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Intellectual capital in Handelsbanken and SEB
– *an explorative study with emphasis on
Handelsbanken*

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~ Abstract ~

- Title:** Intellectual capital in Handelsbanken and SEB – an explorative study with emphasises on Handelsbanken
- Subject:** Master thesis within the field of Strategic Management, School of Economics and Management, Lund University, Sweden
- Authors:** Sofia Rudendal
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- Key words:** Handelsbanken, SEB, Intellectual capital, changes, human capital, structural capital, financial ratios
- Objective:** The objective of this study is to compare the intellectual capital in the both banks and try to explain developments lately with factors in the intellectual capital.
- Working structure:** The thesis is made through a quantitative study of Handelsbanken and SEB. The empirical material in the study is mostly based on interviews but completed with Annual reports, internet pages and academic papers. Interviews have been both formal and informal.
- Conclusions:** The intellectual capital in Handelsbanken differs in many aspects from SEB. The Intellectual capital can be explanatory to the great success Handelsbanken had over the last thirty years. But the former success story is not something a bank like Handelsbanken can hold on to forever. They have to face the new competitive market and adjust to that. Facing new possibilities as well as obstacles. The past will not help them manage the future.

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1. Introduction

In this chapter, we present the purpose of this thesis. Furthermore the reader is provided with a background concerning the bank sector in Sweden as well as the specific nature of knowledge intensive companies like banks constitutes of. A problem discussion will cover issues related to the study and the reasons why we choose to investigate this subject. Delimitations, target audience and disposition of the thesis will help the reader to easier profit from the study.

1.1 Background

The days are gone when the majority of all people were working with manual job on standardised line production and where almost everyone was exchangeable. Today, one is not hired on basis of being a person; one is hired because one possesses knowledge and skills. These are qualities that are the true resources in the new economy where intellectual capital is the foundation and prerequisite for value creation.¹

There is an ongoing debate revolving how stock list companies should design their annual reports in accordance to stakeholders demand for topicality, relevance, uniformity and realistic view. This is in an economy, where an increasing degree is dependent on how a company's intellectual capital and intangible assets are managed. The fact that the gap, between market value and what is entered into the accounts keeps on growing, fuels the discussion even more.

“Myself, I do not take any consideration to intellectual capital in any formal measurement model. I do not know anyone on the capital market either that does that.”²

“I do not take intellectual capital into my estimations or analysis of banks. I do not try to measure it. I only keep myself to economic figures and accountings, market positions etc.”³

¹ www.intellectualcapital.se

² Jan Wolter, analyst, Danske bank

The last decade the world has seen a rising interest for, and an insight in, the importance of valuation of intellectual capital. The industrial era can be characterized by tangible resources, tangible products and a relative short perspective on transactions. Today, many companies are based on intellectual capital as the major resource. This will lead to new methods for result and performance measurements. A person can no longer be seen as costs in the balance sheet, instead they should be categorized as assets that the company should invest in.⁴

A growing group of researchers has pointed out the problem following a comparison between knowledge intensive firms and traditional companies with the help of traditional business ratio. What they say is, that the traditional way of measuring a company's value does not represent the true value. Likewise, the comparisons between companies in the same branches are difficult, due to the lack of information about intellectual capital and other intangibles.⁵

“Although we know that intellectual capital is very important, it is very hard to measure or value explicitly”.⁶

A management's foremost important task is to administrate and develop the organizations assets in the best possible manner. This is of course easier when the assets are tangible, as machines, houses and plants, which is the case in industrial companies. It is more difficult in knowledge-intensive firms, where none of the major assets might be visible. Moving towards a direction with more knowledge-intensive and service-specialised firms instead of the traditional manufacturing companies, the demand for accurate valuation is higher. What differs the tangible assets from the intangible, besides the obvious nature, is that the intangible assets, as knowledge-intensive people, cannot be owned. For this reason the value gets volatile. But, according to Leif Edvinsson, it is in the intellectual capital the future earnings potential exists.⁷

According to Edvinsson and Malone, what is counting in the modern economy with fast-moving, knowledge-intensive virtual corporations are; solid and lasting relations with

³ Bo Aksel Tarras Madsen, analyst Danske bank

⁴ Leif Edvinsson, föreläsning Lunds Universitet, ht 2006

⁵ Balans 6-7/99, Peter Nyllinge, “Analys av kunskapsföretag”

⁶ Kim Bergoe, analyst at FPK

⁷ Edvinsson L, Malone S, “Intellectual capital”, 1997, Harper Collins Publisher

partners, lasting customer loyalty, key employees who assess knowledge and competencies that are crucial for the company's future, the company and employee's commitment to learn and renew themselves, and finally, the character and values of a company. These are important tools for investors and executives when they are considering mergers, acquisitions, partners, alliances and hiring of personnel.⁸

The banking sector is an essential part of the business world but it differs a lot from other companies in the sense of the structure. Their balance sheet does not look like other companies since they do not possess tangible assets to the extent that companies usually do. Banks are companies in the service sector, they provide financial services and relies solely on the knowledge captured by their human and structural capital.

“Management questions and above all, management changes can be decisive (not at least since banks are quite ”institutionalized” and because of that routines and processes plays a big part). We try to get a picture of the management competence trough meetings with the CEO, CFO and other management persons with intervals of even distance. Often, this is important, not at least if the company is heading a change or new management.”⁹

“No, I do not take into my accounts intellectual capital. The reason is that it is difficult to define and measure.”¹⁰

Due to the fact that the bank sector is regarded as knowledge-intensive, we found it interesting to emphasize how they manage their intellectual capital and also how well it gets communicated. Remarkably, they have put little effort in this matter. Four of the biggest banks in Sweden do not give any, or little, prominence for their intellectual capital in annual reports.

Plenty of research has been done in the area of intellectual capital, both with focus on different valuation tools as well as comparisons between branches. But almost no focus on the bank sector. According to various people with special interest in intellectual capital, and in the

⁸ Ibid

⁹ Jonas Eriksson, analyst at JP Morgan

¹⁰ Henrik Schmidt, analyst at KBW

field of study, confirms the lack of studies on intellectual capital in the bank sector. They promote a study and regard such a study as interesting, important and necessary.

We believe that the importance of IC and its measurements will grow substantially in the future, with focus on companies in all branches and all sizes, because this concerns a major part of the business economy. Therefore, this issue demands further enlightening.

1.2 Problem discussion

Banks are knowledge intensive in many ways and in many areas. Their main mission is to provide money and to invest people's money in best possible way. To successfully accomplish their goal, the foremost important assets are the employees who possess the knowledge and experience, and the structural capital supporting the human capital, boosting its outcome.

Numerous studies have been made concerning valuation of intellectual capital and also comparisons between companies. The ones in the spotlight are usually knowledge intensive firms like consulting agencies or companies in high-tech branches, with much focus on innovation. Remarkable is that no, or very few, studies are focusing on the bank sector, which consists of organizations based on a high level of intellectual capital.

The discussion raises multiple questions; why has there not been any studies on the bank sector? Is this not of interest for the many? Is it possible to investigate the intellectual capital in a bank? And does the intellectual capital differ between different banks? In this study we will treat this area covering the perspective of Handelsbanken, with another bank, SEB as a contrast.

In Sweden there is four dominant actors in the bank sector. Two of these are Svenska Handelsbanken and SEB. Over the years you can see a stable and positive trend on the stock market value, both for Handelsbanken and SEB. Handelsbanken has until recently had the

strongest development in share value, and have always been having the best profitability.¹¹¹² Drastically, Handelsbanken and SEB have changed seats and for the moment SEB is making the best results.¹³

When comparing these two, one may not find big differences in capital structure. They have similar customer stock and compete on the same market and are confronted with the same smaller competitors entering the market. Both SEB and Handelsbanken have strong positions and a long tradition and history to lean back on.

While starting to research the problem, we found it interesting to research what could be possible factors behind the big developmental differences between the two banks, Svenska Handelsbanken and SEB. The stocks of both Handelsbanken and SEB can tell that Handelsbanken have showed a prolonged advantage in contrast to SEB.

QuickTime och en
TIFF (okomprimerat)-dekomprimerare
krävs för att kunna se bilden.

Blue = Handelsbanken, Red = SEB¹⁴

¹¹ Annual Report, Handelsbanken 2005

¹² Annual Report SEB 2005

¹³ Affärsvärlden nr 44, 2006 "Svenskt kvalitetsindex"

¹⁴ Handelsbanken Markets, Mikael Hallåker

Relatively, Handelsbanken's market value has always stayed ahead of SEB and both of them are following the business cycle in a predictable way. But in the last few years a gradual change is becoming discernible. Handelsbanken is starting to loose in stock value, unlike SEB who is delivering one of the strongest results in many years.¹⁵

When comparing the two banks, questions are raised whether results and business ratios confirm the position Handelsbanken possess and have occupied in many years. If the two parameters stock value and result, accompanies with various traditional business ratios, do not confirm each other, it even more substantiate the hypothesis that the answer to the differences in market value can be found in the intellectual capital of Handelsbanken and SEB.

A start with acknowledging the differences in development and market value between Handelsbanken and SEB motivates further research in intellectual capital in banks.

However, as previously mentioned, intellectual capital, or IC that we will name it continuously, still does not have one universally accepted definition and therefore also lacks one commonly accepted measurement approach. For our empirical research we are making use of one of the generally accepted IC distinctions model as well as various appropriate business ratios to be able to analyze and, hopefully, answer the original question asked;

Is it possible to find the answer for the differences between Handelsbanken and SEB's dissimilar results and development in market value in their intellectual capital and how do the two banks differ in that sense?

1.3 Purpose

The thesis' purpose is to conduct a comparative study of two larger banks in Sweden, namely Handelsbanken and SEB. The focus is on Handelsbanken using SEB as a comparative. Our aim is to identify important factors in intellectual capital that can explain in whole or in parts what differs the two banks and from those parameters do an attempt to point out possible reasons for the dissimilar development lately.

¹⁵ Annual Report SEB, 2005

1.4 Target readers

The main target reader will probably be supervisors and students of Lund University. But our hopes and expectations are that a broader range of people will find our study of importance and relevant. Concerning the target audience, it is assumed that they possess some previous basic knowledge within the field of business administration and economics, but no broader knowledge within the field of intellectual capital is needed. Awareness about methodology for academic research is presumed. Some key words will be defined to avoid misunderstandings.

The study can also function as an additional source for knowledge for example investors, competitors and analysts or just the interested reader for that matter. Our wish is though, that the thesis can contribute to the intellectual capital discussion as well as related fields of study.

1.5 Delimitations

The thesis is delimited to cover only two of the four comparable, in the sense of size, customer base and in some ways strategy, banks that constitutes the bank sector in Sweden. Further on, since the study covers the both two big parts of intellectual capital, structural and human capital, the choice was to do a more overarching study than deep. We are aware of the numbers of other factors that might affect the end-result for Handelsbanken and SEB, as strategic maneuvers and business cycles. And of course, the time is, as always, a limit.

1.6 Taxonomy

Intellectual capital. Can be defined as the difference between the market value of a company and the financial value. It is in the Intellectual Capital, or IC as it is called, a company's future earning capabilities lies.

Structural capital One of the two constituent of intellectual capital. Includes process capital, organizational capital and relation capital. The structural capital is the part of IC that is still in the company even after the employee's leaves the job, e.g. it can be owned.

Human capital The other element of intellectual capital. Consist of the employees, their knowledge and skills. The human capital cannot be owned and leaves the office as the employee's leaves.

Business ratios Different measurements that often are used to value a company or to compare different companies. Are also complements the to balance sheet.

Return on equity A business ratio, which is often used in the bank context. Banks differ from other companies since interests make up a large part of the costs. Result of the year in relation to weighted financial capital.

Swedish bank sector Consist of four big bank actors, which are Handelsbanken, SEB, Swedbank and Nordea. A few smaller up-starters have been seen lately, as Avanza, Ica bank and so on.

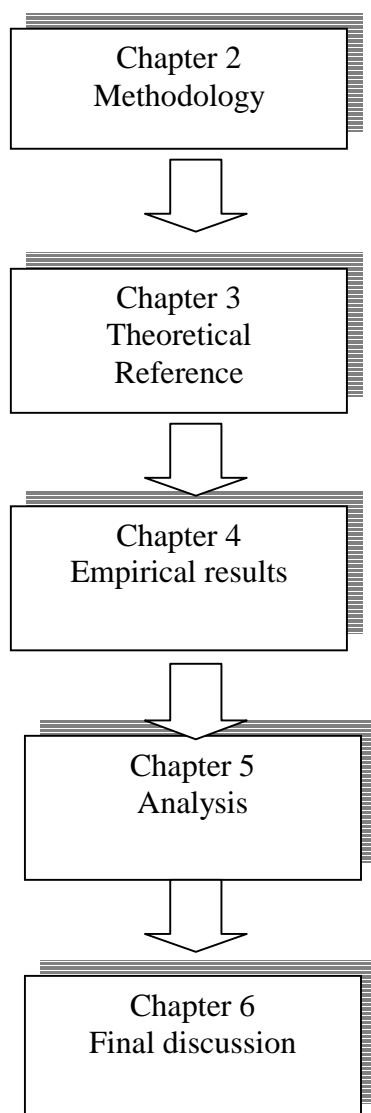
Knowledge-intensive company This type of company is being more and more common in the business world. The know-ledge intensive companies are very dependent on their human capital, e.g. their employees, who constitutes not only the competence in the company but also the creation of customer relations. A bank can be said to be a knowledge-intensive company.

When referring to knowledge intensiveness, one often intends professional service firms whose production is non-standardized, creative, strongly relying on the people within the company and complex problem solving.¹⁶ Here, the employees are the most important resource for the production.

¹⁶ Sveiby, K E, "Den osynliga balansräkningen 1989

1.7 Disposition and structure of the thesis

The thesis will be disposed according to figure below. Part 1 will give a brief introduction to the subject, the reason behind the chosen subject and the aim of the study. The methodology used is presented in part 2 and can be a guideline for how we chosen to approach and handle the data available. Part 3 focus on relevant theories that can help explaining and support the forthcoming analysis. Part 4 presents our empirical study and part 5 our analysis of the empirical data.



