



Clicks vs. Bricks in the Emerging Online Financial Services Industry

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The emergence of electronic commerce raises important questions about the building and leveraging of legitimacy for both practitioners and scholars of strategy. New entrants' click-and-mortar or click-and-click business models are challenging the legitimacy of large and mature brick-and-mortar incumbents. The implications of this challenge for the financial services industry—as for many other industries—are only starting to become clear. This article contributes to these initial understandings by developing a conceptual framework that considers which e-strategies 'bricks' (incumbent organisations such as ABN AMRO bank and Prudential Banking) and 'clicks' (new entrants such as KPN and First-e) adopt to improve their competitiveness. Four relevant organisational types in the emerging online financial services industry are identified, and ties to legitimacy-providing organisations are assessed for their potential both as buffers against environmental turbulence and bridges towards changing stakeholder perspectives. © 2001 Elsevier Science Ltd. All rights reserved.

Introduction

The convergence of e-commerce technologies based on Internet standards is causing a fundamental shift in the way businesses operate. New markets are being created, industry boundaries blurred and product meanings redefined. Established incumbents—'bricks and mortar' companies—are finding themselves confronted with new business opportunities in a virtual *marketspace* of dynamically developing information interactions, as opposed to a *marketplace* of physical resources and institutionalised interactions.¹ New e-commerce industries are emerging in which bricks-and-mortar incumbents compete with new entrants

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using new business models—be they ‘clicks and mortar’ or ‘clicks and clicks’ companies.

To be successful in an emerging e-commerce industry, ‘bricks’ (incumbents in the marketplace) and ‘clicks’ (entrants in the Internet marketplace) have to clear some liabilities that hold them back. As organisational age is often associated with the inability to change, bricks suffer from the liability of age (oldness), tending to develop only to the limit of their adaptive competence. Clicks, on the other hand, suffer from the liability of youth (newness), where, as in the natural world, any developing life form is at its weakest at the point of birth. Which liability will lay the heaviest burden, offering bricks or clicks the ability to gain the upper hand? Can either outperform the other? Or will cooperation between both parties be the key to success? This article addresses these questions by developing a simple conceptual framework describing how new entrants and incumbents in the financial services industry influence each other and can evolve reciprocally—*co-evolve*—to create the future online financial services industry.

The strategic interactions between Amazon.com and Barnes and Noble Inc. in the book selling industry provide a vivid illustration of the co-evolutionary perspective² on the entrant-incumbent dynamic. In 1995 Amazon.com’s customer-centric click strategy allowed it to develop a customer base that now exceeds 25 million people, taking bricks-and-mortar Barnes and Noble by surprise. Responding to Amazon.com’s disruptive strategy, Barnes and Noble spun off a click subsidiary (Bn.com), and formed a partnership with the Internet portal Yahoo Inc. to be its featured book seller. This strategic move enabled Barnes and Noble to reap the fruits of *bricks and clicks* synergies, returning pressure on Amazon.com, which now not only faces the challenge of reasserting its customer-centric lead as a click, but also of yielding profits on the scale of its brick counterparts.

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The emerging online financial services industry

There are several reasons for focusing on the emergence of an online financial services industry. Banking and insurance are mature industries, long subject to strong institutional control, and traditionally protected by high entry barriers.³ However, they now find themselves facing increasing environmental turbulence.

- Deregulation and the increasing importance of ICT (information and communication technology) are removing entry barriers.⁴
- Regulatory approval is speedier and more certain, and the investments necessary to scale up operations are falling.⁵
- Electronic banking operating expenses are estimated at only 25 to 30 per cent of the cost of providing traditional banking services through bricks and mortar branch offices.⁶

- Customer awareness about financial products is soaring.⁷

The opportunity would seem to exist for click entrants to take advantage of this changing environment by challenging brick incumbents with new and disruptive methods of competition,⁸ and many banking industry analysts predict that power in the retail financial services sector will shift very soon to innovative entrants offering an attractive, efficient and customer-centric consumer banking interface.⁹ On the other hand, other analysts believe traditional national and historical protection and preferences will favour incumbents, and delay change.¹⁰

