

---

## Scholars Bulletin

(A Multidisciplinary Bi-weekly Journal)

An Official Publication of "Scholars Middle East Publishers",

Dubai, United Arab Emirates

Website: <http://scholarsbulletin.com/>

---

ISSN 2412-9771 (Print)

ISSN 2412-897X (Online)

---

# Mergers and Acquisitions of International Banking. Penetration Strategy in Emerging Economy of Mexico: Banco Santander México and Banca Serfin case

José G. Vargas-Hernández\*<sup>1</sup>, Carlos Enrique Suárez Medina<sup>2</sup>

<sup>1,2</sup>University Center for economic and Managerial Sciences, University of Guadalajara, Periférico Norte 799 Edif. G.201-7, Núcleo Universitario Los Belenes. Zapopan, Jalisco, 45100, México

### \*Corresponding Author:

José G. Vargas-Hernández

Email: [jvargas2006@gmail.com](mailto:jvargas2006@gmail.com)

---

**Abstract:** This paper explains the strategic penetration through mergers and acquisitions in international financial large corporate in emerging countries like Mexico and the clash of European and Mexican management cultures. As a case study is taken as a basis, the merger and consolidation of the Spanish Banco Santander in Mexico, what was your strategy for fusion of Mexican banks? How was his way of governance in the country? Concluding and Banco Santander through mergers and acquisitions have become the fourth strongest banking Mexico and one of the strongest banks in the world, as part of the explanation is considered their form of governance.

**Keywords:** acquisitions, emerging economies, strategy, international mergers

---

## INTRODUCTION

Implementing strategies according to Luna [1] are designed from the highest administrative controls addresses large corporates, which is the design of an action plan covering all corporate levels. Taking this idea, strategies designed by financial large corporate to grow and develop, they are designed and planned from the top levels of its leadership. At the stage of penetration of new markets it is paramount and as part of the strategy, to have people who are motivated, who know how the business that are committed to the company, having the ability to make modifications based on the situations they encounter, they can create a corporate culture [2].

When talking to diversify products and services, are similar or not, it has to take into account that there are diversifying of related and unrelated products. The way to enter new markets, industries in other countries, is full of challenges and decisions. Taking the best strategy, the company can achieve success. Otherwise, a bad decision making strategy can lead failure and the demise of the company. Currently, the technology plays an important role in the entry of companies into new countries, especially technology of the information, adding as an essential tool for the company.

Because it diminishes the problems of implementing a model multi-business facilitates financial control and results, monitors performance, improve decision making, react better and faster to the contingencies of the company, and does not distort the information, all of these on proper use and capacity.

When a company is in one industry and, in one country, it can make the decision to venture into new unknown markets. However, must take into account the changes that have to do in the organization, with a focus on multi-business, such as to improve vertical organization and diversify its products and services that will offer in the new market.

Complementing the model strategy, it should carry out, implement it, evaluate it, and distribute it to all areas in order to achieve a culture of change, development and growth, such as Banco Santander does from its headquarters in Spain. Banco Santander operates a multidivisional structure; at the highest point of its organization's president is Ana Botin since the September 10, 2014, to take the position left with the death of her father Emilio Botin. Along with her group corporate staff in charge of managing, planning and designing new strategies, in the background, is composed of various heads of international areas, which take care of the results of the different continents and countries under their command [3].

Under the idea of the strategy, Pruthi, Wright and Lockett [4] mention that foreign companies that set up in an emerging economy have a high probability of strategic development and control in emerging countries, which are more inclined to operational development. Such is in the case of the Spanish group introduced to a financial market like that of Mexico, which is considered as an emerging economy, ordering its staff the training of the new staff and devise new forms of management, to incorporate the structure of the Bank.

Previously are defined as acquisitions the transfer control of all assets, operations and management of the target company, becoming the second company plant of the bidding company. While the merger is defined as the union of two companies to create a fully independent one combining the assets, operations and management of the two companies to enhance the advantages and leverage best practices from both to benefit of a better positioning the market. However, it is mentioned that if there is no gain for the corporate enterprise, designated as arrogance hypothesis indicates that increasing the average value of the company pointing as the target [5].

