

The Internationalisation of Retail Banking: Banco Santander's Journey towards Globalisation

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This article provides a rich description of Banco Santander's transformation from a medium-sized Spanish bank to one of the world's biggest and most profitable banks. This internationalisation has been distinguished not just by its speed and scale, but also by its profitability and creation of shareholder value: a stark contrast to the disappointing outcomes of trans-border ventures at many other banks. We identify a systematic pattern in Banco Santander's international growth that we conceptualize as a three step process: first, building capabilities in the home market; second, creating growth options in foreign markets through small-scale acquisitions or strategic alliances; third, large-scale foreign market entry and rapid integration. We identify three features of Banco Santander's international strategy which can offer useful guidance to other financial service firms. First, the importance of basing international expansion on superior home-based organisational capabilities; second, the merits of an exploratory approach to learn about new markets and assess potential acquisition targets; third, the value of transferring home base capabilities through cross-border integration of new acquisitions into the existing international network. While the pattern of its internationalisation differs from those of manufacturing firms, Santander's strategy is consistent with two key features of the Uppsala model: increasing commitment to foreign markets incrementally, and entering foreign markets sequentially, starting with those with close cultural and/or economic proximity to the home country.

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Introduction — ‘the Best Bank in the World’?

The fundamental challenge of internationalisation in service industries is how to achieve economies from cross-border integration when the production of services is highly decentralized. For banking - especially retail banking - the challenge is even greater, as government regulations further separate national markets. Hence it is hardly surprising that retail banks have lagged behind not only manufacturing firms but also many other types of service firms in internationalising their activities. The 1990–2008 internationalisation ‘wave’ has revealed two notable features of banks’ international strategies. First, despite strong imitative tendencies, there appears to be no common pattern and little consistency to bank’s internationalisation strategies - banks’ adoption of different entry modes, different geographical patterns and different foreign market development strategies tends to support the inference that bank’s internationalisation moves have been driven primarily by opportunism. Second, even before the onset of the credit squeeze in 2007, it was clear that overseas expansion was no guarantee of superior financial performance.¹

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For these reasons, it is instructive to consider a retail bank that has both adopted a systematic approach to international expansion *and* has generated exceptional financial and operational performance.² Two decades ago Banco Santander was a small Spanish bank — in 2008, it earned more profit than any other bank in Europe or North America, lagging behind only the Industrial and Commercial Bank of China and the China Construction Bank in world tables.³ In terms of market capitalisation, it was the euro-zone’s leading bank by early 2009, ranking number seven in the world. Table 1 illustrates how Santander’s growth between 1985 and 2008 was accompanied by increasing levels of cost efficiency: between those years it reduced its cost-to-income ratio (operating expenses/operating income) from 0.50 to 0.42, making Santander the most efficient of the major international banks. Growing revenues at five times the rate of growth in costs allowed Santander’s net operating income to increase by 19%, while its ability to transfer its efficiency to its foreign subsidiaries has been indicated by its driving down the cost-to-income ratio at Abbey National (its major UK acquisition) from 0.70 (well above the European average) to 0.50. This kind of performance led *Euromoney* magazine to name Banco Santander the ‘Best Bank in the World’ in 2005, noting ‘*Its ability to grow in difficult markets, its strategic focus on retail banking and its capacity for execution*’.⁴

The link between Banco Santander’s outstanding performance and its internationalisation strategy is evident from the contribution of foreign business to its financial results. In 2008, its international operations accounted for 68% of its overall operating profits, Latin America contributing 32%, Continental Europe 22% and the UK 14%.⁵ Banco Santander’s 1985–2005 internationalisation process clearly returned on investments, with an average annual internal rate of return of 16.2%; one euro invested in Banco Santander over the 20 year would have yielded a return over the period 66% greater than had it been invested in the Spanish Market Index. Table 2 compares

Table 1. Banco Santander’s growth (1985–2008)

	1985	2008
Number of customers	750,000	80 million
Net profit (€)	133 million	8,876 million
Market capitalisation (€)	2.5 billion	85.0 billion

Source: Presentation by Banco Santander President at ESADE, April 2008.

Table 2. Banco Santander’s asset and profit growth 1985–2005 compared to international and national comparators

Bank	Asset Growth CAGR (85–05)	Profit Growth CAGR (85–05)	Cost-to- Income (%) 2005	Int’l Business (%) 2005
Banco Santander	24	24	50	68
<i>International Comparators</i>				
UniCredit Group (Italy)	18	21	62	Limited
Barclays (UK)	16	13	61	38
Deutsche Bank (Germany)	15	12	75	71
BNP Paribas (France)	15	18	61	44
Bank of America (USA)	14	24	49	6
Citigroup (USA)	13	15	54	41
<i>National Comparators</i>				
BBVA	19	22	47	55
La Caixa	18	24	50	None
Caja Madrid	17	18	44	None
Banco Popular	13	14	35	None

Figures in percentages.

Source: Authors, with data from The Banker, Global Rankings 1985 and 2005, and Financial Reports of Banks for 2005.

Banco Santander’s performance to that of other leading European and American banks, revealing its high level of internationalisation and its rapid growth in assets, profits and cost efficiency.

This article looks in depth at Banco Santander’s internationalisation process between 1985 and 2008, with the aim of identifying the reasons behind its success and considering what lessons it may offer for other banks, and (given the lack of systematic evidence on internationalisation and performance in the service sector) for service businesses more generally.⁶ Research into the patterns and processes of firms’ internationalisation has concentrated chiefly on manufacturing industries, where internationalisation is viewed as a multistage process of increasing commitment, the first stage of which is exporting.⁷ Clearly, service companies — and retail banks in particular - cannot conform to this model, and their internationalisation must be based upon direct investment. Given the entry barriers surrounding national retail banking markets, such direct investment typically takes the form of acquisition. The key implication is that retail banks do not have the opportunity to test foreign markets by exporting, so internationalisation is a more risky proposition for them. Moreover, it is not immediately apparent that these risks are likely to be offset by compensating returns. Given the limited potential for exploiting economies of scale from global centralisation, and economies of scope from global standardisation, banks face significant challenges in creating value from international expansion. Foreign entries via acquisition increase this challenge, as the value created must exceed the acquisition premium paid for the local bank.

the potential for exploiting economies of scale [and] scope is limited [there are] significant challenges in creating value from international expansion. Santander’s strategy seems to have succeeded.

Banco Santander’s internationalisation process strategy appears to have succeeded in addressing both these problems. Our study of its international expansion between 1985 and 2008 examines the

bank's domestic growth, followed by its expansion into Latin America and then into Europe. We identify a three-step internationalisation process which begins with developing home market capabilities, then creating growth options in overseas market, followed by large-scale foreign market entry and integration. Beginning with a brief account of the development of the Spanish banking industry post-1985, we then trace this three-step internationalisation process in both Latin America and Europe, looking in detail at two particular deals. Identifying the key features of this internationalisation strategy, and of Santander's internationalisation management practices, allows us to derive lessons for the design and implementation of such expansion by other retail banks. We also comment on the relevance of Santander's international development for existing theories about multinational enterprise evolution.

Data collection

We followed a longitudinal case study methodology to study Banco Santander's internationalisation process for over two decades since 1985.⁸ Our approach was in the 'opening the black-box' tradition, to trying to capture the dynamics of the internationalisation process empirically. We conducted exploratory research using longitudinal data and qualitative methods so as to create knowledge in the relatively young field of internationalisation,⁹ and report on data from interviews, Banco Santander training activities and archival company data. We interviewed top group executives and then built a case study on the company,¹⁰ which was refined through in-classroom discussion at the Corporate University of Banco Santander with over 400 managers from different countries, regions and business units held as part of an in-company training programme. Archival data since 1985 covers the accelerated growth and internationalisation of Banco Santander under the leadership of its President, Emilio Botín and its CEO Alfredo Saenz, including both internal and external sources of information, from meeting notes, financial accounts, letters to shareholders, internal reports and strategy documents, as well as press and releases and public documents relating to the historical evolution of the Spanish financial sector. We triangulated the validity of our results with industry experts and independent institutions that analyse the industry (such as *The Banker*), and with former CEOs and Board members from competitors such as Deutsche Bank and Bank of America. In an effort to achieve the kind of close collaboration between academics and practitioners needed in the management field, we presented our basic conclusions jointly and publicly in Madrid, with Matias Rodriguez Inciarte (Santander's Executive Director, who had provided much of the original case study information) representing the bank.¹¹ President Botín also attended class discussions at ESADE Business School along with Juan Rodriguez Inciarte (the Santander Group Managing Director), to provide final comments and refinements to the empirical evidence.¹²

The domestic Spanish banking context

Deregulation and consolidation

Banco Santander's internationalisation can be seen as having its roots in the growing competition in the Spanish retail banking sector resulting from domestic deregulation in the late 80s, and the integration of Spain into the wider European economy. This competitive environment led to increased cost efficiencies among Spanish banks, and gave Santander opportunities to develop a competitive advantage by becoming an early mover in introducing new strategies and systems into retail banking.

