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The Changing Landscape of the European Financial Services Sector

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The European financial services sector is confronted with major forces that have changed its competitive dynamics and the strategic context. Firstly, we investigate the pace of the diffusion of two forces for strategic renewal (technological innovations and regulatory changes); secondly, we assess similarities in the pace of diffusion across countries; and thirdly, we assess the impact of these developments on the European financial landscape, focusing on five EU countries from 1990 to 1999. Preliminary findings suggest that country-specific patterns of diffusion have decreased substantially, indicating the emergence of industry-generic patterns of diffusion, while the speed of diffusion is increasing within the sector. This will give rise to a hyper-competitive landscape in the beginning of this century. Understanding the emergence of such landscapes creates important managerial challenges for the strategic renewal journeys of both incumbent firms and new entrants, in the financial services sector and in sectors confronted with similar developments.

Introduction

The European financial services landscape is changing dramatically. Are most of these changes country-specific or is a common European pattern emerging? How do the forces of changing regulations and technological development influence the rate of emergence of new landscapes? What are the consequences of these changes for strategic renewal? Taking an outside-in perspective, the answers to these sorts of questions may help man-

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agers—in both the financial services sector and other sectors confronted with similar questions—to increase their understanding of the challenges for strategic renewal posed by newly emerging landscapes.

Although there are many different forces, we focus on two of these here, building on and extending the work of other scholars[1] by trying to empirically assess the speed of diffusion of the changes triggered by these forces. On the basis of this analysis we indicate future changes in the European financial services landscape[2] which may challenge managers to think about the viability and necessity of generic European versus country-specific renewal strategies.

This article is structured as follows: firstly, we briefly point out the process of increasing globalisation in financial services. We then focus on the European Union and investigate the pace of the diffusion of regulatory changes and technological developments as two major forces[3] that enable strategic renewal in France, Italy, the Netherlands, Sweden and the United Kingdom. The results show patterns of national divergence regarding diffusion in which the Netherlands and the UK are first movers. The results also indicate a movement towards similar and increasing speeds of diffusion across the countries investigated, suggesting an emerging convergence in the European financial services landscape. We conclude by pointing out the expected changes in the European financial services landscape beyond 2000.

Although this article focuses on European industry- and national-level changes, we present six small cases to illustrate the impact of these changes on particular financial services firms. An example of how regulatory and technological forces affect a company's strategic renewal process is illustrated in Exhibit 1 by the case of Italy's Banca Intesa.

Globalisation in the financial services sector

Although this article focuses on the European financial services sector, it is important to point out the growing global interdependence of regional financial services sectors as illustrated by the recent Asian crisis, which painfully uncovered global interdependencies between financial systems. Major financial players try to cope with these interdependencies by globalising their activities: for example, large US banks like Citigroup are making inroads into Europe, Japanese banks have entered US markets, and European players are increasing their intercontinental operations by penetrating American (for instance, the Deutsche Bank) and Asian markets. Almost one-third of the largest financial services firms in the world have businesses in three or more continents.[4] ING is a recent example of a European financial services firm penetrating Japan by taking a stake in a Japanese commercial bank. Increasing cross-border trade is another sign of globalisation.

Figure 1 presents data on cross-border trade in financial ser-

Exhibit 1. The changing financial landscape: Banca Intesa

Banca Intesa is a multi-bank holding company that provides commercial and merchant banking services. Through its subsidiaries, it also offers services in fund management, investment trust management, leasing, factoring, and property management. Total net profit over 1999 accumulated to €853 million; total assets by the end of 1999 were €305 billion and its market capitalisation was €25.8 billion by 8 April, 2000.

The changes in the financial services sector greatly impacted on the development and growth of Banca Intesa. The European-wide challenges posed by the Internet, the EU push towards consolidation and the highly fragmented market in Italy 'forced' Banca Intesa to adopt a specific growth model. This so-called 'federative' model was based on a bottom-up process of soft integration, without drastic reorganisations and bitter cost-cutting programs. A large degree of operational autonomy was granted to the banks that joined Intesa. Internal forces amplified the drive to a federative model. Intesa's president, Giovanni Bazoli, together with Carlo Salvatori, now CEO of Banca Intesa, experimented with a bottom-up, inclusive and consensus-oriented approach aimed at pulling otherwise reluctant small local banks into Intesa's reach, thus successfully managing dozens of friendly acquisitions and considerable growth.

Today, Banca Intesa is the largest bank in Italy with a network of more than 4,000 branches and over 70,000 employees. This success is mainly due to the rapid growth pattern driven by the federative model. However, as the competition increases and financial institutions no longer compete on the national level but on a European or even global scale, the pressure is being felt from within. Intesa's shareholders are increasingly demanding better financial results and a more efficient firm.

This is forcing the management to abandon the federative strategy in favour of a more effective integration process. The new strategic plan released in May 2000 calls for a fully fledged divisional banking model based on closer customer focus, rather than on pampering to traditional shareholders' political interests. The distribution strategy will move from the traditional branch-based model towards a multi-channel approach, with an ambitious €775 million investment plan for e-banking. The integration strategy of Intesa's latest acquisition BCI has also been deeply revised, and now aims at €1 billion worth of synergies, of which about 50 per cent are expected from cost reduction, lay-offs, and divestment of physical branches.

The top management of Intesa will be trying to cope with these entirely new and much more painful strategic challenges using the well-established inclusive and consensus-building approach. Whether the old organisational process will work in the new strategic context remains to be seen.

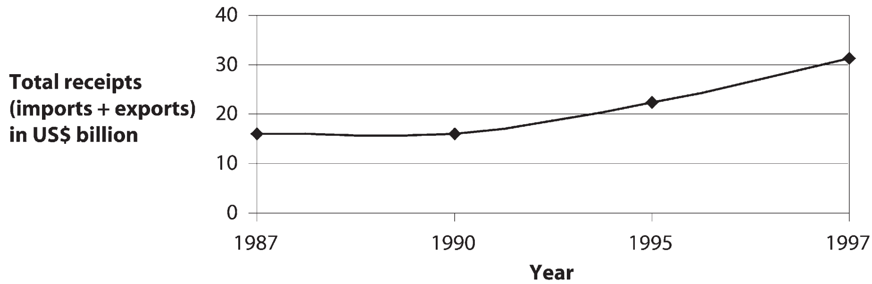

Figure 1. Cross-border trade in financial services (excluding insurance) exports and imports[68]

vices. The numbers represent the sum of the imports and exports of cross-border financial service transactions (excluding insurance) of Canada, Germany, Italy, the Netherlands and the US. Figure 2 provides the financial value of net international bank lending of the G10 countries, plus thirteen other nations. The amount has tripled from a low of US$245 billion in 1992 to a high of US$875 billion in 1997. International bank lending fell in 1998 as a consequence of the Asian crisis.

These developments suggest increasing pressures to globalise. As it is beyond the scope of this article to discuss changes in the global financial services landscape, we concentrate on changes in five European Union countries, and focus on European-based financial services firms. The next sections analyse changes in EU regulations and technological developments, two major strategic renewal-enabling forces having a significant impact on the European financial services landscape.

