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Banking M&A Activities and Market Economy in the UK：The Cases of Bank of Scotland

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ABSTRACT

British market economy had lots of banking M&A cases around 2000. For understanding of this situation, researchers need to know relationships between managers and regulators. This research has two questions： in the British banking cases, how local M&A changing strategies improve competition based on its basic characteristic, and meanwhile how they reflect adaptation to financial globalisation in a banking board's fiduciary duty, through four institutional arrangements in the British market economy. This research concludes The changes brought about through a 'changing strategy' emphasise national characteristics through both institutional arrangements and through the fiduciary duty of a bank.

KEYWORDS：Banking M&A, Bank of Scotland, , NatWest, Abbey National, Halifax, Liberal Market Economy

Introduction

1－1 Introduction

In the British banking merger cases, globalisation[I] effects in the financial markets reinforce LME–led elements in preferences due to interests of stakeholders and involve no fundamental changes in distribution mechanism of finance, profits and power. British takeovers depend heavily on market–led/shareholder–led corporate governance in the decision–making processes（Hall and Soskice, 2001；Vitols, 2001；Zugehör, 2003）. Enhanced LME elements did not enforce cross–border mergers of European banks so easily.

> *"Cross–border mergers are doubly difficult. There is little overlap between banks from the different countries and the logic here is different： less cost cutting, more revenue generation Yet, that is precisely why banks are hesitant. Buying a bank in another country with another language and another legal system is a risk that few want to take….full mergers have proved difficult."*
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> （The Economist, March 122000：19）

The cases highlight the characteristics of the national market coordination. For understanding of this, British large bank–mergers provide a good illustration of the operation and regulation of the UK mergers market as a prime example of an LME. Indeed, financial globalisation has accelerated a series of British banking M&A activities, while it retains the traditional distribution pattern of power of the British LME, though with a substantial change. Globalisation enhances both elements of the change and the tradition. The globalisation effects in the financial markets reflect the preferences and interests of stakeholders. The effects have no positive power to change framework of market political economy. The relevant British authorities have also assessed a bank merger depending heavily on the 'customer convenience（Financial Services Authority UK Financial Central Division, 2000）' base, while they establish "a regime founded on a established risk–based approach to the regulation of all financial business"（Alexander, 2004）via the Financial Services and Markets Act of 2000 and its accompanying regula-

tions in order to accommodate interests arising from both globalisation and the national capitalist model. Financial Services and Markets Act of 2000 have stated statutory objectives:

> *"maintaining confidence in the financial system, promoting publicawareness of the financial system, securing the appropriate degree of protection for consumers and reducing the extent to which it is possible for business carried on by regulated persons to be used for purposes connected with financial crime."*
>
> (Financial Services Authority UK 1998)

Policy makers handle the framework, and its definition. They might consider the effects, but the shift toward more LME-led market circumstances. In the British bank-merger cases, the customers must enjoy the long-term interests via branch network, unchanged and enrich banking services by a merger. For changing the market coordination, the national political economy needs 'intention' of market directors (policy-makers) with preferences of key market coordinators (stakeholders of banks which are the central core of national market economies).

Therefore, this research examines, in the British banking cases, how local M&A changing strategies improve competition based on its basic characteristic, and meanwhile how they reflect adaptation to financial globalisation in a banking board's fiduciary duty, through four institutional arrangements in the British market economy: 1) capital control of a firm 2) mobility of the labour market, 3) corporate control of the market and 4) regulations. The changes brought about through a 'changing strategy' emphasise national characteristics through both institutional arrangements and through the fiduciary duty of a bank. For examining these, this paper chooses British large-bank merger cases: three cases involving Bank of Scotland: the NatWest, Abbey National and Halifax cases.

1－2 Manager s and Regulators in M&A Activities

British mergers such as these BoS cases are not controlled by government policy. However the British FSA has been created in response to the migration of business across institutional boundaries and the growth of financial conglomerates (Yokoi-Arai and Kawasaki, 2007: 18). British mergers are undertaken in reaction to market signals and are effectively regulated by the operation of the stock exchange. FSA executives argue that the administrative goals, of establishing a free, fair and transparent LME with global competitiveness, are decided by market signals (share prices and corporate value) within market discipline. Banks are sensitive to price -signalling from the equity market, while their behaviour must be conducted under market principles. In this point and for the protection of domestic customers, the British government retains an administrative involvement in merger-control. Regulators forced the CEO of the Bank of Scotland, Peter Burt, to consider more British LME-led competitiveness with the effects of globalisation, and more customer protection embedded in management. This protection enforces business services for customers (i.e., business products, contracts and business networks for customers'convenience). As the detailed role and definition of financial activities and inner-organisational changes from the view of market maintenance, the government policy modifies and emphasises the formations and characteristics of financial merger activities. The changes in a market have no alters in social context of national political economy. British regulators monitor the playing field for banking competition via merger in the name of for safety-net financial stability. The effects of

globalisation have no drastic changes in historical accumulations of politics and society (Vogel, 2006 ; Vogel and Barma, 2007). The banking market reforms highlight the banking managers have the decision–making responsibility to respond to the requests of shareholders within the regulatory framework.

A series of financial reforms in the UK (The Enterprise Act, the foundation of the Competition Commission, the renewed definition of competitiveness and further LME–led market circumstances leading to benefits from equity markets in the British banking industry) has established a free, fair, transparent and globalising domestic financial market with competitiveness, in which detailed rules and definitions do not direct banking management.

The British authorities in banking and merger activities (e.g. banking : FSA, Banking merger : OFT, CC), argue that the administrative goals to establish such a market were introduced by firms' intentions without direct state administration (Hall and Soskice , 2001 ; Vitols , 2001, Gourevitch and Shinn, 2005 ; Yokoi–Arai and Kawasaki, 2007). However, it is a fact that financial reform–packages have thrown financial institutions into the administrative cage. In this cage, managers drive their firms, while they confirm the regulatory (liberal market–led) 'traffic sign' for facilitating adequate business activities. These 'traffic signs' structure their regulatory goals. British policy–makers decide the whole frameworks ; afterwards, the stakeholders of banks can only decide the allocation of benefits and finance, and its method. The former cannot change, only the latter can change. This case can be also be seen in the recent, free–competition–led Japanese banking administration, directed by the recent Ministers for the State of Finance. Heizo Takenaka and Tatsuya Ito. The main key of their aim and goals are for this to optimise allocation of resources for Japanese market economy. However, the liberal market–led political economy also needs some institutions to have a role for the 'traffic control' of resource allocation, especially capital movements and banking stakeholders in the national political economy. These changes show us the slow adaptation to globalisation's effects. In this context, the British market economy is defined as a liberal market–led one.

Therefore, the policy administrators and banking managers depend heavily on market–signalling in order to consider the merger–method considering balance between share–price and corporate value, and benefits to domestic customers.

Merger activities

1) Bank merger–stimulated market signals modify the activities
2) Government policy has no direct control over British large bank merger cases.
3) Government policy still retains the capacity to handle merger–activities via regulatory market maintenance and the protection of domestic customers' benefits.
4) Banks' behaviour and their supportive administration (from the view of market circumstances and customer protection) have a national M&A strategy.

