



Digital Banking Internationalization

Digital Banking, its utilization and strategies, and its effect on process, performance, and distance in the consumer lending Industry

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Abstract

Title: “Digital Banking Internationalization” -Digital Banking its utilization and strategies, and its effect on process, performance, and distance in the consumer lending industry.

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Through a literature review and semi-constructed interviews with a CEO operating in the digital consumer lending industry, this thesis analyses how chosen strategies and utilization of digital banking affects process, performance, and distance.

The consumer lending industry experiences high competition and regulations, and many banks also seeks to gain further value from digitalization and different strategies. The findings indicate that the company utilizes digitalization at a low level in relation to new methods, but that a scalable digital platform, a cost leadership and focusing on unsecured loans, affect process and performance positively. Even though operating with traditional strategies and verticalization of products, the bank has been able to achieve a very low cost to income ratio, indicating high performance. It was possible to obtain a definition of a digital platform in the consumer lending industry. It is perceived as an important asset and enables processes to be simple and fast. The data also indicates that internationalizing to a long-distance country, versus a close distance country, increases negative effects and risk. But having a digital platform and operating within a Nordic partnership group, decreases the perceived risk.

Keywords: *Digital Banking, Utilization, Efficiency, Internationalization, Process, Performance, Distance.*

Resumo

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Através da revisão da literatura e de entrevistas semi-estruturadas a um CEO que atua no setor de empréstimos digitais ao consumo, esta tese analisa como as estratégias escolhidas e a utilização do banco digital afetam o processo, o desempenho e a distância ao mercado.

O setor de crédito ao consumidor é de alta concorrência e regulamentação e muitos bancos procuram valor pela digitalização. Esta análise indica que a empresa utiliza menos a digitalização que usualmente em novos métodos, mas que uma plataforma digital escalável, uma liderança de custos e um foco em empréstimos sem garantia, afetam positivamente o processo e o desempenho. Mesmo operando com estratégias tradicionais e verticalização de produtos, o banco tem conseguido atingir uma relação custo-benefício muito baixa, indicando alto desempenho. Foi possível obter uma definição de plataforma digital no crédito ao consumo. É percebido como um ativo importante e permite que simplificar e acelerar processos. Os dados também indicam que a internacionalização para um país mais distante, versus um mais próximo, aumenta os efeitos negativos e o risco. Mas ter uma plataforma digital e operar dentro de um grupo de parceria nórdica diminui o risco percebido.

Palavras-chave: Banco Digital, Utilização, Eficiência, Internacionalização, Processo, Performance, Distância.

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1 Introduction

1.1 Background

Globalization has increased international trade and allows companies to connect stronger with consumers and partners across the globe. As a result, the world has witnessed more competition, and companies look for new opportunities outside its own borders to stay competitive. One industry that is experiencing high competition is the banking industry, due to digital technologies. Today, we are witnessing more people than ever before using online services to fulfil daily needs. The new trend facilitates for new opportunities, as well as challenges, as more companies are fighting for these customers. This relates especially to digital banks, where companies usually are faced with rapid changes in technology and high competition. The newly implemented directive PSD2 must also be mentioned, which makes it easier for banks to internationalize, but also increases the competition. The digital era with new directives and new business models may force companies to rethink how to execute operations. In the literature, it is possible to identify increased interest among researchers in the topic of digital internationalization, since it differs from traditional firms who internationalize. Updated research often finds new effects on market speed, entry modes, business models, sources of competitiveness, among other. Recent research thus tries to challenge traditionally theories and research, and thereby provide an updated picture of what companies are facing in the digital era. Across large amount of research, we find various definitions of digital banks, where research often define the phenomenon as Neobanks, Internet-banks, E-banks, etc. Thus, the literature provides many entry points for identifying fully digital banks.

1.2 Purpose & Problem Statement

The thesis is within the field of banking, more specifically online consumer banking. The paper focuses on the online consumer banking market, and differs from traditional banks, in that their main product is unsecured loans. The purpose of this study is to better understand how chosen strategies and utilization of digital banking affects process, performance, and

distance. The phenomenon digital banking is constantly experiencing rapid changes, hence the need of exploring it in different contexts. This will be achieved through studying Leabank, a Norwegian online SME consumer lending bank, and its approach to digital banking. The main area of importance is to understand how utilization of digital banking and chosen strategies affects the firms process, performance, and distance. This will be achieved through studying the firm, and internationalization processes to Finland (2017), Sweden (2019) and their ongoing process towards Spain (2022). To better understand how utilization of digital banking and chosen strategies affects process, performance and distance, the study is narrowed down to areas that the author found the most appropriate to include in the research. Since both traditional and modern aspects affects the firm, both are included in this study. The case provides the opportunity to study interesting effects on process and performance, in addition to understand what a digital bank is going through in the consumer lending industry. The study contributes to the gap of research within modern internationalization pursued by a digital bank in the consumer lending industry. Most of the updated research on the topic contains FinTechs or commercial banks wishing to utilize digitalization with the purpose of more effective operations. However, there is lack of research on banks whose main product is unsecured loans. Therefore, it also tries to provide updated research aimed at the consumer lending industry.

1.3 Research Questions

The author is interested in finding answers to how chosen strategies and utilization of digital banking affects processes, performance, and distance. Looking at key areas, the research questions are outlined below.

Q1: How does a fully digital bank choose to internationalize in terms of processes - motives, market selection and entry model?

Q2; How does a fully digital bank gain a competitive advantage?

Q3; How does a fully digital bank react to the digital era in terms of value creation and business models, and what is the perception of digital banking across markets?

2 Literature Review

The literature review includes literature and theoretical framework that the author considers most relevant for the case of Leabank. This includes both traditional and modern literature to better shed light of the overall situation of a fully digital bank.

2.1 Internationalization process theories

2.1.1 Uppsala Internationalization Theory

The Uppsala Internationalization model seeks to explain the process as “one step at a time”, meaning gradual expansion into foreign markets. The authors emphasize that market uncertainty is usually related to limited market knowledge, and therefore companies should follow an incremental internationalization pattern. By doing that, companies can better manage its limited knowledge to foreign markets, by increasing its market commitment and resources into foreign markets following a gradually process after establishment (Johanson, Vahle, 1977). The key factor in gaining knowledge is learning, which indicates a dynamic process. This can be achieved by attaining knowledge about their customers and markets, in addition to institutional elements of foreign markets, such as policy, infrastructure and culture. Another important factor that the authors stresses is the term “psychic distance”. This factor targets disturbance in information flows due to differences in language, culture, attitudes, religion, geographical distances, and political systems. The theory suggests that such differences can be reduced through experiential learning, which will result in higher foreign market knowledge. Market knowledge adds value to the company and represents an important resource for the firm (Johanson, Vahle, 1977). Lastly, as part of a gradual internationalization, the model states that companies choose markets with lower geographical distance at first and chooses a longer distance market later in the process.

2.1.2 Uppsala Revisited Theory

Due to dramatic changes in the business environment, mainly because of digitalization and increased competition across borders, the theory from 1977 has been updated. What the authors have included in the updated work is the network concept. In this case, compared to

the previous work, it is more appropriate to consider the foreign market as a business network, instead of a specific country market (Forsgren, 2016). In the revisited model the authors emphasize the meaning of learning and knowledge, but in this case from relationships, which will lead companies to enter new markets (Johanson, Vahle, 2007). As part of this, a network is understood as a source of information to firms, which can be seen as market knowledge (Sharma, Blomstermo, 2003). That same market knowledge provided from networks can be translated to resources, and affects available information, its timing, and referrals. Firstly, all information is not available to all companies. Secondly, it affects at what time companies can access such information, and lastly, that companies' interests are represented positively. The theory has empirical support on small software firms, among others (Sharma, Blomstermo, 2003).

2.1.3 Born Global Theory

While the traditional model from Johanson and Vahle (1977) argues that firms follow a gradual internationalization process, the born-global model is related to the speed of the process. The born-global company internationalizes within three years on average from its birth and generates a least 25 % of total sales from international markets (Paul et al., 2018). Also, many firms use digitalization, and uses differentiation strategies, which makes them stand out from their competitors. Moreover, a key capability for born-global companies is market focused learning. Sharma and Blomstermo, (2003) explains born-global firms as knowledge-intensive firms with a high level of knowledge content. Having an established learning orientation is positively associated with superior international performance (Knight et al., 2016). Through network and information, access to new foreign markets customers and channels will be easier, and thus higher probability of gaining competitive advantage. However, sustainable advantage in international markets is usually related to companies being in the possession of unique assets along with modern technologies which can easily be used across market at low cost (Li, Lee et al., 2012, Paul et al., 2018). Modern technologies also tend to decrease physical and cultural distances (Paul et al., 2018).

2.1.4 The digital firm

Dagnino et al., (2021) defines digital internationalization as: *“the ways with which the design*

and implementation of a digital transformation path and the application of digitalization processes and tools may help firms in all sizes thrive in international and global context”.

When it comes to the internationalization process of the digital firm it can be either active or passive (Hazarbassanova, 2016). A passive internationalization process means having a domestic website and serving foreigners directly through it. Further, as customer can reach this website from anywhere the demand from foreigners can be positively accepted (Hazarbassanova, 2016). When it comes to the active approach, the firm establish a presence in the selected market, or adaptations to foreign languages which will better match international demand. Such presence can be *“established through a local website, which can be supported or not by some form of FDI or alliances with local firms”* (Hazarbassanova, 2016).

2.1.5 Digital Banking

Banks who have joined the digital market are expanding faster and earlier compared to traditional banks. Yiu et al., (2007) states that technology does not restrict banks to physical offices, or geographical areas, which allows for utilization of new markets, markets spaces and scopes. Additionally, because of digitalization, we will witness business models change, in turn making it important for banks to understand the impact of digitalization (Mbama et al., 2018). For traditional banks who are considering following the trend of online banking, one huge issue is legacy systems, which restricts the digital banking capability, and can be seen as a barrier to overcome. Therefore, to capture opportunities it is important to have the right strategy implemented. Ciarrapico et al., (2011) suggests that cross-selling banks implements a more compounded strategy compared to traditional banks. They tend to be more interested in depositors rather than deposits and loans, and they offer better solutions towards customers compared to traditional banks (Ciarrapico et al., 2011).

2.1.6 Internationalization Approach Banking

While Johanson and Vahle (1977) explains the internationalization process as a gradually process, Hellmann (1996) concludes that banks often tend to move to international banking centers, and that they do not necessarily start in nearby countries. Instead, they follow other banks towards economic activity (Hellmann, 1996). Similar arguments are found presented by

Slager (2005) who states that internationalization of banks, consists of setting up activities in financial centers. However, other studies such as one executed by Cardonne et al., (2001) confirms that companies may choose to enter foreign markets as a gradual process, where resources increase as they learn more from abroad operations.

2.2 Why Banks Internationalize

The incentives to internationalize are important factors in terms of process and can explain why some firms look abroad for new opportunities. The reasons for banks incentives of internationalization, consists of regulations (cost of capital), geographic area (distance), financial structures, and economic size (Sist, 2018 p 3). These factors can create new opportunities, which are instrumental for bank choices in considering new markets. Further, Sist, (2018 p 3) mentions that economic size plays a significant role on profit, and states that a bank will gain profit if the market is large enough. Such argument is similar to Hellmann, (1996) who confirms that banks often move to international banking centers.