The Spanish banking sector had been heavily regulated until late in the 80s, with the biggest banks meeting regularly - the media referred to them as a 'banking cartel' - and holding a common stance on collective wage agreements, discussing political issues relevant to the industry, and coordinating publication of their results. But in 1989 (coincident with Spanish membership of the EEC) the Socialist government and its President, Felipe González took various initiatives to deregulate the country's financial sector, including the complete liberalisation of interest rates and commissions, stock market reforms and new legislation covering pension funds and plans. Table 3 illustrates the impact of these measures and the consolidation activity that followed in Spanish domestic banking. In 1985, the seven largest banks in Spain accounted for less than 49% of the

Table 3. The seven top Spanish banks in 1985 and 2005: market shares in total assets

1985		2005	
Central	9.6	Grp. Santander	40.3
Banesto	8.9	BBVA	29.7
Bilbao	7.5	Popular	8.3
BHA	7.5	Sabadell	5.6
Vizcaya	6.3	Bankinter	4.0
Santander	5.4	Barclays	2.0
Popular	3.6	Pastor	1.9
	48.7		91.7

Shares of top 7 Spanish banks as % ages of total assets.

National Ranking (Banks only) Source: AEB.

banking sector's total assets: by 2005, this figure had risen to nearly 92%. During this time, Banco Santander (only Spain's sixth biggest bank in 1985) acquired and integrated the first, second and fourth largest on the 1985 list to create Grupo Santander, while the third and fifth largest 1985 banks amalgamated to form BBVA, the second biggest bank in 2005, by which time the two groups between them controlled virtually 70% of total Spanish banking assets. (This contrasts markedly with the fragmentation that characterised other post-deregulation European markets: a former Spanish Deutsche Bank executive reported Italy as having 'a large number of small banks - even [in] Germany, the biggest, Deutsche Bank, had [only] a 5% market share').

Increased competition

In the Spanish financial system, commercial banks competed (then, and now) with savings banks, which benefited from a special legal framework that barred them from paying dividends and

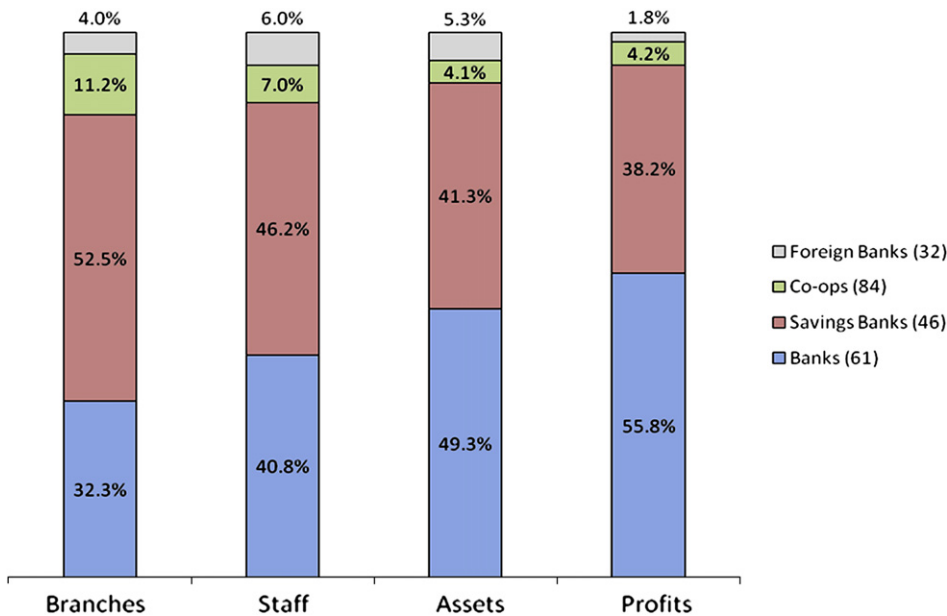


Figure 1. Structure of the Spanish financial system (2004). Numbers in legend represent numbers of banks of each type. Source: Banco de España (Spain's Central Bank).

obliged them to reinvest all surpluses not only in the original business, but within Spain, severely constraining their internationalisation opportunities. While savings banks outstripped banks in number of branches and staff, banks made better profits (see Figure 1), but the effect of having two distinct groups of banking institutions further increased rivalry within the Spanish market. The density of offices in towns and cities throughout the country was high, and a consequence of these factors was that the Spanish financial sector as a whole became seriously over-banked and, as a result, highly competitive. In 2008, with 95.9 branches per 10,000 inhabitants (compared to 52.1 in Italy and 49.4 in Germany) Spain had the highest density of bank branches of any EU country.¹³

This competitive landscape made it difficult for foreign banks to enter the Spanish market and capture significant market share — in fact, foreign entrants faced heavily entrenched local competitors who were generally more sophisticated and efficient than they were. Strong domestic competition drove both cost efficiency and innovations, which saw the near elimination of bank cheques in favour of electronic funds transfers (including direct debiting by the Inland Revenue, telephone companies, electricity companies, schools etc.) and the widespread use of ATMs. While ATMs in most advanced countries were basically used for cash withdrawals and simple financial transactions, those in Spain could be used to buy tickets for FC Barcelona football matches, for the Prado Museum in Madrid, and even for the Opera in Paris or concerts in London. They could also be used to donate money to the Red Cross, to buy bus and metro tickets and put credit on pre-paid mobile phone cards, and in many cases to allow customers to deposit cash into their accounts. In addition to such innovations, the strong competition in the Spanish financial system led to continuous cost reductions and operating system improvements. The prestigious magazine, *The Banker*, judged Spanish financial institutions as among the most efficient in the world, as the comparative national cost-to-income ratios in Figure 2 reveal. Against this competitive backdrop Banco Santander was able to develop the capabilities to become its home market leader, as a platform for its international expansion.¹⁴

Banco de España, Spain’s financial market regulator, also played a key role in creating the conditions for developing Spanish-based international banking. On the one hand, it liberalised the banking sector, creating the conditions for strong competition, but at the same time it has been very cautious and rigorous in regulating the sector. This emphasis on the traditional virtues of caution in the Spanish banking sector in general - together with the dominant presence of three

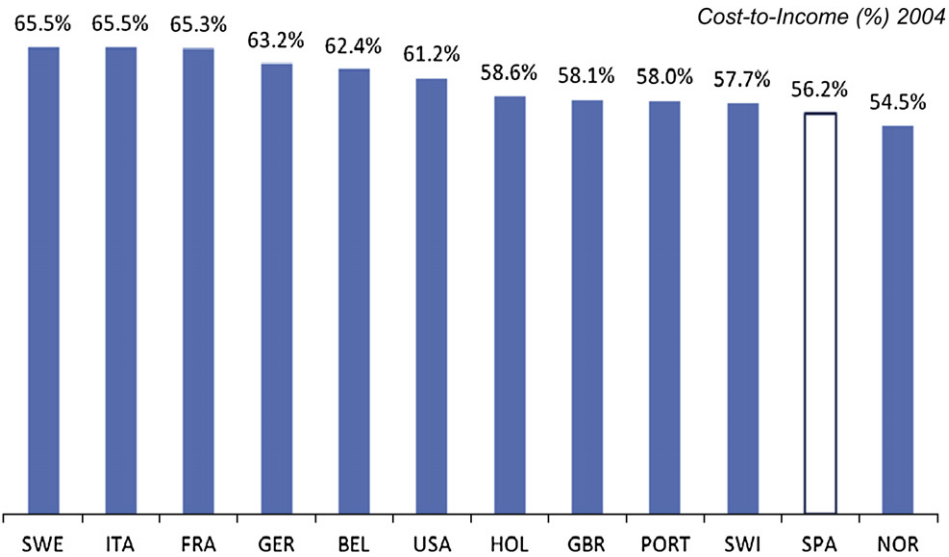


Figure 2. The comparative efficiency of financial institutions by country (2004)
Source: *The Banker*.

generations of members of the Botín family in its management - may account for Banco Santander's conservative approach to balance sheet risk. Its bad debts have grown only modestly compared to other leading international banks, and it has been able to weather the recent financial services crisis without needing to raise new equity, appeal for government support or be forced into merger, one or other of which has been the fate of so many other major banks in the developed economies. For a bank that has expanded so rapidly, and across so many countries, the financial solidity of Banco Santander throughout the crisis indicates that it has succeeded in combining its entrepreneurship and ambitious growth objectives with effective risk management.