In this process firms headquartered the UK have further shifted their managerial control from internal relations (e.g. banks, group companies, employees etc) to external elements (short–term shareholders). Share prices and enterprise value are the key criteria and the most powerful groups are coalitions of owners (a socialisation of interests composed of numerous small shareholders) (Vitols, 2001 ; Gourevitch and Shinn, 2005). Managers have become fiduciaries of shareholders. Their decision adapts requests from shareholders within the regulatory cage of the so–called British liberal market economy. With ac-

ceptance of market elements (e.g.share prices, enterprise values) in the market, the UK system is well-adapted to operation within a global financial market. Whether this is in the long term interests of the UK economy or UK banks is a more uncertain point. The market coordination shows us the short-term interests are more suitable. The tendency becomes stronger than before in the global context. As a result, British banking M&A activities, stimulated by the globalisation of financial markets, bring substantial developments to the distribution of finance, profits and power in 'Anglo-Saxson-style corporate governance' (Zugehör, 2003). and in the British LME. In other words, the globalisation offers a sort of functional disorder beyond the pre-existing regulatory cages for banking business practices. As the Germany firm cases contain and highlight a sort of Anglo-Saxon characteristics in this situation, the British firm cases also exhibit 'Functionsweise' of external control (Zugehör, 2003 : 17).

1) Managers intend to maximise shareholders' benefits.
2) Shareholders do need to take benefits from the result of the merger activities as they can take it from the merger processes.
3) Decisions of managers are very variable and adhoc.
4) Therefore, the pre-existing political coalition structures decisions.

This paper describes the further adaptation to globalisation in the British LME at the meso- and macro- levels. The British cases show that the market-led network runs the LME models. The historical accumulation of conventional behaviours (norms and practices) directs policy/strategy toward market circumstances. It intensifies UK bank-mergers toward a more equity-market basis. Price-signalling facilitated the BoS CEO's decision to merge with other British banks on three occasions within 3 years: NatWest (1999-2000), Abbey National (2000-2001) and Halifax (2001). BoS shareholders ordered Peter Burt to pursue further equity market-led strategies with higher returns in the short-term. Its minority shareholders and institutional ones forced the managers to consider well-balanced equity market-led business performance and customers' protection for highest share-price. The balance meant that business performance would be more important than customer service and the other conditions (e.g. working conditions), should the conditions not affect the share-price. Therefore the former one was more important for all stakeholders than the latter. The managers were forced toward more equity market-led strategies involving customers' convenience. These behaviours by market signals led the national authority to adopt defensive merger controls and policies.

Across the period between 1998 and 2002, the banking manager Peter Burt pursued positive M&A strategies through a variety of TOBs: hostile-takeovers with NatWest (which failed); negotiation with Abbey National (which was cancelled); and friendly consolidation with Halifax (which was successful). The methods of these strategies are changeable in the climate of the UK and EU banking markets, which have been stimulated by the effects of globalisation. There is no negotiation process between managers and regulators in order to decide the national and corporate strategies of the LME. The managers do not have subordinate relations with regulators. However, it is a fact that the B-FSA and OFT, with advisory intuition, had initiatives to identify where the best for the long-run of national interests would come from. The authorities create market circumstances for the best performance of British banking. Thus regulators become coordinators to guide the unfixed and changeable strategic approaches of managers according to such circum-

stances. They control the degree of comprehensive competitiveness amongst the traditional competitiveness based on the British LME, the effects of globalisation, and profit–making in consideration of customers. Their indirect guidance does not involve an advisory role from the CC. There is no negotiable or informal roundtable in the open–door processes. At the policy level, regulators simply monitor to what extent corporate strategies are affected within a range of regulations. Meanwhile banking managers also seek market–led non–discretional regulation for freedom to choose corporate strategies. In this context, the takeover policy preferences of the managers of British banks are based on more LME–led characteristics which introduce Japanese–style regulatory guidance. In the merger processes, regulators coordinate the environments for corporate strategic choice over share–price.

Therefore, this paper suggests that the changes in British merger control have gradually involved the current alternative effects of globalisation in order to reinforce the activities of the financial firms of the most mature capitalist systems in the world, such as financial firms in the UK. The controls lead firms to take advantage of free, fair and global competitiveness. Moreover some of the reforms promote minority and overseas shareholder protections in order to introduce further capital from other equity–markets to the British one. Several dimensions of the changes show the central core of British liberal market economy is under transition from LME to an economic model closed to free market. The M&A strategies binding the LME institutions have changed the meaning of benefits, goals of merger and the sum of financial returns drastically to make short–term profits from share prices in merger processes, whilst, they have a dimension not to consider merger result. The changes have evolved from national characteristics and their enhancements as a result of globalisation and its enhancement of the institutions for national market economy. Therefore, merger control also considers the protection from the adequate resource allowance in the domestic financial markets via merger activities.

1－3 Causal Schema

To understand this situation, this paper explains the defined causal schema of British corporate control (See Table 1.1), , through two merger cases of Bank of Scotland (BoS) (See Table 1.2).

This chapter suggests the developed causal schema modelling the distribution as an analytical framework of this paper. The schema is based upon that of Gourevitch and Shinn (2005) (Table 1.1). Their model sketches out the political, policy and

Table 1.1 Causal Schema

	Gourevitch and Shinn 2005	This research
Political Dimension	Preferences and Institutions	Power Distribution
Policy Dimension	Two policy components of Capitalist Economic Policies	Negotiating Merger Policy
Policy Dimension		Enforcing Policy
Outcomes	Shareholder ownership	

Table 1.2 : Bank of Scotland's cases of 1998, 2000, and 2001

Before and after Reform	Cases
Before the completion of national M&A promotion	BoS's buy-out activity in the case of the NatWest conflict of 1998
After the completion of national M&A promotion	The failed merger negotiation with Abbey National in 2000 ; The HBOS case of 2001

outcome dimensions of stakeholders' policy preferences. The mechanism of policy orientation in this research is an improvement upon the original model of Gourevitch and Shinn (2005). Their model organises the political interaction between preferences and institutions in the policy dimension: a combination of minority shareholder protections (MSPs) and degrees of coordination (DoCs), which together comprise what is labelled as capitalist economic politics (CEPs) (Gourevitch and Shinn, 2005: 58). However, this mechanism is not interactive and is only adaptable to a static situation. It lacks several elements in order to understand power distribution models in the context of three aspects:

1) dynamics and the changes brought about by globalisation
2) the excluded interests that will react to or oppose the system in the two countries.
3) modelling in the distribution of power in the context of social behaviour and inner-firm politics abstracted from a social context and social values.

Therefore, this paper develops the advantages of their model and revises its disadvantages.

The first points argues that there are defined distribution models of power. These distribution models are defined by the 'varieties of capitalism' literature as developed by Gourevitch and Shinn. This literature focuses on distribution models of power in takeover activities and their control within banks: The Japanese CME demonstrates a corporatist political 'coalition of interests', while the British LME suggests an investor model based upon 'socialisation of interests'. In Japan, managers and workers dominate, and operate to the disadvantage of minority shareholders. Thus the Japanese coalition concentrates all stakeholder benefits, except for those of small shareholders. This power relation is closed and opaque. On the other hand, in the UK managers and owners dominate, and operate to the disadvantage of workers. The UK model indicates that a number of minority shareholders handle the policy preferences of the stakeholder-regime, although the model is so far based upon corporatist inner-firm relations with workers. In Japan there is a strong limitation upon merger threats, while in the UK there is a strong interest in marking mergers.

Second point is negotiation, such as the relations between regulators and managers, has decided the degree (balance) of the contradicted components of comprehensive competitiveness created between a national capitalist basis and a globalised basis. This section defines the negotiable regulatory guidance as an SRR. Regulators handle the degree through SRR in order to respond to globalisation, which is effectively a policy concerned with mergers, set in a wider policy about how to respond to financial globalisation. It focuses on the regulators in the two countries. Japanese merger policy is essentially 'defensive', keeping the globalisation of the financial market at bay. Regulators have informal relationships or interaction with the managers of the main banks. This relationship rests upon a 'coalition of interests'. The regulators act as 'referees' and construct compromises. To the contrary, British merger policy and defined competitiveness comes from the characteristics of globalisation. The regulators have fewer shared functions than their Japanese counterparts. Regulators do not have informal relationships or interaction with the managers of banks. Moreover, they do not enforce the discretional merger-controls. Managers handle their banks within financial regulations based upon the liberal market economy. This can explains two dimensions 1) signals of stakeholders signal and types of competitiveness and 2) excluded interests. These dimensions stress that countri-

es' regimes must deal with issues of MSP, EI (Excluded Interests in inner–firm actors) and DoC. These issues become a part of the relationship in both regimes.

