Internationalisation of Estonian Banking*

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Internationalisation of Estonian banking sector has mainly been driven by market-seeking argument, but also competition about the strategic advantage of first entry in Latvian and Lithuanian markets played important role. The most successful example is Hansapank, which has developed from a small Estonian bank into a leading commercial bank in the Baltic States. The success of Hansapank is the result of several mutually reinforcing activities: rapid creation of ownership specific assets - professional skills, specialised know-how and customised service combined with confidence building.

Die Internationalisierung des estnischen Bankensektors liegt vor allem in der Suche nach Märkten begründet, aber auch der Wettkampf um einen strategischen Vorteil durch den Ersteintritt in den lettischen und litauischen Markt spielte eine wichtige Rolle. Das erfolgreichste Beispiel hierfür ist Hansapank, das sich von einer kleinen estnischen Bank in die führende Handelsbank in den baltischen Staaten entwickelt hat. Der Erfolg von Hansapank ist das Resultat von sich gegenseitig vertärkenden Aktivitäten: zügige Schaffung von besitzerspezifischen Anlagen – professionellen Fähigkeiten, spezialisiertes Knowhow und angepasster Service gepaart mit Vertrauensbildung.

Key words: Internationalisation process / banking sector / Estonia / outward foreign direct investment / service sector

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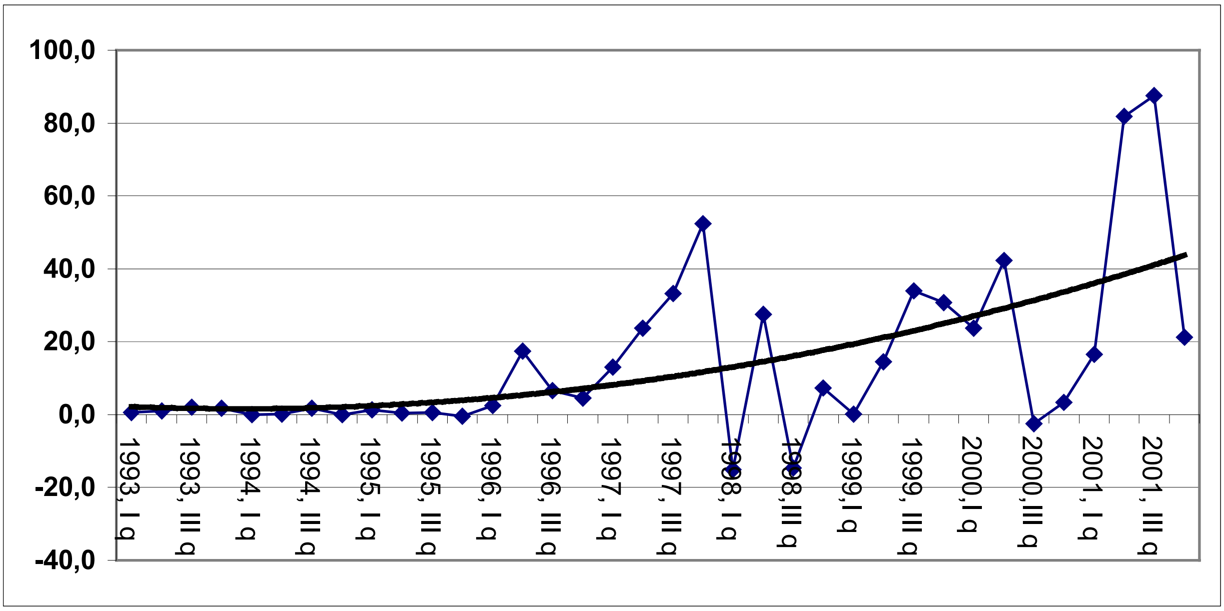
1. The Role of Services in Estonian Outward Foreign Direct Investments