Apart from offering a superior customer proposition, click entrants need to develop strategies aimed at increasing their legitimacy. It is important to note that legitimacy is not the same as branding, but is more closely aligned to notions of credibility and stability, signalling to the outside world that an organisation is safe, trustworthy, predictable, socially acceptable, desirable and ethical.¹¹

Entrants' claims for *click legitimacy* (legitimacy in the Internet marketplace) are more credible than those of their brick rivals. To counter these claims, incumbents need to adapt to the demands of the changing environment, demonstrating their legitimacy in the new world of the Internet. Conversely, entrants lack the *brick legitimacy* (legitimacy in the traditional marketplace) of incumbent banks, forcing them to take into account taken-for-granted brick practices in their e-strategies (and customer interactions). Thus the rationale underpinning both incumbents' and entrants' strategies involves the manipulation of the legitimacy criteria employed by institutional structures such as government, consumer organisations and media.¹²

This article is structured so as to:

- discuss why research in the financial services industry can aid our understanding of the emergence of e-commerce industries;
- elaborate a basic framework of legitimacy leveraging and building strategies for brick incumbents and click entrants, and contrast the managerial perspectives of each on current e-commerce evolutions in the financial services industry;
- outline how brick incumbents and click entrants can use the lever of legitimacy-providing organisations to outdo each other, resulting in three key propositions;
- enumerate the most important issues managers of brick incumbents and click entrants should address in order to succeed in the emerging online financial services industry.

A conceptual framework

Figure 1 depicts a conceptual framework of basic legitimacy building and leveraging¹³ strategies employed by bricks and clicks in the emerging online financial services industry. 'Bricks' in this

legitimacy is not the same as branding, but is more closely aligned to notions of credibility and stability

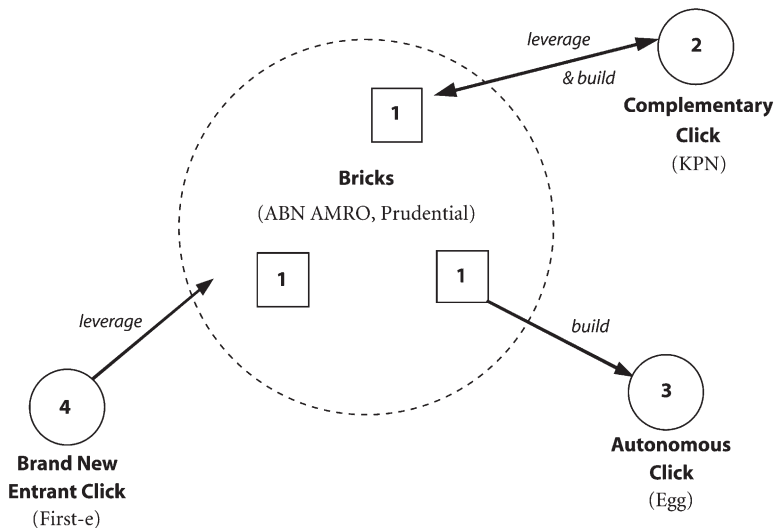


Figure 1. Generic click legitimacy building and brick legitimacy leveraging strategies: brick incumbents (1) and three types of click entrants (2, 3, 4)

framework are defined as large and mature players in the traditional financial services industry, such as ABN AMRO Bank and Prudential.

Three generic types of clicks are identified:

- **Complementary clicks** are *existing* players in industries external to financial services who form partnerships, alliances or joint ventures with incumbents. Examples of this type of entrant include the Dutch telecommunications company KPN, which formed a joint venture with Dutch ABN AMRO Bank, and the software companies Microsoft and Intuit, which cooperate with incumbents like Royal Bank of Scotland to build standardised customer interfaces.
- **Autonomous clicks** are the autonomous external ventures of incumbents, such as Egg (www.egg.com), the UK-based Internet banking division of Prudential Banking.
- **Brand new entrant clicks** are often the result of entrepreneurial efforts originating from outside the traditional financial services industry: for example, Dublin-based First-e (www.first-e.com), backed by a consortium of venture capitalists and technology firms. First-e, now active in the UK, Spain, Germany and France, aims to be the first Internet bank to balance the global nature of Internet technology and the demands of customers for local presence on a European scale, and has taken the step of allying itself with Spanish Uno-e, creating the Unofirst Group.