Third point is how managers react to the requirements of their banks and of the regulators. The focus is upon the activities of managers in response to regulators' feedback. In Japan, managers distribute benefits in a highly corporatist fashion, seeking to maintain the 'main bank and keiretsu system'. In the UK, managers protect minority shareholders by seeking profits and protecting liquidity.

In this context, this paper focuses on three points : Regulatory framework (as Power Distribution), Policy Dimension and Regulatory compliance

1 — 4 Structure

The next section discusses the British financial markets and M&A activities of the UK banks. In order to support merger processes, the section explains the mergers with the minimum background and context of the UK finance/banking industry.

Chapter 3 explores the political dimension of the Bank of Scotland merger case with NatWest, and that of the bank's merger case with Halifax, based upon the power–distribution of the British market economy 5. It focuses on distribution models of power in takeover activities and their control within the British LME. The national model shows that the equity market–led political coalition in the ownership structure of BoS is a typical British–style coalition, such as a 'socialisation of interests.' Therefore, the BoS CEO, Peter Burt, coordinated its mergers for the highest common short–term benefits of shareholders. The bank's M&A activities further dominated their benefits in the banks and operated to the advantage of minority shareholders, including institutional investors as the agencies of minorities. This power relation is open–access and attendant upon the minimum unit of share–trading, such as in a portfolio investor regime. It does not consider the inner–political and financial advantages of other stakeholders, such as workers. Therefore, British authorities and banking managers preserve non–negotiable relations in order to guide capital from equity markets. In the British financial regime, there is less contradiction about comprehensive competitiveness between stakeholder policy preferences based on the equity market and those based on the national capitalist model. Stakeholders are investors, and workers are outside of this political coalition as far as ownership structure is concerned. Without negotiating with banking managers, regulators find the source of power–distribution that acquires the best in industrial and individual competitiveness in the equity market. The signals of power–distribution in the market are mediated by the equity market–led policy preferences of stakeholders. Regulators (the FSA and OFT) aim to maintain a global, transparent and free–market environment. The equity market–led policy preferences of stakeholders are required to satisfy both the increase in pressure of globalisation and the further developments in equity market–led environments rooted in the national capitalist system. This non–negotiable SRR brings free–hand takeover–actions and their methods to banking, except for the dimension of customer protection. Based on this situation, the Financial Services Agency and HM Treasury create banking competitiveness from the characteristics of the equity markets and from the protection of customers. Both authorities reflect the 'financial group' regulations on competitiveness. The merger control regulators, (i.e., the OFT and the Competition Commission) also deal with the definition of competitiveness. This shows the British model is far removed from the corporatist stakeholder–alliance, as seen in the Japanese and German models. The two merger

cases of BoS demonstrate that the alternative effects of financial globalisation further enhance portfolio–investing characteristics. Newer regulations consider accommodating the enhancements of the characteristics within customer convenience. Therefore, the national model handles the comprehensive policy preferences created between the British–style investor model and the effects of globalisation. In this context, there is a strong interest in the UK in encouraging mergers.

Chapter 4 explores that negotiation in terms of relations between regulators and managers (such as those between the executives of the MoF and its Old Person, and its successor, the Chief of the FSA), the BoS CEO Peter Burt had no such informal relationships. However, it is a fact that the B–FSA and OFT, with advisory intuition, had initiatives to identify where the best in the long–run of national interests would come from. British regulators have fewer functions than those of their Japanese counterparts. Regulators do not have informal relationships or interaction with the managers of banks. Moreover, they do not enforce the discretional merger–controls. However they coordinate the conditions of the playing field for banking business. Managers manage their banks within financial regulations based on the liberal market economy. In the merger cases, signals about BoS's stakeholders' policy preferences were generalised and considered the promotion of LME–led policies in the FSA and CC. The FSA and CC monitor obstacles to free corporate activities. The 'Excluded Interests' of inner–firm actors, especially those of workers, were partially considered. This is because business networks and large–scale dismissals create internal conflicts within firms. The possibility of such conflicts may cause a decline in share–price. In actual fact the campaign of NatWest workers against the BoS takeover–bid made itself a factor in the decision–making of the NatWest CEO, Sir David Rowland. Moreover, the campaign succeeded in making it so the merger could not achieve workers' and customers' and shareholders' benefits. Therefore, the campaign did not achieve a higher share–price in equity markets. Thus, banking managers are forced to consider MSP (minority shareholder protection) and customer protection in this dimension of excluded Interests of inter–firm actors. In the same dimension, Peter Burt could achieve his successful merger with Halifax, even though his decision was limited by British merger–control regulations such as MSPs, a degree of excluded Interests of inter–firm actors and regulatory degree of coordination about comprehensive competition for banking business.

Chapter 5 considers how Peter Burt reacted to internal requirements in the political dimension to adopt corporate strategies with regulatory supports. The focus is upon the manager's activities in response to regulators' feedback. In Britain, banking managers distribute benefits for high portfolio investing. This chapter explores how Peter Burt also followed these benefits. Then, final section suggests this paper's conclusion.

2 : British Financial Markets and M&A activities around 2000

Financial globalisation has accelerated a series of British banking M&A activities, while the traditional distribution pattern of power and finance in the British LME has been retained with substantial change. British large bank–mergers provide a good illustration of the operation and regulation of the UK mergers market as a prime example of an LME. Therefore, this section explains the British financial markets and the M&A activities of UK banks, in order to support the understanding of merger processes in the context of Bank of Scotland's mergers

with a minimal background and context of the UK finance/banking industry.

The British banks had lost their leading position in Europe by the re-structuring of the international banking business in Europe after the birth of Euro market. From 1993 to 2005, the world's top 150 mega banks for Tier 1 capital had 17 completed merger cases in EU market, excluding Great Britain. The banking M&A movement transformed over 20 national leading banks in each national market to several mega financial groups in the European transnational market: Deutsche Bank Group, BNP Paribas Group, BSCH, UBS, ING, Hypovereinsbank (South Germany, Czech and Austria), and Nordea Group (North Europe). These mega financial groups now dominate the European market and British banks have lost their traditional influential position in the area.

Since the 1990s, the British financial markets have been surrounded by big opportunities and threatening powers from outside rivals. One of the big opportunities of 1990s came as the world capital movement shifted from Japan to other advanced countries, especially the US and UK markets. The reason came from 1) the recovering competitiveness of British financial institutions such as HSBC and Barclays, 2) the re-organisation of British large banks from the role of high street depository institutions toward national leading positions with integrated financial services, 3) the burdening of Japanese banking with numerous bad loans, and 4) the advantageous changes in capital accord for UK and US institutions created by world banking governance, such as the Bank for International Settlements.

These market circumstances offered British large banks opportunities to return to their status as globally prestigious banks with integrated financial services. In the first half of the 1990s, the banks preferred to enforce M&A activities. In 1992, HSBC recovered its financial situation and enhanced its domestic business networks for showing presence in the depository banking market. In 1994, Lloyds Bank consolidated with TSB bank in order that they would shift from being investment and corporate banks for large enterprises to become integrated financial institutions with stronger corporate banks for Small and Medium-sized Enterprises (SMEs) and retail services. Since the late 1990s, the attractiveness of the domestic market and banking administration, supported by the old-fashioned safety-net, made the market reputable. The British banks followed US and European Banking M&A activities. In 1998, BNP Paribas and Deutsche Bank intended to buy NatWest when BoS and RBS engaged in their 'War' against NatWest. In 2000, Citigroup acquired Schroders (acquisition method: sale of business) and Chase Manhattan bought Robert Fleming in the August (buy-out: money).