Country differences in the pace of diffusion of changes in EU regulations

Until the mid-1980s, the European financial services sector was characterised by significant governmental involvement and by numerous institutional and regulatory limitations on the domestic, cross-border and cross-sector activities of financial service firms. The process of deregulation and harmonisation in the financial services sector has been a gradual one and has varied considerably between European countries. Of the numerous regulat-

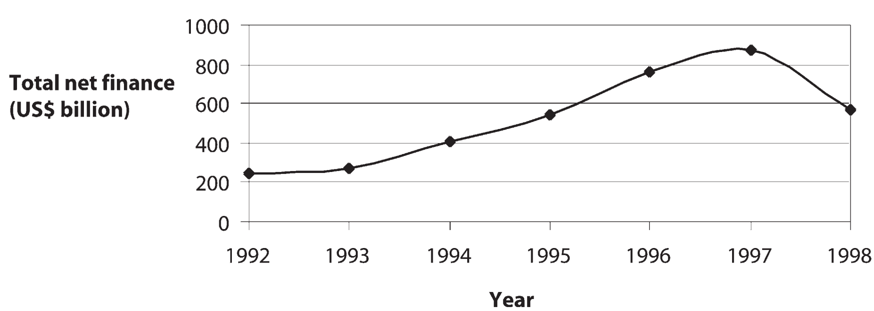

Figure 2. Estimated net financing in international markets[69]

ory changes that have taken place, we focus here on three categories of regulatory changes (see Table 1) aimed at:

1. eliminating restrictions on domestic competition;
2. changing the scale and scope of financial activities; and
3. improving the external competitive position of financial firms.[5]

Obviously, these regulatory changes have a major impact on the strategic renewal context of the firms involved.

The first category relates to the process of enhancing domestic competition. This process includes the elimination of restrictions on the entry of new domestic firms and restrictions on mergers and acquisitions. It also includes the removal of limitations to the use of competitive tools such as interest rate controls and the loosening of controls on capital flows that limit foreign competition.[5] In connection with this, we compare dates in which capital flows and interest rates[6] were deregulated.

The second category of regulatory changes comprises indicators on the relaxation of regulations that limit the scale and scope of financial services. These include restrictions on cross-border establishments and limits on combining banking, insurance and securities activities within a single firm.[5] The process of increasing the scale and scope of financial activities is estimated via the year of implementation of the first banking

Table 1. Diffusion patterns of three categories of regulatory change across Europe

Regulatory Changes	France	Italy	Netherlands	Sweden	UK
Elimination of restrictions on domestic competition:[i]					
Interest rate deregulation	−11	−11	−2	−6	0 (1979)
Liberalisation of capital flows	−11	−11	−1	−13	0 (1979)
Regulations limiting scope and scale of financial activities:[i]					
Implementation 1st banking directive	0 (1980)	−5	0 (1980)	−13	0 (1980)
Implementation 2nd banking directive	−1	0 (1992–3)	0 (1992)	−1	0 (1992–3)
Restrictions on combining banking, insurance and securities activities	None	Restrictions on access, firewalls	None	None	Restriction on bonds
Harmonisation of prudential regulation[i]	1990–5	1991–3	1991–5	1989–5	1985–5
Implementation period prudential regulation	−2	0 (1993)	−2	−2	−2
Introduction of Euro/European Monetary Union	0 (1/1/1999)	0 (1/1/1999)	0 (1/1/1999)	0 (1/1/1999)	0 (1/1/1999)

[i] Adopted from Gual.[5].

directive and the second banking directive across the five European countries. The second banking directive includes a list of financial activities that are subject to the single passport,[7] although there are still differences across countries regarding the extent to which a single firm is allowed to combine banking, insurance and securities activities. We also indicate these differences.

The third category of regulatory changes shown in Table 1 applies to variations in regulations impacting the external competitive position of financial firms. These include solvency regulations, capital adequacy requirements, and reserve and investment coefficients. These measures impact on the cost of doing business and place limits on the free use of deposits and a firm's own funds.[5] We indicate this process by stating the implementation period of the harmonisation of prudential regulations across the five countries. Table 1 presents the three categories of regulatory changes. We will expand on these patterns below.

late movers followed a more gradual policy of deregulating interest rates and liberalising capital flows

Eliminating restrictions to domestic competition

The upper part of Table 1 presents the year of the first mover and the time lag in years of the other countries regarding the deregulation of all interest rates and the full liberalisation of capital flows.[8] The first mover regarding interest rate deregulation was the UK (1979). Two years later this regulatory change took place in the Netherlands, hence the figure of −2 years in Table 1. The UK also moved first in liberalising capital flows, closely followed by the Netherlands. Compared to the UK and the Netherlands, France and Italy lagged behind almost ten years in both the deregulation of interest rates and the liberalisation of capital flows. These late movers followed a more gradual policy of deregulating interest rates and liberalising capital flows.[6]

The scope and scale of financial activities

Three directives have guided the deregulation process in the European financial services sector. The 1973 directive abrogated discriminatory rules, aiming to prevent discrimination between banks of European Community countries and national banks concerning freedom of establishment and freedom of financial institutions to provide self-employed activities.

The first banking directive was approved in 1977 and was based on the principle of generalised harmonisation. It was intended to facilitate the access and the activities of credit institutions in EC member states, and to eliminate the most important legal impediments between member states.[9]

The second banking directive was issued in 1989 and consisted of four principles, of which the single license principle is most important. This principle allows banks that are authorised by one of the EU member states to conduct a number of activities in any other EU member state without having to be authorised by the foreign member state.[9] The middle part of Table 1 shows that the UK and the Netherlands were the first to implement the first banking directive, and they were also the first to eliminate restrictions to domestic competition. France, which was late in deregulating interest rates and liberalising capital flows, was however quick to implement the first banking directive. Sweden lags behind in implementing the banking directives because of its late entrance to the European Union.

With regard to combining financial activities, differences between the five countries have been largely diminished. Currently, there are no substantial differences in combining banking and insurance activities. There is some variation in the exploitation of securities activities by banks, notably in Italy and the United Kingdom. We illustrate the effect of permission to combine banking and insurance activities with the case of ING in Exhibit 2.

Exhibit 2. Deregulation in bank insurance: ING

ING has developed into a global integrated financial services institution which is active in the field of banking, insurance and asset management. Total net profit over 1999 accumulated to €4.922 million; total assets by the end of 1999 were €492.8 billion and its market capitalisation was €58.1 billion by 1 May, 2000.

The direction in which the financial services sector moved in the second half of the 1980s made it clear that the borders between banking and insurance were becoming blurred. As a result, the Dutch government lifted the ban on combining banking and insurance activities on 1 January, 1990, and most Dutch banking firms acted on this regulatory change by adding insurance activities to their banking core.

The most drastic move, however, was the merger of Nationale Nederlanden, Netherlands' largest insurer, with the third largest Dutch bank, NMB Postbank, to form the Internationale Nederlanden Group (ING). Ten years later, banking and insurance activities are still legally separated, as Dutch law requires a separation of capital between those activities. However, ING's operational structure has diverged from its legal structure, promoting cooperation between market segments. ING now carries one brand name for various types of products. It markets its product range through a wide range of distribution channels, including its bank branches, independent agents and virtual channels such as the Internet. By 1995, some 10 per cent of ING's total new domestic business came from sales through its 400 bank branches and its network of 2,100 post offices.