1.8 Case companies

1.8.1 SEB

The Stockholm Private Bank was founded in 1856 by Andre Wallenberg. Today the bank is one of northern Europe's most successful banks, with representation in 20 countries and an international platform with 50 percentage of the revenue coming from outside Sweden. After the fusion in 1972 with The Scandinavian bank, the Scandinavian Private Bank was created, which later changed name in to SEB.¹⁷

In 2006 the total assets of SEB was SEK 1986 millions. SEB runs 600 bank offices and has five million private customers world wide, with 192 of the offices situated in Sweden. In 2005 Annika Falkengren took over the position as CEO for SEB after the resigning Lars Thunell. The bank is listed on the Swedish stock market OMX.¹⁸

In the 70's the Scandinavian bank merged with Stockholm's Enskilda bank in order to secure their position amongst the company's clients and to be able to meet the competition from internationally leading banks. Since then many acquisitions have been made, the latest was the acquisition of the Russian bank Petro Energo Bank in St Petersburg in February 2006.¹⁹

SEB has a leading position among large companies and demanding clients, with high market share in for example currency trading, stock trading, cash management, private banking, capital administration, fund insurance and credit cards.²⁰

Organisation

At the moment, SEB is divided on six different divisions; Nordic retail and private banking, Merchant banking, German retail and mortgage banking, SEB Asset management and SEB

¹⁷ www.seb.se

¹⁸ Annual report SEB, 2005

¹⁹ *ibid*

²⁰ *ibid*

Tryggt Liv.²¹ But at the beginning of the 2007 there will be an organisational change in the concern.²²

Nordic retail and private banking can be divided into three subdivisions; retail banking which consists of SEB's 192 bank offices in Sweden and cash machines, private banking which includes seven offices called The individual bank and private banking international with offices in Luxembourg, Copenhagen, Oslo, London, Zurich, Geneva, Nice, Marbella and Singapore and SEB bank cards which includes 2,7 million different credit cards including Eurocard and Diners club.²³

The core in this division is the focus on the clients and the ambition to create active, strong and long-term and mutual rewarding relations with the customers. According to the strategy, the responsibilities and the powers are delegated as far as possible.²⁴

Merchant banking is a division that is responsible for the contacts with big and medium companies, financial institutions and real estate companies. The merchant banking division is divided into two fields; merchant banking and Enskilda security. The merchant banking part works with advising, bonds, currencies, venture capital and broker services while the individual securities is the bank's investment department which handles services in corporate finance, stocks and stock analysis. Enskilda security is considered to be the leading Nordic investment bank.²⁵

Germany retail and mortgage banking is a composition of the different business areas in SEB's German activities. It handles among other things retail, real estate credits and big subsidiaries.

Eastern European Banking is a division including three, by SEB fully owned, banks; Eesti Ühispank in Estonia, Unibanka in Latvia and Vilnius Banka in Lithuania.

²¹ www.seb.se

²² www.di.se

²³ Annual report SEB 2005

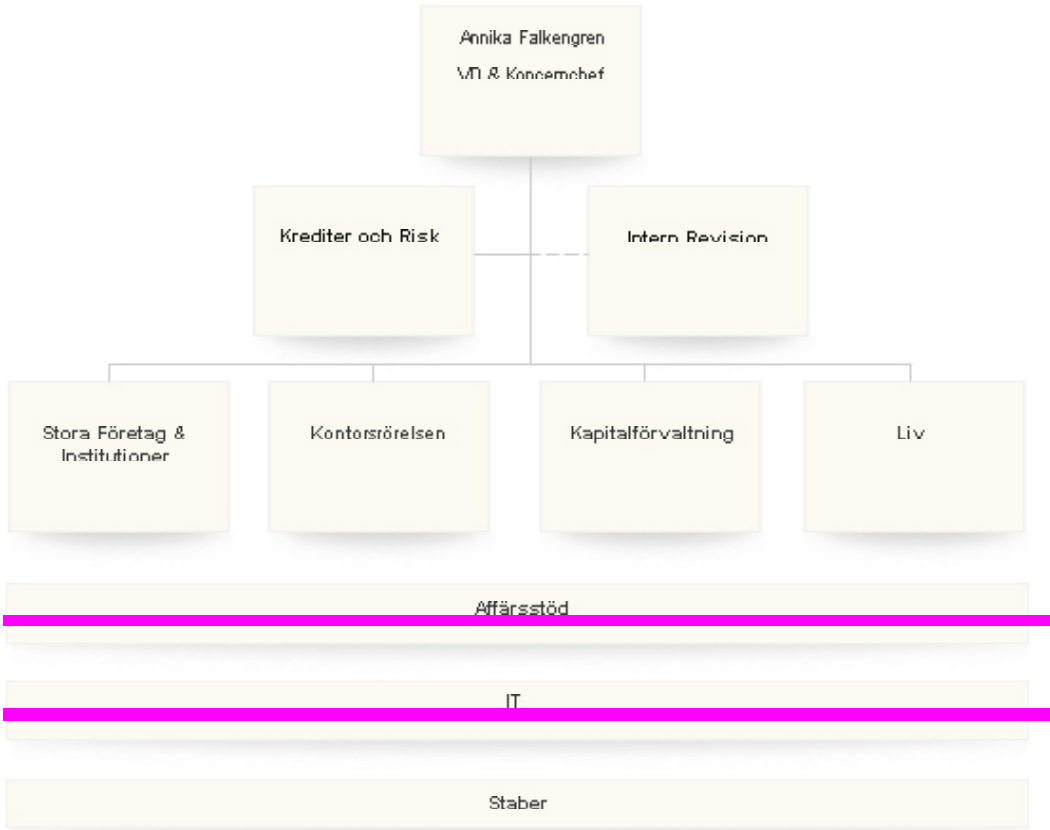
²⁴ *ibid*

²⁵ www.seb.se

SEB Assets management is a division that offers a wide range of expertise and services in capital administration for institutions, life insurance companies and private customers. Stock and interest rate administration, private equity, hedge funds and real estate administration. The goal is to be the best when it comes to profitability and customer satisfaction.

SEB Trygg Liv /Safe life is the last division and it aims at offer its clients safety during the different phases of life, via different insurance and security solutions. The activity is concentrated at sale and administration of fund insurance, on commission for the traditional companies New and Old Life who today constitute the insurance company, SEB Trygg Liv.²⁶

There will be a reorganization at the beginning of 2007 which will bring four customer oriented divisions and three supporting divisions. There will be one new division, Retail banking, and it consists of six areas; Sweden, Estonia, Latvia, Lithuania, Germany and cards.



Model of the SEB organization in divisions and staffs²⁷

²⁶ www.seb.se

²⁷ ibid

The division Wealth Management will be founded through the merging of the existing division Asset Management and the business area Private Banking. The Merchant Banking division, which serves the 1500 big corporate customers that SEB has, and also financial institutions will get full global product responsibility. The division Life will include all life insurance activity in SEB.

There will also be three supporting functions common for the divisions; Group Operations, Group IT and Group Staff. Their task will be to constitute a more streamlined design and make more efficient the business support.²⁸

Strategy

The company's strategy is to strengthen its position at the existing markets, by continuously building on the advantages as financial partner to companies and financially active, demanding customers. SEB's vision is to be the leading bank in customer satisfaction and motivated employees and a closer cooperation between the different parts of the concern, "One SEB that will give the customers access to the gathered competencies and offering of services of SEB".²⁹

Owner structure

SEB's biggest Swedish owner is Investor, who possesses 17,9 percent of the stock. The Wallenberg family who also has other strong links to the bank leads investor. Two of the family members, Marcus and Jacob Wallenberg, are members of the board. Next biggest owner is Trygg Stiftelsen who possesses nine percent of the stock. The foreign ownership is about 25 percent.³⁰

²⁸ www.privataaffarer.se/newstext.asp?s=pa&a=16625

²⁹ Annual report SEB 2005

³⁰ *ibid*

1.8.2 Svenska Handelsbanken

Handelsbanken was founded in 1871 under the name Stockholm's Handelsbank. After several acquisitions they decided to change their name to, the more suitable, Svenska Handelsbanken due to the fact that they now cover most parts of the country. Since 1873 the bank has been quoted on OMX, the Swedish stock market and with that Handelsbanken is the oldest, still quoted, company in Sweden.³¹

Handelsbanken is one of the leading banks in the Nordic region with total assets of SEK 1580 billion and profits of SEK 15.7 billion in 2005. The Bank has approximately 10 000 employees. Handelsbanken is an universal bank, offering a complete range of financial services such as traditional banking services to private and corporate customers, financing, investment banking, cash management, asset management, trading investments in equity, money and fund market as well as life insurance. The bank has around 600 branches in the Nordic countries and Great Britain, as well as operations in another 15 countries. The Handelsbanken group includes Handelsbanken Fonder (mutual funds) Handelsbanken Finans (finance company services), Handelsbanken Liv and SPP (life insurance), Stadshypotek (mortgage financing), and Stadshypotek Bank (a telephone and internet bank). In addition, they also have representation offices in USA, Russia, China, Hong Kong and Singapore.³²



Handelsbanken stock was listed on the Stockholm stock market 1873 and it is the oldest company still listed in the OMX. Handelsbanken stocks are A-listed and measures as one of the most encompassed stocks on the market. Share capital amounts to 2 879 000 000 and the shares' nominal value is SEK 4.30 per share, which in total makes 649 949 219 shares. The B-listed stocks are in total 19 692 243 and counts for 1/10 of the A-listed shares. At the shareholders' meeting no one can vote for more than ten percent of the total amount of shares in Handelsbanken. Handelsbanken's long-term goal is to have higher dividends than the weighted average of the biggest banks.³³

Handelsbanken business activity is strongly decentralized. The most important means of control is implemented in the strong corporate culture. The idea is that the local offices make

³¹ www.handelsbanken.se

³² Ibid

³³ Ibid

most decisions. The services must revolve around the individual customer and should not be something decided by central units. Handelsbanken organization should be a co-operation between strong local offices, qualified experts and effective support divisions.³⁴

The philosophy can be presented as model below:



The idé of a strongly decentralized organization was put into practice 1970, when Jan Wallander entered as President for Handelsbanken after the deep bank crises in late 1960's.³⁵ He rearranged the organization from the bottom to the top and created a more flat organization, which in many eyes was considered very strange. He empowered the local offices and, instead of central offices where many settlements earlier were made, he divided the organization in independent regions where the most decisions now are made.

Other changes derived from the entering of Wallander as CEO is focus on change. Instead of having volume as the foremost important goal, it became profitability. This means that Handelsbanken in several cases turns down even big prospects and potential customers, due to the fact that it might not be profitable.

Wallander also introduced the motivational oriented profit sharing system, called Oktogonen. Every year that Handelsbanken delivers a higher profitability than the average of the comparable banks; a share of the results will be set-aside for the employees, through the profit sharing system. This foundation today counts for ten percent of the shares of Handelsbanken. Employees that have been working for Handelsbanken since the introduction of Oktogonen are today good for around SEK four million, no matter if you are executive or guardian³⁶.

³⁴ www.handelsbanken.se

³⁵ Jan Wallanders memoarer

³⁶ Dagens industri (datum)

2 Methodology

This chapter will explain the method and the chosen approach for the collection and the review of the information in this study. The aim of a methodology discussion is to give the reader a possibility to determinate the reliability and validity of the results and of the interpretation of the study.

2.1 Choice of case companies

The choice of the case companies was due to the attention the differences in their respectively results lately has attracted in Swedish business newspapers as *Affärsvärlden*³⁷. The development of the results in two of the biggest Swedish banks has taken different directions. The thought to examine if there might be an explanation to these differences in the structural and human capital in the both companies led to the topic for the essay.

2.2 Choice of practical methods

The research has an explorative approach, which primarily aims at take in as much information as possible to illustrate it comprehensive. In explorative researches, several different techniques for gathering of information are often used.³⁸ Since the aim with the study was to find out if there were any special differences in the intellectual capital of SEB versus Handelsbanken that can explain the different directions the results has taken lately, the study strive to gather a great extent of information in the beginning, in order to create a deeper understanding of the banks and their situations.

³⁷ *Affärsvärlden* nr 44 2006

³⁸ Patel, Davidson, "Forskningsmetodikens grunder", 1991, Studentlitteratur

The study started with point of departure in theories about intellectual capital from where the work began by studies of literature and scientific articles about the subject. This, in order to gain an understanding of the topic and to get a theoretical framework. After that, the aim of the study was set and the collection of empirical material begun.

More than one source could tell us that there had been no other studies in this field; trying to explain reasons to differences in the market value and the financial value with the intellectual capital, in banks.

2.2.1 Theoretical approach

A deductive approach means to draw conclusions on the basis of abstract theories.³⁹ While an inductive approach starts in the empirical information part to later link it to the general knowledge of the theories.⁴⁰ This essay is conducted with an abductive approach since one cannot say it has a strictly inductive or deductive approach. We started by reading theories about intellectual capital, then continued with empirical material and kept switching these two in a process where they were allowed to affect each other through the process.

2.2.2 Research method

All studies presuppose that the researcher to some extent collects, analyses, interprets and presents data. There are two comprehensive ways to collect data on; qualitative research and quantitative research.⁴¹ Quantitative research is mainly used when the researcher wish to receive relatively superficial information from a larger number of interviewed objects, while the main purpose with a research of qualitative character is to create an overall understanding, where the relation is more important than the parts. The qualitative data is not formal and

³⁹ Bjereld, Demker, Hinnfors, "Varför vetenskap" Studentlitteratur 2002

⁴⁰ Holme, Solvang, "Forskningsmetodikens grunder", Studentlitteratur 1991

⁴¹ Christensen S, "Projektleddning, - att leda och lära i en ofullkomlig värld", Akademika Acta 1998

structured but flexible, which brings the researcher the possibility to change the organization of the study's disposition during the interviews.⁴²

The study has been of a qualitative character with qualitative elements. This was chosen since the aim of the study is to gain a deeper understanding of the possible answer on the question, if parts of the banks value can be found in the intellectual capital.

2.2.3. Cross-sectional study vs. longitudinal studies

A cross-sectional study is a study, which gives the researcher an image of the frequency and characteristics of a disease at a population in a particular point in time. The goal of the study is to find a relationship, which might be found in the cohort study but to a smaller cost. Cross-sectional analysis can be said study the relationship between different variables at a point in time. In difference to time series, cross-sectional studies looks on how variables affect each other at the same time.⁴³

A longitudinal study is a study that is correlational and it involves observations of the same type, over long periods of time. They are often used to study developmental trends across the lifespan. Longitudinal studies differ from cross-sectional studies because they observe the same objects, and they are observational in the sense that they observe the world without manipulating it. Usual types of longitudinal studies include cohort studies and panel studies.⁴⁴

A retrospective study is a longitudinal study that looks backwards to, for instance, look for a trend.⁴⁵

The study in this thesis has been a retrospective longitudinal study. What was searched for was a trend or pattern in the numbers and figures that might be deducted to the intellectual capital.

⁴² Ibid

⁴³ www.wikipedia.se

⁴⁴ ibid

⁴⁵ ibid

2.3 Information gathering

Information was gathered from articles, both from databases like the University of Lund's online article library Elin and from Internet. Articles used from Internet mostly include articles from various business newspapers. Further on, figures and facts were found in both SEB's and Handelsbanken's annual reports, which covered the years 1990 to 2005.

The empirical result comes mostly from interviews, with some additional information from the annual reports from both banks.

2.3.1 Primary sources

Interviews were conducted with a number of different persons in order to get a broader view and several opinions on the subject. To begin with, stock analysts were interviewed to receive a broader view. Further interviews were made with representatives from the both case companies, HRM persons and persons on head positions. More informal interviews were also made with a few experts in the field of study.

The interviewed objects are:

Gerd Boberg HR department of Handelsbanken, Malmö.

Gerd has worked at Handelsbanken since 1968 and she has a deep knowledge of the company's organisation and culture. She works in the HR department and possesses a lot of knowledge of the processes around the human capital.