The three types of entrants described above are pure types. Security First Network Bank (SFNB, www.sfnb.com), a US-based Internet bank set up in 1995 by Cardinal Bancshares and SecureWare, represents a hybrid of these three types. (SFNB—

which, like Egg, has already reached the threshold number of one million customers¹⁴—was taken over by Royal Bank Financial Group in 1998.)

Apart from engaging in internal renewal (such as Rabobank's Rabobox Internet initiative¹⁵), brick incumbents (type 1 in Figure 1) have two external strategic renewal options when trying to overcome their liability of age. They can seek synergies with players who already possess complementary click legitimacy in the Internet marketplace by forming alliances or joint ventures (type 2). They can also establish fully autonomous outside ventures (type 3) to build click legitimacy independently. This offers the strategic option of recombining brick and click legitimacy in the integrated marketplace/marketspace of the future. Brand new entrant clicks (type 4) have a similar challenge, needing to overcome their liability of youth by leveraging brick legitimacy to combine with the click legitimacy they already enjoy as part of the Internet marketplace.

Co-evolutionary perspectives

For most of their history, banks have been trustworthy parties, with a 'taken for granted' legitimacy.¹⁶ As incumbent organisations, they have been considered *structurally legitimate*, with structures and procedures that serve as easily monitored proxies for less visible evaluation targets such as strategies, goals and outcomes.¹⁷ The status of big banks as 'too big to fail' (with, in some cases, weak incentives to be aggressive) has resulted in the largest banks exerting a unique influence on competition.¹⁸ As they have grown larger, banks' own activities have literally come to represent more and more of their working environment,¹⁹ with their attention increasingly focused on their own enactments within it. Dense social networks have been institutionalised in which an elite of incumbent managers, sharing a similar dominant management logic,²⁰ exchange and reflect to each other the same set of beliefs.²¹

Managers of incumbents view their organisations and their industry as a closed system, embedded in an environment they largely try to control, as is testified by the recent merger and consolidation wave amongst financial services institutions in the US and Europe.²² As such, brick incumbents tend to forget that they also exist as entrants in the new Internet marketplace, which is beyond similar levels of their control. Lacking contesting managerial cognitions,¹⁴ incumbents employ competitive organisation policies towards customers, technology and legitimacy in the same taken-for-granted fashion,³ a narrow perspective of the environment that can lead to serious misjudgements when managers are confronted with a situation of increasing environmental turbulence.²³

Managers of entrants, on the contrary, tend to perceive their organisations and the industry they are operating in as open systems, since they are not yet in a position to control changes in the industry as incumbents think they can.²⁴ To anticipate the

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selective processes that will determine the criteria of legitimacy in the emerging online financial services industry, new entrant managers create partnerships across several industries and customer types. Prudential's outside venture Egg, for instance, tries to overcome the association with financial services only by linking its services to products such as books, food and drink, CDs and so on. Security First Network Bank leveraged the banking industry expertise of Cardinal Bancshares and the technical expertise of SecureWare to not only sell Internet-only financial services, but also to develop secure customer interface software for incumbent banks.¹⁰

Adaptive evolution focused on dynamic change-in-progress works best when the firm is a small part of the total environment.²¹ To anticipate environmental turbulence and the need for changing partnerships, entrants build *modular* organisation structures, which allow for strategic flexibility to adapt to the demands of environmental turbulence. First-e, for instance, leverages the ICT and security skills of Enba to develop Internet-only financial services, but contracts out its clearing operations to Royal Bank of Scotland plc, and outsources its online brokerage trades to the investment bank Dresdner Kleinwort Benson.

