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Entry and Survival: The Case of Foreign Banks in Norway

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Entry and Survival:
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Abstract: Banks have been engaging in foreign direct investment (FDI) for over 150 years. In doing so, they have had to deal with the problems of the liability of foreignness, generally without being able to depend on proprietary administrative or physical technology. Foreign direct investment in banking therefore provides many experiments in entry and survival in a comparable industry across countries and institutional environments.

Within banking, the Norwegian case has a number of useful characteristics. First, there is a clear and recent starting point for the entry of foreign banks. Second, there is an interesting mix of entrants and abstainers, and entry strategies. Third, enough time has elapsed that one can start to observe failures and survivors.

In Section 2 I review the history of the Norwegian banking system and especially policies towards foreign banks. In brief, Norway has a long history of closure to foreign banks.

In Section 3 I examine which foreign banks did or did not enter Norway when the government liberalized entry. The banks that entered had divergent firm-specific resources and followed divergent strategies. I pay particular attention to issues of the foreign banks' prior experience in Norway itself and the foreign banks' advantages vis-à-vis domestic banks.

In Section 4 I investigate the correlates of survival and exit among the foreign bank entrants. Survival factors include prior experience in Norway, the size of the entrant at start-up, and the size of the parent. Lastly, Section 6 is a summary and conclusion.

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Entry and Survival: The Case of Foreign Banks in Norway

1.0 Introduction

Banks have been engaging in foreign direct investment (FDI) for over 150 years. In doing so, they have had to deal with the problems of the liability of foreigness, generally without being able to depend on proprietary administrative or physical technology. Foreign direct investment in banking therefore provides many experiments in entry and survival in a comparable industry across countries and institutional environments.

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2.0 The Norwegian banking environment[i]

In 1971 and again in 1973 several foreign banks sought the Ministry of Finance's permission to enter Norway. In 1973 the Ministry ruled that representative offices did not come under the banking law and hence foreign banks did not require permission. In 1974, the Government formally rejected applications from foreign banks to establish branches or subsidiaries (Flatraaker 1990). The prohibition lasted until 1985.

Reluctant to let its own banks go abroad, Norway did not have to offer reciprocity. Norway thus stands in some contrast to the situation in Japan and Korea (Ursacki and Vertinsky 1992). The attractiveness of the Japanese markets to foreign institutions enabled Japan to use a strict definition of reciprocity; Japan could both reduce entry from other countries unwilling to ease their conditions, and perhaps lever open entry into foreign markets for its own institutions. Korea had less leverage.

[i] This section draws on Jacobsen and Tschoegl (1995).

Norway was in no hurry to liberalize entry. Norwegian government policy after WW II had created a situation that enhanced the attractiveness of the Norwegian market to foreign banks and hence made closure to foreign banks even more necessary. The Norwegian government targeted unemployment and interest rates and Norway's credit market became one of the most regulated in Europe. The restrictions on interest rates applied only to the banks and insurance companies, further distorting competition. Mortgage banks, finance companies, and so forth could charge market rates. Furthermore, law and regulation forced the banks to keep 25% of borrowed money as liquid reserves and 40% of their capital in government bonds.

Consequently Norwegian banks found it difficult to compete with foreign banks. Instead, foreign banks operating from financial centers such as London became particularly noteworthy suppliers of credit to Norwegian firms both abroad and in Norway. Most of the major Norwegian companies borrowed directly from foreign banks. This was especially true for the shipping industry, which often needed to borrow currencies and amounts beyond the capability of the Norwegian banks to provide.

The rise in oil prices after 1974 increased the Norwegian oil industry's need for loans to fund investments in the North Sea. Moreover, as oil companies found more and more oil in the North Sea and Norway's wealth increased, foreign banks became increasingly aggressive in approaching Norwegian firms.

The foreign banks sought to serve the firms' domestic business as well as their foreign business.

Norway was not alone among the Nordic countries in restricting the entry of foreign banks, nor was the Nordic hostility a recent development. Since at least 1920, Finland, Norway and Sweden had forbidden foreign banks to open branches (Wallenberg c.1920). Denmark's prohibition apparently came later. The hostility to foreign banks in the Nordic countries appears relatively anomalous among developed, market economies (Tschoegl 1985). Though it persisted for decades, the policy of closure eventually collapsed.

Accession to the EEC in 1972 forced Denmark to become the first Nordic country to open to foreign banks; Denmark opened itself to branches of foreign banks in 1975. In the 1980s, deregulation of banking swept the Nordics and numerous other countries as well. Finland opened to foreign banks in 1979 and Norway opened in 1985. (Even though Finland opened in 1979, Citibank and Banque Indosuez, the first banks to open subsidiaries, did not establish their subsidiaries until 1982 after further deregulation and relaxation of exchange controls.) Sweden was the last, opening in 1986. Even so, Finland, Norway and Sweden all forbade foreign banks to operate as branches of the parent and instead required the foreign banks to establish locally incorporated subsidiaries. All three also limited foreign banks to at most small shareholdings in existing domestic banks (OECD 1984).

In 1984 the Norwegian government substantially deregulated the domestic market. Norway finally allowed foreign banks to establish subsidiaries in Norway and Norwegian banks to establish branches abroad. A period of competitive turbulence followed.

Several existing domestic banks merged and investors created several new domestic banks. Seven foreign banks entered as soon as they could do so in 1985; ultimately the number of foreign banks in Norway peaked at nine (Table 1).

Ongena and Smith (1997a&b) provide some useful information on banks' relationships with companies listed on the Oslo Stock Exchange (OSE) from 1979 to 1994. Their data (1997a) show that the proportion of firms reporting relationships with only one bank rose from 65% to over 75% in 1985. Foreign banks were hardest hit. In 1979 foreign banks accounted for 16% of all relationships with banks; by 1994 their share had dropped to 5%.