2.2.1 Regulations

Activities in foreign markets may be explained by regulatory differences between countries, where banks move abroad to seek new opportunities. When pressure from regulatory frameworks tends to be high, banks may be pushed out of their operating market (Slager, 2004, p 64). Similar arguments are presented by Sist (2018, p 51) who states that higher fees and margins have led banks to seek new opportunities abroad. Furthermore, Andersen (2020) states that regulatory burden has risen for Norwegian banks and that capital requirements have increased in scope and complexity. Too much regulation affects the ability to make profit and decreases the attractiveness of banking centers (Slager, 2004, p 37). Further, Aronsen et al., (2014) stresses that banks in countries with high capital requirements have argued that such regulatory framework put them at disadvantage in contrast to banks who operates with lower requirements. Such advantage/disadvantage is important because it affects the cost of capital, which again affects the performance of banking operations (Aronsen et al., 2014). Furthermore, it states that the relationship between the level of bank capital (ROE), and the cost of capital (COE), is very central to a banks choice when comparing new options in strategies to reinforce capital streams (arbitrage opportunities),

(Aronsen et al., 2014).

2.2.2 Cost Efficiency and Economies of Scale

It is important to look at cost efficiency as a main reason to internationalize. One reason is that benefits from bank internationalization should be measured in comparison to costs (Sist, 2018, p 51). Also, cost efficiency is highly essential if economies of scale and scope can successfully be realized, due to larger customer base (Slager, 2004, p 73). One reason for increased efficiency among Norwegian banks can be explained by banks getting bigger. The result is utilization of scale through increased services (Andersen, 2020). Cost efficiency also has a strong connection with digitalization and automatization. Automatization (bots), that can automatically answer inquiries and loan applications, making operations more efficient (Andersen, 2020).

2.2.3 Financial Structure in Relation to Competition

Increased market concentration of banking can reduce expected earnings (Slager, 2004, p 72). An effect of an increased number of operating banks in the domestic market, is the exploration of cross border opportunities to drive growth in earnings. Further, Slager states that some banks may be more efficient compared to others, resulting in gaining higher market shares. As a result, the market increases its concentration ratio, and many banks may therefore seek abroad for new opportunities. One reason for higher concentration ratio is due to higher efficiency among banks, because of increased digitalization and automatization (Andersen, 2020). Banks might expand across borders to utilize this efficiency elsewhere (Slager, 2004, p 72).

2.2.4 Diversification, M&A, and Risk

A final incentive for banks to internationalize is to reduce risk of operations through diversification. Banks may diversify operations through mergers and acquisitions (Slager, 2004, p 73). As a result, banks receive a wider geographic reach (economies of scale) and wider product range. When it comes to costs, Humphrey, and Vale (2004), confirms that mergers in Norway results in lower costs on average. However, international integration does

not only bring benefits from diversification, but can also impose additionally risk for each bank (Buch et al., 2010). On the other hand, banks with a higher international market share have higher market power (ability to maintain or increase price range). This is due to all private information generated from international branches. However, those advantages are eventually limited if the bank integrates into too many foreign markets (Buch et al., 2010).

2.3 Market selection

The foreign market selection process is the choice of which market to enter and is a strategic decision (Schu, 2017). One factor which is very important when it comes to market selection is the economic aspect. One huge motivation behind internationalization is to enter markets where the bank can serve a large customer base (Schu, 2017). Moreover, larger markets often result in more opportunities. On the other hand, Stallkamp et al., (2019) found that regulations shape and constrain the international strategies of banks who wants to offer products on platforms. As a result, companies will face significant entry barriers and regulatory compliance costs in many markets. Further, the use of indicators for selecting a new market has been suggested as important in literature models and has also been identified in real-life practice (Buerki et al., 2014). Lastly, Miečinskienė et al., (2014) mentions that selection should be based on a unique criteria for the company, in addition to the unique criteria for product.

2.4 Entry Mode Decisions

When a company plans to expand its operations to foreign markets, they must decide how they want to enter that market. There are several modes of entries to choose from. Every mode of entry has their advantages and disadvantages. First, companies can choose between equity and non-equity mode. Exporting, licensing, and franchising are all non-equity modes. When it comes to minority joint venture or partnership, this mode can be either equity or non-equity. Lastly, majority joint venture and solo venture implies all equity mode (Maignan., Lukas, 1997). When it comes to entry mode decisions towards banking, the only way this can be done is through a correspondent bank (Hurduc et al., 2011). Those relationships are relatively focused on standardized products. Next, various contractual methods of internationalization, such as strategic alliances, are often found in the banking sector (Hellmann, 1996). Among synergy effects, an easier entry to the market is the most common. Several studies focus on the need of more control. The former is seen in banks assets,

including market knowledge and technology, and the studies concluded that banks should seek to “internalize” foreign systems from ventures, i.e., maintaining customer base. By that, the banks’ ability to harmonize cross-border operations and create synergies such as shared client base and best practice will create advantages (Petrou, 2009). Additionally, more control also makes it easier to exploit economies of scale through cross-border integration and standardization of its operations. As an example, if a company uses a common ICT platform across all operations, the more likely to improve efficiency (Petrou, 2009).

2.5 Sources of Competitive Advantage in Banking

Multiple theories and frameworks can be applied to identify sources of competitive advantage. One example is Porters Generic Strategies Framework. Powers et al., (2004) found that “*competitive methods used by banks conform to generic strategy types*”. The framework concludes by arguing in favor of banks that follow a cost-leadership strategy, and that such strategy achieves superior advantage compared to banks who belongs in the middle (Powers et al., 2004). Banks may also use a broad differentiation strategy, focus strategy or customer service differentiation. These banks reported above average performance, but less frequently than banks that have applied a cost-leadership strategy (Powers et al, 2004). The authors highlight that superior performance is harder to achieve for banks who follow such strategies compared to banks who follow a cost leadership strategy.

2.5.1 Porter Generic Strategies Framework

Firstly, generic strategies should present possible actions that can be taken to create competitive advantage. Strategies either involve taking a focused approach or a broad approach, to either cost leadership or differentiation (Murray, 1988). There are two general paths towards achieving competitive advantage: cost leadership and differentiation. Generic strategies include overall cost leadership, differentiation, and focus (Tanwar, 2013). Firstly, a cost leadership strategy implies utilizing every source of cost advantage with the objective of becoming a low-cost producer, which enables efficient operations. Competitive advantage may be achieved through economies of scale when producing high amounts of standardized products (Tanwar, 2013). The author also stresses the need of products that can simply be

produced at low cost and be widely distributed to a sizeable customer base. Furthermore, it involves constant identification of cost-reductions across business operations (Tanwar, 2013). Success usually depends on a noticeable market share position, or access to unique capabilities. Tanwar (2013) explains that competitors easily can duplicate the strategy without the former. Second, a differentiation strategy suggests being unique in its operating industry at a broad scope, as well as aspects of its product or service that are widely valued by its customers. The strategy has its advantages in terms of demanding higher prices. Some common areas to utilize differentiation are in technology and customer service (Tanwar, 2013). By this Tanwar (2013) explains this as firms seeking the opportunity of not being “*stuck in the middle*”. Lastly, a focus strategy has the objective of seeking a narrow competitive scope with a selected customer segment. This strategy is tailored to its target customers, which separates it from the competition (Tanwar, 2013). One common objective is that companies seek to gain advantage from effectiveness, rather than efficiency.

2.6 Digital Banking Business Models and Value Creation

2.6.1 Porter’s Value Chain

The value chain is a model used to analyze the actual value of a product. The model includes a set of nine activities, which reflects the process of supplying, producing, and distributing a company’s product (Naimi-Sadigh et al., 2021). Further, those nine activities are divided into two groups: support activities and primary activities (Porter, 1985). The basic guide of this model is the relationship between internal activities in the company. The tighter the linkages between activities are, the lower the associated costs are, and as a result, the higher margins are (Porter, 1985). Next, the author emphasizes the value of technology, which the author underlines when applying it to the value chain. The use of technology has its benefits in creating new linkages between activities, both internal and external (Porter, 1985).

2.6.2 Open Banking

Many banks are changing business models and taking advantage of the digital era. One of the advantages many banks seek to gain is from decentralized finance and Open Banking. This is technology being used to disintermediate centralized models, so that additional value can be

created (Frajtova Michalikova et al., 2021) The main advantages are reduced costs, through more efficient transactions (Frajtova Michalikova et al., 2021). Furthermore, open banking refers to the ability of opening the value chain, which can be done both in the front, and the back end of the bank. What it means is that the bank can provide APIs by sharing data-information to other parties involved in the value chain, and by that creating value and new opportunities (Biehl, 2022). The table below shows to which extent the value chain can be opened.

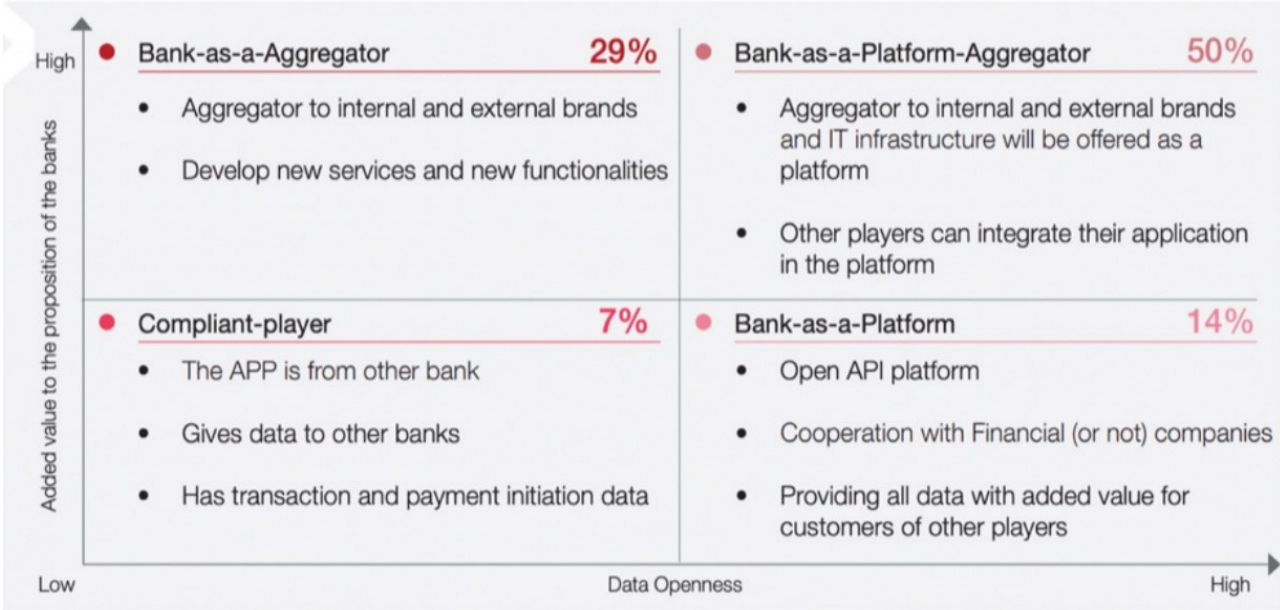
	Open Source API Platforms (e.g. Open Bank Project)	Banking API Platforms (e.g. Token, Fidor, etc.)	Challenger Banks (e.g. Monzo, Starling, No26, etc.)	Most Incumbent Banks
Demand-Side User (End Customer)	Open	Open	Open	Open
Supply-Side User (FinTechs)	Open	Open	Open	Closed
Platform Provider (Hardware/OS Bundle)	Open	Open	Closed	Closed
Platform Sponsor (Design & IP Rights Owner)	Open	Closed	Closed	Closed

Source: (Zachariadis et al., 2017)

2.6.3 PSD2

PSD2 is a directive implemented by the European Parliament. It seeks to make payments more secure, promote innovation (especially third-party providers), and help banks adapt to new technologies. Therefore, banks are expected to invest largely in digitalization in the years to come. Andersen (2020) states that banks with best profit performance is those that had increased IT-expenditure. PSD2 contributes to a more secure standardization of systems across Europe. However, one common challenge among banks is security threats. Moreover, banks may approach PSD2 in different ways. PWC presented a report in 2017 based on different reactions to PSD2 (Folcia, 2017). Two thirds of banks in the survey responded that they want to leverage PSD2 to change their strategic positioning. Further, they will have to select from many possible strategies, ranging from minimum compliance with PSD2 to driven

digital transformation, with aim to leverage new opportunities. PWC identified four different emerging business models where banks were asked about their preference:



Source: (Folcia, 2017)

2.6.4 Business Models in Banking

Bayel (2022) states that banks could boost its revenues by nearly four percent each year if they adopt digital banks business models. Non-linear business models are popular among digital banks, with almost half of the banks using it along with vertical integrated models, or that it is just being used as non-linear only (Bayel, 2022). The article concludes that non-linear models are outperforming vertical integrated models in the digital era. Also, the article states that what is important in terms of value creation is how the banks can create value for their customers and partners in the value chain. This will provide new growth and value.