Harald Syversen, Executive at SEB West region

Harald has worked at SEB for a long time and since he is manager of a whole region he knows very well the corporate visions and how the organisation works.

Pernilla Johansson employee at the HR department SEB, Göteborg

Tom Wallén, local bank manager, Handelsbanken Gävle

We also did a few more informal interviews with some experts in the area intellectual capital:

Karl – Erik Sveiby, Professor in Intellectual capital at Svenska Handelshögskolan, Finland
Karl-Erik has been one of the pioneers when talking about intellectual capital. He works at Svenska Handelshögskolan in Helsinki, Finland and has produced a lot in the area of intellectual capital.

Tord Andersson, former financial analyst at Skandia and DNB

Tord recently finished a PHD study on value creation and stock market value. He could contribute with very useful figures and methods for rating intellectual capital.

Leif Edvinsson, professor in intellectual capital at Lund University

2.3.2 Secondary sources

The secondary sources consist of scientific articles, articles from business papers and literature. The annual reports from Handelsbanken and SEB has also been used extensively to find special information about the companies. This information has been used both as empirical material and theoretical framework.

2.3.3 Time perspective

The time perspective used was a backward looking spectra over the past 15 years but the deeper analysis is based on the present time. When it comes to the intellectual capital factors it would have been very difficult to get the information about past times structural and human capital so the emphasis is on today's intellectual capital. But, as mentioned before, a longer spectra has been used additionally, especially in the area of financial figures and also to be able to study the development of the stock value, which of course is over time.

2.4 Interview method

The interviews were conducted in person or by telephone. A questionnaire was sent by e-mail in advance to get the interview object a chance to search for numbers and figures before the interview. An interview in personal is not that different from a telephone interview since in both cases the person conducting the interview get the chance to add questions as a result of the answers. This is the main advantage that personal - or telephone interviews have against a non-verbal interview like e-mail interviews.⁴⁶

The design of the interviews are characterized by to what degree they are structured and standardised.⁴⁷ The interviews has been relatively unstructured in terms of open answering alternatives but at the same time relatively standardised since the questionnaires were designed in advance.

The interviews, which were held by both of the authors of the thesis, was recorded and listened to at least twice to secure a proper interpretation of the answers given by the interview object.

Beside the qualitative interviews also in some way quantitative interviews were conducted with financial analysts. The quantitative interviews consisted only of two questions and were telephone interviews. The aim with these interviews was to get a overall comprehension of the general view on the ratings of intellectual capital among banks in Sweden.

2.5 Report quality

2.5.1 Validity

⁴⁶ Holme, Solvang "Forskningsmetodikens grunder" Studentlitteratur 1991

⁴⁷ Andersen 1998

If the researcher is investigating what he intended to, then the study has good validity. Validity is about knowing what is being studied and an agreement between what we say we are going to investigate and what we actually investigate.⁴⁸

The validity can be divided into internal and external validity. The internal validity is playing on how well the study's result correspond with the reality, while the external validity aims at the extent to which it is possible to use the result of an investigation in other situations, in other words, to what grade is the result possible to generalize.⁴⁹

2.5.2 Reliability

When talking of reliability one aims at what is being measures and that the measurements are correctly conducted (Patel Davidson). A high grade of reliability is received if several, of each other independent, measurements give almost the same result.⁵⁰ While using secondary sources one must always have a critical mind and be aware of what perspective the author has. Since the closeness to the source is very important when talking about reliability, primary sources are to prefer instead of secondary sources.⁵¹

First of all, the thesis is based on few, bigger interviews, to get as much reliability as possible. We tried as much as possible in the empirical research and in the analysis to use the data collected through interviews and then, if needed, complement with secondary sources.

2.6 Criticism of the study

We are aware of many circumstances that have affected the thesis and that everything that is written in some aspects is coloured by our previous knowledge, opinions and experiences. All information that is gathered is also of course to a certain extent biased and a person employed at a company is never totally objective.

⁴⁸ Patel, Davidson, "Forskningsmetodikens grunder", Studentlitteratur 1991

⁴⁹ Merriam S B, "Fallstudien som forskningsmetod", Jossy-bas Inc, 1994

⁵⁰ Holme, Solvang, "Forskningsmetodikens grunder, Studentlitteratur, 1991

⁵¹ ibid

There are more representative people for the two organizations than the ones we have interviewed. Moreover, would it have been more valuable if a larger number of people from many different departments could have participated. Unfortunately, due to tight schedules and limited tools, this has not been possible. Still, the ones participating and interviewed in this study have been most valuable and relevant for the purpose.

Further on, the calculations on value added might also not be fully comparable. This is due to different bookkeeping techniques and different constructed balance sheets. The value added can be calculated in an additional way to enable a comparison between the two and make sure that the result is more reliable. Other aspects that should have been taken into consideration are, for example, on-time-cost and activity that can affect the result, administrative costs for a take-over, taxes on profits on sold shares.

Since the study is covering a large part of the area intellectual capital, it was not possible to go deeper into special parts, like for example, pick just one of the intellectual capital parts and only analyse that.

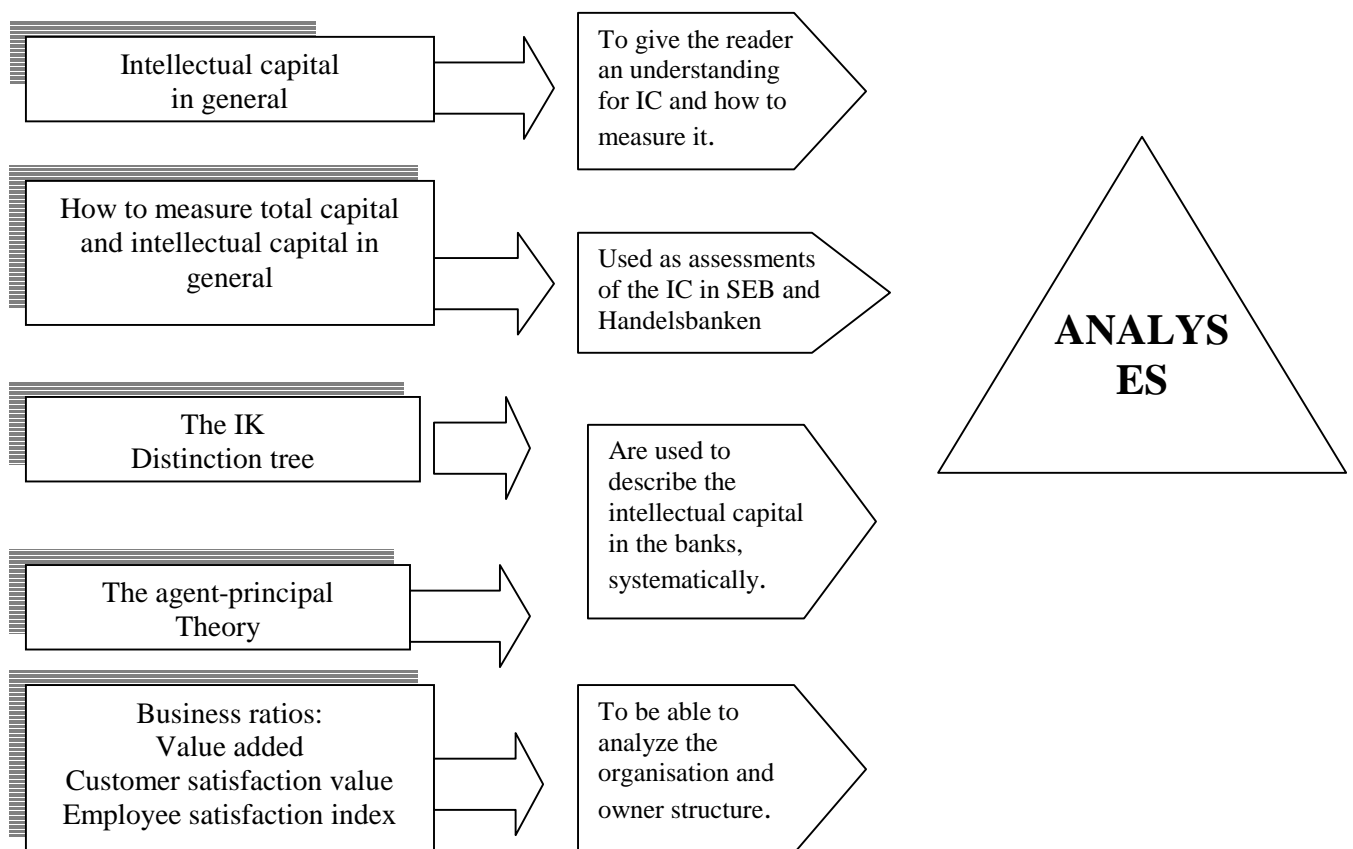
Moreover, the time frame of ten weeks has limited the research, at a longer period it would have been possible to go deeper into the numbers and figures to analyse them more. Even though we use a time period of 15 years, the analysis is concentrated on today and if more time had been available, a more profound analysis of the whole period would have been preferable.

3. Theory

In the theory chapter, the theoretical reference for the thesis will be presented. The theoretical reference is constituted of theories about intellectual capital. Additionally, the agent-principal theory is complementing the IC models to better explain differences in the owner structures. Finally, a few business ratios that will be explanatory for the forthcoming empirical research and analysis.

Under this chapter several theories will be presented, each and every one relevant for deeper understanding for the forthcoming empirical results, chose of focus as well as support for the analyses and concluding discussion is the end.

For the reader to profit from the study the theoretical choices is presented as a model below. This model shows an overview as well as highlights the relational interaction between the different theories.



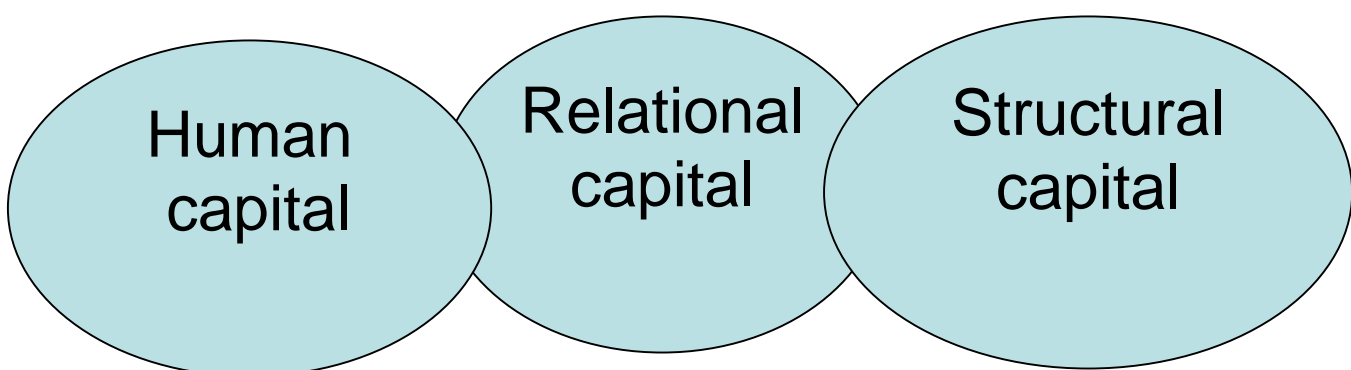
3.1 Intellectual capital in general

Intellectual capital can be defined as; “*all IC-resources or transformations of these resources, which fully or partly are controlled by the company and that contributes to the company’s creating of value*”.⁵²

Every organization has a unique set of traditional assets and IC-resources, which equal that two companies, cannot possess identical portfolios of resources. Resources can be defined as something that adds value in the present or in the future. Resources contribute to the creation of value only while using and interacting with other resources.⁵³

The word “resource transformation” is useful when talking of the teamwork between resources, their underlying routines and interaction. Value is created only when one resource is transformed to another. One could also say that resources are in need to be activated and refined before they can contribute to the value production⁵⁴.

Intellectual capital does not behave as tangible and financial capital, therefore it requires another management approach. Physical capital is bound to the law of diminishing return. Intellectual capital in contrast, works in the opposite way; it is characterized by increasing returns or network returns. For example, if a company buys machines, the money transforms into physical capital, which is a zero-sum game. If the same company invests money in educating their employees, it can result in increasing resource value.⁵⁵



⁵² Roos, Fernström, Pike, “Den värdeskapande organisationen”, Studentlitteratur 1996

⁵³ Roos, Fernström, Pike “Den värdeskapande organisationen”, Studentlitteratur 1996

⁵⁴ Ibid

⁵⁵ Ibid

⁵⁶ Edvinsson, Malone

When calculating a company's value (both financial and intellectual) one can use a large amount of business ratios, both as incorporated with the annual report or on the side. Parties for both practices have theories that supports their own standpoint and offers plenty of practical solutions.

When separating the intellectual value from the presented, the balanced scorecard as well as Skandia Navigator is the most used tools for highlighting the intellectual capital. Monetary ratios are also used in the ones mentioned and can be of equal importance, especially together with non-financial models. Examples on significant business ratios are:

- Value added per employee
- Stock value per employee
- Motivations index
- In-service training (counted in days and per employee)

3.2 Measuring total capital

A company's market value represents, according to the financial theory of present value, a company's expected future value and ability to earn money. The presented financial capital, on the other hand, is based on parameters as tangible assets historical value of acquirement, and cost management in investments in intangible assets. Knowledge-intensive firms therefore get a low-presented value of financial capital relative high return on equity. Compared with capital-intensive companies like the wood industry, where the presented financial capital in addition is very high compared to the returns of equity.⁵⁷ According to Affärsvärlden's average of estimated return on financial capital, one can see a much higher return on equity in knowledge-intensive companies than in traditional manufacturing companies.

Though it is possible to analyze a knowledge-intensive company's market value in relation to their presented financial capital in form of traditional return and growth measurement, it is crucial to understand what the difference between the two parameters depends on. An analysis

⁵⁷ Peter Nyllinge, article, Balans 6-7/99,

of the gap between these two business ratios is usually called estimation of substantial value. The calculations are based on the balance sheet and the value of individual assets and debts. It is adjusted according to differences between market value and book value. A prerequisite is that it must be a going concern. These differences will be adjusted in value of intangible assets or what usually is called the financial capital. The remaining part is called the intellectual capital.

As mentioned about the intellectual capital, the three components Customer, Human and Structural capital must not be seen as independent sources. These three together creates the whole and strengthen each other. The value is only realized when these are merged together. For example, if the human capital is not supported by the structural capital it is worth nothing.⁵⁸

3.3 Measuring and assessing intellectual capital

The intellectual capital constitutes a major part of the knowledge-intensive firm. Managing employees within a knowledge intensive firm can only be done through incentives and structural capital. Therefore is the valuation of the intellectual capital in the sense of structural and human capital essential when it comes to future ability to make money and to predict risks. Imbedded in this, lies the ability to keep and attract new employees, motivate them, facilitate and make their jobs more efficient, with the help of structural capital, and transform individual competence to collective competence and finally to structural capital in the form of databases and manuals.