In order to retrieve their international top banking position in the post-*pax Japana* banking business, the British banking industry needed to reconstruct their competitiveness. Therefore, the government established a new competition framework from 1998 to 2003. The main functions of the revised frameworks were (see Whish, 2003):

1) The new Competition Act 1998
2) The creation of the Competition Commission in 1998
3) The creation of the FSA in 2000
4) Revised merger control law in 2002

Using the effectiveness of the framework, the 5 biggest British banks also had a series of small and large M&A activities in national and European markets. Those M&A activities were capital market-

based, and the methods were various. First, HSBC took buy-out methods for absorbing small and large banking and insurance groups. In order to show the HSBC's presence in the eurozone, HSBC had a TOB (stock-swap) with a large French commercial bank, Crédit Commercial de France (CCF) in April 2000, which had 650 branches in France. Between 2000 and 2005, the bank purchased or took control of several of the world's regional financial networks: the NRMA Building Society (Australia), Demirbank (Turkey), China Securities Investment Trust Corporation (Taiwan's leading asset management company), and the Bank of Shanghai in 2001.

For accelerating to reform their universal banking business, Barclays purchased three large-size regional banking groups in the domestic and world markets. In 2001, Barclays formed a strategic alliance with Legal & General to sell life insurance, pensions and investment products throughout its UK network. It also sought to reinforce its building society section through Woolwich (one of the world top 150 banks about Tier 1 capital in 2002) through acquisition method (sell of business) in August 2003. Their universal bank completed the acquisition of Banco Zaragozano, one of Spain's largest banking groups, in the same year.

RBS completed a merger with their counterparts for quick-achieving top banks in Britain and Europe in 1998, and later, it intended to reinforce their business in other world markets through middle-size different business acquisition (Credit section). After RBS completed their acquisition of the National Westminster Bank after a hostile takeover battle with the BoS, it became the second largest bank in the Great Britain and Europe, and the fifth largest[I] in the world by market capitalization. In the British market, the business network is saturated by the issue of EU banking competition rules; therefore, RBS have now enlarged the business networks in outside market: for instance the 2005 acquisition of Peoples Credit Card Services in the US market.

BoS intended to be one of top world banks so quickly through merger methods with counter partners: Halifax and Abbey National. Bank of Scotland's hostile takeover battle with RBS over NatWest was stimulated in its M&A activities by the competitive European and British market environments and by British policy reform. A proposal to merge with Abbey National was pursued, but in September 2001, BoS had a multi-billion pound merger with Halifax (the second largest mortgage lender in the UK and in 2000 one of the top 150 banks of Tier 1 capital in the world). The new bank, renamed Halifax Bank of Scotland (HBOS), has since grown to become the fourth largest bank in the UK by market value, and the UK's largest mortgage lender.

The super-regional bank Lloyds TSB, which intended to specialise in the domestic market, reinforced its managing strength through purchasing the weakening business section, and sold the business overseas in Oceania and Latin America. The largest British bank, it also intended to merge with Abbey National in 2001, but the Competition Commission rejected the case. The bank was the focus of other merger opportunities. It had acquisitions of middle-sized business banking. In 2003 it bought Scottish Widows, one of the most recognised brands in the life insurance, pensions and investments industry in the UK. In contrast, in 2003 Lloyds TSB sold its subsidiary, NBNZ Holdings, comprising the group's New Zealand banking and insurance operations, to the Australia and New Zealand Banking Group; and in 2004 it sold its business in Argentina to Banco Patagonia Sudameris and its business in Colombia to Primer Banco del Istmo. It then proceeded

to sell its credit card business, Goldfish, to Morgan Stanley Bank International in 2005.

In light of all the merger cases in Britain since 1998, the FSA's re-structuring of the financial industry led domestic banks to adopt a more capital market basis, such as temporary shareholders and customer base. Therefore, rational choice M&A activities show that methods are decided case by case, which maximises the profits and benefits of shareholder and customers. Large banks drive a hard bargain with small banks through acquisition, and get dirt cheap deals. The way could be chosen from several methods : buy-out (stock-swap with existing stockholders), sale of business (buying only the necessary business section). On the other hand, a merger method is employed when both the business fields and the networks of the merged and merging banks are complementary. The most famous case is the 2001 case of Halifax (a building society whose business area was in England) with BoS (a universal bank with a Scottish business area). The case-by-case M&A method originally comes from the institutional arrangements of the British LME. The case was partially structured by national M&A policies, but mainly by market principles.

The financial market system has evolved to make mergers more flexible. Various scholars have analysed the overall modes, especially Zysman's trailblasing work displays Japanese financial market as government control based (Zysman 1983). The British system classified equity-market system. This chapter empirically analyses how the fiduciary duty of British banking boards reflects the institutional arrangements of each market, so that there is an institutional fit between M&A activities and institutional arrangements through a national changing strategy for banking M&A activities, although national models of capitalism adapt to the increase in financial globalisation. It also shows an empirical case in the British LME model in comparison with before and after the British financial industry competition reform of 1998 to 2000. The case study is chosen from the case of a British mega bank, from whose history is taken several case-by-case M&A activities.

Through these chronicled comparisons, the cases can help the analysis of how banks need the characteristics of the national capitalist model in order to raise their competitiveness with regulatory institutions. Moreover, the comparison of certain banking M&A cases can identify which part of 'institutional fits' is emphasised between the regulators and banks in bank mergers. In this context, the analytical subject can be generalised, as the main advanced capitalist system in the world has undergone similar changes in the same periods. The CEO of BoS is symbolic of the competition era. He is very sensitive to requests from the equity market, as he was promoted from the bank's North Sea Oil analyst to become its CEO. His merger decisions and activities show how British banks are required to allocate shareholders' benefits. Therefore, this chapter considers the BoS cases.

3 : Managers and Regulators in Regulatory Framework

The LME model which the UK currently adopts is the best for the national interests of the banking business. The mechanism aims at achieving the highest performance of corporate, industrial and national benefits. In other words, British banks and regulators establish an institutional 'national M&A strategy', from multilayered stakeholder-incentives within firms in the British LME. The aim of the strategy is to achieve the best in the long-run for their national interests. In this context, there is a definitive British model of power distribution in firms'

ownership structure. The model is defined by the'varieties of capitalism' literatures such as Hall and Soskice (2001), and Estevez-Abe et al (2001). This paper focuses on several dimensions in the structure in regard to takeover activities and their control within banks. The British LME suggests an investor model (Hall and Soskice, 2001), and a 'socialisation of interests'.

Many debate about financial systems and corporate governance in the UK is focused on shareholders' rights and influence on corporate activities (Vitols, 2001; Gourevitch and Shinn, 2005; Mallin, Mullineux and Wihlborg. 2005). This section focuses on power distribution under inner-firm politics.

The British model of the capitalist system has a different degree of regulatory coordination about comprehensive competitiveness between stakeholder policy preferences based on the equity market and those based on national capitalist model in comparison with Japanese model. In Britain, the degrees of contradiction about comprehensive competitiveness between characteristics of the national capitalist system and the effects of globalisation become smaller. British regulators have an equity market-led administrative approach, while globalisation's effects force them to pursue further liberal policies with shorter-term and higher returns. Contradictions must be minor. Therefore, regulators have no imperative to terminate the gap between globalisation's effects and institutions for national market coordination. Therefore, this paper establishes that Bank of Scotland did not have strong direct regulatory guidance against stock-market trends.