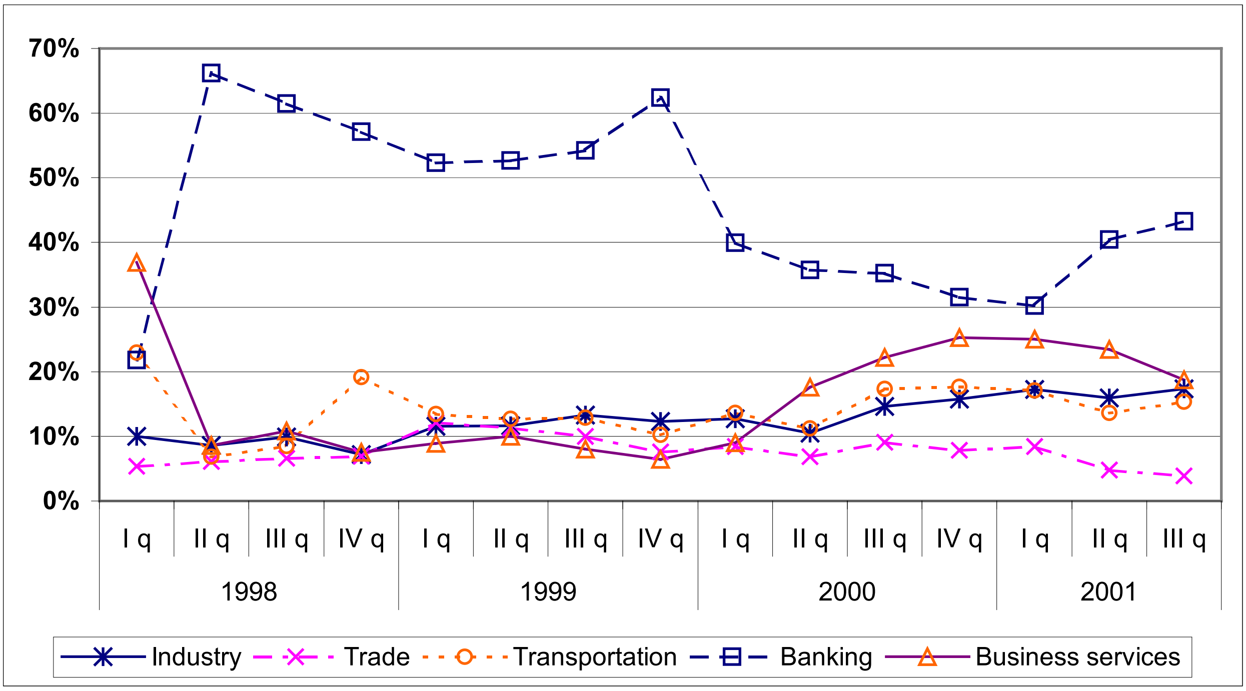
Internationalisation of Estonian firms was accomplished in early 1990 primarily by using direct and indirect exports. Estonia as a small country with extremely liberal foreign trade policy combined with the successful establishment of free trade agreements with all major trading partners offered for Estonian firms good opportunities to enter foreign markets. Estonian firms started to invest abroad as late as in 1996. It was followed by the first significant outflow boom in 1997 with outward FDI totalling at EEK 1913 million. In 1997, Estonia was leading among transition countries by per capita outward investments. After the Russian crises in late 1998, the FDI outflows were reduced to minimum. In some periods Estonian firms even reduced their outward FDI by taking back loans from affiliates, which is shown on Figure 1 by negative FDI outflows in third quarter of 1998.

Figure 1. Quarterly Dynamics of Estonian Outward Direct Investments (Euro million - polynomial trend)



Together with general improvement of economic climate in Estonia in the second half of 1999 the outflows of FDI from Estonia increased again and peaked in 2001. Service sector has played a dominating role in investing abroad in Estonia. The share of services from the total outward investments of Estonia has been around 80% since 1996. Banking has been absolutely leading sector compared with the other services and manufacturing industry. In period 1998 till 2000, the banking sector formed up to 50-60% of Estonian annual outward investments (see Figure 2).

Figure 2. Distribution of Estonian Outflow of Direct Investments by Activities 1998-2001 (% of total quarterly outflow)



Source: Calculated from the data of the Estonian Bank.

Services are dominating in Estonia and the Czech Republic. Trade has been very important in the outflow of investments in the Czech Republic. Manufacturing industry has been much more important than services in Slovenia and Hungary. Inside services the role of banking sector has been biggest in Estonia. Therefore, one could expect that there were very strong motivating factors, why Estonian banking sector internationalised so strongly.

Table 1. Share of Services in the Outflow of Direct Investments in Some Transition Countries (% of the stock of total outflow)

	Slovenia 2000	**Czech Rep. 1999**	**Estonia 2000**	**Hungary 1999**
Service sector	38.2	79.5	83.1	25.9
financial intermediation	15.0	25.9	40.4	13.4
real estate and business services	6.3	7.0	23.5	2.9
transport and communications	6.2	n.a.	13.6	0.2
trade and repairs	8.6	30.1	4.8	6.9
construction	2.0	n.a.	0.7	0.1
other services	0.1	16.5	0.0	3.4

