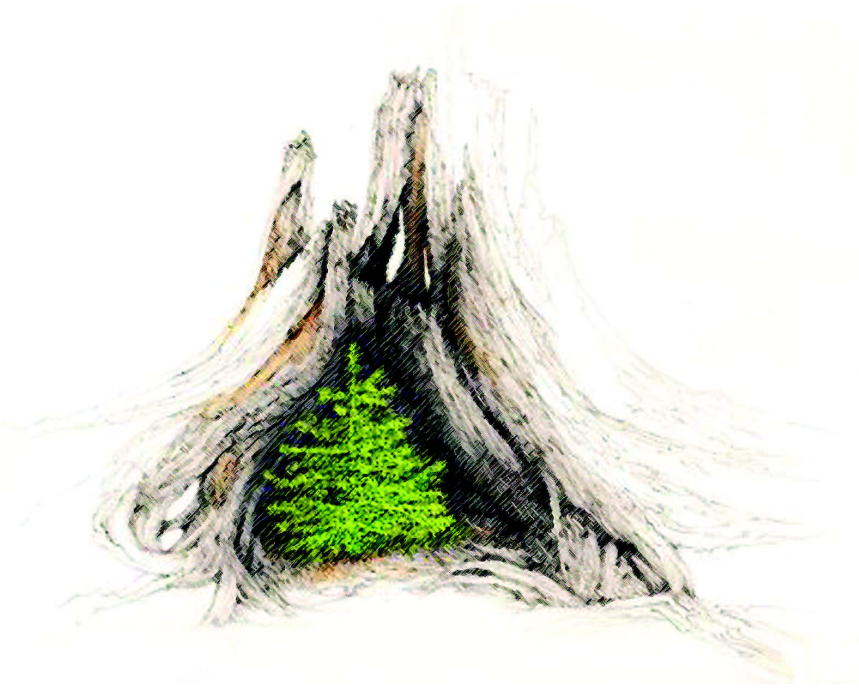
BERT FLIER

Strategic Renewal of European Financial Incumbents

Coevolution of environmental selection, institutional effects, and managerial intentionality



Strategic Renewal of European Financial Incumbents

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Coevolution of Environmental Selection, Institutional Effects, and Managerial Intentionality

Strategische vernieuwing van Europese gevestigde financiële ondernemingen

Coevolutie van omgevingsselectie, institutionele krachten en management intentionaliteit

Proefschrift

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Preface

Aldrich (1999) pointed out that it is not the intentions, but one's actions that matter. To be honest, I did not intend to involve myself in a PhD trajectory at the start of my academic journey in 1990, when I entered the Master of Business Administration program at the Rotterdam School of Management. It was indeed the string of actions, some initiated by myself, some induced by my environment, that led to this thesis.

A first decisive action that had unforeseen consequences was my acquaintance with Ronald Boers, to whom I was introduced in the second year of my studies. He shared my passion for sports and incidentally appeared to also study Business Administration. At the end of his studies, he introduced me to Henk Volberda whom he had assisted in doing case study research and teaching activities. I was first afraid, and later excited, to be offered the opportunity to add academic working experience to my study (and, of course, to make some money along the way). A case study into strategic renewal at Ericsson was one of the many projects I got involved in. This case study, which was conducted by the very inspiring group of Martin Wielemaker, Eva Meeusen-Henniger, Carlo Jochems and myself, turned out to be a very insightful and rewarding project that opened my eyes for the many opportunities of doing academic research.

In the meantime, I had started Japan Sciences to complement my Business Administration education, and only needed to do an internship and write my Master's theses to finish both studies. Right at that time, Henk Volberda and Frans van den Bosch were awarded with an Impuls research grant to study strategic renewal of large, European incumbent firms. They had a research proposal and a research grant – but no staff. In hindsight, this was another action with unforeseen major consequences. Not being hindered by significant research experience, I took up the challenge to start up this research. Marjolijn Dijksterhuis was my research partner during the early stages, and with the research assistance of Niels van der Weerdt and Annette Kapitan, we meandered through that first year. Our main objective was to define the research objectives, form a team of research partners, and establish a research strategy. I managed to combine the set-up of the 'Strategic Renewal of Large European Corporations project' with finishing my two studies by positioning it as my internship and by moulding materials produced for the research project into two theses.

That year of working full-time with academics increased my interest for doing research, and I had many talks with Henk Volberda and Frans van den Bosch about continuing my research efforts for the Strategic Renewal project. Becoming an AIO (in decent English: PhD student) was one of the more attractive, but simultaneously scary, options. Attractive, as it offered the opportunity to develop my intellectual and research skills at the renowned ERIM research school. Scary, as the task of writing and defending a PhD thesis is a rather daunting and potentially lonely process that has many pitfalls.

Alongside my academic endeavours, I had developed a career into sports. Triathlon, the art of swimming, biking and running from sunrise to sunset, had become my way of life, and I realised that exploiting my potential in this sport would be difficult to combine with a nine-to-five job. The way I lived life during academic research would be really suited to continue my rise in the sport. I decided to take up the gauntlet and try to combine academic research with developing my athletic abilities.

I found out that doing academic research and racing Ironmans is not an easy task. I could not have coped with my busy schedule without the assistance of my supervisors, Frans van den Bosch and Henk Volberda. They kept the pressure high when it was needed – when writing papers, and especially in the latter stages of writing this thesis – which forced me to keep my focus. They did a wonderful job in coaching me to the finish line. Frans and Henk, thank you for giving me the opportunity to develop myself in academia. I hope to continue our cooperation in the future.

A special thanks goes to the student-assistants who were involved in the various stages of my research. Annette Kapitan and Niels van der Weerdt assisted me during the turbulent exploratory early stages when I wrote my research proposal and decided on the methodological approach. Then came the illustrious '4M's': Martijn Bax, Marijn Hoff, Marten Stienstra, and Martijn Videler, who assisted me during the arduous task of coding tons of data. This foursome lightened the long days of coding data with many good laughs – especially during our infamous SRC lunches and four o'clock breaks. That period moulded a bond that lasts until today.

I further thank SM-8 students who worked with the coding procedure and offered the opportunity to test it on a broader sample of firms and provided valuable feedback.

Special thanks goes to Arie Lewin, whose NOFIA course at Duke University in 1998 provided me with some fascinating ideas that have become key to my dissertation, and whom followed me during my research. Charles Baden-Fuller provided me with useful advice and I appreciate his continuing interest in my research.

The past five years allowed me to cooperate with many inspiring colleagues. Special thanks goes to Martin Wielemaker, who served as my mentor during the first stage of my research. Raymond van Wijk and Marjolijn Dijksterhuis travelled the PhD trajectory simultaneously and where supportive in more than one way. We shared the same hallway, spend time gossiping about academic and private concerns, and share some special experiences during our international conferences. I further thank Marten Stienstra and Sophie Schweitzer for their interest in sharing 'personal developments' that developed alongside my academic life.

These acknowledgements would remain incomplete without thanking a number of people that supported me – not necessarily in academics, but in developing myself as a person. First of all, I thank my family for providing a sound basis for my endeavours. Through sports, I met Cynthia, Herman, George, Ronald and Miquel were always available when I

needed a good conversation or a had to reflect on one of my ‘Fleur-actions’. I could not have developed into the person I am today without you.
It is not thanks to, but despite of myself that I reached this stage. Above all the persons I mentioned, I thank God who blessed me with perseverance and strength to undertake this challenge. He kept me honest when I thought I could do it myself and helped me out in times of doubt.
It is indeed not intentions, but actions that produce outcomes. I did not intend, nor foresee, myself emerging into a PhD candidate, let alone reaching the state of defending my PhD thesis. I am grateful and honoured to have been able to travel this journey.

Bert Flier

Barendrecht
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1 Introduction

Corporate executives are the Alices in Wonderland (Carroll, 1946) of our time. Despite the fact that strategic change is high on the managerial agenda, it seems very difficult to build a sustaining lead on the competition. Organisations that are exposed to global competition, fragmenting markets, and new technologies are forced to renew continuously (Guth and Ginsberg, 1990). Renewal can be achieved by combining resources in novel ways and by rejuvenating mature businesses to create new wealth. However, firms have to make commitments to the strategic choices they have made (Ghemawat, 1991) at the same time, which asks for stability. This results in a paradox. Organisations should both 'engage in enough exploitation to insure the organisation's current viability and engage in enough exploration to insure its future viability' (Levinthal and March, 1993: 105). Firms thus have to capitalise their present capabilities while simultaneously developing new capabilities. This poses severe challenges to management, especially when future needs conflict with current conditions. The notion of unstable environments[1], coupled with organisations' tendency to ossify as they mature (Delacroix and Swaminathan, 1991; Miller and Chen, 1994; Volberda, 1998), are the rationale for studying strategic renewal of large, mature organisations. The focal point of this study is how large, mature organisations cope with this paradox[2] of strategic renewal (Volberda, Baden-Fuller and Van den Bosch, 2001).

Not all theories consider strategy to be a dynamic concept. Ansoff's (1965) influential *Corporate Strategy* conceives strategy as a formal planning process. This school propagates planning as a means to cope with turbulent environments. However, the very nature of planning disencourages change because it intends to point the way (Mintzberg, 1990). The positioning school (cf. Porter, 1980) suggests equilibrium by stating that firms should build defensible positions that can be sustained over time. The resource-based perspective (cf. Wernerfeld, 1984; Barney, 1991) argues that an organisation's distinctive resources define its performance. Market imperfections and the inimitability of resources restrict the mobility of resources. This maintains the established order between firms. Punctuated equilibrium theory (Gersick, 1991; Utterback, 1994; Romanelli and Tushman,

[1] Some authors (cf. D'Aveni, 1994; Thomas, 1996; Hamel, 2000) contend that environments have become more and more 'hypercompetitive', which obviously would increase the need for strategic renewal. A minority of views adheres to a view of hypercompetition occurring in a pattern of ebb and flow (Nault and Vandenbosch, 1996). McNamara et al. (2003) contend that the hypercompetition of today is to a large extent 'the same as it ever was'. They argue that understanding the cycles of increasing and decreasing turbulence in business fields is most important.

[2] The key characteristic in paradox is the simultaneous presence of contradictory, even mutually exclusive elements (Quinn and Cameron, 1988: 2).

1994) characterises organisational development by long periods of stability that are infrequently punctuated by short periods of quantum change[3]. In these theories, stability is the normal state of affairs, instability the exception.

From a theoretical point of view, strategic renewal may take place at different levels and can be driven from forces internal and external to the organisation. Strategic choice theory (Child, 1972; Miles and Snow, 1978) acknowledges that organisations are able to change their destiny by adapting to and reshaping their environments. Managers are the intermediaries between organisation and environment, and are attributed with capacity to cope with environmental changes and to rejuvenate ossified structures. Population ecologists (Hannan and Freeman, 1977, 1984; Aldrich and Pfeffer, 1976) however have a different stance, arguing that the environment selects organisations that fit their resource niche best through a process of variation, selection and retention. The task of managers is to exploit the environment to develop a good fit. This leads to a build-up of structural inertia, which eventually renders organisations obsolete. Exploration only diminishes survival chances. Instead, the market selects out firms whose competencies have become outdated, and the current organisational population will gradually be replaced by new organisations that emerge over time: strategic renewal occurs at the population level. Institutional theory argues that organisations are converging to institutionally derived archetypes. This convergence stems from isomorphic pressures. Neo-institutional theory states that strategic renewal is hard to control, as it is shaped by the interplay of the institutional context and organisational dynamics.

This variety of paradigms in organisational science shows multiple sides of the same phenomenon. The lack of a uniform theory has however hampered progress in management and organisation research because of contradictory findings (McKelvey, 1997). To break out of this 'straight-jacket' of organisation research (Daft and Lewin, 1990), McKelvey (1997) argues to study firms as quasi-natural phenomena. This requires integration (Schoemaker, 1990; Rajagopalan and Spreitzer, 1996) or synthesis (Elfring and Volberda, 2001) of single-lens perspectives and connection of firm and population level effects (Lewin and Volberda, 1999) that form the basis of the adaptation-selection debate (Baum, 1996). This study answers this call by applying a coevolutionary approach. We conceive of strategic renewal as the joint outcome of managerial voluntarism and environmental determinism (Lewin and Volberda, 1999), and aim to increase understanding in the field of strategic management by studying the transition phenomena (McKelvey, 1997) that link the two.

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[3] Not all ancient literatures accord with this traditional static view. Schumpeter (1934) noted the mechanism of creative destruction, set in train by 'endlessly innovative' entrepreneurs who constantly upset the market. Thus, disequilibrium instead of equilibrium is what drives economic wealth. Incrementalism (cf. Lindblom, 1959; Quinn, 1980) is a more recent advocate of continuous, albeit gradual, change.

1.1 Aim of the study

Although organisations have the potential to live forever, only few reach maturity and even less survive for long periods of time. Why do some firms survive, whilst so many others fade away? Is long-term survival of firms caused by endogenous or by exogenous factors? Do managers make a difference, or are organisations at the mercy of their environments? Is success just a matter of luck? Population ecologists theorise that strategic renewal attempts are futile as the fitness to the environment determines organisations' survival. Moreover, inertial pressures prevent adaptation and even decrease survival chances (Hannan and Freeman, 1977; Aldrich and Pfeffer, 1976). Institutional theory (Dimaggio and Powell, 1983; Greenwood and Hinings, 1996) argues that isomorphism forces firms to mimic each other, which makes a fast follower strategy the best method of strategic renewal. At the other hand, contingency (Burns and Stalker, 1961; Lawrence and Lorsch, 1967), strategic choice (Thompson, 1967; Child, 1972), and learning theories (Fiol and Lyles, 1985; Argyris and Schön, 1978) endow organisations with capacity to adapt their organisation and shape their environments, suggesting that strategic renewal is manageable and vital to the success of organisations. This schism of organisations being languid subjects to environmental selection mechanisms versus the idea of organisations being gifted to change their destiny stems from differences in research methods and the application of singular theoretical lenses. This divide has hampered our understanding why some organisations survive whilst others fade away (Lewin and Volberda, 1999; Volberda and Lewin, 2003). The result is that the adaptation-selection debate remains unresolved (Baum, 1996), despite numerous studies into the question whether firms can escape the environmental selection mechanism.

This study builds on single-lens theories and adds a coevolutionary perspective to examine interactions between large, established organisations and their environments in strategic renewal processes. Studying large incumbent firms can aid to understand the effect of inertial pressures in processes of strategic renewal, helps to assess isomorphic forces, and contributes to gain insight into managerial adaptation in times of environmental change. We include the firm, national, and industry level of analysis to gain insight into the variety of influences on the strategic renewal process.

The aim of this study is to increase understanding of the interaction between managerial adaptation and institutional and environmental selection forces in strategic renewal processes by combining single-lens perspectives and a coevolutionary perspective.

We note five elements that add value to this research. First, this study synthesises multiple levels of analysis (cf. Levinthal, 1995; Lewin and Volberda, 1999; Baden-Fuller, 1995). Second, it develops new metrics that facilitate the analysis and comparison of strategic

renewal processes within and between firms over time and across different nations (McKelvey, 1997). Third, the time dimension is explicitly incorporated in our study of strategic renewal processes (cf. Porter, 1991; Van den Bosch, 2001; D'Aveni, 1994). Fourth, this study increases insight into the unexplored territory of the coevolution of organisations and their environments (Lewin and Volberda, 1999). Fifth, this study informs practitioners about the effect of the environment on companies, and inquires managers on the degree of freedom to follow deviant strategies.

1.2 Research questions

Two research questions guide this thesis:

1. How do large multi-unit firms renew in an increasingly turbulent environment?

2. To which extent are strategic renewal actions driven by managerial intentionality, and/ or by environmental selection and institutional pressures?

We first note that our research questions have a descriptive and analytic character. The coevolutionary perspective presupposes multidirectional causalities between evolution at firm and environment level (McKelvey, 1997), and assumes that non-linear relations between variables can occur because of mutual, simultaneous, lagged, and nested effects (McKelvey, 1997; Lewin and Volberda, 1999). Our coevolutionary stance thus precludes the traditional specification of causal relations between variables. Our theoretical foundation includes both voluntaristic and deterministic perspectives, and includes the firm, national, and industry level of analysis. We contemplate strategic renewal from three single-lens perspectives; managerial intentionality, institutional theory, and the environmental selection perspective. We develop a coevolutionary framework of strategic renewal in which theories relating to environmental selection, institutional, and managerial intentionality effects are consolidated. Organisations resemble each other and survival chances are determined by irreversible external forces if one takes an institutional or population perspective. Managers have some ability to adapt their organisation to the environment when taking a managerial agency stance. The next chapter goes further into this divide and its implications, and defines propositions that relate to the four theoretical perspectives. The empirical section investigates the changing landscape of the European financial services industry, which has been confronted with significant changes in the past decade. This sector offers an excellent research venue to study strategic renewal behaviour of Europan financial incumbents. The investigation of renewal behaviour will mainly concentrate on assessing effects relating to single-lens theories, and to some extent assess coevolutionary interaction effects operating between levels of analysis.

1.3 Defining strategic renewal

The field of strategic management theory is highly fragmented. It offers no clear definition of strategy[4] (Mintzberg, 1990), let alone strategic renewal. We start by exploring the dynamic nature of strategic renewal, and then investigate different types of renewal. Many authors argue there should be a balance between opposite types of change. We revisit these literatures to track down relevant issues in studying strategic renewal. Various definitions of strategic renewal and related concepts are investigated, after which we develop our definition of strategic renewal. We do not intend to develop an encompassing and all-inclusive definition, but construct a definition that functions within the context of this dissertation and can be operationalised in the empirical world.

The dynamic nature of strategic renewal

Many studies into renewal and change processes are static, utilising large samples and statistics and focusing on the antecedents and consequences of typically a single change event. Population ecologists for instance study which organisation-population fits are most effective, but leave the process of how 'fit' is achieved out of the analysis. This results in static interpretations. Since organisations live in a changing environment, 'fit' should be a dynamic concept (Volberda, 1998). Process-oriented researchers usually execute longitudinal case studies and concentrate on the managerial role in change processes (Rajagopalan and Spreitzer, 1996). A process view on strategy is also taken by Mintzberg (1978) and Hax (1990), who define strategy as the pattern of decisions a firm makes. This definition indicates that a firm's strategy emerges from the actions it undertakes[5], and gives historical validity. Analysing strategy in terms of an organisation's decision history usually results in some strategic pattern from which a dominant strategy emerges. This path of strategic footprints often indicates the future destination of the organisation (Hax, 1990), and enables operationalisation in the empirical world.

Speed of change is an important determinant in studying the renewal process. D'Aveni (1994) emphasises that success is often tied to speed. Dumaine (1989) and Stalk (1988) caution that overspeeding is counterproductive, as too short a reaction time can lead to overreaction and excessive information searches and may even result in chaos (Volberda,

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[4] Literally, strategy means 'the art of the general' (Hart, 1967). The word strategy is derived from the ancient Greek *strategos*, which is a compound of *stratos*; army, and *agein*; to lead (Cummings, 1993).

[5] One may also reverse the relationship between action and strategy. This relates to one of the key debates regarding the relation between organisational change and strategy: does strategy emerge from change, or does change follow from strategy? Early strategic theory conceived of change, or action, as arising from strategy (cf. Ansoff, 1965). More recent conceptions consider strategy to be the product of the many and varied changes an organisations undertake over time (cf. Miles and Snow, 1978; Mintzberg, 1987).

1998). The reality, however, is that many managers act prudently and wait until the impact of external turbulence exceeds a threshold before responding (Ansoff, Eppink and Gomer, 1975). This results in organisational inertia (Hambrick and D'Aveni, 1988) and causes longer delays and more muted actions. In sum, strategic renewal is a dynamic concept that can be estimated from a firm's decision history. The next section builds on the notion that organisations may drift into chaos or, in case of delayed timing, accumulate inertia by discussing different types of renewal.

Types of strategic renewal

Change from one state to another is one of the basic research interests in organisation theory. Snow and Hambrick (1980) indicate an organisation's reaction to an environmental change might be viewed as strategic change. However, as most responses to organisational changes are done in a familiar way, such responses are rather a continuation, instead of change, of strategy. Snow and Hambrick (1980) thus argue that real strategic change occurs when new solutions are applied to problems. Van den Ven and Poole (1995) define strategic change as a difference in the form, quality or state over time in an organisation's alignment with its external environment. Likewise, March (1981: 564) noted that 'Most change in organisations results neither from extraordinary organisational processes nor forces, nor from uncommon imagination, persistence of skill, but from relatively stable, routine processes that relate organisations to their environments'. In other words, responses to environmental change in familiar ways are a continuation or at most an adjustment to strategy. Strategic management literature therefore distinguishes between radical and continuous change. Van den Ven (1992: 1980) states that 'the time required for phylogenesis (the generation of originals through variation or speciation processes) is much greater and less predictable than the time required for ontogenesis (the reproduction of originals through selection and adaptation processes)'. The distinction between phylogenesis and ontogenesis has been addressed in various wordings in the management literature. Volberda (1998) referred to it as the paradox of preservation and change, and Huff et al. (1992) as the tension between inertia and stress. Gemawhat (1991) labeled this the paradox of commitment versus flexibility. Mezias and Glynn (1993: 77-78) add to these: incremental convergence and radical orientation (Tushman and Romanelli, 1985); persistence and change (March, 1981); frame bending versus frame breaking change (Tushman et al., 1986), and incremental versus radical innovation (Dewar and Dutton, 1986; Ettlie et al., 1984; Nord and Tucker, 1987). Thompson (1967) labeled the management of these contradictory forces the paradox of administration. James March's (1991) exploration versus exploitation paradox is one of the better-known distinctions between phylogenesis and ontogenesis. Exploration is associated with experimenting with technologies, ideas, paradigms, knowledge, and strategies trying to find new ways to age old problems. Exploitation is defined as: "…the refinement and extension of existing

competencies, technologies, and paradigms" (March, 1991: 85). Levinthal and March (1993) argued for a balance between exploration and exploitation to promote long-term survival chances.

The distinction between exploration versus exploitation relates to the difference between Schumpeterian and Austrian entrepreneurship (Volberda, 1998). Schumpetarian entrepreneurship promotes radical innovations by breaking new ground. These innovations are based on 'creative destruction' (Schumpeter, 1934) by departing from existing routines, and by destroying the value of existing commitments and competencies (Clark, 1985). Austrian entrepreneurship links to incremental innovation, which seeks to exploit currently available knowledge and existing opportunities. The organisation develops a set of routines to adapt to environmental demands. This results in a quest for stability and equilibrium. Organisations become very efficient in 'doing things right', but the switching costs to other trajectories also grow (Volberda, 1998).

The phylogenesis and ontogenesis concepts also relate to punctuated equilibrium theory. This theory describes organisational development as a path oscillating between stability and change in which long periods of equilibrium are punctuated by sudden eruptions of fundamental change. Equilibrium periods are not times of complete standstill, but a smooth evolvement of the organisational system with minor adjustments. The question whether evolutionary change proceeds at a gradual versus saltational rate is an empirical one. This however does not fundamentally alter the theory of evolution (Van de Ven, 1992). To summarise, strategic renewal is more than change or adjustment of strategy: organisations need both exploration and exploitation in their strategic renewal endeavours.

Strategic management literature on strategic renewal

Strategic renewal and related concepts are increasingly popular research topics in strategic management literature. Exhibit 1.1 gives an overview of strategic renewal definitions[6]. Volberda et al. (2001) indicate the importance of an organisation's commitment to existing routines by concentrating on escaping path dependency. Floyd and Lane (2000) focus on knowledge and competence development, whilst Huff et al. (1992) concentrate on aligning organisation and environment to overcome the tension between inertia and stress. Mezias and Glynn (1993) build on the concept of innovation and stress the radical and discontinuous nature of corporate renewal. Baden-Fuller and Volberda (1997) consider renewal, or rejuvenation, a holistic process during which old routines and capabilities are converted into new. We use the elements of organisational heritage, organisation-environment alignment, and the distinction between radical and continuous renewal in developing our definition of strategic renewal.

[6] We found that many studies do not define their renewal concept, which makes it difficult to relate to others' conception of strategic renewal.

Strategic renewal defined

From the above, we learn that strategic renewal is:

- Aimed at keeping organisation and environment aligned (Snow and Hambrick, 1980; Van de Ven and Poole, 1995; Huff et al., 1992; Volberda, Baden-Fuller and Van den Bosch, 2001),
- A dynamic concept (Volberda, 1998; Mintzberg, 1978; Hax, 1990), and
- Requires balance (Van de Ven, 1992; Volberda, 1998; Huff et al., 1992; Mezias and Glynn, 1993; Thompson, 1967; March, 1991) and pacing (D'Aveni, 1994; Dumaine, 1989; Stalk, 1988).

Exhibit 1.1 Definitions of strategic renewal and related concepts

Strategic renewal can be broadly defined as the activities a firm undertakes to alter its path dependence (Volberda, Baden-Fuller and Van den Bosch, 2001: 160)

Strategic renewal is 'an evolutionary process associated with promoting, accomodating, and utilizing new knowledge and innovative behaviour in order to bring about change in an organisation's core competences and/or a change in its product market domain' (Floyd and Lane, 2000: 155)

Strategic renewal is a tension between inertia (supporting the current way of doing things) and stress that arises from a mismatch between the demands and opportunities an organisation faces and its capacity to respond to these conditions (Huff, Huff and Thomas, 1992).

Corporate renewal is associated with 'the process of innovation, defined as nonroutine, significant, and discontinuous organisational change' (Mezias and Glynn, 1993: 78)

Rejuvenation is a holistic process to replace outdated routines and capabilities (Baden-Fuller and Volberda, 1996)

The first definitial element relates to the strategic character of renewal: to align organisation and environment. Snow and Hambrick (1980: 527) note that strategy is 'the mechanism that guides environmental alignment and provides integration for internal operations', which acknowledges the operation of forces internal and external to the organisation (also see Van de Ven and Poole, 1995; Huff et al., 1992). Second, strategic renewal is a dynamic concept (Volberda, 1998) that can be estimated from an organisation's decision pattern (Mintzberg, 1978; Hax, 1990). This element provides

historical validity, and allows it to be operationalised. Third, strategic renewal requires balancing and pacing. We define strategic renewal as *the strategic action pattern to keep organisation and environment aligned,* i.e. 'the activities a firm undertakes to alter its path dependence' (Volberda et al., 2001). We distinguish between three dimensions of strategic renewal (cf. Pettigrew, 1988; and Mintzberg, 1990), more specifically the context, content, and process of strategic renewal. The context dimension refers to environmental forces that constrain and enable strategic renewal at firm level. The content dimension refers to the balance of exploitation and exploration, and the process dimension relates to the dynamic character and temporal issues of strategic renewal. Strategic renewal can be both a voluntaristic and deterministic process, being driven by managerial intentionality, and/or institutional and environmental pressures, and strategic renewal actions may accelerate and decelerate over time. Strategic renewal is not always successful as it is a necessary, but not sufficient, precondition for survival as we argue next.

Long term survival and strategic renewal

To what extent is strategic renewal a necessary and sufficient condition for long-term survival? Kanter (1983: 23) argues that organisations 'cannot survive without innovation'. Huff et al. (1992: 55) conjecture that 'the need for renewal is never ending. The viable organisation must have the capacity to frequently improve its alignment with internal and external demands'. These arguments are based on the assumption that organisations strive for long-term survival. Population ecologists (Hannan and Freeman, 1977; 1984) however see organisational birth and death as a natural process. An organisation can properly fulfil its function as long as it fits its environmental niche. However, an organisation's inertness diminishes survival chances in times of environmental change. Eventually, the old population of organisations will be replaced by new organisations that are better suited to changed environmental conditions[7]. The single goal argument has a similar 'live and let die' stance. Organisations may be founded to fulfill a single goal, for instance rent generation. Terminating the organisation by having it acquired, broken-up, or shutdown might serve the purpose of economic rent generation better (Barney, 1996). A counterargument is that organisational failure and decease result in high societal and economic costs, which might justify investments to renew troubled firms. Adherents of the adaptation perspective – e.g., behavioral theory (Cyert and March, 1963), strategic choice theory (Child, 1972; Thompson, 1967), dynamic capabilities theory (Teece et al., 1997), and organisational learning theory (Fiol and Lyles, 1985; Argyris and Schön, 1978) – posit that organisations are able to withstand the pressures of environmental change by adjusting the organisation.

[7] This study focuses on large, long-lived organisations. We wish to note that a large organisational size buffers firms to some extent from selection pressures (Levinthal, 1990).

Change beyond incremental adaptation is not necessary in times of environmental stability. Refining procedures and defending current markets may be sufficient and result in above average returns. Changing the environment by being the first mover to break the rules of the game may however be very advantageous, although risky.
Strategic renewal however is necessary in periods of significant environmental change. Such times expose organisations to enormous challenges, especially those who digged into their current activities and made large commitments to the stable situation. This does not imply that strategic renewal is always successful, as population ecologists notice. Organisations might react too soon, too late, or apply inappropriate solutions to problems. In conclusion, strategic renewal is a necessary, but not sufficient, condition for long-term survival in times of environmental change.

1.4 Methodological implications and empirical setting

The tradition of much research addressing issues of strategic change examines the variance of external conditions and organisational forms conducive towards strategic change (Miles and Snow, 1994). These research efforts focus on change as a discrete event rather than as an ongoing process and typically employ comparative statics. Research based upon comparative statics however often not reflects the real challenges which organisations face in a pluralistic world. Analytical approaches centered on comparative statics are less suited to investigate dynamic, or evolutionary phenomena such as processes of strategy formulation and implementation (Mintzberg and Westley, 1992), or organisational change (Miller and Friesen, 1980).
Our methodology is designed towards developing and measuring metrics that track down strategic renewal trajectories based on realised renewal actions. These metrics should enable the analysis and comparison of strategic renewal processes within and between firms over time and across institutional settings and industries (McKelvey, 1997), and to discern between managerial intentionality, institutional, and environmental pressures (Lewin and Volberda, 1999) that drive strategic renewal of large and mature organisations.
We chose the European financial services sector as our research field. The financial services sector is profoundly important to the economies of many Western European economies. In 1999, financial services firms accounted for seventy-two out of the Financial Times' top three hundred quoted European companies (FT, January 1999). Their importance in market capitalisation is even greater. European financial services have recently been confronted with several environmental shocks. The past decade has witnessed the introduction, in 1992, of a single European market permitting cross border mergers and alliances and the breakdown of barriers between banking and insurance sectors (Flier et al., 2001). At the same time, firms have had to adapt to European directives and changed corporate governance legislation, had to implement new rules of

compliance (e.g. the Basle Agreement), and had to cope with the deregulation of capital markets. More recently, companies were faced with the introduction of the Euro in 1999, and European financials had to manage the abolition of national currencies in 2002. In the midst of these structural changes, established banks and insurance companies have had to learn to embrace new information and communication technologies and electronic commerce. These developments have given rise to an emerging on-line financial services complex (Hensmans et al., 2001), which created another major challenge for financial services providers. This has challenged top management to think of strategic renewal as an ongoing journey instead of a destination, making European financial incumbents an appropriate research venue.

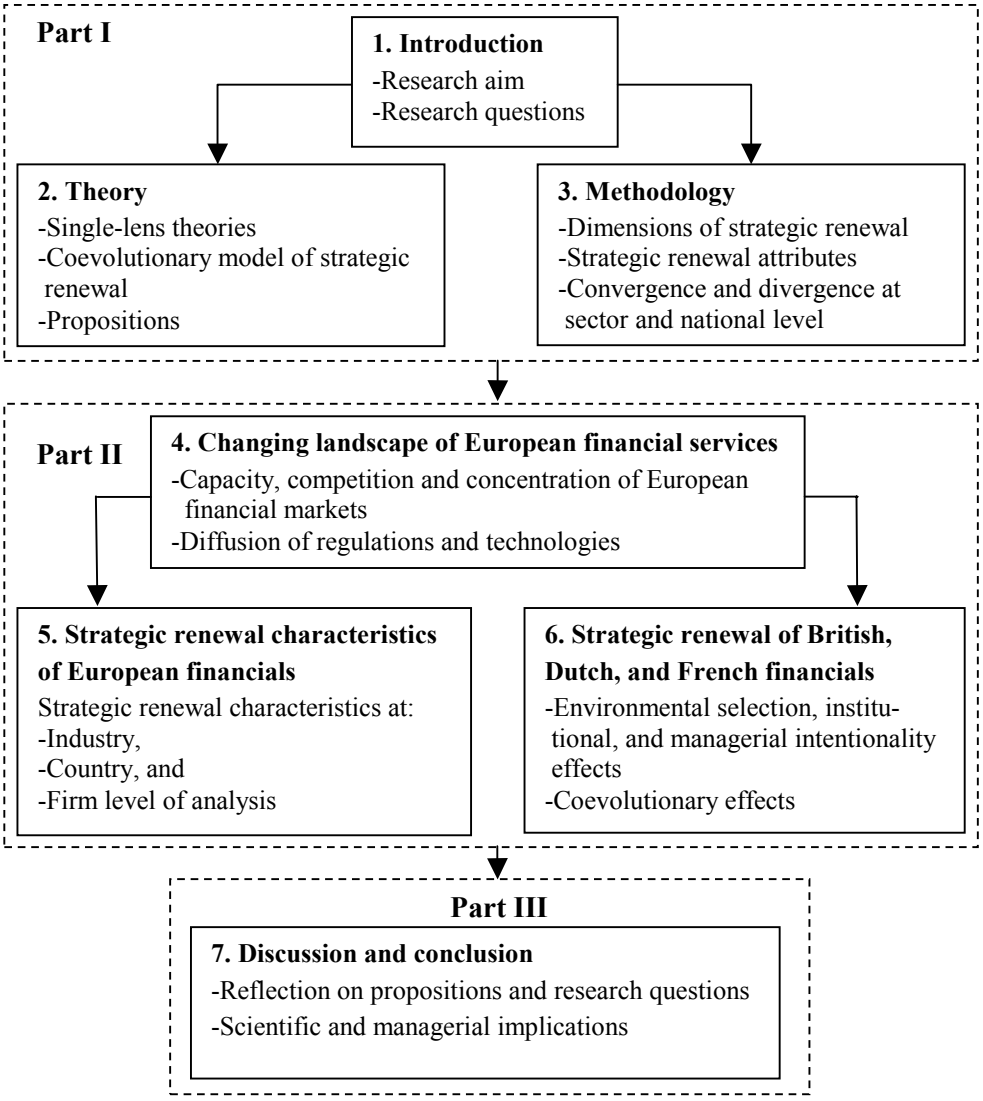
1.5 Thesis outline

This thesis is structured around three main sections (Figure 1.1). Section one constructs the theoretical and empirical foundation of this study and comprises the first three chapters. We defined the research aim and the central research questions that guide this study in this chapter, and also introduced and defined the strategic renewal concept. The second chapter develops a coevolutionary framework of strategic renewal. It builds on three single-lens theories pertaining to managerial intentionality, institutional, and environmental selection theories, and indicates their implicit strategic renewal conception. The coevolutionary perspective bridges these three theoretical silos. We construct an integrative framework that shows the interplay of the three single-lens effects on the formation of strategic renewal actions. Finally, this chapter defines propositions relating to the four theoretical perspectives.

