly and Glitnir decided to back out. The other Icelandic banks, Landsbanki and Kaupthing had already began their internationalization and therefore Glitnir needed to start as soon as possible so they wouldn´t be left behind. After this Glitnir´s leaders sat down and tried to decide on where they wanted to grow. They knew that it had to be outside of Iceland, but not where. They began looking at the Scandinavian market, mainly because it was the closest to them and also because of the similar legal environment. They realized quickly that the only market that was any chance to grow in was Norway. Denmark and Sweden had the same issues, hard to get into the market, big competition and barriers. Before entering the Norwegian market, Glitnir put up a branch in Luxemburg and London. Their idea was that the branch in Luxemburg would be their organic growth and the branch in London would be the bough growth. The branch in London focused mainly on corporate service and their growth was supposed to come through investments. The branch in Luxemburg on the other hand was to serve both individuals and corporate. In a short time, Glitnir became an international company. But that was not because of the branches in London nor Luxemburg. The sudden growth came because of their opportunity in Norway in the year 2004.

Glitnir´s internationalization was in steps, and they followed The Uppsala Internationalization Model. They started as a domestic company, focusing on domestic market. Then they started their service export through a commercial agent located in Norway. The third step was that they acquired a company in Norway, which in this case was KredittBanken. The fourth and last step was that they starting producing service in Norway. They opened branches and starting focusing on Norway as their home market, along with Iceland.

6 Norway special case

Glitnir had for a while been servicing the fishing sector in Norway and Faroe Islands through their offices in Iceland and they looked at that as a springboard into the Norwegian financial sector. Their biggest client at that time was Norway Seafood (Torfason, 2009). Norway Seafood was owned by Kjell Inge Rökke, who was in 2008 number 396 on the list of world´s billionaires (The World's Billionaires, 2008). Having him on their list of customers they had a certain foundation. The financial sector in Norway was at the time going through big changes, and because of that the market stood wide open. In the year 2003 the merge of DNB and Gjensidige Nor became a fact. After the merge they became DNB Nor (Om konsernet: Historie). DNB and Gjensidige Nor were the biggest banks in Norway, and together they had over 50 percent of the market share (Om konsernet). That made all other banks in Norway suddenly becomes much smaller. The reason for this merge was mainly because the Norwegian government was afraid that either Denmark or Sweden would take over the financial sector in Norway. At this time, Glitnir saw an opportunity in six other banks in Norway, but didn´t act. What happens in the next two years is that all of these banks were sold and the market was closed.

The price on financial companies is Norway at this time was low, and people used to call it “Norwegian discount”. Main reason for the low pricing was because Norway had a bad reputation, mainly because they were told to be hard to negotiate with. They disliked the idea of foreign investment in their financial sector, and the Norwegian government interfered a lot in this sector.

The Norwegian economy is mainly built on natural resources. They are, like Iceland among the world´s top fisheries countries, and are the largest salmon farming country in the world (Glitnir, 2008).

ECONOMIC GROWTH IN NORWAY

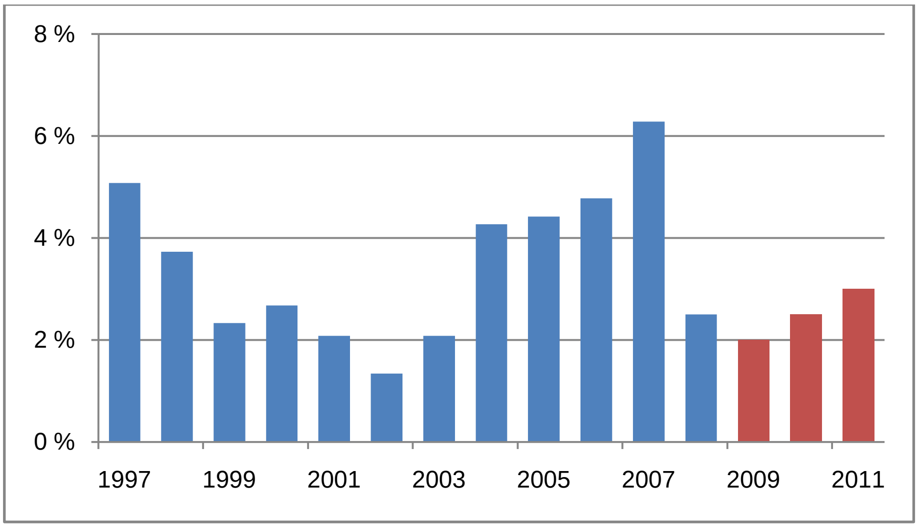

Figure 6-1[1]

As seen on the chart above, the Norwegian economy is slowing, but still growing. There are signs of weaker growth in both household and company demand. The GDP growth is expected to slow to 2, 75 percent in 2008.