However, entrants eager to disrupt an industry by building revolutionary click legitimacy face the danger of falling into an exploration trap²⁵ by not exploiting brick legitimacy sufficiently. While flexible Internet partnerships create a powerful means of dynamically building click legitimacy, the exploitation of this advantage can be endangered by not ensuring it is sufficiently anchored in taken-for-granted brick legitimacy, as the example of Boo.com illustrates. Just when the impressive growth of business-to-consumer revenues in 1999 started confirming the legitimacy of the Internet as a retail channel (click legitimacy), fashion and sports e-tailer Boo.com gave up the ghost.²⁶ Internet analysts imputed the bankruptcy of Boo.com to its one-sided focus on wowing customers with technological web site novelties, and its lack of a sound business plan and managerial and financial expertise.²⁷ For one thing, Boo.com's front-end web site was too 'heavy' for customers lacking broadband access to the Internet (about 95 per cent of customers). In addition, once it became apparent that Boo.com's back-end was not able to deliver products on time and suffered from inventory problems, Boo.com's legitimacy was increasingly evaluated in terms of bricks and mortar criteria. It soon became widely accepted that the primary reasons for Boo.com's failure were its attempts to enter too many markets at once and its unchecked spending. In other words, Boo.com over-invested in building click legitimacy and disregarded the lever of brick legitimacy to a degree where it became illegitimate.

Brick incumbents face the opposite danger of falling into the pit of exploitation.²⁸ Too much exploitation of brick legitimacy and not enough exploration of click legitimacy can lead to a situation where the incumbent's capacity to evaluate, absorb and utilise new external knowledge is threatened.²⁹ Although being

thought too big or old to fail, and having the buffer of brick legitimacy in the short term, in the long run the lack of dynamic means to build click legitimacy is likely to contribute to the de-legitimisation of such incumbents.

Buffering and bridging: levers of a dynamic strategy

As individuals who span the boundaries of organisations, managers serve two roles:³⁰ to *buffer*, or protect, a firm from the external environment, and to *bridge*, or link the firm with its key stakeholders. Essentially, *buffering strategies* enable an organisation to temporarily seal off its core rationale from environmental turbulence, allowing it to maintain certain norms of rationality while developing *bridging strategies*.³¹ Bridging strategies aim to ensure the success of the entire organisation in relation to its environment in the longer term by bridging the gaps between organisations and their exchange partners, competitors, regulators and customers through substantial organisational adaptation. In the following sections we outline the need for both clicks and bricks to develop buffering and bridging strategies in order to secure their legitimacy in the emerging online financial services industry.

Clicks: overcoming the liability of youth

A viable entry strategy is likely to be directed towards revolutionary, disruptive change of the industry environment. This is especially true for brand new entrant clicks (type 4), but also for autonomous clicks (type 3), as demonstrated by the start up Egg, which offers an unprecedented customer-centric focus combined with cut-throat interest rates on savings accounts.¹⁵ However, in embarking on a new line of activity, particularly one with few precedents, entrants face the daunting task of gaining legitimacy. Demonstrated innovative superiority is necessary but not sufficient; new entrants must also devote a substantial amount of energy to so-called ‘sector building’ in the industry. This involves generating a sense that the endeavours of entrants define a sector that exists independently of particular incumbents³² by creating objectivity and exteriority. Entrants need to follow a double track of firstly integrating new activities with pre-existents to avoid marginality and illegitimacy,¹² and secondly disentangling new activities in order to offer dynamic and genuine new competition against the incumbents.³³ (The first track refers to the establishment of a buffer of brick legitimacy, while the second track reflects the need to build click legitimacy as a bridge towards changing stakeholder perspectives.)