Bank deregulation led to a doubling of loans outstanding as banks pursued market share (Lindblom 1994). This is consistent with Spiller and Favaro's (1984) results for deregulation in Uruguay that suggest that deregulation reduced oligopolistic interaction among the leading firms. For Portugal, Barros (1995) found that after deregulation incumbents reacted to each other but not to *de novo* entry. He also found that entrants grew faster.

By 1987, the banks' loan loss provisions had begun to rise markedly. (An additional factor beyond increased risk taking was the government's introduction of stricter accounting standards.) In the late 1980s, several smaller domestic banks did fail or underwent forced mergers. By 1990, the government agreed to permit foreign banks to acquire domestic banks.

Deregulation of the domestic market may have resulted in some efficiency gains. When Berg *et al.*, (1992) examined productivity in Norwegian banks over the period 1980-1989, they found that productivity appeared to regress prior to deregulation and then grow rapidly after deregulation. The reduction in the range of productivity after deregulation appeared to have been the result of the larger banks reducing their deficiency vis-à-vis the smallest banks. Shaffer's (1994) cross-country study using data from 1979 to 1991, showed Norway to have a highly competitive banking system without excess capacity.

Berg *et al.*, (1993) also compared banking efficiency in Finland, Norway and Sweden in 1990; the average Norwegian bank was more efficient than the average Finnish bank but less efficient than the average Swedish bank. Earlier, Rinde (1986) too had found that Norwegian banks were not less efficient than those in other OECD countries though Swedish banks did seem slightly more efficient.

The studies by Rinde (1986), Berg *et al.*, (1992), Berg *et al.*, (1993) and Shaffer (1993) essentially predate the loan losses that devastated the banking systems of Finland, Norway and Sweden, among others in the early 1990s. By 1990, the three largest Norwegian banks, Den norske Creditbank (DnC), Bergen Bank and Christiania Bank og Kreditkasse (CBK) were close to bankruptcy. DnC and

Bergen Bank merged under the name Den norske Bank (DnB). Loan losses continued to mount (Table 2).

By the end of 1991, the government had come to own 100% of both CBK and Fokus Bank (now the third largest bank in Norway) and a majority share in DnB. The government liquidated one smaller bank, Norion Bank, arranged some mergers and demanded wholesale restructuring of the banks it owned.

After the recapitalization, the banks recovered quickly. However, the Norwegian government still owns majority stakes in CBK, DnB and Fokus. In April 1994, the government proposed a medium-term goal of retaining a 50% ownership in DnB and CBK and a long-term goal of retaining a substantial minority position (20-33.3%). The government does not plan to retain any position in Fokus Bank. State ownership of commercial banks remains politically controversial; the banks themselves have argued that state control of the major banks is unhealthy for the economy.

The banking crisis in Norway was part of a worldwide phenomenon and not a particularly Norwegian event. A property boom swept across a number of countries in the late 1980s. Ball (1994) suggests two primary causes. First, technical change in key service industries led to an upsurge in demand for buildings from the mid-1970s onward. Second, deregulation increased credit availability.

Monetary authorities, attempting to rein-in the credit expansion, ended the boom. Bartholomew (1994) reports that deflation of real estate values hit banking systems in Canada, Denmark, Finland, Norway, Sweden and the United States. Ball (1994) adds Australia, the UK and Japan to the list. Reflecting on the experience of the US and Japan, Kindleberger (1995) has an insightful paper on the difficulty that asset inflation poses for monetary policy.

In Norway the crisis peaked a year or so before the peak in the other Nordic countries (Koskenkylä 1994). One possible reason that the crisis started earlier in Norway was that the fall in oil prices in 1986 hurt the Norwegian economy but helped most other major economies. Overall, loan losses were more severe in Norway than in Denmark and Finland but less severe than in Sweden.

In 1993 Norway acceded to the European Economic Area and agreed to liberalize further its regulations on entry by foreign banks. On 2 May 1994, Norway issued regulations authorizing foreign banks to establish branches. (Anticipating accession, Finland had opened entry to branches in 1991.) Citibank, Chemical Bank and Svenska Handelsbank announced their intention to convert their subsidiaries to branches. In 1994, Skandinaviska Enskilda Banken opened a branch.

3.0 Who did or did not enter

3.1 The era of the representative office (1973-1984)

Prior to 1985, the Norwegian government only permitted foreign banks to enter via the limited presence of a representative office. A representative office cannot take deposits, make loans, or hold other assets. It is strictly a liaison between the local market and its parent bank.

Table 3 gives the evolution of representative offices before 1985. The Norwegian Bankers Association provides inconsistent information in different publications and I was unable to confirm several of these reported entries in Polk's. Still clearly foreign banks were present in Norway for a decade or so before liberalization. A number of foreign banks were also active in lending to traditional Norwegian industrial sectors, including oil and shipping but operated from their home offices.

Citibank established a representative office in Norway in 1973 and Citibank is now the foreign bank with the longest continuous presence in Norway. Manufacturers Hanover, Bank of Nova Scotia and Banque Nationale de Paris followed quickly and were still present in 1985.

The reason that information is vague on so many of the early representative offices is that these representative offices were probably experiments that failed. Banks established offices to see if the offices could generate business. When the offices did not, the parents quickly terminated the experiment.

