CUiBE
JGBC JOURNAL FOR GLOBAL BUSINESS AND COMMUNITY
ISSN: 1934-4244

Strategic Management of Nordea Bank: Regulation and Integration of the European Banking Sector 1980 -2013

Alex Piasecki
University of North Carolina – Chapel Hill
piasecki@live.unc.edu

Jakob Ekeløf Jensen
Copenhagen Business School, Frederiksberg, Denmark
jaje12ag@student.cbs.dk

Anna Li
University of North Carolina – Chapel Hill
Anna_Li@kenan-flagler.unc.edu

Abstract

The European banking sector has evolved from a conglomeration of segregated national banks into a very complex cross-border trading unit. The focus of this paper is on integration of the banking sector and the sector's response to the most recent wave of regulation imposed after the Eurozone financial crisis of 2009; in particular, we consider Nordea as a case study. Nordea itself is a testament to the integration of this sector—formed from the merger of a number of Scandinavian banks. The paper first reviews the history of the integration of the European banking sector beginning from 1980 up until present day. We then review how these regulatory changes have affected Nordea, and offer up our suggestions on how the company should strategically manage the more stringent capital requirements and an increasingly strict regulatory framework. In general, our paper concludes that it is crucial for a bank to incorporate regulatory management into the strategic and operational functions of the firm in order to be successful in the ever-changing European financial markets. We analyze this conclusion in light of Nordea's own objective of serving as a stable and relationship-based company, and consider how their management and response to these regulations can help them create a competitive edge.

Introduction: The Importance of the Banking Industry

The banking industry has always served as a key component of a country's economic growth. Some editors at the Leadership have described the banking sector as the heart of the economy, with capital being the blood in it (Leadership 2013). As long as capital is in circulation, the rest of the economy will remain healthy and stable. Without the banks and the capital they help to produce, the economy would not be able to work, as we know it today.

The banking industry was one of the first to be integrated at the European level and therefore served as a pioneer and inspiration for later sector integrations. However, it is difficult to draw straight parallels between the banking sector and other industries, due to its importance, national attachment and the complexity of the industry.

The banking sector serves not only to keep the London bankers wealthy; it also indirectly creates jobs, enables innovation, promotes entrepreneurship, facilitates the process of submitting loans and deposits for private customers, and serves as connection for transactions, etc. The integration of the banking industry is crucial in creating a more unified and integrated European market.

Today, the European banking sector is the largest in the world and banks in different nations are on average three times as big as their underlying economies (Thompson, FT 2013). It is then easy to see why the integration of the European banking sector has been so complex and difficult, and had such a large impact on the overall European market integration. Therefore, it is important to look closer at how their industry has been empowered and forced to change over the past decades alongside the changing regulatory environment. We believe the key to being successful in the financial services industry moving forward is the ability of a bank to meet and exceed the financial regulations being imposed. Throughout this paper, we will utilize the theoretical framework created by Beardsley, Bugrov, and Enriquez to analyze the ways in which a bank can take advantage of its regulatory environment.

Theoretical Framework

In the later analysis we will apply two theoretical approaches: (1) the economic integration theory and (2) the McKinsey framework. Before we relate them to the European banking industry, we will now explain them in theoretical terms and outline potential critical features.

The phases of economic integration

Theory and practice. Economic integration can be understood as the creation of an integrated regional market. This integration involves both the elimination of trade barriers between countries and the free circulation of goods, services, capital and labor. A free trade area is created with the abolition of tariffs and trade restrictions.

This type of economic integration can be divided into two phases; negative and positive integration. The first phase, negative integration, can be (a) a drastic reduction of governmental intervention in the economy and increased domestic competition and/or (b) deregulation in several sectors of the economy, e.g. liberalization of the banking sector. Positive integration focuses on creating common regulation and standards at the supranational level—in this case the EU-level. This process is also commonly referred to as 'harmonization.' Negative integration was prominent within the EU member states up until the 1980s, after which point the region has been dominated by positive integration (Citi 2013).

The integration of regulative management in the corporate strategy.

It is becoming increasingly important for modern corporations to adopt proactive approaches toward the management of regulation; especially post-financial crisis, the regulatory environment serves as one of the largest variables of uncertainty in the long-term survival of any firm (McKinsey). Incorporating this proactive approach will allow corporations to form a "strong link between regulation and strategy" (McKinsey). Beardsley, Bugrov and Enriquez have developed a framework of "three crucial dimensions" with which firms can begin to integrate regulatory strategies into their everyday operations.

The first dimension requires companies to analyze each issue in the current and long-term regulatory environment. A comprehensive understanding of the economic, social and strategic impact of different regulatory outcomes on the business and its key stakeholders is essential for all firms. It allows them to estimate "the level of uncertainty in each area of regulation" (McKinsey article).

Secondly, after having concretized their own objectives regarding each specific issue, modern firms must identify the competing agendas of other key stakeholders and set up a negotiation process in order to "find a consensus within the constraints of probable regulatory outcomes" (McKinsey). This effective stakeholder management procedure can be subdivided into three stages:

Phase one is conducting a stakeholder analysis: Companies can apply numerous tools in order to gain a widespread understanding of key stakeholders' agendas. These methods include a simplified key stakeholder analysis, the application of social-network theory to identify opinion shapers as well as traditional consumer-marketing techniques.

Phase two is managing trade-offs: Firms must define their end objective while considering the "trade-offs between maximizing profits and broader economic and social considerations" (McKinsey). This will enable the company to form effective coalitions and therefore allow them to have greater influence in the regulatory decision process.

Phase three is communicating the strategy: Having found a multi-beneficial consensus, it is essential for companies to effectively communicate this strategy to relevant key stakeholders. Having a clear strategy will expedite the regulatory negotiations process and give the firm more leverage than they would have with a purely reactive approach.

The last step towards the proactive management of regulations requires companies to incorporate the task of regulatory management into their internal organizational structure. The authors do not point out any specific way for doing this, but they emphasize that such a function should be performed by a "high-level executive" with a high level of expertise in this field and direct access to the CEO (McKinsey).

Overall, Beardsley, Bugrov and Enriquez provide an effective framework for companies to optimize their regulatory management—helping them to secure their long-run survival in an increasingly complex business environment.

Methodology

Our paper seeks to examine the main phases of economic integration in the banking sector from 1980 to 2013. In order to understand the integration in the banking sector, it is important to follow the links between different regulations and structural changes. Therefore, we have characterized the importance of each central regulatory implementation or structural change in the sector. To get a systematic impression of these main phases of economic integration, we applied the theory of positive and negative integration.

We have divided our analysis into 4 main timeframes: the 1980s to the beginning of the first stages of the EMU 1990, the three EMU stages from 1990 to 2002, the development of the Eurozone financial crisis, and post-financial crisis up until 2013. We have chosen to mix the changing industry structure and regulatory integration for the periods up until 1990 as well as the period after 2002. However, for the EMU stages (1990-2002), we have described the different regulatory changes first and then included the changing industry structure for all three stages in a concluding section. We felt this was appropriate because the change in industry structure in these periods is very similar. We only briefly touch upon 2002-2008 in our formal analysis due to the lack of significant changes in the European banking sector during this time period. Because a number of major initiatives are currently being developed for the banking sector, we concluded our analysis with the year 2012 with a discussion and analysis of the current situation of the industry.