The emergence of financial conglomerates such as ING and the development towards combining and offering formerly separated financial products within one organisation has been beneficial to customers, but troublesome for regulators. The Dutch supervisory system, which was organised by sector, adapted itself and founded the Board of Financial Supervisors in July 1999. The new supervisory role, in which the three supervisors of the banking, insurance and securities sectors are represented, adds a cross-sector perspective to the sectoral model of supervision.

Harmonisation of prudential regulation

Prudential regulation aims to create a level playing field and to set minimum requirements. It includes, amongst other things, legislation on solvency ratios and the definition of own funds.[5] The lower part of Table 1 indicates the time periods during which this legislation was adopted across Europe. It shows that the starting dates of the implementation process range between 1989 and 1991, with the notable exception of the United Kingdom, which had already started in 1985. Four countries finished implementating prudential regulation in 1995, Italy having finished two years earlier.[10] On July 1, 1988, the Basle Committee on Banking Regulations and Supervisory Practices issued the Basle Accord. This was enforced in two stages: an intermediate stage at the end of 1990, coming into full effect by the end of 1992.

Not all countries implemented the Basle Accord in the same manner

The minimal capital requirement of banks came to depend on the perceived credit risk exposure of banks' assets and their off-balance-sheet positions.[11] The main requirement is that internationally active banks should hold a minimum of 8 per cent spare capital as security against default on their loans.[12] These higher capital requirements result in a limit to how much capital can be put to work, potentially reducing shareholders' returns.[10]

Not all countries implemented the Basle Accord in the same manner. The UK, for instance, has a system of differential capital requirements. Only the top banks are allowed to hold close to 8 per cent of risk-weighted assets, whilst most British banks are required to hold between 10 and 18 per cent. Belgium and France treat most established banks equally, although risky new banks may be forced to hold more capital.[10] Currently, the Basle Accord is under review and, for European banks, this could imply that banks should hold more capital if they are seen as risky. Regulators will be given explicit powers to enforce the new requirements. The review may level the international playing field between UK and continental banks, since the UK banks are required to hold more capital than their continental competitors.

A second issue of potentially major consequence is that banks may be required to use internal ratings to measure loan risk weightings. Only banks with sophisticated risk management systems can have their internal risk rated. This puts smaller banks at a disadvantage since such systems may well be too expensive for them to build and maintain.[10]

Establishment of the European Monetary Union and the introduction of the Euro

The culmination of the harmonisation of regulations across Europe is the establishment of the European Monetary Union (EMU) and the introduction of the Euro. The Euro is being introduced in several stages. The Euro system, consisting of the European Central Bank (ECB) and the national central banks, sets the monetary policy for the EMU. The ECB's main task is to maintain price stability within the Euro zone. The main implication of the Euro is the promotion of the single market. EU banks can lend and borrow without any exchange or interest risks, which encourages cross-border activities. The EMU further increases price transparency across European markets. Companies are now urged to think and act on a European instead of a national scale, which promotes not only cross-border mergers and acquisitions, but also domestic ones in order to gain sufficient scale.[13]

Country differences in the pace of diffusion of technological developments

In this section we focus on a number of technological developments that enable the strategic renewal of incumbents and the emergence of new entrants by having a major impact on the interface between clients and financial services providers. Building on several previous contributions,[14] we investigated the diffusion of technological developments along five indicators:

1. the introduction of the first ATM network;
2. the first EFTPoS network;
3. the e-purse;
4. the introduction of remote banking facilities; and
5. the first branchless bank in a country.

Below we briefly describe each indicator and the diffusion patterns across the five countries. Table 2 presents, for each of the five indicators, the year of introduction of each technology and the time lags between the first mover country and the followers.

ATM networks

The introduction of the first automated teller machine (ATM) network in a country is our first indicator of technological development. The first ATM network, 'Bankomat', was founded in 1972 in Sweden.[15] Italy followed 11 years later with its 'Bancomat' network.[16] In France, the Groupement Carte Bleue, together with Crédit Agricole and Crédit Mutuel, created the Groupement

Table 2. Diffusion patterns of of five indicators of technological development across Europe[i]

Technological Developments	France	Italy	Netherlands	Sweden	UK
Introduction of ATM network	−12	−11	−13	0 (1972)	−14
Introduction of EFTPoS network	0 (1984)	−2	−6	−1	−4
Introduction of e-purse	−10	−5	0 (1989)	−9	−6
Introduction of remote banking:					
Telephone banking	−5	−10	−8	0 (1985)	−4
PC banking	−9	−12	−1	–	0 (1985)
Internet banking	−2	−1	−2	0 (1995)	−2
Establishment of first branchless bank	−5	−6	–	−5	0 (1989)

[i] Source: Erasmus Strategic Renewal Centre.

des Cartes Bancaires (CB) in 1984 and introduced 'interbancarité', allowing customers to use their cards at any ATM or EFTPoS terminal that accepts the CB card.[17] In the Netherlands, Rabobank, ABN, AMRO, NMB and Van Lanschot formed an ATM network in 1985,[18] and in the UK the 'Link' network was founded in 1986.[19]

EFTPoS networks

EFTPoS is our second indicator, described as "an electronic payment method involving goods and services being paid for at the point of sale through electronic debit of the customer's account".[14] Debit cards are much more widely used in Europe than in the USA, making this a better indicator for technological development than, for instance, the introduction of the first credit card. We have already mentioned that the CB network in France, founded in 1984, consists of both ATM and EFTPoS. In Sweden, the Babs company was founded in 1985 to manage the EFTPoS network in that country.[20] The Italians started a national EFTPoS experiment in 1986, establishing terminals which also accepted Bancomat ATM cards.[21] The UK's first debit card payment system, Switch, was founded in 1988,[22] and the Dutch did not introduce their EFTPoS network 'PIN' until 1990.[18]

Debit cards are much more widely used in Europe than in the USA, making this a better indicator for technological development

E-purse

The e-purse, a substitute for cash, is our third indicator. The e-purse is a card containing a microchip that stores electronic money, and can be combined with a debit card, for example. The Netherlands was the first country to launch an e-purse trial in the city of Woerden in 1989, and also the first to introduce a nationwide e-purse scheme, called Chipknip, in 1996.[23] Italy followed with the introduction of 'Cassamat', a local e-purse which was launched in 1994 in the district of Alto Adige by the Raiffeisen federation of cooperative credit institutions. The 'Mondex' card was introduced in the UK in 1995 with a trial undertaken in Swindon. In Sweden, the nationwide e-purse scheme 'Cash Card' was introduced in 1998 by a consortium consisting of Nordbanken, Sparbanken and SEB. The e-purse reached France when the Crédit Mutuel Group acquired the license for the Mondex card—previously trialed in the UK—and introduced it in Strasbourg in 1999.[24] Although France was the last country to introduce an e-purse, it was the first in using the microchip technology in another way when, in 1992, the magnetic stripe on the Cartes Bancaires cards was replaced by a microchip,[25] resulting in a 90 per cent reduction in card fraud.[26]

Remote banking

The fourth indicator is remote banking, defined as managing one's account without physically going to a bank office. We have divided remote banking into three different types: telephone banking, PC banking and Internet banking.[27] Telephone banking allows one to manage one's account by talking to a human operator or a computer (using voice response). In the literature, the terms PC banking and Internet banking are sometimes called online banking and are used interchangeably. However, we define PC banking as banking by using a computer and a modem to manage an account. The software is installed on the customer's computer, so the bank can only be contacted using this particluar computer. With Internet banking, no specific software needs to be installed, which implies that wherever the customer has access to the Internet, he can manage his accounts.