The example of First-e illustrates this. Piggybacking on the banking licence of French Banque d’Escompte, First-e aims to become the first legitimate pan-European bank dedicated to Internet-only financial services.³⁴ But to make an impact as a new and separate entity, First-e rolled out a major advertising

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campaign encompassing television, radio, print and outdoor activity a few months after it started up.³⁵ Likewise, Prudential Banking established its outside venture and new Internet brand Egg to prevent its Internet activities being perceived as marginal and to achieve a sense of exteriority around its product offerings.

Complementary clicks (type 2) like Microsoft take an apparently more closed-system perspective. Microsoft has made it clear that it does not want to launch itself as a financial services company, but only connect its Money Central services portal (www.moneycentral.msn.co.uk) to the services of incumbents like Royal Bank of Scotland to provide a stronger proposition.³⁶

These examples illustrate Oliver's³⁷ proposition that the affiliation of a new entrant to a legitimate institutional actor, or a legitimacy-provider like the government or other regulatory agency, has a positive effect on the entrant's life chances, and even on the life chances of similar entrants. Several scholars have found that alliances with legitimate actors not only counteract the entrants' inherent liabilities of youth, but also enhance their economic performance.³⁸ In this context, the term 'legitimate actors' embraces a wide field: the state (represented by contracts, regulation, legislation), consumer unions and other public interest groups, the media, and the financial community, including, of course, incumbents; all can be seen as potentially providing legitimacy in the emerging online financial services industry. It is possible to distinguish between brick legitimacy providers operating within the traditional financial services industry, and click legitimacy providers not pertaining to the traditional financial industry. Click legitimacy providers are, for instance other, click companies, specific Internet media, or virtual communities. In this article we focus only on brick- and click-legitimacy providers. In due course, as the marketplace/marketspace develops towards fuller integration, the transfer of legitimacy from incumbents towards entrants and vice versa will become a genuine two-way process, success in either field tending to transfer legitimacy as one of the benefits of association.

The provision of both types of legitimacy can be illustrated using the cases of First-e and Egg. First-e uses Banque d'Es-compte as a brick legitimacy provider by leveraging its banking licence, while also using its parent firm Enba and venture capitalists such as Intel as click- legitimacy providers. In addition, First-e is investing a huge amount of money in establishing a click brand name, with extensive media coverage in both the traditional financial services press and the computer software press contributing to its publicity.³

The significance of Egg's tie to the banking licence of Prudential Banking, its parent company and brick legitimacy provider, is considerable. What is more, Egg's launch of a web-based personal investment supermarket, in which incumbents such as Prudential and Legal and General offer their products, provides it with another way to gain brick legitimacy. Moreover, to acquire click legitimacy, Egg has initiated a virtual community for its customers (www.eggfreezone.com), in which 'independent'

media sources provide ‘objective’ information about the financial services world. To further improve the credibility of this information, customers are encouraged to post all their grievances and complaints on a publicly available web page. Egg’s linkages to and discounts on a whole range of utility products offered on the Internet further contribute to its click legitimacy.

The example of Security First Network Bank (SFNB) provides a further illustration of the importance of brick and click legitimacy providers for new entrant firms. Some months after its start up, three new banking company investors took a stake of 25 per cent in SFNB, including one (Wachovia) regarded as a very conservative and well-run bank holding company. SFNB’s link to Wachovia provided it with an important source of brick legitimacy, implying that Internet banking could be seriously considered by even conservative banks.¹⁰ SecureWare’s highly regarded banking software—which went on to become a standard for US banks—further added to SFNB’s brick legitimacy.

In trying to adapt to and make sense of Internet evolutions, brick legitimacy providers support to a certain extent the legitimisation process of new entrant organisations, even though this could mean cannibalising their own legitimacy prematurely. Consequently, in an effort to disrupt the brick legitimacy of Incumbents, entrants try to build new legitimacy quickly by using brick and click legitimacy providers.

Unencumbered by historical legacy, the entrants’ capacity for organisational change is likely to outperform the adaptive capabilities of the incumbents, and entrants can hope to negate the ability of incumbents to control the changing rules of the industry game. As a consequence, the dominant logic of incumbents is likely to become less obvious, increasing the probability that some incumbents will change their traditional legitimisation endeavours. The support of incumbents that are willing to cannibalise their traditional legitimacy in favour of a new legitimisation process evidently suits entrants’ interests.

