Divergent Paths: Savings Banks and the Structure of National Banking Systems

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Abstract: The financial systems of most developed countries have experienced significant deregulation over the last three decades. Social scientists disagree about the likely impact of deregulation on international differences in the structure of banking systems. Some have suggested that increasing levels of domestic and international competition will lead to convergence in the structure and operation of these systems. Others have insisted that national differences in financial systems persist and are unlikely to disappear because of the continuing influence of state authority as well as differences in national institutions. This paper examines the impact of liberalization on the role of one specific kind of intermediary within the structure of national banking systems. We consider the role of savings banks within the national banking systems of the US, UK, Denmark, Germany, Spain, Sweden, and Norway. We find that there has been considerable divergence in the role of savings institutions between these countries over the last three decades. We explore possible political, institutional, and strategic explanations for this divergence and find that organizational and strategic capabilities, though often overlooked by social scientists, seem to play a particularly important role in explaining the competitiveness of savings banks in some countries and not others. Savings banks that cultivated unique intra- and inter-corporate capabilities enabling them to offer diverse services, to establish an attractive brand, to build advisory capacity to small and medium-sized businesses particularly for export, and learned to work through robust inter-firm networks establishing broader financial (and political) advantages also helps explain their continuing competitiveness against the headwinds of deregulation.
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1. Introduction

In the last three decades, public policies in OECD countries have been marked by a strong trend toward the deregulation of national financial systems. Banking systems, in particular, have experienced a shift in their policy environment, from one characterized by extensive regulations, segmentation, and protections to one where competition has become official state policy. Mid-twentieth century regulations that created product and geographical barriers that segmented financial intermediaries and restricted entry were lowered or removed. Credit allocation and interest rate pricing policies were relaxed. The scope of allowable balance sheet items was, on the whole, broadened for all classes of intermediaries. And privatization of public institutions became common in many countries.

The long-term effects of this deregulation on the structure of national financial systems remains up for debate. Social scientists and policymakers have taken starkly different positions on the question. One camp has predicted long-term convergence in the structure of financial systems as liberalization opens up national financial systems to global competition for financial assets and liabilities (Gardener and Molyneux, 1993; Gentle, 1993; Cerny, 1997). This group of scholars emphasizes that with few artificial policy barriers and declining transactions costs, competition-oriented policies are moving financial systems in the direction of a more common efficient financial structure. A second camp, however, insists that significant national differences in financial systems persist and are unlikely to disappear. This group points to the continuing influence of state authority and discretion to regulate as well as differences in national institutions and patterns of financial behavior as the reasons for the persistence of local differences in the face of deregulation and global competitive pressure.
(Vitols, 1995, 2005; Deeg, 1999; Perez, 1998). Similar debates envelope the question of institutional change in issues such as corporate governance, accounting, industrial relations, production regimes, innovation, etc., but banking and finance play a particularly salient role in such controversies because of the ballooning scale of cross-border capital flows that fundamentally alter sources of credit and investment in economies, let alone shift expectations and sites of decision-making power (Morgan, Whitley, and Moen, 2005; Gordon and Roe, 2004; Krahnen and Schmidt, 2004; Yamamura and Streeck, 2003; Amable, 2003; Whitley 2000). The debate remains ongoing. Indeed, one set of editors, Jan P. Krahnen and Reinhard H. Schmidt (2004: 497-515) gave up trying to ‘answer’ the question and merely outlined the competing positions.

This paper examines the impact on and response of savings banks to liberalization and global competitive pressures. We focus on the deregulation and subsequent performance and organizational response of savings banks within the national banking systems of a group of leading OECD countries to consider whether evidence from the past thirty years indicates a trend toward convergence. Throughout their history, savings banks have been subject to a host of local regulations, regional obligations, and social customs, and therefore provide a revealing test case for the impact of deregulation on the structure of national banking systems. The question is particularly pertinent as European Union competition policy and the drive to create a single European “passport” in financial services has rescinded some of the traditional protections as illegal subsidies such as with the 2001 decision to phase out state guarantees for Landesbanken at the apex of the German savings banks systems (“EU, Germany…,” Handelsblatt, 2001). Historically, savings banks have frequently been favored with varying levels of special protective regulations from governments, designed in part to stabilize and
promote the institutions and segment their markets from commercial banks and other intermediaries. They have been held to account, by custom and by law, to promote local and regional interests. And, in many cases, some of their activities have extended well beyond the core textbook definition of the activities of financial intermediaries; in addition to providing financial services that facilitate deposits and loans by retail customers, savings banks in many countries have traditionally engaged in a wide range of social activities, funding local welfare and cultural activities, which some consider inefficient and nepotistic, more oriented toward local prestige and political relationships than profit (Walker, 2003; “Dreifach unter Feuer,” 2002). Local regulation and custom, therefore, helped determine the role of savings banks within the local financial system and contributed to international variation in the role of savings banks within banking systems. Given this, dominant economic theory would expect deregulation and the subsequent competitive pressures to contribute to a convergence (and perhaps an overall decline) in ownership and organizational form, and – by implication – in the role of savings banks in national banking systems.

Instead, we find evidence for significant divergence in the role of savings banks within the national systems we observe. While the market shares held by the savings bank sector declined precipitously in some countries, they rose strongly in others. Deregulated savings banks in different countries chose different strategic paths as their response to the pressure of competition. In some national contexts, they proved themselves able to out-compete commercial banks and other intermediaries while remaining mutual organizations; other countries demutualized savings banks and are, by definition, no longer savings banks today, yet in other countries they have remained mutual organizations. In many settings, we find that savings banks were able to use their non-financial activities and attributes – their regional
identities, their histories, and their record of obra social – as a source of competitive advantage in the newly deregulated environment. Far from disappearing under competitive pressure, these national historical idiosyncrasies seem to persist in creating divergent paths to “modernization” in national banking systems.

While documenting this divergence in the role of savings banks in national banking systems, this paper offers only tentative explanations for this divergence. We use this paper more as an opportunity to substantiate the divergence in impact and organizational response and to explore possible explanations for it. In particular, we examine explanations based on (1) the persistence of state authority and regulations; (2) the persistence of non-state institutions and patterns of behavior; and (3) the different underlying strategic and organizational capacity of savings banks in various countries. Of these three explanations, social scientists have largely overlooked the third as a factor. We conclude that whatever the full explanation for divergence, inner- and intra-firm organizational capabilities and branding of savings banks in various countries (all, in large part, based on evolved historical capabilities) must be included in this deregulation story. Such corporate capabilities were critical in determining their current ability to compete, in shaping their choice of past and current strategy, and therefore their current and future role in national banking systems. In short, managerial agency, conscious business innovation, and entrepreneurship by savings banks themselves should also be taken into account.

We begin with a brief historical overview of the role of savings banks within national banking systems, including the central importance of government regulation in protecting their positions. Next we examine the deregulation of the savings bank sector in the last three decades in the context of the broad trend toward liberalization of finance in OECD countries.
In section 4 we examine evidence on the impact of deregulation on the role of savings banks, considering both the quantitative and qualitative evidence in favor of and against convergence. Finally, Section 5 explores a series of possible explanations for the divergence we document in Section 4.

