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Scandinavian bank subsidiaries in the Baltics: Have they all behaved in a similar way?

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Abstract

The Baltic banking sectors are dominated by the subsidiaries of Scandinavian banks. Before the crisis in 2009, these banks were part of the shock creators in the Baltic countries, and later they became shock absorbers. Since the crisis, the question on the particularities of the business models adopted by foreign-owned banks has been often raised. This research analyses the similarities and differences between the business models of the Scandinavian bank subsidiaries in the Baltics. The main focus was to identify whether the subsidiaries of each bank's Baltic group acted in a similar way or not during the period of 2006–2014. Banks in Lithuania, Latvia and Estonia are strongly dependent on the decisions of the parent banks in the Baltic region. The implications of this policy towards the subsidiary banks within the country can be positive if the group's innovations are implemented in the Baltic region. However, the implications can also be negative if the parent bank makes inadequate decisions in regards to the situation of the country and does not take into account the needs of the country.

JEL classification: G21; M21

Keywords: Baltic countries; Foreign-owned bank; Business model.

1. Introduction

The banking business performs special functions in providing services and plays a fundamental role in the economy. All countries want to build the most advanced banking systems. The better the bank system a country has, the more competitive the country's economy is.

Within the past ten years, the banking industry undertook a substantial transformation. Some researchers in the academic world (Altunbas, Manganelli, & Marquez-Ibanez, 2012; Huang & Lin, 2012; Llewellyn, 2013) demonstrated that the banking industry has become too volatile, too interdependent and inflexible. It has become difficult to understand how banks conduct their business.

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The current Baltic banking systems are the result of their development over the last twenty-five years. After the privatisation of the state-owned banks and acquisitions of other major local banks, the Baltic banking sectors are now dominated by the subsidiaries of Scandinavian banks. The strategic role of the parent bank groups in shaping the business model of their subsidiaries is the key.

As Baltic subsidiaries are part of the big international Scandinavian banking groups, the decisions regarding the strategy and the business model are made at the parent bank level. These decisions during the period of the Baltic economy's upturn (when an aggressive lending policy was implemented), as well as during the period of the Baltic economy's downturn (when a significant decrease in lending volumes, and an unduly conservative approach towards credit risk assessment and the formation of special provisions were implemented) were insufficiently consistent and adequate for the environment of the banks operating in the Baltic market. Strong dependence on the decisions of the parent banks can have positive effect, but can also have negative consequences on a country's economy if the parent bank makes inadequate decisions that are not favourable to the country's situation. This is especially true, when all the subsidiaries in a country use the same business model and change it at the same time.

This leads to a scientific problem. Can the business models of all the Scandinavian bank subsidiaries in the Baltics be classified in one group? The object of this research is the bank business model. The aim of this research is to assess how similar the business models of these subsidiaries are. To achieve the aim of the article, the following objectives were formulated:

- To perform a literature review of the relevant scientific and professional literature on bank business models and their classification.
- To carry out empirical research in seeking to assess whether the business models of the Baltic subsidiaries are similar.

The research methods include analysis of the theoretical and empirical literature on bank business models; the correlation analysis among subsidiaries in each bank group (SEB, Swedbank, and DNB) to identify whether the subsidiaries of each bank Baltic group acted in a similar way or not.

2. Literature review

Recently the topic of a business model has often been discussed in both professional and academic publications. A useful interpretation of a business model, which simply represents its activities within a common framework, helps to understand how the different entities of a business come together to create value for customers, shareholders and society.

The academic literature provides several definitions of a business model (Table 1).

This demonstrates that there is no universally accepted definition, and the interpretation of a business model is very diverse. One of the most famous definitions was given by Chesbrough and Rosenbloom (2000), representatives of the Harvard Business School, which summarises business models into six components.

Revolutionary work was carried out by Osterwalder and Pigneur (2010), leaders in the field of business model innovation. They introduced the concept of a business model through the generalised view of 470 practitioners from a number of different countries. They used business models in an attempt to better explain how firms do business. The summarised business models were presented in nine building blocks and called the 'Business Model Canvas', which was considered to be the best schematic model representing a simplified version of an business organisation from a high-level perspective.

Bank business model analysis is a relatively new approach towards analysing the banking industry.

Some research work (Ayadi, Arbak, & De Groen, 2011, 2012, 2014; Roengpitya, Tarashev, & Tsatsaronis, 2014; Tomkus, 2014) has already been carried out on the business model analysis of the biggest European and American banks (Table 2).

Ayadi et al. (2011) were among the first researchers who performed a unique, systematic and comprehensive empirical study of different bank business models and their implications on risk characteristics, system stability, bank performance, efficiency, and governance issues. One of the main findings of the Ayadi et al. (2011) study was the assignment of each of the sampled banks to one of three distinct business models: retail banks, investment banks, and wholesale banks using cluster analysis. The second phase of the pioneering work of Ayadi et al. (2012) added a new