[Santander's] three-step internationalisation process: developing home market capabilities; creating overseas growth options; large-scale foreign entry/integration

Banco santander's three-step internationalisation process

Banco Santander's internationalisation process has followed the same three steps in each region it has entered: developing capabilities; creating options; and then large-scale entry and rapid integration. This section discusses the main milestones of these steps in those regions - Latin America and Europe - where the bank has internationalised to date: [Figure 3](#) summarises the major features of the process.

Step 1: developing capabilities in the home market

While most of Spain's largest banks viewed deregulation as a threat, Banco Santander's new management saw it as an opportunity to win a dominant market share. In September 1989 the bank launched its 'Super Account', which paid 11% interest - more than double the 5% paid by all other banks at the time - with a massive advertising campaign. The Spanish and overseas press heralded the initiative: '*Santander brings the big banks' monopoly to an end*' and '*Santander fires first shot in Spanish banking war*'. But, as Botín (then Santander's newly arrived CEO) recalls '*The bank was in a strong financial position. We had considerable capital and profits were high. We reckoned our*

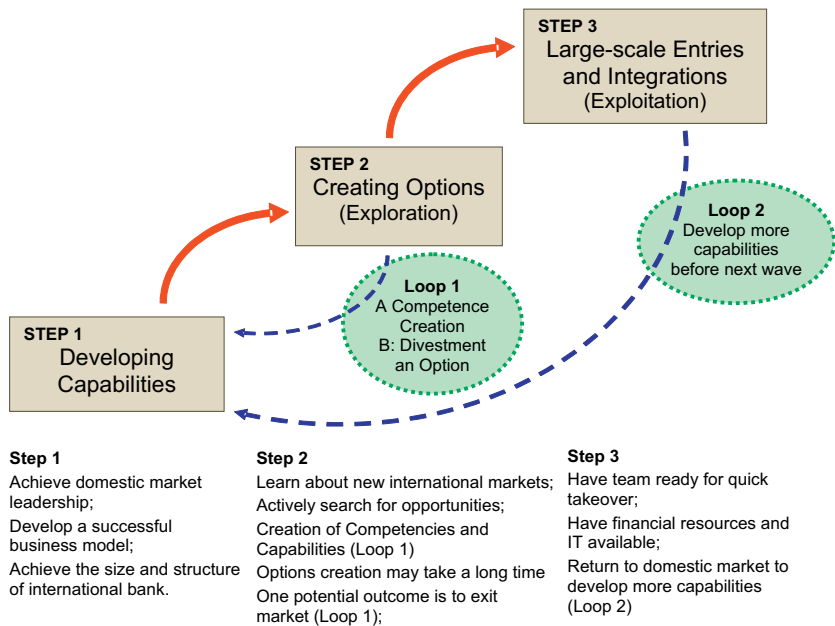


Figure 3. Three steps to Retail Banking Internationalisation
Source: Authors.

competitors wouldn't be able to keep up ... if only two [came] up with comparable offers in the next 3 months ... we would have won.' The move was Banco Santander's first major initiative in a natural growth strategy designed to consolidate and broaden its customer base in the Spanish market. And its competitors were indeed slow to respond - Santander had a six-month lead before any imitative products were introduced, during which it gained significant market share: between 1988 and 1990 its share of deposits rose from under 8.5% to over 14%.

Banco Santander's capacity to offer attractive, innovative banking products ultimately rested on its ability to achieve superior cost efficiency and customer information. Taking advantage of the favourable business environment in the deregulated national market, Santander systematically developed its capabilities. Most of its back office systems were developed during this period, including its IT and HR policies. The bank regards information systems as critical to the effectiveness of credit risk management — which it sees as a fundamental capability for any commercial bank - and the systems the bank developed progressively enabled it to not only assess credit risk better than its competitors, but also to manage client arrears better. Clients who have fallen into arrears have usually already exhausted other financial sources, and the first bank to take action is often the one that gets paid: so a bank has to act swiftly and insistently, which depends on it having systems in place to identify bad debts quickly.

Santander's development of commercial and product marketing capabilities was facilitated by its consistent focus on retail banking,¹⁵ which allowed it to identify and implement seemingly minor initiatives with major performance consequences - such as encouraging clients to make direct deposit of their wages. Information systems play a critical role in this ability to target customers and identify their needs - a bank that has information on both customers' spending *and* income patterns is better placed to offer a range of financial service products, allowing it to increase the number of operations and profitability per client. In combination, all these activities constituted a successful business model clearly focused on retail banking.

entrepreneurship and ambition [must be combined] with effective risk management. 'experience shows that banks which do poorly are those that give bad credit ... that is why risk management is so important.'

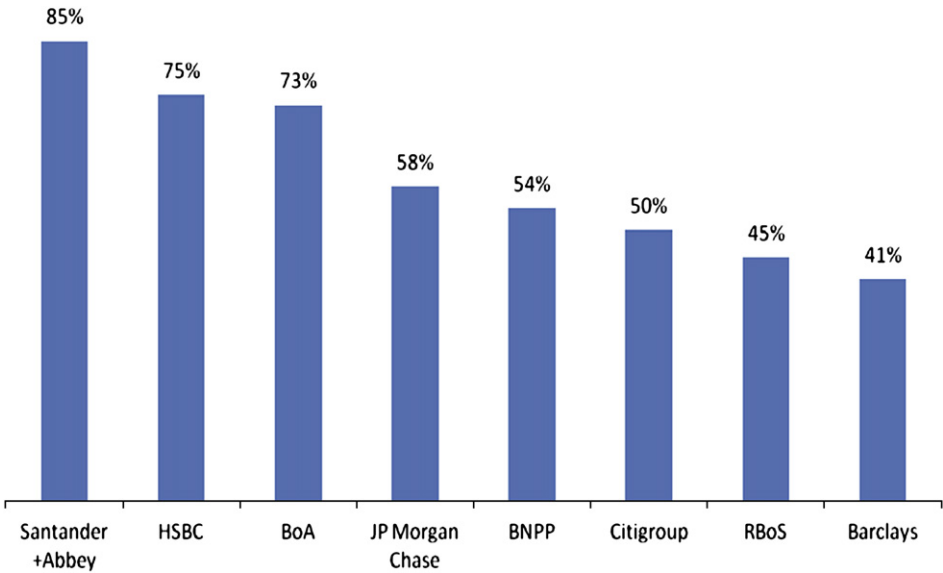


Figure 4. Retail revenues as a percentage of total revenues by bank (2004).
Source: Banco Santander, based on analytical reports drawing on company data from 2003.