2.7 Digital Banking and Distance

2.7.1 Does distance matter?

One area of research that has gained a lot of attention is distance and its relationship with technology. Petersen et al., (2002) states that technology is slowly breaking the tyranny of

distance, especially in small business lending. One reason is that technology has made lending from a distance easier. Moreover, technology reduces the need for the decisions to be made at the same location where information is collected (Petersen et al., 2002). Distance in culture refers to the extent to which shared norms and values differ between countries. Moreover, geographic distance remains a barrier to trade and increases the perceived risk of foreign market entry, due to information asymmetries. When it comes to economic distance Kraus et al., (2015) states that such difference is likely to contribute to higher risk due to problems in accessing international stakeholders. Furthermore, economic development should be seen as a pull factor towards internationalization, due to the possibility of entering developed economies. Lastly, the authors stresses that political systems with predictable regulations will reduce the risks associated with internationalization (Kraus et al. 2015).

2.7.2 CAGE Distance framework

Cultural distances imply differences in religious beliefs, race, social norms, and language. The larger the differences, the larger the cultural distance (Ghemawat, 2001). Secondly, the author states that administrative, or political distance can be reduced if preferential trade arrangements, common currency, and political union are in place. Easy of the former attributes is capable of increasing trade by 300 percent (Ghemawat, 2001). It is important to note that individual political systems generate the most common barrier for companies seeking cross-border operations. Third, the geographic distance implies the level of difficulty of entering a country. Difficulty increases the further away your domestic market is from the potential market (Ghemawat, 2001). Lastly, the author stresses that the wealth of consumers is the most important attribute that creates distance.

3 Methodology

3.1 Research Strategy

By reviewing both modern and traditional literature, as well as executing interviews with Oddbjørn Berentsen, the purpose is to gather additional understanding of a fully digital bank competing in the consumer lending industry, and how chosen strategies and how utilizing digital banking affects processes, performance, and distance. Due to the nature of the purpose,

the author finds the inductive approach as appropriate for being the dominant reasoning method throughout this research. (Saunders et al., 2009, Luck et al., 2006). On the other hand, the researcher also utilizes the deductive reasoning approach to provide more richness to the data. In this research the data is limited to the period 2015 – 2022, meaning a modern topic that always needs new perspectives, hence the choice of the mentioned method. Next, the researcher wishes to utilize both traditional and modern theory on a modern topic, which guides the data collection, hence the choice of including deductive reasoning. The inductive approach is when the researcher collects data and develops theory of the conducted end-analysis (Saunders et al., 2009). Further, when it comes to primary data, the research aims at gathering an understanding “*of the meanings humans attach to events*”, rather than explaining or uncover causality (Saunders et al., 2009). However, secondary data will be used to provide a clear picture of processes, performances, and digital technology. The author has chosen to follow a qualitative design method, which starts with a literature review, followed by primary and secondary data collection.

3.2 Research Paradigm

There are usually four different research paradigms applied to classify research. The paradigms are positivism, interpretative, advocacy and pragmatism. The interpretative paradigm seeks a deep understanding of a concept and to investigate the understanding of the world in which they take part of (Rahi, 2017). Further, it allows for subjective meanings towards experiences or subjects, which in turn create a deep understanding of the concept (Rahi, 2017). This paradigm, also called, Qualitative research, focuses on collecting in-depth information on a particular topic. There are several philosophical assumptions that follow the different paradigms. Ontology and epistemology are the most discussed in research. Ontology typically asks what exists (nature of reality), while epistemology deals with the connection between the researcher and what is being researched (Rahi, 2017). This research follows an interpretative, positivist epistemology due to the research providing both inductive and deductive reasoning and semi-structured interviews. (Rahi, 2017).

3.3 Research Design

The research method for this thesis is a case study. A case study can be defined as “a strategy

for doing research which involves an empirical investigation of a particularly contemporary phenomenon within its real-life context” (Saunders et al., 2009). The focus of the case study is an in-depth investigation of a phenomenon in a real-life context (Cassel et al, 2017). Further, the value of the case study method increases when the boundaries between the phenomenon and context are ambiguous (Cassel et al, 2017). In this case the phenomenon (digital banking), and the context (Internationalization), can be understood in different ways and may have many interpretations. In addition, the case study method enables the author to answer “how” and a “why” type of questions (Yin, 2008). This research will follow an exploratory research design (Cassel et al., 2017). Further, the research is built on a single case study, with the intention to provide a deeper understanding of the exploring object (Cassel et al, 2017). Also, the in-depth focus where the phenomena is taking place, a small sample size is more appropriate compared to a large sample size (Saunders et al., 2009).

4 Data Collection

4.1. Primary Data Collection

Digital banking has been a hot topic among researchers lately due to rapid changes in technology. Hence the need of exploring digital banking in different contexts. Leabank, the subject of this case study, had already internationalized towards nearby countries (Sweden and Finland) and has per today ongoing internationalization processes towards a long-distance country (Spain). In addition, the characteristics of the case unit satisfies certain criteria, which is a small-medium bank that has no physical contact with customers. The author found interviews as an appropriate tool for gathering primary data, because it allows for recording of participant(s) stories and attitudes towards and responses to certain situations (Paradis et al., 2016). The author has chosen to follow a semi-structured approach for the interviews, to capture the advantages of both methods. This will be achieved through both a written script and a looser set of questions that invites the interviewer to express himself more freely (Paradis et al., 2016). The semi-structured interviews were conducted over Zoom. The participant is the CEO in the company. The chosen participant possesses an abundant of information, which is the reason behind the choice. In addition, the participant has been the CEO since the bank was established and has been part of all mergers to this date.

4.2 Sampling

The sampling of this research is small and consists of one participant being the CEO of the unit under study. There are mainly two types of sampling methods, probability, and non-probability sampling. The sampling in this research stems from a non-probability method, based on judgment sampling. The former sampling method defines a process where the researcher uses his own judgement to select participant(s) who knows about the problem (Rahi, 2017).

4.3 Execution of the Interviews

The author created a semi-structured interview guide based on a framework developed by H. Kallio et al., (2016). The guide contains the main components of the research, and questions were chosen based on the literature review. The guide utilizes previous knowledge gathered in the literature review and covers the main content in a logical order. The framework also facilitates elaboration on the interviewee's experiences regarding theoretical frameworks. In total, two interviews have been conducted, both of which with the participant CEO of Leabank. Both interviews were recorded for the sole purpose of transcription, and the recorded file was deleted after it had been transcribed, as of the participant request. The author decided to divide the interview into main groups aligned with the literature review, covering the main content in a logical order:

- Digital Banking - Process - Motives, Market selection, and Entry mode
- Digital Banking – Performance - Competitive Advantage
- Digital Banking - Value Creation and Business Model (Utilization)
- Digital Banking – Distance

4.4 Secondary Data Collection

To identify information about the topic and Leabank, secondary data is collected. Annual reports websites, newspaper articles, books, and various websites are utilized. Especially numerous of annual reports are utilized to cover additional insight of the digital bank, which the author found necessary to include to the findings to give extra strength to the analysis.

5 Data Analysis

There are various ways to complete a single qualitative case study. This study will use thematic/content analysis to analyze primary data. The author prefers this method because it allows for clustering of data into clear themes, in line with the interview guide. Both inductive and deductive approaches will be utilized in this research. Deductive approach will be used on themes (thematic analysis) derived from the literature review and two selected frameworks. Additionally, similar chunks of texts are coded into categories (content analysis), through inductive coding (Morse, 2008). Further, the inductive category codes determine what is in the actual data, so that the obtained data can be connected to the topics from the literature review. The codes obtained from the primary data (category) are subsequently used to identify the sub-categories. This approach allows the researcher to identify the effects from the themes, in addition to identify the level of digitalization (Alhojailan, 2012). Furthermore, thematic/content analysis is chosen based on its high flexibility (Alhojailan, 2012). Lastly, secondary data is utilized with the intention to reduce the possibility of response biases of the participant, and therefore annual reports and other important data are utilized to diminish such concerns.

5.1 Limitations/Constraints

Pursuing a case study is not without limitations. A case study approach has been criticized for lacking scientific rigor and providing little basis for generalization; the ability of producing results that may be applicable in other scenarios (Crowe et al., 2011). However, the purpose of this study is not to create results that are applicable for all digital banks facing the same opportunities and challenges as Leabank. Simply the fact that the former is highly unrealistic, due to all the factors that are influencing each industry and each firm alone. Crowe et al., (2011), mentions three techniques that can increase the level of generalization. The use of theoretical frameworks, the respondent validation, and lastly, transparency. The use of theoretical framework is utilized with the intention of bringing more dimensions to the findings. In addition, secondary findings from Leabank's annual reports are used as a supplement to the analysis to reduce response biases. Lastly, the author has shown transparency by giving in depth information regarding all aspects of the research process. The bank under study is the former workplace to the author, for the duration of four years (2016 –

2020). The researcher and interviewee have had no personal contact since the employment relationship, and all communication in the master thesis period has been professional. Both interviews have been objective from the researcher's perspective using transcription. Data obtained during master thesis period is not information that the researcher has had during the work relationship. However, previous knowledge about workers and processes may cause some degree of influence on this case, despite the extreme accuracy by the author, trying to maintain an objective perspective.

5.2 Ethical Considerations

Several ethical considerations should always be taken seriously when establishing research papers. In Bell et al., (2007), the authors identified eleven ethical principles. These are listed below:

- *Harm to participants*
- *Dignity*
- *Privacy*
- *Informed consent*
- *Privacy*
- *Confidentiality*
- *Anonymity*
- *Deception*
- *Affiliation*
- *Honesty and transparency*
- *Reciprocity*
- *Misrepresentation*

In this research, there is no sensitive information about the person of interest, but it is nevertheless important to ensure dignity and respect when presenting the findings of the research. Before the first interview the participant was informed of how the research would be performed, why it is of interest and his rights. He has had the opportunity to withdraw from participation at any time. Also, participant chose not to remain anonymous. Both the author and the participant have showed good behaviour and the interviews have had a professional

approach. Honesty and transparency are given towards Leabank through full insight in research.