2. Savings Institutions and the Structure of Financial Systems: Historical Overview

In the 1830s, just a few decades after savings banks were first established, Alexis De Tocqueville in a discussion of European political economy referred to them as “one of our most important political institutions.” (Tocqueville, 1838) To assess the transition to deregulation that savings banks have recently faced, one must first understand their long history as regulated institutions and the importance of these regulations in fixing their role within national banking systems.

Savings banks were first founded in Europe in the late eighteenth century by public officials and local philanthropists to provide ordinary people opportunities to securely save for lifecycle consumption needs, such as unemployment, sickness, and old age. The public was permitted to open accounts with very low minimum deposits (upon which they received modest interest) and could withdraw savings on relatively short notice. Funds were usually invested in “safe” asset classes, including public securities and real estate. By the late nineteenth century, mounting public pressure to make these funds available on credit to ordinary people for home financing had led to innovations in small mortgage lending. In some cases, savings banks themselves began offering small-scale mortgage loans while in other national contexts—such as the United States and Great Britain—new types of savings institutions (S&Ls and building societies) were formed. In Denmark, until the first savings
banks law was introduced in 1880, some savings banks even competed with commercial banks advancing loans and discounting bills of exchange to small businesses and cooperative dairies (Hansen, 2001; Karlsson & Petersson, 2006). By the middle-to-late nineteenth century, the core organizational concept of the savings bank within the financial system was in place: it was a mutual, non-profit, local, retail-oriented financial intermediary that served the lifecycle financing needs of the general public by accepting medium-term financial liabilities (savings deposits) and investing in mortgage loans and approved classes of “safe” securities. In some countries, particularly in Scandinavia, however, savings banks also financed small and medium-sized firms as well as municipalities and mortgages (Karlsson & Petersson 2006). In Germany, savings banks began their 70-year road to full service universal banks with the introduction of passive checking, cashless giro transfers, permission to hold customers’ securities on deposit, and a modest amount of personal (i.e. small business) lending. Such innovations came at behest of the savings banks themselves as a form of small business promotion, as resistance to increasing competition for savings deposits from and the concentration of the large Berlin-based banks, as well as the potential threat of a national postal bank. The introduction of giro transfers, in particular, inadvertently promoted greater inter-bank coordination, clearing houses, and internal accounting innovations (Pohl, Rudolph, Schulz 2005: 32-65; Mura 1987; Ashauer 1991).

In part because small savers were in a poor position to assess and monitor their deposits in savings banks, governments quickly developed extensive regulations over the institutions in most countries. Interest rates and allowable investment classes were commonly set by government fiat. Competition was constrained by imposition of barriers to entry by commercial banks and other intermediaries, offering savings banks quasi-monopoly positions
within their regions (Wadhwani, 2006). Moreover, savings banks were rarely organized as joint-stock corporations but rather typically took the form of either private non-profit trusteeships (as in the US, the UK, Denmark, and Spain) or municipally owned institutions (as in Germany). Though local authorities were the primary regulators/owners of savings banks, central governments began to play a growing role in the oversight of the institutions in the late nineteenth century. At first, they often overtook and centralized the treasury functions of savings banks (as in the UK) but eventually often went on to establish competing nationalized savings bank systems, operated through national postal systems. German savings banks managed to block the national postal service (the “postal office savings ghost”) from offering savings accounts until 1938 (Ashauer 1991: 159-161). Overall, these regulations and ownership structure served the primary public policy goal of favoring stability and safety for small savers over all else. (Welfling, 1968; Benston, 1972)

Savings banks were the first major financial organizations to occupy the position in the financial system of offering inter-temporal (lifecycle) financial services for the general public. By the late nineteenth and early twentieth centuries, however, a number of other types of organizations with competing products and innovations had moved into the space. Insurance companies, pension funds, and commercial banks all began to actively enter the retail market for small savers after savings banks had proven the market. The growth of welfare states and public pensions provided a form of substitute for life-cycle saving. In a few countries by the 1910s and 1920s, public securities also gained traction in the mass market. In the first few decades of the twentieth century, these innovations had heightened the competition for household finance and offered the general public an array of choices.
Competing institutions struggled to gain share over rivals both in the marketplace and in the statehouse (Welfling 1968).

The instability of the interwar years, however, prompt the passage of a new wave of government regulation of the financial systems of developed economies, not least in the part of the financial system served by savings institutions. In most Western countries, interwar regulations segmented the market served by savings banks from those served by potential competitors, including commercial banks and insurance companies. Already existing restrictions on both the scope of liabilities and assets of financial intermediaries were intensified, with thrifts focused on taking in savings deposits and lending in the local mortgage market. In some economies, such as the US and Spain, constraints were placed on geographic as well as product scope through the imposition of anti-branching laws. Interest rates on both deposits and loans were regulated. Strong credit channeling policies to favored sectors were also imposed on savings banks as part of industrial policy. (Forsyth and Notermans, 1997)

By contrast, in Germany and Scandinavia, savings institutions became increasingly important in lending to small and medium-sized enterprise and farmers. German savings banks became a key conduit in the German government’s war bond drive, but the idea that government bonds were “safe” died with the loss of the war and hyperinflation. In the 1920s, the restrictions on German savings banks financial activities were increasingly lifted short of large-scale currency or securities speculation; an upper limit on what constituted a “Mittelstand’s credit” was established. While municipal loans and mortgages still dominated, small business loans for “actual productive purposes” through current account credits became an increasingly important part of savings banks’ business. Savings institutions transformed
themselves into true banks. Clearing house giro-transactions expanded greatly. A unified “German Savings Banks and Giro Association” (DSGV) was founded in 1924—still name of the main peak association today. The DSGV formed standardized guidelines for savings bank statutes, promoted uniform accounting, standardized paperwork, participated in the main national institution encouraging greater rationalization, advanced more sophisticated advertising strategies, and improved personnel training. The “bank-like” development of German savings banks created such a threat to private commercial banks that they spoke of “cold socialization,” referring to the creep of the public sector banks. The competition ended in a temporary but formal gentleman’s agreement with private commercial banks in 1928 that banned aggressive advertising and affirmed a rough division of labor between public and private banks (Pohl, Rudolph, Schulz 2005: 65-134; Borchardt 1987; Mura 1987; Emmerich 1995). Present accusations by the German Association of (private) Commercial Banks that the public savings bank sector distorts markets begin rightly in the 1920s. For our argument, German savings banks began a long, slow process of developing “bank-like” inter- and intra-bank organizational capabilities that have permitted them to remain competitive even under increasing deregulation. Such organizational capabilities do not develop overnight.

Beyond the restrictions of formal regulation, savings institutions in most countries continued also to be tied by custom and law to supporting regional interests and social obligations. In many cases these organizational activities and obligations lay well beyond the textbook definition of a financial intermediary but remained by historical precedent a core organizational function of savings banks. In particular, savings banks in Spain, Germany, and Scandinavia were either obligated or chose to donate a significant portion of their net profits to local charitable, social, and cultural purposes. The “obra social” was considered an
essential function of savings banks in these countries and, even when not required by law, it was considered obligatory. Savings banks were also considered key municipal and regional institutions, obligated to promoting regional businesses and other interests (Welfling, 1968; Thomes, 1991).

Held in place by regulation and custom, the role of savings banks in the financial systems of most developed countries remained largely unchanged throughout most of the twentieth century. It’s essential features in 1970 were not unlike its essential features a century earlier: (1) the institution remained focused on providing simple lifecycle financing for the general public by offering interest-bearing savings accounts, mortgage loans, and, in some cases, life insurance in small denominations; (2) its market was strongly regulated and segmented; (3) it remained deeply local or regional in character and identity. Yet, these traits were about to disintegrate. Indeed, the process had already been underway for some years.