While competitors tended to diversify their businesses - expanding into investment banking in particular - Banco Santander remained committed to retail banking, which by 2004 still accounted for 85% of its revenues, a higher proportion than that of its global competitors (Figure 4). Its business model continued to focus on clients, on efficiency, on on-going restructuring, and on risk control, as Botín confirms: *‘experience shows that banks which do poorly are those that give bad credit ... that is why risk management is so important.’*

However, Banco Santander’s strategic opportunism was also evident when, in late 1993, Spain’s Central Bank finally recognised the warning signs at Banesto, and intervened to organise an auction for the failing bank. Like the other participating banks, Banco Santander hired investment banks to assist in their bid preparation, but it recognized that their appraisals failed to recognize the true value of Banesto’s banking assets. Assuming the investment banks advising rival bidders were using similar valuation methodologies, Santander put in a bid that (at roughly €1.9 billion) was modestly higher than its investment bankers had suggested, and approximately 10% higher than its competitors’. Santander was committed to winning the auction: *‘We understood what was going on internally ... we knew that we weren’t taking excessive risks.’* Defeating its two Spanish rivals (BBV and Argentaria) at once made Banco Santander Spain’s biggest bank (see Figure 5).

After the Banesto acquisition, with the leading domestic market position, a strong revenue base and a foundation of well developed retail banking capabilities, Banco Santander considered itself to be well positioned to begin expansion overseas. This next stage of its development began in Latin America and then continued in Europe, in both of which arenas Banco Santander would repeatedly demonstrate over the following years the same ability in selecting and appraising acquisition targets - and speed and agility of acquisition decision making - that it had employed so successfully in the Banesto acquisition.

Step 2: exploration: creating strategic options in overseas markets

The literature on organisational knowledge and learning distinguishes between *exploration* of new possibilities (also referred to as knowledge generation) and *exploitation* of certainties (knowledge application),¹⁶ and these two labels could be seen as, respectively, characterising the second and third steps in the pattern of Banco Santander’s internationalisation. The second step — of positioning itself in foreign markets - was oriented towards creating growth options, with the objective of setting the bank up for its third step - future expansion through the replication of its core

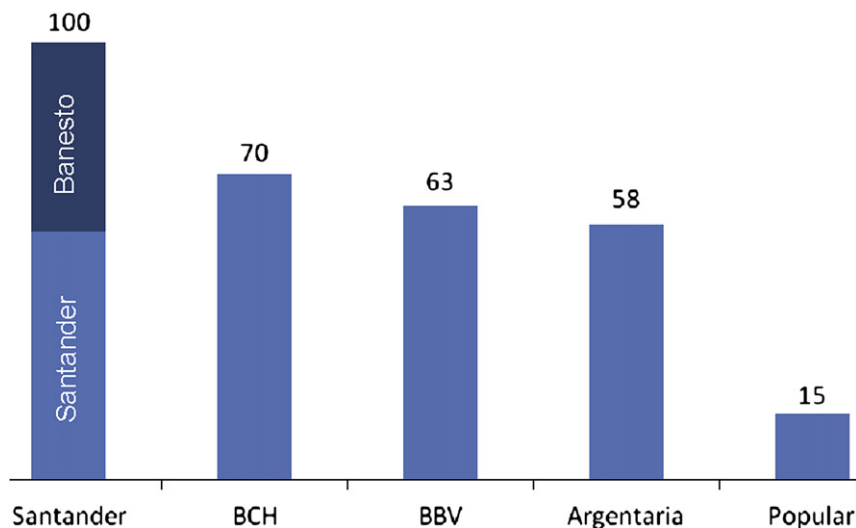
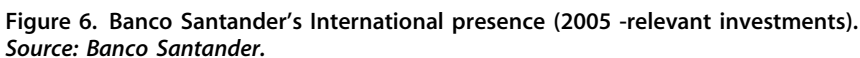


Figure 5. Comparison of Spanish banks by total assets (1993). Using Santander + Banesto as base = 100. Source: AEB.

In its choice of foreign markets, Banco Santander's internationalisation has also been consistent with the academic literature which has emphasised minimising cultural distance.¹⁷ Its initial focus on Latin America reflects its perception of low cultural and psychological distance result from the region's common colonial history and heritage with its home market. Subsequent expansion into Western Europe also reflects cultural and historical links, reinforced by the process of economic integration that has reduced economic and administrative distances: one of its first European cross border acquisitions was in Portugal. In both regions, Santander saw opportunities to play a leadership role - in Latin America it was a prime mover in disseminating and modernising banking services, while in Europe it has pioneered efficiency and effectiveness through the development and transfer of sound operational and managerial processes and innovations developed in its home market. This focused international expansion saw Banco Santander establish itself in 20 countries by 2005. [Figure 6](#) shows the extent of this international scope and sets the scene for a more detailed analysis of its internationalisation process.

This pattern of small scale initial entry was repeated in Europe, where Banco Santander again explored the market first, in two areas - continental Europe and the UK. Despite the advent of



the European Union, Banco Santander considered continental Europe as being highly protected and regulated, and saw it as several different markets with high entry barriers rather than as a single banking and financial market. It therefore decided to build a strong position in consumer finance, a niche it saw as one of the few segments that was relatively open to foreign institutions. Its first European acquisition – the German consumer finance unit CC Bank – dated back to 1987, and it was not until 1999 that it bought its first fully fledged banks, with the purchase of the Totta & Açores and Crédito Predial Português operations in Portugal. It then launched a consumer banking venture in Italy through Finconsumo in 2003, and subsequently expanded further into Europe with investments in Poland, Norway, and The Netherlands, establishing itself as one of the top three consumer credit institutions in Europe. By 2005, the bank was present in 12 European countries, including in Eastern Europe (in Austria, the Czech Republic and Hungary) and its Consumer Finance business unit had 7 million clients. (For instance, it was a leading player in auto finance in all 12 markets, ranked first in Spain, Portugal, Norway and Germany, second in Poland and fourth in Italy, etc.).

Santander's preferred [timing] was to enter in the transition after local deregulation, and deploy the competitive commercial capabilities from its home market.

In terms of timing, Banco Santander's preference was to enter in the transition period following local market deregulation, where it saw opportunities to deploy the same commercial and competitive capabilities it had developed during the corresponding adjustment period in its home market.¹⁸ As with its Latin America entries, its approach to continental Europe and the UK has been option-based, avoiding large-scale acquisitions as its initial entry strategy and preferring low-profile entry modes such as small-scale 'greenfield entries' (e.g. its wholesale banking entries in several South American countries), strategic alliances (e.g. with the Royal Bank of Scotland), or acquisitions of a small or medium-sized bank (e.g. Banco Geral do Comercio in Brasil), or of minority stakes in bigger players (e.g. part of Chile's Banco Santiago).

Santander's goal in this exploration step was to understand the market, but at the same time it had two other important objectives. One was to prepare a headquarters based team specific to the target country, dealing with back office and institutional roles, and top executives from the foreign market skilled in managing commercial issues locally and able to take over a major player very quickly. The second was related to identifying opportunities, and from the outset, this team was involved in analysing the target market to identify a bank to be acquired when the time was right. This process could take a considerable time, as in the UK, where Santander started with a strategic alliance with RBS (1988) on the way to its eventual acquisition of Abbey National (2004).

In some cases, this exploration revealed that the market had ceased to be attractive, in which case Santander chose to exit, selling up previously bought stakes (which it clearly regarded as a valid option in this step – see [Figure 3](#)). This meant remaining alert to local developments. Thus, although Latin America was an attractive region, it also posed significant political and economic risks, and Banco Santander's attentiveness to changing local environmental realities was demonstrated when it sold Banco Santa Cruz just a week before populist Evo Morales' election as Bolivia's President. Perhaps this creating of an option but subsequently deciding not to exercise was best illustrated by Santander's relationship with the Italian bank San Paolo/IMI. By June 2005, Banco Santander had built up to a 10% stake in its target, allowing it to appoint two members onto its target's board. Based on information gathered on at the monthly San Paolo/IMI board meetings, Santander decided to wait until the Italian market opened up before increasing its share and

moving to taking over the bank. But when San Paolo/IMI announced its merger with Intesa in 2006, Banco Santander saw the window of opportunity to consolidate its Italian presence it was waiting for was not going to arrive, and promptly sold its stake.