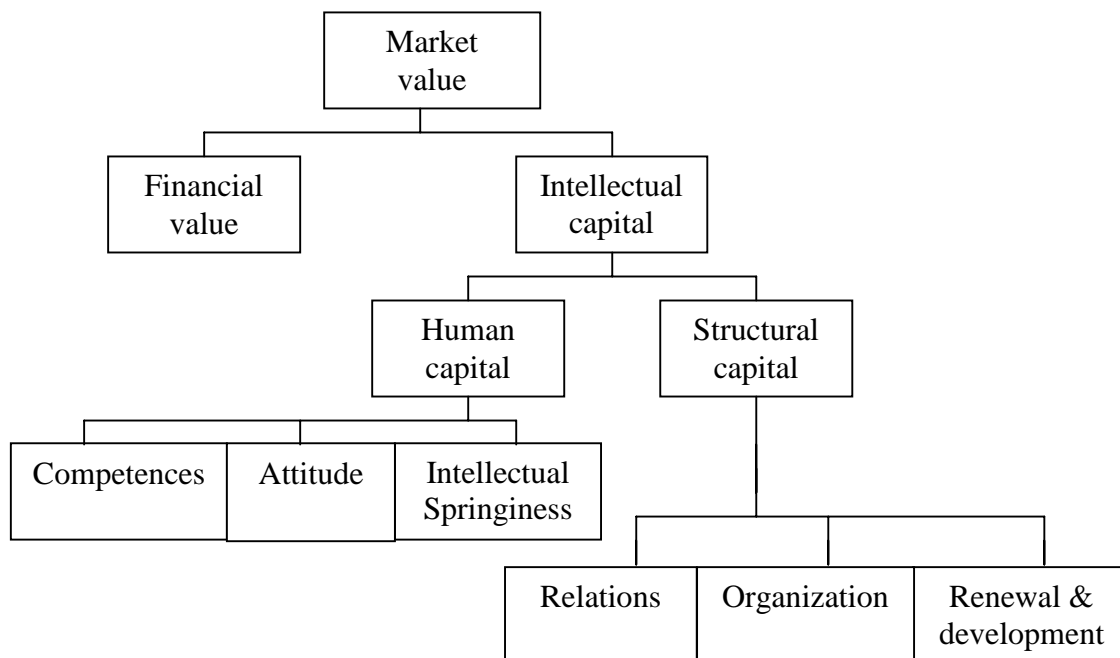
What type of competence is in that case a valuable asset, which contributes to the company's total value? According to *Stewart*, every task, process and activity built on three different types of competences. Primary competences, which is defined as a competence that is not specific for one category or branch and easy to get access to. Secondly, we have the leverage competencies, which is more specific for a certain type of branch and is considered more valuable for one company more than another. The third competence is the one Stewart names

⁵⁸ Edvinsson, Malone "Det intellektuella kapitalet" Malmö, Liber ekonomi

core competence. This one is specific for individual companies and is usually the one that the companies are built upon.⁵⁹

3.4 Intellectual capital and the IK-tree model

Göran Roos et al has made a model called the IK Distinction tree and it is based on the Skandia navigator by Leif Edvinsson, but some subclasses has been added in order to make the tree more complete.



The IK-distinction tree⁶⁰

3.4.1 Human capital

The human capital is by Roos divided into three different components; *competencies*, *attitude* and *intellectual springiness*.

⁵⁹ Stewart, Thomas A, *Intellektuellt kapital – Organisationers nya förmögenhet*, Stockholm Nerenius & Santérus förlag 1999

⁶⁰ Roos et al "Intellectual capital - Navigating the business landscape" 1997

Competencies generate value through the employee's knowledge's, skills, talents and know-how. The competence is the core of the human capital and it represents the potential of the organization. Knowledge aims at technical or academic knowledge and concerns the theoretical side of competencies. A skill is the practical side, which does not have to be based on knowledge. Though, in many cases, a person's skills expand by a higher degree of knowledge.⁶¹

There are examples of indicators that might be used to value the *competencies* of an organization and a few of them are:

- Number of employees with an academic degree
- Knowledge in IT
- Number of hours of education divided with number of employees
- Average time employed

The notion of *attitude* concludes the willingness and the ability of the employees to use their knowledge and skills in advantage for the company and to motivate the whole organization to work in direction towards the predefined goals. If the competences are a definition of "hard values", *attitude* is a soft one. A company has small ability to affect this part of its intellectual capital, since attitude depends on individual characteristics. However, the attitude of the employees can in some extent be affected by motivation, behavior and executive management.⁶²

Indicators that can be used to measure the attitude are:

- Time spent on reporting
- Time executives spend on explaining strategy and actions
- Leadership index
- Motivation index

The third component is intellectual elasticity and it includes ability to transfer knowledge from one area to another, capacity to be able to see individual features in diverse phenomena

⁶¹ Ibid

⁶² Ibid

and put them together, ability to improve both knowledge and output through innovation and adjustment.

Intellectual elasticity consists of innovation, imitation, adjustment and “package”. Innovation is essential to a company’s ability and is a key factor for its sustainability and success. When it comes to imitation, it demands a second examination of the object for imitation and an application of this on the company’s own situation. It is one way of creating something new, which means the line between innovation, and imitation is very thin. There is also the possibility for a company to test its solutions in different contexts, which is received through adjustment. This can be of current interest when the behaviors of the environment change or when the company wants to penetrate new markets. Finally, *package* means the ability to transform idea into an end product or service. This type of capital can be seen as a linkage between human capital and structural/financial capital. It makes something concrete of the idea and it is also a mix between creativity and a sense for business.⁶³

To measure *intellectual elasticity*, one might utilize these indicators:

- Savings that comes up because of application of the employees propositions
- New propositions of solutions/products/processes
- Index of diversity when it comes to background
- Index of the differentiation of the company

3.4.2 Structural capital

Structural capital also consists of three components, which are *relations*, *organization* and *renewal and development*. What differs structural capital from human capital is, that the company owns the structural capital. One might say that the structural capital stays in the company even when the employees leave the job for the day⁶⁴. The structural capital is not self-renewable but is depending on the organizations employees. The evolution of the structural capital takes longer time relatively the human capital and because of this aspect it is

⁶³ Roos et al, “Intellectual capital – navigating the new business landscape”, 1997

⁶⁴ Edvinsson, Leif, Malone, Michael, Det intellektuella kapitalet, Malmö, Liber Ekonomi, 1997

a difficult task for the company to find a balance between these two parts of its intellectual capital.⁶⁵

Relations with stakeholders are of great importance for companies. That means that good contact with customers, suppliers, co-operation partners, shareholders and other stakeholders is a key success factor, which unfortunately is not reflected in most annual reports and balance sheets.⁶⁶

The company's ability to retain the customer loyalty increases their profit potential in the long run, while at the same time close relations with the customers lower costs and increases the value for both parties. Partner relations are included in many companies' strategies and it is of great importance to care for.⁶⁷

To measure the relation capital one can use these indicators:

- Share of customer - /supplier activities that the company stand for
- Length of relations
- Partner satisfaction – index
- Customer loyalty

Organizational capital is the component that is the least self-renewable. It is also the capital that can be sold or licensed. The organizational capital contains both material and immaterial parts of the intellectual capital and is related to the internal structure of a company; databases, process manuals, immaterial assets, culture and leaderstyle/managementstyle. When transferring of human capital to systemized information, organizational capital arises as a result. The organizational capital can be owned by the company and be spread among the employees with an intranet system.⁶⁸

There are mainly three components in organizational capital; processes, infrastructure and culture. The infrastructure of a company is the hardware that makes the daily work possible. It should be flexible and ensure a good relation between the company's employees at all levels.

⁶⁵ Roos et al, "Intellectual capital – navigating the new business landscape" 1997

⁶⁶ Ibid

⁶⁷ Ibid

⁶⁸ Roos et al, "Intellectual capital – navigating the new business landscape" 1997

Also patents, brands, address lists, customer data, process manuals etc. Processes are based upon loads of different activities in the company. Culture is an important frame for interpretation of different occurrences in the company. Through continuously encouraging employees to work in the directions of the company's goal, the corporate culture affects the employees motivation.⁶⁹

Indicators to measure organizational capital:

- Administrational costs/total revenues
- Investments on education
- Processes conducted without errors
- Cycle/process time

Renewal and development is the third component of structural capital. Here one can find anything that can generate value for the future, both financial value and value of intellectual capital. New product development, reorganization and ongoing education are some examples of this. Different project that are not realized yet also ends up under this category.⁷⁰

The indicators for this component are:

- Share of the business activity that can be derived from new products
- Educational investments
- Cost of renewal/ running costs
- New patent registrations

3.5 The agent – principal theory

In Handelsbanken there are special circumstances; part of the ownership belongs to the employees through Oktagonen, a fund of options used as a rewards system.

⁶⁹ Ibid

⁷⁰ Ibid

The agent-principal theory idea is about the ownership relation is where one part, the principal, is delegating another a mission to another part, the agent (management control systems).⁷¹ In this study it is the shareholders that makes the principal and the executives at the banks are the agents. The employee is therefore also a shareholder of the bank, which makes the ownership situation in Handelsbanken a bit special. This can be both positive and negative. One might think it is only positive, since then the employees get an incentive to work in order to make the bank make good results, but it does not have to be like that.

According to the Agent – principal theory there are two existing problems that leads to a need of control of the agent from the side of the principal.

1. There are opposite interests between agents and principals since they have different preferences and goals.
2. Asymmetric information, the agent has more information than the principal⁷²

3.5.1 Decentralisation

Decentralization is a way of managing an organization, which means that the right to take decisions and the responsibility of result is transferred to another person. Decentralization brings about an agreement between two parts. Factor that affects decentralization of an organization are the organization's environment, opportunism, the specialization of the organization, asymmetric information and competencies, reaction time, alternative using of the principal's time, the time to collect data, training and development for the agents and motivation for the agents.⁷³ In Handelsbanken, the employees have asymmetric information due to the logic of Wallander⁷⁴.

If one want the organization to be able to quickly adjust to a fast-paced environment a decentralized organization is to prefer but if one want an organization where it is possible to make fast changes, then this is easiest done in a centralized organization. Both centralized and

⁷¹ Rapp, Thorstensson, "Vem ska ta risken?" 1994

⁷² Ibid

⁷³ Rapp, Thorstensson, "Vem ska ta risken?" 1994

⁷⁴ Memoarer Jan Wallander

de centralized organizations has their advantages. Often the relation between the central stab and the local subsidiaries is seen as a relation between a principal and an agent.⁷⁵

It is only in very small organizations that all types of decisions can be made by the CEO so it is natural to delegate the responsibilities. The local decision taker might know more about the local market experiences and possibilities. One argument pro decentralization is to let the decisions is made where the relevant information is available.⁷⁶

In a fast-paced environment it is of greater and greater importance to quickly be able to take decisions in new methods and a decentralized organization can react on changes faster than a centralized one. Another reason to decentralize is that the time is short, a decision maker at a central level should spend his time on what is best for the company. Through decentralization the new executive potentials get the chance to practice their decision-making skills and relieves the process of getting new potential executives quickly when needed.

Motivation is also an argument for decentralization. By giving the local decision makers bigger responsibilities one strengthen their self esteem which in turns affects their performance.⁷⁷

3.6 Financial Ratios

Within the accounting practice for industrial companies, there has for a long time been well-established business ratios for calculating profitability and returns of capital. These business ratios, like solidity and profit margin, are also simple to compare between companies. The business ratios are constructed on the basis of profitability from the financial capital and show the success due to that. For knowledge-intensive companies, the returns from intellectual

⁷⁵ Ibid

⁷⁶ Ibid

⁷⁷ Ibid

capital cannot be measured with these traditional business ratios.⁷⁸ Instead, a suitable ratio is the value added per employee.

3.6.1 Value added per employee

Value added is a ratio employed frequently within political economics and less frequent in business economy⁷⁹. There are many methods of measuring the return on financial capital, often linked to companies accounting, but methods for measuring the return on knowledge capital are few. Value added per employee is, however, among these methods the most frequently used⁸⁰.

Added value is the additional value the individual employees contribute to the company's total value and it gives us an idea of how much the company's employees produce in monetary terms.⁸¹ The key figure added value per employee is basically the difference between a company's revenue and the cost of brought-in goods and services, e.g. output-input. The ratio can be calculated in numerous ways. One established definition according to Konsultguiden 2001 is:

Operating profit before depreciation and personnel costs⁸² divided by number of employees

⁸³

In traditional companies the method for calculating added value per employee can vary substantially compared to professional service firms. From various councils one can find recommendations how to approach this task. The organizational structure plays a decisive role. In this paper we will use the calculation from Redovisningsrådet

Result after depreciations plus the depreciations and personnel costs divided by number of employees

⁸⁰ Hult, Magnus (1998), "Värdering av företag", Liber ekonomi

⁸¹ Sveiby, *Kunskapsflödet, organisationens immateriella tillgångar* Svenska dagbladet 1995

⁸² Personnel costs = total salaries + social fees

⁸³ Konsultguiden 2001

This ratio is frequently used in knowledge-intensive firms where the added value has significance for analyses and valuation because it is easy and accessible from an external perspective.⁸⁴ These factors differ of course depending on the company. For a bank, the personnel costs are, in relative terms, much higher in addition to the depreciation, in comparison to a traditional manufacturing company.

Some argue that this measure added value per employee becomes more relevant as the number of employees increases substantially. However, the usage seems to get more and more frequent for evaluation of intellectual capital. Over the last years, the numbers of companies presenting these figures in their annual reports have increased.⁸⁵ On the basis of purpose for this thesis we found the ratio added value per employee to be suitable, together with other intellectual capital measurement models.

It is necessary to notify the way we chose to measure the added value on, which is quite basic and to get a more realistic view it would have been more correct to include other parameters as one-time costs, special circumstances as for example the financial crises in 1992, and equals that affects the result to a high grade. This would have taken us a great deal of time and that resource we could not steer. Instead, in the analysis, we will try to identify what could have affected the result and explain why.

3.6.2 Return on equity

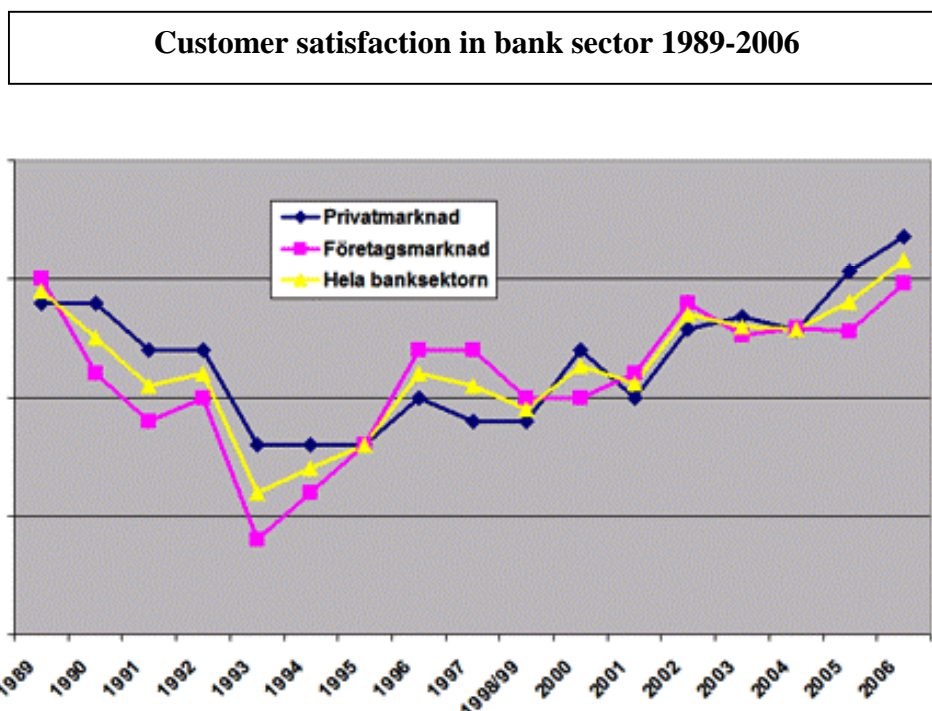
In the bank sector, the return on shareholder's equity remains as one of the most important business ratios. Even though this does not present everything about the intellectual capital within a company, it can in relation with IC-rating systems fulfill a function when valuing knowledge intensive firms.