The target company at the time to make known in public offerings, mentioned that show increases in value but over a few days the price falls to original levels, it is at that point where it can fail after being targets of one or more proposed merger or acquisition by other companies. It mentions that at the time of the acquisition or merger of the target companies, the prediction of the theory of arrogance mentioned often brings a loss to both the target company joined the bidding company, which tend to hide the amount of buying and selling.

Malatesta [6] mentions that in the part of the equity of the shareholders of the bidding companies, tends to increase significantly and combined the bidder company and the target company, when disclose their results, indicating increases that indicate obviously that the changes in corporate controlling increase the market value. The concept of arrogance is reflected in the bidding company to buy the target company, on many occasions, in higher amounts than actually the target company is worth. This leads to mistakes that can be harmful to the bidding company.

In mergers and acquisitions, as mentioned Peng [7] there are five groups which classify them: horizontal, vertical, conglomerate, friendly and hostile. In this sense, the way in which Banco Santander joins the Mexican economy, showing his arrogance, showing its economic power, by merging two national Mexican banks. in this sense, the theory of transaction costs explains that the merger increases costs due to contract creation to reduce or cancel the opportunism, while the agency theory, describes the corporate governance can reduce uncertainty by a hierarchy and the combination of the resources they possess as firms merged creates the right synergy to early growth and development in the country in which it entered, according to the resource-based [3] approach.

#### **Brief description of Mexican Financial System**

The financial system in Mexico plays a central role in the functioning and development of the economy. It is composed mainly of various intermediaries and financial markets, through which a

wide range of instruments mobilize savings users of this system to its most productive and profitable uses [8]. Within this financial system there are financial services those granted by the various organizations that make up the financial system and facilitate the movement of money. Among them are mainly financial intermediaries. Thus, in this way they perform their duties to intermediate resources and enable the existence of the payment system in the economy, through the provision of various financial services.

In this context, stands out the importance of the banking sector, essential to achieve this goal, because it is responsible for capturing the scattered savings in the economy, Combining and channeling nimbly as financing to individuals or companies with viable investment projects part and add value to the economy [9]. In the case of the banking sector is sought the financial margin, which is the result of the acquisition costs of savers and investors, selling various products and / or services and the performance of the placement of resources through loans at rates higher than those paid by interest income from these savings.

At this point, the banks become attractive to large international corporate groups seeking to position themselves in markets of other countries, by diversifying their products and services. They provide an opportunity for growth and development for these corporations. In the case of financial group Santander, which by leveraging economic factors of the fragile economy of an emerging country like Mexico, the economic crisis that lived at the end of 1993 and government intervention to rescue the Mexican banking system, ending with the merger of two national banks, taking control of organizational, operational and administrative culture.

#### **History of strategy, penetration and merger of Banco Santander in Mexico**

Banco Santander has a presence in Mexico since 1956, when it first opened its doors as commercial office and providing a range of advice in Mexico City. These financial institutions were common at that time, since the law prevailing at the time for foreign investments in 1969 did not allow the participation of foreign credit institutions in the Mexican financial market.

The small representative office, offered few services, advising and giving guidance on any commercial or banking operation with its home country, Spain. This was done through intermediaries of some Mexican banks that lent their services. In the late 80s, the Mexican financial system experienced a series of transformations and changes in the way of regulations. In 1989 the law on foreign investment, opened the doors of the national economy to foreign investment and allowed the international investment banking, could settle in the country.

Taking advantage of this first opportunity, it was settled Santander Investment, which based its activities in the capital markets and money. The next step, the deregulation of the insurance sector, allowed the Banco Santander entered Iberomexicana Insurance Company, beginning a promising expansion, opening offices and launching new products and services for the Mexican population. In 1991, Banco Santander, under the name Iberomexicana Insurance changed its name to Santander Insurance and invited Metropolitan Life, one of the largest life insurers in the United States, to join the new company in Mexico and operate jointly on the market Mexican life insurance.