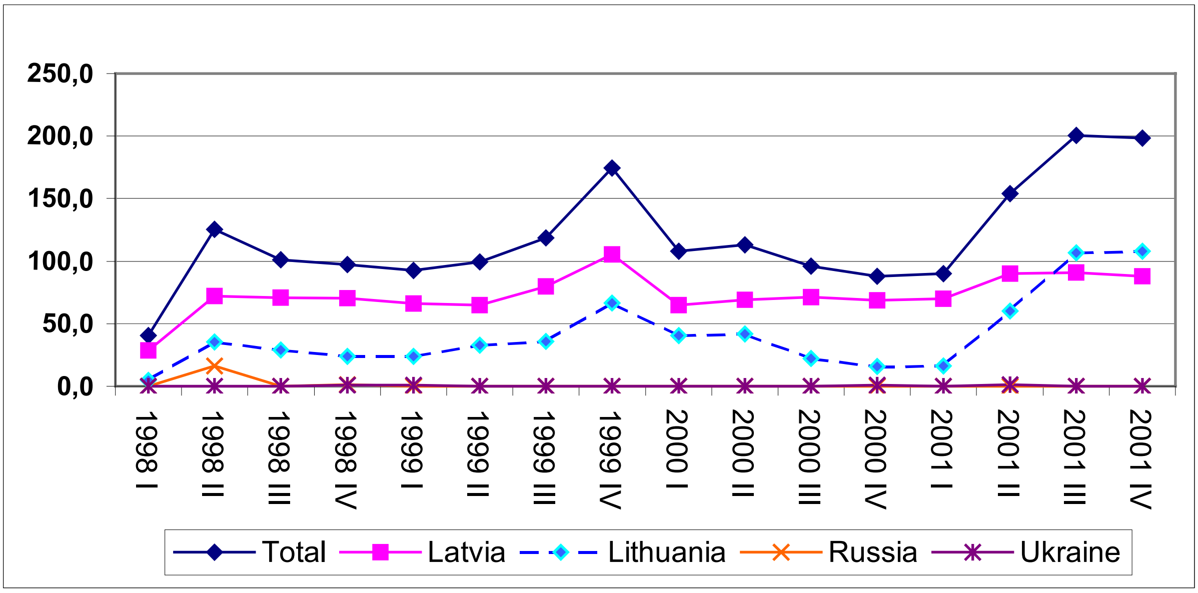
Source: Stare (2002).

2. The Beginning of Internationalisation in Estonian Banking

In Estonia, the banking was the leading economic sector, which moved across the borders and started to use the opportunities offered by the internationalisation process. The main special feature of the internationalisation of Estonian banking sector was that they had to accomplish reconstruct themselves considering the needs of market economy and join the globalisation process at the same time. These two developments were performed in accelerated speed.

In general, the internationalisation of Estonian banking sector could be divided into two stages. The first period started in the beginning of the 1990s and concluded by the end of 1998, when foreign banks bought the majority of shares in leading Estonian banks. The first stage of internationalisation represents, therefore, mainly the strategic plans of Estonian banks to go abroad. It resulted in significant outflow of investments into Latvia and Lithuania and peaked in 1999. Second stage started in 1999 and continues today. It does not reflect strategic interests of only Estonian managers, but also foreign banks. Therefore, it could not be analysed in the isolation of the strategic goals of foreign investors. This stage has produced initial decline in the stock of outward investments, but starting from the beginning of 2001 new rapid growth started (see Figure 3).

Figure 3. The Distribution of the Stock of Estonian Outward Investments of Banking Sector by Target Countries 1998-2001 (Euro million)



There are several reasons why Estonian banks started to move into neighbouring countries. From the list of different theories explaining foreign market entry process the most relevant to the Estonian banking sector are eclectic model and network theory. The classical Scandinavian stage model of entering foreign markets holds only partly regarding to the internationalisation of Estonian banking sector. It is suitable to explain selection of foreign markets, but does not hold in the aspect of movements from simple to the more complicated methods of market entry (see Table 2).

The list of motives of internationalisation includes both proactive and reactive factors. It seems that proactive motives were still dominating in decision-making about Estonian banks going abroad. Estonian banking crisis in 1992 resulted in the strong consolidation of banking sector. In the process of consolidation also complete restructuring of banks occurred. It covered all aspects of banking industry starting with improvements in the quality of loan portfolios and ending up with boosted innovation. This increased competitiveness of Estonian banks compared with neighbouring Baltic countries, Russia, and Ukraine.

Table 2. Motives of Internationalisation in Estonian Banking Sector

	Internal triggers	**External triggers**
PROACTIVE	Search for market power, increase market share.	Strategic presence vis-à-vis competitors.
	Distinctive service and brand. Increase brand identity.	Increasing concentration (through acquisitions and mergers).
	Extend product range and life cycle.	Improvements in information technology.
	Visionary leadership.	Improvements in physical infrastructure (communication networks).
	Diversification.	
REACTIVE	Improve levels of business performance.	Decline, saturation of local/national market.
	Have excess capacity (human capital, technology).	Intensity of competition. Avoid the entry by cross-border rivals.
	Suitable situation to obtain foreign bank (default).	Service existing customers who have gone international.