3. Deregulation, 1970s-

Historians and social scientists differ on the causes of the deregulations that undermined the national financial regulatory regimes that were put in place in the interwar period. Among European countries, liberalization could be traced back as far as the formation of the OEEC in 1948. The wave of systematic deregulation of national financial systems that gained momentum in the 1970s and 1980s, however, was due to a series of macroeconomic shocks which, combined with a shift toward free-market discourse, prompted the dismantling of many (but not all) of the interwar banking regulations.

Beginning in the 1960s, inflation, combined with the creation of off-shore Eurocurrency markets, led to growing levels of disintermediation that hit depository
institutions hard. Innovations, such as money markets, also undermined the business of depository institutions (Vietor, 1993; Deeg, 1999). In some countries, such as Denmark, sectoral shifts played a further role in undermining the traditional business of savings banks. (Hansen, 2000).

The growth of liberalization policies promised to batter formerly protected local savings institutions even harder. The planned formation of the EU – particularly its single market policy – threatened to expose locally regulated institutions to international market pressures. More broadly, the dismantling of mid-century capital and exchange controls promised that international competition would batter regulated local institutions by injecting a scale and efficiency in financial services against which smaller local banks would not be able to compete. Not only would the entry of international financial institutions threaten local markets, the growth of the non-financial MNCs suggested that these corporations would easily get around national financial regulations in acquiring the cheapest source of funds abroad (Deeg, 1999).

The response to these trends varied significantly from country to country. In some, like Denmark, the United States, and the UK, managers of savings institutions began themselves clamoring for deregulation relatively early. In Denmark, for instance, the savings bank association began to lobby for the deregulation of the industry as early as the 1960s and pushed hard for enabling legislation for demutualization in the 1980s (Hansen, 2000 and 2001a). Savings banks and S&Ls in the United States did likewise in the 1970s and 1980s, calling for the relaxation of interest rate and product restrictions in order to compete against the trend toward disintermediation. [Quote from head of SB association] In other settings, policymakers themselves took the lead. The Spanish government, for instance, deregulated
the savings bank sector in the mid 1980s ahead of the formation of the EU, believing that the organizations needed to learn how to compete in the domestic market before being exposed to international competition. In still other settings, such as Germany, the savings bank association generally lobbied against liberalization altogether—remaining committed to its public interest objectives, public ownership, and regional principles of doing business—yet simultaneously modernizing its business operations, expanding its product offerings, and enhancing the “Sparkasse” brand (see discussion below).

Despite these differences in national reactions, a clear and common trend toward deregulation of savings banks took place across OECD countries between the 1970s and the 1990s. The fundamental features of the regulatory system that – along with tradition – had fixed the role of savings banks within national financial systems were undone. Interest rates on deposits were deregulated. Rules pertaining to product and geographic segmentation (i.e. anti-branching provisions) were erased. And, in many countries, provisions for de-mutualization and the flotation of some form of equity in the institutions were granted.

Throughout the 1980s and 1990s, policymakers and social scientists predicted that deregulation would lead to convergence in the structure of national financial systems. The view was that the formerly protected savings bank sector would either be eliminated (or substantially reduced) by competition or it would have to change its organizational and other practices to look more like commercial banks if it was to survive. Either way, the result would be convergence in the structure of national banking systems and the likely de facto end of savings institutions as distinctive financial organizations. (Baltensberger, et al, 1987)
4. Impact of Deregulation on the Role of Savings Banks in National Banking Systems

To examine actual changes in the role of savings banks following deregulation and to assess the degree of international convergence we looked at a number of indicators of the changing structure and performance of savings banking within a set of OECD countries. First we considered quantitative data on trends in the savings bank sector’s share of bank deposits and loans in each country. These quantitative estimates provide some level of reasonable comparison of national trends in the significance of the savings bank sector within the banking system of the countries under consideration. However, the quantitative data contains a number of possible weaknesses. It does not, for instance, take into account potential broader shifts in the composition in these national financial systems away from the banking sector altogether and toward markets. Moreover, the data do not capture underlying changes in the structure and function of savings banks themselves; the market data series on savings banks may mask fundamental changes in the operations and corporate structure of savings banks that suggest fundamental organizational convergence in all but name. For these reasons, we considered qualitative evidence as well, including the degree to which savings banks moved toward corporate governance, industry structures, firm strategies, and external relations that were similar to those of commercial banks (see Section 5c).

Chart 1 plots data on the market share held by thrifts in bank deposits in the countries under consideration since 1950. The data suggest that there has been significant divergence in the role and significance of savings institutions within developed countries following deregulation (Guillen 2005; Carnevali 2005). While savings institutions controlled between 30 percent and 60 percent of bank deposits in these countries during the regulated postwar era, the spread between countries is now much greater. Savings banks in Denmark control as
little as 3 percent of deposits while the ones in Spain now control approximately 55 percent. Moreover, the chart suggests that national trends since the 1970s have been starkly different. Savings institutions in Denmark, the US, and the UK witnessed particularly significant declines in market share following deregulation. The trends reflect not only the relatively slower deposit growth of savings institutions in these countries when compared with competitors but also a significant number of failures (as took place among US thrifts in the 1980s) and de-mutualizations (which took place in all three countries). In Denmark, the conversion of many non-profit savings banks to joint-stock commercial banks from 1989s account for most of the precipitous decline in that country’s savings bank sector. In stark contrast, the savings bank sector in Norway and Germany has continued to hold strong positions in the deposit markets of those countries and Spanish savings banks seem to have in fact won significant gains over their competitors since de-regulation.

Table 1, which presents more recent operating statistics on the savings bank sector in the European countries under consideration, seem to confirm this divergence. Spain, the only country to experience a significant rise in savings bank market share since deregulation, bucked international trends by adding nearly 5,000 savings bank branches between 1997 and 2004. Spanish savings banks continued to gain not only share of deposits but also share of all bank assets and loans over competitors in this period. Savings banks in Norway and Germany essentially held their ground in terms of employees and the share of bank deposits, loans, and assets. As a group, German savings banks were the most profitable sort of banks in the 1990s and early 2000s. J.P. Morgan argued adamantly that Sparkassen dominance derived not from their state guarantees, but from their strong client relationships and deposit base (Fear 2003; J.P. Morgan Securities 1999). In both these countries, savings banks continue to account for a
large share (approximately 35-50%) of the banking sector business. Likewise, Swedish savings banks, though performing slightly poorer than their Norwegian and German counterparts in recent years, continue to account for a large portion of that country’s banking structure.