The third chapter introduces the empirical setting and methods by presenting our research methodology. We conceive of strategic renewal as a three-dimensional concept, which allows to develop a set of six attributes to measure strategic renewal. Our methods are based on assessing changes inside and outside incumbent firms. Internal changes are estimated by tracking down realised actions of strategic renewal. These strategic renewal actions are coded along four coding categories, which allow assessing incumbents' strategic renewal behaviour. External changes relate to changes in national financial systems in the European financial landscape. The second section reports the empirical findings and comprises chapters four, five and six. The fourth chapter explores environmental changes by indicating changes in capacity, competition, and concentration indicators across national financial systems. It further analyses the diffusion of regulations and technologies across five European countries to determine the degree of convergence and divergence across five European countries. Chapter five explores main characteristics of strategic renewal of the sample of thirty financial corporations. Based on descriptive statistics, it identifies differences and similarities of strategic renewal attributes at the

industry, country, and firm level of analysis. The outcomes reveal both differences and similarities at the three levels of analysis, depending on the strategic renewal attribute analysed.

Figure 1.1 Thesis design



Chapter six builds on these findings, as it refines our analysis by investigating strategic renewal behaviour of financial incumbents of first and late mover countries that were identified in the fourth chapter. In first mover countries, the implementation speed of new

EU-regulations and of technological innovations is substantially higher compared to late mover countries. We select financial incumbents of two fast moving countries; the United Kingdom and the Netherlands, and of one late moving country; France, to explore environmental selection, institutional, and managerial intentionality effects in strategic renewal behaviour of financial incumbent firms. It further investigates coevolutionary interaction effects operating between levels of analysis. The final chapter comprises our third and final section. This chapter discusses our main findings and propositions and answers our research questions. It further indicates scientific and managerial implications, and suggests issues for future research.

2 A coevolutionary theory on strategic renewal

Integrating managerial intentionality, institutional, and environmental selection perspectives

We shape our environments, then our environments shape us
- Winston Churchill -

Coevolutionary theory seeks to understand the simultaneous evolution of organisations and their environments (Baum and Singh, 1994). Coevolution asserts that the concurrent operating of adaptation and selection explains processes of change and renewal. We selected three single-lens perspectives that cover a broad spectrum of the debate: the managerial intentionality, the institutional, and the environmental selection perspective. The strategic choice and dynamic capabilities approach constitute the managerial intentionality perspective, which addresses the adaptation side of the debate. Classical and neo-institutional theories are the building blocks of the institutional perspective. Population ecology and the resource-based perspective are applied to address the selection side of the debate. The fourth theoretical building block is coevolutionary theory.
This chapter first discusses these theories and indicates the role of managers, environment, and the strategic renewal conception implicit to each perspective. We then use these theoretical building blocks to develop a co-evolutionary framework of strategic renewal that integrates the three single-lens perspectives. The final part of this chapter develops a set of four propositions that relate to our theoretical perspectives.

2.1 The managerial intentionality perspective

Strategic choice theory (Child, 1972; Miles and Snow, 1978) endows organisations with capacity to change their destiny by adapting themselves and reshaping their environments. It builds on the concept of purposeful action and assumes that intentionality matters: large, complex firms can and do revitalise themselves. Child's (1972) strategic choice theory departs from the political process by which leading groups in the organisation actively influence organisational structures. Decision makers decide upon courses of action. Strategic choices relate to the organisation's environment, performance standards, and to the design of organisational structures.
In a review of strategic choice theory, Child (1997) notes that it essentially refers to an ongoing dynamic process, during which the evaluation of information obtained from both the organisation and the environment leads to the identification of opportunities and threads. The ensuing learning process, which develops through debate, negotiating and the exercise of choice, results in action. These actions lead to outcomes, which may be both

internal adjustments and changes to the environment. Child (1997) distinguishes between two cycles that relate actions to situational constraints and opportunities. The 'inner structuration' cycle concerns the organisational design and refers to organisational actors being informed or constrained by the organisation's existing structures and routines they are developing. The 'outer structuration' cycle regards the environment, which both informs and constrains the opportunities for action of organisational actors. The dynamics of these two cycles leads to an evolutionary framework of organisational change in which action and constraint act in mutuality.

Miles and Snow (1978: 21) developed an interactive view of organisation-environment relationships, which they coined the 'adaptive cycle': 'The strategic choice approach essentially argues that the effectiveness of organisational adaptation hinges on the dominant coalition's perceptions of environmental conditions and the decisions it makes concerning how the organisation will cope with these conditions.' Based on a study of U.S. firms and hospitals, Miles and Snow (1978) distilled four generic categories of organisational policies to deal with the environment. The categorisation into defender, prospector, analyser and reactor types added refinement to the strategic choice concept and argued that different strategy types lead to differential strategic choice making. Some strategy types are better suited to adapt to change than others, resulting in differences in organisation-environment relations and performance (Forte et al., 2000).

Thompson's (1967) model of strategic decision-making is built on the assumption that decision makers function as intermediaries between organisation and environment. This model places strong demands on managers to use the most applicable decision approach. Managers should take into account situational constraints surrounding a decision, and select one of four optimal decision approaches based on the combination of clarity or ambiguity regarding, firstly, the objectives and, secondly, the means of producing results that are inherent in a decision task. Nutt (2002) put Thompson's (1967) prescriptions regarding strategic decision making to the test. He found that managers were prone to use the wrong decision approach, and that decisions that followed prescription were more successful than others.

Few organisations function at the limits of their efficiency (Cyert and March, 1963), resulting in organisational slack. This slack allows multiple forms of organisation to exist in an environmental domain. *The dynamic capabilities perspective* argues that a limited repertoire of available routines severely constrains a firm's available strategic choices (Teece, 1984). The suppression of choice is a condition for the exploitation of a core competence. Many studies show that in highly competitive environments a core competence can become a core rigidity (Leonard-Barton, 1992; Burgelman, 1994; Barnett, Greve and Park, 1994), or competence trap (Levitt and March, 1988; Levinthal and March, 1993). Firms develop core rigidities together with highly specialised resources to enhance profits. This comes at the price of reduced flexibility (Volberda, 1996). Wernerfelt (1984)

pointed at the possibility of managerial action to develop new capabilities. Teece, Pisano and Shuen (1997) suggested that organisational resources cannot be taken for granted. The firm must thus remain in a dynamic capability-building mode, which is an organisation's latent ability to renew its core competence. This dynamic capabilities view argues that an organisation should retain its capacity to renew, augment, and adapt its core competence over time. In the same vein, Baden-Fuller and Stopford (1994) argue that mature businesses can be rejuvenated, and may even change their industries. They found evidence that managerial action is most important to firm performance, not the industry or institutionally based advantages.

In conclusion, the managerial intentionality perspective endows managers with managerial leeway to adapt the organisation to the environment or to reshape environmental conditions, taking into account organisational and environmental constraints and opportunities. Organisational slack enables multiple forms of organizing to coexist in an environment. Dynamic capabilities allow an organisation to renew its competencies and to keep the organisation up to date with its environment.

2.2 The institutional perspective

Institutional theory builds on the notion of organisational similarity. *Classical institutional theory* (cf. DiMaggio and Powell, 1983; Meyer and Rowan, 1977) focuses on isomorphic pressures that drive organisations towards, and maintains, institutional environments. Organisational forms and practices are considered to become increasingly homogeneous as organisations are converging to institutionally derived and created templates, coined organisational archetypes (DiMaggio and Powell, 1983). As institutionalists are concerned with explaining uniformity of organisational forms, the primary unit of analysis is the institutional field (DiMaggio and Powell, 1991). Isomorphism is a key concept in institutional theory, and refers to a constraining process that makes units operating in the same set of environmental circumstances to resemble each other (Hawley, 1968). DiMaggio and Powell (1983) distinguish three types of isomorphism; *coercive*, *normative*, and *mimetic* isomorphism. Coercive isomorphism is driven by formal and informal pressures that dependent organisations exert on each other, by cultural expectations, and the legal environment in which the organisation functions (DiMaggio and Powell, 1983). Normative isomorphism results from professionalisation. Important drivers of professionalisation are universities, professional associations, and other educational institutions in which managers and staff are educated. These institutions and associations have a significant effect on the development of organisational norms among influential organisational members. Hiring and filtering practices of personnel are other drivers of normative isomorphism. Normative pressures lead organisations that operate in the same institutional environment to denote certain types of actions as normatively sanctioned and

legitimated, and to define and operationalise problems in similar ways. Mimetic isomorphism is the process of modeling one organisation on another in terms of organisational structure and organisational procedures. Organisations typically model similar organisations that are seen as successful and legitimate. Organisations may rise to this status by formal and informal processes including government recognition, acknowledgement by professional associations, or by being a key partner in union-management negotiations. Mimetic isomorphism may result in bandwagon pressures (Abrahamson and Rosenkopf, 1993). Bandwagons refer to strategies that diffuse through an organisational field once a strategy is perceived to be legitimate (Meyer and Rowan, 1977).

Classical institutional theory essentially denies the possibility of change in institutional environments (Kondra and Hinings, 1998). 'Old institutionalism' (Greenwood and Hinings, 1996) cannot explain change because of lacking explanations of intra-organisational change dynamics. Greenwood and Hinings (1996) thus developed a *neo-institutional theory*, which incorporates change by linking the organisational context and intraorganisational dynamics. The embeddedness of organisations in their institutional context is a basic reason for organisations' resistance to change. The more organisations are coupled to a prevailing organisational template in a highly structured institutional context, the higher the resistance to change, and the more radical organisational responses in case the environment changes drastically. The pace of change is contingent on the differences in structures of distinct institutional sectors. Some institutional fields are more insulated from other fields than others. The more permeable industry boundaries are, the more likely changes in for instance the dominant organisational template. That is, changes vary *across* institutional sectors. Internal dynamics of organisations result in differences in the pace of change within sectors. In an uncertain environment, changes in the power structure and competing ideas lead to different strategic thinking. This gives rise to the emergence of new strategies. Thus, changes also vary *within* sectors (Greenwood and Hinings, 1996).

Kondra and Hinings (1998) extend this dynamic view of institutional theory, based on the notion that institutional environments may be subject to change themselves. In their view, potential for change starts with organisational diversity. 'Institutional fit', defined as 'the degree of compliance by an organisation with the organisational form or structures, routines and systems prescribed by institutional norms' (Kondra and Hinings, 1998: 750) is used to distinguish between organisations that have high or low fit. Organisations having high fits have low performance ranges; those with low institutional fits may perform significantly above or below the institutional range. Whereas low performers are not expected to alter institutional norms, it is the high performers that drive institutional change: high performing firms may lead others to exercise coercive pressures to rule out change; they may be mimiced, or they may be ignored. Interestingly, Kondra and Hinings

(1998) borrow from both strategic choice and population ecology to introduce potential for diversity, thus change, to occur. High performing firms may have chosen to deviate from other firms in the institutional environment because of 'active agency' (cf. Child, 1972), a 'genetic distortion' (Hannan and Freeman, 1989; Powell, 1991) that occurred in the mimicing process, or because they are new entrants. Beckert (1999) also calls for linking strategic choice theory to institutional theory. To account for 'intentional rational agency', he conjectures that the new institutionalism should incorporate change by including strategic agency. Institutions play a dual role in enabling agency. On the one hand, institutions are a precondition for strategic agency, whilst on the other hand; institutionalised practices should be violated to realise better options than those available under the prevailing institutional norms. To reconcile strategic agency with institutional theory, Beckert (1999) advances structuration theory (Giddens, 1984). Under this theory, 'action … develops in a duality between agency and structure' (Beckert, 1999: 789). Barley and Tolbert (1997) also build on structuration theory (Giddens, 1976; 1979) to introduce dynamism into institutional theory. They indicate that the creation, alteration, and reproduction of institutions have been largely ignored by institutional theory. They advance Giddens' (ibid) structuration theory to address the 'becoming' or process dimension of institutionalisation. Whereas Kondra and Hinings (1998) focus on divergence of actors and Beckert (1999) focuses on the role of entrepreneurs, Barley and Tolbert (1997) concentrate on different strength of institutions themselves in shaping behaviour of constituent units. That is, Barley and Tolbert (1997) focus on the degree to which institutions vary in their normative power and their effect on behaviour.

Classical institutional theory postulates that organisations will converge to institutionally derived archetypes. The neo-institutionalist perspective argues that strategic renewal is the result of social and political processes of organisational members. Isomorphic forces exert mimetic pressures on individual firms' renewal attempts. The renewal process is difficult to control because it results from the interplay of the institutional context and organisational dynamics, and it varies across and within sectors depending on the degree of normative power exerted by different institutional environments.

2.3 The environmental selection perspective

Resource-based theory and population ecology focus on different levels of analysis. Both theories apply selection logics (cf. Lewin and Volberda, 1999) to explain differences in firm performance. Regarding the link between population ecology and resource-based theory, Barney (2000a: 268) remarks: 'Is population ecology theory, extended to explain differences in firm performance, a special case of resource-based theory, or is resource-based theory a special case of population ecology theory? As a resource-based theorist, I think the answer to this question is obvious! In the long run, however, I am quite confident

that these two sets of ideas will merge to become an integrated theory of firm performance'.

The resource-based view seeks to explain differences between firms operating in similar product markets. As such, resource-based theory is concerned with identifying and explaining characteristics of firm resources that lead to sustainable competitive advantage. Resource-based theory has two elemental assumptions. First, resources are heterogeneously distributed across firms. Second, resources are immobile, or 'sticky', and cannot be transferred from one firm to another without cost. Building on these axioms, Barney (1991) theorises that resources that are valuable, rare, difficult to imitate and non-substitutable may yield sustainable competitive advantage. The ferment of resource-based theory lies in Penrose's 'The theory of the growth of the firm' (1959)[8]. One stream of resource-based theories builds on Penrose's discussion on how to expand. This school emphasises that diversification should be in line with a firm's core competencies (Wernerfelt, 1984), and concentrates its research on how resources result in diversification. Ricardian logic (Ricardo, 1817) is used by another stream of resource-based theories. Ricardian logic states that performance differences result from ownership of resources that have differential productivity (Makadok, 2001). Ricardian resource-based theorists study the question of how to compete: how and why do resources lead to different competitive advantage of firms operating within the same business (Barney, 1991)?

The resource-based view has endured some criticism as to the extent to which it is a theory. The resource-based view has contributed to explaining and predicting sustainability, but falls short in explaining or predicting competitive advantage (Priem and Butler, 2000b). Priem and Butler (2000a) argue that the resource-based view is tautological, allows for equifinality, underestimates the role of product markets, and has limited prescriptive implications. Barney (2000b) responded to this critic, but has difficulty in convincing Priem and Butler (2000b) on especially the tautology argument and the necessity of including some external notion to determine resource value. Further development seems necessary to come at a full-fledged theory of sustainable competitive advantage (Priem and Butler, 2000b).

Resource-based theory has a rather pessimistic view on renewal. It conceives the firm to be a bundle of intangible and tangible resources that has to be identified, selected, developed, and deployed to generate superior performance (Wernerfelt, 1984; Learned et al., 1969). Firms have a capacity for outstanding short-term performances, but lack capacity for change in the longer term. 'Firms are stuck with what they have, and have to live with what they lack' (Baden-Fuller and Volberda, 1996: 11). Levinthal and March (1993) argue

[8] This is the canonical reference. Henderson (2000) however sees Nelson and Winter's (1982) *An evolutionary theory of economic change* and Stinchcombe's (1965) *Social structure and organisations* as the basic streams of thought on which the resource-based view rests.

that successful firms tend to develop current competencies further and further. This process can make a firm dig into its current repertoire of competencies and increases the opportunity and unlearning costs to develop new competencies. This is coined the 'competency trap', a term also used by Levitt and March (1988). Leonard-Barton (1992) indicates that core competencies can evolve into core rigidities (also see Burgelman, 1994), and posits that organisations have to develop new products and processes while also maintaining current capabilities. Managers face the paradox that 'core capabilities simultaneously enhance and inhibit development' (Leonard-Barton, 1992: 112). Current capabilities can be beneficial for developing new capabilities, for instance by applying existing technologies in new fields or by using distinct managerial and value systems in a new landscape. Current capabilities may however also hinder new capabilities development. A firm may 'overdevelop' its current capabilities, overvaluing some disciplines over others. This can result in rigidities that make creation of new capabilities more difficult.

The latter argument connects resource-based theory to the dynamic capabilities view (cf. Amit and Schoemaker, 1993; Teece et al., 1997). Whereas the resource-based view concentrates on which resources to select, the dynamic capabilities approach focuses on how to deploy capabilities. The important distinction between resources and capabilities is in their timing. Resources create economic rent before their acquisition, as firms have to outsmart others in picking those resources that will result in higher future value than other resources, or by not acquiring resources whose value will decrease over time. Capabilities can only create economic rent after resources have been acquired. Resources place emphasis on cognition and informational factors, whilst capabilities concentrate on structural design factors to best deploy the acquired resources (Makadok, 2001).

Population ecology is based on a biological evolutionary metaphor and seeks to explain the large variety in kinds organisations (Hannan and Freeman, 1977). Boone and Van Witteloostuijn (1995) mention two perspectives that explain diversity of organisational forms. The Lamarckian view asserts that organisations continuously refine strategies and structures to changing environmental conditions: organisations are flexible. The Darwinian view holds that old organisational forms die and are outplaced by new ones: organisations are inert. Population ecology adheres to the second view, as it states that organisations may change, but not as fast as their environments. Even if organisations would be flexible, survival chances would be reduced as changing the core features of the organisation essentially results in a new organisation. This 'new' organisation is then faced with liabilities of newness, which are theorised to have much lower survival chances then organisations that maintain the fit with their environment. Changing in a controlled way is problematic as the future state of the environment is unpredictable, organisational decision-making is a political process, and because intentions and organisational outcomes are decoupled. Organisation-environment matches are on average random: the

environment selects organisational forms (Hannan and Freeman, 1989). Diversity can be understood by investigating birth and death rates of organisational forms, not be studying managerial adaptations – which are essentially random acts that will or will not result in environmental fit[9].

Population ecology (Hannan and Freeman, 1977; 1984; Aldrich, 1979, 1999) asserts that large organisations are well suited to exploit today's markets, but can hardly at all be adapted to the future. Change occurs at the population level through a continuous process of variation, selection, and retention, during which the environment selects organisations that fit the resource base of an environmental niche best (Hannan and Freeman, 1977). Organisations that are reliable, accountable and reproducible (Hannan and Freeman, 1984) will be favored in the selection process. Organisations that survive the selection process will in turn increase their level of structural inertia. As the environment changes, the relative inertness of these organisations inevitably results in deteriorating performances. This structural inertia is difficult to overcome and results in the market eventually selecting out firms whose competencies have become outdated (Aldrich, 1979, 1999; Hannan and Freeman, 1984). New organisations that emerge over time eventually replace the current organisational population. Recent population ecologists (Singh, 1990; Barnett and Burgelman, 1996) are less pessimistic. They suggest that organisations can adapt to the environment if that environment is relatively stable. In times of radical change the organisational population will generate a variety of strategies, of which only some will prove to be successful. Firms who have tried a different strategy have to comply with this dominant strategy; otherwise they will be selected out. However, no single firm can consistently create the dominant strategy as the variations in new strategies result from a random process. This eventually results in a change of the composition of the organisational population over time.

Strategic renewal at the level of the firm is extremely difficult according to population ecology. Renewal occurs at the population level through a process in which the market selects out firms whose competencies have become outdated. These organisations are replaced by new organisations. This suggests strategic renewal takes place on the population level.

[9] Instead of taking survival or failure as the criterion of successful organisation-environment adaptation, some researchers apply structural change or stability as measure of success. Birth and death rates allow to observe an organisational population to adapt by selecting out the less fit organisations. Using the criterion of structural change might indicate that almost all organisations survive, but undergo significant internal structural changes. Perrow (1986) notes that this addition can violate selection theories that build on biology and ecology.

2.4 Comparing single-lens perspectives

The three single-lens perspectives have varied assertions regarding the strength of selection forces and the potential for adaptation. We summarised these different assertions in Table 2.1, which indicates the role ascribed to management and the environment by the different theories. The last column indicates the strategic renewal view implicit to each theoretical perspective.

Table 2.1 Three single-lens perspectives on strategic renewal

Theoretical perspective		Role of management	Role of environment	Strategic renewal perspective
Managerial intentionality	Strategic choice theory	Intermediary between firm and environment	Environment offers constraints and opportunities	Active role for managers to adapt organisation and environment
	Dynamic capabilities view	Concentrate on continuously renewing knowledge base	Changing environments render current capabilities obsolete	Organisations should remain in a dynamic capability mode to achieve SCA
Institutional perspective	Classic institutional theory	Build and retain legitimacy by conforming to institutional practices	Population isomorphism exerts mimetic pressures on firms' renewal attempts	Organisations converge to institutionally derived archetypes
	Neo-institutional theory	Internal dynamics (changes in power structure; competing ideas) may breed new strategies	Environments exercise different degrees of normative power	Renewal results from the interplay of institutional context and organisational dynamics
Environmental selection	Resource-based view	Selection, deployment and maximisation of firm resources	Resources only add to competitive advantage in relation to other firms' resource bases	Firms are stuck with what they have, and have to live with what they lack
	Population ecology	Management should concentrate on exploiting its niche and cannot influence survival chances	Environment selects best fitting organisations	New entrants redefine environment; strategic renewal occurs at population level by organisational birth and death

Source: Adapted from Lewin and Volberda (1999: 524)

Our selection of single-lens theories illustrates the multiplicity of perspectives that exists in organisation theory. There is no uniform theory of organisation because of the complex, idiosyncratic nature of organisational phenomena (McKelvey, 1997). Coevolutionary theory asserts that it is not a matter of either adaptation or selection, but the concurrent operating of adaptation and selection processes that explains renewal processes. The next section elaborates this coevolutionary perspective.

2.5 Coevolutionary theory

Lewin and Volberda (1999: 526) define coevolution as 'the joint outcome of managerial intentionality, environment, and institutional effects'. McKelvey (1997) suggests coevolution as one of four frontiers to attack the idiosyncrasy problem in organisation science. Lewin, Long and Carroll (1999: 535) posit that a coevolutionary perspective 'considers organisations, their populations, and their environments as the interdependent outcome of managerial actions, institutional influences, and extra-institutional changes'.

These conceptions indicate that coevolution should be studied on multiple levels of analysis. Baum and Singh (1994) propose that changes may occur in all organisations or populations that interact, either through direct interaction or feedback. McKelvey (1997) distinguishes between micro- and macrocoevolution. Microcoevolution refers to coevolution within firms, whereas macrocoevolution takes place between firms and their niche.

Interaction effects within and between levels of analysis are a key issue in coevolutionary research. Interaction effects typically are not linear and may lead to counterintuitive outcomes because of feedback loops. Baum and Singh (1994) define three coevolutionary interaction models; the competition, the predator-prey, and the three variables model. Lewin and Volberda (1999) mention mutual, simultaneous, lagged, and nested interaction effects. McKelvey (2002: 1) points out that coevolution: 'approximates a mutual-causal, deviation-amplifying, positive feedback process (Maruyama, 1963)', in which A reacts to B, and B to A, and so on, until halted by a damping mechanism. As coevolutionary theory is still under development, authors have defined coevolution in multiple ways. Table 2.2 presents an overview of definitions of coevolution.

This study builds on Lewin and Volberda's (1999) definition of coevolution as the joint outcome of managerial intentionality, institutional, and selection effects. Coevolutionary effects are operationalised by assessing feedback processes between organisations and their environments (Baum and Singh, 1994; Lewin and Volberda, 1999). These interaction effects can be simultaneous and lagged, and are of a mutual-causal nature (McKelvey, 2002).

Table 2.2 Definitions of coevolution in selected sources

Author(s)	Definition of coevolution
Aldrich (1999: 38)	Coevolution […] describe[s] situations in which organisations and populations not only respond to influences from their environments, but also affect their environments.
Baum and Singh (1994: 380)	The study of coevolution fundamentally is a feedback approach to the study of organisation-environment relations.
Lewin, Long and Carroll (1999: 535)	[Coevolution] theory considers organisations, their populations, and their environments as the interdependent outcome of managerial actions, institutional influences, and extra-institutional changes.
Lewin and Volberda (1999: 526)	We define coevolution as the joint outcome of managerial intentionality, environment, and institutional effects. Coevolution assumes that change may occur in all interacting populations of organisations. Change can be driven by direct interactions and feedback from the rest of the system.
McKelvey (1997: 359)	The ecological definition of coevolution recognises the fundamental interdependency between firms, competitors, and niche resources available for harvesting: each changes as the other changes
McKelvey (2002: 1)	Coevolution approximates a mutual-causal, deviation-amplifying, positive feedback process (Maruyama, 1963). Thus, A reacts to B; B reacts to A; the deviation-amplifying cycle repeats indefinitely until some damping mechanism halts it.

We now have elaborated three single-lens perspectives and coevolutionary theory. These are the theoretical building blocks underlying our analysis of strategic renewal. The next paragraph integrates the selected theories as we develop a coevolutionary framework of strategic renewal.

2.6 Integrating multiple levels of analysis: strategic renewal from a coevolutionary perspective

Organisations in a structured field respond to an environment that consists of other organisations responding to their environment, which consists of organisations' responses
- Thomas Schelling (1978) -

After mainstream theories on organizing had been established, a debate evolved that classified organisation theories into paradigms. McKelvey (1997: 352) exclaimed that '[e]ven a hermit in bleakest Antarctica must be aware of the organisation science paradigm war by now.' A plethora of paradigms have been formulated in organisation science. Clegg et al. (1996) identify eight paradigms, whilst Donaldson (1995) even distinguishes 15 paradigms. The classification of Burrell and Morgan (1979) of four main paradigms in organisation studies was very influential. They concluded that paradigms were essentially incommensurable, leading to considerable debate. This debate has led some writers (cf. Reed, 1985; Alvesson, 1987; Ackroyd, 1992) to conclude that the conviction of incommensurability hinders organisational theory development. Instead, they argue for theoretical synthesis of insights of different paradigms. Coevolution theory obviously adheres to this argument.

Our discussion of single-lens theories mentioned a number of attempts to enhance the applicability of single-lens perspectives by integrating concepts of other theories. Beckert (1999) discussed the added value of bringing strategic agency and structuration theory into institutional theory. Boone and Van Witteloostuijn (1995) studied the potentials for cross-fertilisation of industrial organisation and organisational ecology. Kondra and Hinings (1998) build on strategic choice and population ecology to add an explanation for institutional change to institutional theory. The problem of addressing change with traditional institutional theory was also pointed out by Roberts and Greenwood (1997), who integrate elements of institutional theory into the comparative-efficiency approach of transaction cost economics. In a similar vein, Amburgey and Rao (1996: 1282-1283) noted that 'organisational ecology needs consensus to generate cumulative knowledge, *but new concepts and information must be incorporated if ecological theory is to remain vibrant* [my italics]. Child (1997) revisited strategic choice theory to display its potential to integrate different perspectives in organisational theory.

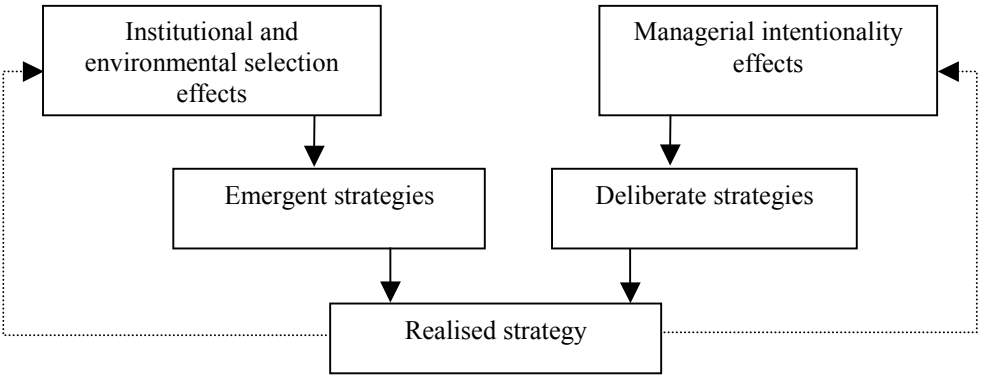
These and other attempts indicate a growing awareness of the added value of combining both adaptation and selection views on organisations. Voluntaristic and deterministic approaches are typically seen as two sides of a continuum (Baum, 1996; Lewin and Volberda, 1999). Barnett and Carroll (1995) position the debate even more extreme, using the terms theoretical camps when distinguishing between adaptation and selection

perspectives. Hannan and Freeman (1989) however state that determinism and voluntarism are two sides of the same coin. The essence of the adaptation-selection debate is whether it is relative inertia, resulting in Darwinian selection, or relative flexibility, reflecting the Lamarckian view that explains organisational diversity (Boone and Van Witteloostuijn, 1995). These authors indicate that behavioural theory indicates substantial overlap between voluntaristic and deterministic views with regard to the strategic-decision making process. This view is reflected by Miller (1993) and Burgelman (1991). Miller (1993) indicates that successful organisations tend to simplify over time, which can eventually result in organisational failure. This simplification results from the same reasons that caused the initial success, and are strongly related to the reliability, accountability, and reproducibility assumptions of population ecology. Burgelman (1991) applies an intra-organisational ecological view on strategy making. He ties the two ends of the adaptation-selection continuum by stating that organisations can achieve enduring success by balancing inertia and flexibility in their strategy making process. Firms should find a delicate balance between induced and autonomous strategic initiatives. Induced strategic initiatives fit within the current strategy and build on past success. Internal selection of these initiatives obviously only allows coping with incremental environmental changes, resulting in inertia. Firms should balance these with autonomous strategic initiatives, which fall outside the current strategic scope. The nurturing and selection of autonomous initiatives results in continuous strategic renewal and allows for anticipatory adaptation. Burgelman (1991: 257) reconciles the two views by indicating the importance of 'balancing […] variation-reducing and variation-increasing mechanisms. It suggests that one process leads to relative inertia and incremental adjustments, while the other expands the firm's domain and renews the organisation's distinctive competence base, countering inertia and serving some of the functions of reorientation.'

We concur with these calls to reconcile adaptation and selection theories. Building on Weick (1995), we propose to study strategic renewal by identifying and analysing strategic renewal *actions* of firms: 'it is what managers *do*, not what they plan, that explains their success' (ibid: 55) [my italics]. Mintzberg and Waters' (1985) distinction regarding realised strategies aids to disentangle managerial intentionality and institutional and environmental selection effects operating on actions of strategic renewal. Mintzberg and Waters (1985) define strategy as a 'pattern in a stream of decisions' (also see Mintzberg, 1978), and distinguish between two strategy types. The first is a deliberate strategy, which materialises from precise intentions in the organisation that are common to most of the organisational actors and are realised as intended. A purely deliberate strategy should not be interfered by any environmental influence. The second type is the emergent strategy. This strategy type has consistency in action over time without any intention leading the strategy (Mintzberg and Waters, 1985). The emergent and deliberate strategy types relate to McKelvey's (1997) distinction between the natural and rational systems view (Scott,

1992) of organisation science. The natural systems view conjectures that emergent system behaviour, which McKelvey (1997) extends to selectionist effects, lead to natural order in firms that does not result from purposeful or intentional activity. The rational systems view maintains that order in firms results from managerial decisions. Obviously, purely deliberate or emergent strategies are hard to find in the empirical world as they represent ideal type strategies. They however are very helpful to make the theoretical distinction between actions driven by managerial intention and actions resulting from institutional and environmental selection pressures. The interaction between natural and rational phenomena (McKelvey, 1997) eventually results in organisational reality. Figure 2.1 displays the underlying processes that drive strategic renewal actions. We use this model to explicate how managerial intentionality, institutional, and environmental selection effects impact on strategic actions. As such, we use core concepts of strategic choice theory and dynamic capabilities theory to managerial intentionality effects. Classical and neo-institutional theory is applied to theorise how institutional effects contribute to shaping strategic actions. The resource-based view serves to determine organisational specifics that influence managerial adaptation. Population ecology finally informs about environmental selection effects.