The representative offices established in the early 1980s may have represented options on future liberalization (Kogut 1983). Banks often establish representative offices as precursors to deeper entry (Ball & Tschoegl 1982 and Tschoegl 1982). Choi *et al.*, (1987) estimated that through 1985, over 60% of the foreign banks that entered the US first established a representative office. The

Revised National Budget for 1983 that the Government presented to the Storting (Parliament) in May 1983 included a proposal to allow foreign banks to open subsidiaries. The proposal followed public debate and the Finnish example and may have led some foreign banks to acquire the option.

In addition to serving Norway via representative offices, foreign banks lent to Norwegian companies out of offices in financial centers elsewhere in Europe, especially London. The major Norwegian shipping and industrial companies borrowed directly from foreign banks rather than going through their Norwegian banking partners. The reason was that Norwegian regulations hampered the Norwegian banks' ability to compete in foreign currency loans. The rise in oil prices after 1974 provided a second impetus to foreign solicitation of business from Norway, especially the financing of the gigantic investments in the North Sea.

Of the seven foreign banks that Ongena and Smith (1997b) show as having relationships with OSE-listed companies in 1979 (Table 4a), only Citibank (1 relationship) had a representative office. One could well argue that there was a negative correlation between having a representative office in Norway in 1979 and having relationships with OSE-listed companies (Table 4b). Banks such as Chemical Bank (10 relationships in 1979) and Hambros (6 relationships in 1979) not only did not have a representative office in Oslo, they did not enter in 1985. Representative offices may have represented an attempt by banks without relationships with top companies to establish a presence in the market nonetheless.

3.2 The first wave of foreign bank entrants (1985)

When the Norwegian government liberalized entry in 1985, seven foreign banks entered immediately (Table 5). These initial entrants came from the US (3), France (3) and the UK (1). However, of the world's largest or nearest banks, no Japanese, Scandinavian, German, Dutch, or Belgian banks entered. The UK bank that entered was a merchant bank and not one of the large commercial banks.

In the 11 years that have passed, four of the seven original entrants have left. Four Swedish banks have entered or are entering and the first and third to enter have left. In total, between 1985 and 1996, eleven banks entered, of which five remain in 1996.

Timing and mode of entry show little variation. The alacrity with which the foreign banks entered suggests that several would have entered earlier, had the Norwegian government permitted it. The alacrity is also consistent with the evidence in Biswas *et al.*, (1995). They find that stock markets react favorably when banks enter markets where entry formerly was restricted, and unfavorably when the banks enter markets that formerly were open.

As far as mode of entry is concerned, one could expect that several of the entrants would have preferred to enter via a branch. Heinkel and Levi (1992) have an article that links the organizational form that foreign banks adopt in foreign markets to the product market the foreign banks are entering. Norwegian government policy preempted any such choice.

Grubel (1977), in his pioneering article on the theory of multinational banking, distinguished three markets: wholesale, service and retail. Wholesale international banking involves operating in interbank markets such as foreign exchange and offshore currency. International service banking involves primarily services to corporations and other institutions. Key services include foreign exchange trading, commercial lending, international payments and the like. International retail banking involves providing deposit, payment and credit services to individuals residing in a country other than the bank's home.

The foreign banks that entered Norway aimed at international service banking. In the case of Norway, the US and French banks probably followed their home-country energy multinationals. In general, foreign banks follow the business of home country firms and seek the business of host country firms (Kindleberger 1983).

Wholesale banking activity was not an option. Oslo was not and is not an international finance center (Abraham *et al.* 1994; Scholtens 1992).

Unsurprisingly, the foreign banks do not seem to have made a push into retail banking. Only Svenska Handelsbanken has a branch network with which to gather retail deposits though PK-banken's (later Svenska Nordbanken) subsidiary in Oslo received permission to open a branch in Bergen.

Svenska Handelsbanken’s acquisition of Oslo Handelsbanken in 1990 brought with it 10 branches. Since then Handelsbanken has expanded its operation to 12 branches and some 60,000 customers (Euromoney 1995). Svenska Handelsbanken is particularly efficient in retail operations at home and has taken that advantage to Norway. It apparently can run a retail branch with a third fewer personnel than its competitors. Svenska Handelsbanken also established a subsidiary in Finland (1990; converted to a branch in 1991) and a branch in Denmark (1992).

The other foreign banks may have access to some ethnic retail banking opportunities (either expatriates or Swedes in Norway) but this would be a minor factor. The government also originally forbade the foreign banks to acquire local banks. Even so, absent ethnic or colonial ties foreign banks generally do not enter retail banking (Tschoegl 1987) and so the foreign banks’ neglect of this sector in Norway is not surprising.

Theory suggests that increasing foreign market commitments will be linked to knowledge development. Johanson and Vahlne (1977) argue that,

> "...additional commitments will be made in small steps unless the firm has very large resources and / or market conditions are stable and homogenous, or the firm has much experience from other markets with similar conditions. If not, market experience will lead to a step-wise increase in the scale of operations and of the integration with the market environment ..."

This suggests that the banks with long-established representative offices would be particularly well-represented among the first entrants. Banks with extensive relationships with large Norwegian firms would have the knowledge to enter but might have less reason to do so. Table 6a suggests that there was some tendency for banks with relationships with Norwegian companies to establish subsidiaries, but the tendency was not strong. Table 6b suggests that there was a stronger tendency for banks with a long physical presence in Norway to establish subsidiaries. The only bank with a long-established representative office that did not establish a subsidiary was Bank of Nova Scotia.

Unfortunately, I cannot apply convincing statistical tests to Tables 6a&b. To perform a test I would first have to estimate the relevant pool of international banks that did not have relationships (Table 6a) or well-established representative offices (Table 6b) in Norway. What I did do was to pick an arbitrary number, 100, for the missing data. If the true number was less than 100, the log odds would be smaller and the standard error larger, and if larger the log odds too would be larger and the standard error smaller. I return to this issue below.