After reviewing the history of integration in the European Banking sector, we have sought to examine different economic, social, and strategic impacts of relevant issues in the current and long-term regulatory landscape on the industry. We use the McKinsey framework as a tool to analyze these impacts on four different levels—supranational, national, industry and firm level. For our purposes, we will use the European Commission's definition of impact—a general term used to describe the effects of an intervention (OECD Glossary 2010). The economic impact occurs at all four levels and is defined by involving consequences in terms of costs, profits and investment – in general affecting the economic activity (Citi 2013). The social impacts have been defined in terms of competition, social responsibility, employment, job creation and general opinion of the banking industry as well as the cost of being a bank customer. In other words, the European Commission have defined it as any impacts that affect individual citizens or groups of individuals (e.g. households, families, specific population sub-groups, or those living in a particular area or region) (European Commission 2013). Lastly but most importantly, the strategic impacts are defined in terms of change in corporate strategies and national strategies as well as level of lobbyism, regulatory management and business model.

Hereafter, we briefly analyze the key stakeholders of Nordea, using the Stakeholder Salience Model to explain the choice of stakeholders we have identified. We consider the different agendas of these key stakeholders in connection with the regulations mentioned before (Basel III, EU FTT and EBU) and discuss how a consensus can be created within the constraints of these varying agendas. Lastly, we discuss an effective communicative strategy for these stakeholders using the McKinsey framework to consider the management of these stakeholders' conversations.

In the last section, we utilize the knowledge we have gained of market integration, and propose how regulatory management could be integrated into the company and hence how the company could take advantage of these different regulatory changes. Our paper is in large part based on desk research such as newspaper articles, relevant literature, annual reports and European legislations; our main research consists of external quantitative data from the aforementioned sources. We take into account the potential biases of sources such as Nordea's own webpage, and have evaluated the sources in a critical manner.

Scopes and limitation

According to the scope and limitations of this paper, we have excluded some topics and objectives. It is important to note we focused only on the banking sector and not the entire financial sector, which is much bigger and more complex. We have considered the EMU phases holistically in order to determine their overall impact, and have only chosen to expound on key central directives and regulations. Lastly, we did not include the ring-fencing regulatory framework. Hence, the paper does not seek to address anything outside of the above mentioned topics.

Main phases of economic integration of the banking industry from 1980s to 2013 – focusing on regulatory integration and changing industry structure

The European Banking Sector Before 1980

From the signing of the Treaty of Rome in 1957 up until the mid-1970s, there was pressure for increased economic integration in the banking sector. Until the mid-1980s, most EU banking systems were still characterized by a high degree of government control and restrictions, which inhibited competition in both domestic and cross-border business areas. The first step towards generating a more integrated field for the financial sector and the banking institutions were taken in the early 1970s with the Werner Plan, which proposed the implementation of positive integration with common standards at an EU-level (Economic Research Europe Ltd.)

Though the Werner Plan failed, it highlighted the need for deeper market integration in the financial services sector and forced the EU to consider new solutions of how to deal with the issue. In 1977, the *First Banking Directive* established the principle of home country control. Supervisory responsibilities were now only attributed to the home country of the bank. The 1977 directive was the first step towards a harmonization of regulations. In 1979, the Exchange Rate Mechanism (ERM) was also created. It was introduced as part of a plan to reduce monetary and exchange rate volatility, and thereby create a more accessible platform for cross-border banking in Europe (Dermine 1995).

Preparing a single European Banking Sector: 1980-1990

Throughout the early 1980s, the total number of banks decreased as the banking sector continued to become more consolidated (mainly in the mutual banking sector). By the mid-1980s banks were positioning themselves to what they perceived as the main future strategic drivers of the industry; the implementation and innovation of technology was viewed as key to these developments, while regulatory developments were perceived as less important. The situation in the mid-1980s was characterized by limited development in removing financial services trading barriers and limited threat of foreign competition (Economic Research Europe Ltd.).

The 1985 White Paper affected the banking sector by calling for a single banking license, mutual recognition and home country control. The implementation of the Single European Act in February 1986 also helped drastically change the strategic focus of European banks. The main goal for the EU was to create a single market; therefore they introduced directives aimed at liberalizing the credit and banking industry at the international and national level. The actual regulatory changes were part of the *Second Banking Directive* of 1989, in which the principles of the 1985 White Paper were incorporated and further liberalized the markets through deregulation and negative integration. The Second Banking Directive dealt more home country control on solvency. This Directive also introduced the "single passport", which gives a bank the right and license to do business through acquisitions and mergers in all EU states with only a license in their home country. This was a huge step towards the economic integration of the banking sector, but was not implemented until 1993 (Dermine 1995).

In considering this period, it is possible to differentiate between the nationally regulated EU banking system, which was represented in most countries until the 1980s, and the more liberalized EU banking market in the years after. Before the 1980s, the number of firms in the industry was shrinking, mostly as a reflection of a consolidation in the mutual banking sector. The banks also experienced a lot of product differentiation and organic growth as well as improving product innovation. However, the 1985 White Paper and the subsequent development of the Second Banking Directive and the Single European Act changed the strategic focus. Negative integration removed governmental intervention and barriers and the Second Banking Directive created a much more integrated European banking sector. The "single passport" had a huge impact on the industry.

Nevertheless, deregulation from the Second Banking Directive was followed up by positive integration in the form of common rules and standards in order to create a single EU banking market. Ultimately, relationship and push and pull of positive and negative integration helped to open up the European banking market.

The European currencies had become less and less volatile due to the establishment of the ERM in 1979. The Committee of the Study of Economic and Monetary Union, chaired by Jacques Delors, submitted the Delors report in mid-1989. Its primary monetary union objective was further liberalization of capital movements, permanent fixing of exchange rates, greater integration of financial markets, permanent convertibility of currencies, and the possibility of replacing the national currencies by a common single currency. Hence, deregulation and negative integration was once again replaced by reregulation and positive integration. The report led to three different stages of positive integration, where the EU would move from monetary and economic harmonization into becoming a common market with an independent European Central Bank, a single currency and general guidelines to administer the size and financing of national deficits. The movement towards positive integration was founded, and these changes, together with other directives, would further regulate the banking sector from a supra-national level. The EMU and the associated regulation would become a platform for deeper economic integration in the banking industry by increasing the possibility of cross-bordering banking; however, it would also change the structure and composition of firms (Dragomir 2010).

The Three EMU phases

Phase One: 1990-1993. The first phase of the Delors Report set out to move the Eurozone towards a more cohesive economic and monetary union spanned from 1990 to the end of 1993. The aim of this phase was to complete the internal market by allowing free movement of capital between member states (European Commission 2013). During this phase, member states also worked to create greater cooperation between central banks, encourage free use of the European Currency Unit, and improve general economic convergence. These objectives were formalized with the signing of the Treaty of the European Union, commonly known as the Maastricht treaty, in 1992. The Treaty created the European

Union and laid out specific plans for the creation of the European Monetary Union by 1999. It would also have major implications for national banks; it would change the nature of cross-border lending and redefine the powers of the national banks through the eventual creation of the ECB. It also explicitly stated a principle of decentralization and allocation of supervisory and regulatory powers to the national central banks (Dermine 2005). This was because of four main criteria set out to insure a successful accomplishment of the union. The four criteria dealt with inflation, government finances, exchange rates, and long-term interest rates. The goal of regulating inflation was to ensure monetary policy being similar across countries, whereas the criteria for government finances were designed to promote stability; however, very few member states were able to meet the debt requirement (European Central Bank 2013).

In 1993, the single market was actually established during the Delors Commission—securing free movement of labor, capital, goods, and services between nations. This all moved the region towards a deeper economic integration in the banking sector, which meant further access to foreign banks and therefore increased consolidation and competition. In addition, the Committee of Governors, representing the central banks of the European Economic Community, was tasked with additional oversight and responsibilities. The committee was essentially responsible for helping to maintain price stability through coordination of monetary policy—a factor that would greatly affect the future of the banking sector. The coordination and centralization of regulation on capital were primary objectives in creating a more harmonized market (European Central Bank 2013).