The entry of Banco Santander in the banking market of Mexico was a result of two major changes in the financial regulation of the country. The first is privatization of banks that had previously been nationalized by the Mexican government in the first intervention to rescue domestic financial institutions. Second, the signing of Free Trade Agreement (NAFTA), which facilitated foreign commercial banks to enter the Mexican market. To these two opportunities, the Banco Santander responded with the acquisitions of two Mexican national banks: Banco Mexicano in 1997 and the Serfin Financial Group in 2000 [10].

#### **Brief history of Banco Mexicano**

The Banco Mexicano (Mexican Bank) was founded in 1932 by former President Abelardo Rodríguez, which was acquired in 1955 by the Mexican Society of Industrial Credit. A few years later, in 1958, the Banco Mexicano merged with the Banco Español (Spanish Bank), a credit society which was born long ago under the name of Banco Fiduciario (Trust Bank). In 1979, the Banco Mexicano (Mexican Bank) became universal bank, taking advantage of changes in banking legislation and changes its name to Banco Mexicano Somex. Like many other creditors and lenders, it was nationalized and sold after the Grupo Financiero Inver México (Invermexico Financial Group), which kept its power until its sale to Banco Santander in April 1997, following the government's decision to open foreign investment and entry international banking.

After a capital increase and its merger with a small investment bank belonging to the conglomerate of companies created by Santander Investment, the old Banco Mexicano Somex, recovered its roots and adopted the name of Banco Santander Mexicano. Commercial characteristics of Banco Mexicano Somex were aimed at the economically medium-high population of the country and to support small and medium enterprises in Mexico [10].

#### **Brief history of Banca Serfin**

While the history of Banco Serfin, come from the Banco de Londres, México y Sudamérica (Bank of

London, Mexico and South America), the first commercial bank in the country. Founded in 1864 by a group of mostly British partners, it was transformed in 1888 in the Banco de Londres y México (Bank of London and Mexico), to suit the country's legislation approved at the end of the century. Later in the 90s, the general acceptance company (financial acceptances) acquired the majority of shares in the company. The bank was controlled by the Garza family, the owners of a large variety of companies in Monterrey. That company and the bank moved in 1964 to join a larger conglomerate, known as the Grupo Monterrey (Monterrey Group).

The name of Serfin dates back to 1977. In 1982 passed to the Federal Government, following the nationalization that affected most of the Mexican banking system. The company returned to private hands in the early 90s, when it was bought by Adrian Sada Gonzalez, a member of the same family who had owned the bank before privatization intervention by the Mexican government. However, complications and problems arising out of the 1995 financial crisis forced the Mexican government to intervene to Banco Serfin for the second time and implement a comprehensive program to rescue the entity called FOBAPROA. The final transfer of ownership took place in 2000, when Grupo Santander Central Hispano acquired the bank Banco Serfin.

In addition, Banco Santander, two major groups attended the award contest convened by the Instituto de Protección al Ahorro Bancario (Institute for Protection of Bank Savings, IPAB and before FOBAPROA): Banamex and HSBC. For its part, Banco Santander was presented through its subsidiary, Banco Santander Mexicano, who pitched a third proposal to merge the Banco Internacional (International Bank), showing its structure and economic power, but there were two circumstances under which these objectives have not materialized. First, the antitrust laws governed at the time by the Government of Mexico, forbade Banco Santander Mexicano the purchase of the bank and second, the differences in types of management of both institutions, were not allowed to pursue it.

The excellent executives' cadre of Banco Santander Mexicano headed the operation; the knowledge that has already possessed the Mexican financial market and the strength and firmness of its bet. With the acquisition of Serfin, also reinforced the same year the purchase of an additional 15% of Santander Mexicano, thus raising the stake to 99%, the Spanish Group was at the forefront of the Mexican financial system, one of the faster growths of the entire region. Banco Santander was the owner of both entities, but decided to keep its independence for a time, to strengthen competitiveness: commanding Serfin Adolfo Lagos and Santander Mexicano under the tutelage of Marcos Martínez.

Finally, in September 2002, both companies merged, creating Santander Serfin. Yet another splendid operation was crowned this year. The sale of 24.9% stake in the company to Bank of America, oldest and closest ally since Bankinter was constituted, and it was a strategic and financial success that further narrowsthe link with the then second American credit institution, leaving a mark of undoubted strength in the market.