Source: Varblane (2001).

In the restructuring process strategic assets were created in the form of the new technology. Estonian banks successfully implemented information technology into their business. All major banks introduced Internet banking already in the middle of the 1990s. The main reason for the internationalisation of Estonian banks was market-seeking argument – the domestic market was very limited by size and competition was fierce. Therefore, Estonian banks started to use their created strategic assets in entering into Latvian and Lithuanian markets. This process also included also strong component of competition between Estonian banks themselves in order to obtain strategic advantage of first entry.

Foreign banks were still not interested to enter Latvian and Lithuanian markets due to relatively small size and high risk. Therefore, Estonian banks used the suitable situation. Additional important aspect in entering Latvian and Lithuania markets was also need to serve Estonian firms, which moved intensively into these markets since early 1995. Latvia and Lithuania together by that time formed around 15% of Estonian total export. This is a traditional reason of internationalisation in services, mentioned earlier in literature (Terpstra & Yu, 1988). As the stability of local banking sector in Latvia and Lithuania was very weak, then Estonian firms were looked for stable financial services and it was provided by subsidiaries of Estonia banks there.

The Estonian banks have used three strategies in their internationalisation:

1. setting up subsidiaries and branches (greenfield);
2. buying up local banks (complete takeover); and
3. acquiring a significant stake in some local bank.

The first one to succeed was Hansapank, who in 1996 used suitable moment and acquired a Latvian bank (Deutsche Lettische Bank), which had defaulted. The former name of the bank was changed into Hansapank-Latvija, the shares of the former shareholders were exchanged for the shares of Hansapank, and the management of the subsidiary was changed. After the success of Hansapank became known, the other competing Estonian commercial banks began to make plans for buying up the banks in the markets of Latvia, Lithuania, Russia, and Ukraine.

Eesti Hoiupank acquired FABA bank in Moscow in September 1997. As in the course of take-over it became evident that the assets of the bank were weaker than expected, Eesti Hoiupank abandoned the Russian bank, for the reason that holding of the bank did not conform to the strategy of the bank's Russian trend. In 1998, they bought 72% of Zemes Banka in Latvia and later on Hansapank obtained this share due to the merger with Estonian Savings Bank. The activity of the Tallinn Bank in acquiring Saules Bankas in Lithuania was successful, too. In 1996 the bank started with the share of 20% and in March 1998, just before Tallinna Pank merged with the Union Bank of Estonia, it already held a controlling block of shares of 80%. But the activities of Forekspank in Pioneer Bank in Moscow lasted only two months. The possible share of 51% was abandoned already in June 1998 because the bank was declared to be without perspectives.

As acquisition often means taking over a poorly functioning bank, which needs restructuring or re-capitalisation, obtaining a strategic share can meet the reluctance of other banks and the central bank, often the tactics of starting from scratch is chosen. Hansapank has reiterated its intentions to establish a subsidiary in Lithuania although the first two failed. On 7 July 1999, Hansabankas Lithuania opened the doors to the clients in Vilnius as typical greenfield investment. It had only 200 clients but the subsidiary expected to seize 5% of the Lithuanian banking sector in the next three years. In reality much more rapid expansion on Lithuanian market happened. In addition to strong organic growth, the Hansapank Group also completed the acquisition of the largest retail bank in Lithuania, Lietuvos Taupomasis Bankas (LTB) after long privatisation process. This acquisition significantly strengthened Hansapank's position in Lithuania as well as in the whole Baltic market.

Eesti Ühispank (Union Bank of Estonia) had especially highflying plans. In autumn 1997, the bank announced its plans to establish a subsidiary bank of the total assets of EEK 1.5 billion in St. Petersburg (the total assets of Eesti Ühispank this time was ca EEK 9.5 billion). Even at the beginning of 1998 the value of Eesti Ühispank had not changed essentially as the bank was planning to spend one billion kroons on opening a branch in Helsinki and a bank office in Stockholm. Tallinna Pank had even more ambitious plans. In January 1998, the Chairman of the Board announced the bank’s goal to gain a market share of 35% in the Baltic market. The internationalisation of Ühispank was cancelled in 1999, after Swedish SEB took over the majority of shares. Since 1999 up to 2002 the SEB started to create Baltic network of SEB subsidiaries and Ühispank lost its subsidiaries in Latvia and Lithuania.

The first stage of internationalisation of the Estonian banks gave both positive and negative experiences. We can make general conclusion that the internationalisation was directed toward the East, where Estonian banks had created specific advantage (knowledge, technology, organisational culture etc.). The researchers of the banking globalisation have reached the conclusion that excessive eagerness in entering foreign markets without sufficient preliminary knowledge about local economic conditions may raise the vulnerability of such banks.