Telephone banking

Telephone banking was first introduced in Sweden by Swedbank in 1985.[28] The other countries were much later in introducing these services, ranging from four years (the UK) to ten years (Italy). First Direct was the first to offer a complete banking service in the UK via telephone, although Nationwide and Abbey National had already had telephone services for some time.[29] Cortal, a subsidiary of Paribas, introduced Finexpress in 1990.[30] In the Netherlands, the Postbank (part of ING) started offering a telephone banking service called Girofoon in 1993.[31] Italy was the last country to introduce telephone banking. Cariplo (now Banca Intesa) introduced this service just days before Banca Commerciale Italia, which promoted the service as Italy's first remote banking service in 1995.[32]

Of the five countries, the UK pioneered PC banking in 1985

PC banking

Of the five countries, the UK pioneered PC banking in 1985. The Netherlands followed one year later. Italy and France lagged about ten years behind in introducing PC banking services. In the UK, the Bank of Scotland introduced its 'Home and Office Banking Service' (HOBS) in 1985,[33] using a keyboard that was plugged into the televsion and the telephone socket.[34] The customer could view his balance, scroll back through statements, transfer money between accounts or pay bills directly, and the system could also be operated by PC. The first bank that introduced a system specifically designed for the PC was Lloyds TSB in 1996.[35] In 1986, the Postbank introduced 'Girotel' in the Netherlands.[36] In France, BNP introduced the PC banking service 'BNP Micro' in 1994.[37]

The fact that France lags five years in telephone banking services and nine years in PC banking services can be explained by its national videotext system Télétel, popularly known as 'minitel', introduced in the mid-1980s by the French government together with France Telecom.[38] In 1983 there were 120,000 minitel terminals in use, growing to 17 million by 1999. This telephone-based interactive system offers a wide array of services including an electronic telephone directory and home shopping. Services vary between banks, but almost every single bank started its own Minitel-based remote banking system in the mid-1980s. French banks had thus no urgent need to offer other forms of remote banking.

Italy was the last country to offer PC banking, with Cariplo's

1997 launch of 'QuiCariplo', a product with both PC banking and Internet banking options.[32]

Internet banking

The time lags in the diffusion pattern of Internet banking are much shorter than for telephone and PC banking. Sweden first introduced Internet services in 1995, followed one year later by Italy. France, the United Kingdom and the Netherlands made Internet banking possible two years after Sweden's introduction of it.

The fact that Sweden leads in Internet banking can be explained both by its sparse population—branches are often distant from consumers' homes—and its PC penetration ratio, which is the highest in Europe.[39] The Swedish bank Trygg-Banken (now SEB) was the first bank to launch Internet banking.[40] In 1996, Italy's Cassa Risparmio di Firenze followed,[41] while the Nationwide Building Society launched the UK's first Internet banking service in 1997.[14] The same year saw Rabobank offer Internet banking in the Netherlands,[42] and Banque Directe (owned by BNP Paribas) in France.[43]

A branchless bank is defined here as a bank that only offers remote banking services

Branchless banks

Our fifth indicator is the establishment of the first branchless bank (see Table 2). A branchless bank is defined here as a bank that only offers remote banking services. Conventional banks also offer remote banking services, but these are complementary to their existing product line. A branchless bank is usually owned by an existing bank, but managed as a separate business unit under a different brand name.

As already mentioned, First Direct was the first to offer a complete banking service in the UK via the telephone in 1989,[29] and it was also the first branchless bank in the five countries investigated here. According to the *Financial Times*,[30] Banque Directe of France, founded in 1994, 'is modelled unashamedly on First Direct'. Sweden also introduced its first branchless bank, Sesam (owned by S-E-Banken), in 1994.[44] In Italy, the insurer Ras created a separate business unit, called Rasbank, to offer telephone banking services in 1995.[45] We did not find a branchless bank offering complete banking services in the Netherlands. A case of a branchless bank is Egg, a stand-alone branchless bank set up by Prudential, the UK insurance firm (see Exhibit 3).

Country-specific versus generic European patterns of diffusion

What can we learn from the different patterns of diffusion in regulatory changes and technological developments? Are they country-specific or industry-generic? Does the pace of diffusion increase across countries? Below we reflect on the patterns that were described in the previous two sections. We first assess these patterns by integrating Tables 1 and 2, resulting in an overview

Exhibit 3. Branchless banking in the UK: Prudential and Egg

Prudential is a leading assurance company, specialising in personal financial products, primarily pensions, fund management, life assurance and other general insurance. Total net profit over 1999 accumulated to €870 million; total assets by the end of 1999 were €241.7 billion and its market capitalisation was €29.7 billion by April 8, 2000.

Prudential's main products were likely to be under some pressure in the new millennium. Life assurance is a product whose historical UK growth resulted from a favourable tax treatment—much of which is no longer available. Pensions and fund management are both products whose volumes are likely to grow, but margins are diminishing.

In this changing environment, it is not difficult to see that banking, with its historically high profit margins, would be attractive, particularly as Prudential was already a well-known financial brand and there was the additional expectation of cross-selling of Prudential's own products. Hence, in 1996, Prudential recruited Mike Harris, who had formerly been responsible for the launch of First Direct, the largest UK telephone bank. Initially, his objective was to fill out Prudential's product range by adding banking products—selling them under the Prudential name. Customer research during 1997 showed that a major change was taking place, with increasing customer expectations of 'anywhere, any time' banking. Further research in new technologies showed a major opportunity for new delivery channels. This was presented to the Prudential Board in January 1998 and resulted in the birth of Egg, launched in October 1998 as a division of Prudential.

Initially, Egg was designed as a telephone-based bank, but as technology progressed rapidly, the operation was soon switched to be based on the Internet. The main Egg products are savings accounts and credit cards, together with some personal loans and mortgages. Since its launch, Egg has attracted one million customers (2 per cent of the UK banking market), and has total assets of £8.6 billion while cumulative losses have risen to £0.3 billion. As a result of floating Egg on the London Stock Exchange, the Prudential share price increased substantially since the Prudential shares were re-rated as 'new economy' shares.

Although the question remains as to whether it will produce sustainable long-term profits, the evolution of Egg from Prudential is a major directional change for a long-established UK assurance company.

of early versus late movers, showing the time lags between the first mover and the followers.