Mexican franchise of Banco Santander was definitively established on January 1, 2005 and the general direction was taken by Marcos Martinez, one of the most recognized Latin American financial Banco Santander.

**Banco Santander today**

Banco Santander is one of the strongest financial groups in market value, according to the international ranking, ranking No. 8 Forbes [11].

**Table-1: Top World Banks**

Ranking	Bank	Country	Sales	Profits	Assets	Market value
1	ICBC	China	\$166.8 B	\$44.8 B	\$3,322 B	\$278.3 B
2	Bank of China	China	\$120.3 B	\$27.5 B	\$2,458.3 B	\$199.1 B
3	JPMorgan Chase	United States	\$97.8 B	\$21.2 B	\$2,593.6 B	\$225.5 B
4	Wells Fargo	United States	\$90.4 B	\$23.1 B	\$1,701.4 B	\$278.3 B
5	HSBC Holdings	United Kingdom	\$81.1 B	\$13.5 B	\$2,634.1 B	\$167.7 B
6	Citigroup	United States	\$93.9 B	\$7.2 B	\$1,846 B	\$156.7 B
7	Bank of America	United States	\$97 B	\$4.8 B	\$2,114.1 B	\$163.2 B
8	Banco Santander	Spain	\$56.4 B	\$7.7 B	\$1,532.3 B	\$109.4 B
9	Commonwealth Bank	Australia	\$39.6 B	\$8.1 B	\$696.2 B	\$117.1 B
10	Royal Bank of Canada	Canada	\$38.9 B	\$8.3 B	\$857 B	\$89.3 B
11	Westpac Banking Group	Australia	\$35.6 B	\$6.9 B	\$674.5 B	\$94.2 B
12	TD Bank Group	Canada	\$32.7 B	\$7 B	\$851.9 B	\$80.4 B
13	ANZ	Australia	\$32.6 B	\$6.7 B	\$676.7 B	\$77.6 B
14	National Australia Bank	Australia	\$33.4 B	\$4.9 B	\$772.9 B	\$71.7 B
15	ING Group	Netherlands	\$65.7 B	\$2.6 B	\$1,195.7 B	\$58.9 B
16	Lloyds Banking Group	United Kingdom	\$65.6 B	\$1.9 B	\$1,333 B	\$84.4 B
17	Société Générale	France	\$54.2 B	\$3.6 B	\$1,583 B	\$40.7 B
18	Bank of Nova Scotia	Canada	\$27.9 B	\$6.4 B	\$671.9 B	\$61.3 B
19	Deutsche Bank	Germany	\$56.4 B	\$2.2 B	\$2,067.6 B	\$49.7 B
20	Mizuho Financial	Japan	\$27 B	\$6.1 B	\$1,634.7 B	\$43.6 B
21	US Bancorp	United States	\$20.3 B	\$5.8 B	\$406.2 B	\$77.2 B
22	Standard Chartered	United Kingdom	\$24.8 B	\$2.6 B	\$725.9 B	\$39.8 B
23	Bank of Montreal	Canada	\$20.1 B	\$3.8 B	\$530.3 B	\$39.7 B
24	PNC Financial Services	United States	\$16 B	\$4.2 B	\$345.1 B	\$48.2 B
25	Bank of New York Mellon	United States	\$15.1 B	\$2.5 B	\$385.3 B	\$45.1 B
26	Natixis	France	\$23.7 B	\$1.5 B	\$714.4 B	\$24.5 B
27	BB&T	United States	\$9.7 B	\$2.2 B	\$188.4 B	\$28.3 B
28	BNP Paribas	France	\$124.5 B	\$208 M	\$2,514.2 B	\$78.4 B
29	FirstRand	South Africa	\$8.3 B	\$1.9 B	\$84.6 B	\$26.9 B
30	Barclays	United Kingdom	\$53 B	\$-287 M	\$2,117.3 B	\$63.7 B
31	Royal Bank of Scotland	United Kingdom	\$35.6 B	\$-4.6 B	\$1,638.4 B	\$60.2 B
32	Regions Financial	United Kingdom	\$5.4 B	\$1.2 B	\$120.4 B	\$12.8 B
33	KeyCorp	United Kingdom	\$4.3 B	\$900 M	\$93.8 B	\$12.1 B
34	Comerica	United Kingdom	\$2.6 B	\$586 M	\$69.5 B	\$8.1 B
35	China Development Financial	Taiwan	\$1.1 B	\$335 M	\$30.3 B	\$5.2 B

Source: Own elaboration with data of Forbes, best Banks of the World.