6.1 KredittBanken

Though many people had warned Glitnir about entering the Norwegian market, they saw a great opportunity to enter the market through the fishing industry. That made it easier for Glitnir to create their strategy. Glitnir had for a while been looking for a way to enter the Norwegian market. In the year of 2004 Glitnir was offered an opportunity that they couldn´t refuse (Torfason, 2009). KredittBanken had lost high amounts of money when the salmon prices went down in the year 2002 (Hoemsnes, Islandsbanki kjöper KredittBanken, 2004). The owners soon discovered that to survive them only had two opportunities. They either had to merge with another Norwegian bank, or look outside of Norway. The owners of KredittBanken were skeptic about merging with a Norwegian bank, they were afraid that they would lose their independence. At this time Frank Reite was hired as the new CEO of KredittBanken. Frank Reite had been a board member in Norwegian Seafood for many years and had through that been in contact with Glitnir before. His first project coming in as a CEO

[1] The chart shows the economic growth in Norway from the year 1997-2007. The year 2009-2011 is what the economic growth is predicted. The chart is made by Islandsbanki, and is an unpublished material.

was to get new shareholders. He contacted Glitnir immediately and requested to start talking about their chance to become the biggest shareholder in KredittBanken.

Glitnir realized that buying KredittBanken was the opportunity that they had been waiting for (Torfason, 2009). KredittBanken was a small bank on the west coast of Norway, established in 1993. Their main strategy was to focus on local customers and industries. (Glitnir, 2008) Glitnir´s strategy had always been to grow through the fishing industry, and KredittBanken´s clients were mainly companies and individuals that were connected to the fishing industries. In August 2004 their offer to buy 90 percent of KredittBanken´s shares was accepted. What the bank needed to survive was a more favorable capitalization to be able to serve the customers in a better way. KredittBanken had at this time no access to international capital markets. Glitnir had the capital to back KredittBanken up, and in that way they were able to offer their customers more favorable loans.

After the acquisition of KredittBanken, Glitnir now had a bank in Norway that belonged to them. KredittBanken was a bank with strong local connection that made it easy for Glitnir to expand the bank even further in Norway (Torfason, 2009). The main reason that Glitnir was so well taken in Norway was because of their focus on the maritime and fishing industries. The Federation of Norwegian Fishing Vessel Owners was truly positive about Glitnir´s buy of KredittBanken. The administrative director of The Federation of Norwegian Fishing Vessel Owners, Audun Maråk thinks that Glitnir has a big competence in the fishing industry and at the same time they have the money to back it up. He was pleased to know that Glitnir had become the owner of KredittBanken instead of DNB Nor, Norwegian´s biggest bank. Over last years, industries and individuals in the fishing industries have had trouble to access capital in to their business. The Norwegian banks have been skeptic about handing out money into the fishing industry, mainly because of their big loss over the past years (Islandsbanki satser på fiskeri, 2004).

Even though this of course was a great opportunity for Glitnir, it was also a great opportunity for the staff of KredittBanken. They were no longer a little bank on the west coast of Norway with only one branch, but a part of a bigger overall. Glitnir´s biggest emphasis in the acquisition process was to work with the staff of the bank and to be open for any suggestions from the local customers. They kept most of the staff, including the administration board. Frank Reite, the CEO still played a big role in the bank after the acquisition. Reite had a lot of experience in the fishing industry, and he was well known to Glitnir. The most important link in successful acquisition is communication. Because of that, the acquisition of KredittBanken became a success.