6 Data & Results

In this section, primary and secondary findings will be introduced. First, an overview of the company, followed by external factors are introduced as a supplement. Lastly, the analysis is introduced, where findings are represented over four main topics: 1) process 2) competitive advantage 3) value creation, business model and digital utilization 4) distance

6.1 Leabank – An overview

6.1.1 History and Introduction to Digital Banking

Leabank is a fully digital bank offering consumer loans, saving accounts, automated invoice purchase and SME financing. Per 2022 the bank had 41 employees. The bank is a result of multiple mergers. First Monobank and Brabank merged in 2019. Then in 2020, Easybank and Brabank merged, with Easybank as surviving entity. The merger between Easybank and Brabank happened fast and was achieved to half of the estimated costs related to the merger (Leabank 2022). In 2022 Easybank rebranded to Leabank with purpose of having a better brand name in the international market. Before 2016, Leabank was a traditional bank named Verdibanken (established in 2002), but rebranded and went for a strategic turnaround focusing on online consumer finance. Numbers on Verdibanken from 2015, shows that the bank was struggling to maintain profitability, with a cost to income ratio of 70,30 % (Leabank 2015). Verdibanken was a typically traditional bank with legacy systems offering traditional services such as secured mortgage loans as main product. Leabank annual reports shows that the bank has had increased profitability since the turnaround, with exception of 2016, where the turnaround was driven by high cost. In 2015 Monobank was established and entered Finland in 2017 and Sweden in 2019. As of 2022, Leabank has undergoing internationalization process towards the Spanish market. The bank concentrates both on B2C and B2B. Towards customers they offer consumer loans (main product), deposits and Euro funding. Towards businesses they offer invoice purchase, factoring, and SME credit (**Appendix 1**). In the first quarter of 2022 Leabank had a total of 5.486 M NOK in gross loans

across three markets - Norway, Sweden, and Finland (**Appendix 2**), where 48,65 % of gross loans stems from international markets (Finland and Sweden). Leabank delivers a return on equity (ROE) of 10,7 % in 2021. The bank had a Capital ratio (CET1) of 23,7 %, indicating solid numbers in relation to capital requirements in Norway (17,0 %). Moreover, in 2021, Leabank delivered a cost to income ratio of 34,1% (**Appendix 3 and 4**).

COMPONENT	No presence (2015)	Presence (2022)
Employees	13	41
% Of Gross Loans in International Markets	0	48,65 %
Internationalization	None	Finland, Sweden, Spain
Main product	Secured Loans	Unsecured Loans
ROE	N/A	10,70 %
CET1 Core Capital	16,18 %	23,70 %
C/I Cost to Income Ratio	70,30 %	34,10 %
Digitalization	Legacy systems, no online access	Scalable platform, API integration, cloud systems, online access
Impact	Low performance, No Internationalization Lower Capital Buffer	Increased performance Increased Internationalization Higher Capital Buffer

Table 1 – Overview of strategic turnaround. The table shows key components with effects on process, performance, and distance when the phenomenon was presence versus not presence.

6.1.2 Digitalization in Leabank

Leabank offer their products towards customers in the Nordic countries with the same design adapted to each country’s language (**See Appendix 6 and 7**). Next, in 2018, Leabank (Monobank) launched their solution on Google pay – “As one of the first banks in Norway, Monobank takes mobile payment to a new level with Google Pay” (Monobank Google Pay, 2018) (**Appendix 8**). Moreover, the banks initiative with Google Pay was part of the digital

strategy to develop innovative fintech solutions for loans, deposits, and credit cards. In 2022 Leabank purchased four new digital products within application hosting, cloud services, transactional e-mail, and collaboration. Examples of purchases are Microsoft 365 and Microsoft Azure Cloud Services, which provides systems for more productive collaboration between workers, and the possibility for users to run a software application entirely from the cloud (S., Anna, 2022). Moreover, the bank has purchased transactional e-mails (APIs) which is a type of automated e-mail purchased from SendGrid. Features includes automated welcome-emails, payment invoices, orders, notifications, among other. Research made by Apps Run the World (2022) shows that Leabank invests mainly in cloud-technology (**Appendix 9**). When the system is hosted in a cloud, adding a new market becomes much easier than with traditional banking solutions (S., Anna, 2022). Furthermore, additional cloud space can easily be obtained through purchases. A bank setting up a new market needs to add the new region to the cloud that serves the required area, and then request the new activities to run (S., Anna, 2022).

COMPONENT	Presence
Design	Standard platform design. Adaptation to each country’s language.
Third party providers	Google Pay
Shared data	No
Cloud-systems	Microsoft 365, Microsoft Azure Cloud Services, SendGrid.

Table 2 – Digital Banking in Leabank - main features

6.2 External Factors

6.2.1 Regulations

Banks across Europe are faced with extensive regulation. Overall capital requirements include the various buffer demands set by the ECB and each country’s regulations. Capital requirements varies across the European nations, and the European banks are affected by the regulations set by the ECB through the Basel committee, in addition to own country

regulations. The overall capital requirement in Europe increases in 2022 (15,1%) from the previous year (14,9 %). In Norway the overall capital requirements were 17,0 % in 2022. Congiu, F. (2021) states that banks will witness increased operational risk, because of IT and cyber risks and propose that banks should prioritize IT and cyber security in the near future to maintain a stable growth, thus higher need for CET1 ratios.

COMPONENT	Norway	EU average
Capital Requirements (2022)	17,0 %	15,1 %

Table 3 – Capital Requirements – Norway vs Europe

6.2.2 Economic Size and Growth

The size of the banking industry in each country across Europe varies. The Norwegian banking industry is not particularly large, compared to other countries, i.e., Spain and Sweden. Norway is somewhat in the middle in Europe. The Nordic countries (Scandinavia) consist of Norway, Sweden, Denmark, and Finland. Finland has a smaller banking industry compared to Norway (Lund, 2019). Growth in consumer lending has been negative in Norway since Q3 2019, because of stricter regulations and several measurements to reduce the amount of unsecured debt among Norwegians (Anfinsen, 2021). On the other hand, EBA reports increased growth in consumer lending on average in Europe (Congiu, 2021). In Finland the growth in credit among finish households increased with 15,5 % when comparing October 2021 with September 2020 (Suomen, 2021). In Sweden, there has been increased numbers in consumer credit among households, in addition to an increase in unsecured loans above 25.000 € (Finansinspektionen, 2020). In Spain, consumer credit increased with 584.635 € comparing Q1 2022 with Q4 2021 (Trading Economics, 2022).

COMPONENT	Norway	Sweden	Finland	Spain	EU average
Economic Size Index	12	3	21	5	9
Growth in unsecured loans	Negative	Positive	Positive	Positive	Positive

Table 4 – Economic size and growth

6.3 Analysis

6.3.1 Process

In this section, the themes, process, motives, market selection and entry mode are presented.

General Process

The participant mentioned that the process towards new markets is quite easy and fast. Collaboration and technology get mentioned as central factors throughout the interview, which enables an efficient process. Collaboration both on the supply and distribution side is decisive. The participant explains digital banking as a gradual process, where previous knowledge is a decisive factor to succeed with the next process.

Together with our agents and our technology I believe that digital banking makes the process easy and fast, and I think that our process after Spain will go faster as we learn more. – Participant

Digitalization ensures that the speed level is fast and satisfactory, while collaboration with agents ensures that the process goes easier and enables new opportunities. However, the participant states that the bank is very dependent on agents to reach new markets and underlines several times the need of a good network in digital banking to succeed.

Motives

Growth in foreign markets and domestic capital requirements is a recurring topic in the interviews and are the main drivers for seeking new opportunities in new markets.

The Norwegian market is too small to fully be optimized alone, in addition to being lower capital requirements abroad from next year on. We then make better use of our capital abroad than in Norway. – Participant

The participant pointed out that reusing the digital operating model enables the bank to reduce regulatory risk by operating in multiple markets to achieve a portfolio diversification. He mentions on the other hand that the Norwegian market is the optimum to operate in, however if there was enough growth and equal requirements. Since there is not, having a digital

operating model that can be utilized to expand into multiple markets gets mentioned as a key factor to diversify its portfolio.

And think of the scenario where we expand to a fourth country after Spain, it does not cost that much in marginal costs because we have these anyways. And that is what digital banking is all about. – Participant

When expanding to new markets, he mentions economies of scale as a key goal, which is enabled by digitalization, and that the company does not need to have people on the ground in foreign markets. To further demonstrate the motives of expanding into foreign markets, the participant was asked to rate the following motives: regulations, economic size, financial structure, and diversification.

What incentivize us the most to seek new opportunities is first Norwegian regulations. Secondly, it is the size of the Norwegian market. Third, we seek to diversify our portfolio By adding multiple markets. Lastly, we get least affected by domestic financial structure. – Participant

Overall, the participant mentions growth in foreign markets and capital requirements in domestic market as the highest motives to expand. Digitalization ensures portfolio diversification, enabled through operating in multiple markets, and reduces regulatory risk.

Market Selection

When it comes to choosing which market to enter, it is often related to certain criteria's set by each company. The participant was asked about what is important in terms of selection when choosing which market to enter. He mentioned that the market selection process follows a standard model, which follows six unique criteria. He states that this process is easy and is mainly enabled by operating with a standardized product (unsecured loan), which is almost the same across every market.

When entering a new market, we look at six criteria: Market, distribution, digital processes, collection, risk, and regulatory framework. The model is easy, since we operate with a standardized product which is almost the same across every market. – Participant.

When asked about important pitfalls during the process, the participant strongly underlined the need for a new market to be highly digitalized and automated. He mentions that it is very easy to make mistakes if you have not researched the digital level in the new market.

On the IT side we need a supplier that has the European scalability. It is crucial how good and solid the APIs are to connect with all these suppliers. It really depends on how all digital platforms can connect with each other in an international context.

- Participant

Since a lot of the entry costs is on the IT side in digital banking, this step is very important. The need to have a market that is highly automated, in addition to possess own digital platform that can function cross border at a high level is crucial.

Overall, digital banking with unsecured loans enables the market selection process to be easy, as mentioned by the participant. However, there are some pitfalls to be aware of, which is how automated the new market is.

Entry Mode

There are several ways for how digital banking can reach new markets. The participant states that the company uses alliances within a Nordic agreement, or as he calls it, the Nordic model. When expanding to new markets, an extension of the agreement/model is made to set up the new activity. He also refers to lower risk of entering, when operating within the Nordic model.

Operating within the Nordic Model makes the risk of entering much lower, because we already know the supplier from before – Participant

When it comes to enter the Spanish market, the participant was asked about how the Nordic model extends its operations and enter new markets. He states that various collaborations give each other something of value in return.

When it comes to signing loan products, we will go for a Norwegian company (Signicat), which has acquired a company in Spain. Then we can use Signicat technical solutions in Spain as well – Participant

Overall, the participant mentions that operating within the Nordic agreement makes the entry easier, as well as maintaining control over customers. Various collaborations make sure that the entry is an easy process where alliances already have established presence, and that the bank reach out to alliances to extend activities, mainly achieved through digital banking.

6.3.2 Competitive Advantage

In this topic, Porters Generic Strategies Framework is utilized to better understand how sources of competitive advantages can be achieved in digital banking.

When asked about the different strategies, the participant was fast to point out that cost-leadership is the main strategy that the company follows. Following this strategy with a focus strategy, focusing on consumer loans, has provided a very low cost to income ratio. Therefore, the participant means that this strategy provides a competitive advantage. Further, he underlines the importance of being good at cost-leadership to succeed with digital banking.

I am convinced that you must be good at cost-leadership if you are going to succeed in this industry, and then by following this strategy you also get a little protection around you, because if you are the best in your area on cost, then it is very difficult for competitors to pressure you on price. – Participant

To achieve a competitive advantage in digital banking, the participant states the importance of focusing on a cost-leadership both internally and externally, and then be able to form a protection and reduce pressure on price. In addition, he mentions that operating with a slim focused model (focus strategy) on top of this, moves the bank away from the middle layer.