Banco Santander's presence international lyan can be found in countries such as Brazil, Mexico, Chile, Argentina, United States, United Kingdom, Germany, Portugal, Holland, Austria, Italy and Belgium. In Mexico it has a network of branches distributed throughout Mexico totaling 1310

points of business centers, which have led to be positioned at number 4 at national level, below Banorte, due tomergerit had with IXE Banco. But the market shareit has been consolidated as one of the reference bank inthe country, for its range of products and

services, diversified across its network of business points.

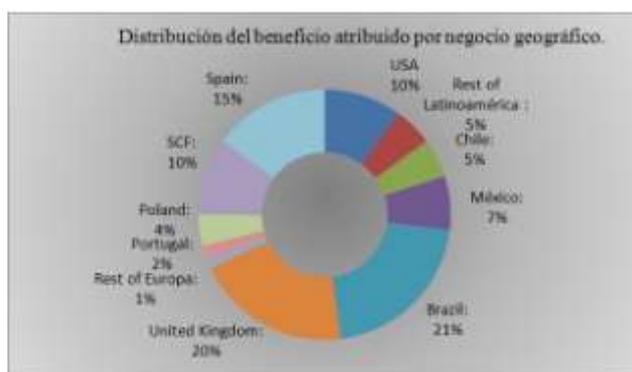
**Table-2: Ranking of Banks in Mexico**

Rank	Bank or Bank Group	Total Assets US\$ billion
1	BBVA Bancomer	<b>108.81</b>
2	Banamex	<b>91.84</b>
3	Banorte	<b>70.9</b>
4	Santander México	<b>61.83</b>
5	HSBC México	<b>38.99</b>
6	Inbursa	<b>26.1</b>
7	Scotiabank Inverlat	<b>15.83</b>
8	Deutsche Bank México	<b>13.37</b>
9	Interacciones	<b>9.85</b>
10	Afirme	<b>7.42</b>
11	Banco del Bajío	<b>7.12</b>
12	Bank of America México	<b>6.95</b>
13	Ixe Banco	<b>6.59</b>
14	ING Bank México	<b>6.25</b>
15	Banco Azteca	<b>6.02</b>
16	BanRegio	<b>5.12</b>
17	Monex	<b>3.65</b>
18	Mifel	<b>3.53</b>
19	Invex Controladora	<b>3.35</b>
20	Banco J.P. Morgan	<b>3.07</b>

Source: Based on data from Info Bank, Bank ranking in Mexico [12].

On the other hand, the contribution that gives Mexico to the financial group Banco Santander's headquarters in Spain is one of the strongest in Latin America level, contributing to the group of 7% global. This indicates that the penetration of the Mexican market by Banco Santander is due to the market strategy that has been for so many years, and to

the merger of key banks for consolidation. However, considering that one of the most expensive financial systems in the world, is the country's contribution with the sum of the costs of all products and services provided by the bank in all their branch networks, which are diversified in products and services for each economic sector that requires it.

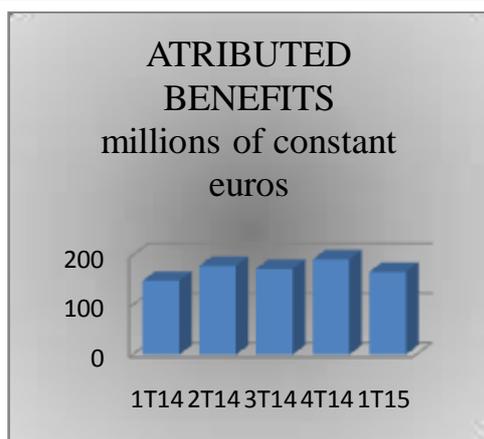


**Graph-1: Distribution of attributable profit by geographic business**

Source: Authors' calculations based on data from financial report 1T15 Banco Santander

It is mentioned that the growth of Banco Santander Mexico in annual data as attributes benefits

to its customers, with accounts at the bank's investment is an increase of 12.5% over the 1T14 and 1T15.