The Estonian banks’ experiences of the East expansion have proved this conclusion. Eastwards internationalisation increased the risk level of Estonian domestic banking and its sensitivity to crises. The second conclusion is that the realisation of internationalisation plans is often being dragged on, thus it will not be so successful as expected. Conclusively it indicates that either the banks were not able to foresee the risks of internationalisation or they used in this stage the announcement of their internationalisation plans to the public as the means of advertising and improving their image.

As the internationalisation of Estonian banks was one-way – towards the East, then in the result of the financial crises of Southeast Asia in 1997 and in Russia in autumn 1998, most of these projects were terminated, and caused the owners mainly negative results. The Estonian banking sector ended the year 1998 in big losses.

After the Estonian banking crises in 1998-99 and new wave of consolidation banks began to abandon risky eastern projects. Since 1999 second stage in the internationalisation of the Estonian banking sector started. It is characterised by the massive inflow of foreign capital into the Estonian banking sector. The foreign market entry decisions did not reflect solely plans of Estonian managers, but also internationalisation strategies of foreign banks.

3. Expansion of Foreign Banks into Estonia and Its Impact on the Internationalisation Process

The opposite process - the entry of foreign banks into Estonia, has accompanied the internationalisation of Estonian banks by entering into neighbouring countries since the mid-1990s. Foreign banks just waited for a suitable moment to ‘run to help’ the local banks, who have been too risky in their business. Bank of Estonia did not allow before the currency reform in 1992 any foreign share in Estonian commercial banks. But the new regulations of the issuance of banking licences after the currency reform did not impose such restrictions. Therefore, in August 1992 Baltic American Union Bank received a licence as well as INKO Baltic Bank in September 1994, which was the subsidiary bank of the Ukrainian INKO Bank.

Table 3. Shareholders of the Estonian Commercial Banks (%)

Shareholders	**31.12.98**	**21.12.99**	**31.12.00**	**31.12.01**
Eesti Pank (Bank of Estonia)	13.1	11.4	0.0	0.0
Local governments	0.4	0.3	0.0	0.0
Non-resident credit institutions	45.5	52.6	67.0	63.3
Other non-resident legal bodies	9.5	9.0	16.7	22.3
Resident credit institutions	1.5	4.6	0.6	0.5
Other resident legal bodies	20.8	10.5	6.2	5.1
Resident private individuals	8.4	10.8	9.1	8.5
Non-resident private individuals	0.5	0.7	0.2	0.1
Other shareholders	0.3	0.1	0.2	0.2

Source: Data of the Bank of Estonia.

The Swedish major banks (Swedbank and SEB) managed to wait their time. They bought from the stock exchange the cheapened shares of the Estonian major banks and in 1998 they were able to acquire without resistance an essential share of the share capital of Hansapank and Eesti Ühispank that were facing financial difficulties.

The question, why the Scandinavian banks were and still are active in the Baltics has its own logic. The Baltic region is geographically ideal for Scandinavian banks in their expansion spree. Decisive action can be observed in Estonia, which banking sector is the most advanced Baltic State as far as the banking sector is concerned (Tiusanen & Jumpponen, 2000).

By the end of 1998, the share capital of Eesti Ühispank and Hansapank were on the hands of mainly Swedish credit institutions respectively 68% and 64% and the foreign share in the share capital of Estonian banks had increased to 58% (see Table 3).

By the end of 2000, 84% of the shares of Estonian commercial banks were in the ownership of non-residents and this share has stabilised in 2001. In general, foreign banks entered other transition countries in the same way as in Estonia – when the local banks are in difficulties. For example, the analysis of the Croatian banking proves that during the period of the third banking crises (1999-2000) the share of private capital in the banking sector increased to 90%, most of it was a foreign share.

Helo Meigas, vice-governor of the Bank of Estonia, concluded that with the entry of Swedish banks, the maturity structure in Estonian banking improved, creating sufficient buffers. The share capital of Estonian commercial banks increased and the capital adequacy of banks improved from 12% to 17% (Meigas, 1999).

But the penetration of foreign banks into Estonia is still continuing. In Tallinn German Landesbank Schleswig-Holstein Girozentrale, Swedish Svenska Handelsbanken, and Finnish Osuuspankkien Keskuspankki OY have opened the representative offices. In addition, EBRD has its shares in the Estonian banks and other financial institutions, and several banks have been interested in the Estonian banking market.

While coming to Estonia, the foreign banks have their own view on the future internationalisation. This is the special problem in dealing with outward FDI in Estonia and other transition countries – link between inward and outward FDI. There is no one single theory on foreign direct investment, which would evaluate its inward and outward dimension. The role of foreign investors in designing internationalisation strategy of Estonian banking sector has increased during last two-three years immensely. We could distinguish two different types of approaches.