The key questions in FDI in banking center on the issue of why do banks go abroad and how do they compete when they get there. Aliber (1976) asks why the production takes place abroad and why is it the foreign banks that provide it. Hymer (1976) and Kindleberger (1969) ask what advantages do foreign firms possess that enable them to compete against the local firms that do not face the disadvantage of operating at a distance and in an unfamiliar market.

To investigate these questions I perform two OLS regressions with a dichotomous dependent variable. The dependent variable takes on a value of 1 if the bank in question established a subsidiary in Norway in 1985 and 0 otherwise. The OLS regression is equivalent to multivariate discriminant analysis. For a fuller treatment of dichotomous regressions in a similar context to the present see Ball and Tschoegl (1982). For a critique of the general approach see P.N. O'Farrell *et al.*, (1995).

The population for the first regression is the twenty banks that Euromoney reported were the top foreign exchange (FX) dealers in the world in 1985 (Winder 1985). The population for the second regression is drawn from The Bankers list of the 50 largest banks in the world in 1985.

The first set of variables in the regressions represent the banks' firm-specific advantages. For the Top 20 FX dealers group, the variable is each bank's market share. For the Top 50 Banks group, the variables are a dummy variable for membership in the top 20 FX dealers group, the natural logarithm of each bank's size, and a variable that is the interaction of size and being a top 20 FX dealer. Tschoegl (1983) and Harrington (1992) among others, have found that size is strongly correlated with expansion abroad. Large banks tend to have domestic multinational companies as customers and to have enough customers engaged in foreign trade to justify themselves going abroad.

I also expect entry to be positively associated with Norway's imports from each bank's home country, and negatively with Norway's exports to the each bank's home country. Goldberg *et al.,* (1989) find that international trade is intensive in its use of financial services and that financial services tend to be exported along with goods. Grosse and Goldberg (1991) and Goldberg and Johnson (1990) report similar findings.

The negative correlation of entry with imports grows represents a substitution effect. That is, Norway's exports to the US or France provide a base for Norwegian banks to go to New York or Paris. In New York or Paris, the Norwegian banks then can offer their services to US or French firms with trade with Norway and compete for this business with US or French banks that have or would otherwise contemplate having offices in Norway.

An additional theme that has emerged in the literature is strategic interaction between firms as a motive for foreign direct investment. The argument dates back at least to Knickerbocker (1973) and Graham (1978) and takes into account the roles of rivalry between and collusion among firms as factors in the foreign direct investment decision. The theoretical work in this area uses a game-theoretic perspective, modeling the interaction between firms as an open-ended, repeated game. Graham (1990) provides a model for an exchange of threat scenario. Veugelers (1995) offers a model that enables one to analyze when strategic considerations may dominate and possibly counteract the effect of location and firm-specific motivations for FDI. Recent empirical work includes Yu and Ito (1988), Terpstra and Yu (1989), Ito and Rose (1994) and Hennart and Park (1994). Engwal and Wallenstäl (1988) in one of the only works to focus on the issue of rivalrous behavior in banking find evidence for such behavior among Swedish banks in their international expansion.

To model competitive interaction I include two variables, SAME and $SAME^2$. For a given bank, SAME is the number of banks from the bank's home country with a subsidiary in Norway, not including the bank itself. I expect a positive coefficient for SAME and a negative coefficient for $SAME^2$. These variables are not very satisfactory; they assume that for any bank the reference set is only other banks from its own country and all banks from its own country. Also I assume that each bank correctly anticipated what its compatriots would do while formulating its own decision.

To capture the role of prior experience in Norway, in both regressions I have included a dummy variable for each parent bank's possession (or not) of a well-established representative office in Norway. The variable takes on a value of 1 if the parent bank had a representative office in Norway in 1984 that it had established before 1980, and 0 otherwise. I expected a positive coefficient.

Lastly, I have a dummy variable for Skandinaviska Enskilda Banken (SEB) in the regression for the Top 20 FX Dealers. SEB could not establish a subsidiary in Norway in 1985 because it was blocked both by issues of reciprocity and by commitments to Bergen Bank (see below). I include the variable only to see if the restrictions were binding.

Table 7 presents the results of the OLS regressions. Apparently the size and FX dealer variables are not very good at capturing bank-specific advantages.

Given that a bank is one of the top 20 FX dealers in 1985, the actual market share is unimportant. In the 50 Largest Banks group, neither size per se nor being one of the Top 20 FX dealers is itself an advantage, but being large and a top dealer is an advantage.

As I expected, the volume of Norway's exports correlates negatively with foreign bank presence in Norway. The volume of imports correlates positively with foreign bank presence. For the Top 50 Group, the coefficients are also statistically significant.

The variables for competitive interaction suggest that entry is associated with an optimal level of competition. No competitors from the home country and too many competitors are both associated with less entry than situations where a few banks from a country have decided to enter.

Having a well-established representative office correlates positively and statistically significantly with the establishment of a subsidiary.

Lastly, the dummy variable for Skandinaviska Enskilda Banken is negative but not statistically significant. The variable also suggests that the legal and self-imposed restrictions were not binding. If I subtract the coefficient from the predicted value of Y for SEB (0.00), the resulting prediction (0.33) is still below 0.5. This suggests that SEB would not have established a subsidiary even it had been able to do so. In fact, SEB only established a branch in 1994, well after all constraints on its freedom had disappeared.

Neither model makes any prediction errors. If I take the predicted value of the dependent variable (entry as a subsidiary; yes = 1) and a cut-off point of 0.5, then each model correctly classifies all the banks in its group. Both models suggest that Barclays Bank of the UK was close to qualifying to establish a subsidiary, and both models suggest that Banque Paribas was close to not qualifying.