Figure 3 shows that the UK leads in diffusing regulatory changes, closely followed by the Netherlands. This first mover behaviour in the UK corresponds with Taylor's[27] notion that Bri-

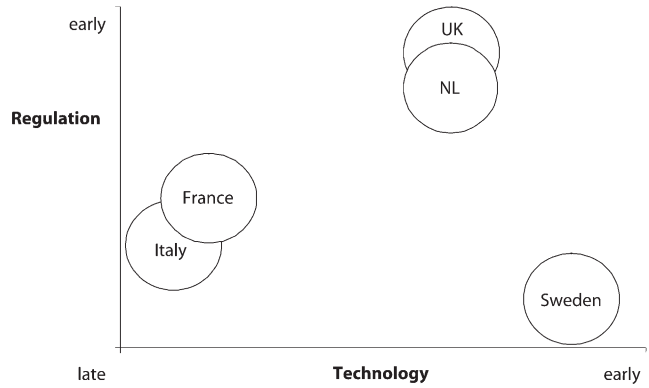

Figure 3. Early vs. late movers in the diffusion of technological and regulatory changes. Source: Erasmus Strategic Renewal Centre (derived from Tables 1 and 2)

tain has used deregulation to promote competition in its financial services industry. Sweden is early in diffusing technological developments, followed again by the Netherlands and the UK. France and Italy are last in diffusing both regulatory and technological changes. Sweden's position in diffusing regulatory changes can be explained by its late joining of the European Union. These differences suggest country-specific patterns of diffusion. To detect changes over time in the diffusion of regulatory and technological changes, we added up the time lags of the five countries for each indicator.

Figure 4 shows the *increasing speed* of diffusion of the regulatory indicators. Whereas the time lag regarding the deregulation of interest rates and the liberalisation of capital flows mounted up to eleven years for some countries at the beginning of the 1980s, the finalisation of the diffusion period of prudential regulation was two years at the most in the middle of the 1990s. The speed of diffusion has become about five times higher and more similar across the countries investigated. Such a pattern, how-

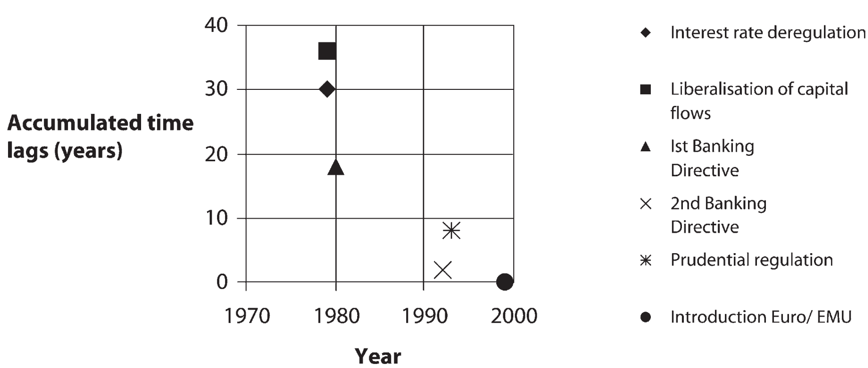

Figure 4. Accumulated time lags per indicator of regulatory change. Source: Erasmus Strategic Renewal Centre (derived from Table 1)

ever, is less clear for the speed of diffusion of the various technological developments (see Figure 5).

But once again the more recent the technology developments are, such as Internet banking, the faster the speed of diffusion in comparison to older technologies such as ATM networks. In the beginning of the 1970s the average time lag between the first mover and the followers regarding ATM networks was about twelve years. In the midst of the 1990s, the average time lag with respect to introducing Internet banking was about two years. Based on the presented data, this suggests that the speed of diffusion of technological developments increased about six times. These preliminary results suggest a process of European convergence in which regulatory and technological changes are dispersed faster and faster across EU-countries.

Regulatory and technological changes are not the only enabling forces for strategic renewal. An important demand-side driver is changing *consumer preferences*; it is crucial that new technological opportunities are aligned to changing consumer preferences. An earlier example of changing consumer preferences is the success of remote banking, which undermines the importance of conventional bricks-and-mortar outlets. Another example is the growing popularity of a whole new range of financial products, including hybrid products, and the appreciation of one-stop financial shopping enabled by the permission to combine banking and insurance activities. Payment methods have seen a gradual change from cheques and cash towards debit and credit cards and, most recently, to electronic payment devices.

The growing popularity of these amenities has affected the density of banks' branch networks. Table 3 indicates that the number of branches per 1,000 inhabitants decreased in France, the UK, the Netherlands and Sweden by between 6 per cent (France) to 31 per cent (Sweden), although, because of the elimination of legal restrictions, branch density in Italy almost doubled in the period between 1985 and 1997. Interestingly, these data support our previous findings of country-specific patterns in earlier time periods and industry-generic patterns in later

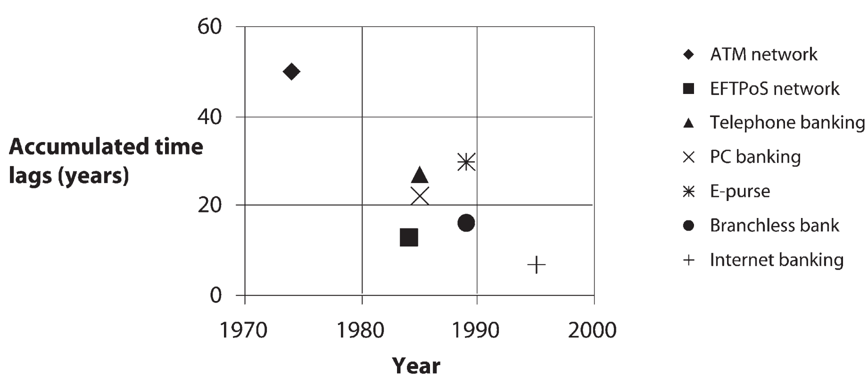

Figure 5. Accumulated time lags per indicator of technological change. Source: Erasmus Strategic Renewal centre (derived from Table 2)

Table 3. Number of bank branches per 1,000 inhabitants[66]

Country	1985	1990	1995	1997	Change 1985–97 (%)
France	0.47	0.45	0.44	0.44	−6
Italy	0.23	0.31	0.41	0.44	+91
Netherlands	0.59	0.54	0.44	0.44	−25
Sweden	0.42	0.38	0.30	0.29	−31
United Kingdom	0.38	0.35	0.33	0.32	−16

time periods, as in 1985 branch density differed significantly across the five countries, while in 1997 this is no longer the case.

We now turn to the impact that these strategic renewal-enabling forces have had on the privatisation of financial services firms, which appears to be mainly a country-specific phenomenon.

Privatisation processes in late movers

The share of private versus public ownership in the banking sectors of the five countries is presented in Table 4.[46] In 1988, the French and Italian banking sectors had a relatively high degree of public ownership, which coincides with their late mover behaviour in diffusing regulatory and technological changes. The consequent privatisation of the banking sector in these countries is a further illustration of convergent pressures in Europe's financial landscape, and we describe these processes below.