Though the creation of the European Monetary Union had many economic benefits to its member-states, there were also certain drawbacks and difficulties. The main challenge was that of national sovereignty. Many member-states were reluctant to relinquish economic and monetary powers of their own national banks that they would have retained otherwise. Hence, even though the economic and monetary powers were meant to be reserved for the EU, the national governments fought to keep regulations and supervision at a national level—a division that has again arisen as a problem in the post-financial crisis world. Additionally, member states of the Eurozone differ greatly not only in culture, but in fundamental economics as well—making them more susceptible to asymmetrical shocks. These concerns have prevented the EMU from being completely successful even today and therefore the regulatory parts of the first phase of the EMU only partly created a deeper economic integration in the European banking sector (University of Iowa 2013).

Phase Two: 1994 – 1998 Phase Two of the EMU began in January 1994, marked by the establishment of the European Monetary Institute (EMI). As the predecessor of the European Central Bank (ECB), the EMI was responsible for improving the monetary cooperation and monetary policy coordination between the member states. With the main task to prepare the European System of Central Banks (ESCB), the setup of EMI can be thought of as positive integration. These changes affected the whole operation of the banking sector in Europe, especially the central banks in different nations. Central banks from different EU member states were required to second staff the EMI, which facilitated the integration of European banking sector. With the continuous discussions, the details of the central currency were decided in 1995 in Madrid. With the adoption of the Stability and Growth Pact in 1998, which regulated the budget and established the ERM II (a new exchange rate mechanism), the stability of the European Currency Unit (ECU) was further promoted. The ERM II determined the central exchange rate between the ECU and the countries' currencies. To stabilize the exchange rate in the floating exchange rate market, the intervention of national banks was required. This affected the operations of both the central banks and the commercial banks in Europe. Because commercial banks had "pre-assigned" exchange rates, it became difficult to make high profit margins in the foreign exchange market through the fluctuation of currencies. The elimination of exchange rate risk lead to the consolidation of smaller banks and encouraged the larger banks to start developing other business models to increase profits and expand their geographic reach (Vives 1991).

In May 1998, the European Central Bank (ECB) was established, with the major responsibilities of defining and implementing monetary policy for the whole Eurozone. By the end of 1998, the 11 participating countries reached a consensus on the conversion rate between their national currencies and the ECU, which marked the end of phase two. In this phase, the EMU reinforced the tendency in the European banks towards a continuous reduction in banking capacity. The imperfect competition in the last few decades had resulted in excess capacity. The EMU helped to promote competition and reduce the number of intermediaries in this market; however, this forced banks to adjust their strategies in order to maintain their competitiveness. Most banks underwent organizational reforms, to achieve better performance and higher efficiency. They also adjusted the number of branches and staffs after the EMU's establishment. The operations of many banks also changed. Due to the increase in market liquidity, commercial papers (CPs) and bonds became more popular as the cost of issuance and transaction was further reduced, which resulted in further disintermediation (Dragomir 2010).

EMU - Phase Three: 1999 – 2002. The third stage of the EMU began in 1999, during which all of the member states also became members of the Eurozone. The introduction of the euro marked the completion of this stage. The Euro was introduced as a unit of account for banking transfers etc. However, the old banknotes and coins of the countries joining third stage of EMU continued to be used even after the Euro was introduced (Dragomir 2010).

A transition stage of three years began in 1999 until the Euro notes and coins were introduced in 2002. The transition stage allowed for member states to prepare for this change in currency. Member states who agreed to fix their exchange rates and join the Eurozone, also agreed to forfeit the autonomy of their central banks in monetary policy making to the European Central Bank (ECB)—allowing the entire Eurozone to have one cohesive monetary policy.

Later in 1999, the council introduced the Financial Services Action Plan (FSAP), containing a number of initiatives to ensure complete integration of capital markets and banking by 2005. The four objectives were both legislative and non-legislative; (i) a single EU wholesale market, (ii) open and secure retail banking and insurance markets, (iii) the development of state-of-the-art prudential rules and supervision, and (iv) optimal fiscal rules for the adoption of a single financial market. These directives helped to establish an efficient banking supervision and promoted harmonization (Dermine 2005).

One year later, in 2000, the Capital Requirements Directive 2000/12/EC was introduced as another regulatory objective. The directive was the background for what later became the Basel II agreement and was aimed at consolidating all previously negotiated banking directives. It was established as a more risk-sensitive framework for bank's capital requirements and was designed to raise the incentive for financial institutions to improve risk management. This was a step closer to economic integration in the European banking sector and is an example of positive integration toward common liquidity standards at a European level (Jandrasits 2006).

Both the introduction of the Euro in non-physical form in 1999 and the tangible Euro banknotes and coins in 2002 are examples of positive integration. Once the countries joined the EU after 1993, they were obliged to proceed to the third stage of the EMU (except Denmark and Great Britain); hence, the higher authority was structured as a set of standards and rules. It is not negative integration in the sense that no act or behavior was prohibited throughout the third stage of EMU.

Changing industry structure in the three EMU phases. As a result of the different regulatory objectives introduced and the establishment of the ECB, banks started to expand into other countries. It was no longer acceptable to only be competitive internally, external growth was now equally important. Mergers and acquisitions, formation of strategic alliances, and co-operation agreements were commonly used tools for performance improvement.

The introduction of the Euro also had an effect on the profitability of banks and the banking system. Most banks expected the Euro to have a negative effect on their profitability. Advantages enjoyed by local banks, because of their greater familiarity with domestic monetary policy, were eliminated. The introduction of the Euro also made pricing more transparent and reduced transaction costs. This increased competition in the banking industry and increased the incentive for consolidation, especially within national borders—leading to an expansion of the financial market and a fast-moving restructuring of the banking sector (Vives 1991).

The Euro also led to increased competition in the monetary market—creating lower interest rates, and an unfavorable impact on banks' profit in their retail lending service. However, the Euro also benefitted the banks by attracting capital through the creation of much larger market. Overall, the three EMU phases and the regulation integration it involved helped create a more competitive and consolidated banking sector. The banks were forced to refocus their strategy on different aspects of their business due to the Euro-introduction. However, integration was not complete since the national governments still maintained their regulatory authority.

The Developing Period: 2002 to 2008

Following the Euro and the CRD of 2000, the economic integration of the European banking sector slowly moved forward with increased capital inflows. However, this was not the case in the retail part of the banking sector. It continued to be fairly segmented due to the importance of bank-client relationships as well as differences in culture and preferences. Another reason for this was the lingering effects of much of the remaining national legislation for banks. The small changes made in an attempt to centralized supervisory and regulatory powers have been quite ineffective—slowing down the economic integration and cross-border bank mergers in the Eurozone. Not surprisingly, many national bank regulators displayed an unwillingness to allow the largest national banks to be acquired by foreign banks.

Basel II was implemented in 2004 as an extension of the Basel I agreement from 1988, and set more rigorous demands for risk and capital management. Other directives implemented in the period were Directive 2002/87/EC, which required supervision of conglomerates and closer coordination between supervisory authorities, and Directive 2006/48/EC which secured the financial stability of credit institutions. Overall, it was a period marked by a slow movement toward economic integration; the interbank market became more integrated, while the retail banking market remained fairly segmented. Harmonization of national legislation would be the key to successful economic integration (Firzli 2011).

Alongside the changing industry structure, banks were consolidating and increasing operations. This period was marked by massive credit growth and economic upswing. In general, the confidence in the Basel II agreement and the growth of cross-border banking provided fertile grounds for rapid growth of the European banking sector (Shin 2011). The permissive bank risk management brought forth in Basel II was already widely practiced across Europe as banks became more adept at circumnavigating the original intentions of the Basel I regulations. This combination of different factors hurt much of the European banking sector. The devaluation of debt following the financial crisis had devastating effects on an industry heavily reliant on the underwriting, purchasing and issuing of debt (Shin 2011).