Such exits from initial investments allowed human and financial resources — including the knowledge acquired and developed in the country — to be ploughed back into Banco Santander's capability development process (Loop 1 in Figure 3). This allowed the bank to maintain a network of resources in terms of 'toe-hold' entry capabilities which gave it the option to transfer resources internationally to strengthen its presence in any given country at some future time.¹⁹

Step 3: exploitation: building a dominant position

The third step of Banco Santander's internationalisation strategy (the 'exploitation' stage) involves the acquisition of a key player in the target market and the subsequent transfer of organizational capabilities from Santander's home base to the newly acquired firm.²⁰ Despite country-to-country differences in the specific circumstances of acquisition and integration, we have identified a set of key elements common to this stage. We first give a brief historical overview of Santander's main full-scale market penetration and integration moves over the past 20 years, and then take a detailed look at the integration of the new subsidiary, focussing in particular on ICT systems and human resource management.

Step 3 in Latin America

Banco Santander's Step 3 full-scale market penetration into Latin America took place between 1999 and 2004, with the aim of building a broad-based presence in the region to lay the foundations for Santander to become a fully international bank. The principal acquisitions made in Latin America were: the purchase of Banespa in 2000 (together with the two previously acquisitions, this took the overall investment in Brasil above €8 billion); the 2000 purchase of the Serfin financial group's Mexican banks (taking the Mexico investment total to €2.3 billion); and the acquisition of Banco de Santiago and its merger with Banco de Santander Chile, bringing investment in the country to €2.2 billion. Its domestically gained experience guided its progress - the lessons learnt during the Banesto purchase proved useful in Mexico, where Banco Santander followed the same methodology to value Serfin and calculate a bid price in its auction that would succeed while not overpaying for the assets: in the event, Santander's winning bid exceeded that of its closest rival (HSBC) by less than 6%. But exits also featured in the story: when the Argentinean crisis weakened Santander's balance sheet in 2001, it withdrew from the Brazilian Banco Vital auction.

Santander was confident of the Latin American market's potential, and in its own ability to establish competitive advantage.

Banco Santander's ambitious Latin American expansion moves involved an investment of over €12 billion, and established leading positions in Mexico, Brasil and Chile which made it Latin America's leading commercial bank, serving over 18 million clients from a network of 4,010 branches across 10 countries, with an average market share of over 11% and regional profits for 2005 of €1.8 billion. Underpinning this regional focus was Banco Santander's confidence in the potential of the Latin American market, and in its own ability to establish a competitive advantage. The region's main characteristic was the low penetration of financial services, which gave Santander the opportunity to establish itself as a lead player, bringing leading edge financial services to the region. Developments since 2000 have confirmed Banco Santander's confidence in the region - despite political crises in Argentina and Brasil early in the decade, subsequent stabilisation and recoveries have made forecasts for Latin America optimistic. The countries that most interest Santander - Mexico, Brasil, Chile, Argentina and Colombia - are also the more stable politically,

and this stability feeds through into trust and customer’s willingness to take on debt. ‘Credit is growing by 30%, and, when this happens, the banking industry also grows. We have seen 25–30% growth between 2004 and 2005, in both terms of assets and deposits’.

Step 3 in Europe

The new century also saw Banco Santander’s attention shifting increasingly towards Europe. When the euro came into force in January 1999 it had major implications for European banking, and Banco Santander understood that competition and cross-border integration in the new euro-market would require stronger, more efficient financial institutions. To maintain its independence and to exploit the opportunities of European financial integration, Banco Santander recognised the need to augment its critical mass within its home market. In January 1999 it merged with BCH, then the third largest bank in Spain focused on retail banking, a move that reinforced Santander’s home market capabilities and strengthened it for further international growth (see Loop 2 in Figure 3).

Table 4 summarizes selected milestones in Banco Santander’s internationalisation process in Latin America and in Europe in the two dimensions we have identified: creating options/exploration and large-scale entry and integration/exploitation. In terms of Europe, Santander’s Step 3 moves to date have mainly concerned two substantial deals, both of which have hit the financial headlines (for different reasons), which we therefore recount separately in some detail.

The Abbey National acquisition, 2004

Banco Santander spent many years learning about the British market before identifying a suitable takeover target. Its strategic alliance with the Royal Bank of Scotland dating from 1988 (Santander held two seats on the RBS Board of Directors for 16 years) gave Botín and his executive team intimate knowledge of the bank’s strategy. It also gave Santander a profound understanding of the UK

Table 4. Milestones in selected markets in Banco Santander’s internationalisation

Country	Step 2: Creating Options	Step 3: Large-scale Entry and Integration
AMERICA		
Chile	Creation of Subsidiary (1995)	Acquisition of Banco Santiago for €2,179 million (2000)
Mexico	Establishment of Santander Mexicano (1997)	Acquisition of Grupo Financiero Serfin for €2,323 million (2000)
Brasil	Acquisition of 76% of Bancos Geral de Comercio y Noroeste for €800 million (1998)	Acquisition of 97% of Banespa for €8,226 million (2000)
USA	Acquisition of 20% of Sovereign Bank for €1.750 million (2006)	
EUROPE		
UK	Strategic Alliance with the Royal Bank of Scotland (1988)	Acquisition of Abbey National for €13,000 million (2004)
Germany	Acquisition of CC Bank (1987)	Acquisition of AKB Group for €1,369 million (2002)
Italy	Creation of Finconsumo (2003) investing €163 million Purchase of Shares in San Paolo/IMI (10%)	Exit through selling San Paolo/IMI shares
The Netherlands	Acquisition of ABFIN for €22 million (2004)	Acquisition of part of ABN AMRO for €19,900 million (2007)

Source: Authors.

banking market, which in 2003 led it to focus its attention on Abbey National.²¹ In asset terms, Abbey National was the sixth largest bank in the world's third largest financial market. Its core business was mortgages, where it was the UK's second largest lender with a market share of 10.5%, and its mortgage portfolio was more than twice the size of Santander's in Spain. Abbey held 7% of the UK savings deposits market: with 18 million customers, one in five UK citizens was a customer.

But Abbey National was very expensive in 2003, and Santander decided to wait '*until it got easy for us*'. Then, in 2004, when Abbey was suffering from losses incurred from its entry into the wholesale money market, Banco Santander launched a friendly takeover bid. Despite opposition from many Abbey shareholders - and scepticism from the city of London - Santander managed to surmount the various emotional and regulatory hurdles to its acquisition, and also avoid a rival British bidder (HBOS). The €13 billion deal, finalised in November 2004, was (then) Europe's biggest cross-border acquisition.

The Abbey National acquisition was a critical strategic investment for Banco Santander, not just because of its size, but also because of its implications for the group as a whole, giving it further geographical diversification and above all, entry into the British market, where Banco Santander was practically unknown. Juan Rodriguez Inciarte notes: '*The UK is one of the most attractive markets in the developed world, because of its size, profitability and stability. It is ... 60 million people, the second largest European economy in terms of GDP; it is flexible and stable ... [with] ... low volatility in economic cycles. Its economic institutions, the Bank of England and the FSA, are internationally renowned*' Acquiring Abbey also made Banco Santander the biggest bank in both Europe and Latin America, now doing significant business in three currencies - the euro, the US dollar, and the pound.

Abbey was a critical strategic investment for Santander, because of its size [and] its implications for the whole group, [making] Santander the biggest bank in both Europe and Latin America, doing significant business in three currencies

Although market conditions have changed drastically since the Abbey acquisition, this cross-border move nevertheless created substantial value for Santander. But it was its success in transferring its superior operational, technological and marketing capabilities to its British target that was critical in creating that value. Value creation in integrating Abbey arose from economies of scale and scope, especially in IT and training activities. The deployment of Santander's proprietary IT Platform 'Parthenon' allowed for significant back- and middle-office staff reductions, releasing employees to be moved to commercial units. (This was one of the main arguments used to persuade the City of the spin-off efficiency from the merger.) Before the merger, around 33% of Abbey National employees were back-office personnel, whereas the figure in Banco Santander ranged between 6% and 10%, according to country.²² Banco Santander was very efficient in terms of managing branches and knew how to improve efficiency (on average, over the 16 years of its strategic alliance with RBS, Banco Santander branches were run by 3 staff, compared to the latter's 10 man branches). In three years, Banco Santander cut Abbey National's costs by 25% - by 2008 Botín was able to report that the 'new' Abbey showed *proportionately more deposits than the English banking system, lower costs, more provisions, a better credit portfolio and higher profits, and all while increasing market share*'.