In contrast, the long-term decline of the savings banks within the Danish, British, and American systems shows few signs of recovery. In recent years, American and British savings institutions continue to decline in significance and show few signs of competitive resurgence. Savings banks in Denmark have plummeted to the point that they represent a negligible portion of the banking system. This is not necessarily a sign of failure for the individual organizations, which may be thriving as public companies and commercial banks. It is, however, a sign of failure in these countries for the mutual and non-profit organization as an idea and as a practice. Many economists would explain this by arguing that the joint stock organizational form is more efficient, but why then does it still exist in a relatively successful way in Germany, Spain, and Norway? Could it be that Revell is right when he argues that this is an “ideological battle being waged by extreme free marketeers against mutualism”? (Carbo et al. 2000, p. 189)

This question is particularly interesting because the qualitative evidence suggests that the statistical trends capture genuine divergences in the organizational structure of banking systems. Savings banks in Spain, Germany, Norway, and Sweden continue in fundamental ways to operate using governance mechanisms, deposit and lending practices, networks of regional relationships, and external public relations that are starkly different from those of commercial banks. With the possible exception of Swedbank, savings banks in these countries are not subject to public market governance mechanisms and continue to be
overseen as private foundations or, in the case of the German *Sparkassen*, as municipal entities. The main body for German *Sparkassen*, the DSGV, insisted that the “public interest,” orientation represents a fundamentally different “business philosophy” that is a source of competitive advantage, singling out in particular the failure of British savings banks. Private bank shareholders and profit levels may suffer, but savings bank clients, small business, consumers, and regions profit (Finanzgruppe DSGV 2006). They remain mutual non-profit organizations with significant ties and obligations to local business and government. In Spain, for instance, regional political appointees account for 50% of board directors and, in most cases, the institutions continue to be used in part to promote regional development. The *obra social* also continues to be a fundamental part of these organizations. A significant portion of annual net profits (approximately 25% in Spain) is donated to local welfare and cultural organizations. The continued prominence of savings banks in Spain, Germany, Sweden and Norway hence represents a significantly different way of organizing a substantial segment of the banking system from that in Denmark, the US and the UK. The next section turns to possible explanations for the apparent persistence and success of savings institutions in these countries in the face of growing competitive market pressures.

5. Explaining Divergence

Social scientists who emphasize the persistence of international differences based on national institutions usually point to one of two factors in accounting for the persistence of divergent banking (and other economic) structures in a period marked by growing global competition. First, they point to the continuing importance of nation states in imposing regulations (and other kinds of political influence) over the local economy; globalization’s
impact on the decline of state power, this position emphasizes, is overdrawn and it is national political considerations that account for the persistence of differences (Deeg, 1999; Perez, 1998). A second point of view emphasizes instead the importance of national differences in non-state institutions and patterns of behavior. Local custom and historically entrenched or path-dependent behavioral choices, this reasoning goes, inevitably mediates and reshapes the impact of deregulation on the structure and performance of local firms and markets (Vitols, 1995). A possible third explanation – less well explored in the secondary literature – is that divergence is due to fundamental differences in the organizational capabilities and strategic choices of the savings bank sectors of the countries under consideration, somewhat independent of national regulations and entrenched institutional structures. Over the course of the twentieth century, the savings bank sectors in the countries under consideration developed significant differences in organizational capabilities that were largely masked by regulation. Liberalization and heightened competition, combined with good strategic management of firm and group assets, created the divergence we see over the last three decades. Continuing political-regulatory or institutional differences may be a consequence (not a cause) of firm-specific (or networks of firms) business strategies and innovative capacities, not of regulation or deregulation. “Structures” and “institutions” may, in part, be created by creative business strategies as well as political choices (Borchardt 1987).

This last section entertains each of these three explanations and considers how well they account for the differences we outline in Section 4. Our purpose in doing so at this point in our research is not to bet on any one explanation, but rather to consider the value (and limitations) of each. We pay particular attention to the third explanation given its relative lack of coverage in the secondary literature.
a. Political/Regulatory Explanations

Political explanations for divergence typically hinge on pointing out that in an era of deregulation states continue to exercise regulatory authority over firms in direct and indirect ways. In the banking industry, it is clear that in the countries where savings banks have continued to account for a large portion of the financial structure, some state regulations continue to favor savings institutions over other financial firms. While substantial deregulation has taken place across these countries, political power in Germany and Spain (but less so in Norway) continue to favor savings banks in certain ways.

In Germany and Spain, it is often charged, savings banks continue to serve as “political institutions” in the Tocquevillian sense. (Mai, 2004; German Savings Banks, 2006) German Sparkassen and Landesbanken, for instance, are owned and controlled by their municipal and regional governments, while in Spain the savings bank boards continue to be formed in large part by provincial political figures. Hence charges of political favoritism for savings banks (most often expressed by commercial banks) abound. The egregious scandal of the former Bankgesellschaft Berlin, the state bank of Berlin, exemplifies the potentially disastrous confluence of political interference and lending. If nothing else, state ownership and control may be seen as conferring a form of legitimacy and sense of stability to savings banks that can serve as a competitive advantage. The question whether it is unfair or not is one of the most heavily debated questions today.

More specifically, savings banks in these countries are protected from “exiting” the market by a number of special provisions that their closeness to the state confers. Regulations in both Spain and Germany prohibit or restrict their acquisition by commercial banks and
other intermediaries and many observers charge that such institutions would not be allowed to fail, offering a sort of guarantee to the institution’s customers. The federal nature of German \textit{Landesbanken} also frustrated potentially more efficient consolidation. In fact, in Germany savings banks and \textit{Landesbanken} as the anchors of the savings bank system benefited from this guarantee – which was never available to commercial banks – until 2005 when the EU ruled such sureties constituted an illegal subsidy. Because of these sureties (to be fully phased out by 2015), many \textit{Landesbanken} received AAA ratings permitting them to lend more cheaply—and more riskily. Critics of \textit{Landesbanken} could point to recent difficulties at WestLB (risky equity trading), SachsenLB (exposure to American subprime loans), and Landesbank Berlin (formerly Bankgesellschaft Berlin with its politicized real estate lending). Most expect credit ratings to fall for many \textit{Landesbanken} and they might have to alter their lending strategies (Mai, 2004; German Savings Banks, 2006; Fear, 2003; Moody’s 2008; WestLB 2008; SachsenLB 2008).

Finally, one could highlight that savings banks in Germany and Spain – unlike those in the UK, US, or Denmark – continue to serve as an instrumental part of regional industrial policy. They serve as a conduit for cheap credit to favored sectors and businesses. In Spain, they often end playing a required role in financing newly privatized businesses. However, while this link with industrial policy in Spain and Germany is clearly significant, it is not entirely clear how it might affect the relative performance and importance of savings banks within these economies since the policies essentially impose a form of cheap-lending tax on savings banks.

In general, these political explanations for the divergent role and performance of savings banks provide strong reasoning for why we see a relatively little “exit” out of the
savings bank sector in Germany, Spain, and Norway over the last three decades. While approved acquisitions of savings banks by other savings banks has occurred in these countries, there has been none of the mass wiping out – through failure or demutualization – that was experienced in savings banks in the US, UK, and Denmark. Takeovers or bankruptcies remain difficult to imagine as long as savings banks’ ties to the state remain strong in Germany and Spain. All efforts to eliminate the “three-pillar structure” in Germany to enhance overall bank profitability and consolidation have failed dramatically (Weber 2006; Finanzgruppe DSGV 2005).

However, political explanations have a much more difficult time explaining the relative strength of the savings bank sector in these countries in the face of growing competition. In each setting, savings banks have faced growing competitive pressure from commercial banks and yet held or improved its market share over the last three decades. They have outperformed the commercial bank sector in overall return on equity and cross-selling into new markets and narrowed the gap with their rivals in total factor productivity (J.P. Morgan 1999; Fear 2003). Hence, while explaining limited exit patterns, political/regulatory explanations of performance in these countries or in accurately capturing their role within the economy are not adequate or sufficient.