Figure 2.1 A coevolutionary model of strategic renewal



Managerial intentionality effects

The managerial intentionality perspective conjectures that dynamic capabilities, casu quo purposeful strategic action, drive intentional adaptation. Strategic choice theory asserts that contextual factors are not the only determinants of the way in which organisations are designed and structured (Child, 1972). Managers have room to choose idiosyncratic courses of action. Strategic choice theory considers managers as decision makers that intermediate between the organisation and its environment (Thompson, 1967) instead of passive recipients of environmental forces. These key decision makers, or dominant

coalition, decide on the course of strategic actions to adapt the organisation to its environment. Purposeful strategic action influences an organisation's strategic path, indicating managerial intentionality effects.

The managerial intentionality perspective asserts that multiple types of purposeful strategic action are viable across organisations operating within the same environmental constraints. Cyert and March's (1963) concept of organisational slack is conducive to explain this equifinality. Organisational slack is indicated by the fact that virtually no organisation functions at the limit of its efficiency. Organisational slack may be the reason that multiple forms of organizing and strategizing are viable within an environment.

The dynamic capabilities view attributes similar adaptive powers to management. It proposes that organisations should continuously renew their knowledge base to escape the competence trap. The current knowledge base however is shaped by a firm's history. Prahalad and Bettis (1986) state that firms develop 'dominant general management logic' through experience. Although the dominant logic concept was originally used to develop an overall theory to link diversification and performance, it is also conducive to explain constraints inherent to the managerial intentionality perspective. A firm's dominant logic is shaped by the managers' perception of the world and their ways of dealing with the world (Dobbin and Baum, 2000). Prahalad and Bettis (1986: 490) define the dominant general management logic 'as the way in which managers conceptualise the business and make critical resource allocation decisions'. More generally, the dominant logic can be considered as both a knowledge structure and a set of elicited management processes (Prahalad and Bettis, 1986). The dominant logic resides in an organisations' 'dominant coalition', which processes organisational events through preexisting knowledge systems. These knowledge systems, or schemas, facilitate environmental scanning, event selection, assessment of consequences, and taking appropriate actions quickly and efficiently. The dominant coalition's experiences shape its view of the world and mould its repertoire of tools to realise strategic actions. Managers thus tend to define problems in similar ways and develop preferential ways of dealing with critical tasks (Prahalad and Bettis, 1986). Firms may run into trouble when circumstances change, as past experiences that are stored in the organisation's dominant logic may constrain future adaptations (Dobbin and Baum, 2000). Dominant logic links to Weick's (1979) concept of environmental enactment. Organisational members form, or enact, their environment through social interaction. The resulting pattern of enactment constructs organisational reality influences future enactments.

To summarise, managerial intentionality effects refer to managerial leeway to design purposeful action. Organisational slack explains why multiple courses of action may be viable within an environment. Dominant logic and environmental enactment both facilitate and constrain the development of a firm's knowledge base as proposed by the dynamic capabilities view.

Institutional effects

Convergence to organisational archetypes is the focal point of institutional theory. Isomorphism is the constraining process that makes organisations converge to archetypes and explains homogeneity of forms of organizing. Institutionalisation processes can be dissected into preconscious and postconscious institutionalisation (Roberts and Greenwood, 1997). Preconscious institutionalisation refers to organisations taking for granted patterns of organizing and acting, simply because of not perceiving or thinking about it: they 'unconsciously' follow institutional practices. Preconscious institutionalisation links to Mintzberg and Waters' (1985) emergent strategy type, as there are by definition no intentions connected to strategic actions resulting from preconscious institutional behaviour. If actors fail to act on their interests despite recognizing more efficient design adoptions than those suggested by institutional rules, a postconscious institutionalisation process is in play. In this case, actors recognise an opportunity to diverge from established institutional arrangements, but only consider the range of alternatives acceptable within the current institutional context. That is, managerial intentions to undertake deviant strategic actions are ruled out by institutional pressures, resulting in an emergent pattern of strategies evolving through conscious isomorphic behaviour.

Figure 2.1 shows a feedback loop from realised strategy to institutional effects. Institutional theory postulates that firms model their behaviour on other firm's behaviour. Diffusion processes, coined bandwagons, can explain this process. Bandwagons relate to the concept of mimetic isomorphism and explain the diffusion of both efficient and inefficient strategies across an industry. Bandwagon pressures drive organisations to adopt strategies[10] that have ambiguous returns. Bandwagons arise from the sheer number of organisations that already adopted the strategy, not from an organisation's individual assessment of the strategy's efficiency or return (Abrahamson and Rosenkopf, 1993).

Organisation innovation diffusion literature (cf. Abrahamson and Rosenkopf, 1991; 1993; O'Neill, Pouder and Buchholtz, 1998) discerns institutional and competitive bandwagons. Institutional bandwagons refer to the process of legitimisation. The mere fact that a strategy type has been accepted by a large number of organisations leads other organisations to adopt the strategy, irrespective of its expected performance gains (Meyer and Rowan, 1977). New practices may be 'infused with value' (Selznick, 1957: 17). This process commences when early adopters implement a strategy type to improve their

[10] Abrahamson and Rosenkopf's (1993) article discusses the diffusion of innovations. The term innovation is defined rather broadly as they indicate that any innovation, being organisational, technological, managerial, or strategic can result in a bandwagon, as long as the assessment of the innovation's return is ambiguous. This includes the type of strategic actions we discuss.

performance without knowing its performance effects. As the strategy continues to diffuse, a threshold is passed beyond which it is not the expected performance gains, but the adoption of the strategy itself that provides legitimacy. Not adopting would appear abnormal to stakeholders, which urges the population of organisations to adopt the strategy because of fear of losing stakeholder support. The process underlying competitive bandwagons is fear of losing competitive advantage. Competitive bandwagons arise when organisations are temped to adopt a strategy type because of the risk of falling behind the average performance of their industry in case the strategic invention turns out to be successful (Abrahamson and Rosenkopf, 1993). Adopting a strategy that has unknown performance outcomes is also seen as beneficial. It will lead the organisation to approximate the average performance of its population irrespective of the strategy succeeding or failing.

Interestingly, isomorphic behaviour does not always result in homogeneity. DiMaggio and Powell (1983: 149) (Dobbin and Baum) refer to a situation of serendipity, noting that 'there are those who, in their imperfect attempts to imitate others, unconsciously innovate by unwittingly acquiring some unexpected or unsought unique attribute which under the prevailing circumstances prove partly responsible for the success'. This relates to the 'genetic distortion' effect mentioned by Kondra and Hinings (1998) and explains that some institutionally derived strategic actions may have unintended and unexpected innovative effects. Kondra and Hinings (1998) and Beckert (1999) further suggest introducing elements of strategic choice into institutional theory to explain institutional change.

Institutional theory asserts that isomorphism results in mimetic behaviour, which explains convergence to organisational archetypes. Preconscious and postconscious institutionalisation indicates that organisations unconsciously or consciously conform to institutional practices, resulting in emergent strategizing. Diffusion theory explains the process of strategies diffusing through an institutional field via either institutional or competitive bandwagons. Institutional processes typically lead to homogeneity in organizing and strategizing, although neo-institutional theory indicates that genetic distortion effects and strategic agency may breed innovations and lead to institutional change.

Environmental selection effects

We derive environmental selection effects from both the resource-based view and population ecology. The resource-based view is concerned with selection pressures arising from the firm level, and population ecology focuses on selection forces operating on the population level.

The resource-based view assumes that a firm's performance is determined by the distinctive resources it controls (Wernerfelt, 1984). Resource heterogeneity and resource immobility enable the durable existence of valuable, rare, inimitable and non-substitutable

resources. These characteristics render resources to be strategically relevant, drive sustained competitive advantage, and explain performance differences within industries (Barney, 1991). Firm-specific resources make it very difficult for firms who are less competitive to copy successful peers, and explains differences in performance within industries (Barney, 1991). The flipside of 'sticky' organisational advantages (Barney, 1991) is the inherent difficulty for firms to change to, or adopt, superior strategies. As successful firms continuously develop their competencies, it will be increasingly difficult to develop new competencies. This may result in a 'competency trap' (Levinthal and March, 1993; Levitt and March, 1988) and may deteriorate existing competencies into 'core rigidities' (Leonard-Barton, 1992; Burgelman, 1994). As such, path dependency effects constrain the renewal of a firm's resource base. Resource-based theory asserts that strategies and forms of organisation tend to endure; eventhough organisations operate under environmental pressures (Dobbin and Baum, 2000). Firms are seen as intrinsically historical and social entities. The organisation's historical route that obtained and built its set of resources (Barney, 1991) explains firm performance; not just the industry structure.

Population ecology attributes little power to organisations to change their environment. Instead, population ecologists assert that strategic renewal occurs at the population level through a process of variation, selection and retention. Hannan and Freeman (1984) argue that organisations that try to adapt to their environmental niche reduce their survival chances. Structural inertia is a necessary and inevitable process occurring in organisations that optimise their survival chances. Organisations that are reliable, accountable and reproducible will have higher survival chances than others (Hannan and Freeman, 1984). These demands however lead to a build-up of structural inertia. This inertia in turn deteriorates organisations' potential to adapt to environmental changes. As the environment favours organisations with high levels of structural inertia, management's task is to focus on its environmental niche, optimise the organisation's specialisation to its niche and keep its fingers crossed (Lewin and Volberda, 1999).

Resource heterogeneity and resource immobility explain performance differences within industries. The firm-specific nature of resources essentially rules out imitation by other firms. Path dependency effects imply difficulties to alter a firm's resource base. In their quest to acquire reliability, accountability and reproducibility, firms build up their level of structural inertia. This increases survival chances in times of stable environmental conditions, but severely constrains adaptation in times of change. As fit to changing environmental conditions is essentially a stochastic process, no organisation can consistently create fitting strategies, resulting in the organisational population gradually being replaced over time. Table 2.3 summarises core concepts of single-lens theories, respectively indicating managerial intentionality, institutional, and environmental selection effects.

Table 2.3 Managerial intentionality, institutional, and environmental selection effects influencing strategic renewal actions

	Theoretical perspective	Core components	Authors
Managerial intentionality effects	Strategic choice theory	Purposeful strategic action drives deliberate strategies. Organisational slack allows for different forms of strategizing	Child (1972; 1999); Thompson (1967); Cyert and March (1963)
	Dynamic capabilities theory	Dominant logic and environmental enactment influence the development of a firm's knowledge base	Teece, Pisano and Shuen (1997); Prahalad and Bettis (1986); Weick (1979)
Institutional effects	Classical institutional theory	Isomorphism explains convergence to organisational archetypes Preconscious and postconscious institutionalisation result in emergent strategies	DiMaggio and Powell (1983; 1991); Meyer and Rowan (1977); Roberts and Green-wood (1997)
	Neo-institutional theory	Genetic distortion effects and strategic agency explain institutional change	Kondra and Hinings (1998); Beckert (1999)
	Diffusion theory	Institutional and competitive bandwagons diffuse strategies through an institutional field	Abrahamson and Rosenkopf (1991; 1993)
Environmental selection effects	Resource-based theory	Resource heterogeneity and immobility explain performance differences and rule out imitation Path dependency effects impede alteration of a firm's resource base	Barney (1991; 1996); Wernerfelt (1984)
	Population ecology	Level of structural inertia increases as organisations try to become reliable, accountable and reproducible Structural inertia increases survival chances in stable environments; decreases survival rates in changing environments Fit is a random process; environment selects organisational forms	Hannan and Freeman (1977; 1984); Aldrich (1979; 1999)

Our coevolutionary framework (cf. Figure 2.1) integrates managerial intentionality, institutional, and environmental selection effects operating on strategic acting. Our selection of single-lens theories illustrate that the focal point – the individual firm, the institutional environment, or the population level – has a large impact on the explanation and prediction of strategic renewal processes. We argued that studying strategic renewal on the level of actions aids to disentangle the various effects operating on a firm's realised strategy. Our framework asserts that strategic renewal can both be induced because of

managerial intentionality effects, or result from institutional or environmental selection pressures. For instance, in the case of a greenfield investment, is it:

- Undertaken as a purposeful action to develop a new strategy;
- Driven by mimetic isomorphic behaviour to gain legitimacy of organisational stakeholders;
- Originating from an attempt to maximise the deployment of the firm's resource base to further exploit the firms' environmental niche?

Managerial intentionality, institutional, and environmental selection effects can obviously not be directly inferred from strategic renewal actions. We will design our research methodology to detect characteristics of these three effects. To this end, we develop a set of attributes to operationalise the strategic renewal construct (cf. section 3.2). The next section develops a set of propositions that link to the three single-lens perspectives and coevolutionary theory.

2.7 Propositions

We structure the development of propositions along the four theoretical perspectives applied in this chapter. The propositions relate to our central research questions developed in the first chapter. Our research questions ask how incumbent firms renew themselves, and to what extent managerial intentionality, institutional, environmental selection, and coevolutionary effects operate on strategic renewal actions.

Managerial intentionality theory

Building on organisational learning theories, the dynamic capabilities approach focuses on how individuals, teams, and management use information and knowledge to reconsider the fit of the organisation to its environment (Best, 1990; Eisenhardt and Martin, 2000; Van Den Bosch and Van Wijk, 2001). A firm's absorptive capacity[11] plays an important role in assessing this fit (Lewin et al., 1999). An organisation's absorptive capacity influences the expectation formation process and its balance of exploration and exploitation (Van Den Bosch et al., 1999). The higher the absorptive capacity, the more a firm's aspiration level or expectation formation process will be defined in terms of environmental opportunities, independent of performance criteria (Cohen and Levinthal, 1990: 137). Firms with higher levels of absorptive capacity will tend to be more proactive: fortune favors the prepared firm (Cohen and Levinthal, 1994). We indicated that concurrent or delayed acting can be related to institutional theory and environment selection, whilst proactive or firm specific

[11] Absorptive capacity is defined as 'the ability to recognize the value of new knowledge, assimilate it, and apply it to commercial ends' (Cohen and Levinthal, 1990: 128).

timing, frequency or volatility suggests managerial intentionality. From a managerial intentionality approach, we thus expect firm-specific patterns regarding the timing, frequency and volatility of strategic renewal actions:

Proposition 1. From a managerial intentionality approach, renewal actions of incumbent firms will show firm-specific patterns regarding the temporal dimension of strategic renewal actions.

Institutional theory

Institutional theory examines the influence of the institutional context on the organisational structure (Tolbert and Zucker, 1996; Scott, 2001; Wicks, 2001) and contends that population isomorphism moulds organisations to organisational archetypes (DiMaggio and Powell, 1991). Institutional and competitive pressures drive organisations to adopt initiatives undertaken by other organisations in their institutional environment. These bandwagons cause a significant number of organisations in institutional settings to undertake similar initiatives. These initiatives are typically difficult to assess and do not lead to obvious strategic or financial advantages. The initiative becomes infused with value as the number of organisations that adopt the initiative increases. Organisations that do not adopt the initiative risk loss of stakeholders' support, which may lead them to adopt the innovation after all (Abrahamson and Rosenkopf, 1993). Greenwood and Hinings (1996) also recommend a fast follower strategy to achieve long-term survival to prevent firms from drifting away from the prevailing institutional template. Scott (2001) emphasises the impact regulative, normative, and cultural-cognitive institutional factors have on organisations. Examples in the financial services industry include regulations on performing both banking and insurance activities, shared perceptions about risk avoidance, and organisational structures and accountability rules imposed by government regulations. Institutional effects on strategic renewal actions suggest our second proposition:

Proposition 2. From an institutional approach, an incumbent firm will mimic the renewal actions of other incumbent firms in its institutional environment.

Environmental selection theory

Resource-based theory asserts that firms have a capacity for outstanding short-term performances, but lack capacity for change in the longer term. Baden-Fuller and Volberda (1996: 11) indicate that, according to resource-based theory, 'Firms are stuck with what they have, and have to live with what they lack'. Overdeveloping current competencies may result in competency traps (Levinthal and March, 1993; Levitt and March, 1988) or core rigidities (Leonard-Barton, 1992; Burgelman, 1994). Population ecology views organisations as structurally inert and slow to change (Hannan and Freeman, 1984).

Individual attempts to renew decrease firm survival chances, whilst high reliability, accountability and reproducibility increase survival chances (Hannan and Freeman, 1989). Renewal patterns of firms in established industries are thus predominantly characterised by exploitation actions. Population ecology asserts that organisations should exploit their environmental niche. This also applies to times of environmental changes, as exploration sets back the liability of newness clock (Stinchcombe, 1965). Changing organisations encounter similar problems as newly founded organisations, and firm's performance levels and survival chances are threatened (Hannan and Freeman, 1984; 1989). This introduces our third proposition:

Proposition 3. From a population ecology approach, incumbent firms pursue exploitation actions over exploration actions to achieve high reliability, accountability and reproducibility.

Coevolutionary theory

The previous propositions are based on single-lens theories. A *coevolutionary approach* considers strategic renewal as the 'joint outcome of environmental selection, institutional, and managerial intentionality effects' (Lewin and Volberda, 1999). By considering strategic renewal actions of firms as coevolutionary interaction effects between multiple levels of analysis, the outcome of strategic renewal actions will deviate from the predictions derived from the single-lens theories. Figure 2.1 suggests differences between single-lens predictions and coevolutionary outcomes. In the empirical world, purely deliberate strategies will be as rare as actions that are solely driven by institutional or environmental selection pressures. Interaction effects between managerial agency, institutional, and environmental selection forces will lead to unforeseen deviations from single-lens predictions. We therefore propose that deviations from the first three propositions can be explained by using a coevolutionary approach:

Proposition 4. From a coevolutionary perspective, interaction effects of environmental selection, institutional effects at country level, and managerial intentionality at firm level explain deviations of observed strategic renewal actions of incumbent firms from predictions derived from single-lens theories.

The empirical research will in particular address the first three propositions and will highlight some of the empirical issues related to investigating the fourth proposition.

2.8 Conclusion

This chapter started by presenting three single-lens theoretical perspectives on strategic renewal. The managerial intentionality perspective acknowledges a potential for strategic renewal at firm level by developing adequate organisational capabilities and undertaking purposeful strategic action. The institutional perspective indicates constraining behaviour exercised by isomorphic forces. These forces exert pressures to conform to institutional practices and archetypical behaviour. According to environmental selection theories, strategic renewal is a population-level phenomenon during which a variation-selection-retention process selects best fitting organisational forms and practices.

We integrated these single-lens perspectives using a coevolutionary perspective, considering coevolution as the joint outcome of managerial intentionality, institutional and environmental selection effects (Lewin and Volberda, 1999). A coevolutionary framework of strategic renewal was developed that distinguished between deliberate and emergent strategizing. Deliberate strategizing relates to managerial intentionality, whereas emergent strategizing suggests institutional and environmental effects. We consequently developed a set of propositions that allow connecting multiple levels of analysis and informing on both adaptation and selection of firms' strategic renewal behaviour.

To investigate the propositions developed in this chapter, we need methods to examine strategic renewal at both the industry and firm level. Our next chapter explains how we designed a set of attributes that operationalise the construct of strategic renewal and that allow measuring strategic renewal behaviour of large incumbent firms, as well as assessing changing environmental selection and institutional forces in the environmental realm.

3 Methodology

Empirical coevolutionary research is a promising, but rather difficult, research venue. The definition of what constitutes evolutionary analysis in general is still developing (Greve, 2001), and, therefore, the definition of proper coevolutionary analysis is even more difficult to formulate. Analysing strategic renewal behaviour at different levels of analysis in itself is no sinecure. This study mainly focuses on understanding environmental selection, institutional, and managerial intentionality effects operating on strategic renewal behaviour of European financial incumbents, and offers some insights into coevolutionary interaction effects. As such, this chapter aims to develop a research methodology that allows distinguishing environmental selection, institutional, managerial intentionality, and coevolutionary interaction effects in strategic renewal behaviour. These theories have different apprehensions on how the ordering of firms within their environment occurs. The environmental selection and institutional perspectives link to the natural systems view in organisation science, which attributes order to emergent system behaviour. Managerial intentionality relates to the rational systems view and assumes that order or pattern in firms results from managerial decisions. To distinct between these effects, one should be able to assess the environmental and institutional 'laws in the background', as well as managerial 'contingency in the details' (Gould, 1989: 290, in McKelvey, 1997). Our methods are designed to, on the one hand, perceiving the overall pattern of events, and, on the other hand, acknowledging details in strategic renewal behaviour pointing at idiosyncrasies (cf. Tsoukas, 1994).

We start out by developing a set of methodological requirements that acknowledge principles of coevolutionary research. We then distinguish between the context, content, and process dimension of strategy and operationalise the strategic renewal construct by designing six attributes that relate to these dimensions. We consequently clarify our sector and country selection, construct our sample of financial incumbents and define the research period. We explain our coding procedure to track down and analyse strategic renewal actions by describing the coding methods and coding categories pertaining to the six attributes of strategic renewal. The reliability and validity of our approach is discussed next, and we explain our data mapping and analysis procedure. The final section presents methods to assess changing environmental selection and institutional forces by measuring patterns of diffusion of regulatory and technological developments.

3.1 Methodological requirements

Strategic actions are the central element of our strategic renewal definition (cf. 1.3.4) and coevolutionary framework (cf. 2.6). Our research questions (cf. 1.2) ask for, firstly, tracking down strategic renewal trajectories (research question 1), and secondly to

distinguish between environmental selection, institutional, and managerial intentionality effects (research question 2). Distinguishing between these effects, that play on different levels of analysis, require to pay sufficient attention to managerial action 'trees' without loosing sight on the environmental selection and institutional background forest 'laws'.
Our methods should therefore be designed to, firstly, detect *actions of strategic renewal* to determine an organisation's *realised* strategy (cf. Mintzberg and Waters, 1985; Weick, 1995). Secondly, our view of strategic renewal as a *strategic action pattern* asks for addressing the time dimension. To understand similarities and differences in strategic renewal behaviour between firms, our methods should thirdly allow for *cross-firm comparisons*. Fourthly, our methodology should allow understanding and distincting the various adaptation and selection effects distinguished in the second chapter. We now discuss these four implications more extensive.

Realised strategy

Realised strategic actions are the starting point in operationalising the strategic renewal concept. We concentrate on realised actions, as it is the acts of managers, and not their plans or intentions, that explains success (Weick, 1995). Prescriptive schools of thought conceive of strategy as what managers plan, or intend, to do in the future. Consequently, strategy is considered as a process in which implementation follows formulation. Descriptive schools of thought construe strategies from identifying patterns in streams of behaviour (Mintzberg and Waters, 1985). We follow this descriptive school and design our methods to capture an organisation's *realised* strategy by disclosing the pattern of strategic actions over time. This action stream allows discerning patterns of strategic renewal behaviour and gives historical validity to the process of strategic renewal. These strategic renewal patterns contribute to answer our first research question: How do large multi-unit firms renew in an increasingly turbulent environment?
How to collect data on strategic renewal actions is an important methodological decision. Organisation researchers apply a variety of methods to study strategic change processes. One method is to ask managers to identify past events using questionnaires or semi-structured interviews. Cooperation of the company and access to top-level executives is critical in this approach. This makes studying a large and international sample of firms over a rather long period of time difficult. Reconstructing renewal trajectories from managers' recollection runs the risk of failure to adequately remember and date past events (Morris, 1994), and to attribute rational explanations to past decisions resulting in retrospective sense making (Weick, 1988; Weick and Daft, 1983).
A second approach is to construct a comparative longitudinal case study in which companies are studied on several occasions during a number of years (cf. Pettigrew and Whipp, 1991; Dougherty and Hardy, 1996; Leonard-Barton, 1990). Our research questions

however require studying a large sample of companies over a rather long period. Time and monetary constraints render this approach unfeasible.
A third method builds on the notion that organisations leave traces. This allows tracking down renewal trajectories from communication media including television and radio sources, newspaper articles, the Internet and company reports. Miller and Friesen (1980) applied this approach in their study to identify archetypes of organisational adaptation and used books to compile organisational histories of 36 firms over a twenty-year period. They argued that the 'only manageable way to do this is using detailed published organisational histories in the form of books' (Miller and Friesen, 1980: 272). Other studies that investigated temporal changes across firms (e.g., Smith, Grimm and Gannon, 1992; Meyer, Goes and Brooks, 1993; Webb and Pettigrew, 1999) also used contemporaneous archival sources. We will apply this method, as it proved to be an efficient data collection strategy that overcomes much of the shortcomings of questionnaires or case studies as described above, and decreases financial and time constraints.

Strategic renewal as a pattern of strategic actions

The tradition of much research addressing issues of strategic change examines the variance of external conditions and organisational forms conducive towards strategic change (Miles and Snow, 1994). These research efforts focus on change as a discrete event rather than as an ongoing process, and typically employ comparative statics. Analytical approaches centered on comparative statics however are less suited when they are used to explore dynamic, or evolutionary phenomena such as the processes of strategy formulation and implementation (Mintzberg and Westley, 1992), or organisational change (Miller and Friesen, 1980).
Studies of strategic change processes can be designed in various ways. Van de Ven (1992) distinguishes three commonly applied methods to study strategy processes. The first is a logic used to explain a causal relationship between dependent and independent variables in a variance theory. The second comprises a category of concepts that refer to individual or organisational actions. The third approach is 'a sequence of events or activities that describes how things change over time' (Van de Ven, 1992: 170). In describing and analysing processes of strategic renewal, 'motion pictures' of the process are clearly preferred to making a couple of snapshots (Pettigrew and Whipp, 1991: 31). We therefore apply the third approach.

Cross-firm and longitudinal comparisons

The cross-sectional approach refers to studying strategy renewal processes across a number of firms at a given point in time (Porter, 1991). This approach is mainly suited to execute comparative studies of static situations. However, this does not render insight into the chain of causality of different strategic renewal processes and their outcomes. One should

move further back in the chain of causality to understand the dynamics of the renewal process (Porter, 1991). We thus designed our methods to capture both a longitudinal and a cross-sectional dimension in studying strategic renewal behaviour.
In summary, our methods are designed to:

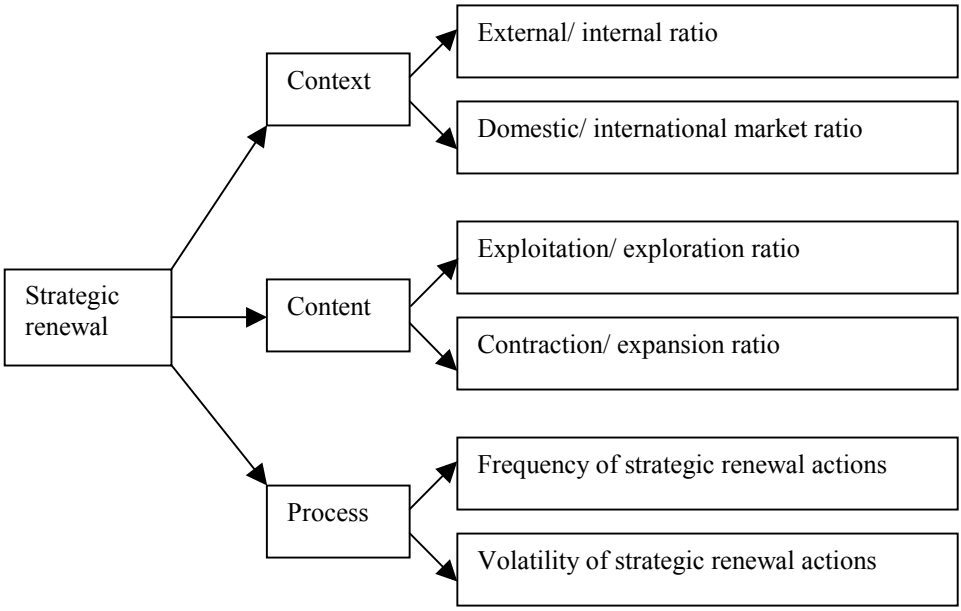
- Measure *realised* strategy (cf. Mintzberg, 1979; Mintzberg and Waters, 1985), using *contemporaneous* data that allows
- Execution of both *longitudinal*, and
- *Cross-sectional* analyses (cf. McKelvey, 1997; Lewin and Volberda, 1999; Dean, Carlisle and Baden-Fuller, 1998).

The first step in satisfying these requirements is measuring realised strategy. The next section operationalises the strategic renewal construct. To this end, we distinguish between the context, content, and process dimension of strategic renewal and develop a set of attributes relating to these dimensions.

3.2 Operationalising strategic renewal

We defined strategic renewal as the strategic action pattern to keep organisation and environment aligned. We theorised how strategic actions come about by developing a coevolutionary framework of strategic renewal actions (Figure 2.1), and distinguished between emergent and deliberate strategies. Emergent strategic actions are realised without intentions and link to institutional and environmental selection effects, whereas deliberate strategies materialise as intended and as such refer to managerial intentionality. The coevolutionary nature of this study requires developing metrics that allow to distinct between these three effects. We operationalise strategic renewal using six attributes. These attributes relate to three dimensions of strategy (cf. Pettigrew, 1988; and Mintzberg, 1990) and comprise the context, content, and process of strategic renewal. The context dimension regards the 'where' question of strategic renewal – that is, the environments in which firms operate – and reflects the fact that strategies do not arise from an organisational vacuum. The content dimension concentrates on the 'what' question, whilst the process dimension concerns the 'how and when' of strategic renewal. Attributes relating to the context and content of strategic renewal distinguish between different classes of actions. The process dimension refers to the temporal character of strategic renewal and assesses the frequency and volatility of strategic renewal actions.
The six attributes are 1) internal versus external strategic actions, 2) domestic market versus international market actions, 3) exploitation versus exploration actions, 4) contraction versus expansion actions, 5) the frequency, and 6) the volatility of strategic renewal actions. Figure 3.1 presents an overview of the three dimensions of strategic renewal and the six strategic renewal attributes.

Figure 3.1 Dimensions and attributes of strategic renewal



We next explicate these six attributes and indicate their theoretical and practical relevance. Regarding theoretical relevance, we aimed to develop attributes that cover fundamental theoretical issues of strategic change. We sought to secure practical relevance by embedding our attributes in the empirical reality. As such, the attributes are related to managerial challenges faced by incumbents operating in the European financial services sector (Flier et al., 2001).

Context

The context dimension is measured by two attributes; the external/ internal ratio and the domestic/ international market ratio. The external/ internal ratio is defined as the number of external strategic renewal actions divided by the total number of actions over a time period. External actions involve parties outside a firm's boundaries in implementing strategic renewal, and include mergers, acquisitions, joint ventures, and cooperative agreements. Internal actions take place within the firm and comprise greenfield investments, the launch of a new line of services, and rationalisations. The process of importing external units into the organisation, or selling internally developed units to other organisations, links the intraorganisational and interorganisational levels of analysis. Institutional approaches highlight isomorphism regarding internal and external renewal actions of firms that operate in the same institutional context. Other literatures however

endow management power to determine its own balance of external and internal actions. Penrose (1959) distinguished between internal versus external growth through acquisitions, and suggested that idiosyncratic managerial resources might result in firm specific balances of external and internal actions. Managerial intentionality suggests internal variation as a means to overcome environmental selection processes. Burgelman (1996: 20) pointed out that 'surviving firms effectively substitute, to some extent, internal selection for external selection'. Top management may stimulate the development of promising internal renewal activities by giving front-line management initiatives incentives to do so (Angle and Van de Ven, 1989; Burgelman, 1983; 1994). According to this approach, the internal selection environment serves as the catalyst of renewal (Galunic and Eisenhardt, 1996), in which top management acts as retrospective legitimiser (Burgelman, 1983) or judge and arbiter. Regarding external actions, networks and alliances are important vehicles that may provide external renewal opportunities (Thorelli, 1986; Hamel, 1991; Koza and Lewin, 1999). This measure not only has theoretical, but also practical relevance. The deregulation of financial activities, and increasing integration and convergence across European countries offered new opportunities to enter new markets on both the domestic and international market. It is of strategic importance to decide on acting on these opportunities autonomously (internal actions), or cooperate or merge with external parties (external actions).

This links to the domestic versus international market ratio, our second attribute covering the context of strategic renewal. Domestic market actions take place on the organisation's domestic markets, whereas international market actions are executed across the border. Typically, literatures on internationalisation focus on the 'how' and 'when' of internationalisation processes. Vernon (1966) for instance described sequential modes of internationalisation, and Buckley and Casson (1976) concentrated on the choice between exporting and foreign direct investment as means of internationalisation. Bartlett and Ghoshal (1995) summarise the motivations for going abroad, which captures the strand of internationalisation literature that addresses the 'why' question. The practical relevance of this attribute is related to financial incumbents' responses to changes in the European financial landscape. Our research sample (cf. Table 3.1) is constructed of incumbents from seven European countries that are confronted with significant environmental changes and increasing convergence across formerly segregated European financial systems (see Chapter 4). Firms may respond in different ways to these changes. For example, do they act on these changes by expanding internationally, or instead concentrate on the domestic market to defense established positions? Our empirical section investigates these questions in greater detail.