Based on the above arguments, we make the following two propositions:

- **Proposition 1.** By using brick legitimacy providers (parent companies, licences, taken-for-granted brick services), first mover entrants facilitate the emergence of an e-commerce industry.
- **Proposition 2.** By using a combination of brick legitimacy providers and click legitimacy providers (Internet-only partnerships and services, virtual communities), entrants can progress faster in an e-commerce industry.

When evaluating different brick and click strategies, we need to consider the types of legitimatising ties (such as banking licences or alliances with incumbents) provided by the different legitimacy providers (see Table 1).

Most click legitimacy providers will eventually help in creating

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Table 1. Examples of legitimisation strategies of clicks

Clicks	Brick legitimacy ⁱ	Click legitimacy ⁱⁱ
KPN (complementary click)	Joint venture with ABN AMRO	Portal site with other Internet partnerships
Egg (autonomous click)	Tie with parent company Prudential Banking	Virtual community (eggfreezone.com); independent media sources
First-e (brand new entrant click)	Banking licence of Banque d'Escompte; Outsourcing of non-core activities to bricks (e.g. clearing operations by Royal Bank of Scotland)	Internet security skills of Enba

ⁱ Legitimacy provided by bricks in the traditional marketplace.

ⁱⁱ Legitimacy provided by clicks in the Internet marketplace.

new Internet legitimacy, but do not provide entrants with an initial basis of brick legitimacy to overcome their liability of youth. Conversely, most brick legitimacy providers can help entrants in gaining relatively strong brick legitimacy, but do not provide entrants with the support of new click legitimacy. Entrants therefore need to manage the tension between the legitimacy-building potential offered by click providers and the legitimacy-leveraging stability provided by brick providers.

The case of Security First Network Bank reveals the importance of managing this tension. SFNB's immediate success with its secure software made it hesitate about the direction in which to develop: whether to become an Internet bank providing disruptive Internet-only financial services, or a software company selling its software packages to incumbents.¹⁰ It is arguable that SFNB's modest successes as an Internet bank and its later takeover by the Royal Bank Financial Group could be attributed to its lack of focus on continued change and click legitimacy, and its premature profit-seeking associated with brick legitimacy.

Bricks: overcoming the liability of age

One of the first and most widely adopted steps of incumbents in the marketplace has been the comprehensive installation of automated teller machine (ATM) networks. However, this was not a strategically aligned step, as the CEO of Wells Fargo admits: “over the past decades banking technology has preceded a change in customer habits, in many cases solutions preceding demand, like ATMs installed before widespread consumer acceptance. And over time banking technology has actually disconnected the customer from the bank and impaired the bank’s ability to create customer intimacy.”³⁹ Rayport and Sviokla¹ point out that while the ATM network continued to expand, bank customers began responding to the ATM technology and not to the individual bank providing it, coming to see banks as faceless providers of commodities. Because bankers originally saw the ATM network

only as a banking automation, they did not predict how such automation would change the entire value proposition of retail banking.

In contrast to entrants, incumbents tend to prefer evolutionary change, reflecting their desire to control changes in the industry in which they are embedded. However, incumbents are often entrants in the marketplace as well; how can they bridge environmental turbulence to build click legitimacy, and at the same time leverage their brick legitimacy? Meyer and Rowan¹⁹ argue that often peripheral activities—such as creating a nice web site with mostly symbolic functionality—are celebrated for external legitimacy purposes, and only loosely coupled to the technical core of the business. (Such loose coupling can be particularly useful in the case of conflicting demands due to the environment, as induced by click entrants.) Incumbents need to establish buffering strategies to ensure maintenance of brick legitimacy towards exchange partners, competitors, regulators and customers.