I do not feel that we are stuck in the middle, because we are on a lower cost and a narrow target (niche) with a slightly more slim-focused model. – Participant

Operating with a cost-leadership and a slim focused model provides sources of competitive advantages, however the participant mentions that negative external factors may provide challenges to maintain these advantages.

When you have a very focused strategy, you are more exposed in relation to regulations on the product you have. -Participant

Furthermore, the participant emphasizes the role between digitalization and the chosen strategies, which enables the bank to achieve effectiveness and scale.

We use this strategy because we only focus on consumer loans, with an international platform. -Participant.

Overall, a cost-leadership with a focus strategy enabled by digitalization provide sources of competitive advantage. However, these sources can be challenged due to operating with a slim focus model (unsecured loans), where regulations tend to be higher.

6.3.3 Value Creation, Business Model and Digitalization

In this section, the themes value creation/business model, systems, PSD2, online banking and digitalization are presented.

Value Creation

In the interview the participant describes the value creation as a two-sided approach to provide higher margins.

We must have very good digital processes because otherwise customers are lost. On the other hand, we create a higher margin to cover expected losses, operating costs, and cost of capital. – Participant

The participant describes this to be achieved through using a digital platform towards customers to create higher margin. He emphasizes the need of good systems to be able to achieve this. On the other hand, higher margin is achieved through offering consumer loans,

with interest rates that cover industry specific costs. Those are expected losses, operating costs, and costs of capital. He describes the link between activities as highly connected and efficient, mainly enabled through operating with a digital model. Operating with a standardized product, a digital platform, and agents who also uses digital models, allows these activities to be efficient. Loan applications runs through a system after winning them either directly through our own digital platform, or through agents, and then automatically disapproves or approves applications. If approved, a service is offered to customers. Further, he mentions that what could be a challenge is whether to pay out dividends or to invest in growth by expanding to more markets.

The question arises whether to pay dividends or to invest in further growth by expanding to new countries. -Participant

Overall, by offering a satisfied interest rate to the market, through both own digital platforms, and through collaborated channels who win customers for them, profit is created by taking a higher margin which covers essential industry costs.

Digital Systems

When asked about digital systems he states that the quality of digitalization is at a satisfactory level. He goes further to compare it to traditional systems and mentions that the bank has a flexible set-up system compared to traditional banks. However, a challenge he mentions is that the operating system is easy to replicate. A common front-end solution is being used.

Our challenge is that other banks catch up to our lead, so that our competitive advantage would erode a little. – Participant

When asked to go into more specific details about the digital model, he mentions that everything is cloud-based and that the APIs have very solid quality and is crucial to succeed since you need to store a lot of data, and to connect with many suppliers.

When expanding to a new country we introduce a new body (Spain) to the system, in the same way we have one for our existing markets (Norway, Sweden and Finland). -Participant

To further dig deeper into digitalization, the participant got the chance to elaborate how he

perceived digitalization in online banking.

Digital customer processes, with a high degree of automatization, that can be used to scale operations across markets, which again create great efficiency. -Participant

He emphasizes the need to be very good on the digital, and if you succeed you automatically get advantages. Overall, a digital model needs to have high quality, which provides efficient operations.

PSD2 impact

Throughout the interview the participant got the chance to elaborate on how he perceived PSD2. For him this is a well-known concept. He states that the reaction is minimum compliance and that it opens opportunities for a small bank like Leabank.

PSD2 opens opportunities for us in the sense that we can use it across European markets, we get more available data about our customers. -Participant

Overall, PSD2 can be used across the whole European market with minimum compliance, but everybody uses it.

Open Banking impact

Open Banking is also a known concept to the participant. He mentions that the digital operating model contains solid APIs and that the digital value chain could have been extended to third parties.

We could have been a supplier for consumer loans to for example big banks, but we are concentrated on a niche instead. - Participant

When being asked how he perceived Open Banking and pressure on digital transformation, the participant is fast to state that the pressure on digital transformation is lower in the consumer lending industry.

The pressure on the digital transformation is a bit lower in our industry. -Participant

Overall, the participant perceives the pressure on digital transformation as low in the consumer lending industry, compared to other banks, and operates with minimum openness, since higher openness does not fit with the focus, which is unsecured loans offered on an international platform.

6.3.4 Distance

In this topic, the distance framework formed by Ghemawat (2001) is utilized to better understand how the participant perceive two close countries (Sweden and Finland), versus a long-distance country (Spain). The participant also had the chance to elaborate outside the distance framework.

CAGE

The participant mentions that the distance increases when expanding to Spain due to several factors. He mentions that economic, administrative, and cultural distance is what affects the company. When asking the participant what factors that the company gets affected by, he states that language, income per capita, valuta, institutional weakness, and government policies are the factors that drives the distance the most, in a challenging way.

When it comes to language, we have the same number of dedicated resources in Finland as with Spain. In Sweden on the other hand, we speak the same language. – Participant

We get affected by several factors: income per capita among others. The former is lower in Spain, so we must enter with a lower ticket size, because they cannot have such high loan amounts, since the average income in Spain is lower compared to the Nordic countries. – Participant

There are quite equal setup methods in Sweden and Finland compared to expanding to Spain, which has a southern European standard for setup that we must follow. – Participant

Due to language, the participant perceives Sweden as the country which has least negatively impact, because Norwegians and Swedes understand each other. Since Finland is within the Nordic model, the participant perceives this market with a higher safety compared to Spain.

Spain has the largest negatively impact, due to being affected by income per capita, valuta, institutional weakness, and government policies.

To dig deeper, the participant was asked to go more into detail about digital banking and distance. When asking the participant about how he perceives Sweden and Finland, compared to Spain, and how digital banking was influenced by distance, he was very quick to state that he perceives Spain with a higher distance compared to Sweden and Finland, where the Nordic market gets perceived as more stable.

There is a slightly greater risk of expanding to Spain. The Nordic market is more stable in terms of regulation, society, and loss. So, there is a bit more security for customers in the Nordic Model / Welfare Model, and thereby also us. – Participant

When it comes to areas that remain unaffected, the participant mentioned digitalization and security as a positive outcome. He mentions that the extension of the Nordic model provides the same level of security, since it follows the same procedures with GDPR data and privacy as before.

We do not see data security getting any weaker by extending our model. -Participant

Overall, the impact from distance on digital banking increases when expanding to Spain, compared to nearby countries Sweden and Finland. On the other hand, operating within the Nordic model makes the perceived distance smaller, in terms of higher security. Also, the participant states that he perceives the distance between Norway and Spain as lower due to digital banking, comparing to the scenario where they would have to set up physical branches.

7 Discussion

7.1 Interpretation of findings

Process

According to the interviewee two important factors regarding the general process is central. Firstly, collaboration through partnerships. The participant believes the process is gradual,

where previous knowledge from both them and partnerships are utilized into new processes, aligned with Uppsala revisited Johanson and Vahle (2007), providing network effects. On the other hand, the company utilizes digitalization, and has over 25% of sales from international markets and did internationalize within three years. This means that the company can be characterized as a born-global firm in digital banking (Li, Lee et al, 2012). However, the participant expressed several times that a gradual process is more aligned with the mission and common platform solutions, in contrast to born-global firms who tends to be in the possession of unique assets which is crucial in relation to superior performance. Based on such facts, it is natural to understand the process as gradual, where the participant perceives the process in relation to assets and a mission more aligned with a gradual focus.

Furthermore, while Hellmann (1996) and Slager (2005), argue that banks follow other banks to financial centers, the participant states that digital banking is about finding a market that fits them, through a gradual process, similar with arguments from Cardonne et al. (2001). Regarding motives, domestic capital requirements and growth in foreign markets gets mentioned as the highest motives to expand. The participant describes the regulatory burden as high and complex in Norway, aligned with Andersen (2020). Such disadvantages may force a company to look for new opportunities abroad (Slager, 2004). However, the participant does not believe that the firm is pushed to look for new opportunities due to home market conditions. On one hand, this put the bank in disadvantage compared to banks operating with lower requirements (Aronsen et al., 2014). On the other hand, growth in foreign markets can easily be reached through utilizing digitalization. As the participant mentions, the goal is to reuse the digital operating model to achieve economies of scale and to diversify portfolio. The result is, as many authors mentions, increased cost efficiency and a wider geographic reach (Andersen, 2020, Sist, 2018, Slager, 2004). The participant mentions the need to be good at cost several times and emphasizes that operating with a digital platform fits this mission perfectly, aligned with arguments from Andersen (2020).

Next, the participant describes the foreign market selection as easy, mainly given the fact that the main product is unsecured loans, which is almost the same across the European market. He mentions the use of six criteria for entering new markets, as indicator for which market to enter next. Indicators has been a suggested tool to use (Buerki et al., 2014). Furthermore, Miečinskienė et al., (2014), mentions that selection should be based on a unique criterion for the company. The participant mentions that the new market needs to be highly automated,

meaning that digitalization plays a major role in a new market selection, and can be understood as a unique criteria to be satisfied for the company.

Lastly, the participant describes the entry mode as an extension of a Nordic agreement with alliances. According to Hellmann (1996), strategic alliances and contractual methods are often used in banking. The participant explains the entry mode as an easy entry process, due to alliances helping to set up the activity. Hellmann (1996) and Hazarbassanova (2016), explains this as one of the main benefits with alliances. The participant also mentions that digital banking makes the entry even easier, where a new body gets introduced to the system after having agreements approved by authorities. One huge benefit that the participant mentions is the use of technical solutions from partners in foreign markets. Similar arguments are found in Hellmann (1996), who explains this as practices that will create advantages.

Competitive Advantage

The participant explains that a cost leadership strategy together with focusing on unsecured loans (focus strategy) provides sources of competitive advantages. However, he mentions that cost-leadership is the differentiator. Powers et al., (2004) argues in favor for banks who follow a cost-leadership, and that it provides advantages compared to banks who are stuck in the middle. The participant states that the bank is not stuck in the middle, and that the bank's strategy provides a very low cost to income ratio. Further the participant mentions that he is very concentrated with cost-leadership strategy both internally and externally, to cut costs across all business areas, and explains this as one of the main reasons to why the bank succeeds with the strategy. Tanwar (2013) explains that a cost-leadership implies identifying and utilizing every source of cost advantage and has the objective of becoming a low-cost producer. This refers to the participant statement regarding using the strategy to save costs across all areas, and as a result gain a protection. Further the participant states that digitalization and unsecured loans fits perfect with the mission of reaching new markets to achieve economies of scale. Tanwar (2013) argues that competitive advantages may be achieved if achieving economies of scale. However, success is often related to high market share position and unique capabilities. The participant revealed that he was concerned that sources of competitive advantage would erode a little, due to easy replicable systems. On the other hand, he states that the bank will increase the extent of foreign presence in the future, trying to reach a higher market share position to maintain efficiency. The participant states that the bank has had increased performance ever since its strategic turnaround from

traditional banking towards digital banking, and that a cost leadership with focusing on unsecured loans fits perfectly with an international platform, which underlines that a cost-leadership really benefits from digitalization. Lastly, focusing on a niche, with unsecured loans, may cause negative external impact in terms of regulations. Unsecured loans are known to have more regulations compared to i.e., secured loans. This means that sources of competitive advantages may be challenged when focusing too much on a single product with higher regulations.