The first approach is followed by Swedfund, the majority owner of Hansapank Group. They have basically used very decentralised 'hands off' approach, by which managers in Estonia are still developing and executing their plans of foreign market expansion. An opposite approach is presented by the case of Skandinaviska Enskilda Banken (SEB), the majority owner of Ühispank. They took over the role of strategic expansion planner and working hard in creating a Baltic banking net, which will include the banks in all the three Baltic States, controlled by SE Banken. The issue here is whether foreign firms, which could be called indirect investors, have better competitive position as compared to local Estonian ones. Do they have more global perspective? Do they have more experienced management? Do they have more flexibility in using and re-allocating funds? In case of positive answer, the inward flow of foreign investments improves the competitiveness of Estonian banking sector in other markets and also gives positive feedback to the banks in home country.

This is interesting interplay of the background of foreign owners. Swedfund was not experienced in working abroad and the purchasing of majority stakes in Hansapank was rather looked by them as an investment into well-working institution, where outside intervention and restructuring was not required. Therefore, the local managers were given free hands also in deciding about the future internationalisation strategy as long as success is continuing.

An opposite case is Skandinaviska Enskilda Banken (SEB), which had had many internationalisation experiences and after obtaining majority shares in Ühispank they started to implement SEB's vision about the internationalisation.

4. The Hansapank Group - The Leading Provider of Financial Services in the Baltic States

The internationalisation of the Hansapank Group started with small investments into representative office in Latvia and establishment of leasing and life insurance providing firms. In June 1996, Hansapank started next stage in internationalisation by acquiring 100% of Deutsche-Lettische Bank in Latvia and its name was changed to Hansabank-Latvija. In July 1998, further expansion of Hansapank occurred inside Estonia by merging with Hoiupank (Savings Bank). As a consequence Hansapank got a subsidiary in Latvia Zemes Banka, which was merged by Hansabank-Latvia in 1998. In the year 2000, the Hansabanka, subsidiary of Hansapank in Latvia, merged with Ventspils United Baltic Bank (VABB). This deal has strengthened the positions of the Hansapank Group in one of the most developed regions of Latvia - in Ventspils.

In 1997, a decision was made by Hansapank of Estonia to establish banking operations also in Lithuania and heavily was looked an opportunity of acquisition. During 1998, Hansapank was not able to find suitable bank for acquisition, and therefore, the bank decided to conduct a greenfield investment. Hansabankas of Lithuania started its activities from scratch in Vilnius City in July 1999, and later on, expanded to other towns. Hansabankas was the first foreign subsidiary bank in Lithuania. After 18 months of operations, the bank grew up to Euro 95 million by assets, Euro 36 million by gross loans and Euro 67 million by client deposits, which made him number five by client deposits out of thirteen commercial banks in Lithuania as of end of 2000. But this organic growth of greenfield banks was unsatisfactory for Hansapank and acquisition was again top priority of Hansapank in Lithuania.

The year 2001 marked a launch of the rapid expansion on Lithuanian market. In addition to strong organic growth, the Group also completed the acquisition of the largest retail bank in Lithuania, Lietuvos Taupomasis Bankas (LTB) in April 2001. The privatisation process of LTB was long and complicated. The Hansapank Group expressed their interest toward purchasing LTB since the beginning and after long privatisation process.

Table 4. The Baltic Banks in the List of Top 100 Central East European Banks

Position in Banker's Ranking		Bank	Country	Size of assets, 2000	Soundness (capital/ assets) 2000	Pretax profit 2000	Return on assets 2000
Latest 2000	Previous 1999			USD mn	latest %	USD mn	%
15	16	Hansapank	Estonia	2711	11.76	78	2.87
43	33	Eesti Ühispank	Estonia	944	9.22	-6	-0.62
51	58	Parex Bank	Latvia	898	8.38	18	2.05
52	53	Latvijas Unibanka	Latvia	741	9.83	22	3.01
54	60	Vilniaus Bankas	Lithuania	1386	4.99	19	1.39
77	65	Lietuvos Taupomasis Bankas *	Lithuania	858	4.72	-8	-0.93
78	77	Bankas Snoras	Lithuania	156	25.51	1	0.88
93	89	Lietuvos Zemes Ukio Bankas	Lithuania	417	6.92	2	0.47

* belonging since 2001 into Hansapank Group
Source: http://thebanker.easypress.net/rankings/top_100_central_europe/index.epml

In April 2001, Hansapank was finally able to buy 91% of the share capital of LTB for Euro 43 million. In addition, Hansapank took an obligation to invest within next 18 months another Euro 43 million into LTB. In summer 2001, the Hansapank Group acquired shares from small investors and in September 2001 owns 99.7% of shares. This acquisition significantly strengthened Hansapank's position in Lithuania as well as in the whole Baltic market. The combined market share of the Hansapank Group in Lithuania, consisting of two banks - LTB and Hansapankas, increased over 32% of total assets, 36% of deposits and 48% of personal deposits. With this transaction Hansapank doubled its customer base and workforce. At the end of 2001, the Group had over 2.7 million customers.