Content

The exploration/ exploitation ratio and the contraction/ expansion ratio comprise the content dimension of strategic renewal. The exploration/ exploitation ratio is the third attribute and is based on March's (1991) distinction between exploration and exploitation. The exploration/ exploitation ratio is defined as the number of exploration actions divided by the total number of strategic actions over a time period. Exploitation is primarily related to refinement and efficiency, which relates to environmental selection. March (1991: 71) pointed out that exploration 'includes search and variation'. According to environmental selection theories, strategic renewal is highly constrained by resource scarcity and structural inertia. Institutional approaches emphasise that successful firms undertake similar strategic renewal activities and aim their actions at strengthening and exploiting existing core competencies. This contrasts to theories focusing on managerial intentionality, which suggest that firms can and do overcome their rigidities by behaving differently and exploring new competencies. The balance of exploration to exploitation actions is linked to changes in the population of organisations (March, 1991; Levinthal and March, 1993; Lewin, Long and Carroll, 1999), and as such also signals multi-directional causalities.

The fourth attribute is the contraction/ expansion ratio. Contraction actions are actions that decrease activities, whereas expansion actions increase activities. The theoretical relevance of this concept is largely covered by literatures connected to the first three attributes, and is introduced to be able to distinct retreating actions from those that aim to expand an incumbents' activities.

Process

The last two attributes of strategic renewal relate to the process, or temporal, dimension, and concern the frequency and volatility of strategic renewal actions. In hypercompetitive environments, success is often tied to speed (D'Aveni, 1994). Managers often act prudently and wait until environmental turbulence reaches a critical threshold before responding. This often results in organisational inertia (Hambrick and D'Aveni, 1988) and increasing environmental selection pressures. As such, concurrent or delayed acting can be related to institutional theory and environment selection, whilst proactive or firm specific frequency or volatility suggests managerial intentionality. The fifth attribute is the frequency of strategic actions, measured as the number of strategic actions undertaken by an organisation during a time period. The final measure concerns the volatility of strategic renewal actions, which is the standard deviation of a strategic renewal ratio over a time period. The practical relevance of assessing frequency and volatility of strategic renewal actions relates to the timing and intensity of incumbent firms to environmental changes. Depending on how incumbents perceive the organisation-environment link and the seriousness of environmental changes, they may undertake many or few actions in times of

change. These differences are indicated by the frequency of strategic renewal actions. Likewise, some firms may opt for a stable pattern of strategic renewal actions, whereas others ride a rollercoaster change pattern. The volatility of strategic renewal actions assesses these differences.
Section 3.6 explains in detail how we designed our methods to measure these attributes. We however first justify our country and sample selection, and sources of data.

3.3 Sector and country selection

We selected the European financial services sector as our research site. We note four reasons to select this sector. First, the financial services sector is profoundly important to the economies of many Western European economies. Financial services firms account for seventy-two out of the top three hundred quoted European companies (Financial Times, 1999) and their importance in market capitalisation is even greater. Second, financial services firms are much reported in the media because of their significance. This allows second sourcing of data. Third, the European financial services sector has recently been confronted with significant environmental jolts, which have challenged top management to think of strategic renewal as an ongoing journey instead of a destination. The past decade witnessed the introduction of a single European market permitting cross border mergers and alliances and the breaking down of barriers between banking and insurance sectors (Flier et al, 2001). At the same time, firms had to adapt to the deregulation of capital markets, new European directives, and changing rules of corporate governance such as the introduction of new rules of compliance. In 1999, companies were faced with the introduction of the Euro. In the midst of these structural changes, established banks and insurance companies had to embrace new information and communication technologies and electronic commerce. These developments blurred the boundaries between the formerly separated financial services sectors of banking, insurance, and securities, and of adjacent industries such as telecom and retail. These developments led to an emerging industrial complex focused on financial services, making strategic renewal an important issue for financial corporations (Hensmans et al., 2001). A fourth argument is that the financial services industry has become a competitive and dynamic environment in which many large, established multi-unit firms operate. This makes this sector an excellent real-life laboratory for studying strategic renewal processes (cf. Bourgeois and Eisenhardt, 1988; Wooldridge and Floyd, 1990; Pennings and Harianto, 1992; Webb and Pettigrew, 1998).
We selected seven European countries that differ considerably in history, market structure, and competitive landscape. This enables to study the influence of differences in national institutional contexts on strategic renewal behaviour. Six out of the seven selected

countries are European Union (EU) members: France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom. Norway is no EU member.

3.4 Sample selection and research period

Our sample was selected from large, established European financial services firms. Large financial incumbents have had to deal with substantial changes in their environment, allowing studying the effects of changing environmental conditions on firms' strategic renewal behaviour. As these firms typically have been in existence for several decades and have a relatively large size, they have accumulated legacy and inertia to serve as examples of how incumbents deal with internal barriers to change. Differences pertaining to the national institutional environments in Europe allow discerning institutional pressures operating on firm's strategic renewal behaviour. Managerial intentionality effects are assumed to result from intentional behaviour of incumbents' management to adapt their organisation to environmental changes. A practical consideration for selecting large, market-leading incumbents is that their strategies are reported most in the media (Fombrun and Shanley, 1990), which generates sufficient data. We thus decided to study the largest financial corporations in each of the seven countries to maximise the amount of research materials. The companies meet the following additional requirements:

- The company has its annual reports (or at least the Letter to the Shareholders) printed in English;
- The company is mentioned in the Financial Times database;
- The company is present in the Worldscope database.

The resulting sample is presented in Table 3.1. The research period starts in 1990, which is the first year in which secondary data was made available in the on-line Financial Times database that we consulted. The research period ends in 1997. This eight-year period should be sufficiently long to discern different patterns of strategic renewal behaviour, and generates a feasible amount of research data to analyse. To be more precise, this eight-year time period resulted in 45,788 Financial Times newspaper articles and 240 Annual Reports to be analysed for strategic action content. We now comment on our data source selection.

Table 3.1 Research sample

Organisation	Country	Industry*
1. Axa	France	Insurance
2. Banque Nationale de Paris	France	Banking
3. Paribas	France	Banking
4. Société Générale	France	Banking
5. UAP	France	Insurance
6. Allianz	Germany	Insurance
7. Commerzbank	Germany	Banking
8. Deutsche Bank	Germany	Banking
9. Dresdner Bank	Germany	Banking
10. Banca Commerciale Italia	Italy	Banking
11. Cariplo	Italy	Banking
12. Credito Italiano	Italy	Banking
13. Generali	Italy	Insurance
14. INA	Italy	Insurance
15. Abn Amro	Netherlands	Banking
16. Aegon	Netherlands	Insurance
17. Fortis	Netherlands	Insurance
18. ING	Netherlands	Insurance
19. Rabobank	Netherlands	Banking
20. Christiania	Norway	Banking
21. Den Norske Bank	Norway	Banking
22. Storebrand	Norway	Insurance
23. Union Bank of Norway	Norway	Banking
24. Handelsbanken	Sweden	Banking
25. S-E-Banken	Sweden	Banking
26. Skandia	Sweden	Insurance
27. Swedbank	Sweden	Banking
28. Barclays	United Kingdom	Banking
29. Lloyds TSB	United Kingdom	Banking
30. Prudential	United Kingdom	Insurance

* Note: Industry is defined by the Primary SIC Code of the organisation (source: Worldscope, 1998).

3.5 Sources of data

Our data was collected from both secondary and primary sources. Secondary sources include company and press agency reports. Company reports regard the Annual Report, and more specifically the Letter to the Shareholders. The Letter to the Shareholders was selected for its concise summary of the year, and reports on strategic actions that were deemed most important by the Top Management Team.

The Financial Times comprises press agency reports. We chose the Financial Times above potentially more detailed national sources (e.g., the Dutch Financieele Dagblad) to prevent differences stemming from using different sources for each country and to overcome

linguistic problems. The Financial Times moreover is one of the prime business newspapers in Europe that extensively covers moves of European financial services companies. Financial Times articles are accessible through an easily searchable and downloadable on-line database that covers our entire research period, allowing for an efficient selection and downloading procedure of relevant articles.
The primary source is interviews with top management team members of a selection of firms in our sample. We used these interviews to validate our findings and gain additional understanding on our findings based on secondary sources. The next section indicates how we retrieved and coded strategic actions from our sources.

3.6 Coding methods

Our methods were designed to retrieve and code strategic actions. The literature has not reached consensus as to what constitutes a strategic decision or, in our terminology, action (cf. Dean and Sharfman, 1996) as the strategy concept is not unambiguously defined in strategic management (Mintzberg, 1990). Exhibit 3.1 presents an overview of definitions of strategic actions and related concepts.

Exhibit 3.1 Definitions of strategic actions and related concepts

Quinn (1980) considered decisions 'strategic' when they determine the overall direction of the firm.

Mintzberg et al. (1976) characterised strategic decisions as committing substantial resources, setting precedents, and inducing less important decisions.

Hickson et al. (1986) described strategic decisions as ill-structured, nonroutine and complex.

Schwenk (1988) considered strategic decisions to be 'substantial, unusual, and all-pervading'.

Ferrier, Smith, and Grimm (1999: 378) 'assume that if an [competitive] action was reported as news in major media outlets, it represented a significant, newsworthy deviation from the acting firm's normal routines and actions'.

Building on these notions, we sought to construct a definition that includes realised actions and are of strategic importance to the organisation. We thus defined a strategic action as *a realised action that transcends daily operations and impacts the overall*

behaviour of the organisation. Such processes typically include mergers and acquisitions, joint ventures, new business ventures, and sale or closure of businesses and activities. Although this definition seems rather generic, coders had no trouble in identifying strategic actions.

We tracked down strategic actions by compiling all clippings in our sources that mentioned strategic actions of our sample firms using Sage's NUD*IST software package. NUD*IST is the abbreviation of *Non-numerical Unstructured Data Indexing, Searching, and Theorizing*. It was developed by Sage to analyse qualitative, unstructured texts (Richards and Richards, 1991). In comparison to non-automated procedures, NUD*IST facilitates the consequent ordering of data per theme (in our study per strategic action). It allows viewing the context of selected texts ('Jump to Source'), enables to relocate data to another node in the index tree (for instance, to the year in which the action materialised), and features memos that can be attached to nodes to explicate the coding decision of the information stored in a node. It also permits to quickly review the entire coding process. All data is digitally available, which makes the newspaper clippings and Letter to Shareholder 'browsable' and more easily accessible than having the data stored in print.

3.7 Coding procedure

Financial Times articles and Letters to the Shareholder were used to retrieve strategic actions undertaken by our sample companies. To enhance the quality of coding, coders read up on the companies to construct a frame of reference. Using annual reports, Internet, and other sources, a company overview comprising the company's history, its activities, and its geographic spread was composed. This document helped to grasp the legacy of the company and the sector and understand the context of strategic actions. Coders obviously further increased their understanding about the company during the data collection process as they read through hundreds of articles on the companies. We started the coding procedure only after all articles had been collected. This sequential process allowed coders to build up substantial knowledge about the researched companies before going into the coding stage.

As we wanted to record realised actions, our sources had to contain convincing argument that the action had been implemented. Thus, intentions, speculations, or rumours were not coded. Strategic actions that occurred in years outside our 1990-1997 research period were not coded as well. We proceed by describing how we selected relevant newspaper clippings from the Financial Times and text units from the Letter to the Shareholders to track down realised strategic actions.

Financial Times articles

The Financial Times database contains all articles published in the Financial Times from January 2, 1990. All potentially relevant newspaper clippings were retrieved by searching each of the eight research years (1990-1997) on company name. This resulted in an overview of all articles in which the company's name was mentioned. Many articles in which the company name appeared did not report on strategic actions, but contained stock prices, quotes of financial analysts working for a sample company, reports of company sponsored cultural activities and the like. To select relevant clippings, the articles were viewed by context. In this option, the line in which the company name appears is showed, as well as the previous and next line. This was usually sufficient to determine whether that newspaper clipping contained information on strategic actions. Coders browsed the entire article if they were not sure about the nature of the article. Selected newspaper clippings were consequently saved on disk as a text file.

As NUD*IST requires a strict text layout, we first edited the Financial Times text files in Word before importing them into NUD*IST. This included marking the header of the document according to NUD*IST specifications, highlighting the company's name to facilitate coding, and splitting the document into text units. A text unit can be a line, sentence, or paragraph, and is the smallest part of a document that can be coded and retrieved in the NUD*IST software package. For our data, we found 'sentences' the most appropriate text unit format. As the Financial Times standardly clefts sentences into lines by putting a paragraph mark after each line, we changed the text unit format into 'sentence' by placing paragraph marks after each sentence. The resulting text files were then imported in NUD*IST and ready for further analysis.

Letter to the Shareholder

We collected the Annual Reports of our sample companies for all of the eight research years (1990-1997). Because of the diversity of languages in our samples (Dutch, English, French, German, Italian, Norwegian, and Swedish), we chose to study the English version of Annual Reports[12]. As the Letter to the Shareholder must be made digitally available to be analysed in NUD*IST, we scanned these using a Hewlett Packard ScanJet 5200C scanner. The Hewlett Packard OCR (Optical Character Reading) software package, version 2.00, was used to convert the scans into text. The digitised Letters to the Shareholder were consequently saved to disk. Consequently, these documents were spelling-checked in

[12] We acknowledge that using the English translation of the original Annual Report (except of course for the British companies) could result in loss of information. The nature of the information we use however minimizes this risk, as we search for the factual reporting of strategic actions. It is unlikely this information is influenced by the language in which the action is reported.

Word and, just as the Financial Times documents, split up into one-sentence text units, after which they were ready to be imported into NUD*IST for further analysis.

NUD*IST coding procedure

Per company, sixteen text files were imported into NUD*IST. Eight contained Financial Times newspaper clippings for each study year, and the other eight comprised the yearly Letter to the Shareholder. The coding procedure consisted of three steps.

1. Retrieving and categorizing possible strategic actions into nodes,
2. Selecting realised strategic actions,
3. Coding realised strategic actions.

Retrieving and categorizing of text units

Once text files were imported into NUD*IST, the first step was to classify text units (sentences) into an index tree. An index tree consists of nodes and serves to organise large data files. Nodes are containers for thinking about data (Richards and Richards, 1991). The hierarchy of our index tree descended from company, to year, into strategic action nodes. Obviously, the company names and years could be defined in advance. The strategic action nodes emerged during the coding process. We now describe this coding process.

We browsed the Word edited Financial Times documents in NUD*IST year by year. Texts referring to potential strategic actions were saved in action nodes (e.g., node 1 1 1[13]: Merger ABN Amro). We chose to list *potential* strategic renewal actions to capture all actions that had potential to become implemented. These included rumours, speculation, company plans, and the like. This allowed to retrieve all potentially relevant text units and did not force the coders to make an a priori decision whether to code an action or not. Text units that referred to that same strategic action in subsequent newspaper clippings were stored as well in this same node address. We applied this same procedure to the Letter to the Shareholders. That is, coders read through the entire Letter to the Shareholders and stored text units that made reference to a potential strategic action in the corresponding node address (if that action was also mentioned in the Financial Times), or made a new node address (in case the action was not mentioned in the Financial Times). This resulted in an easily accessible collection of nodes that contained all information reported in both the Financial Times and the Letter to the Shareholder.

[13] 1 1 1 is the node address in NUD*IST. The first '1' denotes the company, ABN Amro. The second '1' indicates the year, 1990. The third '1' refers to the action number, 1. The next action node would be labeled 1 1 2, andsoforth. Consequently, in the Dutch NUD*IST project, node address 2 3 4 is: '2' company: Aegon; '3' year: 1992; '4': action # 4 reported in our sources in that year.

Selecting realised strategic actions

The collection of strategic action nodes was consequently reviewed to determine which were actually implemented. We checked our sources for convincing evidence that actions had materialised during our study period. Convincing evidence included actions described in the past tense (Last month, Axa opened a representative office in Mexico), or being confirmed in a later article (an acquisition that was announced in one Financial Times article and being confirmed in an ensuing article). This resulted in a list of realised strategic actions per company and research year. Actions that did not materialise and/or did not take place in the study period were thus not coded.

Coding realised strategic actions

We defined a set of coding rules and arrived at an intercoder reliability of 91%. Teams of two trained coders then coded realised strategic actions. Most of the materials have been co-coded by the author, who was assisted by doctoral students. These students were selected from a doctoral course in which the coding procedure had to be applied, and were trained by the ESRC to prepare them for the practice of coding. The first step was to individually code realised strategic actions. In the second step, coders compared their coding results. In case of discrepancy, the coders checked each other's argumentation. If one coder appeared to have made a coding mistake, (s)he would be corrected by the other. If coders could not agree on the coding of a category because of lacking evidence in our sources, they entered a 'missing value'.

The set of realised strategic actions was coded for four dichotomous categories; internal versus external, domestic market versus international market, exploitation versus exploration, and contraction versus expansion. Since coding is dependent on the availability of data, strategic actions were coded insofar our sources provided sufficient detail to code an action. Thus, missing information sometimes resulted in three of four coding categories being coded. We now describe these coding categories in greater detail.

3.8 Coding categories

Our coding categories are based on the strategic renewal attributes that were developed in section 3.2. The four resulting coding categories are (1) internal versus external actions, (2) domestic versus international market, (3) exploitation versus exploration actions, and (4) expansion versus contraction. We discuss these categories in more detail.

Internal versus external

Strategic actions are firstly classified as either internal or external (cf. Penrose, 1959; Coase, 1937; Williamson, 1975). Internal strategic actions are defined as renewal attempts that originate from within the firm. Examples are start-ups, greenfield investments,

obtaining licenses, and spin-offs. External strategic actions are defined as strategic activities undertaken in conjunction with other organisations. These include mergers, acquisitions, alliances, joint ventures, and divestitures.

Domestic versus international

Strategic actions are secondly categorised as either domestic or international market actions (cf. Ansoff, 1987; Porter, 1991; Mintzberg, 1988). Domestic market actions are aimed at an organisation's home country, which is defined as the country in which the headquarters are located. All other markets are defined as international markets[14].

Exploitation versus exploration

Thirdly, strategic actions are labeled as either exploitation or exploration (cf. March, 1991; Levinthal and March, 1993). March (1991: 85) described exploitation as 'the refinement and extension of existing competencies, technologies, and paradigms'. Exploitation actions specialise, rationalise, or elaborate on the current range of activities. Exploitation actions include cost savings, growing scale such as an investment bank acquiring another investment bank to grow scale, and specialisation as is the case when a wholesale bank is focusing on retail banking. Exploration is related to experimenting with technologies, ideas, paradigms, knowledge, and strategies trying to find new ways to age old problems (March, 1991). Exploration is defined as adding new activities to the current repertoire of activities, making new, innovative combinations of current activities, or expanding the geographic scope of an organisation's markets[15]. Examples include establishing an Internet outlet, an insurer going into banking, and entering the Asian market.

Contraction versus expansion

Strategic actions are fourthly classified as either contraction or expansion. Contraction actions decrease the current range of activities. Such actions include divestments, closing offices, and dissolving alliances. Expansion actions extend the current range of activities. These comprise acquisitions, greenfield investments, and opening a new distribution channel.

[14] In case a company has two headquarters that are based in two countries (e.g., Fortis: Belgium and the Netherlands), these two countries are regarded as the home market.

[15] In the context of the financial services sector, entering foreign markets requires new competencies to cope with new institutional environments, regulations, and business practices of foreign clients (Sivula et al., 2001).

3.9 Resulting measures

The coding results have been stored in a database. This database contains the realised strategic actions of our thirty sample companies. The data comprise 'core' strategic action data, derivative variables, control measures and contextual data.

Core variables

The strategy type and six derivative variables constitute our core variables. The four coding categories of realised strategic actions – internal versus external, domestic versus international, exploitation versus exploration and contraction versus expansion – theoretically result in $2^4 = 16$ strategy types. Since exploration contraction actions do not exist by definition, twelve strategy types remain. These are explicated in Table 3.2.

Table 3.2 Twelve strategy types

Strategy type	Coding key	Coding description
A	0000	Internal, domestic market, exploitation, contraction action
B	1000	External, domestic market, exploitation, contraction action
C	0100	Internal, international market, exploitation, contraction action
D	1100	External, international market, exploitation, contraction action
E	0001	Internal, domestic market, exploitation, expansion action
F	1001	External, domestic market, exploitation, expansion action
G	0101	Internal, international market, exploitation, expansion action
H	1101	External, international market, exploitation, expansion action
I	0011	Internal, domestic market, exploration, expansion action
J	1011	External, domestic market, exploration, expansion action
K	0111	Internal, international market, exploration, expansion action
L	1111	External, international market, exploration, expansion action

In analysing strategic renewal behaviour, we will predominantly use the relative use of *strategy types* instead of nominal counts of strategy types. The relative use, or percentual division, of strategy types is computed by dividing the number of actions of a strategy type by the total number of actions. This measure is more useful for cross-firm comparisons, as it corrects for differences in the number of realised strategic actions.

Strategy types are the concatenation of the four categories of strategic acting. Four *ratios* have been derived from these categories: the IE (Internal actions/ (internal + external actions) ratio, DI (Domestic actions/ (domestic + international actions) ratio, IR (exploitation/ (exploitation + exploration actions) ratio, and CE (contraction/ (contraction + expansion actions) ratio. The strategy types and ratios enable to evaluate the pattern of strategic acting within a single firm (for instance, the IE ratio over the eight-year research period or the percentual division of strategy types over time), and to make comparisons

across organisations (for example, the IE ratio of one firm versus other firms' average over a time period). A third measure is the *frequency* of strategic actions. This measure consists of the number of strategic actions undertaken by an organisation during a time period. A final measure concerns the *volatility* of strategic renewal actions. The volatility is based on the standard deviation of the division of strategy types, or ratios, over a time period.

Additional variables

The *organisation* size variable, measured as the number of employees within a year (cf. Miller & Chen, 1996), is taken from Worldscope. The *industry* variable is derived from the primary Standard Industry Classification (SIC) code as listed in the Worldscope database and is either Banking or Insurance. The *country* variable denotes an organisation's home base, defined as the country in which the headquarters are located[16]. The *time* variable is the year of observation.

Table 3.3 Core and additional variables and their measurement

Variable	Measurement
Core variables	
Strategy type	Concatenation of four categories of strategic actions, resulting in 12 discernable combinations
IE Ratio	Internal actions/ (internal + external actions)
DI Ratio	Domestic actions/ (domestic + international actions)
IR Ratio	Exploitation actions/ (exploitation + exploration actions)
CE Ratio	Contraction actions/ (contraction + expansion actions)
Frequency	Number of actions within a year
Volatility	Standard deviation of division of strategy types, or ratios, over a time period
Additional variables	
Organisation size	Number of employees in year t
Industry	Main industry in which the organisation operates, based on primary SIC code (Banking or Insurance)
Country	Country in which headquarters are located
Year	Year of observation

3.10 Reliability and validity

How can we be sure that the events reported in our sources represent organisational reality (cf. Stablein, 1996)? The use of two sources allowed comparing Financial Times reports to accounts in the Letter to the Shareholders. As the Letter to the Shareholders focuses on key

[16] The only exception is Fortis. It has a full-fledged organisation (including separate headquarters) in both Belgium and The Netherlands.

events, we could not trace all actions that were reported in the Financial Times in the Letter to the Shareholders.

We used the Financial Times and the Letter to the Shareholders to track down, date, and code renewal actions. To avoid logging proposed actions and speculative reports, our method was designed to select actions of which we had convincing evidence to have been realised (cf. 3.7.5). Companies have a legal requirement to give a proper overview of key events in the Annual Report. This convinced us that actions reported to be realised in the Letter to the Shareholder were in fact implemented. In case an action mentioned in the Financial Times was not reported in the Letter to the Shareholder, we consulted other sections of the Annual Report to validate the action. Combined with the factual nature of reporting[17], we were confident that our coding system recorded actions that were indeed realised.

Our companies went through a continuing series of multi-level changes, ranging from drastic events such as merging with another company, more common incidents like bringing new products to the market, to less significant incidents such as changing the head office design. We acknowledge that our data collection method inevitably leads to missing some of these events, as not all actions are being reported in the Financial Times or Letter to the Shareholders. We expect, however, marginal activities are less likely to be reported than those of greater significance. As marginal projects are subject to the same potential bias, and since actions are evaluated in terms of their ratios rather than counts, interpretation problems caused by this potential bias are largely avoided. Moreover, other methods suffer from the same shortcomings. We already mentioned that using memory as the prime source of data collection runs the risk of creating retrospective sense making (Weick, 1988; Weick and Daft, 1983). Relying on memory to track down events that occurred ten years ago makes it difficult to be certain about the exact timing of events, and will probably lead to signaling only those that were important in hindsight and thus easily remembered. Our contemporaneous data collection strategy also overcomes potential difficulties of using different case writers to study different banks, which may cause problems in making cross-firm comparisons.

We considered using other sources. We investigated strategic renewal actions reported in a local Dutch financial newspaper, Het Financieele Dagblad (HFD) and found that all actions reported in the Financial Times (FT) were also reported in HFD. Actions reported in the FT were predominantly on the strategically important corporate level, whereas actions reported in HFD also regarded divisional and business unit actions of less strategic value. The FT thus had more concise reporting than the more elaborate HFD.

[17] Examples of the nature of reporting include: 'Last week, Deutsche Bank agreed to buy Banca Popolare di Lecco'; 'Barclays has sold its Danish car, farm, and business financing and leasing operation to Alm Brand, a Danish banking and insurance group'.

We recognise that there are potential biases in our data. For example, The London Financial Times paid more attention to Dutch banks in later years than in early years, and paid more attention to the quoted banks rather than unquoted banks such as the Rabobank. However, including the Letter to the Shareholders compensates this effect. We moreover found that the Financial Times gives a higher priority to reporting strategic actions in relation to other, for this research less relevant, news. This corrects differences in reporting frequency across companies and years.

Classification schemes should be reliable in terms of consistency and reproducibility (Weber, 1990). To maximise consistency, we designed a set of coding rules. Applying NUD*IST to systematically order our data in action nodes minimised chances of missing relevant passages. Using the Jump to Source option allowed us to view the context of important text units. This increased the coding quality. Using a pair of coders for each company offered to possibility to correct coding mistakes. We investigated reproducibility concerns by assessing interrater reliability, which was at a 91% level.

In addition to reliability, the classification scheme must be valid. This firstly regards the extent to which the variables that result from the classification scheme are correlated with some other measure of the same construct (construct validity). Secondly, the extent to which it 'behaves' as it is supposed to in relation to other variables (hypothesis validity) should be sufficient. Finally, the categorisation scheme should measure the construct it is intended to measure (face validity) (Weber, 1990: 18-21, in: Morris, 1994). In content analysis, semantic validity must also be demonstrated. This is the extent to which persons familiar with the language and texts agree that the list of words placed in the category have similar meanings or connotations (Krippendorf, 1980: 159ff). The validity of the human-coded content analysis schemes has primarily rested on the establishment of semantic validity through the use of multiple coders. The extent to which the coders agree on the categorisation of the text is presumed to provide an indication that the process used in the categorisation is valid. Establishment of stronger forms of validity such as construct validity is difficult, as no good alternative measures exist for our construct (cf. Morris, 1994).

Some remarks on the coding procedure

Our coding procedure essentially measures contemporaneous data containing collective sensemaking and acting. We first note that Financial Times articles aren not necessarily independent from company sources (casu quo the Letter to the Shareholders). For example, press releases formulated by companies may have been printed unabridged in the Financial Times. We however argue that press releases printed in the Financial Times evidently have been deemed important enough to include or report on by the Financial Times editors. Reputational status and journalistic principles moreover require to check on the reliability of such press releases. As such, these reports are important from at least two perspectives:

the company and the financial press. Typically, articles on major companies are written by a group of specialist reporters who have substantial knowledge on a selection of companies. On the one hand, this creates an extra bias. On the other hand, these reporters should be better in selecting noticeable events on those companies.
The percentage of tags (i.e., number of articles which report on potential renewal actions) is inversely proportional to the number of hits. This means that articles that report on strategic change actions (which are to be tagged) have a higher chance of being reported than 'less relevant' statements on a company. This reduces the bias relating to underreporting or overreporting of respectively less popular (e.g., unquoted) and more popular (e.g., large British) companies.
Finally, we noticed a bias concerning the type of actions being reported in our sources. Actions reported in the Letter to the Shareholders, which was selected for its concise overview of the year, mostly concern corporate level actions. The Financial Times publishes events that are of interest to its audience. These events also typically concern the corporate level. Thus, division or business level actions are underreported in our sources. Another reason for finding predominantly corporate level actions stems from our article selection procedure. Financial Times articles were searched by company name (e.g., ING). Articles that reported on actions of divisions (e.g., Postbank or Nationale Nederlanden) and did not include the compay name were thus not found. This bias is consistent for all firms.

3.11 Data mapping and analysis

Menard (1991) describes three ways in which longitudinal quantitative data can be presented and analysed. First, the *numerical* display refers to counts of actions over a time period. We will apply this method by presenting tables to communicate counts or ratios of strategic actions. Second, data can be displayed *graphically* to detect and convey patterns that emerge from large data sets. We experimented with the display of our data using Tufte's (2001) *The Visual Display of Quantitative Information* as a guideline. The resulting graphics serve as a first step in detecting various effects operating on strategic renewal behaviour. Third, renewal patterns can be studied using *mathematical* (including statistical) methods. Statistical methods are used to test environmental selection, institutional, and managerial intentionality effects in strategic renewal behaviour.

3.12 Measuring patterns of diffusion of regulatory and technological developments

The European financial industry has experienced a series of environmental shocks that altered the selection environment. Global interdependencies of regional financial systems have increased, borders between banking, insurance, and securities have blurred, new entrants have entered the financial sector, and new technologies have had major

consequences on financial corporations. To estimate changes in the selection environment, we follow Haveman et al. (2001) and investigate the impact of developments in regulations and technologies across countries. We determine the implementation year of European Union (EU) banking regulations and significant technological innovations across European countries based on Gual (1999) and secondary data. This data is used to assess to what extent regulatory and technological changes were country-specific or industry-generic. Country-specific effects occur when the diffusion of new regulations and technologies differs across countries. This would indicate the existence of national institutional differences in European financial services. Industry generics refer to similar diffusion patterns across the financial services sector, independent of country. Industry generics point at the European industry environment determining environmental selection. We detail this procedure in the next chapter in which we investigate the changing landscape of the European financial services sector.

3.13 Conclusion

The firms examined in this study are large and complex and executed numerous actions. To sort out the key strategic actions we relied on top management's statements in the Letter to the Shareholders and on the financial press, i.e. the Financial Times. These sources provided concurrent documentation of strategic actions, which from two perspectives appeared to be significant. We essentially compiled a contemporaneous record of collective sense making of strategic actions from the point of view of the financial press and corporate decision makers. The analysis of strategic renewal behaviour will primarily focus at understanding environmental selection, institutional, and managerial intentionality effects, and further indicate coevolutionary interaction effects operating between levels of analysis.

Before we explore the strategic renewal behaviour of European financial services firms in greater detail, we investigate how the environment in which these firms operate has developed in the last two decades.

4 The changing landscape of the European financial services sector

The European financial services sector has changed dramatically during the last decade. This chapter aims to provide understanding about changes in the environment in which financial incumbents operate by studying strategic renewal from an outside-in perspective. Our central research questions ask to analyse strategic renewal behaviour of financial incumbents, and to distinguish between three different effects. This chapter takes an industry and country perspective on strategic renewal and estimates changing environmental selection and institutional forces in the European financial landscape. The object of this chapter is to investigate whether national financial systems that constitute the European financial sector are converging or diverging. Increasing industry-generic effects would indicate convergence, whereas intensifying country-specifics point at divergence. We secondly indicate how these changes may influence financial incumbents' strategic renewal behaviour.

Multiple forces are reshaping the European financial services sector. To understand the degree of congruence between national financial systems that constitute the European financial landscape, we start out by indicating basic characteristics of national banking structures. More specifically, we estimate the evolvement of capacity, profitability and concentration indicators in six national financial systems during the last decade. The findings indicate that national financial systems are in different stages of development, and that there appears to be sufficient room for further development of national banking structures. This first reconnaissance is followed by a cross-country study of the diffusion of new regulations and technologies (cf. Gardener and Molyneux 1990; Bikker and Groeneveld, 1998; Canals, 1999)[18], two major forces that have had significant effect on incumbent firms' strategic renewal behaviour. The results indicate both country-specific and industry-generic diffusion patterns of regulations and technologies. Patterns of national divergence are indicated by the fact that some countries consistently walking in front in implementing new regulations and technologies. On the other hand, the results indicate a development towards increasing speeds of diffusion across the investigated countries, as differences between countries in implementing more recent changes have grown smaller

[18] Taylor (1999) investigated three driving forces behind the revolution in the financial services sector: deregulation and privatisation, the introduction of new technologies and new products, and the entry of new competitors from other countries and industries. Canals (1997) discussed four factors that impact on the banking industry in industrialized countries: deregulation, globalisation, disintermediation and new competitors, and (information) technology. Yoffie (1997) discerns three drivers of digital convergence in financial services: regulations, technologies, and managerial intentionality.

during the research period. This suggests emerging convergence in European financial services. The consequence of increasing convergence illustrated by increasing consolidation in European financial services. We conclude by selecting three countries from which incumbents' strategic renewal behaviour will be analysed in the next chapter.