⁸⁴ Affärsvärlden

⁸⁵ Eklund, Emma & Larsson, Emma (1999), *IT companies' and financial analysts' way-of-thinking about intellectual capital*, Masters Thesis, University of Linköping

3.7 Customer satisfaction

To further illustrate the value in knowledge intensive firms, one may make use of other ratios. One part of the structural capital can be assessed by customer satisfaction. This is being evaluated frequently through many surveys and in various branches. Today companies systematically try to gather information about customer's opinion and attitude towards the company. The result is often used by the marketing departments but can besides that also prove useful in accounting and in annual reports. This study will make use of the ones executed by Svenskt Kvalitetsindex (SKI). Svenskt kvalitetsindex is a Pan European Collaboration and the organization is run by HHS (Handelshögskolan in Stockholm) and SIQ (Institute for quality development). This guarantees impartiality as well as quality. SKI is the only instrument for measuring on higher level. Regular surveys have been done since 1989. Below, one can see an example of what information SKI might offer.



3.8 Employee satisfaction index

The relation between external and internal satisfaction is strongly correlated and companies that show a high percent of employee satisfaction usually also have a high customer satisfaction.

3.8.1 Swedish quality index

In Swedish quality index, the “experienced service quality” constitutes one of the driving factors of customer satisfaction. This relation is especially high, the higher employee index, the better the experienced service quality is among the customers.

3.8.2 Swedish employee satisfaction index

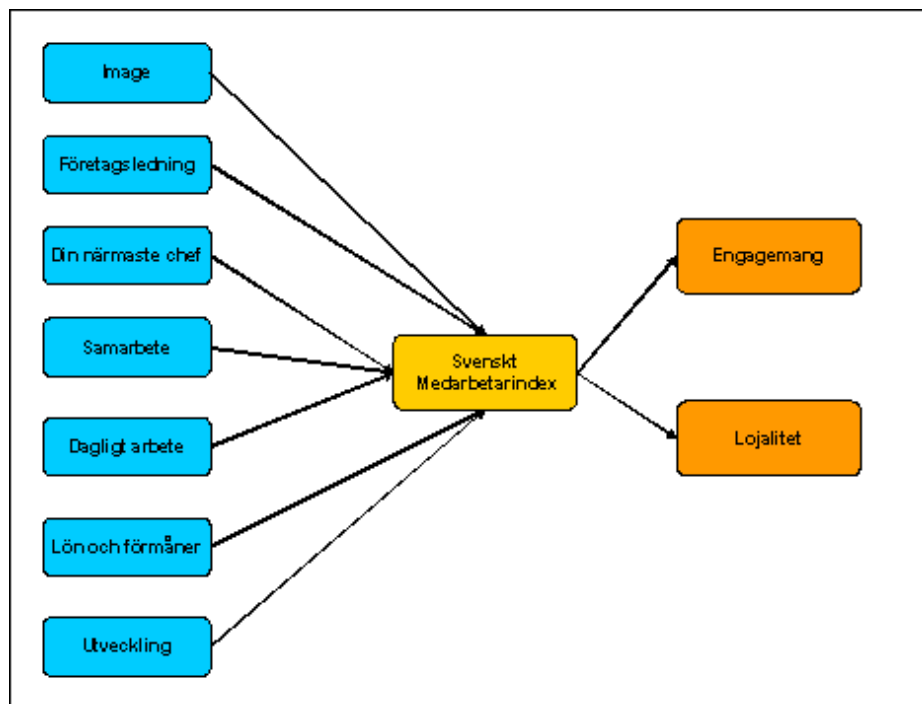
This index shows how the personnel’s motivation and satisfaction is changed. There are also other factors included the analysis, as engagement and loyalty. The higher value of the index, the more motivated and satisfied is the employee with his or her work situation and the employer.

The normal questions when measuring the SMI are:

- How satisfied the employee is with his work situation
- The employee judgment of the present work situation in relation to an imagined work situation
- How much the employee is looking forward on going to work

Besides this, other aspects that are taken into consideration are:

1. How satisfied, motivated and engaged are the employees in an organization?
2. What creates and spurs motivation, engagement and satisfaction among employees in an organization?



The model above is the base for SMI. The questions in the left fields aim at explaining how satisfied and motivated they employees are with their employer. If the employer is satisfied and motivated, this in its turn will influence how loyal and committed the employee is.

The result of the research is based on a weighted average of the different questions and is conducted through interviews with a statistical selection of people in an age interval of 18 to 67. The definition of professional worker's are people with an employment that involves working at least 25 hours per week.⁸⁶

Age structure

Several factors affect the human capital in an organization. Some are difficult to include in measurements in terms of performance. Others are both accessible and comparatively easy to work with. The age structure is one factor that plays a big role for the human capital defined as the relative abundance of different age classes in a population⁸⁷. Often this figures are

⁸⁶ www.kvalitetsindex.se

⁸⁷ wikipedia

presented in annual report as information to the shareholders. The age structure can have impact on everything from innovation ability to every day performance. Because of the significance of this parameter it will be included in the valuation of the intellectual capital in SEB and Handelsbanken.

Age structure can be valuable in the analyses of customers. The customer base is the foremost important aspect in a business and is of that reason of big interest. The age structure among the customers of a bank must be fairly spread over age intervals. If the customer base is growing old it is a sign that the bank do not attract enough new customers that is needed to survive in the long run.

4. Empirical results

In this chapter we present the results of the study. We begin by statistically describing the empirical observations with the help of calculated business ratios presented both in text and diagrams. This is followed by the material gathered, both secondary and primary data. Thereafter it is analyzed and presented on the basis of our problem discussion. The analyzes aims to prove or discard if there is an explanation in intellectual capital behind the differences between SEB and Handelsbanken's results.

4. 1 Intellectual Capital

4.1.1 Human capital

Competencies

Competencies are defined in Handelsbanken as ability to acquire, implement, develop and exchange knowledge, skills and experience⁸⁸.

In Handelsbanken one see every new recruitment as a valuable asset and the ambition is to hire the best people and to keep them in the bank.⁸⁹ Handelsbanken has a different kind of thinking when it comes to the education of the new employed. The CEO of the bank, Pär Boman, has introduced the idea that it is not always necessary, and sometimes not even wished for, that the employees are too educated. What he and the bank are doing is, trying to get students who have finished upper secondary school with economic direction to start directly at the bank, work a few years and then maybe take a break for three years to take a bachelor exam if this is something that is desirable and needed to move up in the bank hierarchy. This is depending on the bank's ambition to keep people in the bank, which says that if a person is already in the system and knows that he or she will get a job within the organization after studies, they are more likely to stay in Handelsbanken.⁹⁰

⁸⁸ Annual report, Handelsbanken 2004

⁸⁹ Tom Wallén Handelsbanken

⁹⁰ Gerd Boberg Handelsbanken

The skills the employees get from practical experience are obviously valued very high. “The most important source to increased professionalism is and has always been to learn in the daily working life”⁹¹.

The employees also get a lot of in-service education. The manager and the employee do an acting plan, which they meet and discuss maybe once a month, where they also decide together which education or skills the employer need to meliorate. Studies can vary from accounting to languages courses.

During 2005 the number of recruited with an academic degree was 65 percent for men and 62 percent for women. The percentage of new employed with only an Upper secondary final examination was 21.⁹² This might be compared to the figure 10 percent employed with an academic degree in 1990.⁹³

The corporate values in SEB are engagement, continuity, mutual respect and professionalism. The employees are expected to develop their knowledge and potential with the values of SEB as a foundation to reach their individual goals set⁹⁴.

In 2005, 37 percent of the employees had an academic degree. For the employee to assess knowledge and understanding for SEB’s business is crucial, and the employees will be continuously be developed according to the goals in the business plan. A new project in this area is the SEB Licence program, which gives the employees a greater knowledge of different parts of the bank and also about the business activities outside the Swedish borders.⁹⁵

SEB has got an equality plan, which was established in 1998 with the long-term goal to have equality between women and men. The female representation among the executives was during 2005 38 percent⁹⁶, and then of course, the CEO of SEB, Annika Falkengren, is a woman.

⁹¹ Annual report, Handelsbanken

⁹² Handelsbanken Tom Wallén

⁹³ Leif Edvinsson

⁹⁴ Annual report, SEB

⁹⁵ Pernilla Johansson SEB

⁹⁶ Annual report, SEB

When SEB recruits they mainly seek for their recruits to have an academic degree. When a position is about to be appointed they search internally. If there is no one to fill the position they search externally. In Sweden there are 192 SEB bank offices and many of them are on the countryside in smaller cities or the equal. In these smaller cities the personnel turnaround is low⁹⁷.

The internal education is very important for SEB. All employees who work as clients advisers/support must go through an education to get a licence that allows them to work with advises for clients.

Attitude

The fact that Handelsbanken is so decentralized is itself a motivating factor. Every office has to work as if they were their own company and that motivates them in achieving a good result, which in the long run, of course benefits the whole company.⁹⁸

The management spend a lot of time trying to engage the employers in the company's goal, which includes making activity plans for every individual. Everyone has his or her individual plan with individual goal for the forthcoming periods, which in turn is very motivating for the employee.⁹⁹

All new positions in the company must always primarily be announced internally. The employees are always encouraged to try other tasks in the bank and to move from different positions. In fact, one of the most important tasks the manager has is to encourage his employees to further development, and the internal flexibility is highly valued¹⁰⁰. In Sweden, 91 percent of the management was recruited internally. Handelsbanken consider this to be one of the factors explaining that the bank is doing so well and why people stay so long at the bank. The employee turnover is very low, about three percent 2005.¹⁰¹

⁹⁷ Interview, Harald Syversen

⁹⁸ Tom Wallén, Handelsbanken

⁹⁹ Gerd Boberg, Handelsbanken

¹⁰⁰ Tom Wallén, Handelsbanken

¹⁰¹ Annual report, Handelsbanken

A good result presupposes good efforts from the employees and in Handelsbanken they have a special system for rewarding the employees. Since 1973 one has put in money in a special fund, which is called Oktagonen, This has the function of a result share system for the employees. A dismissal takes place when Handelsbanken has a higher average profitability after taxes than the branch in average. Of that surplus one third goes to the employees through the fund. Every employee get equal part of the amount and it can be payed out when the employee turns sixty. The biggest part of the money is invested in Handelsbanken stocks and the Oktagon is also one of the biggest owners of the total shares.¹⁰²



”Hjulet”

Handelsbanken has developed a method for individual progress within the organisation, called “Hjulet”. It is a continuously development progress for all the employees that starts with what is called “plus-samtal”. Each year they have an individual meeting with the executive in their division where they determine which ambitions and future goals the employee has. The following step is to compile an individual document describing how to reach those goals. During the year everyone has follow-ups to measure how these goal are being realized. The final is the wage negotiation.¹⁰³

¹⁰² Gerd Boberg, Handelsbanken

¹⁰³ Ibid

Since Annika Falkengren took over the position as CEO she has started a lot of projects and intercourses with the employees. For example it was Annika who started up the SEB Licence program. She wants to communicate “One SEB” and has very recently done some organisational changes to follow this up.¹⁰⁴

SEB are working to secure their position as a attractive employer and what they do is that they work continuously on building long term relations with the target group “young professionals”, which are last – year students plus persons with an academic degree that has worked a few years. The work consists among other things of communicating the bank’s values and to define the demanded profile of the future potential employees.¹⁰⁵

Age structure

Handelsbanken have shown little interest for the fact that their age structure among the employees is turning old. Compared to SEB they have fare more employees in the interval 50-59 in relative terms. SEB have the most employees in the age of 30-39 and is after a decreasing among of older staff. In a few years the staff turn-over will radically change the organization in terms of big losses in staff when people retire.¹⁰⁶

4.1.2 Structural capital

Organization

The decentralization that characterizes and influences Handelsbanken as organization is very much unique among the Swedish actors in the bank sector. The radical changes made by Wallander rearranged the whole organization concerning everything from authority in decision making to division structure. From being an organization with traditional hierarchy controlled from the top it became the bank characterized by its uniquely flat organization.¹⁰⁷ The local offices got empowered, could take more decisions by them self without permission

¹⁰⁴ Harald Syversen, SEB

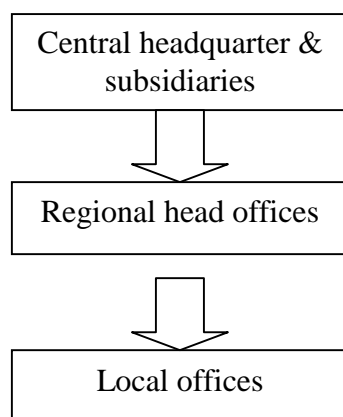
¹⁰⁵ Annual report SEB

¹⁰⁶ Annual reports Handelsbanken 2005 & SEB 2005

¹⁰⁷ Jan Wallander, memoarer

from central units. This had far-reaching consequences. From now on the local bank offices can adjust faster to changes on the local market, and customers. The decisions could be made in faster pace, which gave them advantage towards competitors. The decentralizations have since it got introduced been the success story according to people both inside Handelsbanken and others outside the organization. The flat structure has rendered possibility to work efficiently and closer to the customers.¹⁰⁸

The organizational structure of Handelsbanken:



The managerial body has been constant for long periods of time. Lars O Grönqvist has for many years been positioned as the CEO and become the face outwards for Handelsbanken. Internally this is a factor that creates stability and trust. Along with excellent results it also generate an image of reliability towards the market. Since Pär Boman took over the role the market have to a certain extent reacted with caution. The results have gone down. If it has to do with Boman is hard to tell but it will definitely affect the image of both the managerial body as well as Handelsbanken.¹⁰⁹

As mentioned before Handelsbanken primer goal is to grow through profit. This implies that to be the biggest actor doesn't become an end in it self. Through the years Handelsbanken have done several acquisitions of other bank in Scandinavia and Great Britain, but have as

¹⁰⁸ Tom Wallén, Handelsbanken

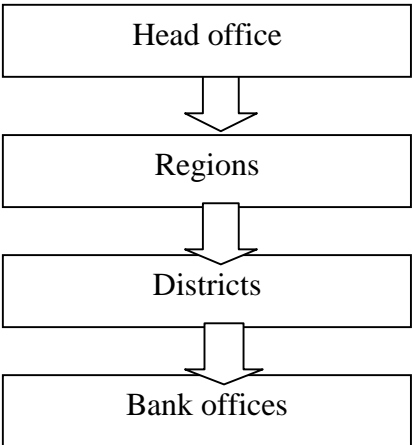
¹⁰⁹ Gerd Boberg, Handelsbanken

ambition to grow organically by expanding their own activity to new markets. This has been done in a far longer extent compared to other banks in Sweden.¹¹⁰

Cost efficiency is another central concept in Handelsbanken. This does not only comprise of the purchase price but the whole process from deliverance of material to support for customers says Viveka Liljeqvist in an article, responsible for the technical purchasing at Handelsbanken. Probably the reason for Handelsbanken to be known as tight-fisted when it comes to spendings.