British government-industry relations do not need Japanese-style negotiable regulatory guidance on takeover-actions and their methods. As the contradiction becomes smaller, negotiable regulatory guidance does not need contact with merger control. This regulatory contact to firms creates a homogeneous pattern of power distribution in corporate governance and in equity markets. In the BoS cases, Peter Burt and the regulators followed merger control on the relative coherent competitiveness between investor-based policy preference and the increase in equity market-based market environments. Burt and the owners dominated the bank and operated to the disadvantage of workers.

Peter Burt had a significant role as the representative of dominant inner-political and financial figures in the portfolio investor model (Vitols, 2001), the investor model (Gourevitch and Shinn 2005) or the socialisation of interests. Therefore, government policy processes demanded that his decisions and their results had to satisfy the needs of minority investors. It should be understood that "corporate governance in the banking and financial sector differs from that in the nonfinancial sectors because of the broader risk that banks and financial firms pose to the economy" (Alexander 2004). The parliament-debates on Northern Rock's insolvency (The Treasury Committee, House of Commons UK, 2008a and 2008b) and the procedure of temporary nationalisation in February 2008 display the strong regulatory forces for banking management. This does not means that the indirect banking administration mainly for avoiding financial instability has no strong control in banking."The UK government is reportedly considering requiring all institutional investors to state their investment policies and explain their voting behaviour (or lack of it) at corporate shareholder meetings. (Mallin, Mullineux and Wihlborg. 2005: 538). However, in non-risk situation, Burt is a representative of dominant inner-firm political and financial figures in BoS. Since Burt he became the Chief Executive of BoS, he achieved an increase in the profits of the bank:

> *"….profits at the Bank of Scotland increased on a pre-tax basis from* 157.9*m in* 1988 *to*1.077 *bn in the last financial year* (*February*2001) *before the merger with the Halifax."*
>
> (HBOS Press release 8 th 2002, Peter Burt to Retire from HBOS)

In considering the whole period of his career, such achievements had indeed satisfied shareholder-value. On the other hand, his merger activities with NatWest did not achieve their expected outcome, though the non-accomplished activities raised the reputation of BoS in the equity-market. Regardless of the result, involvement in the NatWest TOB competition made a reputation for BoS on the global stage that promoted his shareholders' requests and his own reputation in the financial industry.

Moreover, whether the M&A cases became successful or not, he could not avoid his decision to pursue mergers with NatWest and Halifax. This is because the four aspects of globalisation's effects changed the financial markets, forcing BoS managers into merger activities. These aspects are as follows :

1) More transnational business (e.g. the birth of the Euro, development and enlargement of the EU)
2) Business is conducted across financial sectors (e.g. insurance companies'participation in banking market)
3) More capital market-based M&A activities (market trends and regulatory framework are both investor-led and customer-led)
4) Gigantism (from international competitiveness)

Changes in the European banking market affect the fiduciary responsibility of British banking directors. The banking M&A movement transformed from over 20 national leading banks in each country market to several mega financial groups in the European transnational market and across financial sectors. For example, in Western continental Europe, Deutsche Bank Group, BNP Paribas Group, Credit Agricole Group, AXA, and Uni Credit Group have substantial control of trans-financial sectors in southern Germany, Austria, northern Italy and Eastern Europe. Shareholders also obtain major opportunities to gain profits from stock exchanges. M&A is one of the most effective managing activities to impact upon equity markets. Managers also effectively show their achievements. In the cases of the NatWest competition and Halifax merger, there was one common factor in the managers' decisions. Shareholders during that period required him to conduct M&A activities in order to seek shorter-term and higher returns, while managers sought protect their reputation and position through such activities. In order to preserve their reputation in equity markets and their position in firms, managers pursued shorter-term and higher profits whether the merger case was successful or not. As it happened, the NatWest merger must be considered a failure. This is because in this TOB competition, the big name financial groups in Europe and the US, such as BoS, RBS, BNP, ABN AMRO Bank, Paribas, Deutsche Bank and Merrill Lynch, participated or announced their participation in the merger. This paper takes the position that Peter Burt made his decision on M&A activities in order to profit both from successful and from unsuccessful mergers. This section suggests two matters : firstly, how Burt coordinated the shareholders' request according to more equity market-led regulatory circumstances, and also achieved a gain in share-price from the failed case, and secondly how he dealt with shareholders' pressure for institutional integration.

In the NatWest case, the political imperative upon BoS was to maintain the power-distribution in the British market economy as defined in Chapter

5. First, the managers of both banks, Peter Burt (BoS) and Sir David Rowland (NatWest), pursued different profits for shareholders and different strategies. Burt aimed to decrease the business network of NatWest in Scotland and England, while Robinson had the responsibility to take benefits from TOB competition. At that moment, BoS was the 6th largest bank in the UK and categorised as a follower in the British banking business. The bank was not only a depository, corporate banking and credit card business in Scotland, but also an investing bank in Europe. The Scottish bank was also known for its finance activities in the energy sector (energy finance), which derived from its position as the financial source of North Sea Oil. The bank had a compact and efficient organisational and business network for earning performance. Burt announced a sharp cost-cutting plan in anticipation of a bid for NatWest: cutting 15,000 employees, relocating or shrinking the retail business network of NatWest up to 90 percent of its branches (1700 branches), and closing over 40 data processing centres (11th October 1999, Financial Mail). Thus BoS followed a shorter profitable M&A strategy. The achievement of this aim raised BoS's business performance through cutting a difficult business segment, which did not make large profits. The bank wanted a more profit-led business segment, with the assets and brand name of NatWest. The merger totally followed a short-term profitable stance through M&A activities. Therefore, on 4th October 1999, BoS pushed forward with its hostile bid for NatWest. Later, it preceded the TOB in corporation with Morgan Stanley Dean Witter & Co.

In contrast, NatWest pursued different strategies through this merger. Their aim was a diversified financial-services group, keeping the big name, its influence in various banking businesses, and its broad network in the UK and overseas. This TOB competition was also one of their strategies. However, BoS was an unexpected merger partner. Therefore, Nat West adopted defensive policies. The NatWest CEO, Sir David Rowland, said:

> *"With a strengthened leadership team, NatWest is now set to accelerate the delivery of shareholders'value … Bank of Scotland's offer does not reflect this potential."*
>
> (28th October 1999, International Herald)

The Chief Operating Officer, David Rowland, also argued that hostile takeovers erode value because they involve very substantial risks (28th October 1999, International Herald). The scale of the Scottish bank was only one third of NatWest. It is difficult to understand how the smaller bank had sufficient reputation in equity market to integrate mega bank effectively. The merger-target may in practice absorb characteristics of the smaller bank.

The starting point of the BoS M&A activities was the poor share-market reputation of the expected NatWest and Legal and General merger in 1999. The first expectation of a merger between banking and insurance companies substantially reduced NatWest share price. Peter Burt said, "NatWest is a great business which has been undermanaged for many years. It has been losing market share and is very inefficient. We intend to turn it round" (7th January 2000, BBC). In this context, BoS found an opportunity to break up the NatWest Group and dispose of non-retail assets after withdrawing its application to start a banking business in the US with in a joint venture with Pat Robertson.

In the merger case, Burt was required equity-market led sustainable merger-control without discretional regulatory guidance. The political coalition was of portfolio-investor models (Vitols, 2001) and the so-called investor (Gourevitch and Shinn, 2005),

requiring Burt to pursue shorter–termed gains through a merger. Shareholders and the financial market have more considerable power over managing directors in large UK firms through hostile takeovers than in Japan(Prowse, 1994). Thus in the UK there is a strong interest in making mergers work properly. The fiduciaries of managers are more responsible to portfolio–based shareholders and their competence in decision–making is concentrated. They are called CEOs and their authorities are not equivalent to those of Japanese firms' managers. As mentioned in chapter 5, a CEO considers :

> *"Share price, owned portfolio shareholders interested mainly in share price and willing to support riskier strategies, and faced with a labour force responding positively to performance incentives and only weakly able to oppose restructuring plans."*
>
> (Vitols, 2001 : 359)

The domination of CEOs and incentives at British companies has strong links with the short–term achievements of share price. Therefore, Burt was required to suggest the expected amount of financial gains at the corporate level so as to coordinate shareholders' benefits and their merger–control preferences for further profits in equity markets. BoS announced the TOB method it had also promised to implement as part of its £22 billion ($36.35 billion) bid (28th October 1999, International Herald).