Value Creation, Business Model and Digital Utilization

The participant explains that value is created towards customers through digitalization, while value towards owners is created by setting interest rate high enough to cover costs. He describes the link between activities as highly connected and efficient, mainly enabled through operating with a digital model. Digital models enable the bank to supply, produce and distribute its product very efficiently. Porter (1985) explains that the tighter linkages between activities, the lower associated costs, and as a result, the higher margins, and that technology has its benefits in creating new linkages between activities. The participant reveals that activities are highly connected through using a digital platform, which also connects automatically with partners digital platforms. Further, operating with a standardized product which is almost the same across markets, and systems that automatically answers loan applications results in lower cost, thus higher margins. Even though collaborating with multiple partners, the participant states that they sell own products with B2C and B2B models with focus on verticalization of products. Bayel (2022) concludes that digital banks with non-linear models (new models on top of vertical models) are outperforming those banks that uses traditionally vertically integrated models in the digital era. The participant reveals that the digital model has provided a very low cost to income ratio, even though having a traditional mindset and legacy structures.

To dig deeper into digital systems, the participant revealed that the bank uses a flexible set-up system, at a higher level compared to traditional banks. However, the system is a common front-end solution which is easy to replicate. More specifically, the digital system is cloud based with APIs, with high quality. Biehl (2022) explains APIs as the ability of opening the value chain, which refers to the term open banking. What it means is that the bank can provide APIs by sharing data-information to other parties involved in the value chain, and by that creating value and new opportunities. The participant states that the bank could have been

a supplier but is more concentrated on a niche. However, new value and new opportunities could have been utilized through digitalization, thus missing these opportunities. On the other hand, it could be a result of how the participant perceives the pressure from digital transformation, where he believes that the pressure is a bit lower in the consumer lending industry. The participant also got the questions about utilizing PSD2. He states that the reaction is minimum compliance, which opens new opportunities, providing more available data about customers. One common challenge among banks who utilizes PSD2 at higher levels are security threats, which challenges banks in many ways (Folcia, 2017). The participant mentions that he does not perceive the threat on security as high, where procedures will follow the same system with GDPR data, also in new markets, i.e., Spain. Therefore, on one hand, operating with minimum compliance and minimum openness could be understood in relation to the literature as maintaining a secure data system, and a function to be used depending on the industry. On the other hand, operating with minimum compliance could be seen as missed opportunities, where higher level of value could have been created by opening the value chain. The participant mentions that a focus on extending the value creation does not fit with the focus, which is unsecured loans. Lastly, the participant explains his perception of digitalization in an international context as *digital customer processes, with a high degree of automatization, that can be used to scale operations across markets, which again create great efficiency*. Similar definition is found in Dagnino et al., (2021), thus digitalization is seen as a highly valued asset in international contexts, to create efficiency, also confirmed by Andersen (2020) and Petrou (2009).

Perception of digital banking across markets

Lastly, to get answers about the perception of digital banking across markets, the participant was asked questions about distance impact. Petersen et al., (2002), argues that technology is slowly breaking the tyranny of distance, especially in small business lending. The participant mentions that the impact from distance increases when expanding to Spain, compared to Nordic countries. He perceives Spain with a slightly greater risk, compared to Sweden and Finland. On the other hand, the participant reveals that the digital model helps minimizing the effects from distance, and that extending the Nordic model makes the perceived distance smaller compared to the scenario where they would have to set up physical branches. Similar arguments get mentions by Petersen et al., (2002), who stresses that technology has made lending on a distance simpler. In this context, we can understand digitalization as a factor which decreases negative effects.

8 Conclusion and Contribution

The objective of this master thesis has been to evaluate how chosen strategies and utilization of digital banking affects process, performance, and distance.

First, the findings indicate that digital banking in the firm is a gradual process, where knowledge and experience together with partnerships gets utilized in internationalization processes. Even though the firm can be characterized as a born-global firm within digital banking, findings implies that it is a gradual process, rather than a fast internationalization pattern. Furthermore, domestic capital requirements (challenge) and growth in foreign markets (opportunity), are the highest incentives to seek new opportunities abroad. The study finds that when domestic market is the optimum to run operations, but regulatory burden is high and growth is low which causes disadvantages, the bank utilizes its digital platform to exploit growth in foreign markets to achieve economies of scale and portfolio diversification to maintain its low cost to income ratio. Further, this research finds that the market selection process is easy and efficient when the product is standardized and almost the same across markets. Digitalization plays a major role in the selection process, and new markets need to be highly automated and digitalized in order to achieve efficient operations with both suppliers and distributors. Furthermore, the study finds that the firm enter new markets through an extension of a Nordic agreement with alliances, within a Nordic Model. This provides an easier entry and higher safety. Digitalization also helps with an easy entry, where a new body gets introduced to the system after having the new activity approved. It also has its benefits in creating advantages, where the use of technical solutions from partnerships gets utilized in new foreign markets, which provides a more efficient and easier process.

Secondly, the research found that a cost-leadership strategy performed together with focusing on unsecured loans in digital banking provides a competitive advantage. The study finds that the relationship between cost-leadership, a standardized product (unsecured loan) and a digital model creates a very low cost to income ratio (34,10 %), which indicates solid performance. One main reason for this, is the digital model that can be used to achieve economies of scale, in addition to utilizing a product which is nearly the same across all markets. However, a focus strategy, which is unsecured loans, have more regulations on it compared to other products, and thus can threaten sources of competitive advantages. The study also shows that sources of competitive advantages may erode a little in the future due to digital models that

can be copied by competitors. The results shows that digitalization plays a high role in gaining sources of competitive advantages. To succeed with this strategy, focusing both internally and externally with a cost leadership is decisive. It is the main reason for why the bank has been able to succeed with this strategy, and thus gained a form of protection on price setting.

Thirdly, the research was able to identify the value creation, business model and the utilization of digitalization. The bank creates higher margins through setting interest rates high enough to cover essential industry costs, which are expected losses, operating costs, and cost of capital. This is achieved through an efficient and high-quality digital system. When a customer has found the service directly on the platform or through partners, the application runs through an automatic system, which either rejects or approves it. The approved loan amount will be at the new customers account within 1-2 days. Follow-up emails and communication runs through automatically systems (bots). The link between activities in the operating system is highly connected and efficient, providing higher margins.

The bank sells its own products using B2C and B2B models, with a focus on verticalization of products and a traditional mindset with legacy structures. However, the study finds that the banks structure and traditional mindset does not put the bank in any disadvantage (ref. competitive advantage). Furthermore, the bank uses a flexible set-up system which operates through cloud-based systems and APIs. This system is at a higher level i.e., compared to traditional banking. This system can be used to open the value chain (open banking), and thus create new opportunities. However, the study finds that when operating with unsecured loans, opening the digital value chain do not fit with the focus of the bank. The pressure on digital transformation is also a bit lower in the consumer lending industry compared to other banking industries. Furthermore, the study finds that a minimum reaction towards PSD2 provides new opportunities, in terms of providing more available data about customers and is seen as a game changer to be utilized in foreign markets. Security threats are low, where procedures will follow GDPR data with high security. Moreover, the study finds that digitalization in international contexts, is perceived as a highly valued asset, which can be used to scale operations, and thus create great efficiency. Furthermore, this study shows that minimum openness and minimum compliance with open banking and PSD2 has a positive influence on performance.

Lastly, the study was able to find answers about the perception of digital banking across markets. The findings shows that risk increases when expanding to a longer distance country (Spain), versus close distance markets (Sweden and Finland). The bank is affected by language, income per capita, valuta, institutional weakness, and government policies when expanding to Spain. Sweden has the least negative impact on the bank, while Finland the second, due to Norwegians and Swedes understanding each other to a large extent. The study finds that moving outside the Nordic model (consisting of Norway, Sweden, Finland, and Denmark), increases risk, since the Nordic market is more stable in terms of regulations, society, and loss, giving customers and companies more protection. On the other hand, the findings indicate that operating with a digital model decreases the number of negative effects when moving outside of the Nordic model. Also, operating within the Nordic model, along with existing partnerships on digital platforms, decreases risk and negative distance effects.

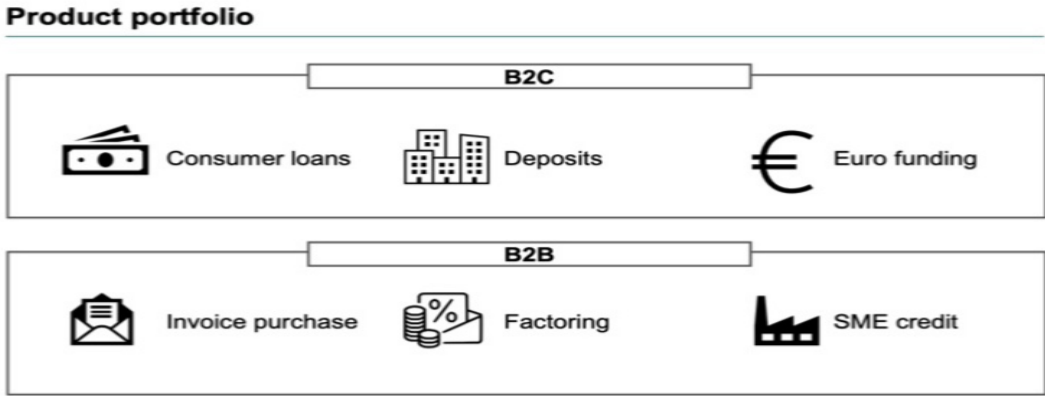
9 Limitations and Future Work

This case study contains data from a small sample size, and thus as mentioned earlier, the purpose is not to create results that are applicable for all digital banks facing the same opportunities and challenges as Leabank does. This study covers only one company and is limited to the consumer lending industry. Since the chosen company operates in the consumer lending industry, the chosen industry may cause bias. Moreover, the significance of the results is highly related to the statements of the participant. Such approach may cause problems due to gaining insight only from one participant from his background and experience. However, secondary data is utilized with the intention of reducing the possibility of response biases of the participant. Moreover, the research included two known frameworks in the interviews. Since banking conforms to generic strategies it was chosen based on previous research results. However, the distance framework utilized in the interview, was utilized due to the increased use among researchers applying it to technology. However, such facts do not guarantee high validity. Next, digital banking is broad and complex, and banks competing in the digital era are faced with numerous different factors which may determine process, performance, distance, and digital utilization in different ways. Overall, this research has tried to cover numerous aspects which a digital bank is facing, but this alone will not guarantee higher accuracy. Lastly, the limitations create gaps that can be further utilized into new research. The small sample size used in this research does not create a deep insight into the field. A deeper

insight and a bigger sample size could create higher probability of gaining more significant results. Moreover, it would be interesting to compare different banking industries/other types of banks with the case of Leabank. A comparison study, to gain deeper insight would be highly relevant to evaluate how digital banking and different levels of utilization affects operations.