As an example of such a buffering strategy, the establishment of Internet web sites by many incumbent banks (such as www.abnamro.com and www.natwest.com) has substantial normative significance, but limited strategic consequences. The Internet is still treated mainly as an additional distribution channel, instead of the driver of a comprehensive industrial change. Some incumbent banks such as Barclays and ABN AMRO buffer themselves by “shrugging off the threat of Internet competition”⁴⁰ or discrediting the ‘marketing skills’ and ‘customer relationships’⁴¹—in short, the click legitimacy—of new entrant firms, while at the same time announcing huge investments in e-commerce.⁴²

But buffering strategies alone do not suffice. Their main value is to buy time to enable a gradual implementation of bridging strategies. Incumbents willing to develop effective bridging strategies should also make use of new boundary-spanning personnel, enabling contesting managerial cognitions to remould the strategic logic of the organisation. Incumbents have two strategic options here (see Figure 1). They may enter into an alliance with a complementary click (type 2), such as a telecommunications company. The alliance of ABN AMRO and KPN to start the Internet portal Moneyplanet (www.moneyplanet.nl) is an example of this option. Or they may establish autonomous sub-units or ventures (type 3) with a mandate to question others’ taken-for-granted status.

“Where organisations seek to perceive changing audience beliefs, the risk is not that centrifugal forces will lead boundary-spanners to run wild, but rather that centripetal forces will lead them to become lapdogs”.¹² This seems to confirm Christensen’s⁴³ findings that the only way for a mature business to harness a disruptive technology such as the Internet is to start an autonomous business unit independent of its extant partnerships. The establishment by Prudential banking of its click venture Egg needs to be seen in the light of this dictum. While Egg in the first stage will not substantially contribute to the click

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legitimacy of Prudential, it still offers unprecedented learning possibilities and potential brick-and-click synergies to its parent brick.

Ideally, the scope of a click venture should not interfere with the parent incumbents' prime product/market combinations, so as not to put the parent's brick legitimacy in danger. Egg, for instance, offers products in the UK that are not directly in competition with Prudential's main product offers. In this way, incumbents may be able to avoid cannibalisation of their product/market combinations. In addition, the know-how acquired in the Internet marketplace by click ventures can facilitate competence-building and exploration in incumbents' organisations. For instance, Lloyds plans to launch an e-bank firstly in Spain and only later in its main market, the UK, a strategy that illustrates its commitment to incrementally build click competences in the marketplace. Table 2 outlines the different legitimisation strategies of incumbents in the emerging online financial services industry.

Summarised briefly, incumbents' managers should try to acquire the capacity to effectively trade off orthodox brick strategies and unorthodox click strategies. These skills enable incumbents to strike a balance between the buffer of leveraging brick legitimacy and the bridge of incrementally building click legitimacy. In this way, incumbents' may be able to turn increasing contradictions between brick and click legitimacy (as induced by new entrants) into legitimacy leveraging and building synergies. Based on the above arguments, the following proposition is suggested:

- **Proposition 3.** By using click legitimacy providers (Internet-only alliances or joint ventures) and autonomous click operations (new ventures, spin-offs), incumbents are more likely to survive the competition of entrants and lead in an emerging e-commerce industry.

Insights from a co-evolutionary perspective on emerging e-commerce industries

A simplistic interpretation of the current developments in the emerging online financial services industry as cut-throat compe-

Table 2. Examples of legitimisation strategies of bricks

Bricks	Brick legitimacy ⁱ (internal renewal)	Click legitimacy ⁱⁱ (external renewal)
Rabobank	Rabobank.nl (e-bank Random Access Banking)	Not applicable
ABN AMRO	ABN.nl	Joint venture with KPN (complementary click)
Prudential	Prudential.co.uk	Egg (autonomous click)

ⁱ Legitimacy provided by bricks in the traditional marketplace.