3.3 The delayed entry of the Swedes

Swedish banks could not enter Norway until liberalization of foreign bank entry in Sweden led to a reciprocal opening of Norway to Swedish banks in 1986. Wermlandsbanken, Uplandsbanken and Skanska Banken all applied for permission to open a subsidiary in 1985; the Ministry of Finance invoked reciprocity and told them to wait until Sweden had opened to Norwegian banks.

Interestingly, in the Swedish case, there was some tendency for the largest banks to enter after smaller banks had entered. The three Swedish banks that applied in 1985 were all small banks, or at least not in The Banker's list of the top 5 Swedish banks. The largest Swedish banks were bound in pan-Nordic alliances with the largest Norwegian banks and so could not enter until after the alliances disbanded (Jacobsen and Tschoegl 1997).

The first subsidiary of Swedish parentage entered in 1986. Skanska Banken and Wermlandsbanken together established the InterNordisk Bank which survived until 1993. In 1993, Norway's Gjensidije Insurance Company acquired

InterNordisk from Gota Bank, which had earlier acquired Wermlandsbanken. Uplandsbanken did not re-apply.

Svenska Handelsbank, the second largest Swedish bank in 1985, established a subsidiary in 1988. In 1990, Svenska Handelsbank acquired Oslo Handelsbanken which was then in trouble. The takeover was the first ever by a foreign bank. Svenska Handelsbank converted its subsidiary to a branch in 1995.

Svenska Handelsbank had been a partner with DnC in consortium banks in New York, London and Zurich (Jacobsen and Tschoegl 1997). Between 1983 and 1986, the partners dissolved their partnership with one or the other acquiring majority control of each consortium. The dissolution of the alliance left DnC free to establish a subsidiary in Sweden and Svenska Handelsbank free to establish a subsidiary in Norway.

Svenska Nordbanken entered in 1990. It was not among the five largest Swedish banks in 1985. Svenska Nordbanken left in 1995.

Skandinaviska Enskilda Banken (SEB), the largest bank in Sweden, opened a branch in 1994. It had opened a representative office in 1981 and in the mid-1980s had acquired 15.8% of Nordlandsbanken, a position it has since sold. Simonsen (1995) reports that the Financial Services Act of 1988 imposed a 10% limit on ownership of Norwegian financial institutions by non-Norwegian citizens; this may have played a role in SEB’s withdrawl. SEB’s membership in Scandinavian Banking Partners from 1984 to 1994 probably also delayed SEB’s entry into Norway (Jacobsen and Tschoegl 1997). Still, the results from the regressions in Table 7 suggest that membership may have been a non-binding restriction.

4.0 Who did and did not survive

Twelve years after the liberalization of entry, only three of the original seven entrants still survive. Citibank and Chase Manhattan (Ex-Manufacturers Hanover and ex-Chemical Bank) and Banque National de Paris still have a subsidiary or branch in Norway. Chase Manhattan, Banque Paribas, Banque Indosuez and Midland Montagu (ex-Samuel Montagu) have all closed their original subsidiaries or sold them to domestic banks. This survival rate (or lack of it) is similar to the experience in Sweden where five of the initial 12 foreign banks entrants had left within five years (Engwall 1994).

I follow the practice in the entry literature of equating success with survival. Foreign direct investment is fundamentally long-term in its nature so one can generally infer that truncation represents disappointment. Furthermore, entry as a subsidiary includes sunk start-up costs that are irrecoverable should the parent close the subsidiary or sell it to a local bank. A subsidiary is a legal person and establishing a subsidiary requires the filing of incorporation papers and registration with all the relevant authorities and registries. (By contrast, a representative office or a branch is an integral part of the parent and so requires only notification to the Central Bank.)

Even so, some ambiguity remains. Closure of the entity does not necessarily mean that the parent abandons all of the business. The foreign parent may continue to serve some of its clients from an operation in a nearby financial center such as London. Still, one can point out that withdrawl means the entrant was unable to develop sufficient business to require a continuing local presence.

As Baldwin and Rafiquzzaman (1995) found for their sample of firms, foreign banks in Norway were subject both to selection and evolutionary learning. Selection culled almost half the entrants. Among those that have survived to the present, several have improved their performance relative to incumbent firms. Those that made the most progress, however, did so by acquiring local firms rather than by simply growing more rapidly on the basis of internal factors.

My results are also consistent with some of Geroski's (1995) stylized facts and results about entry. For instance:

> Stylized fact 4: The survival rate of most entrants is low and even successful entrants may take more than a decade to achieve a size comparable to the average incumbent.
>
> Stylized result 8: Both firm size and age are correlated with the survival and growth of entrants.

4.1 The experience of the joint ventures

The US, UK and one French entrant entered with wholly-owned subsidiaries but two French banks entered via joint-ventures with local banks. The foreign parent of each joint venture eventually acquired complete control. The numbers are too small to permit us to say that entering as a joint venture increased the probability of survival.

We do not have the degrees of freedom necessary to take into account firms' self-selection of their strategies (Shaver 1996). Firms choose their entry mode to give themselves the best chance of survival, given the firms' assessment of their own competitive advantages; if the probability of mistaken assessments and entry mode are uncorrelated, entry mode and survival should be uncorrelated.

Of the two original joint-ventures, one has survived to the present and one has not. Of the five wholly-owned subsidiaries, two have survived and three have not. I cannot reject the hypothesis that both proportions are the same but my failure to reject owes more to the small numbers than to the theory surviving a rigorous test.