Privatisation in France

As a consequence of the French socialist government's nationalisation program, 90 per cent of French banks were state-owned in the early 1980s,[47] but by the mid-1980s the French government no longer considered the strategic position of the financial sector a sufficient reason to maintain a direct hold on the strategic and operating management of the sector.[47] An additional motive for privatisation was to reduce the ever-burdensome public debt,[47]

Table 4. Private vs. public ownership in the banking sector as percentage of aggregate total assets (1988)[67]

Country	Private (%)	Public (%)[i]
France	24.2	42.2
Italy	12.3	67.9
Netherlands	61.2	8.1
Sweden	52.9	19.3
United Kingdom	31.8	1.0

[i] The original source made a distinction between four sorts of ownership (private, public, mutual and foreign), therefore the figures in the table do not add up to 100 per cent.

Exhibit 4. Post-privatisation developments in France: SocGen

Société Générale (or SocGen) is one of the oldest universal French banks. It was set up in 1864 as a merchant bank and is evolving towards being a universal bank. SocGen was nationalised in 1945 and privatised in 1987. Total net profit over 1999 accumulated to €1.98 million; total assets by the end of 1999 were €406.5 billion and its market capitalisation was €25.5 billion by April 8, 2000.

Technological developments and deregulation prompted many European financial services firms to exploit the opportunity to expand abroad, resulting in an increasingly competitive pan-European arena. As a result, the French financial services sector, formerly characterised by an affable banking fraternity, entered a consolidation battle. The competitive pressures forced French banks to cut costs and bulk up by merging just like their European rivals.

In order to reduce costs, SocGen decided to reorganise its network by reducing the number of regional services and by developing distance operations with its customers. The strategy of SocGen focused on developing its position in traditional banking in France with higher margins, and developing international market activities. SocGen's first acquisition in 1996 of Crédit du Nord, another French retail bank with 1,300 agencies and 8,395 employees, can be considered its first major move to fortify its position on the French market. SocGen also developed internationally by setting up a new team in New York, whose objective was to develop into an international investment bank.

In 1999, SocGen planned to merge with Paribas, the country's biggest player. BNP atempted to break up that deal by trying to buy both banks, but ultimately was forced to make the best of a marriage to Paribas. BNP obtained only 31.7 per cent of SocGen, placing the outcome in the hands of French regulators who ordered the return of all tendered shares to their original holders. BNP however obtained 65.1 per cent of Paribas, which in 1999 resulted in a merger.

Internationally, SocGen benefited from its presence in international banking and capital markets. For instance, it has a large stronghold in Germany and Austria through its Sogenal subsidiary, and in 1998 a new division was set up to focus on retail banking outside France. After the battle, SocGen strengthened cooperation with British insurer CGU, which doubled its stake in SocGen to 6.9 per cent. However, SocGen still lacks a consistent international strategy. Only 17 per cent of its employees are in foreign countries, and its international development seems to be constricted by France's underdeveloped shareholder value culture and its traditional two-tier market structure (consisting of banks and credit cooperatives).

Exhibit 4. Continued.

The six-month takeover battle with BNP could be seen as a victory for the 1986 banking reform. It is considered a huge step forward for the restructuring of the French banking system and the acknowledgement that shareholders should control it. Whether SocGen remains defiantly single remains to be seen; at present this attractive French bank remains highly vulnerable to the overtures of other, possibly foreign, suitors.

a substantial part of the FF180 billion revenue of the privatisation operations between 1986–1988 and 1993–1995 being used to reduce the government debt.

The government often called on privatised companies, including banks, to act as 'noyaux dur' for other privatisation candidates

Privatisation of the French financial sector really took off in 1987 when Paribas, Société Générale and Crédit Commercial de France were privatised. This first wave was followed by a second in the mid-1990s. In 1993, Banque Nationale de Paris (BNP) was privatised; in 1994, Union Des Assurances (UAP); in 1996, Assurances Générales de France; and GAN in 1998. The most recent privatisation is that of Crédit Lyonnais in 1999.

The government often called on privatised companies, including banks, to act as 'noyaux dur' for other privatisation candidates. By serving the role of strategic partner and holding 'hard core' stakes, a 'noyau dur' can, for instance, support the board in hostile takeover situations.[48] The privatised Société Générale was one of the first companies to declare its interest in acting as a 'noyau dur',[49] and more financial services firms followed. The French banking reform had significant effects on its formerly sedate financial industry. Some banks even attempted to lock others in through cross-stake holdings (which we discuss in the 'Post-privatisation developments in France' case in Exhibit 4

Privatisation in Italy

Italy's privatisation efforts are considered to be one of the major forces behind the tremendous change that has taken place in the Italian economy during the 1990s. At the start of the 1990s, the public sector in Italy controlled about 80 per cent of the banking sector. Banks were protected from competition and could maintain high margins. State control over the Italian banks was guaranteed, on the one hand by a state holding company (fully owned by the Ministry of the Treasury) and, on the other, by local governments through charitable foundations. The privatisation process began with the transformation of the charitable foundations into joint-stock companies. Later, the shares of the companies were offered through stock exchanges or through private placements.

The process started in December 1993 with the privatisation of Credito Italiano, followed by the privatisation of Banca Commerciale Italiana in February of 1994. Both organisations were commercial banks and were part of the state holding company IRI (Instituto per la Recostruzion Industriale). In the early 1990s, IRI-controlled companies employed 400,000 people. Gradually, all the firms belonging to the holding company were privatised, which resulted in the dismantling of IRI in the spring of 2000.

This section has suggested that the legacy of national ownership structures[50] has largely defined the scope and timing of privatisation programmes. In the Netherlands, the UK and Sweden, the relatively low degree of public involvement in the banking sector made privatisation waves in the late 1980s and 1990s unnecessary. France and Italy, on the other hand, had a public banking sector. These countries reduced their government stakes to pay off public debts and to create a more efficient banking sector. We now address consolidation patterns in the European financial landscape aimed at increasing scale and scope.

Industry structure: consolidation patterns across Europe

This section describes the impact of the two forces discussed above on the changes in industry structure. We focus on merger and acquisition activities in the banking sector of the five countries from 1991 to 1998 (see Figure 6).

Figure 6 shows the relatively high number of these transactions, about 380, across the countries investigated during 1991 and 1992. This coincides with the liberalisation of the banking regulations and the establishment of the single European market in 1992, suggesting that banks chose to combine forces to cope with these changes. During the years 1997–1998 this number decreased to about 125 mergers and acquisitions. With a total number of 375 and 290 transactions over the period 1991–1998, the late movers Italy and France displayed significantly more action than the other countries. Although the number of mergers and acquisitions was relatively high in the beginning of the 1990s, the value of these activities increases from the middle of that decade.