As a result of active internationalisation, the Hansapank Group is the largest financial institution in the Baltic countries serving 2.7 million customers, with the total assets exceeding Euro 4.4 billion and shareholders' equity over Euro 0.4 billion. It has 565 branches and over 7500 employees. Hansapank was in the ranking of top banks in Central European transition countries on the 15th position by Banker, the British agency of banking information. The position will be even stronger, when one takes into consideration that Hansapank acquired Lietuvos Taupomasis Bankas, which was on the 77th position in the Bankers ranking (see Table 4).

Hansapank has developed into a universal bank, which provides to its clients a wide range of services from retail banking and corporate financing to life assurance, leasing and investment banking. The Hansapank Group's operations are divided into following business units:

1. banking in Estonia (Hansapank);
2. banking in Latvia (Hansabanka);
3. banking in Lithuania (Hansabankas) and Lietuvos Taupomasis Bankas;
4. pan-Baltic leasing and factoring (Hansa Capital);
5. corporate and investment banking (Hansapank Markets);
6. life insurance (Hansapanga Kindlustus); and
7. investment management (Hansa Asset Management).

Hansapank operates the largest bank in Estonia and the second largest commercial bank (by deposits) in Latvia. After the acquisition of Lietuvos Taupomasis Bankas the Hansapank became also second largest bank in Lithuania. The Hansapank Group holds from the total Baltic market 34% of deposits and 34% of loans including leasing (see Table 5).

Among the business units the most rapidly growing is leasing and factoring unit, the Hansa Capital Group, who is a strong market leader in each of the three countries with an estimated market share of 40%. Hansapank Markets, corporate and investment banking division of Hansapank, covers the financial markets of all the Baltic countries, providing a wide range of investment banking products.

The Hansapank Group has increasingly become an international company, the last shift being the acquisition of LTB. This reflects in the very dynamic change in the structure of assets, revenues and also net profits. By the end of 2001, the total assets have grown compared with previous year by 58%, revenues by 27% and net profits by 35%. The dominating role of Estonia is diminishing. The share of Lithuania in assets of the Hansapank Group is growing and after completion of restructuring of LTB the share of Lithuania in net profits will also increase (see Table 6).

Table 5. Market Share of the Hansapank Group in the Baltic States by the End of 2001 (%)

	Deposits	Loans with leasing
The Hansapank Group	34	34
SEB	26	31
Others	40	35

Source: Hansapank Annual Report 2001 (2002).

Table 6. The Geographical Distribution of Assets of the Hansapank Group

	Net profit (Euro mn)			**Revenues (Euro mn)**			**Assets (Euro mn)**		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Estonia	48.0	63.8	83.5		163.3	176.9		1641	1863
Latvia	6.4	14.9	20.1		54.7	68.1		539	814
Lithua-nia	0.1	2.5	8.4		12.0	47.9		214	1019
GROUP	52.1	82.3	111.9	181.2	226.7	288.7	2189	2914	4603

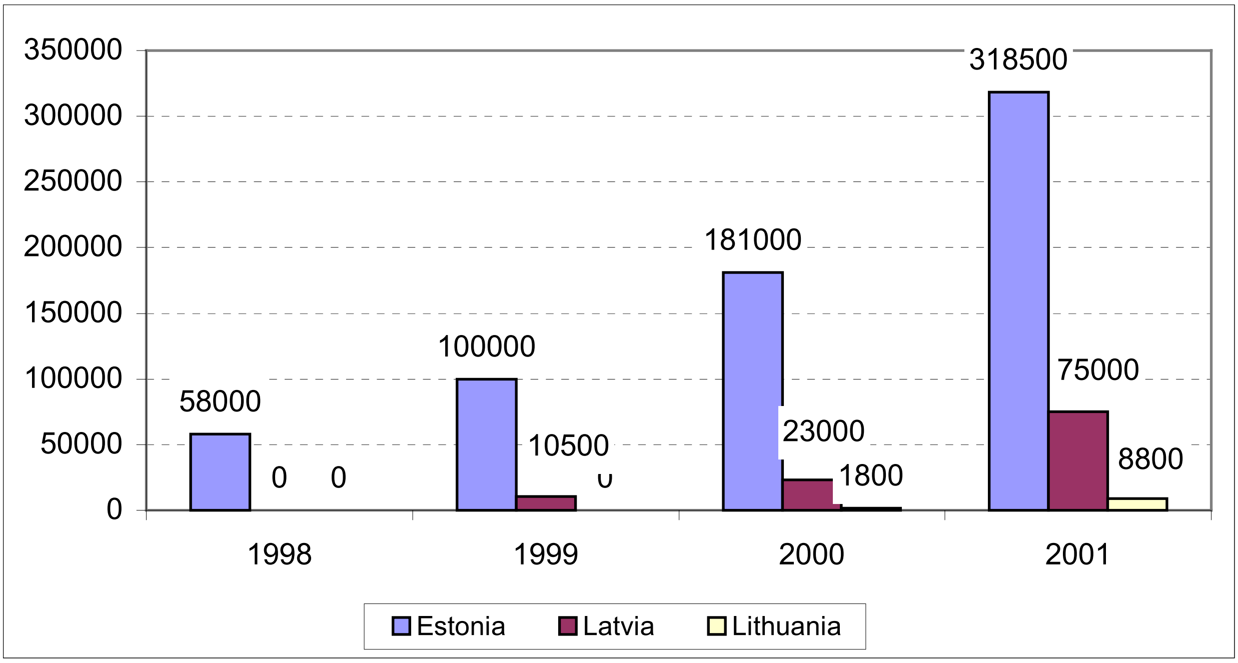
Source: Hansapank Annual Report 2001 (2002).