In difference to Handelsbanken, which is a very decentralized organisation, SEB is more centralised and hierarchical.

The SEB organisation is divided into four levels.



Some decisions are made at office level but most decisions are taken at district level. Then some districts are much bigger than others and cover a bigger area, depending on the size of the market.

The fact that SEB today has a female CEO is regarded unusual in the bank sector, which is a very conservative and hierarchical sector. SEB itself has a long story of Wallenberg with most influence and male domination. Still today, Annika Falkengren is the only woman in the board. For an organisation as SEB it is a great change that a woman is leading the

¹¹⁰ Peter Einarsson, Handelsbanken Paris

organisation. The phenomena have attracted a lot of media attention and media space, maybe to a certain extent depending on the fact that she is a woman. Harald Syversen says that Annika Falkengren is a very respected leader and a very engaged and capable woman and that the general opinion through the organisation is that it is positive with Annika Falkengren as CEO. Harald also mentioned that the last CEO, Lars Thunell was not one of the most popular.¹¹¹

Annika Falkengren has introduced the idea of “One SEB”. This has been materialised through the reorganizations where the five retail activities has been integrated to create a more uniform retail bank. Through integration of the different business activities SEB is taking another step in order to use the strong platform SEB possess even more.¹¹²

SEB has also a remuneration system, which consists of one system based on the total result of the bank as a whole unit, and then every division has an additional on their own. The wage is based on the individual employee’s education, performance and the level of difficulty in the job.¹¹³

On office level the remuneration can be based on a business goal, for example customer satisfaction and it can be set on a five years basis. Then the whole office works towards that goal and depending on how well they fulfil it the remuneration is set. The remuneration system is individual and the employees can choose between an extra sum on the ordinary wage or long-term pension insurance.¹¹⁴

Brand

Handelsbanken does not really communicate their brand the way SEB does. They do no advertising or commercials at all on central directives. If there is advertising it is the local offices that has taken that decision themselves. Neither do they very often participate on activities for students. For example in Lund, which is one of the biggest university cities in Sweden, there are many opportunities to attract new clients among the students, and the three

¹¹¹ Harald Syversen, SEB

¹¹² Ibid

¹¹³ Annual report, SEB, 2005

¹¹⁴ Harald Syversen, SEB

other big banks are always represented on these types of activities but not Handelsbanken. Handelsbanken are not very proactive when it comes to either attracting new clients or new employees among students or other segments. As Gerd Boberg says, Handelsbanken is quite a “beige” and boring bank, they do what they are best on doing, namely serve their clients, and that does not include the focus on attracting new costumers.¹¹⁵

SEB is a bank that assists a great part of the large companies in Sweden, which is how they most frequently are being received by people in Sweden. But SEB is focusing in big scale on saving and insurance.¹¹⁶ Harald says that as far as he knows, people out in the country do not consider SEB to be “the bank of the Wallenberg family” but a bank as any bank. The fact that a bank like Swedbank is considered more to be “the people’s bank” is because they have many corporate customers having agreements with Swedbank concerning salary payments.¹¹⁷

SEB, in contrast to Handelsbanken, have large and frequent advertising campaigns. These run in television, newspapers and billboards. They are active sponsors for different events to keep the market aware.¹¹⁸

Knowledge sharing

In business practice, knowledge codifications seem to play an important role in successfully develop as business. For employees the knowledge spreading is something that both facilitates and improve the competence within the organization. Handelsbanken uses a knowledge base that every one have access to. There one can find manuals and instructions for practically every standard procedure that might be necessary in the work. The information base system does not cover anything in addition to what can be seen as standard procedures, which implies that still many tasks have to be manage without help from stored information.

When work tasks differ so greatly as they do at a bank it is important to have supporting divisions. For each area there are central support stations giving a hand when questions arise

¹¹⁵ Gerd Boberg, Handelsbanken

¹¹⁶ Annual report 2005, SEB

¹¹⁷ Harald Syversen, SEB

¹¹⁸ Pernilla Johansson, SEB

that local or other divisions cannot handle by them self. These support stations are used jointly by the whole organization.¹¹⁹

Handelsbanken has one division managing the training of employees¹²⁰. Here they coordinate the employees training and development with several tasks related to HR-departments. The in service training is often hosted within and but the organization. What they lack is a central unit for that only focus on development in all areas.

As many other companies SEB has a knowledge base and an intranet where the employees can go to search for information. The intranet has different functions, manuals, market information, news updates and relevant figures. As Harald Syversen, executive at SEB Region West says “ There are such an overload of information that it makes it difficult to navigate”.

The organisation is going through some changes as mentioned before where it is meant to be four divisions and two supporting stabs; group IT, group Operations and group Staff, which are suppose to act as a support for the other divisions in SEB organization.¹²¹

Corporate culture

Handelsbanken's strongest means of control is their company culture. The philosophy implemented by Wallander can be concluded by the two words *trust* and *respect*. Because of the decentralization many people are empowered to make decisions on their own which have been brought up by all the people we have interviewed for this study. Furthermore Handelsbanken offers extended employment security. Staff turnover stays exceptionally low compared to other banks. Their objectives are as far as possible to recruit internally and instead of dismissal transfer to other departments when necessary. The purpose with the strongly implemented culture is to build a strong and loyal work force. More about staff turnover in the chapter about human capital.¹²²

¹¹⁹ Pernilla Johansson, SEB

¹²⁰ Anna-lena Möller

¹²¹ www.di.se

¹²² Tom Wallén, Handelsbanken

Handelsbanken has their own “bible” called “Mål och Medel”¹²³ where the philosophy and vision are written down. This book is used frequently in the guidance of the work. Author is Jan Wallander. Values have had a prominent focus and the organization as a whole is pervaded by these values. The common values are one of the reasons behind the success story of a bank in crises becoming the leading bank in Sweden. The outstanding profitability derives from having the highest customer satisfaction over the last 15 years and costs 50% below average in the Swedish bank sector¹²⁴.

Handelsbanken had before Wallander immense problem that revolved around the culture and means of control, which created organizational inertia, bureaucracy inherent to the system leading to growing central units. This was reduced by implementing strongly decentralized and empowered units. Removal of budgets to promote flexibility. Guiding outlines for follow up in all units. Incentives to motivate executives and employees to performance including cost awareness and where “Mål och Medel” is regarded to be one of Handelsbanken’s foremost important advantages.¹²⁵

The corporate culture in the SEB concern is based on four values, engagement, continuity, mutual respect and professionalism.¹²⁶ SEB is working hard with anchoring these values into the organization and they want the values to create a special awareness in the minds of the employees. The corporate culture in SEB is also supposed to give the employees a sense of belonging, that they are part of “One SEB”. This is especially important for a bank as SEB, which grows not organic, but by fusions and take-overs, to have a strong corporate culture and to communicate it to its employees so they feel they belong in the company and that the company always is SEB, no matter where it is situated, in Kungshamn or in Estonia.¹²⁷

Development and renewal

Under this headline one find subjects that has been touched before, as education, re-organisations and new products. In the bank sector it is a bit different compared to industrial

¹²³ Jan Wallander, memoarer

¹²⁴ Annual report, 2005, Handelsbanken

¹²⁵ www.cordial.se/pdf/cordialstudien2005.pdf

¹²⁶ Pernilla Johansson

¹²⁷ Harald Syversen, SEB

companies since a bank is a knowledge intensive company and does not really develop new products as a traditional industrial company does.

Though, the services on Internet are a service that grows more and more. More services are possible conduct on the Internet and SEB as many other banks are happy to see the services on Internet getting a bigger customer base.¹²⁸

4.4.3 Relation capital

A bank, whose business is strongly based on customer services, satisfied customers is a very important factor to success. Every third month, e.g. four times a year, a customer satisfaction report is made by Swedish quality index.¹²⁹

Fundamental for Handelsbanken and the development of the same is the belief that satisfied and loyal customers are important for the long-term profitability and that customer satisfaction and loyalty is strongly dependent on good management and empowered and competent personnel. Handelsbanken have been in the lead of all banks regarding customer satisfaction. Only a few years have they shared the top position with another bank. The private market shows very satisfied customers while the corporate customers are ranking Handelsbanken just above SEB in satisfaction.¹³⁰

| Bank | 1997 | 1998/99 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------------------|------|---------|------|------|------|------|------|------|------|
| Swedbank | 67 | 61 | 61 | 61 | 65 | 66,6 | 67,2 | 66,9 | 68,4 |
| SHB | 68 | 68 | 67 | 69 | 69 | 68,4 | 69,5 | 69,9 | 70,0 |
| Nordea | 64 | 63 | 65 | 63 | 66 | 66,6 | 67,0 | 67,5 | 68,8 |
| SEB | 65 | 63 | 63 | 60 | 66 | 66,2 | 66,9 | 68,3 | 69,5 |
| Danske Bank | | | | 71 | 75 | 69,9 | 70,5 | 72,9 | 72,3 |
| Sparbankernas Riksförbund | | | | | | | 73,1 | 72,7 | 73,4 |
| Sparbanken Finn | | | | | | | | 72,6 | 71,9 |
| Annan bank ² | 74 | 69 | 68 | 69 | 73 | 71,8 | 67,1 | 61,4 | 71,4 |
| Branschgenomsnitt | 67 | 65 | 65 | 66 | 69 | 67,6 | 68,2 | 67,9 | 69,8 |

¹²⁸ Interview, Pernilla Johansson, SEB

¹²⁹ www.kvalitetsindex.se

¹³⁰ Ibid

According to Gerd Boberg, Handelsbanken has over many years developed a strong relation to their customers. Customers that tend to stay as customers in their same local Handelsbanken office as they got from the beginning. One can discern that generations often inherit the same bank as ones parents. The gain from loyal customers has been remarkable.

Because of the decentralization of the organization in Handelsbanken, more and more decisions can be made locally. This means that the local bank offices can decide upon issues that concern their own customer to a high degree. If the local offices are empowered to take decisions on the basis of the customers needs it of course brings more satisfied customers. From what surveys shows what people value the most is the personal contact and recognition of specific needs. Handelsbanken is the foremost represented in small cities and on the countryside.

But Handelsbanken starts to see a change in behavior. Younger people feel less attached to the bank they automatically got from their parents and are more frequently changing banks depending on offers and range of services.

4.2 Share Value

Both Handelsbanken and SEB are listed on the A list of the Stockholm Stock Exchange and are one of the most traded shares. The stock market price is a valuable indicator of how the market values a company. On the information the market have access to, they form a gathered opinion of the company. Besides from results and other business ratios the market prices gives a picture of a total value. This becomes very interesting linked to the discussion about intellectual capital and intellectual capital in Handelsbanken and SEB.

Handelsbanken's shares has been bought and sold to higher values both compared to SEB over a long period of time. Handelsbanken shares performance is also better and higher in accordance to the general index Affärsvärlden each year set as benchmark for the market.

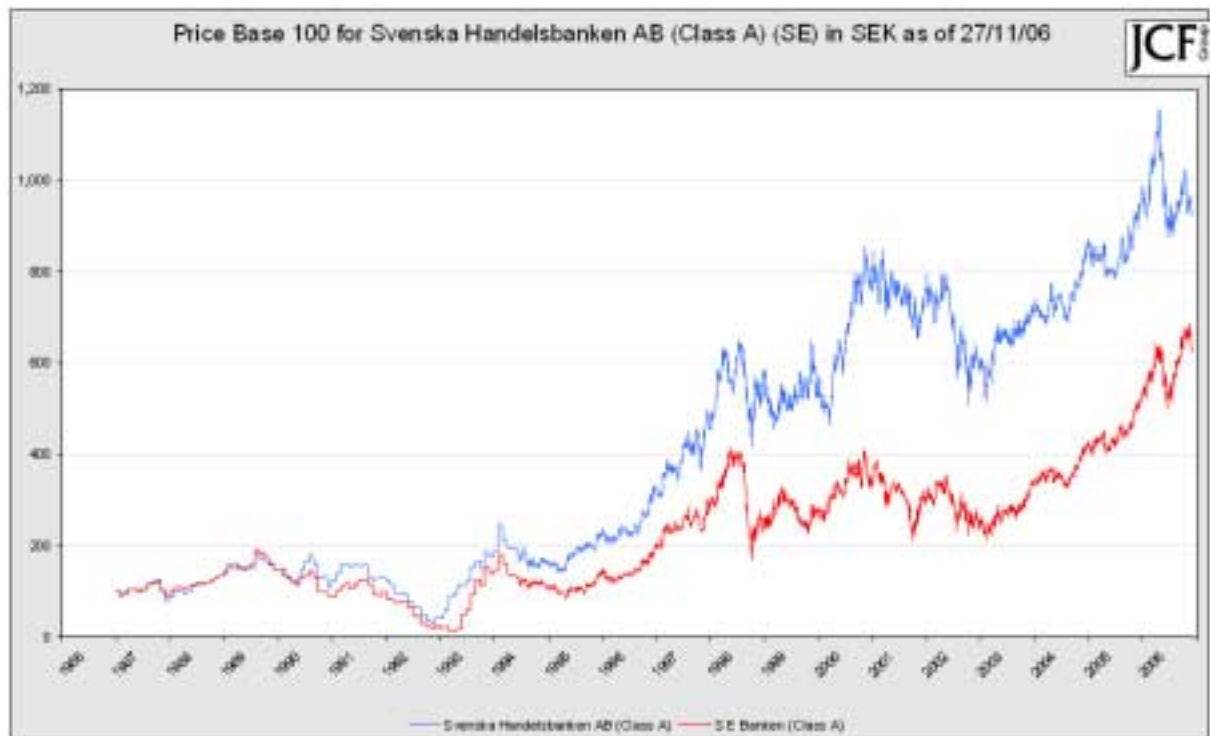


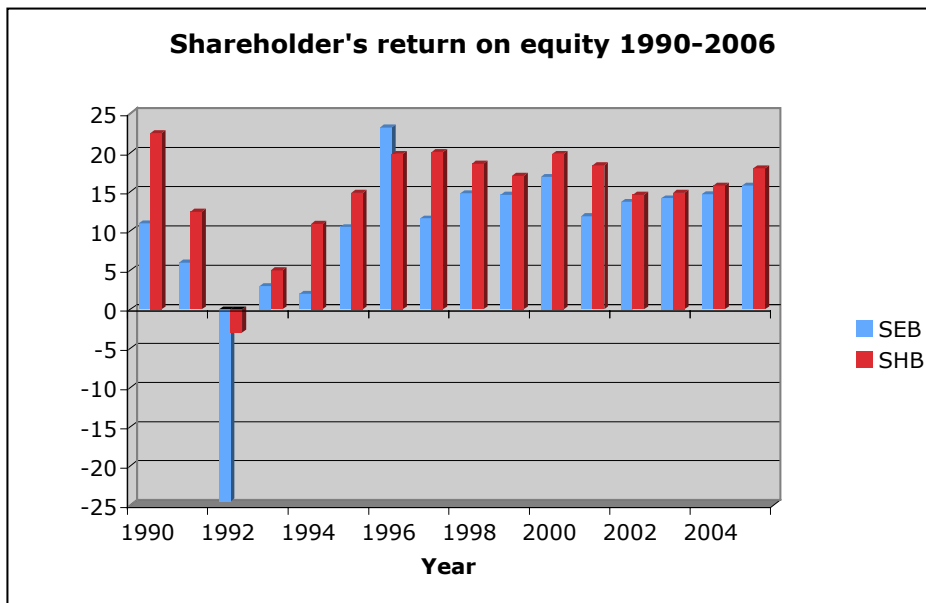
Diagram over development of price of shares, Handelsbanken is the blue on top and SEB is the red one.¹³¹

4.3 Return on shareholders' equity

Return on shareholders' equity after standard tax is one business ratio used frequently in the banking sector. This ratio gives the profit in relation to financial capital. It gives a better indication on the performance due to the unique structure of a bank which do not possess very much tangibles of significance compared to a traditional manufacturing company. Comparing the return on shareholder's equity with price of share is of interest when comparing the value and foremost the intellectual value of a bank. Differences are an indication that the market includes numerous parameters in addition to what is found in a traditional balance sheet. Since the balance sheet due to lacking standards do not include the intellectual capital possessed it signals in many cases an incorrect value of the company.