There is little question that political and regulatory considerations play some role in explaining divergence, but it is partial and limited at best. Of the countries under consideration, Germany’s savings banks (and their association) have been the most active in seeking to maintain their political character and privileges, yet even there those privileges have been in decline and have come with significant costs to the organizations, particularly the Landesbanken. Certain privately held, “independent savings banks,” such as the
Hamburger Sparkasse (Haspa), which have long operated without state guarantees but within the group/savings bank principles (see below) are considered to be one of the best banks for customers and Mittelstand firms, let alone private asset managers in Germany (J.P. Morgan 1999; www.haspa.de). Spanish savings banks (and their association, CECA) have been less politically oriented in their strategies, in some cases embracing reforms that would limit their political ties to local authorities. And in Norway it is difficult to attribute the persistent role of savings banks to formal state power at all.

b. Institutional Explanations

Political explanations based on state favoritism toward savings banks are incomplete in part because they have a difficult time accounting for why we observe strong performance (and even growing market share) in countries in which the savings bank sector is in the process of deregulation. A fuller explanation needs to take into account factors beyond the state. Institutionalized patterns of national behavior provide one such alternative explanation often employed by social scientists to explain international divergence.

Specifically, Sigurt Vitols and Richard Deeg have put forward a set of such institutional arguments to explain the German economic system’s lack of convergence toward Anglo-American financial models. In the saving and investing market, Vitols emphasizes German patterns of household economic behavior that favor deposits in savings banks (and other stable fixed-income intermediaries) over investment in markets. “German banks themselves have become important repositories for long-term household savings through offering a variety of attractive savings vehicles,” Vitols writes (1995: 9). Moreover, he adds, Germany has lacked the market-based private pension systems of the US and UK that have
contributed so substantially to those countries’ market-based financial systems. The institutional structure of German household saving has thus favored the stability of intermediaries, and savings banks in particular. Similarly, Deeg emphasizes the long tradition of close relationships between the *Sparkassen* and Germany’s famous small and medium sized enterprises (the *Mittelstand*) as a source of stability and relative strength for the savings bank sector. The immense success of *Mittelstand* business at home and abroad has rebounded in the favor of *Sparkassen*. These institutionalized patterns of behavior have clearly helped savings banks in Germany deal with the increasingly competitive environment from a comparative perspective (Deeg, 1999; Fear 2003; Carnevali 2005).

Such institutional arguments are clearly important to recognize in explaining divergence. In the US and UK, alternatives to bank deposits – such as private pensions, insurance, and money markets -- had clearly emerged as a form of significant household saving and households were clearly comfortable (and actively engaged) in shifting their assets, much to the detriment of American savings institutions. The institutional environment in Germany, in contrast, favored the stability of savings banks. Such institutional factors were clearly important in accounting for the changing patterns of demand for savings bank services following deregulation.

However, institutional, like political, explanations have their limits in being able to explain the diverging role of savings banks in national banking systems. Unless general trends – such as the percentage of all bank loans accounted for by SMEs – were favorable, they cannot account for the growing strength of savings banks in countries like Spain. Moreover, such institutions themselves are subject to change following an economic shock like deregulation. For instance, in Germany itself, large industrial corporations – which long
had close relationships with their big commercial *Hausbanks* – have in recent decades moderated these institutionalized relationships and moved toward debt-to-equity ratios that are similar to those of American and British firms (though not *Mittelstand* firms that are still immensely reliant on long-term bank debt). Allianz and the Deutsche Bank have unwound their equity holdings in companies. Financial reforms have resulted in more dynamic capital market developments, yet *Sparkassen* remain one of the most trusted institutions as advisors in asset management (Pohl, Rudolph, Shulz 2005: 464-475). While some institutionalized patterns of behavior – including household savings patterns and bank-SME relationships– clearly favored savings banks in Germany, Spain and Norway over those in the US, UK, and Denmark following deregulation, those institutions and client relationships were themselves subject to considerable change. Thus, to understand why savings banks in some Continental European countries were able to stabilize and capitalize on these institutions under conditions of disruptive change, we need to understand the organizational actions and business strategies of savings banks themselves.

c. Organizational Explanations: “Grandfather’s Savings Bank is Dead!”

Ultimately, political and institutional explanations for divergence in the role of savings banks the national banking systems of the countries under consideration fail to capture the significant variation in organizational capabilities that the savings bank sectors of these countries had developed over the course of the twentieth century. In order to understand these differential capabilities and why they have helped savings banks in Spain, Germany, and Norway compete successfully in the last three decades, we need to understand how savings institutions in these countries evolved important competitive capabilities over the course of
their histories that have served them well in the deregulated environment (Nelson and Winder, 1982). We briefly examine the development of four capabilities that have played a crucial role in countries where savings banks have maintained a strong presence in the banking structure.

*Group Structure*

One of the most important capabilities that the savings banks in Spain, Germany, and Norway had developed by the eve of deregulation was the ability to act collectively as a group. In these countries, savings banks had developed very substantial national associations and networks earlier in the twentieth century that provided the organizational foundation upon which they could rapidly develop scale and scope oriented cost, service, liquidity, joint liability, and competitive response capabilities that would prove critical in dealing with their large commercial banking rivals and the entry of MNFIs. Though savings institutions in the US and UK had also developed associations, these organizations tended to be much weaker and more limited in services and authority than the ones in Spain, Germany, and Norway. By the late twentieth century, the savings bank sectors in these latter countries had developed both an identity and organizational capabilities as business groups to act in a coordinated way to compete with rivals and support its members. In Germany, for instance, this notion of group competition (and later group joint-liability) – *Gruppenwettbewerb* – is the critical market dynamic in the banking sector, shaping challenges and responses between the commercial, savings, and cooperative banking sectors (Deeg, 1999; Diekmann, 2006; Mai, 2004; Ashauer 1991).
In each case, these membership-owned associational groups formed well before deregulation (usually in the early twentieth century) and had already developed the capabilities to provide a wide range of services to its members. In Germany, for instance, the savings bank group took on a sophisticated three-tier structure early in the twentieth century, but the post-1945 period saw the consolidation of Landesbanken/Girozentrale that increasingly competed in sophisticated financial services as full-scale universal banks in direct competition with Germany’s famous private commercial banks, particularly by the 1960s, which led to increasing domestic controversies about the nature of bank competition. Savings banks’ cash-less inter-bank giro transactions and branching network became a source of competitive advantage in the 1950s and 1960s as an increasing number of workers and salaried employees—the “classic clientele” of the savings banks—moved to direct deposits. The large commercial banks pioneered in this case true consumer credit, but they could not sustain their first-mover status because of the relative lack of a direct deposit base and customer contact in spite of the fact that the tax-free status on savings transactions ended in 1968. (Savings banks still had a lower tax rate than private banks until 1981/82.) (Pohl 1998; Pohl, Rudoph, Schulz 2005: quote from p. 304). Local municipally owned savings banks formed the bottom tier, followed state-owned Landesbanken (and/or Girozentrale), with the national association overseeing policy for the whole group (DSGV). The DSGV was much more than a lobby. This structure provided local savings banks with a host of scale-oriented services that they would have had trouble obtaining as autonomous corporations, including liquidity, clearing services, external auditing, technical advice, financial product innovation, advertising, and consulting. For instance, The Rheinische Girozentrale headed by Fritz Butschkau (President of the DSGV) introduced in 1963 the UNIVAC III, at the time the most
modern computer mainframes, to automate accounting processes (Butschkau 1972: 67). A 1968 government competition commission found that the savings banks as a whole did not compete on the “crutches of privileges” but because of the timely introduction of new client services: “Grandfather’s savings bank is dead” (Ashauer 1991: 293-305). In 1969 savings banks established the first joint computing center in Münster, increasingly automated processes and by 1981 all savings banks had computerized information processing, which the larger banks and DSVG helped introduce and disseminate. As a group based on its existing cash-less giro-system, savings banks helped lead the way in electronic information technology check card; so much so that in 1991 German savings banks alone issued a full 40% of all EC-cards in all of Europe and had a 60% market share of all automatic teller machines in Germany; in the mid-1980s savings banks developed a unified “S” ATM debit card that could be used nationwide (Pohl, Rudolph, Schulz 2005: 319, 356-361). This tradition continues. As a result of the EU decision to phase out guarantee obligations, the savings bank group revised its constitution to further update its joint-liability operations (Haftungsverbund). After recent troubles at WestLB and SachsenLB, Moody’s (2008) deemed the savings banks financial group (S-Finanzgruppe) quite favorably: “These recent observed actions underpin the groups strong cohesiveness in an impressive way.” Finally, the national association (DSGV) also represented the group’s political interests in the broader competition with commercial and cooperative banking interests. This present group cohesiveness, however, evolved from decades of developing similar forms of cooperation, quite often before the threat of deregulation or change in the protected status of the savings banks (Deeg, 1999; Ashauer 1991; Mura 1987; Pohl, Rudolph, Schulz 2005; DSVG website).
Similarly, Spanish savings banks formed the Instituto de Credito de las Cajas de Ahorro (ICCA) in 1933 in order to provide clearing and lender-of-last-resort services. ICCA served as the platform for what eventually became the Spanish Confederation of Savings Banks (CECA). In 1971, when ICCA closed, CECA took over the clearing and other functions but also served as a platform for expanding other services, lobbying, and the formation of strategy as a group, such as investments in an IT infrastructure for the group. Bernardo Batiz-Lazo quotes one banker on the role of the organization:

> Several of our lines [of business] are nurtured by or are left in the hands of the Confederation. Perhaps the most strategic aspects [of developing related business lines] are left to the Confederation. …They undertake studies and see whether it is more interesting for the smaller banks or for CECA to provide, say, telephone banking services. …you will find many studies exploring new opportunities… Therefore, small and medium sized cajas leave that kind of project to CECA…We thus leave any major investment to CECA. (2004: 46-7)

As Batiz-Lazo points out, the CECA was critical to the Spanish savings banks’ ability to launch a range of innovative services into the retail sector during deregulation, including currency dealing, leasing, credit cards, and factoring. (2004: 46) A similar history can be found in Norway and Sweden, where vertical associations formed in 1908 and 1919, respectively (2004: 45). Unlike in these countries, the associations or central banks formed in the US and UK provided a much more limited range of services and certainly did not coordinate strategy for savings institutions as a group.

The significance of these flexible group/network structure is that, unlike a large corporate hierarchy, the savings banks themselves maintain autonomy, local identity, and a close affiliation with their customer base of depositors and SMEs—purposeful networked decentralization. Hence the historically formed group structure has created an organizational capability that it is difficult for large commercial banks to fully emulate because it provides...
both closeness to customers of small institutions with local roots with connections and the scale and scope capabilities of a large corporation with international operations. The extent of these organizational capabilities remained largely masked until deregulation render scale and geographical reach critical to the competitive landscape.

Capabilities for Serving Regional SMEs

A second important organizational capability developed by savings banks in Germany, Spain, and Norway was the capacity and reputation for serving the needs of the local economy, particularly the region’s SMEs. In each of these three cases, savings banks specialized in serving the financing needs of small companies that larger banks largely overlooked. In recent decades, as large corporations in Continental Europe increasingly turn to public securities markets for financing needs, SME financing become critical to the banking sector and savings banks have a long history providing the services and patience to serve these clients, who often have considerable financing needs competing on international markets.

In Germany, in particular, savings banks have been critical partners to that country’s famous Mittelstand companies. These (typically family owned) SMEs – in accord with German industrial policy – often focus on the export-oriented development of internationally recognized “diversified quality products.” Deeg explains: “This strategy entails the combination of high levels of technology with high levels of skilled labor to produce high-quality goods, typically in relatively small batches.” (Deeg, 1999: 22) The Sparkassen have long specialized in providing financial and other services to the Mittelstand. (Unlike banks in Anglo-American countries, which evolved toward short-term commercial financing,
particularly since 1945 *Sparkassen* have capitalized on stable, relatively long-maturity deposit base to provide long-maturity debt financing for the development and growth of these firms. This Mittelstand reliance on long-term debt rather than equity became a source considerable debate under the new Basel II regime. Moreover, the *Sparkassen* provide a wide range of management services (accounting, auditing, consulting, etc.) to these companies, essentially becoming the external management arm or (in cases of distress) the *Hausbank* for these companies. Many *Mittelstand* firms did not have sophisticated financial knowledge, which they could ‘outsource’ to their home-based *Sparkasse* or *Landesbank* (Fear 2003). With the increasing liberalization of international markets, *Landesbanken* and *Sparkassen* in cooperation developed services as well to support export-oriented *Mittelstand* firms in their region a full decade before the Deutsche Bank found that *Mittelstand* firms often had higher export quotas and growth rates than large firms. In the 1960s and 1970s, this capability went hand-in-hand with the increasing international financing activity by *Landesbanken*—although with some mistakes along the way. Importantly, it was the savings banks association (DSGV) that advocated greater liberalization to fully engage in foreign credit activity so far prohibited to savings banks, which was altered in the 1970s. Thus, the large universal German commercial banks that had long focused on financing the country’s large industrial enterprise and wealthy clientele, had to catch-up in these more modest businesses, which gave the savings banks a competitive organizational advantage in the postwar world in serving this critical segment. Then, the strength of German *Mittelstand* companies on world markets only strengthened the savings bank sector (Deeg 1999; Pohl, Rudolph, Schulz 2005: 365-374).

Though the German savings banks’ relationships with the *Mittelstand* companies are famous, the savings banks in Norway and Spain developed similar capabilities in serving
regional SMEs over the course of the twentieth century. Spanish savings banks, in part through their political affiliation, have developed close ties with regional businesses (Mai, 2004). Likewise, in Norway, savings banks are especially critical in serving SMEs and have become increasingly so in recent years. Companies of fewer than 50 employees are the preferred banks (Sparebank Website).

In contrast, in the US and UK, savings institutions never developed the capability to effectively serve the enormous small business market. In the US, this was largely a matter of regulation; thrifts were regulated to be narrow intermediaries, lending primarily in the form of mortgage loans. Early consolidation amount trustee savings banks in Great Britain in part accounted for the abandonment of the small business financing market in that country. In Britain, in particular, the banking structure evolved in ways that created a shortage of financing for SMEs (Coopey, 2006; Carnevali 2005).

**Branding and Customer Loyalty**

Given their origins as institutions closely tied to the wellbeing of their communities, savings banks have long had a strong reputation and image of responsible and trustworthy corporations, a critical asset, a source of goodwill, for a depository institution. Savings banks in Spain, Germany, and Norway have actively nurtured and invested in this reputation, seeing it as a critical element of their branding and source of consumer loyalty.