10 Appendices

Appendix 1 – LEABANK Product Portfolio (Main product: Consumer Loans)



Appendix 2 – Number of gross loans in operating markets. Number of gross loans stemming from international markets (LEABANK)

Gross loans 5,486 MNOK – geographical mix Q1 2022



Appendix 3 – Key financial figures LEABANK

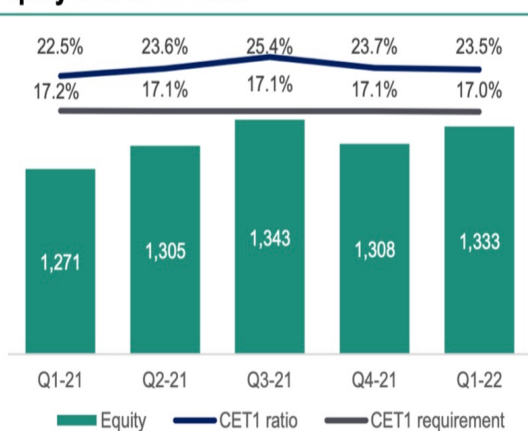
Key financial figures, MNOK

	2021
Interest income	531.2
PBT	170.1
ROE, annualized	10.7%
ROE adj. ¹ , annualized	13.2%
EPS, annualized	1.35
EPS pre-tax, annu.	1.79
C / I	34.1%
Gross loans	5,489

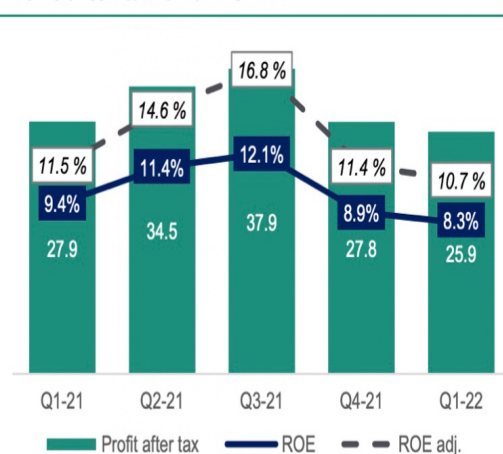
Equity ²	# of shares	BVPS
1,232	94,794,380	13.00 NOK

Appendix 4 – LEABANK performance (CET1 and ROE)

Equity and CET1 ratio²



Profit after tax and ROE¹



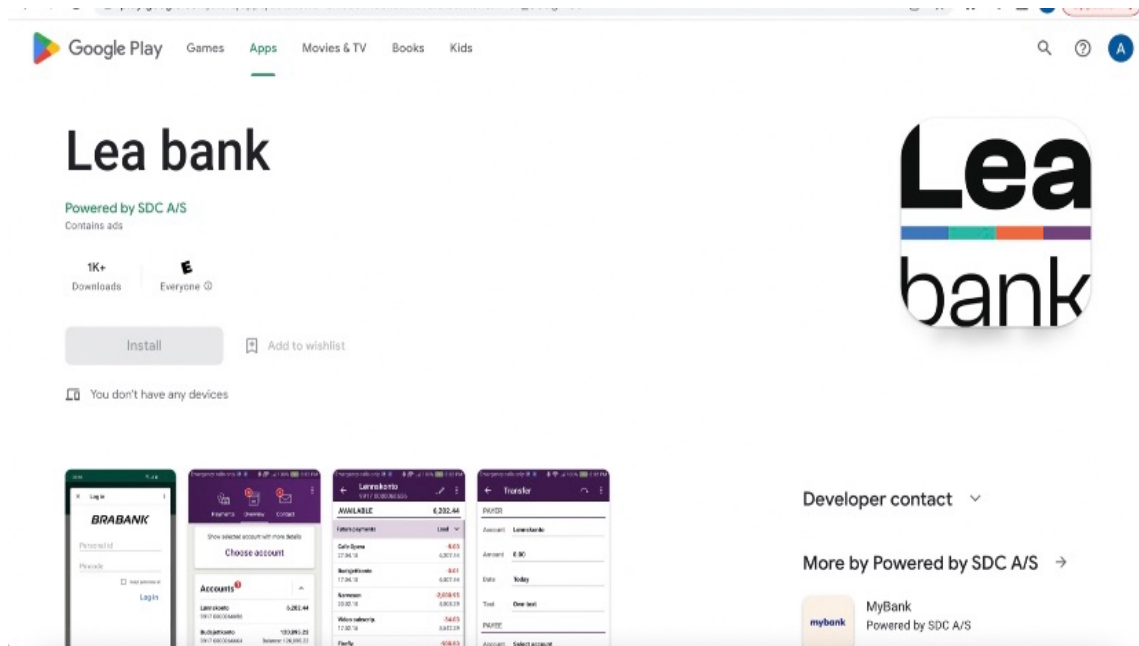
Appendix 5 – LEABANK Homepage (Norway)



Appendix 6 – LEABANK Homepage (Finland)



Appendix 7 – LEABANK in Google Pay



Appendix 8 – Software and Cloud Applications purchases - LEABANK 2022

Enterprise Software and Cloud Applications being used by Lea Bank

Vendor	Old Product	New Product	Category	Market	Users	VAR/SI	When	Live
Microsoft	Legacy Applications	Microsoft Azure Cloud Services	Application Hosting and Computing Services	IaaS	n/a	n/a	2022	2022

Enterprise Software and Cloud Applications being used by Lea Bank

Vendor	Old Product	New Product	Category	Market	Users	VAR/SI	When	Live
Microsoft	Legacy Applications	Microsoft 365	Collaboration	Collaboration	n/a	n/a	2022	2022

Enterprise Software and Cloud Applications being used by Lea Bank

All SaaS Enterprise Apps PaaS IaaS AI, ML, IoT And Blockchain									
Vendor	Old Product	New Product	Category	Market	Users	VAR/SI	When	Live	
Twilio	Legacy Applications	Twilio Sendgrid	Transactional Email	PaaS	n/a	n/a	2022	2022	

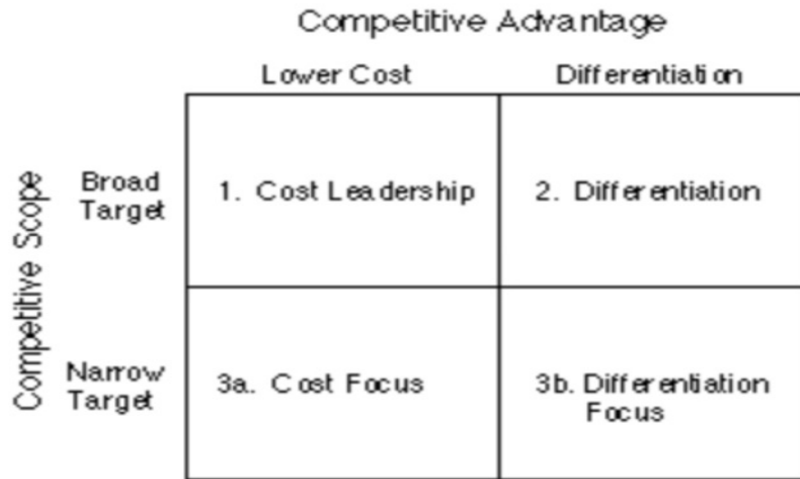
(S., Anna, 2021)

Appendix 9 CAGE (Distance Framework)

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
<i>attributes creating distance</i>	<ul style="list-style-type: none"> different languages different ethnicities; lack of connective ethnic or social networks different religions different social norms 	<ul style="list-style-type: none"> absence of colonial ties absence of shared monetary or political association political hostility government policies institutional weakness 	<ul style="list-style-type: none"> physical remoteness lack of a common border lack of sea or river access size of country weak transportation or communication links differences in climates 	<ul style="list-style-type: none"> differences in consumer incomes differences in costs and quality of: <ul style="list-style-type: none"> natural resources financial resources human resources infrastructure intermediate inputs information or knowledge
<i>industries or products affected by distance</i>	<ul style="list-style-type: none"> products have high linguistic content (TV) products affect cultural or national identity of consumers (foods) product features vary in terms of: <ul style="list-style-type: none"> size (cars) standards (electrical appliances) packaging products carry country-specific quality associations (wines) 	<ul style="list-style-type: none"> government involvement is high in industries that are: <ul style="list-style-type: none"> producers of staple goods (electricity) producers of other "entitlements" (drugs) large employers (farming) large suppliers to government (mass transportation) national champions (aerospace) vital to national security (telecommunications) exploiters of natural resources (oil, mining) subject to high sunk costs (infrastructure) 	<ul style="list-style-type: none"> products have a low value-to-weight or bulk ratio (cement) products are fragile or perishable (glass, fruit) communications and connectivity are important (financial services) local supervision and operational requirements are high (many services) 	<ul style="list-style-type: none"> nature of demand varies with income level (cars) economies of standardization or scale are important (mobile phones) labor and other factor cost differences are salient (garments) distribution or business systems are different (insurance) companies need to be responsive and agile (home appliances)

(Ghemawat, 2001)

Appendix 10 – Porter’s Generic Strategies (*Competitive advantage framework*)



(Porter, Michael E, 1985)

Appendix 11– Semi-Structured Interview Guide

Digital Banking - Process, motives, market selection and entry mode

Open ended:

1. Can you elaborate a bit about the internationalization process to Leabank?
2. Can you elaborate a little on the motives for expanding abroad?
3. How does Leabank choose to enter new markets when it comes to entry mode decisions, and can you elaborate a little on the relationships with partnerships?
4. What was the reason behind the choice of expanding to Finland, Sweden, and Spain?
5. When it comes to process, can you point out some opportunities and challenges of being a fully digital bank?

Structured:

6. Are the six criteria used by the firm for entering new markets a standard for future internationalization processes?
7. Can you rate the motivations for expanding abroad from the following four motives: a. Cost of capital, b. Economic size, d. financial structures, e. Cost efficiency.
8. What does Leabank see as attractive markets?

Digital Banking - Distance

Based on CAGE framework

Open-ended

1. Do you perceive the Nordic countries (Sweden and Finland) and Spain as equal distances due to digital technologies?
2. Is there anything that stands out, for example important factors making one country more difficult to expand to versus another market?

Digital Banking - Competitive Advantage

Based on Porter's Generic Strategies and secondary findings

Open-ended

1. Can competitive advantage be achieved through being a fully digital bank?
2. Does Leabank use a cost-leadership, differentiation or focus strategies, and what challenges and what provides opportunities following such strategy?

Structured:

3. If you think of Verdibanken versus Leabank, what new sources/factors were most important for gaining competitive advantage, if any?

Digital Banking - Value Creation, Business Model and Digital Utilization

Open-ended

1. How does Leabank use digitalization to create value?
2. Can you elaborate on how Leabank creates value/the business model?
3. What do you think are the opportunities and challenges that Leabank will face in relation to the pressure on digital transformation in banking?
4. Have you recently invested or going to invest in digital technologies?
5. How is Leabank reacting to PSD2?

Structured

6. What is your definition of digitalization in banking?
7. To which extent is Leabank bounded by legacy systems on a scale from 1-10?
8. Can you use the same system that you have today to scale towards new markets?

Appendix 12 – Hierarchical Coding Frame

DIGITAL BANKING - GENERAL PROCESS			
<u>Interview extract</u>			
The development process towards Spain is progressing relatively quickly, so the digital ensures that the speed is at the level we want it to be. When all the legal aspects are ensured, we reach out to our agents who can help us get out on the market. We are very dependent on our agents (partnerships). We have a very good network that we have rigged Leabank on both the supply and distribution side, which makes it easier to expand.			
Summary: Gradual Internationalization and Partnership effects			

Codes	Opportunities	Challenges	Digitalization
Ensures speed			Ensures speed
Network effects	Network effects		
Extension of partnerships on both supply and distribution	Extension of partnerships on both supply and distribution		
Level of partnership dependency		Level of partnership dependency	
<i>Theory connection</i>	<i>(Johanson, Vahle, 2007)</i> <i>(Hazarbassanova, 2016)</i>		<i>(Li, Lee et al, 2012)</i>

DIGITAL BANKING - MOTIVES			
<u>Interview extract</u>			
Our main driver is to reuse our digital operating model. We reduce regulatory risk by being in different markets, to obtain a portfolio diversification. Further we want to increase profitability by getting more leverage effects out of our capital because the capital requirements are lower outside of Norway, and then you get a higher leverage on your equity, and you then get a higher return on equity. The Norwegian market is too small to fully be optimized alone. We make better use of the capital abroad than in Norway, especially due to significantly lower capital requirements from next year on. And think of the scenario where we expand to a fourth country after Spain, it does not cost that much in marginal costs, because we have these anyways. And that is what digital banking is about, and our ability to achieve very good scalability in contrast to i.e., traditionally banks that must set up branches. We do not really need to have people on the ground where we operate. Growth is the most important aspect, however, if it was equal requirements and everything else equal, operating in Norway would be the optimum, but we do not get enough profitable growth in Norway, and that is why we must expand our model. By doing that we also reduce regulatory risk by being in multiple markets.			