The Financial Crisis Developing Into a Euro Crisis: 2008-2013

The financial crisis, which began in 2007-2008, was preceded by a long period of rapid credit growth, abundant liquidity, and the development of real estate bubbles. Such crises had happened before but remained largely regional in nature. This time the crisis was global in range—demonstrating the importance of EU coordination (Székely van den Noord 2009).

In 2009, the De Larosiere report called for a reform of the European banking regulatory system. The report included policy and regulation recommendations, especially the need for stronger macro-prudential oversight and macroeconomic policy. The European Commission reacted quickly to the financial crisis and followed the recommendations in the De Larosiere report when the new EU supervisory structures were formally established in December 2010. It contained the establishment of European System Risk Board (ESRB) and the European System of Financial Supervisors (ESFS), which linked the national supervisors together within a EU network. One of the main objectives was to launch operations of the European Banking Authority (EBA). The EBA was founded in 2011 due to the gap between regulations and practice; it serves as a regulatory agency to conduct stress tests on European banks. It was implemented to improve transparency in the European banking sector and identify weaknesses (Fry 2012).

The EBA is one of the major regulatory agencies set up by the EU as a consequence of the financial crisis. The EBA is able to overrule national regulators if they fail to do what it is necessary according to the EU and EBA (European Banking Authority 2013). However, until now the authority has simply served an advisory role. Another structural and regulatory change established by the ECB was LTROs, long-term refinancing operations. From 2011, the ECB injected, via LTROs, more than one trillion Euros into EU banks to restore stability and credibility. Since the Treaty states that the ECB cannot directly purchase government bonds or conduct direct quantitative easing, 0% interest rate loans were set up. The regulatory act helped European banks to restore some of their liquidity and secure stability (Avgouleas 2012).

The Basel III took steps to identify weak banks and fortify them to increase the attractiveness of European investments through additional crisis management policies and higher capital requirements. These regulations have attempted to enhance the quality and quantity of capital while controlling the liquidity of the European banking sector—taking economic integration in a positive direction. This increase in risk management and transparency also forced a change in the structure of banks (BIS Material 2013).

More recently in June 2012, the Euro Summit, which brought together the heads of states of the Eurozone, called for action in the establishment of a European Banking Union. The Summit agreed on a broad outline of the EBU in October 2012 and is currently developing it. The EBU was designed to further integrate the Eurozone area by allowing a single entity to regulate and supervise, ensure deposit guarantees, and determine the handling of troubled banks. This development made the “single market” in European banking substantially more effective and continues to promote positive economic integration (Elliot 2012).

Considering how the industry structure was changed by the financial crisis, it is important to note the pressure placed on the small and more local banks in a number of countries, especially Greece, Ireland, Portugal and Spain. These banks held the greatest amount of government debt of the country they operated within. Thus, the banks of the countries which were most challenged had the greatest losses and lost their access to the interbank market. As banks were failing, mergers and acquisitions increased—leading to even great consolidation.

It is important to consider the fundamental ideas the EU was founded upon in order to understand the structural changes caused by the crisis. The European Union was founded on the free movement of people, goods, services and capital. The free movement of capital, the final founding principle has been the most complex and critical issue in the Eurozone crisis. The bailouts for Ireland, Greece and Spain highlighted the fragility of the banking sectors in the Eurozone periphery and created fears of financial instability spreading to the rest of the members of the common currency. The bailout for Cyprus was made more difficult by the lack of transparency in the island’s banking sector. Uncertainty over how future bailouts will be structured continues to be a major issue for market integration. Hence, the overall EU response to the financial crisis was largely based on coordinated national actions, e.g. banking rescue plans, rather than on EU action (Quaglia, Eastwood, and Holmes 2009).

The economic integration of the Eurozone is part of the reason why the crisis in Europe has had such long term lingering effects. National regulations have tried to oppose the economic integration, whereas regulations at the European level have tried to further to promote integration. The regulatory integration has been pushed towards a more common set of regulations and standards at the European level where strengthened liquidity has been seen as the most important factor. The EU and ECB have used their regulatory power in establishing the EBA, creating LTROs, and supporting Basel III in order to restore liquidity and stability in the banking sector.

Sub-conclusion

The establishment of the ERM, the Banking Directives, and the creation of the euro and the ECB set up a foundation for the integration of the European banking sector by making it easier to do cross-border banking. Subsequently, banks also started to merge with and acquire foreign banks and diversify their investments. As a response to the financial crisis, regulations such as Basel II and III were passed—forcing banks to restructure their balance sheets to deal with the higher capital requirements and restore stability and trust to the banking sector.

The relevant issues in the regulatory landscape for the banking sector

The economic integration process in the banking sector had a drastic impact on the structure of the industry, especially with the consolidation of small banks and cross-border mergers. In the next part of this text we will focus our analysis on the dynamic relationship between a bank's corporate strategy and industry regulation. We will refer to the example of Nordea and the European banking industry, while applying the earlier described McKinsey framework.

Background for the development of the regulatory landscape

In the light of the financial crisis, the banking sector has become a target for European regulatory attention, particularly after the collapse of the Lehman Brothers decimated much of the financial sector. The European Union and the Eurozone have attempted to further integrate the European banking sector and developed different regulatory objectives to secure stability and constant leverage in the future. Risk thought to be "eliminated" had simply been masked in new financial products through the process of securitization. An Acharya and Schnabl (2009) report shows that European banks were sponsors for around 70% of asset-backed commercial paper before the subprime mortgage crisis. In short, European banks bought many low-quality American securities, financing their purchases in large part by borrowing from American money-market funds. Europe was a victim of the American financial crisis, but its banks also directly contributed to the global nature of the crisis. The creation of the Euro prompted the expansion of the financial sector both within the Euro area and in nearby banking hubs such as London and Switzerland—opening new lines of credit for all European countries and the European banking sector (The Economist 2013).

The financial crisis was created on basis of a systemic problem—a systemic problem in the financial sector that required structural changes and stronger regulation. The European Banking Authority, established in 2011, has served as a supervisor, but without any authority to create regulation. Meanwhile, national legislators have simply tried to create regulation according to whatever is best for their home country, without considering the Eurozone as a whole. Though regulations can hypothetically solve the problem of systemic risk and increase integration in the banking sector, it has proved difficult to create and implement the relevant regulations across such a broad grouping of member states (FDIC 2011).

Relevant issues in the current and long-term regulatory landscape

We have focused on three of the most important regulatory objectives from the current and long-term regulatory landscape.

In the regulatory landscape of the European banking industry, there are three objectives and changes which have played a major role. First, the upcoming establishment of the European Banking Union will align bank regulation and supervision, deposit guarantees and the handling of troubled banks at a European level. The Basel III requirements have also played a huge role in limiting leverage that banks can take on and enacting strict capital requirements. However, this legislation is set to expire soon and this will lead to further discussions of its influence and the future of capital requirements. Finally, the European Commission has suggested an implementation of financial transaction taxes (FTT) in 2014. However, banks are trying to avoid transaction taxes and it is therefore unlikely to be implemented fully (Elliott 2012).

European Banking Union. A “banking union” can be defined as a structure where nations organize and coordinate their banking systems in three ways: (a) common regulation and supervision of the banking system, (b) common management of the “resolution” process for troubled banks, and (c) common guarantee fund or a fund that backstops national guarantee funds. In general, these objectives all help to improve the economic integration of the banking sector. Some have suggested the European Central Bank or the European Banking Authority serve as the supervisor; others believe a new authority should be established with that purpose. But it is unclear how big a role the ECB will play and how the national and European supervision should be coordinated. However, the EBU could help with the reduction of risk in banks, and help restore the effectiveness of monetary policy of the ECB (Elliott 2012).