In fact, savings banks in each of these countries remain heavily involved in the welfare and cultural activities of their regions. In Spain, this “obra social” continues to require savings banks to contribute 25% of their net profits social and cultural purposes; actual contributions by the sector have in fact run slightly higher than this. Though such
contributions are not obligatory in Norway, savings banks in that country continue to make such “gifts” as part of the expectation that they “fulfill their commitments towards the communities in which they operate” (Sparebank). Likewise, German Sparkassen have maintained their tradition of social contribution to local causes as a way of maintaining their reputation.

The savings bank sector in these countries invests in these activities in part by tradition, but also in recognition of the fact that it has a payoff in retail bank branding. “One of the cajas competitive advantages is their high esteem in the public eye,” explained a Euromoney article (Stuart, 2003). The institutions have actively defended and protected this brand as a key source of differentiation from commercial banks. In Germany, with the dropping of regulations regarding advertising from 1928 after 1967, the savings bank association created a more unified marketing effort, including modernizing the symbol of the Sparkassen (a red S with a dot above it) and moving its campaign away from a more heavy-handed, paternalistic admonishment to savings symbolized by the savings book to a stress on customers needs, the desire to live better, and savings banks as personalized financial advisors (Emmerich 1995: 203-213). The red “S” with a dot is one of the most trusted, best recognized, most sympathetic brands in Germany. Little wonder that the German savings banks association lobbied successfully to restrict use of this icon only for firms with “public interest” goals rather than shareholder value. When the Landesbank Berlin with its Berliner Sparkasse came up for sale as a result of the collapse at Bankgesellschaft Berlin, the DSGV Finanzgruppe purchased in 2007 the Landesbank Berlin outright to stop it from falling into the hands of the private Commerzbank (“DSVG to Buy Landesbank Berlin” 2007; Heusinger 2006; Finanzgruppe DSVG 2006; “Agreement on ‘Sparkasse’” 2006).
Research on the impact of these efforts supports the conclusion that this historical tradition and brand has a significant payoff and has been a source of comparative advantage for savings banks. One econometric study of Spanish savings and commercial banks in the mortgage market found that, *ceteris paribus*, the savings banks had a significant advantage that could be linked to their “obra social.” This branding goes some way to explaining how the Spanish savings banks have won market share in both the mortgage and deposit markets given the fact that they charge a higher rate than commercial banks in the former and pay out a lower rate in the latter (Munoz and Gonzales, 2005).

*Capital Structure and Governance*

Savings institutions in Spain, Germany, Norway, and Sweden have benefited from the fact that they raise external funds, on average, more cheaply than commercial banks. This is because their liabilities are much more heavily weighted toward deposits (which provide an especially inexpensive source of funds) and because, as private foundations or public organizations, they have traditionally not issued equity (an expensive source of funds). In addition, implicit or explicit state sureties backed their lending practices, which critics viewed as a moral hazard risk. Because other financial ratios – such as cost/income – are in line with commercial banks, savings banks in these countries have tended to have higher returns on equity. In fact, even as deregulation has allowed savings banks in Spain, Norway, and Sweden to issue forms of equity in recent years, savings banks in these countries have been relatively slow to do so in part because they can rely on a relatively cheap source of funds. The hesitation, however, reflects more than simply the concern about the cost of equity.
financing; it reflects fundamental strategic considerations about control and governance of the organizations (various DB Reports).

Private control by external shareholders was, of course, considered a main potential benefit and building block of liberalization. The private nonprofit or mutual structure of savings institutions in most countries was a potentially antiquated and limited corporate form because it was not subject to the performance-exacting discipline of for-profit ownership. Deregulation would allow savings banks to de-mutualize and not only raise capital but also benefit from efficient and disciplined external governance. The savings bank sector in Spain, Germany, Norway, and (to a lesser extent) Sweden was skeptical about this reasoning (and undoubtedly jealous with managerial autonomy and control). In some cases, however, this has proven to be a strategic advantage. A *Euromoney* article explained that “the cajas’ real trump card is the fact that they aren’t obliged to be looking over their shoulders at their share price every day. This means that they enjoy a degree of strategic and tactical flexibility and an ability to cope with market turbulence that would be unthinkable for any of the large quoted banks” (Stewart, 2003). In fact, after deregulation, Spain’s savings banks began investing heavily in expanding its branch offices, completely contrary to market trends in the industry. It is a strategic move to gain market share that has paid off handsomely but unlikely one that would have been looked upon kindly by public markets. “They have been opening branches at an almost marathon pace in the past few years,” a Madrid banker is quoted as saying. “But when the market takes a nosedive they can just as quickly shut them down.” (Stewart, 2003)

Unlike some of the other organizational capabilities discussed in the paper, this corporate governance freedom to think long term and to make strategic bets against the market has significant risks and tradeoffs. The potential problem not only created by the
unchecked agency of managers is foremost among these risks, but also the potential to politicize decision-making. But when one compares the performance of Spanish, German, and Norwegian savings banking sectors as a whole, where privatization has been incremental, to the fate the American, British, and Danish savings institutions that demutualized rapidly in the 1980s, the decision to maintain the traditional governance structure clearly had its benefits. Theories of the efficiency of public market governance aside, rapid demutualization and wholesale conversion to the joint-stock form was a disaster for many American and British savings institutions. With somewhat of an amazed tone, a J.P. Morgan study stressed that the German Sparkasse were no “dinosaurs,” but rather singled out the Hamburger Sparkasse or the Stadtsparkasse Köln as “candidates for the title of best bank in Germany.” The Cologne bank had higher internet banking penetration than that of the Deutsche Bank (1999).

A distinguishing feature of Spanish and Norwegian savings banking sectors has been that they have controlled their market issues much more carefully and designed security structures that seem to better match corporate form and strategies. (Savings banks in Germany have lobbied actively against any changes in corporate form whatsoever.) The Norwegian savings bank sector, for instance, has created what might be considered a form of co-determination. Equity holders, as a group, elect a quarter of a savings bank’s governing committee; the depositors, employees, and municipalities elect the remaining three quarters. Norwegian savings banks thus have some equity representation but never a controlling interest. Spanish savings banks, which have faced a slow-down in deposit growth, have found other ways to get external financing without entirely overturning governance structures. They have been allowed to issue non-voting shares on public markets called *cuotas participativas,*
which are simultaneously required to reduce political appointees to governing committees. Savings institutions have also creatively tapped markets by issuing to international markets securitized jumbo mortgage-backed bonds known as *cedulas hipotecarias*, which has raised billions of euros for the sector (Mai, 2004). In all, Norwegian and Spanish savings banks embraced incremental reforms in capital and ownership structures that match their strategic and long-term direction, avoiding both the rapid transformations seen in Denmark, the US, and the UK as well as the lack of change in Germany.