6.2 BnBank

In 2005 Glitnir started to focus on growing in Norway. They started looking at other banks that could possibly fit to their future goals. The organic growth in Norway was to come through the fishing industry. Focusing on the fishing industry would give them a bigger market and would help Kredittbanken to grow. But the bought grow was to come by invisting in other financial companies in Norway. The main goal was to be the fourth option against Nordea, DnB Nor and saving banks. By controlling one or two financial companies in Norway you can get a good position on the market. Even though the fishing sector is big in Norway, it is not big enough. If Glitnir was going to grow in Norway, they had to have other focuses along with the fishing industry. Because of all this, Glitnir started looking at other potential companies to acquire. The biggest bank that could possibly be an alternative was BnBank. Many other investors had tried to buy themselves in the bank, but without any success (Torfason, 2009). The Norwegian saving bank Sparebanken Ost had a key position in BnBank. They controlled 20 percent of the bank stocks and because of that they controlled every move in the bank (Hoemsnes, Islandsbanki byr på Bn Bank, 2004). The CEO of Glitnir at this time, Bjarni Armannsson, managed to make a deal that no other had been able to do before. He sat down with the bank director of Sparebanken Ost and after a few hours they had a deal and Glitnir became the owner of BnBank (Torfason, 2009). BnBank was very different from KredittBanken in many ways. BnBank had, unlike KredittBanken been profitable since 1961. Because of that, the acquisition of BnBank became more hostile than KredittBanken. KredittBanken itself had requested meeting with Glitnir. BnBank was also very different from KredittBanken when it came to strategy and main focusing. BnBank had few and standardized products and were not focusing on one special sector like KredittBanken that mainly focused on the fishing sector. Another thing that was different between them was that BnBank had for a while been focusing on mortgage financing.

6.3 Glitnir Bank ASA

After the acquisition of BnBank a lot of changes were done in Norway. In March 2008 the merger of BnBank and KredittBanken was final. After that, Glitnir´s name in Norway was Glitnir Bank ASA. The long term strategy of Glitnir Bank ASA is to maintain established strength, strategies and prudent lending practices. The goal of Glitnir is to have a well diversified portfolio and carefully developed business areas. Their portfolio is stable and they have a prudent credit policy.

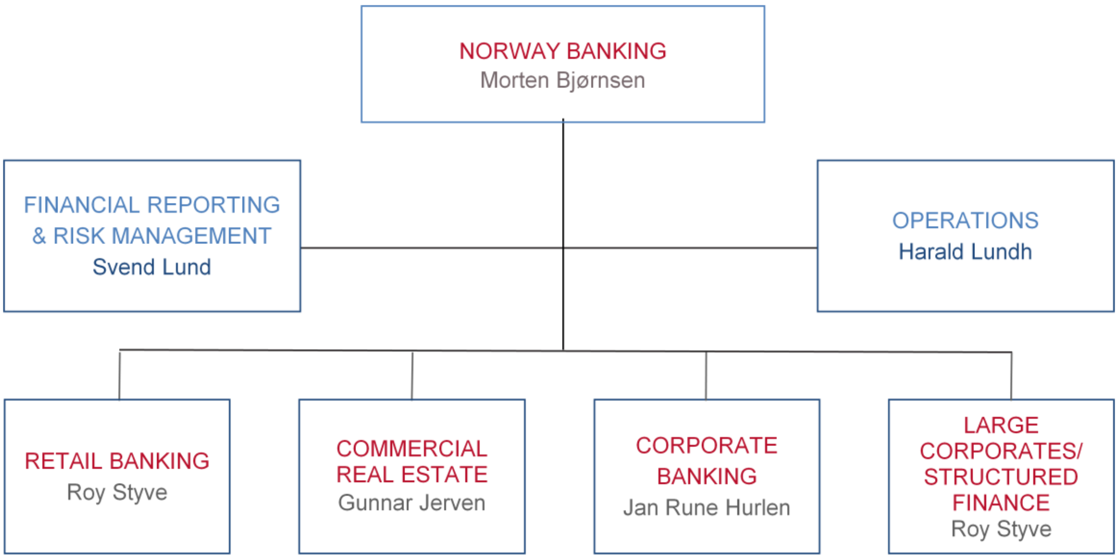

Figure 6-2

The picture above shows the company structure of Glitnir Bank ASA after the merger and their management team. The main business areas are retail banking, commercial real estate, corporate banking and structured finance.

6.3.1 Retail Banking

Glitnir Bank ASA focuses on standardized low risk loans and deposits. Deposit products that Glitnir Bank is offering are current accounts, saving accounts and internet banking. The loan products are housing mortgage loans and more flexible mortgage loans. Glitnir offers basic products at competitive terms and efficient an low cost operation. Glitnir Retail banking has an increased focus on deposits and their strategy is to stay on the top of interest rate league tables. Their market share is about 2 percent and the aim is to increase that to 3 percent.