The ABN Ambro carve-up 2007

Santander's friendly alliance with RBS also provided the basis for its next major acquisition when Sir Fred Goodwin (then its CEO) invited Santander to join the RBS consortium bid with the Benelux bank Fortis for the Dutch ABN Amro bank. This was an ambitious and pioneering venture,

partly because it was the first time that three banks had combined to make a takeover bid — and was the largest European banking acquisition to that date — and partly because it was a hostile bid launched when friendly merger negotiations between ABN Amro and Barclays were well advanced. Santander had followed ABN Amro's evolution since 2005, and understood its business in depth. Even while the Barclay's negotiations were continuing, Botín met Goodwin in Edinburgh and Rodriguez Inciarte in Madrid within the space of one morning in January 2007, and the same day was able to confirm Santander's offer for ABN Amro's Brazilian and Italian assets. The speed with which Banco Santander reached its decision was critical to the consortium formation and to its ability to thwart Barclays' rival bid.

Initially there was much opposition. The Dutch Central Bank thought the operation 'too complex' and the relevant ministry supported the deal already agreed with Barclays, as did ABN Amro's unions and shareholders. Most big investment banks were also already committed to the Barclays offer, with Merrill Lynch (working with Banco Santander) the only exception. But the consortium bid was in cash, and when the stock markets fell in August the Barclays share exchange bid became less attractive. When the €71 billion deal was closed in October 2007, RBS got the corporate banking business and the Asian operations, Fortis took over the Dutch business, while Banco Santander's €19.9 billion input secured Banco Real in Brasil and Antonveneta in Italy. But this last was an uneasy acquisition — Antonveneta lacked significant domestic market share, and so did not align with Santander's foreign acquisition policy of only acquiring substantial operations banks in those markets where it had completed its exploration phase. Showing again its speed of movement, Santander sold Antonveneta to Monte Dei Paschi within a month for €9 billion.

In retrospect, the acquisition of ABN Amro hit a very tough economic context. It coincided with the onset of the credit crunch and the rapid decline in banks' stock market values, and proved to be a critical event leading to the downfall of Santander's two partners. Fortis was nationalised by the Dutch and Belgium governments while the UK government took on majority ownership of RBS. But throughout these dramatic (even traumatic) events, Banco Santander sustained its strategic focus and was able to escape the debacle. After the dust had settled, Santander had made €2.4 billion profit on reselling Antonveneta, and was left with Banco Real, which represented a 'good fit': Santander had already started its large-scale Brazilian entry/integration phase with the purchase of Banespa, and Real was focused on retail banking — exactly the segment where Santander has concentrated its whole growth strategy.

Santander was able to escape the debacle [of the ABN Amro deal] by sustaining its strategic focus.

The future: back to Step 2 in new markets — USA and Asia

This consistency in Banco Santander's internationalization strategy is further revealed by the stories of its initiatives in other geographic regions. In US, Banco Santander acquired 19.8% of the Pennsylvania-based retail operation bank Sovereign Bank in 2005, and increased its stake to 25% in 2006, before finally taking Sovereign over in January 2009. Over this period Sovereign expanded its presence in the US Northeast: by 2009 it had 750 branches and 2,300 ATMs from Maine to Maryland, although the Santander forecast the restructuring of Sovereign would take three or four years. It also acknowledged — although it had taken no concrete steps into the continent — that Banco Santander was exploring opportunities in Asia, with two general managers looking at possible take-over candidates in the region, indicating plans to put Step 2 into effect in Asia.²³

Reading the runes then, Santander-watchers would be forgiven for expecting it, sooner or later, to announce the acquisition of a big institution in the USA or in Asia. However, Santander is not totally

immune to the global financial crisis, and developments in these two regions may well not come at the headlong pace of recent years: in October 2008 Santander indicated that, after the Sovereign acquisition, its priority was to build up its Tier 1 capital ratio before embarking upon further acquisitions.

Implementing the internationalising business model

Successful integration of targets that, in many Step 3 cases, are substantial foreign entities, with developed cultures, structures/practices and social networks (with all their associated shared tacit know-how) developed over probably many years, is a substantial and daunting task – and must be achieved quickly, so that inertia doesn't defeat impetus. And it is a challenge where Santander has a record of success. The following sections explore the three main value drivers Santander employs during the integration phase: (1) a clear business model focused on core business values, (2) ICT systems and processes that increase efficiency, reduce costs, enhance information flows and improve risk control; and (3) a human resource management system that has an eye on the future.

Integration value driver 1: a business model focused on retail banking

Banco Santander's internationalisation reveals a systematic approach to corporate development that combines:

- a consistent identification of retail banking services as the group's core business;
- an incremental approach to expansion which recognises the need to learn about new markets;
- a disciplined acquisition process, which includes systematic identification, evaluation and bid preparation;
- an effective post-acquisition integration rooted in a clear understanding of the group's underlying capabilities.

At the heart of Santander's internationalisation strategy is a clear management business model that consists of strong central control of certain functions (risk management, information technology and operations management) with considerable local adaptability in marketing and sales. On one hand, the back office is highly centralised and therefore more global. On the other hand, the front office is multilocal in terms of brand management, with full responsibility for results delegated to local managers who report only on the basis of the mid-term business plan. A feature of this strategy is its ability to reconcile ambitious growth objectives and entrepreneurial initiative with effective operational management and strict control over credit risk. As Saenz notes: *'You have to turn to global approaches so long as they have greater impact than those you can get from a local model. [We have] been global from the outset, always adapting [ourselves] to the local market, but with a global management layer over the local layer.'*

The critical element in making Santander's business model work is effective communication and coordination between the corporate centre and the operating subsidiaries. Corporate development is the responsibility of a strong top management team with authority over acquisition decisions, but implementation is carried out at the operating unit level, with support and commitment from the corporate office. A strong emphasis on management development and centralised training activities is critical to achieving a consistent corporate outlook and identity, and to ensuring meaningful communication between the corporate centre and the operating units.

As noted, Banco Santander integrates highly centralised back office systems in its acquired banks, but front offices are highly decentralised, with local managers responsible for attracting new customers and the development of commercial relationships. The balance between standardised back-office systems, centralised credit control, and decentralised commercial customer service and marketing activities is adjusted to local market conditions and to the state of development of Santander's local banking operations. Thus, in its branding strategy, Santander has pursued a carefully judged balancing act: the stronger the existing local brand, the slower the convergence to the Santander brand has been. In Latin America, for instance, this process has been quicker in

countries (such as Puerto Rico, Colombia and Uruguay), where 'Santander' was already established as the dominant brand. In politically unstable countries (e.g. Venezuela under Hugo Chavez, or Argentina under Carlos Menem) the marketing strategy has been to highlight the local brand but include it within the Banco Santander colour and logo, effectively initiating the 'debranding' of targets such as Banco de Venezuela or Banco Rio in Argentina. Elsewhere, - e.g. in Mexico (Santander Serfin), Brasil (Santander Banespa) and Chile (Santander Santiago) - Santander has temporarily retained the local market brand alongside its own: this tactic is also being employed in the UK, where (at the time of writing) the Abbey operation is branded as 'Abbey Part of the Santander Group' (with the Santander logo and in the corporate colour scheme), but where the Abbey name is due to disappear in 2010.²⁴

Santander integrates highly centralised back office systems in acquired banks, ...but attracting new customers and developing commercial relationships are local managers' responsibilities.

Integration value driver 2: cost-efficient ICT to optimise risk control and information access

An effective way to create value from a cross-border acquisition is to reduce the cost-to-income ratio of the target bank by extending superior home market core banking systems to the foreign bank, which works especially well where the target bank operates in a similar context (i.e. a mature market). Santander's acquisition of Abbey National serves as a good example. The post-acquisition integration worked out well because of two key elements: Santander's entrepreneurial spirit, supported by the involvement and commitment of its top management team and board of directors; and the power of its centralised services - in this case 'Parthenon', Santander's proprietary IT Infrastructure - which was deployed quickly into Abbey to ensure rapid integration. Santander was surprised at how slow Abbey's IT systems were: for their part, Abbey's IT executives paid tribute to Parthenon's superior performance by replacing the word 'faster' with 'fuster' (after José María Fuster, Santander head of IT).