Stockholders in British banks seek financial profits through managing banking corporate assets. Drastic changes in the domestic banking market stimulated by globalisation pose institutional obstacles for capital liquidity. They support high–profitability strategies of firms through buying shares, and freely withdraw their support through the sale of shares. Moreover, as mentioned in Chapter 4, the Market for Corporate Control in an LME drives broad ranges of their support on market principle. Their merger–policy preferences toward policy–makers are that the market authorities guarantee and further promote the fair, transparent, and free financial market in order to take advantage of the globalisation of finance. Therefore, there was a convergence of policy preferences between Burt and the shareholders.

In the Halifax case, Burt was required to adopt a consolidation method. British firms' dominant owners are portfolio investors who are primarily interested in share price and diversified shareholding across many companies (Vitols 2001 : 351 ; Gourevitch and Shinn 2005). Therefore, they are sensitive to financial market trends and merger–waves in the industry. Since 2000, globalisation's effects upon the banking industry create the following dimensions in the financial markets. First, in the UK universal banking often adopts acquisition (buy–out) with domestic and international rivalries for competitiveness in financial market, focusing both on the credit–card and mortgage markets.

Second, since the re–structuring of the national regulatory framework for financial system competitiveness from 1997 to 2000, British mega banks have become more strongly engaged in 'defensive M&A strategies' for their Liberal Market Economy framework. Thus the banks take a more capital market–led M&A method (buy–out : stock–swap) for international competitiveness from the view of shareholders and customers. Basically, in LMEs boards of corporate management have managed their corporate strategies freely. However, at the macro level, the strategies of individual firms in LMEs have certain integrated characteristics and goals on market principles.

In this context, the merger of BoS and Halifax to form HBOS created a major and distinctive competitor in the UK financial services market, having the scale and expertise to move from the 'Big 4' era to a Big 5 one. BoS aimed at becoming a further diversified and international financial group. On the other hand, Halifax expected to enhance their mortgage business on the merger-wave.

This combination fulfilled the short and middle-term profitable perspective of BoS's and Halifax's shareholders and directors. BoS and Halifax were both major UK financial services groups which had successfully pursued their stated strategies and created strong platforms for further growth. Actually, the Boards of BoS and Halifax believed the merger to be a compelling business combination which offered substantial benefits for shareholders, customers and employees (HBOS Press Release, 8th November 2002). It meant that Burt's fiduciary responsibility lay in the profits and benefits of shareholders, customers and employees. Halifax and the Bank of Scotland had complementary businesses, brands, product strengths and distribution capabilities. BoS and Halifax overlapped neither in business categories nor in geographical spheres. BoS, the Scotland-based bank, had very strong activities in the corporate market and was a leading provider of credit cards for organisations, like universities, and social clubs. However the bank did not have enough branches in England. Halifax in England specialized in the mortgage market and had a strong customer base. Many Halifax customers were stockholders, since it transformed itself from a building society into a bank. Thus the M&A activity was good investment for these 'shareholders'. Moreover, directors should be also listed in this beneficial relation. The Board of Directors of HBOS was drawn equally from the Boards of BoS and Halifax. Dennis Stevenson became the Chairman of HBOS, Peter Burt became full-time Executive Deputy Chairman and James Crosby became CEO. In order to achieve this, the shareholders of BoS and Halifax received one share in HBOS for each Halifax Share or BoS Stock Unit they currently held. Following the transaction, BoS's proprietors held a balance of approximately 37 per cent, while Halifax's shareholders held approximately 63 percent of the issued ordinary share capital of HBOS. The proprietors of BoS were also entitled to the recommended final dividend of 10p for the year ending 28th February 2001. For these reasons, both banks announced a 'merger' which their shareholders and customers could find acceptable. Therefore, the merger had a substantial direct personal customer base and the means to unlock the significant commercial opportunities offered by BoS's and Halifax's partnerships and alliances. This merger maintained a real profitable stance based on the equity market. Regarding this merger, Peter Burt, the Group CEO at BoS said:

> *"There is an exceptional fit between our two groups – we have complementary businesses and shared strategies and cultures. Not only will this merger accelerate the existing prospects of both groups, it will also deliver significant additional opportunities for growth."*
>
> (HBOS, 2001)

James Crosby, CEO of Halifax also announced "HBOS will be the pro-competition champion delivering value and transparency to customers and sustained growth for shareholders" (HBOS, 2001). The profitable stance of BoS in this case is a short-term profitable stance with middle-term managing stability, with BoS expanding into the other financial sectors and business network in a different region. Peter Burt reached an equity market-led policy preference in order to consolidate his reputation on the stock exchange

4 : Managers and Regulators on Policy Dimension

Banking managers and regulators make efforts to coordinate globalisation's effects for them to be the best in the long run for their national interests. The LME model which the UK currently adopts achieves the best for this purpose. The portfolio-based shareholders exercise little influence (Vitols, 2001 : 351) through the stock exchange in firms' decision making. The pressure of financial globalisation has changed administrative merger control toward further competition-promotion and capital market-oriented methods. The BoS merger case of 1999 was conducted under older M&A control with an older competition framework than the Tories' national competition campaign in the financial industry.

In this context, the British regulator, the B-FSA, was forced to confront the inefficiency under globalisation of the British finance, profit and power distribution mechanism. The authorities had to create a form of confronting the effects of globalisation in order to take advantage of international market environments. They had reformed its regulations and financial market environments to attract further capital for several years before and after 2000. Banking monitoring was reinforced by an independent organisation, the FSA, and a governmental merger-advisory board was reinforced, being well-organised and independent of the OFT, the FSA and the Competition Commission. Its successor, the B-FSA, has promoted a series of financial reforms. They offer banks a legal framework for preserving the effectiveness and efficiency of international banking competitiveness, in order to gradually and continuously respond to the changes in free capital markets. As part of these reforms, merger controls are considered to confront the globalisation. The regulatory guidance of the British FSA handled BoS merger-strategies for regulating market environments and minimum regulatory merger-control along market-principles for a transparent merger process. BoS had no formal or informal negotiation processes with the relevant market and political authorities, although British government-industrial relations also have a revolving door system like *amakudari* in the relations of their Japanese counterparts. At least, BoS merger strategies show no evidence of the influence of the informal relations to banking mergers in the short-term. The FSA and CC only offered indirect protection for domestic banks through defensive merger procedures for customers' benefits. The managers of banks' frameworks aimed at confronting forthcoming banking mega-competition against the pressures of overseas mega-banks expected from overseas banking-waves. The legal merger-control aimed to allocate the best in the long run for finance, profit and power distribution in the liberal market economy – the allocation of domestic banking business. This does not mean that regulations are against the participation of overseas capital in the British banking business. If the capital brings broad economic benefits to the British economy, the regulations do not disturb this participation. The regulations' measures, processes, and goals were designed to reinforce the characteristics in the ownership structure that standardised short-term free capital movements. From the NatWest battle to the Halifax agreement, its measures and its processes were in response to the restructuring of banking business in the European markets. At the organisational and regulatory level, short-term shareholders raised their position in the policy and banking ownership structure. Burt and short-term shareholders intended to merge their other banking in the UK and Europe when they had the opportunity. This is because the policies and firms intended to conduct an open market in bank shares. Moreover, reformed regulations have been accelerated to classify 'survivors' or 'los-

ers' as leading banks in Europe or in the world in financial business with international regulatory regimes. As a result, in BoS merger strategies, regulatory guidance and banking management were expected to involve more profitability and shareholder value.