Summary: Optimize digitalization to achieve scale, obtain diversification, and leverage effects. Utilize International markets due to home market conditions.

Codes	Opportunities	Challenges	Digitalization
Digital optimization for scaling with goal: Economies of scale			Digital Optimization for scaling with goal: Economies of scale
Arbitrage opportunities	Arbitrage opportunities		
Domestic Market Economic Size		Domestic Market Economic Size	
Growth	Growth		
Domestic Market Capital Requirements		Domestic Market Capital Requirements	
<i>Theory Connection</i>		<i>Push factor (Slager, 2004)</i>	<i>(Slager, 2004)</i>

DIGITAL BANKING - MARKET SELECTION

Interview extract

If we are to assess a new market in the future, it is essentially the same things that we assess (Leabank market selection report - Six criteria's: Market, distribution, Digital processes, Collection, Risk and Regulatory framework). Say that we enter Portugal after Spain, we would have used the same model as for Spain, which makes the process very easy. The fact that we have a very standardized product compared to i.e., traditionally banks, in the form of unsecured loans makes it easy for us to use a standard model across markets. On the IT side we need a supplier that has the European scalability, because in a bank, a lot of the entry costs is on the IT side. On this stage it is very easy to make mistakes. For example, if you have a group of banks that are going to expand to Spain, it is very crucial how good and solid the API's are to connect with all these suppliers. It really depends on your digital platform in an international context with gathering information from multiple sources through partnerships.

Summary: Focus on the easy six criteria model; Market, distribution, Digital processes, Collection, Risk and Regulatory enabled by standardized product: Unsecured loan. Important to avoid pitfalls of high entry costs in digitalization.

Codes	Opportunities	Challenges	Digitalization
Reusable, easy model with six criteria's	Reusable, easy model with six criteria's		
Standardized	Standardized		

Digitalization level in new market			Digitalization level in new market
European scalability			European scalability
Theory Connection	<i>(Miečinskienė et al, 2014)</i> <i>(Schu, 2017)</i>		

DIGITAL BANKING ENTRY MODE
<u>Interview extract</u>
<p>We use alliances (non-equity) within a Nordic agreement, which we have extended. We call it the Nordic Model. LENDO (platform) is an example of the distribution side where we have a collaboration agreement, where we collaborate in new markets. LENDO knows a lot about the Spanish market. Operating within the Nordic Model makes the risk of entering much lower, because we already know the supplier from before. When it comes to signing loan products, we will go for a Norwegian company (Signicat), which has acquired a company in Spain, then we can use Signicat technical solutions in Spain as well. It is a huge benefit for us that we have a Norwegian company that arranges this for us in Spain. When it comes to our customers, it is our customer base, we do not share it. The agent typically finds the customer after we have won them through the agent, then we take over the rights. Same method in Spain as in the Nordic model.</p>

<p>Summary: Focus on alliances within the Nordic Agreement to enter new market using non-equity agreements. Reduce Risk through the Nordic Model.</p>
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Codes	Opportunities	Challenges	Digitalization
Extension of Alliance within a Nordic Model	Extension of Alliance within a Nordic Model		
Control	Control		
Easy entry mode through digital platform			Easy entry mode through digital platform

DIGITAL BANKING – DISTANCE (Nordic Market VS Spain)

Interview extract

The Nordic market is more stable from a regulatory standpoint. There is a slightly greater risk of expanding to Spain. The Nordic market is more stable in terms of regulations, society, and loss. So, there is a bit more security for customers in the Nordic Model / Welfare Model. When we establish operations in Spain, we must for example partner with new debt companies. When it comes to language, we have the same number of dedicated resources in Finland as in Spain. In Sweden on the other hand, we speak the same language. There are quite equal setup methods and values in Sweden and Finland compared to expanding to Spain, which has a southern European standard for setup that we must follow. We also get affected by culture and per income capita. The former is lower in Spain, so we must enter with a lower ticket size, because they cannot have such high loan amounts, since the average income in Spain is lower compared to the Nordic countries. Overall, the distance to Spain is greater than to the Nordic countries. We are also affected by valuta. When it comes to digitalization and security, we do not see this getting weaker by extending our model. I will be like the Nordic market. It will follow the same procedures with GDPR data and privacy.

Summary: Nordic Market more stable in terms of regulations, society, and loss. Moving out from the Nordic Market affects the bank in various ways which increases the distance.

Codes	Opportunities	Challenges	Digitalization
Nordic Market more stable		Nordic Market more stable	
Language		Language	
Income Per Capita		Income Per Capita	
Valuta		Valuta	
New Partnerships		New Partnerships	
No increased risk IT security	No increased risk IT security		No increased risk IT security

COMPETITIVE ADVANTAGE

Interview extract

We use a cost-leadership through our scalable model, together with a focus strategy (Unsecured loans). We have a very low cost to income ratio. We use this strategy because we only focus on consumer loans, with an international platform. The differentiator is the cost leadership, but at the same time we have a focused strategy, because you can never have a diversified strategy, in addition, and be good at costs at the same time. That is almost impossible. When you have a very focused strategy, you are more exposed if there are for example regulations on the product you have. Im convinced that you must be good at cost leadership if you are going to succeed in this industry, and then by following this

strategy you also get a little protection around you, because if you are the best in your area on cost, then it is very difficult for competitors to pressure you on the price. That is why im also very focused internally on a cost-leadership strategy as of today, since then we get a security in the form of a protection. I do not feel that we are stuck in the middle, because we are on a lower cost and a narrow target (niche) with a slightly more slim-focused model. I also feel that we are not stuck in the middle with our strategy.

Summary: Focus on low cost with a cost leadership as main strategy, and focus on unsecured loans, where cost-leadership is the differentiator (competitive advantage)

Codes	Opportunities	Challenges	Digitalization
Competitive Advantage obtained from Cost-Leadership	Competitive Advantage obtained from Cost-Leadership		
External impact using focus strategy		External impact using focus strategy	
Capacity Utilization to achieve the scale			Capacity Utilization to achieve the scale
Protection	Protection		
No increased risk IT security	No increased risk IT security		No increased risk IT security

VALUE CREATION/BUSINESS MODEL

Interview extract

It is the greatest emphasis on streamlining operations, versus creating additional value for customers. So, it is a mix of value creation towards our customers and the ownership. We also compete in a digital space. This means that to win customers we must have very good digital processes, because otherwise those customers are lost. In addition, it helps us set the right price. In addition, it is important that the customer experiences the process as easy, and that it is fast. We create profit by taking a higher margin. We create a higher margin to cover expected losses, operating costs, and cost of capital. Those three aspects are essential. Therefore, we must have an interest rate out in the market, that covers the losses, operating costs, and cost of capital. The question arises whether to pay dividends or to invest in further growth by expanding to new countries.

Summary: Value creation towards customers through quality of digitalization. Value creation towards owners obtained with higher margins pricing interest rate high enough to cover key areas: expected losses, operating costs, and costs of capital.

Codes	Opportunities	Challenges	Digitalization
Quality of Digitalization to satisfy optimum interest rate	Quality of Digitalization to satisfy optimum interest rate		Quality of Digitalization to satisfy optimum interest rate

Balance of Value Creation		Balance of Value Creation	
Variability in costs and risk		Variability in costs and risk	
Dividend VS Growth		Dividend VS Growth	
Fast systems provide high connection between activities	Fast systems provide high connection between activities		
No increased risk IT security	No increased risk IT security		No increased risk IT security
Theory connection	(Porter, 1985)		

SYSTEMS
<u>Interview extract</u>
<p>We have a very flexible set-up compared to traditional banks. We are ahead of traditional banks when it comes to digitalization. Our challenge is that other banks catch up to our lead, so that our competitive advantage would erode a little. We feel that we are at the forefront of traditional banks, and we have been there since we started in 2016. We are already quite digital. We have invested in a common front-end solution that can be used in all markets. For example, in Spain we can reuse our digital model from the Nordic countries. When expanding to a new country we introduce a new body (Spain) to the system, in the same way we have one for our existing markets (Norway, Sweden and Finland). We invest in cloud-based products to gain further scalability of our model. Everything is cloud based in our systems. In our digital model we have very good API's. When it comes to signing loan products, we will go for a Norwegian company (Signicat), which has acquired a company in Spain, then we can use Signicat technical solutions in Spain as well.</p>
Summary: Focus on Cloud-based systems to obtain operation efficiency and scalability.

Codes	Opportunities	Challenges	Digitalization
All Business Activity Through Cloud Systems	All Business Activity Through Cloud Systems		All Business Activity Through Cloud Systems
Common front end-solution		Common front end-solution	Common front end-solution
Third Party integration via open API			Third Party Integration via open API
Flexible set-up compared to Traditionally Banks	Flexible set-up compared to Traditionally Banks		

Fast systems provide high connection between activities	Fast systems provide high connection between activities		
No increased risk IT security	No increased risk IT security		No increased risk IT security

PSD2
<u>Interview extract</u>
We react to PSD2 with minimum compliance and not further. PSD2 opens opportunities for us in the sense that we can use it across European markets. In Spain for example we get access to more customer data due to PSD2. We also bring this into Sweden. This is a very good opportunity for a little bank like us in the way that we get more available data about our customers, however everybody uses it.
Summary: Focus on being minimum compliant player, and not more.

Codes	Opportunities	Challenges	Digitalization
Access to more customer data	Access to more customer data		Access to more customer data
PSD2 minimum compliance exploitation across markets	PSD2 minimum compliance exploitation across markets		
Everybody uses it		Everybody uses it	
Increased scaling opportunities	Increased scaling opportunities		Increased scaling opportunities

OPEN BANKING
<u>Interview extract</u>
In our digital model we have very good API's. We could've been a supplier for consumer loans to for example big banks, but we are concentrated on a niche instead. I do not think we will meet a high extent of pressure on the digital transformation. We are more on the European platform in our mindset now. We do not want to be too broad in our value creation. That is also why the pressure on the digital transformation is a bit lower in our industry. Leabank does not use any third parties to create additional streamline. We are too niche focused.
Summary:

Codes	Opportunities	Challenges	Digitalization
Solid API's with possibility of extension	Access to more customer data		Solid API's with possibility of extension

Low Pressure on Digital Transformation	Low Pressure on Digital Transformation		
Low openness vs extension		Low openness vs extension	

DIGITALIZATION IN BANKING - DEFINITION

Interview extract

Digital customer processes, with a high degree of automatization, that can be used to scale operations across markets, which again create great efficiency.

It is not only that you have digital customer processes and a high degree of automatization, not only towards the customers but also internally. If you are very good on the digital, then you automatically get the advantage when it comes to new possibilities of scaling.

Summary:

Codes

- Digital Process
- Automatization
- Competitiveness
- Highly valued asset
- External and Internal focus

FREQUENCY OF CODES IN DATA

Frequency of codes	Opportunities	Challenges	Digitalization	Total
-25	-25	-15	-17	-57
-15				
-17				
-57				

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