ATRIBUTED BENEFITS	
Millions of constant euros	
1T14	149
2T14	179
3T14	173
4T14	192
1T15	167

**Graph 2. Profit attributable.**

**Source: Authors' calculations based on data from financial report 1T15 Banco Santander**

## CONCLUSIONS

In this analysis it can be concluded that Banco Santander is one of the largest financial groups worldwide, which has proved highly trained and committed to the performance of the institution at global level, based on effort and strategies, implementation of these strategies and use of time, to achieve consolidation in financial markets that have ventured. The main strategy of Banco Santander, in the introduction to its system in other countries, is to merge with financial institutions that allow it to achieve its market position, adding the efforts to implement the way to work which it is to manage each of its elements for the success of the group in a shortest possible time. With this, add and achieve profitability in the shortest time.

The incorporation in emerging economies is one of the strategies that Banco Santander has worked. Most Latin American countries are considered emerging economies. Incidentally, in most of these countries it has a presence Santander Financial Group. With all of them, the way it was introduced to these, it is very similar to the way it had entered into Mexico. Its strategy was gradual, taking advantage of the opportunities of economic instability affecting these countries, to be gaining positioning, developing its own management and putting people who have grown up in its institution in key positions, to create brand loyalty.

The succession of power to the death of president and majority share holder of Grupo Santander, Emilio Botin, into the daughter Ana Botin, was without mishap, since she knew the company and running it, since she was also responsible at national level in one of the directorships in Europe. The long-term vision to consolidate and strengthen its structure, has led Banco Santander to be one of the most solid, effective and dynamic financial groups worldwide. Its rapid growth, has led it to win the recognition and trust of its customers, as a reliable and solid bank in its structure.

## REFERENCES

1. Luna González, A. C. (2010). *Administración Estratégica*, Grupo Editorial Patria.
2. David, F. R. (2013). *Conceptos de administración estratégica*, Pearson Educación de México.
3. Vargas-Hernández, J. G., Guerra, E., Bojórquez Gutiérrez A. Bojórquez Gutiérrez F., (2014). *Gestión Estratégica de Organizaciones*. Buenos Aires, Argentina. VOROS S.A. (Diciembre, 2014).
4. Pruthi, S., Wright, M. and Lockett, A. (2003). Do foreign and domestic venture capital firms differ in their monitoring of investees?, *Asia Pacific Journal of Management*.
5. Roll, R. (1986). The hubris hypothesis work and procurement, *Global business*. 2da ed. Cengage Learning.
6. Malatesta, P.H. (1983). The wealth effect of merge activity and the objective functions of merging firm, *Journal of financial economics*. vol. 11 pp. 155 – 181
7. Peng, M. (2010). Strategies At The Corporate Level. *Global Strategy*. 2nd Ed. Cengage Learning.
8. Banco de México (Banxico), (2015), *Sistema Financiero* <http://www.bancomexico.gob.mx/sistema-financiero/index.html>, fecha de consulta, 12/05/2015.
9. Comisión Nacional Bancaria y de Valores (CNBV), (2015). *Banca Múltiple* <http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-MULTIPLE/Paginas/default.aspx>, fecha de consulta, 12/05/2015.
10. Martín A. P. (2007). *1857 – 2007 Banco Santander 150 años de historia*, Editorial Turner.
11. Forbes (2015). *Principales mejores bancos*, capturado de

<http://www.forbes.com/global2000/list/#industry:Major%20Banks>, fecha de consulta 11/005/2015.

12. Info Bancos (2015). Ranking de Banco en México, capturado de <http://infobanco.net/ranking-de-banco-en-mexico/>, fecha de consulta, 12/05/2015.