First, the transition of banking supervision in the period of 'Battle of NatWest' must be understood. In June 1998, before the start of the 'battle', banking supervision was transferred to the B-FSA from the Bank of England. On the other hand, until May2000, the B-FSA waited to handle practical stock market monitoring, when it took over the role of UK Listing Authority from the LSE. Banking managing activities were not completed in consideration of stock market structure. However, the Office of Fair Trading's Enterprise Merger control of 1974 ensures that M&A activities need shareholders.

Second, the old principles could not prevent NatWest from exposing excessive domestic and international rivalries. The participants and domestic and international candidates of this TOB case were BoS, RBS, NatWest, Abbey National, Deutsche Bank, ING Barings, Merrill Lynch, and Goldman Sachs. The Fair Trade Act 1973, s84, requires that the OFT refers cases to the Monopolies and Mergers Commission to judge whether a merger is in the public interest of British citizens. The excessive TOB candidates from overseas in this case suggest that domestic banks nearly failed to achieve 'public interest' in the competition policy framework.

In this context, Burt and the British regulators coordinated merger control for the regulatory coordination of competitiveness between stakeholder policy preferences based on the equity market and those based on the national capitalist model in order to preserve the power distribution under merger processes. Protecting the distribution conducts the best in the long run for their national interests. This is because the institutional structure of the existing national capitalist system creates business opportunities and activities (Hall and Soskice 2001 ; 24). Industrial and individual competitiveness was caused between stakeholder policy preference based on the effects of globalisation on equity markets, and on the national capitalist model. This paper believes that regulatory coordination will be promoted by negotiation. Negotiation, such as relations between regulators and managers, has decided the degree (balance) of contradicted components of comprehensive competitiveness created between the national capitalist basis and the globalised basis. The British FSA has the responsibility of increasing the global competitiveness of domestic banks, while emphasising the national differences in the field of M&A strategy against the global standardisation of banking regulations. On the other hand, banks reinforce the national capitalist system through their competitiveness with regard to capital accumulation from outer markets, and they synchronise their M&A tactics. However, in Britain the contradiction between globalisation's effects and the characteristics of its national capitalist system is smaller, and so negotiable regulatory guidance does not need contact with merger control. This regulatory contact with firms creates a different power distribution in corporate governance in comparison with Japanese regulation.

In the first merger case, Burt and regulators had no investigation of his drastic NatWest shrinking plan to increase the efficiency of firms and gains on stock exchanges. Since 27th September 1999, regulatory institutions had had no contact with BoS activities. However, it could be confirmed that regulators offered them free-handled liberal market circumstances.

In the Halifax case, regulators and BoS with Halifax did not direct coordination for the HBOS merger. The B–FSA coordinated the market circumstances through competition guidance. There were two British administrative M&A controls in 2001. One was that of the Competition Commission and OFT with the 1998 competition policy. The other was the B–FSA's indirect administration with the Financial Services and Markets Act 2000. First, the Competition Commission conducted in–depth inquiries into M&A, market conduct and the regulation of the banking and other industries which need competition regulation. The inquiries' object had a large–scale monopoly situation in that it supplied over 25 per cent of the reference services. However, the case of Halifax and BoS was outside of this regulatory process. Therefore, the Commission did not conduct more administrative M&A control than its framework, which restricted less than 25 percent of market share in any business. However, banking activities are regulated by the 1998 competition policy and the Fair Trade Act 1973. The challenge to competition policy is to enhance competition advocacy and to enforce the policy.

Second, in order to administrate the banking activities, B–FSA took indirect supervision over banking M&A strategies. The Financial Services and Markets Act 2000 ordered that firms' activities must rely on customers' benefits and investors' profits. It had a legal framework to secure the appropriate degree of protection for consumers, while having regard to the degree of risk involved in different kinds of investment or transaction, the expertise and experience of consumers, the needs of consumers for advice and accurate information and the general principle that consumers should take responsibility for their decisions ; The B–FSA guided the effective competition of financial firms to lead to the best possible level of social welfare, which is the sum of customers' utility and firms' profit (Financial Services Authority Central Financial Division, 2000). Therefore, banking M&A has to achieve profits and benefits to customers and investors. In this case, BoS chose 'merger of absorption', and achieved profits and benefits for most stakeholders : shareholders, customers, employees and directors. This shows British M&A cases also accept the 'merger of absorption' choice for coordinating stakeholders' profit and benefits, as with Japanese banks. Moreover, British merger–style is case–by case based on the main financial business segments of banks. This suggests that they support the high–profitability strategies of firms through buying shares, and freely withdraw their support through the sale of shares. Therefore, regulatory guidance regarding British merger policies and relevant financial policies respects the equity market–led decisions of managers. In this dimension the policy preferences amongst the shareholders and managers are portfolio–based and are well–accepted in the regulatory framework.

In this context, Britain had no contradiction between the effects of globalisation and the characteristics of its national capitalist system. Therefore, regulators do not need direct coordination to make the best in the long–run for national interests via contact to merger control. BoS had discretional managements under British market economy, while Japanese banks had limited merger–actions under discretional regulatory guidance.

Moreover, British firms' dominant owners are portfolio investors who are primarily interested in share price and diversifying shareholding across many companies (Vitols, 2001 : 351). Vitols also addresses the portfolio–based shareholders exercise little influence through the stock exchange in firms' decision–making. This suggests that they support the high–profitability strategies of firms through buying

shares, and freely withdraw their support through the sale of shares. Therefore, regulatory guidance after the British financial reform of 2000 respected the equity–market–led managers' decision. In this dimension the policy preferences amongst the shareholders and managers are portfolio–base. In this context, the aggregation of policy preferences in British banking stakeholders is reflected under liberal market circumstances.

5：Managers and Regulators with Regulatory Compliance

This chapter considers how managers react to the requirements of their banks and of the regulators. The focus is upon managers' activities in response to 'regulators' feedback.' In the UK managers protect minority shareholders by seeking profits and protecting liquidity.

Economic global governance has reinforced the relevant regulations about banking M&A activities for promoting the LME–led alliance of political and economic interests. The US and UK formulated the regulations governance regime, (e.g. the Basle Capital Accord) in order to perform market based finance appropriately within their national market systems. Capital liquidity under the globalisation of financial markets becomes higher than in unreformed UK markets.

The national regulations offer banks and investors globalising market environments for fair, transparent, global competitiveness with customer protection. It is argued by many academics and by the government that the British market economic system had further reinforced its strength through using globalisation's effects on equity markets and external political pressure for promoting a liberal market economy. During the period of Japanese bank dominance in the world economy, UK financial institutions and the other industries re–structure their organisational strength. After the Japanese era, UK and US financial institutions returned and share their world–leading position.