The implementation of a European Banking Union may not significantly affect the short-term regulatory landscape since terms are still being negotiated; however, there will doubtless be long-term impacts. The creation of such a union would have an economic impact at all levels. At a national level, it would be economically beneficial for countries with a weaker financial sector to be part of a banking union since it would restore stability to their financial institutions. Conversely, nations with a stronger financial sector will see few economic benefits in a union, although many will accept in order to stem the euro crisis. At an industry level, it will depend on whether the establishment of a banking union will result in a more regulated industry or not. If so, the industry will probably have lower profits, though there has been little detailed information about the EBU’s coming policies. But at the firm level, a banking union will even the playing field between banks from highly-regulated and less-regulated nations. Overall, at a supranational level, this will have a positive economic impact and lead to greater integration in the EU with improved stability and confidence in the financial market in general. But additional regulations will also be more costly, decreasing the profits of the banks, increasing "the price of borrowing" and potentially lowering investments.

The EBU will also have a social impact. At the national level, a banking union will create some common standards and regulations and secure common understanding of each country's social responsibilities to the financial sector. The social impact of the industry will be determined by the changing regulatory landscape, where the impact is very similar to the one at the national level. At a firm level, consumers' perspective of banks' corporate social responsibility will likely improve. The creation of a banking union will improve the relationship between banks and society at a supranational level as common regulations and standards will be created. Though these reforms will take time, the creation of a single banking union will create more jobs as banks are consolidating, investing and enlarging in the long-run.

It will also cause countries with less-regulated banking sectors to change strategy in order to attract capital and foreign investments, since national legislators will lose most of their power—likely increasing lobbyism. At a firm level, a banking union will impact corporate strategies towards the new regulatory framework; hence banks will try to get as much power in the banking union as possible. It will now increase the time spent on managing regulatory risk in the short-term.

In the shorter term, a banking union will have little impact economically, socially or strategically. However, in the longer term it will stabilize the economy, set general regulations and be economically beneficial for strongly regulated banks. Socially, it will show commitment and common European recognition of the social responsibility linked to the banking industry as well as possibly creating more jobs in the sector. In the future, it will create a stronger relationship between banks and society.

The future of the Basel III requirements. The Basel III agreement has already been touched upon in the sector describing main phases of economic integration until 2013; however, it still plays an important role in the regulatory landscape and will in the future. The next couple of years, the banks will be forced to further-increase the amount of top-quality capital amounting to a concerned percentage of risk-bearing assets. Banks have until 2019 to maintain a minimum capital ratio of 10%. Except for the original Basel III requirement from 2010, which required banks to hold 4.5% of common equity, it also introduced "additional capital buffers", which allowed national regulators to require another 2.5% of capital during periods with massive credit growth. Therefore, national differences became possible. It also introduced a minimum "leverage ratio", which was Tier 1 capital divided by average total consolidated assets. It was expected to be a minimum of 3%.

A KPMG report from September 2013 states it is becoming increasingly clear that regulators are moving beyond the Basel III requirements and asking banks to meet even higher standards. European banks have had to further increase liquidity holdings as a response. This is an extremely relevant issue in the regulatory landscape, since it is a clear signal for regulators that banks have not learned enough from the financial crisis and therefore in the future will face tougher regulation and scrutiny (The Telegraph 2013).

The implementation of the Basel III requirements has begun and will continue developing up until 2019. At an industry and firm level the requirements will create greater deposit reserves and lower risk-taking by reducing leverage. Banks will be required to have a much greater amount of liquidity in reserve to serve as a buffer. In the short term, these requirements will force many banks to decrease potential investments, while in the long term this will affect the size of the banks. However, it will create more stability and create more attractive opportunities for investors. At a supranational level, it will imply a smaller and probably less profitable banking sector, but with more stability and security preventing the costs of a possible future crisis.

Considering the social impacts, the Basel III requirements have decreased the quality and prices of services. The requirements have increased the operational costs associated with running a bank and caused many banks to refocus on larger and more institutional clients. The costs of lending have also increased while the interest on deposits has simultaneously decreased. This is a response to decreasing profit margins due to higher liquidity demands. The Basel III requirements have not only changed the balance sheets of banks, but redefined how retail banks distinguish between their private and institutional clients.

Lastly, the strategic impacts of the Basel III are of both short-term and long-term perspective. A bank’s success has, to some extent, become dependent upon its ability to quickly and strategically adjust its business to address new regulations and better prepare itself for the future. Innovation in the banking sector will become crucial as banks develop new and creative strategies to generate higher profits in light of new regulations. However, in the Eurozone there have been major differences in national implementation, giving some banks a competitive advantage—though this is probably only a short-term strategic advantage.

Financial Transaction Taxes (FTT) . As proposed by the European Commission, the European Union financial transaction tax could be introduced by January 1, 2014 within some member states. The financial transaction tax impacts transactions between financial institutions that charge 0.1% across derivative contracts and against exchanges of bonds and equity. This has already provoked disagreement, from countries both inside and outside the Eurozone since the tax would come into effect if any one of the institutions involved in the transaction was subject to the tax. American and British banks are opposed to the tax, since it would mean higher costs of doing business with any banks in the Eurozone. Council lawyers have also concluded that applying the tax for banks outside the tax bloc is discriminating and violates EU treaties by exceeding the jurisdiction of member states (Richter, FT 2013). These are only a few of the complications with the implementation of the EU FTT.

Banks find the tax to be economically damaging and legally problematic; however, most politicians are afraid to condemn it for fear of seeming overly friendly with the banking sector (Baker 2008). Actually implementing the FTT could result in an increase in government income and reduction of public debt, or a reduction of other taxes. At a national level, governments would be forced to raise taxes to reduce the deficit crisis. Nevertheless, governments arguing for the FTT are convinced it will increase income and benefit the economy in its recovery process.

While the European Commission has not identified any specific social impacts resulting from the implementation of the FTT, critics have pointed out a significant impact on jobs. The loss in output for the banking sector will increase unemployment and have a negative effect on jobs, not only in the banking sector, but within suppliers and legal and accounting services. While the tax may seem appealing from a national perspective due to the positive effects on government budget, the effects on employment and other social aspects cannot be ignored.

For banks, the strategic impact associated with implementing the FTT involves a change in structure. Competition will increase and attracting customers will become more difficult. It is likely that banks will try to find structuring solutions to diminish the financial impact of the FTT, since the Commission sees it as unlikely that financial institutions will simply give up their European customer base in favor of moving to countries without the transaction costs (Latham & Watkins, 2013).

For corporations, an increasing cost of capital will likely lead to declining business investment; however, the related rise in the cost of government debt is likely to demand increased taxation or reduced spending to make up for the shortfall. The combined effect on the ability to raise both sovereign and corporate capital will have a negative impact on the EU's GDP (London Economics 2013).

Sub-conclusion

While the European Banking Union may not have many short-term impacts, it will have significant long-term economic and social impact in stabilizing the markets and displaying European corporate responsibility. The Basel III already has some implied impacts, but will most likely have a negative effect on the banking firms in the future, while positively affecting the economy and societal perception of the industry by generating stability.

The EBU, the Basel III, and the FTT tax mentioned in this section have all created monumental changes in the banking sector and affected both the current and long-term regulatory landscape of the Eurozone. Though the long-term impacts of these three institutions can be unclear, it is crucial for banks to stay abreast of how these changes will impact their businesses. Below we consider a case study of Nordea, recently named the Best Banking Group in the Nordics by the World Finance magazine, and their success in incorporating these regulatory changes into their operational strategy.