ⁱⁱ Legitimacy provided by clicks in the Internet marketplace.

tition between incumbent bricks and new entrant clicks is not helpful for an understanding of how to leverage brick legitimacy and build click legitimacy. Many incumbents may think that the industry in which they are operating has become their exclusive property. Likewise, many new entrants may think that they will ultimately prevail for the simple reason that incumbents are too inert to change. However, our core theme illustrates that both sides are likely to be wrong. The arguments in this article suggest that successful business models in the online financial services industry will build on complementarities between taken-for-granted brick legitimacy and revolutionary click legitimacy. Equal cooperation between bricks and clicks, rather than mere competition, will be the key to success for both.

As the interactions between Amazon.com and Barnes and Noble illustrate, entrants and incumbents in the emerging online financial services industry need to take a *co-evolutionary* perspective of each other's endeavours to build competitive advantage. In the emerging online financial services industry, strategies to trigger the cooperation of other parties to one's own advantage differ for the various players, and cooperation between different players may not always be triggered directly, perhaps coming into being indirectly through institutional pressure exerted by the media, government, regulatory agencies, banking industry analysts, competitors and other members of the financial community.

The four types of key players in the emerging online financial services industry are bricks (type 1), complementary clicks (type 2), autonomous clicks (type 3) and brand new entrant clicks (type 4) (see Figure 1).

Managerial implications for bricks

The following important managerial implications for bricks emerge from this study:

1. Apart from engaging in internal strategic renewal, incumbents need to break away from their institutionalised ways of thinking by appealing to click managerial views.
2. To that end, incumbents have two external renewal options (which are not mutually exclusive):
 - create partnerships—like strategic alliances or joint ventures—with one or more complementary clicks; or
 - establish an autonomous click in the Internet marketplace, which does not initially interfere with the prime product/market combinations of the parent incumbent.
3. In either case, incumbents need to use legitimacy providers in the Internet marketplace, such as the media reporting on online financial services evolutions, to establish buffers against immediate disruptive competition and to avoid premature delegitimisation or cannibalisation of their core product/market combinations.

cooperation between bricks and clicks, rather than mere competition, will be the key to success for both

4. Meanwhile, incumbents need gradually to establish bridging strategies towards the changing perspectives of customers, the state, the media and other members of the financial community.

Managerial implications for clicks

New entrants, meanwhile, need to simultaneously establish links to players in the traditional financial services industry—brick legitimacy providers—and to click legitimacy providers in the Internet marketplace to overcome the liability of youth. The emergence of an online financial services industry is a collective process, and relies not only on revolutionary business propositions, but also on reaching a threshold of sufficient cooperation with other players.

Managerial implications for the following three types of clicks include:

1. Complementary clicks (like KPN or Microsoft):
 - need to focus on control of the customer interface as the most important lever for future competitive advantage in the Internet marketplace, which is characterised by interactive supplier-customer processes; and
 - need to achieve a critical mass of partnerships with key incumbents in the emerging online financial services industry to ensure that controlling the customer interface is valuable enough.
2. Autonomous clicks (such as Egg):
 - need to operate as independently as possible of their parent company—in this article by definition an incumbent firm—to be able to build viable click legitimacy and a profitable business model (this also translates into a new brand name and a differentiated use of marketing channels); and
 - need, nevertheless, to coordinate their processes to some extent with the internal strategic renewal processes of the parent company, to achieve successful synergies in the longer term.
3. Brand new entrant clicks (like First-e):
 - are most prone to develop revolutionary managerial views in the short term, since they are not connected to incumbents; but
 - need to balance this revolutionary tendency with sufficient cooperation with more conservative players, hence establishing ties with brick legitimacy providers, for instance by getting a banking licence or hiring ‘brick managers’ with sufficient insight into and relationships with the traditional financial services industry.

These suggestions may help incumbent and new entrant managers to judge the potential of their e-strategies for gaining legit-

imacy in the emerging online financial services industry. This does not mean, however, that the final outcome of either party's managerial actions will be exactly as expected: whether clicks or bricks will have the upper hand in the emerging e-commerce industries will only be accurately explained with hindsight. In the meantime, entrants and incumbents must be ready to learn from each other, both to compete and cooperate to secure their legitimacy in the emerging online financial services industry.

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