Handelsbanken, which has a goal to always keep the return on shareholder's equity after standard tax higher than the average in comparable bank has always proven good results with this ratio.

¹³¹ Handelsbanken markets, Mikael Hallåker



This diagram shows the return on equity for both SEB and Handelsbanken from 1990-2005. Figures from Annual reports.

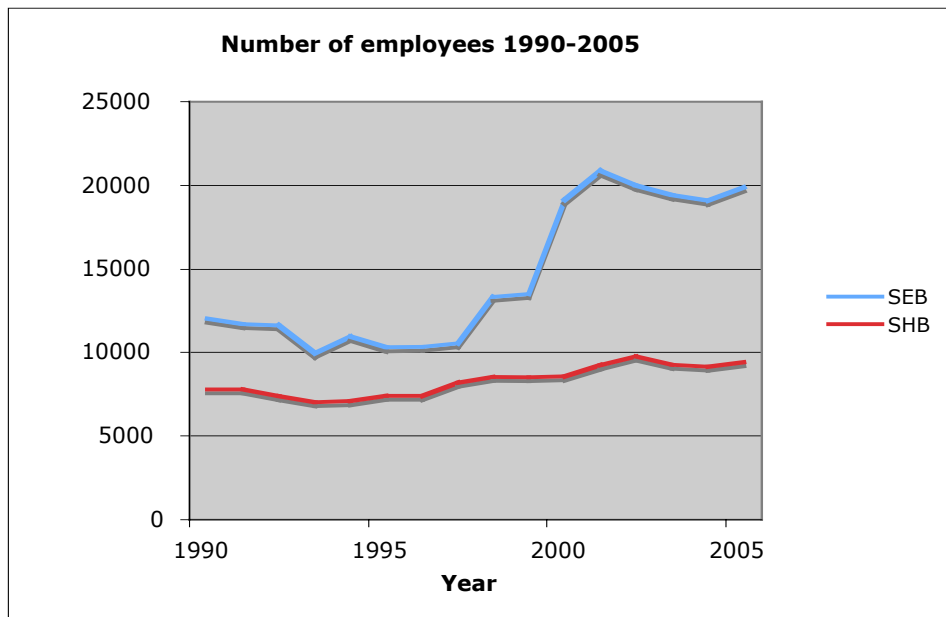
The return on shareholder's equity in SEB has not been equally good but is not lagging too far behind. The last five years they have delivered better and better returns on equity than in many years. 2005 SEB had almost 16 percent in return. The previous five years SEB have had nearly as good results as Handelsbanken.

4.4 Value added per employee

The business ratio value added per employee gives an indication on how much each employee contributes to the total result (Sveiby et al 1990). Handelsbanken has had a fairly steady amount of employees over the years compared to SEB, who in a high pace have expanded their business activity and also increased the numbers of employees.

The figure below shows the gap in numbers of employees between SEB and Handelsbanken. Today, SEB has around 20 000 employees worldwide compared to Handelsbanken, who employs around 10 000 people in all divisions through the organization.¹³²

¹³² Annual reports SEB and Handelsbanken

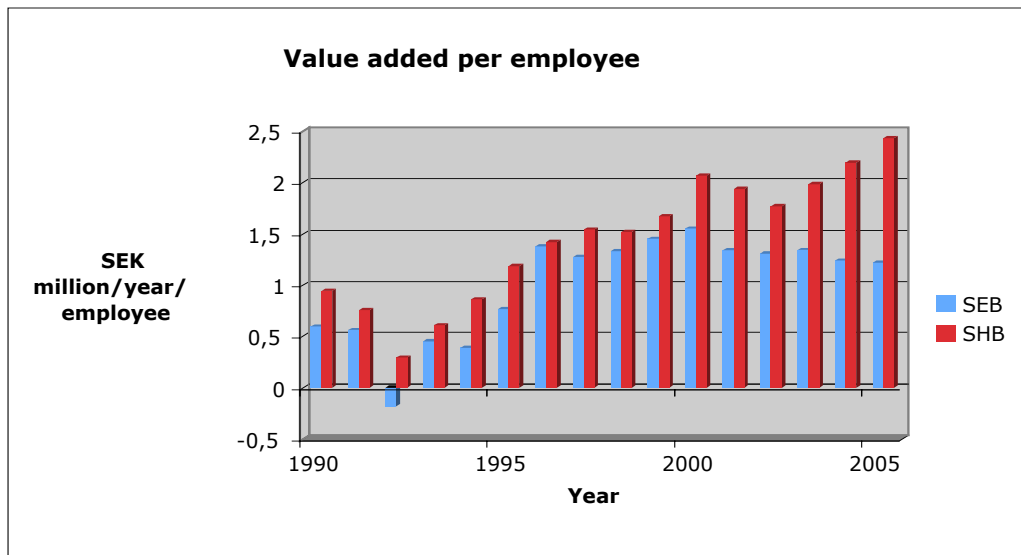


This diagram shows the average number of employees for SEB (the blue line on top) and Handelsbanken (the red closest to the bottom).

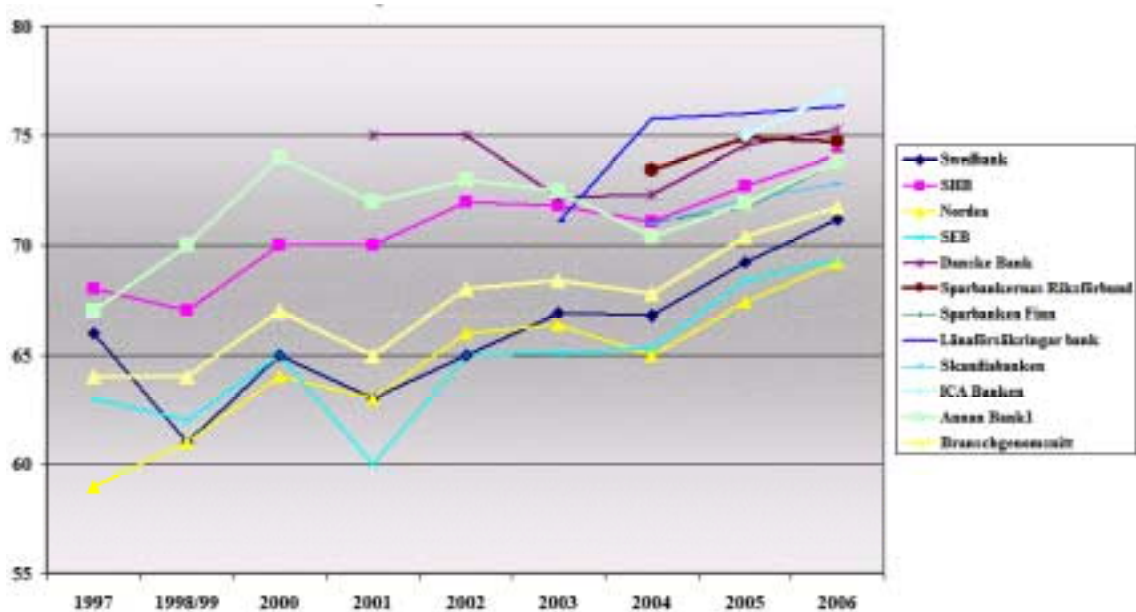
By dividing the operating profits and adding depreciation and personnel costs and then divide it with numbers of employees one gets an figure showing the actual performance per employee. This figure is fairly easy for someone outside to calculate and it is important in analyzing the efficiency within an organization. Of course the added value cannot be left alone as basis for evaluation, due to other parameters that affect the results.

In 1992, the whole bank sector went through a major bank crisis, which affected every bank's result that year and the ones that followed. SEB rationalized their organization in many ways, one was reducing the numbers of employees as a way to cut costs. The year's setbacks resulted in big losses for both Handelsbanken and SEB.

Over time Handelsbanken have had higher value added per employee compared to SEB. Late 1990 they kept pace with each other and where both banks had a value added around SEK 1.5 million per employee. The years after 2000 SEB expanded while Handelsbanken kept a more watchful approach. This has had an effect on the added value per employee. Handelsbanken's added value rose and 2005 they had added values approximately around 2,5 million each year and employee. SEB in contrast decreased their added value.



This diagram shows the value added over the years 1990 until 2005 of both SEB and Handelsbanken.



The diagram above shows the customer satisfaction in many of the Swedish banks from the year of 1997 until 2006. Handelsbanken is represented by the pink line and SEB by the turquoise line.¹³³

¹³³ www.ski.se

4.5 Customer satisfaction

SEB has lately done remarkable progress regarding satisfaction among their merchant banking customers. According to svenskt kvalitetsindex it only remains 0,5 units to reach the number one position. SEB has got three different types of customers and they are big among companies and institutions, minor or average companies and last private persons. In the first group SEB has got a history of being in a leading position. During 2005, big companies and institutions were responsible for 40 percent of the annual revenue. SEB is financial partner to around 500 international companies; foremost in the Nordic countries and in Germany.

The second group stand for 25 percent of the revenues the same year and SEB is serving 400 minor and average companies in the Nordic countries, the Baltic countries and Germany. These companies good have an advantage since they get the knowledge and the products that SEB has built up in co-operation with the bigger companies and has adjusted to the smaller companies needs.

Finally, SEB has a large group of private customers, to be more exact five millions. SEB assists their private customers with their every-day economy, loans and investments. The private customers stood for 35 percent of 2005's revenues.

The whole business activity is based on trust, continuity and long-term relations with the customers¹³⁴. Good relations with the customers are an area where SEB is lagging behind the other larger banks in Sweden. This is something that Annika Falkengren and the whole organisation are working to change. But as Harald Syversen pointed out, in the smaller offices out in the country the customers are often satisfied to up to 98 percent. The smaller the offices are, the more satisfied are the customers.

¹³⁴ Annual report, SEB

5 Analysis

In the analysis we will use the theoretical framework to go through and analyze the empirical material and to find conclusions, which in the last chapter are used to answer the purpose of the thesis

In order to accomplish the purpose of the study we have chosen to highlight the essential part in the intellectual capital of Handelsbanken and using SEB as benchmark for our findings. This way of benchmarking the results is more illustrative and explanatory for the conclusions that we have drawn. The structure follows the empirical research in the sense that our analysis further develops the empirical results and declares the effect it might have for the two banks.

The last thirty years Handelsbanken has been a success story without end for Handelsbanken which every year delivered results often over expectation, share values above competitors and surveys showing the most satisfied customer and employees in every since. Throughout the work of the thesis we have found some explanations to both the former success story and to the recent fall by pointing at aspects of the intellectual capital.

Since the last three years the other three big banks in Sweden are catching up, both when it comes to the profit and the value of shares. In this analysis a possible explanation to the prosperity and the fall and a comparison with an equal competitor who have been having a different development and that also have a structure that differs from the one Handelsbanken has got, namely SEB. SEB is doing better and better and has invested greatly on growth abroad during the last years and also succeeded in this. Now, more than half of their revenue comes from business activities outside the Swedish borders.

Handelsbanken has, as mentioned before, been the leading bank in Sweden in the most aspects. Jan Wallander entered in the early 1970 and carried out radical changes that helped Handelsbanken to get back on track after the tough bank crises in 1992. The most significant change was the broad decentralization giving the local offices authorization and empowered them to be more independent units. They were given the possibility make their own decisions

based on local conditions and upon experiences possessed by the employees. The decentralisation has been the most prominent factor behind the good results. According to the agent-principal theory a business unit like a local bank office can by empower employees and giving them more responsibility limit the congruence in interest between the employee (agent) and the bank (principal). By setting up the same goal for both parts, here in terms of good results that everyone in the performing unit can profit from, makes everyone aim in the same direction in the organization. In the end it affect the result in a positive way. The people working at the local offices, which are the most important units, are the ones that can make biggest difference as well. For them to perform efficiently and adding most value it is necessary to count results on the basis of their own performance specifically. By organizing the 500 local bank offices in Sweden as separate result units have obviously been encouraging and motivating for everyone. To be able to see the results of ones effort is a psychological tool and therefore a managerial tool as well. The independent units all offices constitutes has of course also better knowledge about the local market, local customers and needs and the best possibilities to adjust their service to the market. This is where a central unit lacks the right information and knowledge and ability. Furthermore Handelsbanken have the ability to react on changes. What are the local competitors on to? What are the local needs? Is there a specific branch active in the community and must therefore be looked in to? What is the structure of the market in the matter of age, income, background, and interest? All these parameters must be acknowledged for a bank to be successful. Handelsbanken is handling this very well.

The added value is a significant ratio when evaluating the efficiency. The added value in Handelsbanken is presenting much higher figure in added value compared to SEB. The most noteworthy is that the latest five years SEB has got a negative trend in added value. This can have an explanation in intensive expansion abroad that disturbs both the efficiency and structural capital that has to be incorporated in the SEB structure. Further on the explicit reason to make acquisitions is to broaden its market share, which can have side effects due to a total different culture among the employees in the bank abroad.