Case Study: Nordea

Company profile

Nordea is a bank based in the Nordic countries operating in North Europe. The bank was founded in 2000 as a result of mergers between Finish, Swedish, Norwegian and Danish banks. The cross-border mergers can be directly linked to the integration of the European banking industry. Nordea is listed at the exchange in Stockholm, Helsinki and Copenhagen, where the largest shareholder by a majority of 20% is the Finish Sampo. Until less than one month ago, the Swedish government had a large amount of shares after bailing-out the Swedish department of the bank in the 1990s. The bank serves 700,000 corporate and 11 million private customers—with around 60% of its lending activity centering on its corporate customers. Nordea's main competitors in the market are Danske Bank, SEB and Svenska Handelsbanken (Nordea Annual Report 2012).

Identifying key stakeholders

Stakeholder management is a vital part of any effective business strategy and is dependent in large part on the creativity and judgment of management. Stakeholders are defined as any group or individual who can affect or is affected by a regulatory outcome. Stakeholders have different views on institutions and regulations such as the EBU, Basel III and FTT; therefore, it becomes particularly important to identify the most important stakeholders to address when crafting company strategy. An understanding of the agendas of Nordea's most important stakeholders is necessary to understand the strategy of Nordea (Beardsley, Bugrov & Enriquez 2005).

Customers are important stakeholders for every institution; Nordea's customers can be divided between private and corporate customers. As mentioned before, the changing industry structure has prompted many banks to focus more on corporate customers because of their relation to a higher earnings potential. The ability to generate high profit margins will become increasingly important in light of new regulatory measures which will increase operating costs. While both types of customers are concerned about the economic impact of these regulations, private customers tend to be more concerned with the social responsibility of the bank, while corporate customers are more focused on the company's strategic response and its ability to perform under these new regulations.

Both national and supranational governmental authorities are key stakeholders because they play an important role as the enforcers of international regulatory standards in the Eurozone. For example, the requirements of the Basel III are determined at an international level, but the implementation strategy is determined by national legislators. The development of a banking union and the financial transaction tax serve as two more examples discussed in this text in which it will be key for Nordea to engage governmental authorities.

Nordea's shareholders are also key stakeholders, as they would be of any public company. The shareholders are the true owners of the company and expect both attractive dividend payments as well as a sound business model to promote growth. Addressing shareholder interests is incredibly important in order for the bank to raise capital—especially since regulations have forced many banks to de-leverage.

Each of the above-mentioned stakeholders is a definitive stakeholder. According to the 'stakeholder salience model', this defines them as stakeholders having legitimacy, power and urgency—stakeholders whom it is key for the business to communicate with. However, it is important to note that there are a number of stakeholders not explicitly mentioned in this text because they lack significant impact on the agenda of the firm. Additional stakeholders might include competitors, NGO's, employees, analysts, the media, politicians or suppliers (Cornelissen 2011).

Evaluating agendas of key stakeholders to regulations

As mentioned before, private and corporate customers differ slightly in their demands for the company. Private customers are interested in a stable and socially responsible bank with high quality of service; however, they also want a bank with affordable credit and services. The increasing numbers of regulations, such as the Basel III, have increased operating costs of banks and made it more expensive to be a private customer. Though this may have a negative social and economic negative impact, is a natural outcome of the current regulatory landscape.

Corporate customers are more focused on the financial aspect of the business, and are discovering how they can use Nordea to strategically add value to their own business. Nordea’s corporate customers’ are attempting to navigate a middle route through the different effects of the recent regulations. Though they support the increased stability and confidence produced by the Basel III requirements, they are opposed to the increased costs of doing business with Nordea. The financial transaction tax will only serve to increase these costs. For corporate customers, it is important to find a balance amongst the regulatory changes—promoting stability while maintaining a relatively easy access to capital.

National governmental authorities’ main focus within the scope of regulations for the banking sector is to reach a more stabilized sector with an increasing growth rate. The Swedish government in particular has been quick to transpose these regulations and other European nations will look to the example set by them. The governmental authorities in Sweden perceived the Basel III as a necessary step towards their goal of a low risk, and stable banking sector in Sweden (Jones, FT 2011).

EU policy makers have similar objectives to governmental authorities in Sweden, but with a slightly different agenda on how to achieve it. EU policy makers have a specific focus on the integration in the European banking sector and therefore heavily support the EU FTT, EBU and Basel III. They are interested in creating a healthy business profile for banks, which satisfy the liquidity requirements and support the general society through revenues of the financial transaction taxes. The impact of the regulations will improve the agenda of the EU policy makers.

Though the shareholders of Nordea are also interested in a more stable and profitable business for Nordea, they are in favor of less regulation. Shareholders value high dividends, and the ability of the company to generate high profits, generally through greater risk-taking. However, they also walk a fine line in ensuring the risk-taking activities of the bank will not backfire on them. Therefore, the Basel III requirements and the Swedish government’s emphasis on stricter financial regulation could also be seen as a positive development for shareholders. The bank’s stocks may even actually become more attractive for investors wary of buying risky assets (Economist 2013).

How Nordea can create a consensus within the constraints of these conflicting agendas

Though the key stakeholders mentioned have similar objectives centered on a stable and profitable Nordea, there are substantial differences in their agendas to reach this objective. The regulatory landscape has made it more difficult for Nordea to reconcile the varying agendas of stakeholder such as the Swedish government, EU policy makers, and shareholders. However, if done effectively, stakeholder management can help Nordea to utilize these regulatory changes to their advantage. We will analyze Nordea's treatment of their stakeholder management in relation to the Financial Transaction Tax and the Basel III requirements; we will exclude membership in the European Banking Union because the future of this institution is still very unclear.

The Financial Transaction Tax is likely to be implemented on some scale, as a result of the new push for greater regulation in the financial services industry. At present, Nordea and its key stakeholders stand in opposition of the tax because of the high costs of implementation. However, as the lobbying process surrounding the legislation continues, the company will likely push to have the transaction tax lowered—creating an outcome that will be more favorable for all stakeholders involved.

The Basel III requirements are another key regulation Nordea will need to address amongst their stakeholders. Most key stakeholders have a generally positive perspective on the regulation, but the level of capital requirements can become a controversial topic between stakeholders more concerned with stability and those more interested in the profitability of the company. However, like the Financial Transaction Tax, Nordea must realize that these capital requirements are inevitable and likely to increase as a response to the Eurozone crisis. The best way for Nordea to manage these requirements is to proactively engage in the lobbying process and adjust their balance sheet.

Communicating a Strategy

The last step in stakeholder management is the effective communication of the strategy Nordea has created in view of these many stakeholder agendas. It is important for Nordea to maintain a direct and consistent dialogue with its key stakeholders in order to retain their trust and support in Nordea's future actions.

It is important for Nordea to communicate their strategy and their views of upcoming changes to stakeholders in a way that is relevant to each group. For example, when discussing the FTT, Nordea should make it clear the FTT impacts not only the banking industry, but all corporations who need to raise capital and produce financial products. Therefore, the FTT would affect the economy as a whole by driving companies to areas where regulations are less stringent.

In crafting their communication strategy, it is also crucial for Nordea to take into account the idea of corporate social responsibility. The "relationship business model" recently introduced by Nordea states the importance of a close relationship between the bank and its customers (Clausen, Nordea 2013). By clearly communicating its view of the upcoming industry landscape and its own strategic responses, Nordea will be able to demonstrate an awareness and understanding of competing stakeholder agendas and help to reconcile these agendas.