However, globalisation only helps the increase in financial and real–estate sectors as investing activities in the economy. The national market has been structured toward advantageous institutions for globalisation's effect on capital liquidity. Reformed institutions collect and strengthen the relationship between free capital liquidity and British–style financial distribution. The London Stock Exchange has increased its attractiveness to introduce further overseas capital, and its success and threatening potential to the Japanese market has encouraged Japanese financial reforms. In the first half of the 1990s, the banking wave restructured national banking markets and the individual strength of large banks. Since the second half of the 1990s, the UK financial industry has been threatened in its domestic markets by its US and western European rivalries, as seen in the NatWest and Abbey National cases. However, the top financial groups (HSBC and Barclays) and their followers (RBS and BoS) established their global presence in the international financial business in this period. In particular, the Scottish banks stepped up to leading positions in the UK and European markets in the corporate banking, mortgage and credit card sectors. HSBC has enhanced its presence and scale in the world financial business form. It was a large bank in the UK and a world top bank in the first half of the 1980s, but had undeveloped domestic networks in mainland Great Britain until the beginning of the 1990s. Midland, Barclays, NatWest and Lloyds had influential powers in Europe. However their presence was confined to Europe during the US's leading position in the capitalist regimes during the cold war and the Japanese eco-

nomic boom. RBS and BoS engaged in depository, corporate, investing, and credit business in Scotland. Their presence was known in specific financial sections (e.g BoS, investing North Sea Oil ; RBS, with a non-dense but wide Scottish business network). Globalisation and regulations of economic global governance (e.g. the Basle Accord of BIS and banking orders in the EU) reveal the substantial bargaining power of British banks and their indirect regulatory-protection. After the NatWest battle, RBS and BoS showed their potential power, and they were thrown into mega competition.

In this context, the BoS CEO, Peter Burt, enforced higher protection of minority shareholders. He had high-return management on their share-prices to create shareholders'interests. Burt also sought personal honour. It is a fact that his personal promotion was an easy way to achieve his ambition of advancing from investing in the oil industry section to the director's position. His achievements were shown by share-prices in the equity market. In his CEO periods, BoS three times experienced big merger plans : with NatWest, Abbey National, and Halifax.

These events could reflect the drastic increase in share price. Therefore, he paid attention to the market finance-based finance, profit and power distribution. The banks sought indirect government-merger control to further adapt globalisation through mergers. A series of financial reforms promoted LME-led institutions in the capitalist system. Indeed, a series of financial reforms made easier accessibility to free capital markets in order to attract capital and investors interests to British financial markets.

The Bank of Scotland and NatWest mergers disturbed the efficient distribution on the part of the NatWest customers, investors, and even NatWest workers' conditions although BoS only obtained the efficient distribution on larger scale. Moreover, the RBS offer was more attractive than the BoS one. In this context, at the policy level, adaptation to financial globalisation accepts BoS's failure in the free capital markets. NatWest adopted defensive strategies for avoiding the Scottish Bank's hostile TOB. Burt welcomed the NatWest activities : "...the defence strategy had acknowledged the merits of the takeover offer from his bank while demonstrating the 'inadequate' National Westminster Bank PLC" (International Herald, 28 th, October, 1999,). NatWest's strategies and this response from Burt led to the decline of NatWest Share on LSE : the average of the stock-falls was 2 % to 13.75% (International Herald, 28 th October1999). In this context, the policy feedback to corporate strategies is mainly for coordinating further free, transparent, and developed equity -market environments, while encouraging managers to protect customers' financial profits in the arena of M&A strategies. The regulators promoted the best M &A patterns with banking M&A strategies on the basis of the national capitalist model through indirect merger-control. The national changing strategies for banking M&A activities comprised capital market-based competitive components and the co-operative components with banking M&A activities. In the NatWest case, the LME model shows that the tendency becomes stronger than before regulatory reform for financial market competitiveness.

The HBOS merger case was for a merger partner to cross-sell products to each customer. The HBOS merger announcement was expected :

> *"The merger will allow the banks to challenge the 'big four' UK High Street banks, and muscle in on the "profitable" market of offering banking services to small businesses."*

(BBC News, 4 May 2001)

Burt said in the first merger announcement:

> *"We have complementary businesses and shared strategies and cultures. ...Not only will this merger accelerate the existing prospects of both groups, it will also deliver significant additional opportunities for growth."*
>
> (BBC News, 4 May 2001)

The national changing strategies for banking M&A activities comprised the capital market-based competitive components and the co-operative components with banking M&A activities via market environments. Burt and Halifax CEO James Crosby identified benefits for shareholders, customers, workers, and themselves in the cross-sectional consolidation of the financial industry. The business logic to create benefits via the merger was accepted in the equity market, and by the other stakeholders. The merger decision involved new factors in new regulatory regimes, such as profit of customers, which the former regulatory framework did not protect. Actually, the HBOS merger achieved the cross-sale of products to each banks.

These situations show that British banks adopted an Intensive (LME-intensive) Inside Mechanism:

1) Corporate strategy preserves and enhances the pre-existing equity market-led finance and power distribution mechanism.
2) The CEO-dominated system becomes subordinates to minority shareholders and institutional 'agent' investors (i.e., agents of minority investors). Managers become fiduciaries of the corporation. Therefore,
3) The bank merger administration and its policy further modify equity-led market environments for corporate activities. Regulations remove obstacles for the LME, and promote M&A activities
4) FSA authorities contain more LME-led elements in merger-control and its relevant policies. They intensify the pre-existing British characteristics of market economy.

The mechanism in Britain and Japan guides defensive ways for mega-bank merger through adaptation to globalisation.

As a result, British national M&A strategy and its policy feed back modify the free decision-making of managers in their choice of corporate strategies. The diversified choice of M&A strategies is derived from short-term benefits for 'pay-as you go'-based small-shareholders. Large banks drive a hard bargain with small banks through acquisition, and get dirt cheap deals. The way could be chosen from several methods: buy-out (stock-swap with existing stockholders), sale of business (buying only the necessary business section).

6: Conclusion

This paper examined how a prototype LME has responded in the context of globalisation and competitive challenges. It stresses that the regulatory system of competition policy had a profound influence over strategies of domestic consolidation. It worked through shareholder influence to increase the LME characteristics of the financial system and encouraged British banks to rebuild a strong competitive position within global markets. In this context, British corporate governance toward globalisation underpins traditional institutional settings underpin DoC, MSPs, and EI.

Therefore, this paper concludes that the changes

in British merger control have gradually involved the current alternative effects of globalisation in order to reinforce the activities of the financial firms of the most mature capitalist systems in the world, such as financial firms in the UK. The controls lead firms to take advantage of free, fair and global competitiveness. Moreover some of the reforms promote minority and overseas shareholder protections in order to introduce further capital from other equity–markets to the British one. Several dimensions of the changes show the central core of British liberal market economy is under transition from LME to an economic model closed to free market. The M&A strategies binding the LME institutions have changed the meaning of benefits, goals of merger and the sum of financial returns drastically to make short–term profits from share prices in merger processes, whilst, they have a dimension not to consider merger result. The changes have evolved from national characteristics and their enhancements as a result of globalisation and its enhancement of the institutions for national market economy. Therefore, merger control also considers the protection from the adequate resource allowance in the domestic financial markets via merger activities.

Footnotes

1. Globalization defines these meanings in the same way as transitionalists, categorized by Held (1999). For example, the representative research is based on Giddens (1990, 2001), Hutton and Giddens (2000), Sassen (1996), and Scholte (1993). They theorized that globalisation "is a central driving force behind the rapid social, political, and economic changes that are reshaping modern societies and world order" (Held, David Anthony McGrew, David Goldblatt, and Jonathan Perraton., 1999 : 7), and "the process by which interaction between humans, and the effects of that interaction, occur across global distances with increasing regularity, intensity and speed" (Lent, 2002). See the reference, Held, David Anthony McGrew, David Goldblatt, and Jonathan Perraton (1999), Global Transformations, Politics, Economics and Culture, Stanford : Stanford University Press. Giddens, Anthony (1990) The Consequences of Modernity, Stanford : Stanford University Press. Giddens, Anthony (2001) Sociology (forth edition), Cambridge : Cambridge University Press. Sassen, Saskia (1996) Losing control? : sovereignty in an age of globalization, New York : Columbia University Press. Scholte, Jan Aart (1993) International relations of social change, Buckingham : Open University Press. Lent, Adam (2002) "Globalisation", Global Knowledge, Fabian Global Forum
2. The aggregate value of a firm's outstanding common shares.

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