Another significant development during the first half of the year was the strong growth in the usage of our Internet banking product, hanza.net. The Group has 400 thousand online-customers in the Baltics and is the leading Internet banking service provider both, in Estonia as well as Latvia. In Latvia, Hansapank has improved the functionality of the product on several occasions and in Estonia e-banking team is preparing to launch new versions of the corporate and retail hanza.net in the autumn 2002 (see Figure 4).

The biggest challenge of the Hansapank Group is associated with the integration of Lietuvos Taupomasis Bankas. “Acquisition of the Lithuanian Savings Bank is one of the milestones in Hansapank’s 10-year history. Currently we are the fastest growing bank in Latvia and the market leader in Estonia. Lithuania, the largest of the three Baltic countries, has considerable potential and the development possibilities in the banking sector are significant. We are striving to significantly reinforce our market position with the acquisition of LTB", said Indrek Neivelt, the CEO of the Hansapank Group.

In order to complete this ambitious task within 24 months, the Hansapank Group has assembled an integration team from the Group's employees who are advising Lithuanian colleagues based on the experience gained from similar mergers in Estonia and Latvia. The most important tasks of the integration team are the replacement of the IT system, unification of LTB and Hansabankas' organisations and the creation of an organisation based on Hansapank's core values and culture, outsourcing of non-core activities as well as the re-organisation of the risk management function.

Figure 4. Dynamics of e-Banking Users of the Hansapank Group in 1998-2001 (thousands of users)



Source: Hansapank Annual Report 2001 (2002).

5. Conclusions

1. The internationalisation of Estonian banking sector could be divided into two stages. The first period started in the beginning of the 1990s and concluded by the end of 1998, when foreign banks bought the majority of shares in leading Estonian banks. The first stage of internationalisation represents, therefore, mainly the strategic plans of Estonian banks to go abroad. It resulted in significant outflow of investments into Latvia and Lithuania. The second stage started in 1999 and continues today. It does not reflect strategic interests of only Estonian managers, but also foreign banks. Therefore, it could not be analysed in the isolation of the strategic goals of foreign investors. This stage has produced initial decline in the stock of outward investments, but starting from the beginning of 2001 new rapid growth has started.

2. The main reason for the internationalisation of Estonian banks was market-seeking argument – the domestic market was very limited by size and competition was fierce. Therefore, Estonian banks started to use their created strategic assets in entering Latvian and Lithuanian markets. Additional important aspect in entering Latvian and Lithuania markets was also need to serve domestic firms, which moved intensively into these markets since early 1995. As the stability of local banking sector was very weak, then Estonian firms looked for stable financial services and it was provided by subsidiaries of Estonia banks there.

3. Positive example of the internationalisation is Hansapank, which has developed itself from a very small bank in Estonia into a leading commercial bank in Baltics, which is located on the 15th position in the ranking of top Central East European banks. Hansapank has created an extensive network of subsidiaries in all Baltic countries covering different financial services.
4. The success of Hansapank is result of several mutually reinforcing activities. First of all, the vision of managers and their early commitment to the strategy of internationalisation. Hansapank was able to create the ownership-specific assets very rapidly in the period 1991-1996. It consisted of service-specific aspects (professional skills, specialised know-how and customised services) combined with trust. Managers of Hansapank succeeded to work out strong and contemporary business culture, which helped to build up confidence. Hansapank is very open to technological innovation and since the early 1990s used opportunities offered by Internet environment and created best innovative services in Central Eastern Europe.

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