Sub-conclusion

The key stakeholders mentioned for Nordea are the customers, the Swedish government, EU policy makers, and shareholders. It is important for Nordea to take them all into account when crafting its business strategy. In order to do this effectively, they should focus not only on achieving the end objective of each stakeholder group, but also on addressing the specific concerns each group has in reaching those goals. Successful stakeholder management will help Nordea more easily navigate the increasingly complex regulatory environment.

How to integrate regulatory management in the strategic functions of Nordea and how to take advantage of the regulatory changes

We now will discuss how regulatory management has been integrated and implemented into the strategic functions of Nordea and our suggestions for continued success in

Taking Advantage of Regulation & Integrating regulatory management

As regulations surrounding the financial sector become more complex, banks will need to integrate regulatory management into the strategic functions of their business. However, creating a regulatory or compliance division within a company requires not only well-trained staff, but often a restructuring or reorganization of the company. Several banks have handled this by appointing executives with backgrounds as regulators or regulatory officers to top-management positions, e.g. Tony Blair in J.P. Morgan. Nordea has proactively addressed many of these regulations and thus avoided the scrutiny many other banks received post-financial crisis. Integrating regulatory management into its strategic functions has allowed Nordea to take advantage of the regulatory changes and maintain an informed dialogue with its stakeholders (Beardsley, Bugrov and Enriquez 2005). Nordea has already taken actions to integrate regulatory management into their everyday practices, however there are certain steps that could be taken to further improve regulatory and risk management.

Though the bank's Board of Directors is legally responsible for limiting and monitoring the bank's risk exposure, it is equally important for the bank to effectively manage risk assessment on its own through internal functions. The firm has already defined "clear risk, liquidity, and capital management frameworks" in an effort to improve their risk assessment (Nordea CRM Report 2012). Though it is clear Nordea has integrated regulatory management into its strategic functions to some extent, it could be further improved upon by creating a separate regulatory department—a strategy which will likely be adopted by a number of European banks in the future. It should continue to be incorporated into top management, but operate as an independent unit. Staffing this division will be particularly important, and Nordea should take note to identify qualified and specialized candidates. Personnel in the department should sit in different national offices where Nordea operates with the management seated in Stockholm close to executive management. Being on the ground in these different geographical locations will allow staff to better gauge regulatory influence and affect the decision-making process.

Nordea has already taken steps to integrate their business with a forward-looking focus on new regulation by spending 100 million Euros on improving their data management systems. Rasmus Werner Nielsen, chief finance officer of Nordea Bank Denmark stated the chief reason for this investment was to create the "data discipline" needed to both serve customers better and comply with upcoming regulation (Clark 2013). With these actions, Nordea has proven its dedication to not simply complying with, but proactively managing its own risk with the developing regulatory framework. The creation of a separate division would send an even stronger signal to the public and Nordea's stakeholders about the importance of regulatory management to the firm.

In order to be more proactive, Nordea should incorporate regulations into its capital planning. This contains forecasting and analysis of capital development, as well as testing and impacts of new regulations. This will allow Nordea to closely follow the development of new capital requirements and maintain an open dialogue with supervisory authorities. This would also enable Nordea to perform regular internal stress tests in addition to those mandated by the Basel requirements and proactively address any areas of weakness. The company has already had some success in performing internal stress tests and forecasting new regulatory developments (Nordea CRM Report 2012). These internal stress tests ensure the company's readiness for another financial crisis, and reassure depositors and institutional customers of Nordea's financial responsibility. Success in these internal stress tests can then be used, not only as a marketing tool for the company's financial strength to customers and credit rating agencies alike, but also as a bargaining chip in the political realm for favorable treatment in regulatory discussions in the EU.

In addition, Nordea's CEO, Christian Clausen, serves as president of the European Banking Federation (EBF), which is the main advocacy group for banks in Europe. Nordea can use this to influence regulatory changes and developments, and to stay on the pulse of upcoming regulation. In addition, increasing the company's lobbyism at a national and international level may help increase their influence and their ability to take advantage of regulatory changes.

In order to take advantage of the new standards, Nordea has also adapted a more relationship-oriented business model. Post-financial crisis, many customers have become slightly disillusioned with the financial services industry; it is now more important than ever for banks to develop close and trusting relationships with all their clients. Customers are interested in banks which help them add value to their businesses and their everyday lives. Nordea's success in developing this relationship-oriented business model has given the company a bright outlook for the future by ensuring customer loyalty (Clausen, Nordea 2013). By continuing to build their legitimacy among the Scandinavian customer base, Nordea will create a competitive advantage for themselves that may even allow them to begin taking customers away from their competitors.

Nordea should also refocus their business on core areas of geographical strength. This would allow the company to reduce costs and counterbalance some of the expenses they will incur as the regulatory environment becomes stiffer. For example, in June 2013 Nordea divested its Polish banking business in order to meet its financial targets (Ostman 2013). Within its own vision statement, Nordea has made a commitment to creating a prosperous and stable business. Therefore, in unstable areas or areas of minimal business growth, the company should reinvest that capital in areas in which they are sure of the stability of their returns.

In many ways, Nordea has already begun to tackle the task of adapting to regulatory management. The company has been successful in taking advantage of the new liquidity requirements. Nordea has far exceeded the Core Tier 1 capital requirement set out by the EBA of 9%; the bank had capital ratio of 14% by the end of 2012 (Clausen, Nordea 2013). By setting such high internal benchmarks for themselves, Nordea better aligned the agendas of all key stakeholders by lessening the uncertainty in the future regulatory landscape. The solidity of Nordea's balance sheet has proved attractive to investors who may still be wary of buying bank stocks (Economist 2013). Thereby, they have achieved a solid rating and improved their position to increase profit margin on lending (Nordea Rating 2013).

Sub-conclusion

Moving forward, it will be essential for successful banks to incorporate the role of regulatory management into their strategic functions. Creating a separate risk and compliance division to handle regulatory changes for the company, as many other banks have done, would enable Nordea to accomplish this more successfully. Nordea's focus on security and regulation will only serve to increase investor confidence and potentially raise its external rating.

Furthermore, Nordea should assume a more proactive approach to regulation in order to have greater influence in shaping the structure of the future regulatory landscape. Nordea should use their size, current performance, and their CEO's position in the EBF to influence the decision-making process for regulation. Additionally, Nordea should focus on divesting from geographic areas where they are less competitive, such as Latvia, and refocus this capital towards areas of strength—a strategy aligned with the firm's goal of building a strong banking business on stability and competitive advantage (Scandinavian and Northern Europe).

Final Conclusion

Since the initial recognition that Europe needed an integrated, universal market for the banking sector in the 1970s, the EU has been working with the member states to achieve a single banking market. The banking sector has undergone major changes, from liberalization, deregulation, and reregulation to harmonization. Banks responded with a new wave of differentiated and innovative products, changes in their strategies, and mergers to create a more consolidated banking sector. Numerous institutions such as banking directives, the introduction of the Euro, and the Basel-requirements were implemented to help create a cohesive regulatory framework, and to increase the overall quality and services in the industry through increased competition.

After the financial crisis, the regulatory landscape has changed significantly. As regulation and capital requirements have increased, Nordea has been forced to reassess the needs of their stakeholders and find a consensus within these new constraints. Incorporating these regulations into the strategic management of the firm and creating a separate division to help manage and constantly update these changes will allow Nordea to outpace the regulatory environment and better prepare them for the future. A proactive approach in conjunction with a critical evaluation of where to best invest their capital are the tools which will allow Nordea to be successful amidst increasing regulation and further discussions of economic integration in the Eurozone.