6.3.2 Commercial Real Estate

Commercial real estate focus on properties with long term leases and income generating properties. There is very limited exposure to property development and all the properties are located in large cities. There are few and standardized products with strict credit process. This is a low risk profile with long standing customer relationships, well diversified portfolio and selected market segments. The portfolio is re-rated on a yearly basis and quarterly reports to the board in an aggregated level. There are strict loan limitations, both industrial and geographical.

6.3.3 Corporate Banking

The Corporate Banking is divided in three groups; Seafood, Offshore Service Vessels and Marine Industry. In the Corporate Banking sector there are a lot of opportunities based on heritage. Glitnir Bank is located in the area of Norway where there are a lot of sector knowledge and local experience on all the groups, including regional industry such as furniture factoring. Glitnir is focusing on Norwegian West Coast SME´s, offshore vessels and seafood.

Glitnir´s has a very high market share within offshore vessels financing. Glitnir services 7 of the world´s 30 largest offshore supply companies. Their goal in Offshore Service Vessels is to be a leading financial service provider, financing modern vessels with a global market and to activate promote off balance products to customers.

Glitnir´s focus is on the entire seafood value chain. As seen on the picture below, the value chain consists of supply, processing, distribution and consumer. By focusing on the entire value chain, Glitnir is able to initiate changes for growth to companies. Glitnir emphasizes on experienced management in strong fishing communities. Here it is not a question about quantity but quality. There are few but better rated customers.

The Seafood Value Chain

Figure 6-3

The industry segments that Glitnir has been focusing on are yard, thrusters, furniture and deck machinery. The industry financing has a strong focus on cash flow, long term financing of production faculties and working capital related products. For these customers Glitnir has a tailor made financial products. There is also an efficient credit process that is based on sector and knowledge about the market and the customer. Their focus is mainly on local clients (Glitnir, 2008).

6.4 Glitnir´s methods in Norway

When Glitnir first entered the Norwegian market they knew that there would be some threats, but of course there would be opportunities too. When first considering entering the Norwegian financial sector a lot of research had to be done. The first thing that Glitnir needed to find out was what kind of opportunities is lurking in that market.

6.4.1 Porter´s Diamond

If we look at Porter´s Diamond, which is defined in chapter three, we can easily see why Glitnir had such a successful internationalization. The base determinations that Porter mentions are all factors that Glitnir looked closely at and defined as crucial issues if they were going to achieve competitive advantage in Norway. Glitnir had a great advantage in factor conditions, mainly because of the labor. Glitnir emphasizes on highly educated and innovated employees. A lot of their success can be written on leaders that dare to try something new and take risk. Their home demand conditions were good. They had made a reputation to be an up and coming company that was able to grant their customers integral financial service, including insurances. What was a big help to them was that the competition in the financial sector in Iceland was great. And because of that they had a demand group of customers here at home. Maybe the most important thing in Glitnir´s case is the supporting industries. Glitnir focused on the fishing industry as their springboard in to internationalization. They had for years focused on servicing the fishing industry and had in that way created a good reputation. They established relationships with people in the fishing industry all over the world. The cooperated with other companies in the fishing industry, and because of that they were able to get competitive advantage in this sector.

6.4.2 Five Forces

Using the Five forces to analyze the internationalization of Glitnir we have to look at Glitnir as an entrant. Glitnir had in Iceland created a reputation as a good financial company. When they entered Norway, they had to prove themselves to the customers and the political environment. As an entrant, Glitnir had to analyze the Norwegian financial market with the help of Five forces. If we start by looking at the threats of substitutes, Glitnir realized that the bigger banks would always be a threat. Because of that, they decided to focus on building a good foundation and take a chance on the fishing industry, which no other banks had been willing to do. By doing that, they were able to create a solid group of customers. The threat of new entrance was a risk when they first entered the market, but that was not for long. When they entered the Norwegian financial market, a few small banks were for sale. But only months after the acquisition of KredittBanken the market was closed for new entrants. The only possibility for financial companies to grow in Norway was to already have a financial company there. The competitive rivalry in the financial sector was mainly the bigger banks. The smaller banks had no capacity to grow any bigger. As mentioned earlier, the financial companies that already existed in Norway had no interest in the fishing industry. Over the years they had lost a lot of money by loaning out to the companies in the fishing industry. Loans to the fishing industry were a risk that they were not willing to take. They realized that the competitive rivalry was not to be worried about, at least not until they started to grow and focus on other groups than the fishing industry.