4.1 Basic characteristics of national financial systems

To assess general developments and difference and similarities of banking structures constituting the European financial landscape, we investigated the evolvement of capacity, profitability and concentration indicators in six national financial markets (cf. Groeneveld and Swank, 1998). Excess *capacity* proxies indicate the degree of rationalisation in national financial markets and reveals characteristics of the underlying structure of a country's financial sector. Profitability indicators estimate the level of competition within national financial systems. *Concentration* data indicate the evolvement of the process of consolidation of banking firms within national financial markets.

Financial services firms play a pivotal role in the functioning of an economy because of their intermediary role in the monetary system. We indicate their importance by calculating the total assets of credit institutions as a percentage of GDP. Table 4.1 shows that the significance of credit institutions increased substantially during the period 1985-1997 (ECB, 1999)[19]. Italy is an outlier, as it is the only country where the importance of credit institutions in terms of assets as a percentage of GDP declined.

Table 4.1 Assets of credit institutions (percentage of GDP)

Country	1985	1990	1995	1997	% change 1985-1997
France	177	216	224	245	+38.4%
Germany	185	220	223	256	+38.4%
Italy	167	133	150	155	-7.2%
Netherlands	141	190	194	227	+61%
Sweden	152	215	179	213	+40.1%
United Kingdom	194	228	296	328	+69.1%

Source: ECB (1999)

[19] We wish to note that the intermediary role of credit institutions is partly being taken over by institutional investors. As this process of disintermediation (the reduction banks' involvement in borrowing or saving activities) occurred in a period in which the pace of growth of financial assets outgrew GDP growth, the assets of credit institutions as a percentage of GDP increased (ECB, 1999).

Capacity of national financial systems

Excess *capacity* in European banking is used as an indicator of the underlying competitive structure of a country's financial services sector. Excess capacity is estimated by 1) the number of credit institutions, 2) the number of branches per 1,000 inhabitants, 3) the number of ATMs per 1,000 inhabitants, and 4) the number of employees per 1,000 inhabitants. High levels of excess capacity indicate room for consolidation of a country's banking structure in terms of these and other aspects. Table 4.2 shows the number of credit institutions. In all but one country, the number of credit institutions decreased. The most significant decrease was measured in Sweden. The number of credit institutions grew in the Netherlands, which can be explained by the already high degree of consolidation (both in absolute and relative terms) in 1985.

Table 4.2 Number of credit institutions

Country	1985	1990	1995	1997	% change 1985-1997
France	2105	2027	1469	1299	-38.3%
Germany*	4740	4720	3785	3578	-24.5%
Italy	1192	1156	970	935	-21.6%
Netherlands	81	111	102	90	+11.1%
Sweden	779	704	249	242	-68.9%
United Kingdom	n.a.	n.a.	564	551	n.a.

Source: ECB (1999)

* From 1990, eastern Germany has been included in the data.

The development of the number of branches is shown in Table 4.3. The number of branches decreased significantly between 1985 and 1997 in all countries except Italy. The enforcement of the Unified Banking Act as of September 1, 1993, which lifted the ban on the number of branches a bank was allowed to have (Gianni, 1998), explains the increase of branches in Italy. A country in which branch density is relatively high seems to have room for further rationalisation. These include Germany, France, the Netherlands and Italy (ECB, 1999).

Table 4.3 Number of branches per 1,000 residents

Country	1985	1990	1995	1997	% change 1985-1997
France	0.47	0.45	0.44	0.44	-6.4%
Germany	0.61	0.63	0.59	0.57	-6.6%
Italy	0.23	0.31	0.41	0.44	+91.3%
Netherlands	0.59	0.54	0.44	0.44	-25.4%
Sweden	0.42	0.38	0.30	0.29	-30.9%
United Kingdom	0.38	0.35	0.33	0.32	-15.8%

Source: ECB (1999)

The number of Automatic Teller Machines (ATMs) is the third indicator of capacity developments and is listed in Table 4.4. Over the period 1985-1997, the number of ATMs increased significantly across the six countries investigated. However, significant differences remain. Most remarkable is that Germany has almost twice as much ATMs per 1,000 residents than (the much less populated) Sweden.

Table 4.4 Number of Automatic Teller Machines (ATMs) per 1,000 residents

Country	1985	1990	1995	1997	% change 1990-1997**
France	0.16	0.26	0.39	0.42*	+61.5%
Germany	n.a.	0.18	0.44	0.50	+177.8%
Italy	n.a.	0.17	0.38	0.44	+158.8%
Netherlands	n.a.	0.18	0.36	0.38	+111.1%
Sweden	0.15	0.25	0.27	0.27	+8%
United Kingdom	0.18	0.25	0.29	0.38	+52%

Source: ECB (1999)
* Data from 1996; no data available for 1997
** Because of data unavailability, changes of the 1990-1997 period have been calculated.

The proportion of bank employees is the final capacity indicator (Table 4.5). This number remains relatively differentiated across the six countries, varying from a low of 4.93 in Sweden to a high of 9.16 in Germany (both figures of 1997). This differentiation suggests room for further staff reductions in especially Germany and the United Kingdom (ECB, 1999).

Table 4.5 Number of bank employees per 1,000 residents

Country	1985	1990	1995	1997	% change 1985-1997
France	7.71	7.63	7.05	6.89	-10.6%
Germany	9.46	11.1	9.28	9.16	-3.2%
Italy	5.66	5.92	6.23	6	+6%
Netherlands	7.54	7.86	7.13	7.19	+4.6%
Sweden	4.97	5.32	4.91	4.93	-0.8%
United Kingdom	8.03	8.98	7.98	9.07	+13%

Source: ECB (1999)

In conclusion, Tables 4.2-4.5 indicate a general trend of a reduction of excess capacity in the six countries during the period 1985-1997. However, some national banking structures seem to have more room to reduce excess capacity than other. This is most evident for France and Germany, which appear to have considerably higher levels of excess capacity in terms of the number of credit institutions, branches, and bank employees. Italy and the Netherlands showed excess capacity in branch density, and the United Kingdom in the average number of bank employees.

Profitability in national financial systems

The profitability of different national financial systems is estimated by the return on equity and by the return on assets. High levels of return suggest a high degree of profitability of a country's national financial system. The average return on equity was highest in Sweden and the United Kingdom, followed by the Netherlands and Germany in the 1990-1997 time period (Table 4.6). Italian and French financial firms generated significantly lower returns. The average return on assets (Table 4.7) paints a similar picture, although Italian financial firms are more profitable according to this calculation. This measure also confirms that France is the least profitable environment for financial services firms.

Table 4.6 Return on equity (net income as a percentage of equity)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**Av. '90-'97**
France	10.1	10.4	6.9	2.9	0.5	3.6	4.8	7.7	5.9
Germany	11.9	14.4	13.2	13.6	11.8	12.6	12.3	n.a.	12.8
Italy	12.2	9.9	7.5	8.8	3.0	3.7	5.1	3.4	6.7
Netherlands	12.3	12.7	13.9	15.9	16.2	17.0	17.6	n.a.	15.1
Sweden[20]	3.0	56.3	17	5.7	19.1	21.1	24.0	13.0	19.9
UK	14.4	8.6	7.3	19.3	27.4	28.6	25.6	26.4	19.7

Source: OECD, in: ECB (1999)

Table 4.7 Return on assets (net income as a percentage of total assets)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**Av. '90-'97**
France	0.3	0.4	0.3	0.1	0.0	0.2	0.2	0.3	0.23
Germany	0.5	0.5	0.5	0.5	0.5	0.5	0.5	n.a.	0.5
Italy	0.9	0.8	0.6	0.8	0.3	0.3	0.5	0.3	0.56
Netherlands	0.5	0.5	0.6	0.7	0.7	0.7	0.7	n.a.	0.63
Sweden[20]	0.2	3.1	0.8	0.3	1.1	1.3	1.3	0.7	1.1
UK	0.7	0.4	0.3	0.7	1.1	1.1	1.1	1.1	0.81

Source: OECD, in: ECB (1999)

In conclusion, profitability levels seem to vary substantially across different national financial systems. Apart from the maverick Swedish case (see footnote 2), the British financial market seems to be the most profitable environment for financial services firms. High levels of profitability in the British financial sector coincide with low levels of excess

[20] Swedish banks faced a severe financial crisis in the early nineties. The Swedish government restructured the financial sector by splitting distressed financial firms into 'good' and 'bad' banks. Low quality assets were placed into a special asset company; the 'bad' bank. The performing assets were retained in the 'good' bank (Macey, 1999). This obviously distorted profitability figures.

capacity (see section 4.1.1). The German and Dutch markets occupy an intermediary position in terms of profitability across the six countries, despite apparent overcapacity. The relatively low degree of domestic competition in these countries might explain these contradictory findings (cf. Groeneveld and Swank, 1998). The Italian and French financial sectors have the lowest profitability. Excess capacity, especially in French (cf. 4.1.1), and the high degree of government control – the French and Italian financial sectors were only privatised in the early nineties (cf. section 4.5.1) – might have reduced realizing higher profits (Groeneveld and Swank, 1998).

Concentration of national financial systems

The degree of concentration of national banking structures is indicated by the proportion of assets, casu quo loans, held by the five largest credit institutions per country. Low levels of concentration suggest room for consolidation in a country's financial market system. According to both indicators (Table 4.8 and 4.9), Swedish and Dutch financial sectors are most concentrated. The concentration ratios of the German and Italian financial sectors increased, but still have a long way to go compared to the Netherlands and Sweden[21]. The British financial sector also remains rather fragmented. France is an exception in that its concentration ratio decreased, despite of the restructuring of its financial services industry.

Table 4.8 Concentration ratio (assets of the five biggest credit institutions as a percentage of total assets)

	1985	1990	1995	1997	Change 1985-1997
France	46.00	42.50	41.30	40.30	-12.4%
Germany	n.a.	13.91	16.67	16.68	n.a.
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	n.a.	n.a.	27.00	28.00	n.a.

Source: ECB (1999)

[21] These conclusions deserve some nuances. Firstly, we used data pertaining to the combined banking sectors of the six countries. As such, this data do not reveal possibly highly divergent concentration ratios in subsectors. Secondly, intermediation activities of non-credit institutions should also be taken into consideration. A high concentration ratio of credit institutions should be judged differently if other types of financial institutions also have a substantial market share. Lack of internationally comparable data however prevents splitting out these data to subsectors (Groeneveld and Swank, 1998).

Table 4.9 Concentration ratio (loans of the five biggest credit institutions as a percentage of total loans)

	1985	1990	1995	1997	Change 1985-1997
France	48.7	44.7	46.8	48.3	-0.8%
Germany	n.a.	13.48	13.83	13.71	+1.7%*
Italy	16.6	15.1	26.3	25.9	+56%
Netherlands	67.1	76.7	78.5	80.6	+20.1%
Sweden	62.65	64.89	90.06	87.84	+40.2%
United Kingdom	n.a.	n.a.	25	26	n.a.

Source: ECB (1999)
* Because of data unavailability, changes of the 1990-1997 period have been calculated.

Both concentration indicators indicate that the smaller economies (Sweden and the Netherlands) are highly concentrated and have little room for further domestic consolidation. Relatively low concentration ratios in France, the United Kingdom, Italy, and especially Germany suggest potential for further consolidation in their financial markets.

Conclusions

We summarise differences and similarities in country's banking structures by ranking the six countries on the three categories. The positions of the countries on the various indicators are listed in Table 4.10[22].

[22] We acknowledge that this method has some limitations. For instance, we did not correct for population effects in the number of credit institutions. This put the UK in a disadvantage. Furthermore, we did not include the population density effect in the number of ATMs, which is unfavourable for Sweden's score on this measure. Finally, these data are compiled on the basis of contributions of national EU banking supervisors, and not based on an agreed statistical framework (ECB, 1999). However, the main use of these data is in indicative purposes, which is the approach we use here.

Table 4.10 Ranking[23] of the six countries on capacity, profitability, and concentration measures (data of 1997)

	Capacity		**Profitability**		**Concentration**	
	Score	Rank	Score	Rank	Score	Rank
France	7	4	12	6	6	3
Germany	9.5	6	8	4	12	6
Italy	5.5	2	9	5	10	5
Netherlands	6	3	6	3	4	2
Sweden	5	1	3	1	2	1
United Kingdom	7	4	3	1	8	4

We draw some general conclusions from Table 4.10. First, the rankings of the six countries vary depending on which of the three categories is analysed. This indicates different stages of development of the structure of national financial systems across Europe. The United Kingdom for instance rates first on profitability indicators (i.e., has the highest profitability), but lags in capacity and concentration indicators. Italy, on the other hand, scores high on capacity measures, but ranks low in terms of profitability and concentration ratios. No country appears to have reached an end stage in developing its financial market structure. Second, one can draw some preliminary conclusions on the degree of development of the financial sectors across the six countries based on these overall scores. Sweden has the highest rank on all three categories, and is followed by the Netherlands and the United Kingdom. France and Italy occupy the fourth and fifth position in this country sample. Germany has the highest score in both capacity and concentration indicators, which ranks it on the sixth and last place. Overall, these data suggest each of these countries has room for further rationalisation of its financial services sector, but in different areas.

This first reconnaissance showed basic characteristics of national financial systems across Europe and indicated differences in capacity, profitability, and concentration indicators between national financial systems. We continue by investigating whether these national

[23] Regarding capacity indicators, we ranked countries along 1) the number of credit institutions (from low to high), 2) the number of branches per 1,000 residents (from low to high), 3) the number of ATMs per 1,000 residents (from high to low), and 4) the number of bank employees per 1,000 residents (from low to high) and summed these four ranking into an overall score. A high rank indicates low levels of excess capacity in terms of these indicators.

Regarding profitability indicators, countries were ranked from high to low on both return on equity and return on assets to estimate the position on competition. These two rankings were summed into an overall score. High ranks indicate high levels of profitability.

Regarding concentration indicators, countries were ranked from high to low on the two concentration measures and then summed into an overall score. High ranks indicate high concentration levels.

financial systems reacted differently in implementing new regulations and technologies, two forces that had major impact on the development of the European financial landscape during the last two decades. More specifically, we assess the diffusion over time of influential regulatory and technological developments across five European countries. The results allow discerning the degree of industry convergence versus national divergence in the European financial landscape.

4.2 Diffusion of regulatory changes across Europe

Financial systems and banking sectors of different European countries varied substantially for the larger part of the 20th century. Until the mid-eighties, the European financial services sector was characterised by significant governmental involvement. Numerous institutional and legal stipulations limited domestic, cross-border, and cross-sector activities of financial services firms. It is only since the last two decades that national financial systems of European countries really have started to move towards liberalisation. This process only came under full flow the European Union formulated a policy towards financial integration of its members. As such, this section concentrates on deregulations that aimed to bring different national financial systems into line with each other.

Deregulation of financial services obviously had a major impact on the strategic renewal context of financial services firms. Prior to the integration of national financial markets, there were low levels of both domestic and international competition. Opening up national markets changed this rather sedate situation. It also increased the range of strategic choices financial firms had to make. The prospect of combining banking, insurance, and securities activities for instance forced managers to think about diversifying or specialising activities. Another example is the single licence principle, which opened up national markets to foreign competition and called for a choice in concentrating activities on the home country, or to internationalise operations.

The deregulation of European financial services sector has been a gradual process that varied considerably across European countries. This section assesses the timing of regulatory implementation across five European countries: France, Italy, Netherlands, Sweden, and the United Kingdom. We concentrate on three categories of regulatory changes. These comprise regulations aimed at:

1. Eliminating restrictions to domestic competition;
2. Altering the scale and scope of financial activities; and
3. Improving the external competitive position of financial firms (Gual, 1999).

The first category relates to the process of increasing domestic competition, which includes the elimination of restrictions on the entry of new domestic firms and restrictions on mergers and acquisitions. It further comprises the removal of tools that restrain

competition such as interest rates controls and the loosening of capital flows controls that limit foreign competition. We compare the five countries by determining the timing at which capital flows and interest rates[24] were deregulated.

The second category comprises indicators on the relaxation of regulations that limit the scale and scope of financial services. These include restrictions on cross-border establishment and limits on combining banking, insurance, and securities activities within a single firm (EFB, 1999). This process is estimated by the years of implementation of the First and of the Second Banking Directive across the five European countries.

The third category applies to variations in regulations that affect the external competitive position of financial firms. These include solvency regulations, capital adequacy requirements, and reserve and investment coefficients. These measures impact on the costs of doing business and place limits on the free use of deposits and a firm's own funds (EFB, 1999). We indicate these deregulations by stating the implementation period of harmonisation of prudential regulations across the five countries.

Elimination of restrictions to domestic competition

The first part of Table 4.11 presents the dates of deregulation of interest rates and the liberalisation of capital flows[25]. The year of the first moving country is shown and the time lag in years of the other countries The UK was the first mover regarding interest rate deregulation (1979). In 1981, the Netherlands deregulated interest rates. Hence the number '2' (years later) in Table 4.11. The UK also moved first in liberalising capital flows, closely followed by the Netherlands. France and Italy lagged eleven 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 (EFB, 1999), as did Sweden.

Regulations that limit the scope and scale of financial activities

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

[24] Interest rate controls shift the nature of competition from competing on prices to competing on customer service. Banking strategies were then driven by technological developments and changing preferences of consumers (EFB, 1999).

[25] Credit controls are not included in this table. We note that, for some countries, the liberalisation process took off earlier than the date in the table, which indicates the year of full implementation. France, for instance, started liberalisation of fees as early as 1986 (EFB, 1999).

The First Banking Directive was approved in 1977 and was based on the principle of generalised harmonisation. It intended to facilitate the access and the activities of credit institutions in European Community member states, and to eliminate the most important legal impediments between member states (Barreto, 2000).
The Second Banking Directive was issued in 1989. It 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 compete in any other EU member state without having to be authorised by the foreign member state (Barreto, 2000). The middle part of Table 4.11 shows that the UK and the Netherlands were the first to implement the First Banking Directive. They were also first in eliminating restrictions to domestic competition. France, which was late in deregulating interest rates and liberalising capital flows, however moved fast to implement the First Banking Directive. Sweden lags in implementing both Directives because of its late entrance to the European Union.
The Second Banking Directive includes a list of financial activities that are subject to the single passport. There are still differences across countries regarding the extent to which it is allowed to combine banking, insurance, and securities activities within a single firm. Table 4.11 shows that there is still some variation in exploiting securities activities by banks, notably in Italy and the United Kingdom.

Harmonisation of prudential regulation
Prudential regulation aims to create a level playing field and to set minimum capital requirements. It includes, amongst other things, legislation on solvency ratios and the definition of own funds (Gual, 1999). The time interval during which prudential legislation was implemented is indicated in the bottom part of Table 4.11. Starting dates range between 1989 and 1991. Notable exception is the United Kingdom, which already started in 1985. Four countries finished implementation of prudential regulation in 1995, Italy having finished two years earlier[26].
The Basle accord is an important pillar of prudential regulation. It was issued on July 1, 1988 by the Basle Committee on Banking Regulations and Supervisory Practices, and linked minimal capital requirements to the perceived credit-risk exposure of banks' assets and their off-balance-sheet positions (Robinson, 1995). It required internationally active banks to hold a minimum of eight percent spare capital as security against default on their

[26] Note that the EU standards only set a lower bound on prudential requirements. We already indicated substantial differences between the UK and continental regimes, such as Germany and France (Financial Times, 2000). The same goes for reserve and investment coefficients. France, for instance, dismantled these in 1987. In the Netherlands and the UK, the coefficient was almost nil, whilst the level was still significant in Italy in 1995 (Gual, 1999).

loans. These higher capital requirements result in a limit of how much capital can be put to work, potentially reducing shareholders' returns (Financial Times, 2000).
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 eight percent of risk-weighted assets, whilst most of the British banks are required to hold between 10 and 18 percent. Belgium and France also treat most established banks equally, although risky new banks may be forced to hold more capital (Financial Times, 2000). Concurrently, the Basle Accord is under review. This review could imply that some European 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, as UK banks were required to hold more capital than their continental competitors. Banks may also be required to use internal ratings to measure loan risk weightings, which might have major consequences. Large banks that have sophisticated risk management systems can rate their internal risk. These systems may however be too expensive for smaller banks to build and maintain, which puts them at a disadvantage (Financial Times, 2000).

Establishment of the European Monetary Union and introduction of the Euro
The establishment of the European Monetary Union (EMU) and the introduction of the Euro is the culmination of European regulatory harmonisation. The Eurosystem, consisting of the European Central Bank (ECB) and the national central banks, sets the monetary policy for the EMU. ECB's primary task is to maintain price stability within the Euro zone. Promotion of the single market is the Euro's main objective. EU banks can lend and borrow without any exchange or interest risks, which encourages cross-border activities. The Euro further increases price transparency across European markets. Companies are now urged to think and act on a European instead of a national scale. This promotes both cross-border and domestic mergers and acquisitions in order to gain sufficient scale (Andrews, 2000; ECB, 1999).
Table 4.11 summarises this section by presenting the diffusion pattern of regulatory changes across the five European countries.

Table 4.11 Pattern of diffusion of three categories of regulatory changes across Europe

Regulatory changes	FR	IT	NL	SW	UK
Elimination of restrictions to domestic competition*					
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**					
Implementation 1st Banking Directive	0 (1980)	5	0 (1980)	13	0 (1980)
Implementation 2nd Banking Directive	1	0 ('92-'93)	0 (1992)	1	0 ('92-'93)
Restrictions on combining banking, insurance, and securities activities	No restr.	Restr. on access, firewalls	No restr.	No restr.	Restr. on bonds
Harmonisation of prudential regulation***	'90-'95	'91-'93	'91-'95	'89-'95	'85-'95
Implementation period prudential regulation	2	0 (1993)	2	2	2
Introduction Euro/ European Monetary Union	0 (1-1-1999)	0 (1-1-1999)	0 (1-1-1999)	0 (1-1-1999)	0 (1-1-1999)

* Adopted from Gual (1999: 37)
** Adopted from Gual, (1999: 39)
*** Adopted from Gual, (1999: 40)

4.3 Diffusion of technological changes across Europe

Financial services firms are one of the most intense users of information technology (Triplett and Bosworth, 2002). Innovations in information technologies – including telecommunication, information processing and other technologies – have had major impacts on the financial industry. The application of IT and other financial technologies has had positive effects on both back office and front office performance. A literature study by Berger (2003) concluded that technological advancements in financial services resulted in declining bank cost productivity. Profit productivity figures however improved. The explanation may be that on the one hand, technological developments have improved the quality and variety of banking services, which also increased costs. On the other hand, customers seem to have been willing to pay for these advancements, which resulted in revenues rising faster than cost levels. Technological developments finally may have spurred consolidation of the industry. Building on previous contributions (cf. Berger, 2003; Evans and Schmalensee, 2000; Essinger, 1999), we investigated the diffusion of technological developments along five indicators. These indicators do not comprise the full

spectrum of technological developments, but illustrate the multiplicity of technological advances made over the past thirty years and include:

- the introduction of the first ATM network,
- the first EFTPoS network,
- the e-purse,
- the introduction of remote banking facilities, and
- the first branchless bank in a country.

Table 4.12 shows the introduction year of each technology and time lags of ensuing countries for each of the five indicators.

Table 4.12 Pattern of diffusion of five indicators of technological developments across Europe

Technological Developments	**FR**	**IT**	**NL**	**SW**	**UK**
Introduction ATM network	12	11	13	0 (1972)	14
Introduction EFTPoS network	0 (1984)	2	6	1	4
Introduction e-purse	10	5	0 (1989)	9	6
Introduction remote banking					
Telephone banking	5	10	8	0 (1985)	4
PC banking	9	12	1	n.a.	0 (1985)
Internet banking	2	1	2	0 (1995)	2
First branchless bank	5	6	-/-	5	0 (1989)

Source: Erasmus Strategic Renewal Center

ATM Network

The introduction of the first Automated Teller Machine (ATM) network in a country is our first indicator. The first ATM network, Bankomat, was founded in 1972 in Sweden (OECD, 1996). Italy followed 11 years later with its Bancomat network (Friedman, 1983). In France, the Groupement Carte Bleue, together with Crédit Agricole and Crédit Mutuel, created the Groupement des Cartes Bancaires (CB) in 1984. It introduced interbancarité, which allowed customers to use their cards at any ATM, or EFTPoS terminal that accepts the CB card (www.cartebleue.com). In the Netherlands, Rabobank, ABN, Amro, NMB, and Van Lanschot formed an ATM network in 1985 (Hemelaar and Rudelheim, 1992). In the UK, the Link network was founded in 1986 (www.link.co.uk).

EFTPoS Network

EFTPoS, the second indicator, is defined 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' (Essinger, 1999: 70). Debit cards are much more widely used in

Europe than in the USA, making this a better indicator than the introduction of the first credit card. We already mentioned that the French CB network was founded in 1984, consisting of an ATM and EFTPoS network. The Babs company was founded in 1985 and manages the Swedish EFTPoS network (Swedbank, 1998). In 1986, the Italians developed terminals that also accepted the Bancomat ATM cards and started a national EFTPoS experiment (Electronic Payments International, 1995). The UK's first debit card payment system Switch was founded in 1988 (www.switch.co.uk). The Dutch did not introduce their EFTPoS network PIN until 1990 (Hemelaar and Rudelheim, 1992).

E-purse

The e-purse, a substitute of cash, is the third indicator. The e-purse is a card containing a microchip that stores electronic money, and can be combined with for example a debit card. The Netherlands was the first country to launch an e-purse trial in the city of Woerden in 1989. It was also the first to introduce a nationwide e-purse scheme, called Chipknip, in 1996 (Bank for International Settlements, 2000). Italy followed with the introduction of Cassamat, a local electronic purse. It 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 in Swindon. In Sweden, the nationwide e-purse scheme Cash Card was introduced in 1998 by a consortium of Nordbanken, Sparbanken, and SEB. The e-purse entered France when the Credit Mutuel Group acquired the license for the Mondex card - previously launched in the UK - and introduced it in Strasbourg in 1999 (www.mondex.fr). Although France was the last country to introduce the e-purse, it was the first in using the microchip technology in another way. In 1992, the magnetic stripe on the Cartes Bancaires cards was replaced by an e-purse-like microchip (www.cartes-bancaires.com).

Remote banking

Remote banking is the fourth indicator. It is defined as managing one's account without physically going to a bank office. We split up remote banking into three different types: *telephone banking*, *PC banking,* and *Internet banking*[27]. Telephone banking allows managing one's account by talking to a human operator or a computer. The terms PC banking and Internet banking are sometimes called online banking and are used interchangeably. A PC banking facility uses a computer and a modem to manage an account, and requires specific software to be installed on the customer's computer. The customer's account can only be managed using this computer. With Internet banking, no software needs to be installed, and the customer can manage her accounts wherever she has access to the Internet.

[27] For a further analysis, see Daniel and Storey (1997); Taylor (1998).

Telephone banking

Swedbank first introduced telephone banking in Sweden in 1985 (Direct Delivery International, 1996b). The other countries were much later in introducing these services, ranging from four years (UK) to ten years (Italy). First Direct was the first to offer a complete banking service in the UK via the telephone, although Nationwide and Abbey National already had telephone services for some time (Morgan, Cronin and Severn, 1995). Cortal, a Paribas subsidiary, introduced Finexpress in 1990 (Jack, 1995). In the Netherlands, ING subsidiary Postbank started its telephone banking service Girofoon in 1993 (Postbank, 1993). 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 (Electronic Payments International, 1997).

PC banking

The UK was the first to pioneer PC banking in 1985. The Netherlands followed one year later. Italy and France lagged about ten years in introducing PC banking services. In the UK, the Bank of Scotland introduced its Home and Office Banking Service (HOBS) in 1985 (www.bankofscotland.com), using a keyboard that was plugged into the TV at one end and the telephone socket at the other (Wilikinson, 1990). The customer could view his balance, scroll back through statements, transfer money between accounts, or pay bills directly. The system could also be operated by PC. In 1986, the Postbank introduced Girotel in the Netherlands (Postbank, 1986). In France, BNP introduced the PC banking service BNP Micro in 1994 (Bank Marketing International, 1995). France lags five years in telephone banking services and nine years in PC banking services. The French however had a complementary technology, the national videotex system Télétel. It was popularly known as Minitel and introduced in the early eighties by the French government in cooperation with France Telecom. The number of Minitel terminals grew from 120,000 in 1983 17 million in 1999. This telephone-based interactive system offers a wide array of services including an electronic telephone directory and home shopping services. Almost all banks started a Minitel-based remote-banking system in the mid-1980s. French banks thus had no urgent need to offer other forms of remote banking. Italy was the last country to offer PC banking. In 1997, Cariplo launched QuiCariplo, which had both PC banking, and Internet banking options (Electronic Payments International, 1997).

Internet banking

The time lags in diffusion Internet banking are much shorter than for telephone and PC banking. Sweden leads in Internet banking because of its sparse population - branches are often distant from consumers' homes - and its PC penetration ratio, which is the highest in Europe (Nairn, 1997). The Swedish bank Trygg-Banken (now SEB) was the first bank to

launch Internet banking in 1995 (Direct Delivery International, 1997). Internet banking was introduced in Italy in 1996 by Cassa Risparmio di Firenze (www.carifirenze.it). The Nationwide Building Society launched the UK's first Internet banking service in 1997 (Essinger, 1999: 263). The same year saw Rabobank offering Internet banking in the Netherlands (Financieele Dagblad, 1997), and Banque Directe (owned by BNP Paribas) in France (Hai, 2000).

Branchless bank

Our fifth indicator is the establishment of a country's first branchless bank, defined as a bank that only offers remote banking services. Conventional banks also offer remote banking services, but these are typically complementary to the existing product line. A branchless bank is usually owned by a brick and mortar bank, but managed as a separate business unit under a different brand name.

First Direct was the first to offer a complete banking service in the UK via the telephone in 1989 (Morgan, Cronin and Severn, 1995). It was also the first branchless bank. Banque Directe of France, founded in 1994, was modelled on First Direct. Sweden also introduced its first branchless bank, Sesam (owned by S-E-Banken), in 1994 (Skandinaviska Enskilda Banken, 1995). In Italy, the insurer Ras created a separate business unit, called Rasbank, to offer telephone-banking services in 1995 (Direct Delivery International, 1996a). We did not find a branchless bank offering complete banking services in the Netherlands before the year 2000.

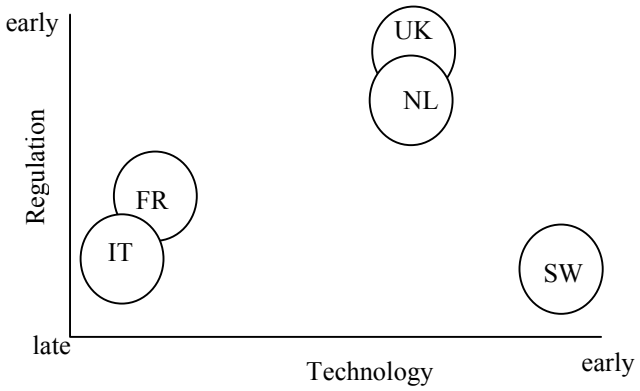
4.4 Country-specific versus industry-generic patterns of diffusion

Do the patterns of diffusion of regulatory changes and technological developments point at convergence or divergence in the European financial services sector? We answer this question by assessing country-specific patterns of diffusion versus industry-generic effects in diffusing regulatory and technological changes. Country-specific effects would indicate the relevance of addressing the national institutional context in studying strategic renewal, whereas industry-generic effects would point at intensifying environmental selection effects operating on financial firm's strategic renewal behaviour.

Figure 4.1 combines the findings of regulatory and technological indicators to compare the speed of diffusion across countries. Our findings suggest early and late moving national financial systems. The United Kingdom heads in diffusing regulatory changes, closely followed by the Netherlands. UK's first mover behaviour results from its intention to use deregulation as a means to promote competition in its financial services sector. Sweden is early in diffusing technological developments, followed again by the Netherlands and the UK. These three countries also appeared to have the most advanced banking system

according to capacity, competition and concentration indicators (cf. Table 4.10). 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, and indicate the relevance of considering national institutional effects on strategic behaviour.

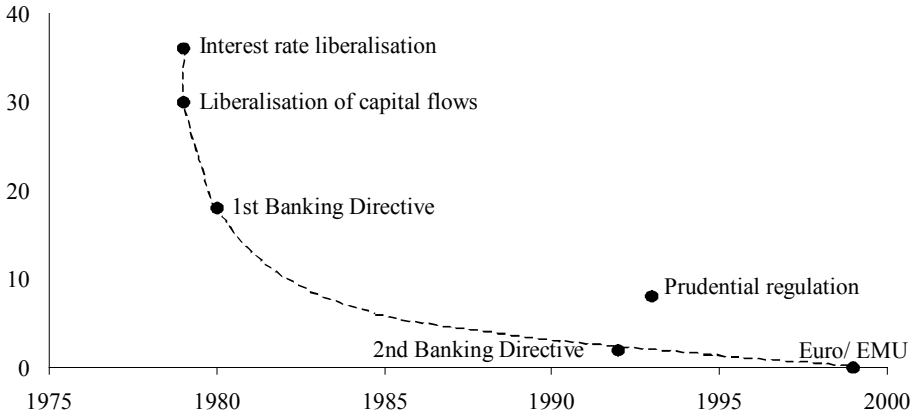
Figure 4.1 Early and late moving countries in the diffusion of technologies and regulations



Source: Erasmus Strategic Renewal Center (Figure derived from Table 11 and 12)

The various technologies and regulations have been implemented at different speeds. To detect changes over time, we summed the time lags of each regulatory and technology indicator. Figure 4.2 shows *accelerating diffusion rates of regulatory indicators*. The accumulated delay (i.e., the sum of time lags of the four following countries with respect to the first moving country) of interest rate liberalisation amounted to 36 years. The more recent deregulations were diffused much faster. The acccumulated delay of prudential regulation was eight years, whilst the combined delay of implementing the Second Banking Directive only amounted two years. The implementation of the Euro and the EMU indicates the culmination of diffusing regulations, as it was implemented simultaneously in all EU member states.