Interestingly, the first foreign bank to withdraw was Banque Paribas. Banque Paribas, unlike the other two French banks, had not established a joint venture. Banque Paribas also had not established a representative office before establishing its subsidiary and (partially in consequence) the models in Table 7 had classified it as a borderline entrant.

BNP and Indosuez both took on minority local partners at entry. BNP (75%) joined with Forretningsbanken (25%) and Indosuez (80%) joined with Rogalandsbanken (20%). In 1985, Forretningsbanken was the fourth largest bank in Norway and Rogalandsbanken was the ninth largest. Although Forretningsbanken had some offices abroad, neither Norwegian bank was a competitor in France. By contrast, the three largest Norwegian banks had direct or indirect (via consortia) representation in Paris. Of the two joint ventures in Norway, Banque Nationale de Paris (BNP) still maintains a subsidiary in Norway and Banque Indosuez closed its subsidiary in 1993.

In 1990, BNP acquired Kjøbmandsbanken and merged it into its joint venture. When BNP acquired Kjøbmandsbanken BNP became only the second foreign bank to acquire a local bank (see below).

In both joint ventures the French parent bought out the local, minority partner. In 1988, Rogalandsbanken sold its shares in the joint-venture with Indosuez. BNP Kjøbmandsbanken disembarrassed itself of its partner, Fokus Bank, in 1995 after a lawsuit. (In 1986 Buskerudbanken, Bøndernes Bank, Forretningsbanken and Vestlandsbanken merged to create Fokus Bank. Fokus Bank retained the ownership of BNP Norsk it had inherited from Forretningsbanken. Fokus also opened an office in Paris in 1986.)

The experience of Indosuez and BNP is consistent with Kogut’s (1991) view of joint ventures as options to expand and acquire. Truncation of the joint venture may not mean failure but rather that one partner no longer needs the other’s contribution.

In 1989, after having bought out its partner, Indosuez jumped in rank among commercial banks in Norway from 25th to 19th place, leapfrogging BNP among others; in the same year Indosuez’s close competitor, Banque Paribas, withdrew by selling its subsidiary to Oslobanken. BNP tried to consolidate its control over its joint-venture after acquiring Kjøbmandsbanken and over the opposition of its partner.

4.2 Experience and subsidiary or parent size matter

Three factors show some correlation with survival: prior experience as a representative office, size of the subsidiary at start-up and size of the parent. The most powerful explanatory factor is the prior experience. All three survivors had established representative offices in the 1970s and maintained them until Norway liberalized entry; none of the banks that withdrew had established a representative office before entry. These results are consistent with those of Barkema *et al.,* (1996)

If we look at relationships *per se,* Ongena and Smith's (1997b) data shows that two of the survivors, Citibank and Manufacturers Hanover had relationships; none of the others had any. BNP, also a survivors, did not have any relationships in 1985 but acquired local knowledge and experience through other routes. BNP's subsidiary was a joint-venture.

The foreign subsidiaries that survived also tended to be larger at start-up than the failures and to have larger parents. Table 8a gives assets in Norwegian Krone millions in 1985 for all seven subsidiaries and in US$ billions for the parents. Table 8b presents results for OLS regressions of a dichotomous dependent variable (survival: yes = 1 or no = 0) on the logarithm of the asset measures. None of the results are statistically significant at conventional levels. However the coefficients have the sign one would expect.

It is not surprising that the size of the subsidiary should be a slightly stronger explanatory variable than the size of the parent bank. Both represent the resources that the venture can muster at start-up. Equivalently, size at start-up is indicative of customer relationships and relationships correlate positively with survival (Bergström *et al.* 1994). However, the size of the subsidiary at start-up is a more concrete realization of those resources in the Norwegian context than is the size of the parent.

As I discussed earlier, of the three subsidiaries that Swedish banks established between 1986 and 1990, the first and third have closed. In terms of survival factors and the results above, the prognosis would have been mixed but positive. InterNordisk had fewer assets than all of the other foreign banks but Samuel Montagu had had at their start-up. Still, Wermlandsbanken, one of the two original parents, had had a representative office in Oslo since 1981 and Skanska Banken, the other parent, had had a representative office in Oslo since 1984 under its Swedish name: Sparbankernas Bank.

When Svenska Nordbanken entered it was almost twice as large as Chase Manhattan's subsidiary and almost as large as Citibank's. Svenska Nordbanken initially grew rapidly. Even so, the subsidiary closed.

5.0 Conclusion

Table 9 gives the names, total assets, employees and branches for all 20 Norwegian commercial banks in 1994. Ten years after entry was liberalized, some foreign banks are prominent but owe this prominence to acquisition of domestic banks not to organic growth. Five of the eleven foreign banks that established subsidiaries withdrew. Even though foreign banks represent six out of the 20 commercial banks in Norway, the foreign banks' market share remains small.

Experience in Norway appears to matter, both to entry and to survival. That is, foreign banks with well-established representative offices in Norway were more likely than banks without such experience to establish subsidiaries when permitted to do so, and their subsidiaries were more likely to survive. Entry was associated with firm-level advantages, with market potential as measured by trade data, and with rivalrous behavior.

The number of firms is too small to test whether survival is independent of entry mode (joint venture vs. wholly-owned subsidiary). Overall, the evidence on entry and on joint ventures is consistent with Kogut's (1983) view of FDI as a sequential process based on the exercise or abandonment of options.

Finally, the foreign banks' market share is growing but may well be stabilizing at a low level. The foreign banks essentially provide a fringe service tied to import trade and related activities.