The traditional slowness of the post-merger internal reorganisation process increases the likelihood of significant failure in retail banking, as it does in many other sectors. However Banco Santander's quick takeover of operations allows it to gain more value from an acquired bank, ensuring a higher rate of success, and justifying it paying a higher premium for its acquisitions. Integration processes are handled quickly by a team combining expatriates from the corporate office and the on-site team that first identified the opportunity. Their first task being to integrate the target's IT systems into the Parthenon infrastructure - which can involve considerable personnel input: 'we have 300 technological people working here who we had to remove from their [old posts] "like you would a tooth".'

Santander's integrated IT system has increased the bank's overall efficiency, which is always of the utmost importance, and even more so in the context of an economic crisis. In 2008 Santander was the most efficient of all the big international banks, registering a cost-to-income ratio of just 41.9%. BBVA (Spain's second bank) was the next most efficient at 43.7%, compared to efficiency figures of 47.2% for HSBC, 56.1% for Bank of America and 59.2% for RBS. (These figures show that the comparative efficiency of national banking operations has not changed appreciably since the 2004 figures illustrated in Figure 2.) Banco Santander expects to reduce this ratio even further in 2009 once Banco Real in Brasil and Santander's (somewhat opportunistic) post-Abbey UK acquisitions of Bradford & Bingley and Alliance & Leicester have been fully integrated: the aim is to achieve a 40% efficiency rate, which would add €1.2bn to the group's bottom line.

To sustain this innovative and competitive IT edge, Santander has made substantial investments in its IT capabilities (€3.3 billion in 2008), and employs 8,800 people, either directly or via two newly created external companies - Isbanc and Altec – to service a bank now made up of 70 different financial entities that handled 80 million customers, 84 million credit cards, 14,000 branches and 40,000 teller machines. Santander's developing systems are building into a group of computer applications, operative models and processes that are organised under the direction of a single 'dirección de Medios' so as to give a full and comprehensive service to a complete business area. Santander has its own telecommunications systems connecting administration, training, product units, ATMs and branch terminals, etc. The Abbey internet bank 'resides' in the Madrid data processing centre, which will soon be joined by another in Mexico, the two offering an integrated contingency and 'charter recovery' service for the entire group.

Integration value driver 3: keep moving forward - human resource management

Santander's competitive strategy is based on giving full commercial responsibility and control over the business plan to local business managers, who must constantly scan for opportunities to create and develop the business. Top-tier management that is able and willing to make quick decisions, and which understands the entrepreneurial context of the organisation, is available to assist local managers. Most top managers and board members are also significant shareholders, and their sense of ownership encourages them to think and act more as entrepreneurs and owners than employed managers.

The central Human Resource function in Madrid is responsible for managing and training executives from all the group's business units and maintaining control over their incentive packages. Management training is seen as central to Banco Santander, because it needs management teams in order to keep moving forward. As with its ICT systems and processes, Santander has centralised its executive and talent management, and the design and execution of executive training programmes, which are concentrated in Madrid. Over 5,600 employees have recently been moved to Banco Santander's new 165-hectare 'Financial City' campus that provides 100,000 square meters of office space in 13 buildings on the outskirts of the city. Key training activities are conducted in the Corporate University in Madrid, which had budget of €69 million earmarked for training 1,200 managers in 2005, and where professors from top European and US business schools are invited to participate. All top-tier managers have been through a management development programme, one of whose main purposes is to create a setting for sharing knowledge and experiences, given the high degree of autonomy and low level of horizontal contact between countries.

Banco Santander has built a top management tier equipped with the necessary skills, knowledge and attitudes to take over a bank quickly when required. Preparations are thorough: *'...at one point we had the chance for an interesting project in China, but it couldn't be done because we didn't have a management team ready.'* Former presidents and CEOs from both the corporate world and acquired banks, and professionals from top management consultancies, have been reported as being on Santander's payroll as a 'bench' of incoming talent which complements internal talent, waiting for the right opportunity. Examination of its entry practices shows that, faced with the choice of taking on the target's management team as it finds it, or setting up a whole new team, Santander clearly favours a 'mixed method'.

A key feature of Banco Santander's post-acquisition management has been its ability to combine the resources, knowledge and capabilities it has acquired in new markets with its existing corporate capabilities, in an approach that addresses both short-term needs and builds new capabilities as stepping stones to further expansion. As noted above, the transfer of capabilities from its home base to its new acquisitions has been particularly evident in the case of its Parthenon IT platform, which has both served Santander's domestic markets, and 'travelled well' in terms of internationalising retail banking and boosted the efficiency of new international ventures.

Internationalisation itself creates new levels of understanding and ambition. Santander sees the Abbey acquisition as giving it a new perspective on the global financial market it previously lacked. The management effort involved in the restructuring has been significant - as Saenz points out: *'We've got over 20,000 people in the UK — and a small group of talented Spaniards with market vision who are opening our eyes to new business opportunities. With a bit of imagination ... by allocating the necessary resources, [this] platform will allow us to take on more business much faster — and more thoroughly.'* The operation exemplifies the management skills [and teamwork] Santander will need to assimilate new 'Abbeys'. *'We'll have to prepare ourselves to take that leap ..., [so we can] continue growing'*.

Conclusions and implications

Despite banks' widespread propensity for internationalising, little consensus exists as to the appropriate strategy to be followed, and this is particularly the case in retail banking, where the performance outcomes of international expansion have been so diverse. This inconsistency of results is hardly surprising, given the local nature of banking service markets and the absence of major cost economies from cross-border integration. While the Banco Santander internationalisation process is clearly not the only possible model, it may offer some valuable lessons for other retail banks contemplating entry into foreign markets. Examining these processes in detail has allowed us to identify some of these, which are presented (using Santander's three-step process as an outline structure) as [Table 5](#).

The foundations of Banco Santander's international strategy were the competencies developed at its home base (Step 1), and can be summarised as: focussing on core business (retail banking) in preference to product diversification, taking a leadership role and taking advantage of deregulation in the domestic market (hence achieving early mover advantage), combining back-office centralisation with front-office decentralisation but with strict risk control, and providing incentives for initiative and skill development. Overall banking system efficiency may help, but the bank has to develop a consistent, proven business model, built on its competencies in its core business: retail banking. Without such home market strength and focus, capacity for leadership, superior financial performance and an underlying strength in financial and human resources, it is difficult to envisage how a retail bank can add value to its international operations.

While it is true that each country is different - and front offices must adapt to local conditions - developing capabilities and the business model in the home country are vital in planning international expansion (Step 2), allowing the internationalisation process to be like 'walking the same path many times'. Identifying countries with a low level of banking penetration and where there is room for modernisation has allowed Santander to lead a 'bankarisation' process, first extending the portfolio of products and services it offers to the market, and then raising penetration levels by increasing the number of these marketed to each customer. When attracting clients, Santander begins by capturing current and savings accounts, and then aims for customers' mortgage business, and so on. Of course, the local office will deploy specific marketing and positioning to address local culture and needs.