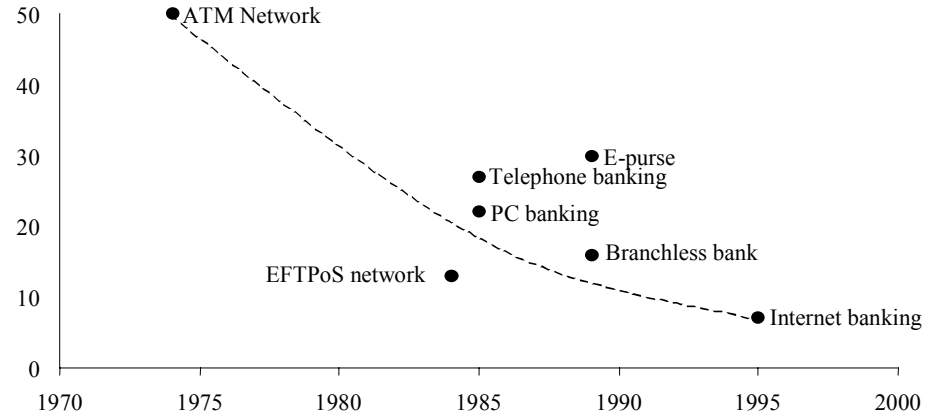
Figure 4.2 Delay (in years) of implementation of regulations



Source: Erasmus Strategic Renewal Center (Figure derived from Table 11)

Figure 4.3 shows that recent technology developments were dispersed faster compared to older technologies. The accumulated time lags between the first mover and the followers regarding ATM networks, the oldest technology among the indicators, was fifty years. In the midst of the nineties, the average time lag of Internet banking amounted to only seven years. These increasing speed of diffusion of technologies suggest a process of European convergence, and indicate increasing environmental selection pressures on financial services firms' strategic renewal behaviour.

Figure 4.3 Delay (in years) of implementation of technologies



Source: Erasmus Strategic Renewal Center (Figure derived from Table 12)

Our findings show that the United Kingdom, the Netherlands and Sweden are frontrunners in diffusing technologies. The UK and the Netherlands also moved first in implementing regulations. These findings parallel the high ranks on capacity, profitability and concentration indicators of these countries' financial systems. France and Italy lagged in implementing regulations and technologies. This coincides with low ranks on profitability and concentration indicators (Italy) and on capacity and profitability indicators (France). The high degree of government involvement in their financial industry might be another reason. The French and Italian banking sectors were privatised in a later stage compared to the other three countries we studied. As a further illustration of convergent development in the European financial landscape, Exhibit 4.1 and 4.2 describe how Italy and France sought to restructure their financial sectors through privatising financial firms.

Exhibit 4.1 Privatisation of financial services firms in Italy

Italy's privatisation effort was a major force behind the changes in the Italian economy during the 1990s. Tthe public sector controlled about eighty per cent of the Italian banking sector in the early nineties. Banks were protected from competition and could maintain high margins. During that time, the Italian financial sector was controlled by a state holding company, fully owned by the Ministry of the Treasury, and charitable foundations that were supervised by local governments. The transformation of the charitable foundations into joint-stock companies started the privatisation process. In a later stage, their shares were offered through the stock exchanges or private placements.

The privatisation of Credito Italiano in December 1993 essentially started the Italian privatisation process. Next, Banca Commerciale Italiana was privatised in February 1994. Both were commercial banks and were part of the immense state holding company Instituto per la Recostruzion Industriale (IRI). Constituent firms of the IRI holding firms were gradually privatised, until the IRI holding was eventually dismantled in the year 2000.

Exhibit 4.2 Privatisation of financial services firms in France

Ninety per cent of French banks were state-owned in the early eighties. By the mid-eighties, however, the French government no longer considered the strategic position of the financial sector a sufficient reason to maintain a direct hold on its strategic and operating management. Another reason was that privatisations generated resources to reduce the level of public debt, which is where much of the 180 billion French francs revenues were allocated to (Ruozi and Anderloni, 1999).

The privatisation of Paribas, Société Générale and Crédit Commercial de France in 1987 started the French privatisation process. A second wave unfolded in the mid-nineties. Banque Nationale de Paris (BNP) was privatised in 1993. A year later, Union Des Assurances (UAP) became a private company. Assurances Générales de France was privatised in 1996, and GAN in 1998. The most recently privatised financial corporation is Crédit Lyonnais in 1999.

Typical for the French privatisation program was that the government often called on privatised companies to act as 'noyaux durs' for other privatisation candidates. A 'noyaux dur' is a strategic partner that holds 'hard core' stakes in privatizing companies to for instance assist in hostile take-over situations (Rawsthorn, 1993a). The privatised Société Générale was one of the first companies to declare its interest in acting as a 'noyaux dur' (Rawsthorn, 1993b), 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, for instance in the case of the BNP-SocGen-Paribas battle in 1999. This case was exemplary for the renewed spirit in the French financial sector, and would have been unthinkable a decade earlier.

Exhibit 4.1 and 4.2 indicate that France and Italy were late in privatising their financial services sector in relation to the other three countries. This coincides with their late mover behaviour in diffusing regulatory and technological changes and the less developed structure of their national financial system sector in terms of capacity, profitability and concentration (cf. section 4.1). On the other hand, the privatisation processes in France and Italy further reduced differences between national financial systems across Europe. As such, privatisation of the French and Italian financial sectors further decreased differences between national financial systems across Europe. Deregulations and technological advancements also had significant consequences regarding the structure of the European financial landscape. Deregulations lowered barriers to competition, as did opening up domestic markets to foreign competition. Technological advancements have exacerbated economies of scale effects in financial services (Berger, 2003). These, and other forces,

induced financial services companies to join forces and were major drivers for merger and acquisition activities in the European financial landscape. The ensuing section addresses consolidation patterns of European financial services firms.

4.5 Consolidation patterns across European financial markets

We first assess general characteristics of consolidation patterns by indicating the number and value of banking mergers and acquisitions. Table 4.13 illustrates that the *number* of banking mergers and acquisitions in six European countries decreased significantly during the nineties, whilst their *value* increased substantially. Within six years, the average value of mergers and acquisitions almost multiplied by ten: from $44 mln in the period 1991-1992 to $416 mln in the years 1997-1998.

Table 4.13 Banking merger and acquisition activity in six EU countries[28]

	Number of M&As					Value of M&As (Bln USD)				
	91-92	93-94	95-96	97-98	*Total*	91-92	93-94	95-96	97-98	*Total*
France	133	71	50	36	*290*	2.4	0.5	6.5	4.0	*13.4*
Germany	71	83	36	45	*235*	3.5	1.9	1.0	23.2	*29.6*
Italy	122	105	93	55	*375*	5.3	6.1	5.3	30.1	*46.8*
NL	20	13	8	9	*50*	0.1	0.1	2.2	0.4	*2.8*
Sweden	38	23	8	8	*77*	1.1	0.4	0.1	2.1	*3.7*
UK	71	40	25	17	*153*	7.5	3.3	22.6	11.0	*44.4*
Total	*455*	*335*	*220*	*170*	*1180*	*19.9*	*12.3*	*37.7*	*70.8*	*140.7*

Source: Adapted from BIS, Securities Data Company, in: Lumpkin (2000)

The relatively high number, versus the low value, of mergers and acquisitions in 1991-1994 coincides with the liberalisation of the banking regulations and the establishment of the Single European Market in 1992. This suggests that especially smaller banking organisations chose to combine forces to cope with these changes. A second wave followed, in which a smaller number of banks, which however were of higher value, became involved in merger and acquisition activities. This wave started in the years 1995/1996 in France, the Netherlands, and the UK. It peaked in 1997, when the total value spent on mergers and acquisitions in these six counties exceeded 70 billion US Dollars. Additional data (cf. Center for Economic Policy Research) shows that the total value of bank mergers in all European countries amounted to 127 billion US dollars in the period of May 1997 to May 1998. This is almost twice the value of the previous year (Danthine et al., 1999). A period of mega-mergers in 1999 and 2000 formed the third wave. Examples

[28] Note: Classified by industry of the target; only completed or pending deals; announcement date volumes. 1997 – 1998 data as at 30 October 1998.

are the 12 billion USD merger of BNP and Paribas in France in 1999, and the 32 billion USD merger between RBS and NatWest in the UK in 2000.
Table 4.13 suggests country-specific consolidation patterns. The relatively lowly concentrated late movers Italy and France (cf. Table 4.8 and 4.9) had the highest number of mergers and acquisitions, followed by Germany. The fast moving countries showed significantly fewer transactions. Italy and the UK rank highest amongst the six countries in terms of value of mergers and acquisitions. Sweden and the Netherlands, which were already highly concentrated in the early nineties, had a low value of banking mergers and acquisitions because of smaller, rather than larger, banks being targeted in mergers and acquisitions.

Cross-sectoral and international blurring in financial services

To what extent are boundaries blurring between formerly segregated sectors in financial services? Are national borders still relevant, or do financial service firms operate internationally? These are important questions when studying strategic renewal behaviour of large European financial incumbents. Blurring boundaries between sectors or nations pose severe challenges to financial firms. Fading national and cross-sectoral borders request financials to choose between focusing on a particular sectoral or national niche, or to increase the scale and scope of their operations.
To describe the international dimension of mergers and acquisitions, Table 4.14 shows the number of domestic versus cross-border acquisitions in the European banking sector.

Table 4.14 Value of banking mergers and acquisitions in Europe (US$ billion)

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

Source: Danthine et al. (1999)

The data indicate that most mergers and acquisitions in the nineties were aimed at consolidating the domestic market to protect the home soil. The ongoing European integration process did not result in a significant increase in cross-border merger and acquisition activity. British, French and German financial institutions have been most active in international mergers and acquisitions. On the other hand, financial players in the UK, France, Spain, Italy and Belgium were targeted most (Groeneveld and Swank, 1998). The smaller Benelux and Scandinavian economies have seen the most significant and

successful cross-border mergers (The Banker, 2000c)[29]. This suggests that banks first need to consolidate domestically before expanding internationally.

Analysing the geographical and sectoral breakdown of revenues of financial services firms helps to assess blurring boundaries between sectors and nations. Table 4.15 presents the sectoral breakdown of revenues of the world's 53 largest financial groups in the year 2000 (Van der Zwet, 2003)[30].

Table 4.15 Sectoral breakdown of revenues of the world's largest financial groups

Sectoral breakdown	Banks (N=38)	Insurers (N=15)
Traditional banking income	46%	4%
Investment banking income	38%	5%
Insurance income	4%	61%
Not specified	12%	30%

Source: Van der Zwet (2003: 13)

The data indicate only marginal sectoral blurring measured by operating income. Banks earn 4% of their income through insurance activities, whilst insurance companies earn on average 9% of operating income with banking activities. The degree of sectoral blurring however differs across countries. The Netherlands for instance appears to be an exception, as ING and Fortis have a high degree of cross-sectoral activities.

Table 4.16 indicates the geographical distinction of revenues of large financials. The degree of international blurring seems to be substantial. US and other (non-US/European) financials earn some 30% of total income in foreign countries. European financials are most internationally diversified, earning more than half of their income in foreign countries. Interestingly, insurance companies focused more on foreign markets – earning 65% of revenues in foreign countries, whereas banks had a home country bias – earning on average 61% of income in their home country (Van der Zwet, 2003).

[29] We already discussed how merger and acquisition activities impacted on the structure of national financial services sectors. We refer to the concentration ratios in section 4.1.3 for more information.

[30] Fifteen firms of these 53 financials are part of our sample of financial firms.

Table 4.16 Geographical breakdown of revenues of the world's largest financial groups

Geographical breakdown	Home country	Foreign countries
Total sample (N=38)*	51%	49%
US financials (N=5)	69%	31%
Other financials (N=26)	70%	30%
Eur. financials (N=7)	45%	25% European/ 30% non-European

Source: Van der Zwet (2003: 18)
* 38 out of the 53 financial groups reported a geographical distribution of revenues in their annual report of 2000.

This section indicated increasing merger and acquisition activity across Europe. Most consolidation activity takes place within national markets. Cross-border mergers are still rare, and there are still no pan-European banks that have more than two home markets. Cross-sectoral blurring of boundaries appears to be limited in terms of the distribution of revenues of large financial groups. International boundaries however seem to have blurred substantially. The next section concludes this chapter and indicates potential future developments in the European financial landscape.

4.6 Conclusion

Our analysis suggests at least two findings. First, the results reveal country-specific patterns with regard to indicators of capacity, profitability and concentration. Country-specifics also arose from the analysis of diffusion patterns of regulations and technologies. The United Kingdom and the Netherlands walk in front in diffusing regulations and technologies, whereas Italy, France and Germany implemented these changes later. Sweden is fastest in adopting new technologies, but its late entrance into the EU delayed the implementation of new regulations. We illustrated the catching-up of late movers France and Italy by discussing the privatisation processes of their financial services sectors.

Second, our analysis indicates that country institutional differences in the pace of diffusion decrease over time, whilst selection pressures that operate on the European financial services industry and its incumbent firms are increasing. These processes suggest the emergence of industry-generic patterns. Our finding of patterns of convergence of national financial systems across Europe parallels the findings of other studies (cf. Groeneveld and Swank, 1998; ECB, 1999). Convergence is argued to level the playing field of formerly segmented financial systems, which makes the environment of financial players increasingly dynamic and competitive. It should however be noted that differences in fiscal treatment and supervisory and legal arrangements maintain country-specific characteristics of financial systems.

New regulations and technologies not only lowered barriers to compete internationally and cross-sectorally, but are also changing the structure of the European financial landscape. Firstly, pressures to consolidate are mitigated by novel technologies, new business models and strategic alliances (The Banker, 2000c), which are alternatives for the classical pattern of mergers and acquisitions to consolidate. Information technology by itself, however, is no panacea. It serves incumbent financial services firms by enabling a multi-channel banking strategy (The Banker, 2000d), streamlining operations and increase services to consumers. However, it also allows other players to enter financial services. General Electric, Microsoft and telecom companies such as KPN and Vodaphone, and European retailers like Ahold, Sainsbury and Tesco entered the financial services sector. The confrontation of these new entrants and financial incumbents poses major strategic challenges. These changes are driving the European financial services sector further into a state of hypercompetition.

We now begin to see the shape of an upcoming 'rugged landscape' that is shaking up the incumbent financial players. Strategic renewal is a necessity to survive in such an environment. The next chapter investigates how European financial services firms dealt with the increasing dynamics and complexities in the European financial services landscape by studying strategic renewal behaviour at the industry, country, and firm levels of analysis.

5 Differences and similarities in strategic renewal behaviour of European financial incumbents

The analysis of the changing landscape of European financial services indicated increasing turbulence in the environment of financial incumbents. Deregulations and the introduction of new technologies point at increasing convergence across European countries. However, the results also indicated that national differences still persist. This chapter focuses on strategic renewal behaviour of financial incumbents operating in this changing landscape. Based on descriptive statistics, we investigate to what extent, and regarding which strategic renewal attributes, differences and/or similarities in strategic renewal behaviour are apparent at the industry, country, and firm level of analysis.

This chapter is structured along six sections. We first recapture the four research themes that arose from our theory discussion, and then present the main characteristics of the database of strategic renewal actions. To assess environmental selection effects on strategic renewal behaviour, the third section analyses differences and similarities across banking and insurance sectors on strategic renewal behaviour. The fourth section investigates strategic renewal characteristics across countries to study the effect of operating from different institutional environments. We then analyse the firm level to study managerial intentionality effects in strategic renewal behaviour. The findings of this exploratory chapter are summarised in the conclusion section, and used to set up the lines of research of a selection of financials in the next chapter.

5.1 Themes for research

This study is grounded in four theoretical perspectives on strategic renewal, which we introduced in the second chapter. Building on these perspectives, we developed a set of propositions that distinguished between four types of effects in strategic renewal behaviour: environmental selection, institutional, managerial intentionality, and coevolutionary interaction effects. Population ecology (Hannan and Freeman, 1977; 1984) and institutional theory (DiMaggio and Powell, 1983; Greenwood and Hinings, 1996) emphasise the impact of selection effects on the organisation. Selection effects are theorised to constrain an organisation's latitude to undertake strategic renewal actions. Arguing from these selection perspectives, similarities in strategic renewal behaviour will be greater than firm specific differences. Exploitation and mimetic behaviour are theorised to be the idealtype strategic renewal trajectories according to these perspectives. Depending on whether the industry (population ecology) or national institutional context (institutional theory) places limits on individual organisation's leeway, we expect the data to show similarities in strategic renewal behaviour across the entire sample of firms

(environmental selection effects), or across countries (institutional effects). Adaptation effects on the other hand suppose managerial freedom in strategic acting. Managerial agency (Child, 1972; Miles and Snow, 1978) and dynamic capabilities theory (Teece, 1984; Teece, Pisano and Shuen, 1997) ascribe managers room for choosing and designing firm idiosyncratic strategic renewal actions. This suggests organisations can choose to deviate from other firms in their environment, and firm specificity of strategic renewal behaviour (managerial intentionality effects). Before we go into a deeper analysis of whether and how these multiple effects affect strategic renewal behaviour, we first show main characteristics of strategic renewal actions of our research sample.

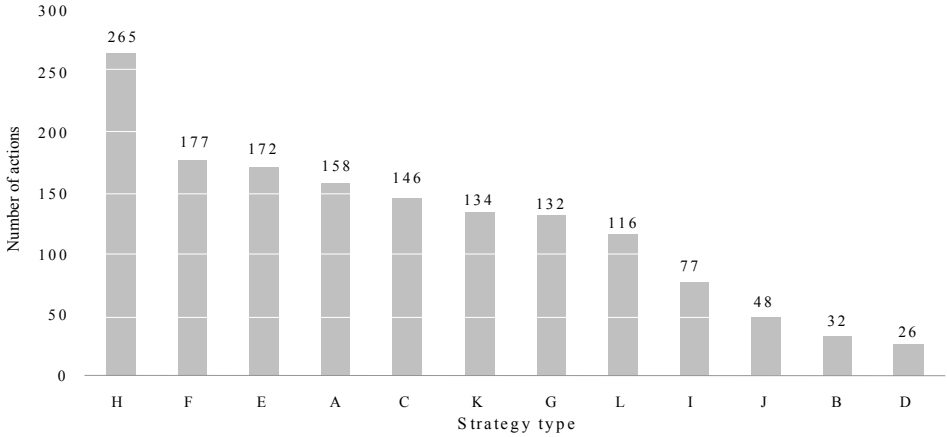
5.2 Characteristics of strategic renewal behaviour across sample of European financial services firms

The thirty sample firms executed in total 1592 strategic actions during the 1990-1997 research period as reported in the Financial Times and Letters to the Shareholder. This section presents the main characteristics of the strategic renewal actions database. We coded strategic renewal actions into four coding categories. These four categories concatenate into a four-digit code, which result in twelve strategy types (cf. Table 3.2). Figure 5.1 presents the number of actions per strategy type of the entire sample of European financial services firms. Type H, aimed at exploiting international markets by acquiring or cooperating with external parties, was the dominant action type across the research sample. On the other extreme, strategy type D, actions that cut ties with external international parties, was the least executed type of action. Exhibit 5.1 displays the legend for the different types of strategic renewal actions (cf. Table 3.2).

Exhibit 5.1 Legend of twelve strategy types

Strategy type	Coding key	Coding description
A	0000	Internal, domestic market, exploitation, contraction action
B	1000	External, domestic market, exploitation, contraction action
C	0100	Internal, international market, exploitation, contraction action
D	1100	External, international market, exploitation, contraction action
E	0001	Internal, domestic market, exploitation, expansion action
F	1001	External, domestic market, exploitation, expansion action
G	0101	Internal, international market, exploitation, expansion action
H	1101	External, international market, exploitation, expansion action
I	0011	Internal, domestic market, exploration, expansion action
J	1011	External, domestic market, exploration, expansion action
K	0111	Internal, international market, exploration, expansion action
L	1111	External, international market, exploration, expansion action

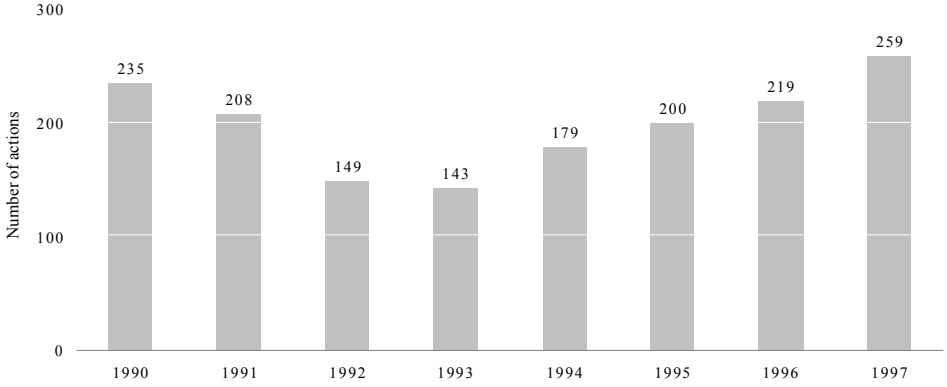
Figure 5.1 Number of actions per strategy type (entire sample of financials, 1990-1997)



Source: Erasmus Strategic Renewal Center

We zoom in on the time dimension in Figure 5.2. The number of actions varies considerably over the research period. In 1990, the thirty financials undertook 235 strategic renewal actions, after which the number gradually declined to 143 in 1993. It then rose to a maximum of 259 actions in 1997.

Figure 5.2 Number of actions per year (entire sample of financials, 1990-1997)

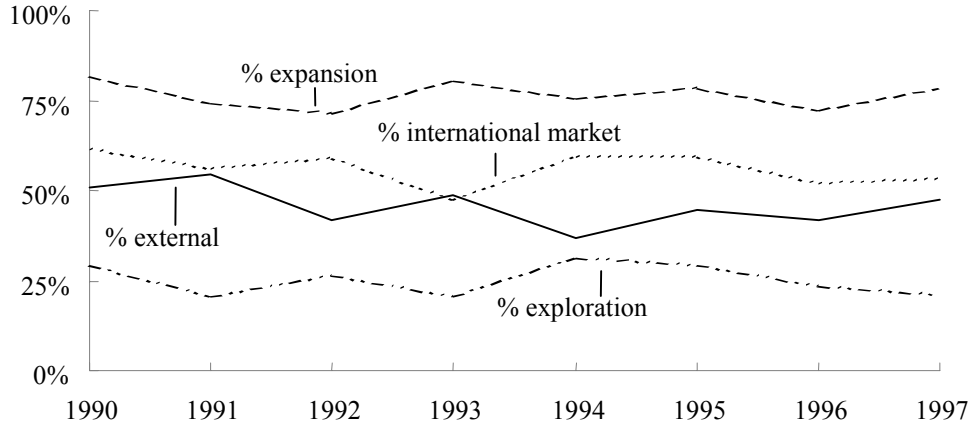


Source: Erasmus Strategic Renewal Center

We now decompose the data into the four coding categories that make up the strategy types. These are the internal/ external, domestic/ international, exploitation/ exploration,

and contraction/ expansion category. Figure 5.3 presents the percentual division of strategic renewal actions on each of the four categories over time. It shows that the trendlines are rather stable over the entire research period. The percentage of expansion actions moves around the 75% line. The proportion of international actions is slightly over 50% in the 1990-1997 time period, whilst the share of external actions winds around the 50% line. The proportion of exploration actions sways around the 25% mark.

Figure 5.3 Timelines of four categories of strategic actions of sample of financials



Source: Erasmus Strategic Renewal Center

We continue by investigating similarities across firms operating within the banking or insurance sector.

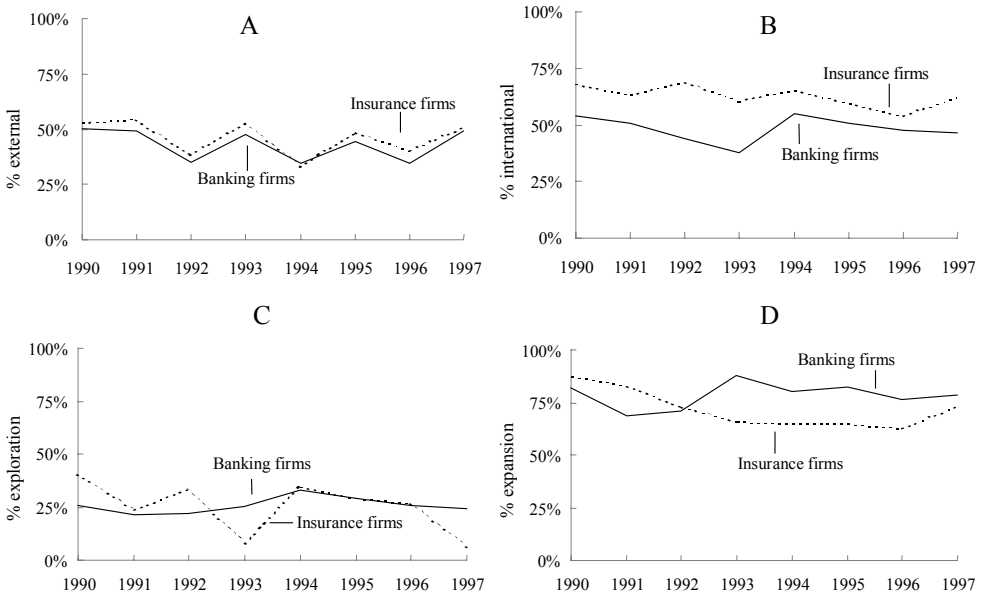
5.3 Strategic renewal behaviour in banking and insurance firms

This section aggregates strategic renewal actions of banking firms and of insurance firms (based on SIC code; see Table 3.1) to investigate differences and similarities across sectors. We first show the evolvement of strategic renewal behaviour of banking and insurance firms across the four strategic renewal categories, and then refine the analysis by investigating the division of strategy types across banking and insurance firms. We conclude by integrating the main findings of both analyses.

Figure 5.4 displays the evolvement of the balance of four categories of strategic renewal for both banking and insurance firms over time. Table 5.1 indicated that insurance firms have a stronger preference for using external actions than banking firms (see also Figure 5.4a). A similar difference appears from the evolvement of the international versus

domestic category (Figure 5.4b). Insurance firms are more oriented toward international markets than banking firms. The exploitation/ exploration category indicates that both banking and insurance firms favoured exploitation (75% of total number of actions) over exploration actions (25%). Banking firms however show a more stable pattern than insurance firms (Figure 5.4c). The contraction versus expansion category indicates that most actions of both banking and insurance firms were aimed at expansion. Banking firms were slightly more oriented towards expansion than insurance firms (Figure 5.4d).

Figure 5.4 Timelines of four categories of strategic actions of banking and insurance firms



Source: Strategic Renewal Center

Table 5.1 shows the averaged scores of banking and insurance firms on the four strategic renewal categories over the eight-year research period. We used ANOVA and t-tests to test whether banking and insurance firms significantly differ on strategic renewal categories. P-values of t-tests indicate that the internal/ external and especially the domestic/ international category show significant differences (at a 5% significance level) between banking and insurance firms, whilst the exploitation/ exploration and contraction/ expansion categories of strategic renewal actions do not significantly differ between industries.

Table 5.1 Statistics of industry differences on the four categories of strategic renewal actions

Strategic category				**Industry**						**P-value**
	Total sample			*Banks*			*Insurers*			
	Mean	(S.D.)	N	Mean	(S.D.)	N	Mean	(S.D.)	N	
External/ internal	.47	(.31)	234	.43	(.28)	150	.53	(.34)	84	.03
International/ domestic	.54	(.34)	234	.48	(.33)	150	.63	(.34)	84	.00
Exploitation/ exploration	.26	(.26)	232	.26	(.24)	148[31]	.25	(.29)	84	.86
Expansion/ contraction	.76	(.26)	234	.78	(.23)	150	.72	(.31)	84	.06

We calculated the percentual division per strategy type to get a more detailed insight into strategic renewal behaviour of banking and insurance companies. A first observation is that the percentual division amongst the twelve strategy types in banking firms is much more even than in insurance firms. The biggest difference lies in strategy types H (external international exploitation expansion) and E (internal domestic market exploitation expansion). Strategy type H had a much higher occurrence in insurance firms (22% of all actions) than in banking firms (13%). Strategy type E was much more popular with banking firms (12% for banking firms versus 6% for insurers). Strategy types F, B, C and J also illustrate different renewal behaviour. The other coding categories show much less marked differences.

[31] The data did not allow to determine the exploitation/exploration category of the Dutch Rabobank in two years. The other categories could however be coded. Hence the difference of two (150-148) observations between the exploitation/exploration category and the other categories.

Figure 5.5 Percentual division of strategy types in banking and insurance firms

Source: Erasmus Strategic Renewal Center

Table 5.2 details the means and standard deviations of strategy types of the total sample and per industry. It also presents the P-values of t-tests to indicate the significance level of differences between banks and insurers. Four strategy types are statistically different at a 5% significance level. These correspond with the strategy types that appeared to be different based on Figure 5.5.

Table 5.2 Statistics of industry differences on the twelve strategy types[32]

Strategy type	**Industry**						**P-value**
	*Total sample**		*Banks**		*Insurers**		
	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	
A	12.4	(19.9)	13.2	(19.8)	11.1	(20.0)	.44
B	2.6	(9.7)	1.3	(4.2)	5.1	(15.0)	.00
C	8.4	(16.0)	7.0	(12.0)	11.0	(22.0)	.09
D	1.9	(8.0)	1.5	(5.0)	2.5	(12.0)	.37
E	11.4	(20.3)	14.1	(22.2)	6.5	(15.3)	.01
F	12.2	(18.5)	14.4	(19.3)	8.4	(16.5)	.02
G	7.4	(13.0)	8.0	(14.0)	6.5	(11.0)	.38
H	18.3	(25.2)	14.3	(21.3)	25.4	(29.7)	.00
I	5.5	(11.0)	6.5	(12.0)	3.7	(1.0)	.07
J	3.1	(8.1)	3.6	(8.1)	2.2	(8.2)	.22
K	9.5	(18.0)	9.5	(17.0)	9.5	(18.0)	.99
L	7.3	(14.0)	6.8	(12.0)	8.3	(16.0)	.40

* $N_{total} = 232$[33]; $N_{banks} = 148$; $N_{insurers} = 84$

[32] We used the yearly ratios to get a sufficient number of observations.

[33] Maximum number of observations is (30 companies * 8 years) = 240. Our data has 8 missing values as our data sources did not indicate actions of some companies during some of the years during the 1990-1997 research period.

In conclusion, there appear to be some differences in renewal behaviour between European banking and insurance firms. There is a marked difference in the percentage of international versus domestic market actions. Most of this difference can be explained by the difference in strategy types H en E (respectively external international exploitation expansion, and internal domestic market exploitation expansion). The difference between these two strategy types also explains to a large extent the difference in the external/ internal category. The difference in international versus domestic market orientation of strategic actions corresponds with Van der Zwet's (2003) study, who concluded that banks have a clear home bias, whereas insurance companies generate most of their income in foreign countries (cf. section 4.6.1). The exploration/ exploitation and expansion/ contraction ratio show no significant differences between banking and insurance firms. Moreover, half of the strategy types do not differ significantly across banks and insurers.

5.4 Strategic renewal behaviour across countries

This section analyses differences and similarities across countries. We first compare ratios of the four action categories aggregated on country level, and then investigate the division of strategy types across nations. To investigate the relation between individual firms' renewal behaviour and the national context, we assess the relatedness of individual firm's ratios within each country. The findings of these analyses are synthesised to evaluate the influence of the national institutional context on strategic renewal behaviour.

Table 5.3 shows the statistics on the four categories of strategic renewal actions across the seven countries. P-values of F-tests indicate statistically significant differences between the countries on all four coding categories at a 5% significance level. This indicates that the national context has a stronger influence on similar strategic renewal behaviour than the industry context (cf. Table 5.1). The internal/ external category shows quite some variance across the seven countries. It ranges from 25% external and 75% internal actions in the three UK firms to a division of 66% external to 34% internal actions of Dutch firms. The variety is even greater on the domestic/ international category. The Dutch financials were the most internationally active firms of the sample (78% of all actions), closely followed by French and German companies (about 70% international versus 30% domestic market). Norwegian financials, on the other hand, were much more oriented towards their home market (81% of all actions took place on domestic soil). Italian, British and Swedish firms had more balanced scores on this category. The exploration/ exploitation ratio shows less variance. Italian and British firms had the lowest scores; respectively 17% and 20% of their actions were exploration-oriented. Dutch and Norwegian firms display slightly higher ratios: respectively 24% and 26%. French and Swedish firms, in their turn, have higher scores (respectively 31% and 33%) than firms from the previously mentioned countries. Most exploration oriented were German financials (43%). The expansion/ contraction

category varies significantly and ranges from an average of 43% expansion actions by Norwegian firms to a maximum of 90% expansion actions undertaken by German firms. British firms averaged 53%. Firms from both Sweden and France lie within the 70%-80% bracket, whilst Italian and Dutch firms had average ratios of respectively 84% and 88%.