SEB are in addition known to be the centralized bank, managed by central organs handling directives to the local offices and lower divisions. Since Annika Falkengren entered as CEO after Lars Thunell the organizational structure is in focus again. The former structure is rearranged; support units are rationalized and new divisions like private banking is emerging.

The structure of the organization is shown to have magnificent impact on the result. From interviews it has become clear the pros and cons of different alternatives. Handelsbanken's decentralization turned out to be a power injection for the daily work as well as increasing efficiency, which in the end resulted in higher profitability. The different structure of SEB organization, which from time to time been rearranged, have had more problems with efficiency and cost control and are still struggling to lower the costs within the organization. In the recent past and nearest future they have and will make changes in terms of merging divisions and centralizing help units and back office departments.

“To see the result for our own office in the end of the years, and of course the monthly reports on the intranet works as a trigger to do better, get more customers, sell more of our services etc”¹³⁵

“The intranet is an overload of information that no one can handle. It would be better if the closest executives gave updates concerning our local region”¹³⁶

The customer is what makes the business function and survive in the long run. As brought up in chapter three, Swedish quality index has made surveys during many years and is a source of information used by the market and media when evaluating companies. Swedish quality index is an impartial index in collaboration with the international organization European performance satisfaction index, which assembling survey in twenty other countries. Therefore the results of the surveys conducted are of great importance for the banks and indicates how well they have met the customers needs. For Handelsbanken, the number one position says that they, in relation to SEB, has better met the needs of customers and therefore have the most satisfied customers. Cost efficiency leads to high profitability and satisfied customers leads to strong growth. In 2001 Handelsbanken were named “The bank of the year” by Affärsvärlden, a periodical for private finances. Affärsvärlden has conducted the survey in Sweden since 1989, using the same methodology. Every year they have been number one for household customers and every year except one for corporate customers. One conclusion from the survey is that in general, small banks are normally more appreciated by their customers than larger ones. This is partly explained by the fact that the benefits of economies of scale

¹³⁵ employee Handelsbanken

¹³⁶ employee SEB

are often exaggerated in banking operations. One again the decentralization shows the positive effect it has on the result. The satisfaction can also be an explanation behind the loyalty among the same.

Interesting in customer satisfaction is that SEB have never had higher positions in the customer satisfaction index but have recently after efforts lead by Annika Falkengren climbed the ladder and are closing in on the banks ranked highest. The focus on customer satisfaction is apparent in the results. Best satisfaction they have among the corporate customers.

The customer satisfaction leads us to the next index, employee index, conducted by the same institution Swedish quality index. The two indexes, customer and employees, are very much correlated with each other. Satisfied employees gives satisfied customers and satisfied customer gives to a high extent satisfied employees. It's a kind of symbiosis where the one thing depends on the other. An index for each bank has not been conducted instead the results is based upon the interviews done with employees within the two banks. The questions have been based of the model used by Swedish quality index use when looking at the satisfaction classified by branches.

Handelsbanken's employees confirm the strong culture and values in the organization. Having something that brings people together creates solidarity. It makes the work easier and the employees can gather around the same goal.

"I have emphasised many times, in this, my first comments to the Annual Report as CEO, that the foundation of so many successfully years is the way we work; the corporate culture we have built up; the way we treat our customers and colleagues, the approach which we continue to build and reinforce every day. A corporate culture is not something tangible which that you can put in the balance sheet, but nor is it something so intangible that it just lives on what ever we do. Our employees are imbued whit this culture and they actualise its value in their daily work" ¹³⁷

It becomes clear that Handelsbanken invest highly on their employees. It's a necessity for making them want to stay within the organization. Handelsbanken have the lowest employee

¹³⁷ Lars O Grönqvist, former CEO Handelsbanken

turnover of all banks. And it is very common that people have been in active in the organization their whole professional life.

The profit-sharing system that is unique for Handelsbanken, called “Oktagonen”, has been discussed often and deeply in media and by analysts. Here again, the agent-principal theory can be explanatory. The profit sharing system gives incentives for the employees to endeavour the same goals as the organization as a whole. Besides that employees also find reason for stay and work in the same organization in further extent. From the year of introduction 1973 and forward it has every year, except the year of bank crises 1992, reserved a part of the profit to the found. Even though this is something that people do not express it must be motivating for staying within the organization. Many of the employees in Handelsbanken are worth a smaller fortune after they turn sixty. Oktagonen makes the employees interest the same as the shareholders. If Handelsbanken delivers good results the shareholders as well as the employees profit from it. Again, a link can be made to the agent-principal theory.

In pace with SEB’s expansion, they have focused on the importance of being able to adjust the prerequisites the many employees in all countries SEB are representing. They want everyone to strive for the key words; engagement, continuity, mutual respect and professionalism. The expansion is a challenge for SEB in the sense to hold on to a strong culture and structural advantages. Much pressure comes along with growth. Everyone incorporated in the organization must adjust as fast as possible and strong culture is something that does not come over night. Furthermore the structural capital SEB have built up over the years is crucial for the human capital. When growing through acquisitions, and not organically like Handelsbanken focused on, complications follows due to the differences in organizational structure between the buying bank and the one being bought. The complications from acquisitions of other banks are of course difficult to handle and is in the beginning a drawback for the organization as a whole.

Handelsbanken do not eliminate the possibility for making acquisitions if the prospect is interesting and the price is right but reasoned that to be able to develop an operation, they must have leadership capacity and for that, have the understanding for the market for the acquisition. This makes it unlikely that they would carry out a number of major acquisitions

in quick succession, or that they would move by acquisitions into a market where they lack previous experience.

From an intellectual capital point of view one can find numerous factors that have had considerable effect in shaping Handelsbanken to be the successful bank it is today. Employees, customers, culture, structural advantages etc. It has been a predictable show each time the CEO of Handelsbanken enters the scene presenting the annual results in front of media and analysts, shareholder and customers. But the position as “best in class” is not the story any longer. The archrival SEB is closing in.

2006 was a deep dive for Handelsbanken. The operating result of SEK 3 billion was way under expectations and the normally so important return on equity was down to 13,6%. Over one, two and five years, the figures show the same thing, Handelsbanken has not done this bad in many years. It is even more obvious in comparison with the other larger banks in Sweden. Measured in share value, SEB has passed Handelsbanken with a value of SEK 139 billion against Handelsbanken's SEK 119 billion.

The dramatic change of the long success story of Handelsbanken seems to fade. A company's strategy will not live forever. One has to adjust to the market, business cycles and prerequisites. Handelsbanken's former comparative advantages are maybe not their advantage any longer.

Pär Boman has recently pronounced plans for further reorganizations in order to make the organization more efficient. For instance, a private banking unit, where Handelsbanken is lagging far behind compared to SEB. The decentralization has its drawbacks in the high pace environment. The individual result units makes the offices favour their own customers, which are the only ones contributing to the office results. In times when people move and travel one expect the services from the bank to be available wherever you are. The situation today gives another impression. Handelsbanken says officially that the customer of Handelsbanken is supposed to get the best service and help at any of the local bank's offices around the country. In reality it might be a little bit different. Since every office is like an individual result unit they do not really consider them self as a part of the whole Handelsbanken organization and therefore works for their own units result in a greater extent rather than benefiting the whole organization. This leads to a resistance against helping customers that belongs to other local

bank offices. In the future Handelsbanken need to be more flexible in order to hold on to loyal and satisfied customers.

To be able to capitalize on the globalization and business cycle boom visible the last couple of years, the age structure is a definitely a problem. Handelsbanken's age structure among the employees is much higher than SEB. Many of them belong to the group of 55-59, which means that they soon retire. If they do not recruit continually they will face problems eventually. A recruitment process does take time if they want to find the right people. Their recruitment strategy is weak in the sense of finding people. Until now they have had focus on recruiting internally but due to the fact that it soon wont be enough people available a switch in focus is necessary. Recommendation is to aim more at students in the relevant studies and maybe develop a trainee program, which they stand without in the present. This is an area SEB is prominent in. SEB offers each year several very popular trainee programs that attract the most skilled students. And one can distinguish a correlation between SEB's relatively younger employees and their continuous improvements, new expansions, reorganisations, and more innovative approach. The central training and development unit support and develop the employees and the structural capital, which brings about higher performance. Besides the age structure, Handelsbanken is also recruiting many with only upper secondary exams. These persons do not have the same analytical capabilities as academic educated persons may have and this could be an important factor when it comes to predict financial risks etc. As in 1990, only 10 percent of the Handelsbanken's employees had an academic degree.

Handelsbanken's customer base is also turning old. The days when people are "born in to a bank", normally the same one their parents belong to, are counted. Today especially younger people are not loyal in the same sense as the generation before them. They feel no obligations to stick to the same bank as they started with. We can see among us younger people that the switches between banks are more common. Rates, offers and variation in services can be enough reason to change bank. All the other larger competitors, and among them, SEB, on the other hand do efforts to reach the younger customer base. Lund, which is one of the biggest university cities in Sweden, has around 30 000 students which could be offered so called students package, where the most services and credit cards are free during the studies. These so called students packages are for example offered by SEB, and also by the other two big

banks in Sweden, Nordea and Swedbank. This results in a little less profits in the beginning but is an investment in future customers with high profit potential.

The market strategy which says that the local offices in Handelsbanken individually decides upon what advertising efforts should be made leads to a smaller amount of ads and commercials. If Handelsbanken wants to keep their market share they need to concentrate on more information to the market. This must be meet through directions from above. The proactive approach is not distinguishable.

6. Final discussion

In this final chapter we aim to conclude the key concepts of the intellectual capital in Handelsbanken, which will also summarize our previous analyses. For the value of study the conclusions are presented on an extended level for the reason to highlight our reflection on the overall theme and also easier accessible for implementation in other similar organizations.

The chapter also includes a few points that we recommend for further research.

6.1 Conclusion

In the analysis we have highlighted the factors that we through the writing have found important to explaining what the differences between the intellectual capital in Handelsbanken versus SEB. The sub question is if there is a correlation between the intellectual capital in the banks and the development in the respective banks lately.

First of all, the hypothesis that there are great differences between the two banks when it comes to intellectual capital was true. Handelsbanken and SEB are quite different from each other in all components of the human, structural as well as relational capital. The last thirty years of success can many times explained by the intellectual capital within Handelsbanken. The one most crucial has been brought up in earlier chapters in this thesis. But as well as the factors behind the success is clear it also raises the question if this is the strategy, which shall be followed in the future as well. To us the question marks are many and at the same time one can discern to many factors that soon or already has turn out to be the explanation to the weaker results and a much more insecure future ahead.

Handelsbanken's human capital has over the years build a work force with much knowledge and ability to carry out the philosophy and goal of the organization. Together they have created on the beliefs of Jan Wallander, an organization highly decentralized and profitable bank. The human capital must though reconsider their strategy. Handelsbanken is facing a

future where their core competencies lie within the older employees that soon will retire. To manage the losses, the need to have a new approach in recruitment and put effort in replacing the people leaving the organization. Handelsbanken has had a big success without ending and it might be deduced to oktagonen and the very high grade of customer satisfaction. But is it possible that Oktagonen today has become the akillesheel of Handelsbanken? Are the personnel too old and too stuck in the old weeltraces? We reason that on the base of our study this can be part of a potential explanation.

The structural capital that is built upon decentralization and cost efficiency has resulted in split interest between the local bank offices and the organization as a whole. The former comparative advantage is becoming Handelsbanken's disadvantage. Cost control has left Handelsbanken with weak structural capital in forms of it-systems and supporting administrative tools. The decentralization has created a focus that on today's competitive market do not contribute to their success. When globalization allows business as well as people to move from place to place with few obstacles holding them back, the bank must follow. SEB has faced many problems when in a high pace they have expanded their activities abroad but are now at the stage when they start to see results of it. Handelsbanken's vision to always put profitability before growth must probably be reconsidered. As the discussion in media fuels the fact that to survive as one of the major bank, the need to have a great share of the market is important and one way is to approach new market as well as following the old customers. This is especially important in for the corporate customers. SEB's leading star is to be seen as the northern Europe bank, which hopefully will trigger Handelsbanken to also face the new market abilities.

In the same sense the relational capital can get stronger. Handelsbanken is in need of a "refill" now when the customer base is growing old and the former attitude of holding on to the bank inherited belongs to the past. The costumers need changes and these requirements need to be acknowledged. The major banks are confronted with nished competitors offering the same services that traditional bank ones where alone in doing. Handelsbanken must leave old habits and find new ways in manage the new market situation.

Handelsbanken grows organic and when they grow abroad they do it by starting up filial from scratch in the new location. Unfortunately, this takes a lot of resources as time, money and people and Handelsbanken, which results in lower growth compared to SEB. They have

invested a lot in growth abroad and have the recent years bought three banks in the Baltic countries and one in Germany. They also work hard to be seen as a northern European bank. There are advantages with both organic and non-organic growth and of course, it is easier to keep the corporate culture and communicate the corporate values when growing organically. Though, a part of a potential explanation to the weak stock value development lately can be that Handelsbanken is lagging behind the other banks when it comes to growth abroad.

The clients in Handelsbanken as well as the employees are getting old. In comparison, SEB's employees are much younger. Handelsbanken does not work proactively to attract new customers and nothing really to attract students either.

To stay in the game in today's competitive market one can not hold on to a once very successful strategy, one must always have parallel plans ready, to be able to act quick to changes in the sector and the moves made by competitors. The aspect of intellectual capital in Handelsbanken can be an explanation to the last two decades success as well as the recent drawbacks becomes more understandable on the basis of what we have found in our empirical research. The lesson here is the importance of not always relying on old figures. Handelsbanken's intellectual capital and value is eroding. The environment changes as well as the prerequisites. To survive Handelsbanken needs to face this.

This type of efforts is needed to turn the downfall around in a bank that is used to be "the best in class" for the last thirty years of non-stop success. Handelsbanken are in need of an inventory of the intellectual capital and executing those changes necessary for the future. To further support and revitalized organization a possible investment could lay in a central unit for further development and training (SEB could statue as possible model). By acknowledge the obstacles as well as new possibilities Handelsbanken has every chance to get back up there as number one.

6.2 Suggestions for future research

During the work of this thesis some further suggestions for future research has come up:

- The most valuable as for further research in this field of study would be to make a deeper study of the intellectual capital in Swedish banks. The one we have conducted is a limited study due to the scarce resources and time. This can include every larger bank. A comparison with the work on IC statements that has been used in Germany can also be of interest.
- Another valuable study would be the cross-sectional made in banks. This had brought light to the differences in knowledge intensity within the organization.

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7.3 Interviewed persons

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- Tord Andersson, former analyst at Skandia and DNB
- Gerd Boberg, HR department Handelsbanken, Malmö City
- Harald Syversen, Executive bank manager, region west
- Pernilla Johansson, HR department Gothenburg
- Tom Wallén, bank manager, Skutskär
- Peter Einarsson Handelsbanken Paris
- Jonas Eriksson, analyst at JP Morgan
- Kim Bergoe, analyst at FBK
- Henrik Schmidt, analyst at KPW
- Jan Wolter, analyst at Danske bank
- Bo Aksel Tarras Madsen, analyst at Danske bank
- Anna-Lena Möller, executive Department of development of competencies Handelsbanken