This second merger wave—started in the years 1995–1996 by France, the Netherlands and the UK—really took off in 1997

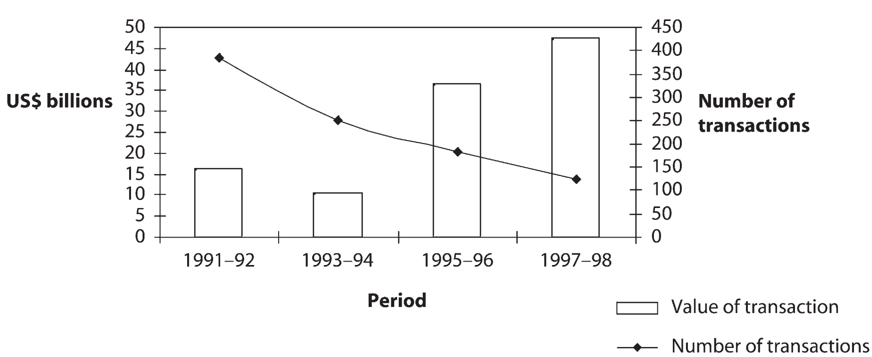

Figure 6. Banking merger and acquisition activity in the five EU countries. Source: Strategic Renewal Centre, data from Lumpkin.[70] Note: classified by industry of target; only completed or pending deals; announcement date volumes; 1997–98 data as at 30 October 1998. Euro-zone excluding Austria, Ireland, Luxembourg and Portugal.

when the total value spent on mergers and acquisitions in these five counties exceeded US$47 billion. Additional data shows that, in the period from May 1997 to May 1998, the total value of bank mergers in all European countries amounted to US$127 billion—a quadrupling compared to the year before.[51] This wave was followed by a period of mega-mergers in 1999 and 2000. Examples are the US$12 billion merger of BNP and Paribas in France in 1999, and the US$32 billion merger between RBS and NatWest in the UK in 2000.

Cross-border mergers are still rare, and there are still no pan-European banks which have more than two home markets

To describe the *international dimension* of these mergers and acquisitions, the number of domestic versus cross-border acquisitions in the European banking sector are presented in Table 5. Most of the transactions during the 1990s were home country mergers aimed at protecting the domestic market. Cross-border acquisitions were still rare, despite the ongoing European integration process. Financial institutions in the UK, France and Germany have been most active in international mergers and acquisitions; financial players in the UK, France, Spain, Italy and Belgium were targeted the most.[52] The Benelux and especially the Scandinavian countries have seen the most significant and successful[53] cross-border mergers. An example of a successful cross-border merger is MeritaNordbanken. Exhibit 5 describes the evolution of this bank which, saved from bankruptcy in 1992, developed into a successful pan-Scandinavian financial institution. Merger and acquisition activities have had a major impact on the structure of the financial industries of the five countries investigated. We indicate their impact by providing changes in the concentration ratio of the largest five firms in each country. Table 6 shows that these ratios have changed over the period 1985–1997, but not in the same way for all countries. Sweden, followed by the Netherlands, showed the highest concentration ratio in 1997. The concentration ratio of the Italian financial industry increased, but still has a long way to go compared to the Netherlands and Sweden, and the UK market also remains rather fragmented. France is an exception in that its concentration ratio decreased, in spite of the restructuring of its financial services industry.

In conclusion we see increasing merger and acquisition activity across Europe. Most of these are domestic. Cross-border mergers are still rare, and there are still no pan-European banks which have more than two home markets. The concentration ratios of France, Italy and the UK indicate that there is sufficient room for further consolidation in these countries.

Table 5. Value of bank mergers and acquisitions in Europe (US$ billion)[51]

	1993	1995	1997
Domestic bank/bank	9	24	60
Cross-border bank/bank	1	8	7

Exhibit 5. Frontrunners in cross-border integration: MeritaNordbanken

MeritaNordbanken was established in 1998 through the merger of Finland's dominant universal bank Merita with the major Swedish retail operations of Nordbanken. MeritaNordbanken is one of the leading Nordic bank groups, with a broad range of financial products and services. Total net profits over 1999 accumulated to €1.098 million and its total assets by the end of 1999 were €103.8 billion.

After the merger, its top management tried to establish a completely new entity and immediately started a process of integrating the two banks. CEO Hans Dalborg characterised the merger in the bank's 1998 *Annual Report* as: 'A merger for growth between equal and complementary companies in which specialist expertise is exchanged and enriches work. It is not based solely on the idea of eliminating work duplication.' From the time Merita and Nordbanken merged, the bank has been engaged in a series of attempts to establish an integrated pan-Scandinavian banking group.

On 6 May 2000, the bank announced the acquisition of Unidanmark, Denmark's second biggest bank. The bank further made an agreed takeover bid for Christiania Bank, Norway's second largest bank. (Government approval for this acquisition has still to be obtained.) With its aggressive pan-Scandinavian strategy, MeritaNordbanken seems to have an early mover advantage over its Scandinavian peers. The necessary cross-border integration, however, also has its costs and associated risks. Whether the merger and acquisition strategy of MeritaNordbanken proves more successful then the organical expansion strategy followed by competitor Handelsbanken remains to be seen.

European financial services: 2000 and beyond

In this final section we will briefly discuss our findings, point out several limitations, and suggest issues for future research. We will conclude by indicating the future changes we expect in the European financial services landscape.

Our findings reveal, on the one hand, country-specific patterns in the diffusion of regulatory and technological changes, first mover behaviour being displayed in both the United Kingdom and the Netherlands. We have illustrated the catching-up of the late movers, France and Italy, and indicated changes in their national landscape by discussing their privatisation processes. On the other hand, our findings indicate that the speed of diffusion of the two forces has become more similar across the countries investigated. This suggests industry-generic patterns and a growing convergence across the five countries, making the rather fragmented and stable European financial services landscape more and more interdependent and dynamic. Furthermore, our findings suggest a substantial increase in the speed of diffusion of

Table 6. Concentration ratio (assets of the five biggest credit institutions as a percentage of total assets)[i]

Country	1985	1990	1995	1997	Change 1985–97 (%)
France	46.00	42.50	41.30	40.30	−12.4
Italy	20.90	19.10	26.10	24.60	+17.7
Netherlands	69.30	73.40	76.10	79.40	+14.6
Sweden	60.22	70.02	85.85	89.71	+49
United Kingdom	–	–	27.00	28.00	–

[i] Source: European Central Bank.

both forces: about five to six times higher in comparison to the average speed of diffusion of about 10 to 15 years ago.

Limitations and future research

There are several limitations to our analysis of the changing landscape in the European financial services sector. Due to the fact that our regulatory and technological indicators are related to the banking industry, developments in, for example, the insurance and securities sector were largely kept out of the analysis. The ongoing revolution in these sectors, blurring the boundaries between the industries[54] constituting the financial services sector, on which we touched in the ING case (Exhibit 2), and the invasion of new 'click' players in the online financial services sector[55] seem to take the developments in the financial services sector to another level.

A second limitation is our focus on only two of the key forces that enable strategic renewal. Other major influences, including changing demographics and consumer preferences, and the impact of disintermediation and corporate governance structures (as pointed out by Canals and Porter,[56] among others) were to a large extent left out of our analysis. However, several of these forces and aspects interact with our regulatory and technological indicators and are as such touched upon indirectly. A third limitation is our focus on only five EU countries and on European-based financial services firms.

Since this article is a first attempt to assess changing competitive landscapes in the European financial services sector, many issues remain to be addressed in future research.[57] One issue to be addressed is the impact on the pace of strategic renewal of incumbents operating in first mover countries like the Netherlands and the UK (see Volberda et al. for a first approach[58]). In this connection, an interesting question is to what extent firms in first mover countries have stronger managerial intentions regarding strategic renewal compared to firms in late mover countries. As suggested by Lewin and Volberda,[59] the mutual influence of both environmental selection forces and managerial adaptations on strategic renewal journeys can be fruitfully analysed from a co-evolutionary perspective.