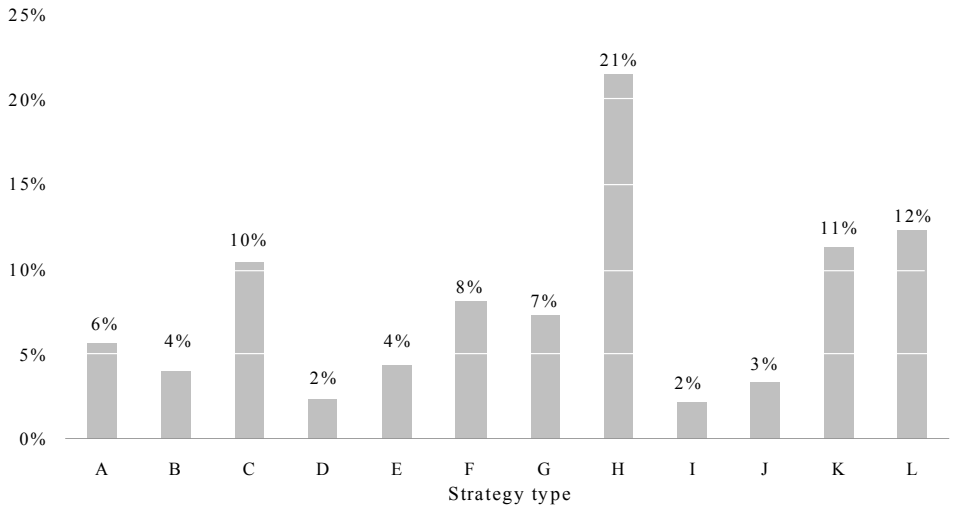
Division of strategy types on national level

This section analyses strategic renewal behaviour at the country level of analysis. We calculated the division of strategy types for each country by calculating the average percentual use of strategy types of individual firms. We use these data to detect the dominant renewal behaviour of financial incumbents operating within a country. We link these findings to the characteristics of the national financial markets that were described in chapter four.

France

External international exploitation expansion (type H) actions are most popular amongst the French firms (Figure 5.6), followed by strategy types L and K (both being international exploration actions; the first using external organisations, and the second the internal organisation).

Figure 5.6 Percentual division of strategy types of French financials (1990-1997)



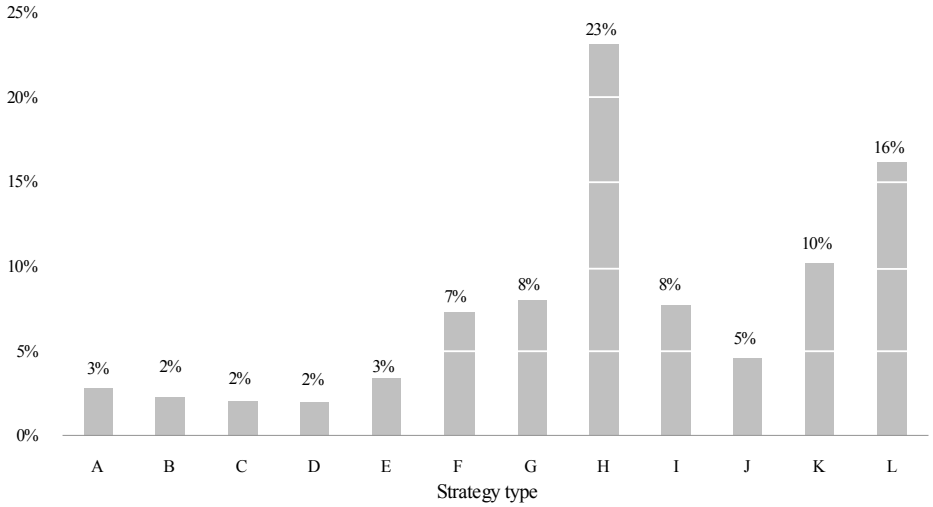
Source: Erasmus Strategic Renewal Center

This pattern indicates that French financials aimed to increase the scope of their international activities by expanding their geographical reach and by developing new activities on international markets. Some of the international operations were however

being rationalised and disposed of, as indicated by the fourth ranked strategy type (C: internal international exploitation contraction actions).
The five largest French banks had a concentration ratio of about 41% in the 1990-1997 period (cf. Table 4.8). This indicates room for domestic consolidation. French financials moreover score low on profitability indicators (cf. Tables 4.6 and 4.7). These data suggest that the French financials had some way to go in optimising the structure of their financial market. One would expect their renewal behaviour to focus on the domestic market. Our data however indicate a prevalence of internationalisation actions. Approximately half of international actions of French financials were aimed at exploration, that is, entering new geographic regions or developing new activities on international markets. This is a higher percentage than firms operating from other countries, and indicates that French financials were trying to establish operations on new foreign markets and exposed French financials to more competitive international markets. One explanation may be that foreign financials could not penetrate as easily into the French financial sector as French financial could in foreign markets. The Bank of France kept an eye on the French financial services sector, and foreign takeovers were tightly monitored and guided by the French government (Julius Baer, 1999). The high degree of governmental influence on the French financial sector (cf. section 4.5.1) thus seems to play a significant role in explaining the international orientation of French financials.

Germany
Figure 5.7 presents the averages of German firms. Strategy type H (external international exploitation expansion) is used most by German firms. Second and third ranked are respectively external and internal international exploration actions (strategy types L and K). German financials focused on developing international markets, preferably by acquiring or cooperating with other firms (external actions). A large part of international actions had an exploratory nature. The renewal behaviour of German financials thus resembled that of French companies. Germany was the least concentrated country in our sample of six EU countries (cf. Table 4.8 and 4.9), and German financials occupy an intermediate position in terms of profitability (Table 4.6; 4.7). A large part of international actions (approximately 70%) consisted of cooperative agreements or minority stakes in foreign financials, and only a few of full acquisitions. A substantial part of international actions of German financials were aimed at exploration, that is, entering new international markets or developing new activities in foreign countries. These underline the scouting character of internationalisation actions.

Figure 5.7 Percentual division of strategy types of German financials (1990-1997)



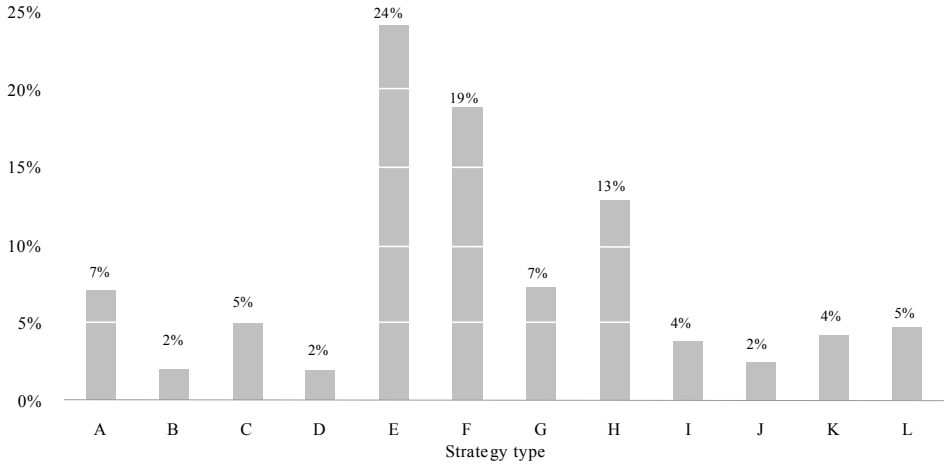
Source: Erasmus Strategic Renewal Center

Italy

Increasing the scale of activities, predominantly on the domestic, and then on the international market, dominated the strategic renewal behaviour of the five Italian firms. Strategy types E and F were used the most by Italian financials during the 1990-1997 period (Figure 5.8). These are actions aimed at exploiting the home market, either by the internal or via external organisations. Third in rank are type H, or external international exploitation expansion actions.

Contrary to French and German firms, it appears that Italian financials preferred to increase the scale and efficiency of domestic operations above developing international operations. The high degree of exploitation expansion actions on the domestic market is in line with the relatively low concentration ratio of 25% of the largest five Italian credit institutions (cf. Table 4.8 and 4.9), and with the second lowest score on indicators of profitability amongst the six countries investigated (Table 4.6 and 4.7). A closer look at the data reveals that domestic market actions occurred throughout the entire research period. Internationalisation actions were concentrated on the period 1994-1997. Italian financials seem to have followed a sequential process of consolidation on the domestic market, followed by a period of international expansion.

Figure 5.8 Percentual division of strategy types of Italian financials (1990-1997)



Source: Erasmus Strategic Renewal Center

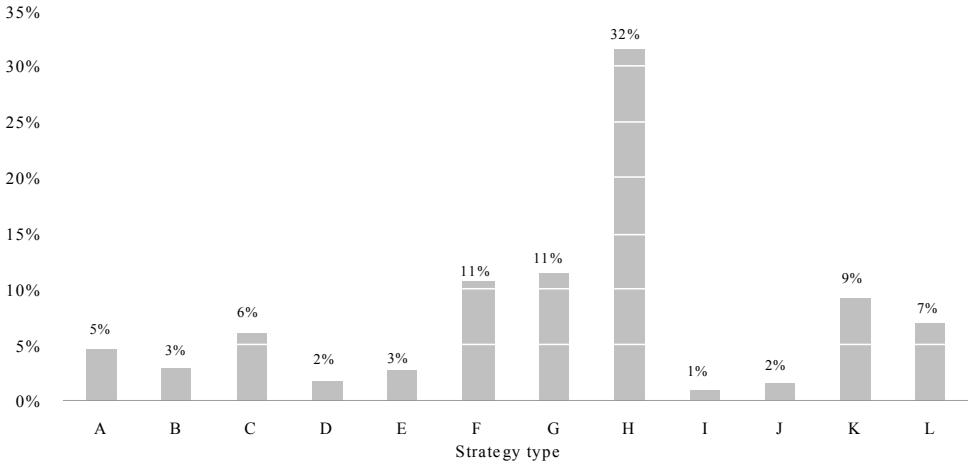
The Netherlands

Increasing scale on international markets, preferably by cooperating or acquiring other firms, is how one can describe the renewal behaviour of Dutch financial firms. Second in popularity are strategic actions that sought to explore international markets. Figure 5.9 shows that external international exploitation expansion (H) was the dominant strategy type of Dutch financials, followed by strategy types G, F and K.

The Dutch financial sector is highly concentrated (cf. Table 4.8 and 4.9) and has relatively low numbers of consumers. Dutch financials had to expand internationally[34] to get sufficient scale compared to other large European financials. Speed may explain the predominantly external orientation of internationalisation actions. Cooperation agreements or acquisitions can be put to work much quicker, and on a larger scale, than autonomously developing international operations. Overcapacity on most European markets (cf. section 4.1.1) was another reason for the dominance of external actions over internal actions. It is more reasonable to acquire or use another firms' network than to autonomously develop a network on markets that have overcapacity.

[34] Most internationalisation actions of Dutch firms were aimed at the European market. Second came actions on the US market, third actions in the Pacific region.

Figure 5.9 Percentual division of strategy types of Dutch financials (1990-1997)



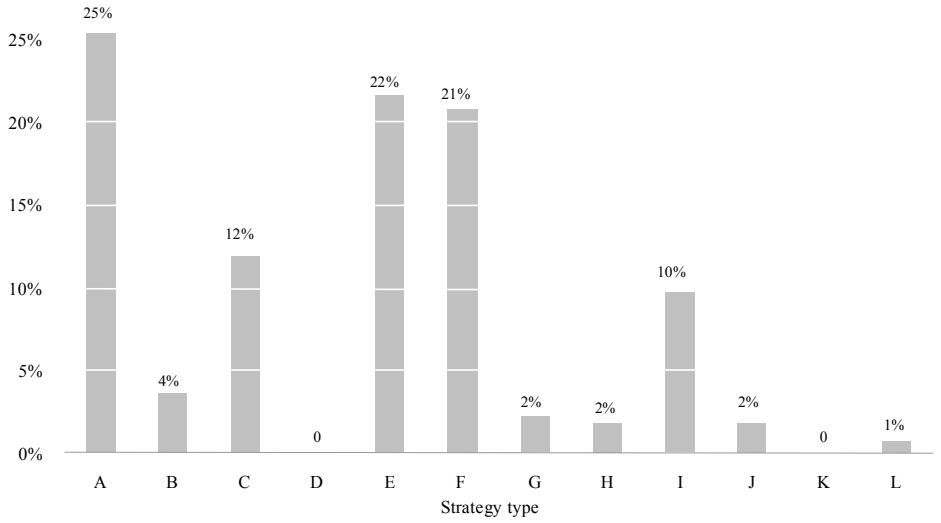
Source: Erasmus Strategic Renewal Center

Norway

Norwegian firms had three preferential strategy types (Figure 5.10): A, E and F. The first two are internal actions respectively aimed at scaling down (A) or up (E) activities on the domestic market. The third ranked strategy type, F, also focused on increasing domestic activities, however using external organisations. These three strategy types suggest a high degree of rationalisation and consolidation of activities by Norwegian financials on their home market during the 1990-1997 period.

The Norwegian financial system faced a severe crisis in the early nineties. Norwegian financials reacted to this crisis by rationalising and scaling down domestic market activities. They further consolidated domestic market activities by acquiring or cooperating with other financials. These actions allowed little room for expanding or exploring international markets as firms from other countries in our sample have done.

Figure 5.10 Percentual division of strategy types of Norwegian financials (1990-1997)



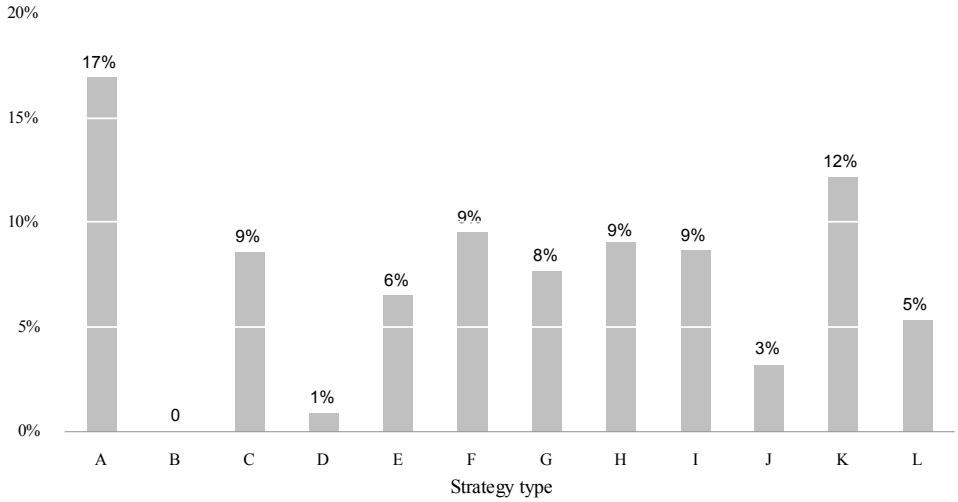
Source: Erasmus Strategic Renewal Center

Sweden

Figure 5.11 indicates that strategy type A has been most used by Swedish financials. Those are internal domestic market exploitation contraction actions. Second ranked is an almost opposite strategy type; K (internal international market exploration expansion). Strategy types F, H, I, C, and G were undertaken at roughly the same rate by Swedish financials. Most of these actions are focused on exploitation expansion actions. This set of actions however is rather diverse regarding the internal versus external, and domestic versus international categories.

The distressed state of the Swedish financial system in the early nineties explains the high degree of domestic market rationalisation (contraction) actions. The crisis was already conquered by the mid-nineties due to adequate government intervention. Swedish firms then sought to explore international markets – which is consistent with the extremely high concentration ratio of the Swedish credit institutions. Domestic market consolidation (that is, increasing scale) was another dominant pattern during the research period. The concentration ratio of the five largest credit institutions in Sweden rose by 15% in terms of assets, and 25% in terms of loans in the 1990-1995 time window (Table 4.8 and 4.9).

Figure 5.11 Percentual division of strategy types of Swedish financials (1990-1997)



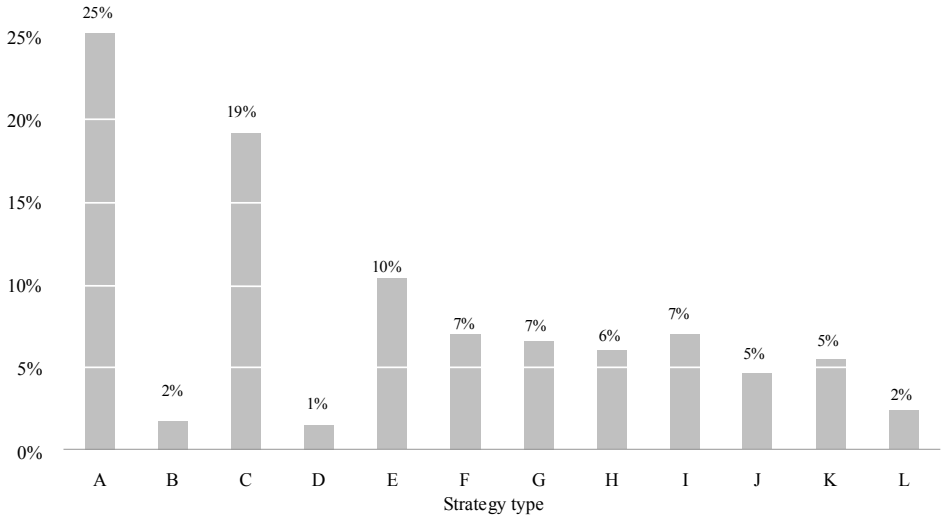
Source: Erasmus Strategic Renewal Center

United Kingdom

British financials' strategic renewal behaviour was dominated by strategy types A and C (Figure 5.12). Both are internal exploitation contraction actions (aimed at rationalising existing operations). The first type of actions is aimed at the domestic market, and the second on international markets. Third in rank are E, or internal domestic market exploitation expansion actions. A large set of actions, which have a mixed nature on all of the four categories, had similar proportions.

In the early nineties, British financial firms faced a severe economical headwind. This forced them to weed out unprofitable operations to increase efficiency and profitability. The larger part of these rationalisation operations were located on the domestic market, which is one explanation for the dominance of domestic market actions. Other explanations for the focus on the domestic market are the low degree of concentration of the British financials and their relatively high degree of profitability, which render actions aimed at internationalisation less attractive.

Figure 5.12 Percentual division of strategy types of British financials (1990-1997)



Source: Erasmus Strategic Renewal Center

Conclusion

The analysis of financial firms' strategic behaviour firms aggregated on country level indicates substantial differences across the seven European countries. Table 5.3 indicates significant differences between countries on the four categories of strategic renewal actions. Table 5.4 displays the percentual division of strategy types aggregated at country level. French, Dutch and German firms show some similarities in strategic renewal behaviour – all preferring strategy type H. Their dominant focus was international market expansion, mostly by using external parties. Financials located in Sweden, Norway and the United Kingdom share similarities in terms of domestic market consolidating and contraction actions. Italian firms are difficult to position, sharing some characteristics with Norwegian firms (in terms of domestic market exploitation), and some with French, Dutch and German firms (regarding international market expansion). P-values of F-tests further indicate that eight strategy types were significantly different at the 5% significance level. This also indicates a strong influence of the national context on individual firms' strategic renewal behaviour.

The references we made to developments in the seven European countries, such as the crises in Norway and Sweden and economic turmoil in the United Kingdom in the early nineties, suggest a rather strong influence of difficult periods within a country on the strategic behaviour of financial firms. Some patterns, such as the focus on international markets of Dutch firms, and the domestic market orientation of British financials, have links to the concentration and profitability characteristics of these nations. Other types of

behaviour, for instance the high degree of exploration of German firms, and the internationalisation drive by of French and German firms, are more difficult to explain by general characteristics. This might relate to exploration resulting from managerial intentionality behaviour, i.e., being generated at the firm level of analysis. Instead of looking for explanations at the institutional level, processes and characteristics at the organisation level could better explain exploration-type actions of strategic renewal.

This analysis indicates that the national institutional context within which financial services firms operate seems to have a substantial impact on the strategic behaviour of European financials. Periods of economic adversity especially appear to have a significant influence on individual firms' strategic acting. Other characteristics of national financial systems, such as concentration ratios and profitability figures, also seem to relate to financial firms' strategic renewal behaviour. However, not all can be explained by national institutional characteristics. We now turn to the firm level of analysis to look for explanations at the firm level.

Table 5.3 Statistics of country differences on four categories of strategic renewal

Strategic category	**Country**							
	France		*Germany*		*Italy*		*Netherlands*	
	Mean	(S.D.)	Mean	(S.D.)	Mean	(S.D.)	Mean	(S.D.)
External/internal	.55	(.26)	.60	(.25)	.46	(.28)	.66	(.30)
International/domestic	.71	(.21)	.70	(.18)	.38	(.31)	.78	(.28)
Exploration/exploitation	.31	(.20)	.43	(.28)	.17	(.19)	.23	(.32)
Expansion/contraction	.77	(.23)	.90	(.14)	.84	(.19)	.88	(.20)

N_{France}=39, $N_{Germany}$=32, N_{Italy}=38, $N_{Netherlands}$=38, N_{Norway}=31, N_{Sweden}=32,

Table 5.4 Statistics of country differences on the twelve strategy types

Strategy type	**Country**							
	France		*Germany*		*Italy*		*Netherlands*	
	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)
A	6.1	(11.3)	3.2	(7.3)	6.9	(11.4)	5.6	(17.5)
B	4.6	(11.0)	2.5	(7.3)	3.5	(16.0)	2.0	(6.5)
C	10.0	(13.0)	1.6	(6.2)	5.5	(8.7)	4.5	(9.8)
D	2.8	(6.8)	4.9	(19.0)	1.6	(4.5)	1.5	(3.9)
E	5.1	(13.8)	3.0	(7.7)	27.2	(23.8)	2.4	(7.6)
F	7.7	(10.9)	8.8	(12.3)	18.6	(18.6)	10.9	(20.7)
G	6.9	(9.7)	7.7	(10.0)	7.8	(12.0)	12.0	(16.0)
H	26.6	(27.6)	27.0	(24.5)	12.6	(15.6)	37.7	(33.3)
I	2.6	(5.9)	8.0	(12.0)	3.6	(8.6)	1.3	(5.8)
J	2.8	(5.6)	4.3	(8.4)	2.3	(6.5)	2.6	(10.0)
K	13.0	(15.0)	13.0	(21.0)	4.5	(6.7)	11.0	(18.0)
L	12.0	(15.0)	16.0	(15.0)	5.9	(17.0)	8.90	(15.0)

N_{France}=39, $N_{Germany}$=32, N_{Italy}=38, $N_{Netherlands}$=36, N_{Norway}=31, N_{Sweden}=32, $N_{UnitedKingdom}$=24,

5.5 Strategic renewal behaviour across firms

The previous sections investigated sectoral and country-specific characteristics in patterns of strategic renewal behaviour. We continue by analysing differences and similarities at the firm level of analysis. This section will result in firm specific characteristics in trajectories of strategic behaviour.

actions

						P-value
Norway		*Sweden*		*UK*		
Mean	(S.D.)	Mean	(S.D.)	Mean	(S.D.)	
.31	(.32)	.31	(.26)	.25	(.20)	.00
.19	(.32)	.50	(.36)	.39	(.25)	.00
.11	(.16)	.33	(.31)	.20	(.20)	.00
.58	(.34)	.72	(.27)	.53	(.21)	.00

$N_{UnitedKingdom}$=24

						P-value
Norway		*Sweden*		*UK*		
Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	Mean (%)	(S.D.) (%)	
26.9	(27.2)	19.0	(24.0)	26.6	(20.1)	.00
3.1	(10.0)	.0	(.0)	1.7	(4.6)	.59
13.0	(27.0)	10.0	(23.0)	18.0	(14.0)	.00
.0	(.0)	6.3	(3.5)	1.5	(3.6)	.26
19.2	(23.8)	11.0	(27.0)	11.4	(15.4)	.00
20.9	(26.2)	9.1	(18.1)	8.8	(16.1)	.01
4.7	(19.0)	5.7	(12.0)	6.5	(7.7)	.33
1.6	(9.0)	10.1	(19.8)	5.8	(9.6)	.00
8.8	(16.0)	8.0	(14.0)	8.3	(14.0)	.01
1.9	(7.4)	3.8	(11.0)	4.4	(6.9)	.83
.0	(.0)	19.0	(29.0)	5.2	(11.0)	.00
3.6	(2.0)	3.9	(10.0)	2.2	(4.3)	.00

N_{Total}=232

Table 5.5 shows the statistics of the four strategic categories of the total sample of financials. The external/ internal ratio varies from .15 (Prudential) to .83 (Allianz). United Bank of Norway had the lowest score on the international/ domestic ratio (.00), whilst Aegon (.95) was most internationally oriented. The differences on the exploration/ exploitation ratio are the lowest, ranging from .04 (Rabobank) to .49 (Société Générale and Commerzbank). The expansion/ contraction ratio is highest for Cariplo (.95) and lowest for Storebrand (.33). P-values of F-tests indicate that European financial firms significantly differ on all four coding categories at a 5% confidence level. This suggests that financial firms differentiate in their strategic renewal behaviour from one another.

Table 5.5 Statistics of firm differences on the four categories of strategic renewal actions[35]

Company	External/ internal			International/ domestic			Exploration/ exploitation			Expansion/ contraction		
	Mean	(S.D.)	N	Mean	(S.D.)	N	Mean	(S.D.)	N	Mean	(S.D.)	N
Axa	.64	(.25)	8	.65	(.23)	8	.21	(.21)	8	.75	(.25)	8
BNP	.68	(.24)	8	.84	(.05)	8	.37	(.20)	8	.83	(.18)	8
Paribas	.43	(.26)	8	.50	(.26)	8	.24	(.20)	8	.67	(.25)	8
SocGen	.43	(.17)	8	.81	(.10)	8	.49	(.12)	8	.90	(.15)	8
UAP	.58	(.33)	7	.74	(.13)	7	.23	(.14)	7	.70	(.26)	7
Allianz	.83	(.22)	8	.71	(.16)	8	.32	(.29)	8	.85	(.17)	8
Commerzb.	.62	(.17)	8	.60	(.24)	8	.49	(.35)	8	.93	(.14)	8
Deutsche B.	.43	(.12)	8	.72	(.15)	8	.42	(.08)	8	.87	(.15)	8
Dresdner B.	.51	(.29)	8	.77	(.16)	8	.48	(.35)	8	.94	(.12)	8
BCI	.48	(.30)	8	.33	(.26)	8	.09	(.12)	8	.89	(.12)	8
Cariplo	.41	(.27)	7	.31	(.23)	7	.25	(.14)	7	.95	(.09)	7
CRI	.31	(.27)	8	.24	(.14)	8	.11	(.09)	8	.80	(.13)	8
Generali	.49	(.17)	8	.79	(.12)	8	.24	(.10)	8	.90	(.07)	8
INA	.65	(.31)	7	.21	(.39)	7	.19	(.38)	7	.65	(.32)	7
Abn Amro	.63	(.31)	8	.85	(.10)	8	.23	(.16)	8	.88	(.10)	8
Aegon	.71	(.31)	8	.95	(.15)	8	.25	(.39)	8	.93	(.20)	8
Fortis	.71	(.37)	7	.38	(.32)	7	.16	(.37)	7	.72	(.34)	7
ING	.51	(.22)	8	.84	(.23)	8	.40	(.38)	8	.92	(.14)	8
Rabobank	.75	(.31)	7	.81	(.21)	7	.04	(.09)	5	.93	(.13)	7
Christiania	.29	(.26)	8	.07	(.14)	8	.13	(.17)	8	.52	(.32)	8
DNB	.24	(.25)	8	.30	(.36)	8	.07	(.10)	8	.72	(.32)	8
Storebrand	.33	(.47)	7	.43	(.45)	7	.12	(.21)	7	.33	(.32)	7
UBN	.40	(.32)	8	.00	(.00)	8	.13	(.18)	8	.71	(.33)	8
Handelsb.	.37	(.33)	8	.61	(.33)	8	.38	(.35)	8	.90	(.15)	8
S-E-B	.25	(.21)	8	.29	(.25)	8	.29	(.24)	8	.73	(.20)	8
Skandia	.19	(.20)	8	.82	(.20)	8	.40	(.35)	8	.60	(.42)	8
Swedbank	.42	(.27)	8	.27	(.33)	8	.26	(.35)	8	.67	(.18)	8
Barclays	.26	(.14)	8	.51	(.14)	8	.23	(.06)	8	.58	(.10)	8
Lloyds TSB	.32	(.23)	8	.36	(.22)	8	.15	(.18)	8	.51	(.18)	8
Prudential	.15	(.18)	8	.30	(.33)	8	.23	(.29)	8	.51	(.32)	8
P-value	.00			.00			.00			.00		

Table 5.6 shows the percentual division per strategy type (averaged over the eight years) for the research sample. We do not discuss each firm individually on its strategic renewal characteristics. Instead, we zoom in on the most important findings of this analysis. P-values of F-tests indicate significant differences (at a 5% confidence level) of nine out of twelve strategy types. Strategic renewal behaviour was similar in three strategy types. This

[35] The mean ratios in Table 5.5 are unweighted averages over the eight years (1990-1997).

points at deviant strategic renewal behaviour on most strategy types of large European financials.

Table 5.6 also shows the frequency of strategic renewal actions (SRA) per year. The frequency varies over the sample of firms, the bigger firms typically displaying a higher frequency than the smaller firms. We also note significant differences between firms on this metric – suggesting that European financials differed in the number of strategic actions they undertook during the research period.