References

Avgouleas 2012*. Governance of Global Financial Markets. The Law, the Economics, the Politics*. CUP

Baker 2008. *The Benefits of a Financial Transactions Tax* *http://www.cepr.net/documents/publications/financial-transactions-tax-2008-12.pdf*

Barker, Spiegel, Milne and Carnegy, FT 2012. *Sweden joins UK outside Europe banking union.* http://www.ft.com/intl/cms/s/0/f5af041e-43ac-11e2-844c-00144feabdc0.html#axzz2gO4nQENn

Beardsley, Bugrov & Enriquez 2005. *The Role of regulation in strategy* http://www.mckinseyquarterly.com/article_print.aspx?L2=21&L3=37&ar=1691

BIS Material 2013. *International Regulatory Framework for Banks.* http://www.bis.org/bcbs/basel3.htm

Chaffin 2011. *Barrosso backs transactions tax.* http://www.ft.com/intl/cms/s/0/19c46aca-e9ad-11e0-adbf-00144feab49a.html%23axzz1c1pJ3ZIG

Manuele Citi, 2013. Lecture notes distributed in "Corporate Response to European Integration" in Copenhagen Business School from Sept. to Oct. 2013.

Clark, L. 2013. *European banks raise data management game in response to new regulations*. http://www.computerweekly.com/feature/European-banks-raise-data-management-game-to-respond-to-new-regulations

Clausen, C. 2013. *Nordea Says Most Likely to Pay Higher 2013 Dividend: Video*. Interviewed by Bloomberg TV [TV] July, 17th, 2013.

Clausen, Nordea 2013. *Shaping the Future Relationship Bank.* http://www.nordea.com/sitemod/upload/Root/www.nordea.com%20-%20uk/Investorrelations/cmd/CMD2013_CC.pdf

Commission staff (working report) 2013. *European Financial Stability and Integration.* http://ec.europa.eu/internal_market/economic_analysis/docs/efsir/130425_efsir-2012_en.pdf

Cornelissen, Joep 2011. *Corporate Communication – A Guide to Theory and Practice.* 3rd Edition, SAGE

Dermine 1995. *European Banking Integration, Ten Years Later.* *http://www.insead.edu/facultyresearch/research/doc.cfm?did=47181*

Dermine 2005. *European Banking Integration.* http://faculty.insead.edu/jeandermine/documents/Chicago2005DermineDraftII.pdf

Duxbury 2013. *Sweden says banking union membership remains distant prospect.* https://www.euroinvestor.dk/nyheder/2013/09/13/sweden-says-banking-union-membership-remains-distant-prospect/12494616

Dragomir 2010. *European Prudential Banking Regulation and Supervision.* Routledge

EBF 2013. *Negative impact of Financial Transaction Tax.* http://enews.ebf-fbe.eu/2013/06/negative-impact-of-ftt/

EUCE.org 2009. *Euro Economics: Maastricht Treaty*. http://www.unc.edu/depts/europe/euroeconomics/Maastricht%20Treaty.php

European Parliament 1998. *Madrid European Council: Presidency conclusions*. http://www.europarl.europa.eu/summits/mad1_en.htm

Economic Research Europe Ltd. Subseries II - Impact on Services: Credit Institutions and banking. http://ec.europa.eu/internal_market/economic-reports/docs/studies/stud2_en.pdf

Economist 1997. *European Monetary Institute: Preparing to die.* http://www.economist.com/node/146700

Economist 2013. *Tips from an ageing model.* http://www.economist.com/news/finance-and-economics/21586839-where-banks-are-both-safe-and-profitable-tips-ageing-model/print

European Central Bank 2013. *Economic and Monetary Union (EMU).* http://www.ecb.europa.eu/ecb/history/emu/html/index.en.html

European Commission 2013. *The road to EMU.* http://ec.europa.eu/economy_finance/euro/emu/road/index_en.htm

European Union 2013. *Europe without frontiers.* http://europa.eu/about-eu/eu-history/1990-1999/index_en.htm

Federal Deposit Insurance Corporation 2011. Risk Management Manual of Exam Policies, Sect 1.1 http://www.fdic.gov/regulations/safety/manual/section1-1.html#rationale

Guyaux 1972. *European currency snake.* http://www.cvce.eu/obj/european_currency_snake_basle_10_april_1972-en-c607afa4-2b43-4528-b30a-5f7443123ce7.html

Hallet 2013. *Smithsonian Agreement.* http://world-economics.org/921-smithsonian-agreement.html

IMF 12th Annual J. Polack Research Conference. 2011. *Global Banking Glut and Loan Risk Premium*.

J. Firzli 2011. *A Critique of the Basel Committee on Banking Supervision*. Revue Analyse Financière

Jandrasits 2006. *Capital Requirements Directive 2000/12/EC. http://www.abgs.gov.tr/tarama/tarama_files/09/SC09EXP_consolidated%20banking%20directive.pdf*

Jones 2011. *Sweden to impose Basel III early.* http://www.ft.com/intl/cms/s/0/4e2c4dce-177e-11e1-b157-00144feabdc0.html?siteedition=intl

Leadership 2013. *What is the importance of the banks.* http://business-finance.blurtit.com/107203/what-is-the-importance-of-the-banks

London Economics 2013. *The Impact of a Financial Transaction Tax on Corporate and Sovereign Debt. http://www.londecon.co.uk/publication/the-impact-of-a-financial-transaction-tax-on-corporate-and-sovereign-debt*

Mallet 2012. *Spanish PM backs Sarkozy on Tobin tax.* http://www.ft.com/intl/cms/s/0/f709f160-4066-11e1-8fcd-00144feab49a.html%23axzz1jlUTOFmt?siteedition=intl

Nordea Annual Report 2012. http://www.nordea.com/Investor+Relations/Financial+reports/Annual+reports/804982.html

Nordea CRM Report 2012. *Nordea Group Capital Risk Management Report 2012.* http://www.nordea.com/sitemod/upload/root/www.nordea.com%20-%20uk/Investorrelations/reports/risk/group/Nordea_Group_Capital_Risk_Management_Report_2012.pdf

Nordea Rating 2013. *Rating.* http://www.nordea.com/Investor+Relations/Debt+rating/Rating/50972.html

OECD Glossary 2010. *Glossary of Key Terms in Evaluation and Results Based Management. http://www.oecd.org/development/peer-reviews/2754804.pdf*

Östman, H. 2013. Nordea divests its Polish banking, life and financing businesses to PKO Bank Polski. [Online] Available at: http://news.cision.com/nordea/r/nordea-divests-its-polish-banking--life-and-financing-businesses-to-pko-bank-polski,c9427748

Quaglia, Eastwood, and Holmes 2009. *The Financial Turmoil and EU Policy Cooperation 2008.* Journal of European Policy

Richter, FT 2013. *Financial Transcation tax will 'damage' economy*. *http://www.ft.com/intl/cms/s/0/f9c57ca2-002d-11e3-ba6b-00144feab7de.html?siteedition=intl#axzz2gHJoA2BN*

The Economist. 2013. *The Origins of the financial crisis: Crash course*. http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article

Thompson, FT 2013. *EU banks still pose systemic threat.* http://www.ft.com/intl/cms/s/0/d23922de-f08c-11e2-929c-00144feabdc0.html#axzz2gfTOFCYt

University of Iowa 2013. *What is the European Monetary Union (EMU?.* http://ebook.law.uiowa.edu/ebook/faqs/what-is-the-european-monetary-union

Voxeu.org. 2009. *Economic crisis in Europe: Cause, consequences, and responses | vox*. http://www.voxeu.org/article/economic-crisis-europe-cause-consequences-and-responses

Wilson, The Telegraph 2013. *Banks may have to raise extra 50bn under emerging 'Basel IV'.* http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10303880/Banks-may-have-to-raise-extra-50bn-under-emerging-Basel-IV.html