A second issue is the incorporation of more EU countries such as Germany and Spain into the analysis. Germany is the home country of one of Europe's biggest banks (Deutsche Bank) while Spain is interesting in terms of the pace of consolidation and cross-border acquisitions, and the emergence of new banking models.[60]

A third issue is the investigation of how changes at global level impact the strategic renewal context of the European financial services landscape. For example, how will the 1998 creation of Citigroup, with the strategic intent of being 'the global leader in financial services',[61] influence the pace and nature of strategic renewal in European incumbents? This issue raises important questions such as who will be among the top ten truly global financial services providers? Which of the European players will be on that list, and which will become successful niche players?[62]

A fourth issue relates to differences in the speed of penetration of new technologies across countries. This article has focused on the introduction dates of regulations and new technologies in each of the countries investigated, but we have not estimated the speed of penetration within a country of, for instance, a new technology like the e-purse, which might increase our understanding of the pace of diffusion patterns and how these are triggered by changing consumer preferences across countries. Another interesting issue for further investigation, therefore, is the influence of changing consumer preferences on the context for strategic renewal.

the European financial services sector will be lifted to another level of turbulence in the twenty-first century

A final task for future research is to investigate the relation between the profitability of incumbents, new entrants and the speed of adoption of technological and regulatory developments. For instance, the relatively high ROEs of UK banks in particular have attracted new entrants with new approaches, probably speeding up the diffusion of regulations and technologies in the UK.[63]

Managerial challenges

In conclusion, based on our preceding analysis of the changing European landscape, we would expect that the European financial services sector will be lifted to another level of turbulence in the twenty-first century. We have observed that the speed of diffusion across the five EU countries has become more similar and pointed at converging patterns of consolidation. The privatisation of the French and Italian financial services sectors indicates further convergence. However, it appears that the consolidation process of the past decade was primarily domestically oriented within the same industries, aimed at gaining economies of scale and defending the home turf. Of the investigated countries, this process was most extreme in the Netherlands.

We expect that, after domestic markets have been consolidated, a second wave of both cross-border and cross-sector consolidation will take place. The moves of Dutch and Swedish players, whose domestic markets are most consolidated, suggest consolidation will first occur in nearby markets and sectors. We predict that it will still take several years before financial services companies with a real European look and feel about them will emerge.[64]

Exhibit 6 illustrates the struggle of Storebrand, which has attempted to cope with this changing landscape by cross-industry and cross-border expansion. Cross-border and cross-industry mergers and acquisitions might trigger different types of strategic renewal journeys, as discerned by Volberda et al.[60] We predict that cross-border consolidations are likely to be driven by scale and efficiency considerations and are, therefore, more closely associated with emergent renewal journeys. Cross-industry mergers and acquisitions, in particular between incumbent financial services firms and incumbent firms from related industries like telecommunications and retail, are likely to be driven by a stra-

Exhibit 6. Struggling for renewal: Storebrand

Storebrand AS is Norway's largest insurance company offering a full range of traditional insurance products in both life and general insurance. It currently operates two banks serving different market segments. Net income over 1999 reached approximately €125 million and the firm's total assets accumulated to €18.6 billion by the end of 1999. On April 8, 2000, the company had a market capitalisation of €2.3 billion. Today's Storebrand is the product of approximately 70 mergers and acquisitions. In the 1980s, Storebrand merged with Uni Insurance to form Uni Storebrand, and this combination became Norway's largest insurance company. The next attempt to grow was initiated by a charismatic CEO in 1990–91 when, in a hostile takeover attempt, he tried to acquire the largest Swedish insurance company, Skandia, to establish a pan-Scandinavian insurance giant. The takeover attempt failed, however, leaving Uni Storebrand with an extremely high and unmanageable debt load. Because of Norway's state intervention policy, the company went into government receivership and managed to survive. The CEO was forced to resign, and the government appointed an interim chairman to take over operations.

Uni Storebrand spent the next few years consolidating and restructuring in an attempt to regain its quality brand image and financial strength. A new CEO, Aage Korsvold, took control of the company in 1995 and started a new period of growth and acquisitions. In 1998, Storebrand attempted a merger with Norway's second largest bank to form a national bank/assurance combination. This growth strategy also failed, this time because of the dissatisfaction of a major shareholder group.

The case of Storebrand clearly shows that, in a turbulent environment, companies are not always successful and have to be flexible in their strategy to keep up with the competition. Moreover, it shows that national governments can play an important role in shaping the financial services landscape. Success for Storebrand, however, seems to lie in growth beyond its national borders.

tegic intent to change the industry rules and are, therefore, more closely associated with directed or transformational renewal journeys.

The two forces of regulatory change and technological development have not only greatly diminished spatial and cross-sector impediments to offering financial services; according to the findings of this article, a substantial increase in the speed of diffusion of these forces has taken place as well. These developments enable firms to offer combinations of all sorts of financial activities quickly in any EU member country. Novel technologies, new business models and strategic alliances[53] might partly replace often difficult-to-manage mergers and acquisitions by making it easier to offer financial services around the clock to customers located anywhere. Information technology by itself, however, is no panacea, merely enabling the required multi-channel banking strategy.[65]

These opportunities encourage non-financial players like GE and Microsoft, telecommunications companies such as KPN and Vodaphone and European retailers like Ahold, Sainsbury and Tesco to enter the financial services sector. These firms are confronted in their home industries with regulatory change and technological developments as well, triggering the necessity for their strategic renewal. The confrontation between non-financial players like Microsoft and incumbents in the financial services sector, each looking for strategic renewal options, will give rise to an even more dynamic and interdependent financial services landscape in which the boundaries will become less clear.

These recent developments are driving the European financial services sector further into a state of hyper-competition. We now begin to see the shape of an upcoming 'rugged landscape' that may shake up the incumbent financial services players. The future will confront these incumbent financial services firms with the even more profound challenge of both competing and cooperating with new players, making strategic renewal journeys not only a challenge, but also a necessity for survival.

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and industries. See B. Taylor, The Darwinian shakeout in financial services, *Long Range Planning*, **32**(1), 58–64 (1999). In this article we will focus on the first two forces mentioned in Taylor's article. However, we consider privatisation not as a separate force. Canals discussed the following four factors having impact on the banking industry in industrialised countries: deregulation, globalisation, disintermediation and new competitors, and (information) technology. See J. Canals, *Universal Banking*, Oxford University Press, Oxford (1997). In Yoffie (1997) three drivers of digital convergence are investigated. Digital convergence blurs the boundaries between, for instance, banking, insurance, software, telecommunications and retail industries. Two of the three drivers in Yoffie are similar to the forces in this article. Yoffie's third driver relates to managerial intentionality. We will discuss managerial intentionality in the context of a co-evolutionary approach below. See: D. Yoffie, *Competing in the Age of Digital Convergence*, Harvard Business School Press, Boston, MA (1997).

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