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Table 1
The Norwegian banking system saw consolidation prior to deregulation in 1985, followed by the entry of foreign banks, competitive turbulence and then another period of consolidation

	Domestic banks	Foreign banks	Total
1980	24	0	24
1981	22	0	22
1982	22	0	22
1983	21	0	21
1984	21	0	21
1985	20	7	27
1986	20	8	28
1987	20	8	28
1988	20	9	29
1989	21	8	29
1990	17	9	26
1991	12	9	21
1992	13	8	21
1993	15	5	20
1994	14	6	20
1995	13	5	18
1996	14	5	19

Source: Norwegian Bankers' Association, Norwegian Commercial Banks, 1980 to 1994

Table 2

Loan losses at Norwegian banks peaked in 1991

	Losses / Loans	Losses / Assets
1980	0.9%	0.5%
1981	1.0%	0.6%
1982	1.0%	0.6%
1983	1.1%	0.6%
1984	1.0%	0.6%
1985	1.0%	0.7%
1986	1.1%	0.7%
1987	1.3%	0.9%
1988	2.0%	1.5%
1989	2.1%	1.6%
1990	2.6%	2.0%
1991	5.5%	4.3%
1992	3.1%	2.4%
1993	2.1%	1.7%
1994	0.1%	0.1%
1995	-0.5%	-0.4%
1996	-0.4%	0.1%

Source: Norwegian Bankers' Association, Norwegian Commercial Banks, 1980 to 1996

Table 3

Many banks opened (and closed) representative offices before Norway liberalized entry in 1985

Came	Parent	Origin	Left	Location	Notes
1969	Schiffshypotekebank zu Lübeck AG	W.Germ.	<1970	Oslo	(1 & 3)
1973	Citibank	US		Oslo	(2) Subsidiary in 1985
	William & Glynn's Bank	UK	<1974	Oslo	(2 & 3)
1974	Manufacturers Hanover	US		Oslo	(2) Subsidiary in 1985
	The Bank of Nova Scotia	Canada		Oslo	(1)
	Lazard Bros. & Co.	UK	<1975		(2 & 3)
1976	Landesbank Schleswig Holstein Girozentrale	W.Germ.	<1977	Oslo	(3)
	Banque Nationale de Paris	France		Oslo	(2) Subsidiary in 1985
1978	Norddeutsche Landesbank Girozentrale Hannover	W.Germ.	<1979	Oslo	(1, 2 & 3)
1979/80	Société Generale	France		Oslo	(1 & 2; 4 says 1983)
1981	Skandinaviska Enskilda Banken	Sweden		Oslo	(1) Branch in 1994
	Wermlandsbanken	Sweden			(1 & 4) Subsidiary in 1986
	Uplandsbanken	Sweden		Oslo	(1 & 3)
1982	Sundsvallsbanken	Sweden		Trondheim	(1 & 4)
1984	Sparbankernas Bank	Sweden		Oslo	(4; 1 says 1982)
	Faellesbanken og Skopbanken	Finland		Oslo	(1)
	Banque Indosuez	France		Oslo	(4)
1984	Sparekassen Sydjylland	Denmark		Oslo	(1 & 3)
1985	Credit Lyonnais	France		Oslo	(1)
	Helsingfors Aktiebank	Finland		Tromsø	(1)
	Union Bank of Finland	Finland		Oslo	(1)

Sources: 1) Commercial Banks in Norway 1985; 2) Norwegian Commercial Banks 1980; 3) Polk's does not confirm. 4) Polks.

Table 4a
Many foreign banks with relationships with OSE-listed companies did not have representative offices in Oslo in 1979 and did not establish subsidiaries in 1985

	1979		1985	
	Relationships	Rep. Office	Relationships	Subsidiary
Manufacturers Hanover	0	1	1	1
Texas Commerce	0	0	1	0
Chemical Bank	10	0	5	0
Chase Manhattan	1	0	0	1
Citibank	1	1	2	1
Hambros Bank	6	0	3	0
Lazard Bros.	3	0	1	0
Manufactures & Traders Trust	2	0	1	0
Royal Bank of Canada	1	0	1	0
Bank of Nova Scotia	0	1	0	0
Banque Nationale de Paris	0	1	0	1
Société Generale	0	1	0	0

Source: Ongena and Smith (1997b)

Table 4b
There is possibly an association between a bank's having a long established relationship with one or more firms in Norway and its opening of a subsidiary there in 1985.

		Relationships in 1979	
		0 or 1	More than 1
Rep. Office in 1979?	Yes	4	0
	No	1	4

Log odds (after adding 0.5 to each cell) = 3.3 with s.e. = 3.2

Table 5

Between 1985 and 1995, eleven foreign banks established subsidiaries or branches; six are left

Est.	Parent	Closed	Notes
1985	Citibank (US)		Established representative office in 1973. Subsidiary converted to branch in 1994.
1985	Manufacturers Hanover (US)		Established representative office in 1974. Changes name to Chemical after 1991 merger between Chemical Bank and Manufacturers Hanover. Name changes again to Chase Manhattan after Chase merges with Chemical Bank in 1995.
1985	Chase Manhattan (US)	1992	
1985	Banque Paribas (Fr.)	1989	Closed out by acquisition by Oslobanken in 1989. Oslobanken was founded in 1984 and wound-up in 1995.
1985	Banque Nationale de Paris (Fr.)		Established representative office in 1976. Originally 25% Forretningsbanken. (Forretningsbanken merged into Fokus in 1986.) Acquired Kjøbmandsbanken in 1990. Bought out Fokus' holding in 1995 after lawsuit.
1985	Banque Indosuez (Fr.)	1993	20% Rogalandsbanken until 1988. Winding up in 1993.
1985	Samuel Montagu (UK)	1993	Name changed to Midland Montagu. Winding up in 1993
1986	Inter Nordisk Bank (Swed.)	1993	Established by Skanska Banken and Wermlandsbanken. Eventually owned by Gota Bank. Wermlandsbanken merged with Gotabanken and Skaraborgsbanken to form Gota Bank. Norway's Gjensidije Insurance company acquired Inter Nordisk in 1993.
1988	Svenska Handelsbank (Swed.)		Acquired Oslo Handelsbanken in 1990. First takeover by a foreign bank. Converts to branch in 1995.
1990	Svenska Nordbanken (Swed).	1995	PK-banken A/S. Changes name in 1990. Leaves in 1995.
1994	Skand. Enskild.Banken (Swed.)		Opens branch in 1994. Earlier had owned 15.8% of Nordlandsbanken.