6. Conclusion

Social scientists who focus on national factors – institutions and politics – in explaining the persistence of differences in banking and financial systems risk missing the important ways in which these systems have in fact already changed in today’s deregulated environment. The organizational explanations elaborated here help us understanding the dynamic, rather than static, nature of the divergence we see in the role of savings banks. The important role of savings banks in Spain, Germany, and Norway cannot simply be attributed to the persistence of their historical role in bank-based financial systems. They have innovated dynamically. Arguably in order to maintain their public and social obligations, Spanish, German, and Norwegian savings banks have had to develop more efficient, attractive means of business. Deregulation harms ‘bad banks,’ not good banks. The strength of firm (or in cohesive networks of firms) firm-based capabilities enhanced their political influence. Deregulation has indeed changed the competitive dynamics that savings banks in these countries face and it is only by understanding how savings institutions in some countries have themselves *re-formed* traditional historical capabilities in new ways in order to compete in the
current environment that we can begin to understand why the institutions continue to play an important role in some banking systems and not others.
CHART 1
Estimated Share of Bank Deposits Controlled by Savings

Sources: FDIC website; European Savings Bank Group Data;
### TABLE 1
Operating Statistics on Savings Banks in Selected European Countries, 1997-2004

<table>
<thead>
<tr>
<th>Branches</th>
<th>Spain</th>
<th>Norway</th>
<th>Germany</th>
<th>Sweden</th>
<th>Denmark</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>16,647</td>
<td>1,012</td>
<td>20,323</td>
<td>1,077</td>
<td>n.a.</td>
<td>2,900</td>
</tr>
<tr>
<td>1998</td>
<td>17,598</td>
<td>1,006</td>
<td>20,270</td>
<td>695</td>
<td>90</td>
<td>2,700</td>
</tr>
<tr>
<td>1999</td>
<td>18,350</td>
<td>999</td>
<td>20,032</td>
<td>818</td>
<td>68</td>
<td>2,500</td>
</tr>
<tr>
<td>2000</td>
<td>19,297</td>
<td>997</td>
<td>19,572</td>
<td>760</td>
<td>95</td>
<td>2,400</td>
</tr>
<tr>
<td>2001</td>
<td>19,842</td>
<td>972</td>
<td>18,884</td>
<td>951</td>
<td>99</td>
<td>2,300</td>
</tr>
<tr>
<td>2002</td>
<td>20,349</td>
<td>936</td>
<td>18,282</td>
<td>818</td>
<td>68</td>
<td>2,200</td>
</tr>
<tr>
<td>2003</td>
<td>20,893</td>
<td>920</td>
<td>17,646</td>
<td>821</td>
<td>99</td>
<td>2,200</td>
</tr>
<tr>
<td>2004</td>
<td>21,528</td>
<td>948</td>
<td>17,001</td>
<td>776</td>
<td>121</td>
<td>2,200</td>
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<tr>
<th>Employees</th>
<th>Spain</th>
<th>Norway</th>
<th>Germany</th>
<th>Sweden</th>
<th>Denmark</th>
<th>UK</th>
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</thead>
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<tr>
<td>1997</td>
<td>90,853</td>
<td>10,719</td>
<td>321,084</td>
<td>12,454</td>
<td>n.a.</td>
<td>82,580</td>
</tr>
<tr>
<td>1999</td>
<td>98,372</td>
<td>10,813</td>
<td>322,953</td>
<td>12,791</td>
<td>798</td>
<td>76,056</td>
</tr>
<tr>
<td>2000</td>
<td>101,462</td>
<td>10,713</td>
<td>325,302</td>
<td>13,002</td>
<td>981</td>
<td>77,540</td>
</tr>
<tr>
<td>2001</td>
<td>106,684</td>
<td>11,178</td>
<td>325,684</td>
<td>16,068</td>
<td>1,044</td>
<td>81,400</td>
</tr>
<tr>
<td>2002</td>
<td>107,745</td>
<td>11,466</td>
<td>320,649</td>
<td>15,468</td>
<td>1,143</td>
<td>79,537</td>
</tr>
<tr>
<td>2003</td>
<td>110,243</td>
<td>10,876</td>
<td>312,406</td>
<td>15,366</td>
<td>1,207</td>
<td>71,609</td>
</tr>
<tr>
<td>2004</td>
<td>113,408</td>
<td>15,876</td>
<td>303,966</td>
<td>15,156</td>
<td>1,381</td>
<td>70,000</td>
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<tr>
<th>Share of Bank Assets</th>
<th>Spain</th>
<th>Norway</th>
<th>Germany</th>
<th>Sweden</th>
<th>Denmark</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>34%</td>
<td>n.a.</td>
<td>37%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1998</td>
<td>36%</td>
<td>n.a.</td>
<td>36%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1999</td>
<td>37%</td>
<td>n.a.</td>
<td>36%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2000</td>
<td>38%</td>
<td>n.a.</td>
<td>36%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2001</td>
<td>39%</td>
<td>n.a.</td>
<td>36%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2002</td>
<td>41%</td>
<td>47%</td>
<td>37%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2003</td>
<td>41%</td>
<td>45%</td>
<td>37%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2004</td>
<td>42%</td>
<td>74%</td>
<td>35%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of All Bank Loans</th>
<th>Spain</th>
<th>Norway</th>
<th>Germany</th>
<th>Sweden</th>
<th>Denmark</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>39%</td>
<td>31%</td>
<td>36%</td>
<td>25%</td>
<td>n.a.</td>
<td>12%</td>
</tr>
<tr>
<td>1998</td>
<td>40%</td>
<td>31%</td>
<td>35%</td>
<td>25%</td>
<td>1%</td>
<td>13%</td>
</tr>
<tr>
<td>1999</td>
<td>41%</td>
<td>34%</td>
<td>35%</td>
<td>27%</td>
<td>1%</td>
<td>12%</td>
</tr>
<tr>
<td>2000</td>
<td>43%</td>
<td>34%</td>
<td>35%</td>
<td>27%</td>
<td>1%</td>
<td>12%</td>
</tr>
<tr>
<td>2001</td>
<td>44%</td>
<td>35%</td>
<td>35%</td>
<td>27%</td>
<td>1%</td>
<td>12%</td>
</tr>
<tr>
<td>2002</td>
<td>46%</td>
<td>36%</td>
<td>36%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2003</td>
<td>47%</td>
<td>35%</td>
<td>39%</td>
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<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2004</td>
<td>48%</td>
<td>77%</td>
<td>38%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of All Bank Deposits</th>
<th>Spain</th>
<th>Norway</th>
<th>Germany</th>
<th>Sweden</th>
<th>Denmark</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>44%</td>
<td>45%</td>
<td>40%</td>
<td>19%</td>
<td>n.a.</td>
<td>12%</td>
</tr>
<tr>
<td>1998</td>
<td>45%</td>
<td>45%</td>
<td>40%</td>
<td>15%</td>
<td>2%</td>
<td>12%</td>
</tr>
<tr>
<td>1999</td>
<td>45%</td>
<td>47%</td>
<td>39%</td>
<td>16%</td>
<td>2%</td>
<td>12%</td>
</tr>
<tr>
<td>2000</td>
<td>45%</td>
<td>48%</td>
<td>39%</td>
<td>16%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>2001</td>
<td>45%</td>
<td>48%</td>
<td>39%</td>
<td>14%</td>
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<td>11%</td>
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<tr>
<td>2002</td>
<td>48%</td>
<td>50%</td>
<td>39%</td>
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<td>n.a.</td>
</tr>
<tr>
<td>2003</td>
<td>50%</td>
<td>50%</td>
<td>40%</td>
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<tr>
<td>2004</td>
<td>52%</td>
<td>75%</td>
<td>40%</td>
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<td>n.a.</td>
<td>n.a.</td>
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Source: ESBG Historical Statistics 2004
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