6.4.3 Market Entry

The crucial issue that Glitnir focused on was how the Norwegian market would react to them. There were both political and social factors that they needed to focus on. The social factors were mostly about how the staff and customers would take them, and the political factors were about supervision institutions. It didn´t take long for Glitnir to get the approval from the supervision institutions so the only thing left was to focus on the social factors. When the acquired KredittBanken they made it clear to the staff that there were a lot of opportunities for them after the acquisition. Now they were no longer just a small local bank, but a part of a much bigger entity. They mostly worked with local people, and because of that they received more tailwinds that they had hoped for. The same thing goes for the customers, now they had more opportunities and could get an even better service then they had before.

After the acquisition of KredittBanken and BnBank they had a lot of work ahead of them trying to integrate the companies in one company. That was a great challenge that took over 3 years to finish. It wasn´t until the year 2008 that they could finally say that there was only one entity in Norway, Glitnir Bank ASA. Their strategy in Norway assembled a lot to what had been done in Iceland. Glitnir started in Iceland as a bank that had most of their incomes due to net interest. After the privatization of the Icelandic banks they started to focus more on getting income from securities and counsel compensation. Both KredittBanken and BnBank had over 90 percent of their incomes due to net interest. Their goal was to change the income source like they had done in Iceland.

7 The End of Glitnir

The global financial crisis in 2008 hit the Icelandic financial sector hard. The fast growth of the financial system in Iceland made them much more vulnerable than others to changes in the global environment. The Icelandic banks grew very fast after the privatization in 2003. Their business mainly grew bigger in countries outside of Iceland. They opened branches in other countries, bought subsidiaries or increased their international business from their headquarters in Reykjavik. This tremendous growth was easier for them than other because of their membership to the European Economic Area. Because of that membership Iceland had created a law and regulations frame about the financial system that was on the same level as the European Economic Area orders. From the year 2000 until the beginning of 2007 there were some unusual circumstances that dominated the global financial market. The supplies of capital loans were nearly unlimited and interest rates hadn't been so low in a century. The financial markets jumped at all bonds, including bonds from the Icelandic banks, which suited well into many kinds of desirable spirals. The banks were rated from global companies, and their good credit rate made it easy for the Icelandic banks to attack the global bond market.

At the end of the year 2005 and in the beginning of the year 2006, the Icelandic banks got a lot of negative attention. Late in the year 2005 the Credit Default Swap (CDS) went up and the banks were highly criticized. The criticism was mainly because of the banks rapid growth, risk affinity and their low percentage of deposits. When the CDS kept on rising, investors stopped investing and the supply of loan capital decreased. The conditions on the global financial market went worse as the year 2007 went by. Stocks went down, CDS kept rising and there were troubles in the interbank market. When Lehman Brothers, an international financial firm, went bankrupt in 2008 the global financial market closed and reached a new danger level. Because of the Lehman Brothers bankruptcy, there was a widespread crisis of confidence.

For Glitnir, this had an even bigger impact on them. Lehman Brothers had been their contact and supervisor of their asset sale, and that asset sale was done to pay off a high loan that was on due. Because of the fail in asset sale, Glitnir was unable to pay off the loan or refinance it. In October 2008 Glitnir turned to the Central Bank of Iceland, hoping to be able to renew their loan, like had been planned. The Central Bank of Iceland, and the Icelandic government saw no other choice than to take over Glitnir. The state treasury now was the owner of Glitnir (Friðriksson, 2009).

The internationalization of Glitnir had no happy ending. Glitnir Bank ASA was sold in October 2008. The buyers were 20 saving banks in Norway. The bank was sold for 42 million USD, but its current worth is estimated at 281 million USD (Iceland Review Online, 2009). Even though the internationalization of Glitnir was a success, it was not enough to survive the global financial crisis. What Glitnir was missing was a strong capital position. Without that, Glitnir was doomed to fail in the hard position that the global financial sector finds them self in.

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