Table 6a

There is possibly an association between a bank's having a long established relationship with one or more firms in Norway and its opening of a subsidiary there in 1985.

		Relationship recorded before 1981 and still in 1984?	
		Yes	No
Subsidiary in 1985?	Yes	2	5
	No	4	Arguably large

Log odds (for 'arguably large' = 100) = 2.3 with s.e. = 1.8

Table 6b

There is an arguable association between a bank's having a long established representative office in Norway and its opening of a subsidiary there in 1985.

		Representative office before 1980 and still in 1984?	
		Yes	No
Subsidiary in 1985?	Yes	3	4
	No	1	Arguably large

Log odds (for 'arguably large' = 100) = 4.3 with s.e. = 2.2

Table 7

Trade, competitive dynamics, and experience with a representative office are important in explaining entry

(t statistics in parentheses)

	Top 20 FX Dealers		50 Largest Banks	
	Raw	Standardized	Raw	Standardized
Constant	-0.04		1.1	
	(-0.05)		(0.97)	
FX Market Share	-0.01	-0.04		
	(-0.30)			
Ln (Assets)			-0.11	-0.12
			(-1.06)	
Top 20 FX Dealer			-3.8	-5.9
			(-1.9)	
Ln (Assets) * Top 20			0.34	5.6
			(1.9)	
Ln (Exports)	-0.10	-0.30	-0.18	-0.78
	(-1.5)		**(-3.8)**	
Ln (Imports)	0.09	0.14	0.17	0.35
	(0.65)		**(2.2)**	
SAME	1.0	3.3	1.0	3.9
	(3.38)		**(6.1)**	
$SAME^2$	-0.32	-3.2	-0.32)	-3.5
	(-3.4)		**(-6.1)**	
Representative office	0.40	0.40	0.18	0.18
	(2.2)		**(1.7)**	
Barrier	-0.33	-0.18		
	(-0.97)			
R^2	0.88		0.74	
SER	0.18		0.18	
F	2.2		**13**	
NOBs	20		46	

Note: **boldface** indicates significance at the 5% level on a one-tailed test.

Table 8a

Having a established a representative office early and being larger at start-up correlate positively with survival

Bank	Survival to 1995?	Representative Office before 1980 and still in 1984?	No. of Relationships in 1985	Assets (1985) Subsidiary (NOK mn)	Assets (1985) Parent (US$ bn)
Citibank	**Yes**	**Yes**	2	649	143
Manufacturers Hannover	**Yes**	**Yes**	1	573	73
Chase Manhattan	No	No	0	301	82
Banque Nationale de Paris	**Yes**	**Yes**	0	190	99
Banque Paribas	No	No	0	254	56
Banque Indosuez	No	No	0	185	26
Samuel Montagu	No	No	0	67	2

Table 8b

Size may correlate positively with survival

(t-statistics in parentheses)

	Model 5.1		Model 5.2		Model 5.3	
	Raw	Stand.	Raw	Stand.	Raw	Stand.
Constant	-1.9		-2.0		-2.1	
	(-1.4)		(-1.3)		(-1.2)	
ln (Subsidiary assets)	0.42	0.60			0.28	0.40
	(1.7)				(0.53)	
ln (Parent assets)			0.22	0.57	0.09	0.23
			(1.6)		(0.30)	
R^2	0.36		0.33		0.37	
SER	0.47		0.48		0.52	
F	2.8		2.4		1.2	
N	7		7		7	

Table 9

In 1994, foreign banks were well-established in Norway but represented essentially a fringe of small niches

	Name	Status	Assets (NOK mn)	Employees	Branches
1	Den norsk Bank	Govt. owned	154,366	5,198	163
2	Kreditkassen (CBK)	Govt. owned	114,582	4,024	148
3	Fokus	Govt. owned	27,858	1,119	76
4	BN Bank		23,373	100	1
5	Nordlandsbanken		11,289	438	21
6	Landsbanken		8,350	285	14
7	Handelsbanken	Frn. branch	7,974	163 (1)	n.a.
8	Industri & Skipbanken		5,908	51	1
9	Bergens Skillingsbank		5,586	148	4
10	BNP Kjøbmandsbanken	Frn. sub.	3,465	68	0
11	Finansbanken		3,410	36	0
12	Chemical Bank	Frn. sub.	2,552	59	0
13	Romsdals Fellesbank		2,563	129	10
14	Gjensidije		1,245	38	0
15	Skandinaviska Enskilda Banken	Frn. branch	912	n.a	n.a.
16	Voss Veksel-og Landmandsbank		725	24	0
17	Oslobanken		474	22	0
18	KreditBanken		440	8	0
19	Citibank	Frn. branch	407	24 (1)	n.a.
20	Svenska Nordbanken	Frn. sub.	347	3	0

Note: 1) 1993 figures. The Norwegian Bankers Association does not report figures for employees or branches at branches of foreign banks in 1994.
Source: Norwegian Bankers' Association, Norwegian Commercial Banks, 1980 to 1994