When considering expanding abroad, the key criteria are 'proximity' and 'potential leadership'. To date Banco Santander has focused on Latin America and Europe, continents with which it has various cultural, legal, historic, linguistic or monetary affinities, and where deregulation, market competition and improvement potential offer it chances for leadership and for growth. Once target markets have been identified, the bank goes on to the 'exploration' Step 2 process, creating options by acquiring minor competitors or forging strategic alliances, allowing it to learn more about doing business in its new markets. Initial engagement may be in a non-core business segment — e.g. wholesale banking — but only as a way of identifying opportunities and competencies. In any given

Table 5. Top ten lessons for managers in internationalisation in retail banking

Lesson	Description
<i>Step 1: Developing Capabilities</i>	
1. Build a strong lead position in the home market	<p>HOW: Gain market share. Launch attractive and innovative products. Develop commercial and product marketing capabilities, focusing on retail banking. Develop back-office systems, including IT and HR policies. Increase capital and profits.</p> <p>WHY: Achieve superior cost efficiency and customer information. Information systems are critical to the effectiveness of credit risk management – a fundamental capability for any commercial bank. Strong financial position for undertaking expansion.</p>
2. Develop and master a proven business model in retail banking	<p>HOW: Management model focused on clients, on efficiency, on risk control and on on-going restructuring. Keep focus on retail banking. Develop capability in the appraisal of acquisition targets.</p> <p>WHY: Speed and agility in selecting and evaluating acquisition targets and decision making.</p>
3. Select foreign markets based on ‘proximity’, geographic focus and potential leadership	<p>HOW: Having established leading position in the local market, a strong revenue base and a foundation of well-developed retail banking capabilities, consider expansion overseas in markets with geographic and/or cultural proximity and which offer potential for market leadership.</p> <p>WHY: Reduce liability of foreignness and minimize cultural distance. Target markets where it is easier to replicate business model with high growth potential and very low bank penetration.</p>
<i>Step 2: Creating Options</i>	
4. Follow a small-scale entry, via minority shareholding or a strategic alliance	<p>HOW: Initial entry through small-scale ‘greenfield entry’, strategic alliance, acquisition of small or medium-sized bank or of minority stake in a big player.</p> <p>WHY: Efficiency and effectiveness through the development and transfer of sound operational and managerial processes. Low-profile option-based approach.</p>
5. Learn about the foreign market and identify potential opportunities	<p>HOW: Exploration stage through replicating core business model in foreign markets.</p> <p>WHY: Goal of exploration step to understand the market and who is who.</p>
6. Be patient, it might take time to recognise an opportunity	<p>HOW: In transition period deploy the same commercial and competitive capabilities developed in its home market. In terms of timing, enter after deregulation of the market.</p> <p>WHY: Enter when conditions are in place, both in regulatory conditions and degree of competition. If the entry is too soon there is the risk of having to withdraw later and incur in heavy losses.</p>
7. Prepare financial and managerial resources to ‘take over’ the target company	<p>HOW: Prepare a headquarters-based team, dealing with back-office and institutional roles, and top executives from the foreign country with skills in managing local commercial issues to identify the target bank to be acquired, then use them take over a major player in record time.</p> <p>WHY: It is necessary to combine both corporate capabilities with expertise and knowledge about the local business environment. Both headquarters-based team and local managers have to look at possibilities for acquisition and feasibility of post-acquisition integration.</p>

(continued on next page)

Table 5. (*continued*)

Lesson	Description
8. Weigh up exiting as a potential outcome and reinvest in developing capabilities	<p>HOW: Exit from initial investments, if appropriate, allows human and financial resources — as well as the knowledge acquired and developed in the country — to be ploughed back into bank’s capability development process. Maintain scanning for future opportunities</p> <p>WHY: Maintain a network of ‘toe-hold’ entry investments so as to exercise future options and transfer resources internationally to strengthen presence in any given country.</p>
<i>Step 3: Large-scale Entry and Integration</i>	
9. Acquire a leading player for full-scale entry	<p>HOW: Exploitation stage involves acquiring a key player in the target market and then transferring organizational capabilities from home base to the newly acquired firm. Strong central control of certain functions like risk management, information technology, and operations management. Considerable local adaptability in marketing and sales.</p> <p>WHY: Achieve effective communication and coordination between the corporate centre and the operating subsidiaries. Balance between standardised back-office systems, centralised credit control, and decentralised commercial, customer service and marketing activities adjusted to the conditions in the local market and the state of development of banking operations there.</p>
10. Don’t forget to have a team ready and a commitment to mobilise financial resources	<p>HOW: Build a top management tier equipped with the necessary skills, knowledge and attitudes to take over a bank when needed. Integration process quickly taken over by a team combining expatriates from the corporate office and the local team that first identified the opportunity. Foster entrepreneurial initiative with effective risk management and strict control over credit risk. Centralise executive and talent management as well as the design and execution of executive training programmes.</p> <p>WHY: Maintain entrepreneurial spirit to identify and exploit opportunities supported by the involvement and commitment of its top management team and board of directors.</p>

market, the company must be prepared for this process to take time, and to exit if the environmental situation deteriorates. In the event of such an exit, is important that the bank re-invests in its home market to further develop its capabilities and strengthen its competitive position.²⁵ Competences and capabilities created in new markets must be harvested and internalised, especially those that could be useful in a future regional or international arena. Put differently, a firm’s potential in the international arena is determined by the level of its stocks of resources.²⁶

The move to Step 3 demands the employment of the competencies developed in the exploration phase, at both the acquisition and integration stages. A large-scale entry target — one capable of allowing Santander to move into local leadership - must be identified using the regional knowledge and experience built up by local and corporate management, its value assessed and a bid prepared — and the timing must be right. Once acquired, the swift integration of Santander’s business model is crucial, using the full array of IT and HR resources and capabilities the bank has developed, and led by the team that has been preparing for just this moment. The process involves incentivising managers and board members to identify opportunities, and being able to mobilise and commit resources quickly.

What ‘travels well’ in retail banking internationalisation? We find that centralised back office functions travel best, such as an IT system that can be quickly implemented in the target markets to improve efficiency, and executive HR management and executive training also travel well. But retail banking is local by its very nature: like any retail business it needs to develop points of

sale, and products need customisation to each market depending on local culture or specific needs. So the front office does not travel so well: indeed, Santander's business model doesn't require that it should, given that front office success requires a combination of local capabilities provided by targets or other local partners.

What is common to both back and front office is that they need strong support from the corporate office when internationalising. Entrepreneurial behaviour has to be incentivised so that opportunities are seized and resources earmarked and mobilised. Banco Santander creates these incentives by having board members and managers as shareholders,²⁷ and top-tier management also fosters internal competition between countries and executives. Consequently Santander has been able to take advantage of opportunities as they appear, and has consistently responded as a early mover to those flowing from banking sector deregulation and increased competition in Latin America and Europe.

Banco Santander's 3-step internationalising model could serve as a guide to other retail banks—or other service industry companies - which have robust capabilities in their home market. Our study also sheds light upon some key debates in international business beyond the banking sector. It confirms the predictions of the 'Uppsala model',²⁸ which sees internationalisation as an incremental process of increasing commitment from exporting through to FDI. Although exporting most retail banking services is not possible, the Santander case clearly illustrates the benefits of low commitment entry modes such as strategic alliances or small-scale FDI in giving an internationalising retail bank time to accumulate local market knowledge before increasing its commitment to a foreign market.

staying focused on retail banking has been a key success factor ...

Santander's business model has been its successful export ... it stuck to what it knew and held to its core values ... these things travel well.

But to return to the question of what travels well in banking. Choosing markets to which home market capabilities can be effectively transferred clearly leads towards successful international expansion - but is that all that has underpinned Santander's track record? If there is one thing our study has shown as a key success factor, it has been Santander's determination to stay focused on its core business - retail banking. The qualities that underpinned its domestic success - sound operational and managerial processes focused on clients and on risk control, combined with innovation, with pioneering levels of cost efficiency and customer information and with entrepreneurial ambition supported by speedy decision-making - have created a business model that has been Banco Santander's successful export. If it has, to a great extent, managed to 'avoid' the global banking crisis, it seems to have been because it stuck to what it knew and held to its core values. So — these things travel well, too. When *Euromoney* recognised Banco Santander's achievements with a second 'Best Bank' award in 2008, the citation read:

*'...for delivering hugely impressive growth in difficult global markets; for not just trying, but also for being successful in, ventures that others said were too difficult; for sticking to a strategy that suits the institution, and not pandering to the whims of the market; and for being what is, most probably, the best-run major banking group in the world right now.'*²⁹

Acknowledgement

The authors wish to acknowledge the editors of the special issue Professors Robert Grant and Markus Venzin for their comments and support in preparing this article, and also the editor-in-chief Charles Baden-Fuller and the journal's anonymous reviewers, as well as our copy editor,

Jon Morgan of ParaPhrase, for his help during the final stages. We also appreciated the very useful comments we received at the Workshop on Internationalization of Financial Services held in Bocconi, and at the Iberoamerican Academy of Management conference. And finally, of course, we thank those many Banco Santander executives who shared much information and experience, and gave us helpful feedback on the content of this article on many occasions.

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