Table 5.6 Statistics of firm differences on the twelve strategy types

Company	A			B			C			D			E			F		
	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N
Axa	10.1	(10.8)	8	7.6	(18.0)	8	3.7	(7.9)	8	5.2	(8.8)	8	6.4	(14.1)	8	8.6	(8.6)	8
BNP	2.5	(7.1)	8	1.6	(4.4)	8	15.0	(15.0)	8	.0	(.0)	8	.0	(.0)	8	7.3	(10.4)	8
Paribas	12.0	(17.7)	8	4.5	(9.2)	8	11.0	(13.0)	8	6.5	(9.8)	8	15.7	(24.8)	8	12.1	(16.1)	8
SocGen	.0	(.0)	8	.0	(.0)	8	9.9	(15.0)	8	.0	(.0)	8	1.6	(4.4)	8	5.8	(10.8)	8
UAP	6.0	(10.4)	7	9.9	(14.0)	7	12.0	(15.0)	7	2.4	(6.3)	7	1.6	(4.2)	7	4.2	(7.2)	7
Allianz	2.1	(5.9)	8	8.3	(13.0)	8	.0	(.0)	8	13.0	(35.0)	8	.0	(.0)	8	7.7	(10.9)	8
Commerzb.	1.8	(5.1)	8	1.8	(5.1)	8	.0	(.0)	8	4.2	(12.0)	8	4.2	(11.8)	8	11.5	(16.0)	8
Dresdner B.	4.2	(11.8)	8	.0	(.0)	8	.0	(.0)	8	2.1	(5.9)	8	4.5	(9.1)	8	7.3	(13.7)	8
Deutsche B.	4.7	(5.4)	8	.0	(.0)	8	6.3	(12.0)	8	0.8	(2.4)	8	3.2	(4.8)	8	8.7	(9.5)	8
BCI	.0	(.0)	8	.0	(.0)	8	11.0	(12.0)	8	.0	(.0)	8	39.1	(17.8)	8	22.4	(26.3)	8
Cariplo	1.1	(2.9)	7	.0	(.0)	7	.0	(.0)	7	4.0	(7.6)	7	31.3	(19.4)	7	23.5	(14.9)	7
CRI	9.8	(7.1)	8	1.9	(3.6)	8	8.2	(9.4)	8	1.0	(2.7)	8	42.0	(28.5)	8	18.9	(15.0)	8
Generali	4.4	(9.0)	8	.0	(.0)	8	6.5	(7.1)	8	0.9	(2.5)	8	4.7	(5.2)	8	10.4	(4.9)	8
INA	20.0	(17.7)	7	17.0	(37.0)	7	.0	(.0)	7	2.4	(6.3)	7	18.6	(22.3)	7	18.6	(26.1)	7
ABN Amro	6.1	(9.6)	8	.8	(2.4)	8	3.2	(5.9)	8	3.0	(5.7)	8	1.8	(5.1)	8	5.8	(8.5)	8
Aegon	.0	(.0)	8	1.8	(5.1)	8	5.4	(15.0)	8	.0	(.0)	8	3.6	(10.1)	8	.0	(.0)	8
Fortis	14.3	(37.8)	7	4.8	(13.0)	7	7.4	(10.0)	7	2.0	(5.4)	7	.0	(.0)	7	36.5	(34.3)	7
ING	1.8	(5.1)	8	.0	(.0)	8	5.4	(9.9)	8	1.8	(3.4)	8	4.2	(11.8)	8	.7	(2.1)	8
Rabobank	7.3	(10.1)	5	3.3	(7.5)	5	.0	(.0)	5	.0	(.0)	5	2.0	(4.5)	5	17.0	(12.9)	5
Christiania	37.5	(31.8)	8	3.1	(8.8)	8	7.3	(14.0)	8	.0	(.0)	8	17.7	(20.1)	8	21.9	(26.3)	8
DNB	16.9	(18.9)	8	2.5	(7.1)	8	11.0	(16.0)	8	.0	(.0)	8	30.0	(27.8)	8	14.9	(19.2)	8
Storebrand	23.8	(23.3)	7	7.1	(19.0)	7	36.0	(48.0)	7	.0	(.0)	7	9.5	(25.2)	7	4.8	(12.6)	7
UBN	29.0	(32.7)	8	.0	(.0)	8	.0	(.0)	8	.0	(.0)	8	18.3	(21.7)	8	40.0	(32.1)	8
Handelsb.	7.5	(14.9)	8	.0	(.0)	8	.0	(.0)	8	.0	(.0)	8	9.4	(18.6)	8	4.7	(9.3)	8
S-E-B	26.0	(20.4)	8	.0	(.0)	8	2.5	(7.1)	8	2.5	(7.1)	8	28.6	(45.2)	8	.0	(.0)	8
Skandia	6.7	(12.8)	8	.0	(.0)	8	34.0	(37.0)	8	.0	(.0)	8	6.3	(17.7)	8	.0	(.0)	8
Swedbank	35.8	(32.4)	8	.0	(.0)	8	4.2	(12.0)	8	.0	(0.)	8	.0	(.0)	8	31.7	(24.0)	8
Barclays	16.2	(11.0)	8	2.6	(4.0)	8	23.0	(12.0)	8	.7	(2.1)	8	12.4	(6.4)	8	6.3	(6.2)	8
Lloyds TSB	28.3	(8.6)	8	.0	(.0)	8	18.0	(15.0)	8	3.7	(5.5)	8	4.7	(7.5)	8	15.7	(25.7)	8
Prudential	35.4	(30.2)	8	2.5	(7.1)	8	12.0	(13.0)	8	.0	(.0)	8	17.1	(24.3)	8	4.3	(8.1)	8
P-value	**.00**			**.24**			**.00**			**.66**			**.00**			**.00**		

Table 5.6 (continued) Statistics of firm differences on the twelve strategy types

Company	G			H			I			J			K			L			Number of actions		
	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean (%)	(S.D.) (%)	N	Mean	(S.D.)	N
Axa	6.4	(9.6	8	31.0	(29.7)	8	8.9	(11.0)	8	3.3	(4.6)	8	.0	(.0)	8	8.8	(11.0)	8	9.3	(5.9)	8
BNP	7.6	(11.0)	8	28.8	(24.0)	8	21.0	(24.0)	8	.0	(.0)	8	5.9	(8.3)	8	10.0	(11.0)	8	6.8	(1.8)	8
Paribas	1.4	(3.9)	8	13.0	(17.7)	8	5.9	(9.3)	8	2.1	(5.9)	8	1.3	(3.5)	8	15.0	(15.0)	8	7	(2.7)	8
SocGen	16.0	(9.4)	8	17.4	(17.0)	8	12.0	(14.0)	8	7.1	(9.8)	8	4.9	(6.8)	8	25.0	(22.0)	8	7.3	(3.1)	8
UAP	2.4	(6.3)	7	44.8	(40.5)	7	11.0	(12.0)	7	.0	(.0)	7	1.6	(4.2)	7	5.2	(9.7)	7	6.4	(1.7)	7
Allianz	5.7	(12.0)	8	39.6	(27.2)	8	15.0	(15.0)	8	2.1	(5.9)	8	4.6	(8.5)	8	2.1	(5.9)	8	5.5	(1.9)	8
Commerzb.	4.3	(8.1)	8	22.2	(23.5)	8	19.0	(19.0)	8	19.0	(16.0)	8	4.2	(12.0)	8	8.3	(15.0)	8	4.9	(2.0)	8
Dresdner B.	8.0	(13.0)	8	25.9	(32.0)	8	18.0	(16.0)	8	2.8	(5.9)	8	5.5	(8.0)	8	22.0	(34.0)	8	6.6	(6.3)	8
Deutsche B.	13.0	(7.2)	8	20.1	(9.1)	8	11.0	(12.0)	8	8.2	(8.4)	8	3.2	(6.1)	8	22.0	(14.0)	8	11.0	(4.0)	8
BCI	1.5	(2.8)	8	16.2	(18.1)	8	.8	(2.4)	8	3.2	(7.1)	8	4.0	(7.0)	8	1.4	(3.9)	8	8.4	(5.5)	8
Cariplo	11.0	(14.0)	7	5.5	(7.4)	7	7.0	(8.7)	7	11.0	(16.0)	7	1.2	(3.2)	7	4.7	(6.5)	7	6.9	(4.9)	8
CRI	3.1	(3.5)	8	4.3	(8.0)	8	1.9	(5.4)	8	1.6	(4.6)	8	1.6	(3.0)	8	5.7	(4.4)	8	14.6	(8.8)	8
Generali	23.0	(11.0)	8	30.4	(11.7)	8	6.9	(6.1)	8	2.3	(4.7)	8	.0	(.0)	8	10.0	(9.7)	8	12.6	(2.8)	8
INA	.0	(.0)	7	4.8	(12.6)	7	14.0	(38.0)	7	.0	(.0)	7	4.8	(13.0)	7	.0	(.0)	7	3.1	(2.2)	8
ABN Amro	12.0	(.16)	8	44.7	(24.0)	8	6.5	(10.0)	8	.8	(2.4)	8	.0	(.0)	8	15.0	(18.0)	8	9.5	(4.2)	8
Aegon	4.9	(9.5)	8	59.4	(43.1)	8	10.0	(20.0)	8	.0	(.0)	8	.0	(.0)	8	15.0	(21.0)	8	3.3	(2.0)	8
Fortis	7.4	(10.0)	7	9.8	(14.3)	7	11.0	(20.0)	7	.0	(.0)	7	7.1	(19.0)	7	.0	(.0)	7	3.9	(3.1)	8
ING	16.0	(12.0)	8	30.8	(28.0)	8	13.0	(12.0)	8	5.2	(12.0)	8	4.2	(12.0)	8	18.0	(23.0)	8	7.8	(4.8)	8
Rabobank	24.0	(27.0)	5	42.0	(35.5)	5	2.0	(4.5)	5	.0	(.0)	5	2.0	(4.5)	5	.0	(.0)	5	4.4	(3.7)	8
Christiania	.0	(.0)	8	.0	(.0)	8	.0	(.0)	8	8.3	(15.0)	8	4.2	(12.0)	8	.0	(.0)	8	2.9	(1.0)	8
DNB	18.0	(35.0)	8	.0	(.0)	8	1.4	(3.9)	8	2.5	(7.1)	8	3.1	(8.8)	8	.0	(.0)	8	4.4	(2.4)	8
Storebrand	.0	(.0)	7	7.1	(18.9)	7	.0	(.0)	7	12.0	(21.0)	7	.0	(.0)	7	.0	(.0)	7	1.8	(1.0)	8
UBN	.0	(.0)	8	.0	(.0)	8	.0	(.0)	8	13.0	(18.0)	8	.0	(.0)	8	.0	(.0)	8	3.9	(3.1)	8
Handelsb.	18.0	(16.0)	8	19.7	(34.0)	8	5.0	(14.0)	8	7.8	(18.0)	8	9.4	(19.0)	8	19.0	(22.0)	8	4.3	(2.2)	8
S-E-B	5.0	(9.3)	8	4.3	(8.1)	8	1.8	(5.1)	8	13.0	(18.0)	8	6.0	(12.0)	8	10.0	(20.0)	8	3.6	(2.3)	8
Skandia	.0	(.0)	8	14.0	(15.5)	8	.0	(.0)	8	6.7	(13.0)	8	.0	(.0)	8	33.0	(37.0)	8	3.8	(1.9)	8
Swedbank	.0	(.0)	8	2.5	(7.1)	8	8.8	(13.0)	8	4.6	(8.5)	8	.0	(.0)	8	13.0	(35.0)	8	3.1	(1.9)	8
Barclays	7.6	(6.0)	8	7.9	(9.2)	8	3.7	(4.0)	8	8.0	(5.4)	8	4.5	(4.5)	8	6.9	(6.3)	8	17.1	(5.0)	8
Lloyds TSB	8.5	(10.0)	8	5.9	(10.1)	8	.8	(2.4)	8	8.3	(18.0)	8	6.2	(8.9)	8	.0	(.0)	8	10.4	(5.1)	8
Prudential	3.5	(6.2)	8	3.6	(10.1)	8	2.1	(5.9)	8	8.6	(16.0)	8	2.5	(7.1)	8	8.8	(18.0)	8	5.6	(2.0)	8
P-value	**.00**			**.00**			**.05**			**.82**			**.00**			**.01**			**.00**		

The data of the firm level of analysis show significant differences at the four coding categories and on nine (out of twelve) strategy types. Financial firms showed similar behaviour on three strategy types. We also found differences regarding the number of strategic actions that were employed by European financials. These findings indicate room for firm specific, or idiosyncratic, strategic renewal behaviour. The concluding section of this chapter goes deeper into these findings.

5.6 Differences and similarities at the sector, country, and firm level of analysis

This chapter investigated main characteristics of strategic renewal behaviour across the research sample. We started by showing main characteristics of strategic renewal, followed by descriptive statistics pertaining to the industry, country, and firm levels of analysis. The main conclusions are that:

1. At the sector level of analysis, there are more similarities than differences between European financials. That is, belonging to the banking or insurance sector does lead to some, but less important differences in strategic renewal behaviour than those found at the country and firm level of analysis.
2. At the country level of analysis, differences are more apparent than similarities. A financial's home country seems to have a significant influence on individual financials' strategic renewal behaviour.
3. At the firm level of analysis, differences prevail over similarities. European financials appear to have adopted firm-specific strategic renewal behaviour.
4. Not all strategy types that significantly differ at the sector level of analysis also differ at the country and/ or firm level of analysis. The strategic categories that significantly differ at the sector level of analysis do also differ at the country and firm level of analysis.

Table 5.7 illustrates these findings in greater detail. It shows the P-values of the four coding categories and the twelve strategy types to indicate differences and similarities across sectors, countries, and firms.

Table 5.7 Summary of differences and similarities across sectors, countries, and firms

Metric	**Sector**	**Country**	**Firm**
Coding category	*P-value*	*P-value*	*P-value*
External/ internal	.03	.00	.00
International/ domestic	.00	.00	.00
Exploration/ exploitation	.86	.00	.00
Expansion/contraction	.06	.00	.00
Strategy type[36]			
A	.44	.00	.00
B	.00	.59	.24
C	.09	.00	.00
D	.37	.26	.66
E	.01	.00	.00
F	.02	.01	.00
G	.38	.33	.00
H	.00	.00	.00
I	.07	.01	.05
J	.22	.83	.82
K	.99	.00	.00
L	.40	.00	.01

1. More similarities than differences across sectors

The analysis of strategic behaviour between banking and insurance firms revealed similar behaviour with respect to the exploration/ exploitation, and expansion/ contraction categories, as well as on eight strategy types. This finding points at industry effects pertaining to the content of strategic renewal.

The results further indicated a marked difference in the external/ internal and international/ domestic categories, suggesting differences regarding the context dimension of strategic renewal. Moreover, we found differences in four strategy types. A further investigation of the strategy types revealed that especially strategy types H and E largely explain this difference. Insurance firms undertook a higher percentage of external international exploitation actions, whereas banking firms preferred internal domestic market exploitation expansion actions.

2. More differences than similarities across countries

At the country level of analysis, the results indicated more differences than similarities in strategic renewal behaviour analysis. Significant differences appeared at all four coding

[36] We acknowledge that some strategy types were employed more than others. We found this does not change the balance of differences and similarities across sectors, countries, or firms.

categories and in eight strategy types. Moreover, it appeared that differences between national institutional and market characteristics on country level, as well as major shocks that occurred during the research period, had a significant influence on the distribution of strategy types of financial services firms. These results point at country effects.

3. More differences than similarities across firms

Strategic renewal behaviour also appeared to differ at the firm level of analysis. The thirty European financials significantly differed at all four coding categories, and in nine strategy types. Moreover, differences appeared regarding the frequency of strategic renewal actions. This suggests firm specific effects.

4. Comparing findings of different levels of analysis

There are some deviations regarding differences and similarities in the use of strategy types depending on level of analysis. Strategy type B (cutting ties with external parties at the home market) is significantly different at the sector level of analysis, but not at the country or firm level of analysis. This is remarkable, as strategy types (and strategic orientations) typically tend to be more different at the country and firm level of analysis than at the sector level of analysis.

The next chapter discusses these preliminary findings more deeply. Based on the results of the changing landscape of European financial services and the four main findings of strategic renewal behaviour of the sample of financial incumbents, we select a subsample to further test our findings that strategic renewal attributes tend to operate differently at different levels of analysis.

6 Strategic renewal of British, Dutch, and French financial incumbents

We analysed strategic renewal behaviour across the sample of European financial incumbents at three different levels of analysis in the previous chapter. The findings point at the three dimensions of strategic renewal operating differently, depending on the level of analysis chosen. We aim to study these generic findings more precisely by focusing on a subset of countries and firms that allows a more detailed analysis of strategic renewal behaviour. The analysis of the changing landscape of European financial services pictured changes in the European financial services industry. The results suggest growing convergence among European countries, and indicate increasing levels of environmental turbulence during the nineties. National differences however still exist. The results suggest that some countries moved faster than others in diffusing changes. More specifically, regulatory and technological changes were implemented quickest in the British and Dutch financial services sectors. Sweden was fast in implementing new technologies, but slow in diffusing new regulations. France and Italy were late movers in both regulatory and technological developments. This chapter explores strategic renewal characteristics of a subset of our sample of firms. More specifically, we selected financials from the two fast moving countries the Netherlands and the UK, and of late mover France. This provides different research contexts in terms of national institutional environments. We structure our investigation of financial incumbents' strategic renewal behaviour around our set of propositions.

The first section investigates how financial incumbents renew in an increasingly turbulent environment, and seeks to disentangle environmental selection, institutional, and managerial intentionality effects on strategic renewal. The results show that the sample of British, Dutch, and French financial services firms favoured exploitation over exploration actions. This suggests similarities regarding the content of strategic renewal actions across firms and nations. The context of renewal actions, measured as the balance of external to internal renewal actions, shows similarity across firms operating within one country. This indicates national specific or institutional effects. The frequency of renewal actions however appears to be a firm-specific variable, suggesting managerial intentionality. These results suggest analysing strategic renewal at the industry, country, and firm level to enable dissecting different effects on strategic renewal behaviour.

We acknowledge this finding by investigating interdependencies between the three levels of analysis. As such, the second section assesses interaction effects between levels of analysis to study coevolution in financial services. We specifically investigate country-firm, within-country, and firm-regulatory coevolutionary interactions. In summary, these findings suggest that single lens perspectives partially explain strategic renewal behaviour

of large European financial services firms, and the addition of a coevolutionary perspective aids to understand deviations of single lens perspectives.

6.1 Strategic renewal characteristics of British, Dutch, and French financials

This section investigates strategic renewal behaviour of the selection of financial incumbents. We structure the analysis around the three dimensions of strategic renewal, and first present results aggregated at the country level of analysis. Similarities across countries indicate industry selection effects, whilst differences point at national institutional effects. We then zoom in on the firm level of analysis to study managerial intentionality.

The context of strategic renewal is indicated by the external/ internal ratio of strategic renewal actions. Table 6.1 displays average external/ internal actions ratios of the Dutch, British, and French financial incumbents. Dutch incumbents appear to have a preference for external over internal actions, and Figure 6.1 shows the development of this ratio over the research period for each of the three countries. About 60% of strategic actions of Dutch financials were externally oriented. French incumbents are on average more balanced in using external and internal actions of renewal. U.K. firms show a different pattern. On average, only one quarter of their actions were externally oriented.

Table 6.1 Averaged indicators of context, content, and process of strategic renewal actions of financial incumbents in three countries (1990-1997)

	Dutch financials	**French financials**	**British financials**
External/ internal ratio*	0.63	0.55	0.24
Exploration/ exploitation ratio**	0.20	0.32	0.21
Frequency of renewal actions***	5.8	7.4	10.7

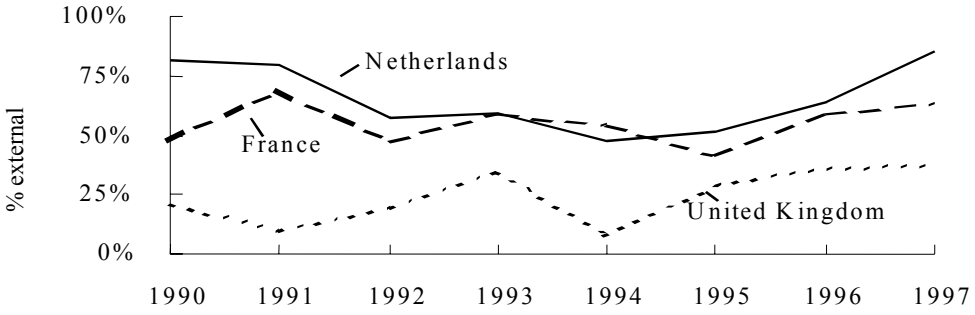
Source: Erasmus Strategic Renewal Center

* External actions related to total number of actions (NL N=209; FR: N=257; UK: N=217)

** Exploration actions related to total number of actions (NL N=209; FR: N=257; UK: N=217)

*** Average number of renewal actions per year per firm

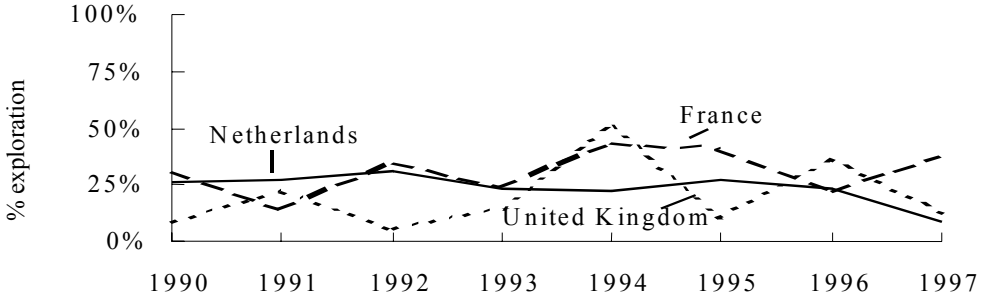
Figure 6.1 Average external/ internal ratio of Dutch, French, and British financials (1990-1997)



Source: Erasmus Strategic Renewal Center

The content of strategic renewal is operationalised using the exploration/ exploitation ratio. Table 6.1 also shows this indicator using the averaged ratio of financial incumbents analysed in each country, and Figure 6.2 shows the development of this ratio over time. Contrary to the findings with respect to external/ internal ratios, the Dutch, French, and U.K. firms appear to have comparable average exploration/ exploitation ratios. In all three countries, exploitation actions by far outnumber exploration actions. Both Dutch and UK incumbents appeared to have about 80% of their actions focused on exploitation. French companies were also biased towards using exploitation actions of renewal, averaging about 70% over the research period.

Figure 6.2 Average exploration/ exploitation ratio of Dutch, French, and British financials (1990-1997)



Source: Erasmus Strategic Renewal Center

Thirdly, we focus on the process of strategic renewal, which is indicated by the frequency of strategic renewal actions. Table 6.2 presents the average number of renewal actions per

country per year. These data indicate differences across countries. Dutch firms have the lowest number of strategic actions per year. British firms are most active, and French firms fall in between the frequency scores of Dutch and British firms.

We continue by investigating differences and similarities at firm level. Table 6.2 presents eight-year averages of the external/ internal ratio and standard deviations of the thirteen individual companies. Four Dutch financial incumbents predominantly used external actions, whereas one company deviated from the rest. This company, ING, had a balance of 48% external to 52% internal actions. Three French incumbents had evenly balanced external/ internal ratios. BNP and UAP however used more external than internal actions. All three British firms favoured internal over external actions.

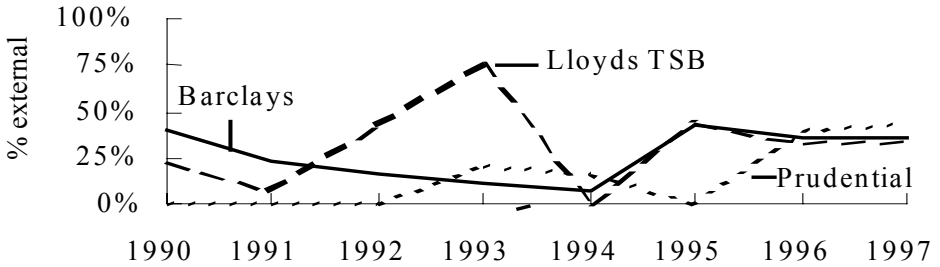
Table 6.2 also presents standard deviation scores. We use the standard deviation as a measure of the volatility of strategic renewal behaviour. The standard deviations indicate that some firms, like Barclays and Société Générale, have had a more stable pattern on the context dimension of strategic renewal than others, such as Fortis and UAP. Figures 6.3-6.5 further indicate different trajectories over time of the sample companies. That is, although the average ratio might be similar, the timing and balancing of strategic renewal actions show firm-specifics.

Table 6.2 Firm specific average external/ internal actions ratios and standard deviations (1990-1997)[37]

Dutch financials		**French financials**		**British financials**	
ABN Amro	0.68 (0.31)	Axa	0.53 (0.25)	Barclays	0.28 (0.14)
Aegon	0.58 (0.30)	BNP	0.70 (0.24)	Lloyds TSB	0.29 (0.23)
Fortis	0.74 (0.37)	Paribas	0.45 (0.26)	Prudential	0.16 (0.18)
ING	0.48 (0.22)	SocGen	0.47 (0.17)		
Rabobank	0.66 (0.30)	UAP	0.60 (0.33)		

Source: Erasmus Strategic Renewal Center

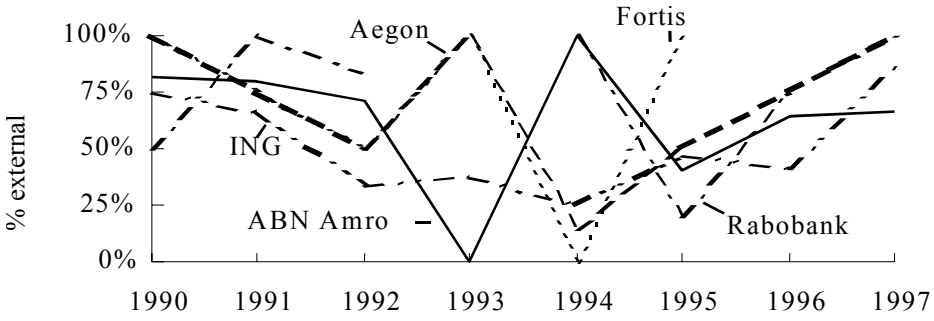
Figure 6.3 External/ internal ratio of British financials (1990-1997)



Source: Erasmus Strategic Renewal Center

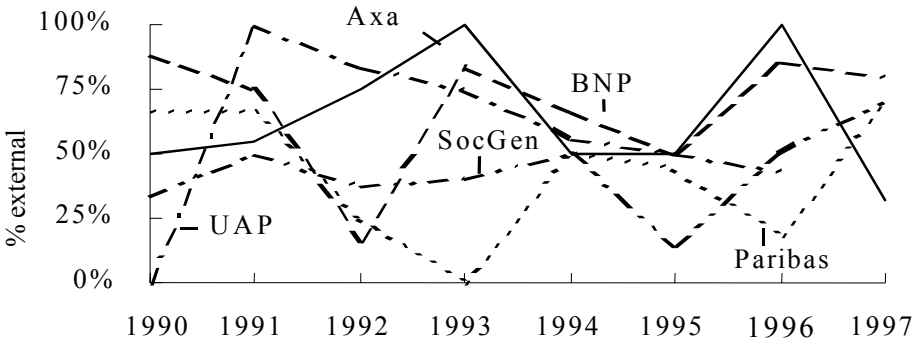
[37] The mean ratios in Table 6.2 are weighted averages over the eight years (1990-1997).

Figure 6.4 External/ internal ratio of Dutch financials (1990-1997)



Source: Erasmus Strategic Renewal Center

Figure 6.5 External/ internal ratio of French financials (1990-1997)



Source: Erasmus Strategic Renewal Center

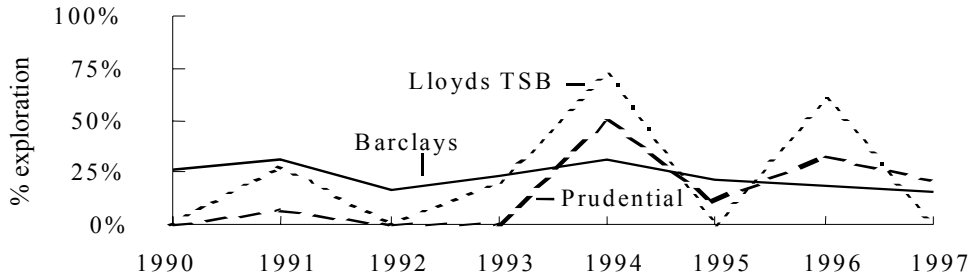
Table 6.3 presents the eight-year averages and standard deviations of the exploration/ exploitation actions ratio. Most of the thirteen firms exhibited exploration/ exploitation ratios of between 10% and 25% in the 1990-1997 study period. Two firms, ING and Société Générale, however, showed exploration/ exploitation ratios that were significantly higher than the other sample firms. BNP also has a higher exploration score. The standard deviations of the exploration/ exploitation ratios indicate varying levels of volatility across this sample of incumbents. It ranges between a low of 0.06 (Barclays), indicating a stable pattern of exploitation to exploration actions, to a high of 0.39 (Aegon), suggesting substantial variance between years of mainly exploitation, and years of predominantly exploration actions. Figures 6.6-6.8 illustrate this volatility, or differences in balancing exploration and exploitation actions over time, regarding this dimension.

Table 6.3 Firm specific average exploration/ exploitation actions ratios and standard deviations (1990-1997)[38]

Dutch financials		French financials		UK financials	
ABN Amro	0.21 (0.16)	Axa	0.26 (0.21)	Barclays	0.23 (0.06)
Aegon	0.21 (0.39)	BNP	0.37 (0.20)	Lloyds TSB	0.14 (0.18)
Fortis	0.10 (0.37)	Paribas	0.25 (0.20)	Prudential	0.24 (0.29)
ING	0.42 (0.38)	SocGen	0.48 (0.12)		
Rabobank	0.07 (0.09)	UAP	0.23 (0.14)		

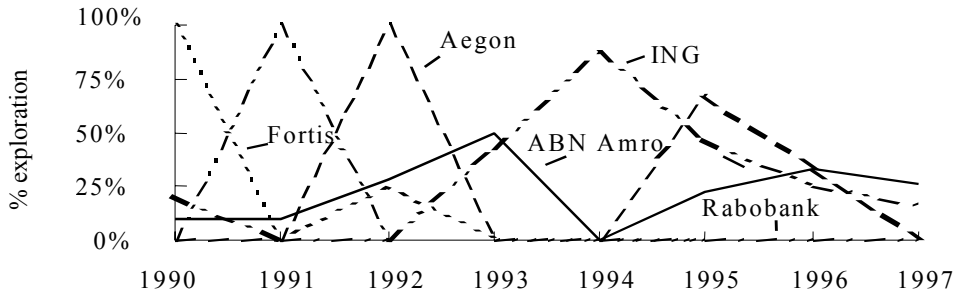
Source: Erasmus Strategic Renewal Center

Figure 6.6 Exploration/ exploitation ratio of British financials (1990-1997)



Source: Erasmus Strategic Renewal Center

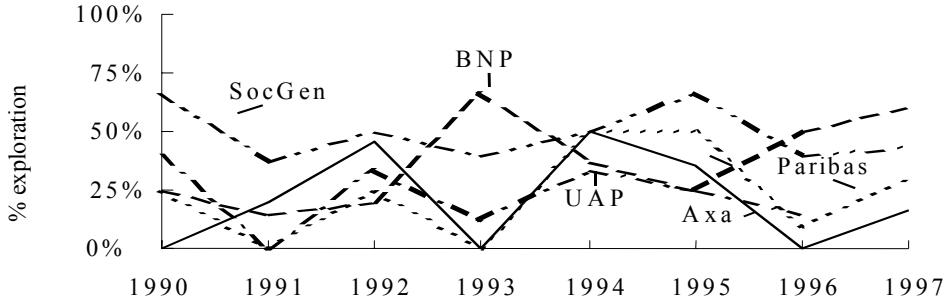
Figure 6.7 Exploration/ exploitation ratio of Dutch financials (1990-1997)



Source: Strategic Renewal Center

[38] The mean ratios in Table 6.3 are weighted averages over the eight years (1990-1997).

Figure 6.8 Exploration/ exploitation ratio of French financials (1990-1997)



Source: Strategic Renewal Center

We thirdly investigate the process dimension of renewal actions at firm level. Tl frequency of strategic renewal actions, calculated as the average number of renewal actions per year over the time period 1990-1997, is presented in Table 6.3. The data show significant differences in the firm specific average frequencies of strategic renewal actions. In the Netherlands, ABN Amro had the highest average number of actions per year (9.5). In France, Axa (9.3 actions per year) was most active, whilst the British Barclays undertook on average 16.6 actions per year. This starkly contrasts with the least active firms we investigated in the three countries. Aegon executed on average 3.3, UAP 6.4, and Prudential 5.6 actions per year.

Table 6.4 Firm specific average number of renewal actions per year (frequency) (1990-1997)

Dutch financials		**French financials**		**UK financials**	
ABN Amro	9.5	Axa	9.3	Barclays	16.6
Aegon	3.3	BNP	6.8	Lloyds TSB	10.0
Fortis	3.9	Paribas	7.0	Prudential	5.6
ING	7.8	Société Générale	7.3		
Rabobank	4.4	UAP	6.4		

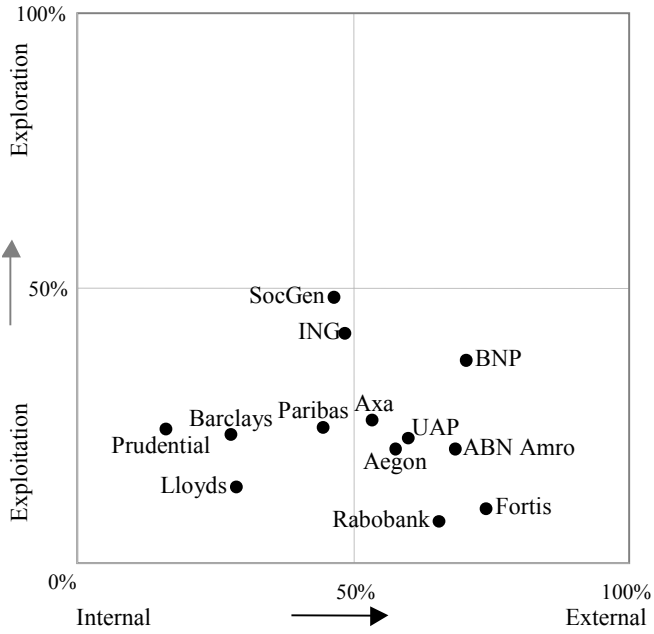
Source: Erasmus Strategic Renewal Center

Analysis and interpretation

To summarise the findings across the thirteen firms, we position the companies along two dimensions. The horizontal axis of Figure 6.9 shows the average external/ internal ratio over the eight-year research period. The vertical axis depicts the eight-year average exploration/ exploitation ratio. The results show that the exploration/ exploitation ratio of strategic renewal actions is fairly similar across the sample of firms. In other words, the content of strategic renewal seems to be influenced by environmental selection effects. The

external/ internal ratio of strategic renewal actions shows differences across the three countries. The context of strategic renewal thus appears to be driven by institutional effects. Both the frequency and volatility of strategic renewal actions show differences across the sample of incumbents. This suggests that the process of strategic renewal is influenced by managerial intentionality. Moreover, two firms appeared to deviate from the other by showing a higher exploration/ exploitation ratio than the other sample firms. This also suggests managerial intentionality effects.

Figure 6.9 Average percentage of external actions to total actions and average percentage of exploration actions to total actions (1990-1997) of sample firms



Source: Erasmus Strategic Renewal Center

In conclusion, the analysis of strategic renewal behaviour of British, Dutch, and French incumbents suggests that:

- The average ratio of external to internal actions in strategic renewal processes is fairly constant *within* countries. Dutch financials are much more externally oriented than their UK counterparts, whilst the ratios of French financials are more balanced. This suggests the existence of *institutional* effects, and provides preliminary support for proposition 2.

- The average ratio of exploration versus exploitation actions in strategic renewal processes of large financial service firms is remarkably similar across the three countries. This similarity may indicate *environmental selection* effects, and supports proposition 3.
- ING and Société Générale are maverick firms as they are more exploration-oriented than the other firms. This indicates managerial intentionality at firm level. Moreover, the frequency and volatility of strategic renewal processes of incumbent financials differ. These differences point at *managerial intentionality* effects, and support proposition 1.

This section investigated three dimensions of strategic renewal. The results suggested preliminary evidence regarding the propositions derived from the three single-lens theoretical perspectives. We will elaborate these findings in the final chapter, which discusses our findings. To investigate the proposition that relates to coevolutionary effects, we now assess interaction effects that operate between levels of analysis.

6.2 Coevolution in strategic renewal: interaction effects between industry, country, and firm levels of analysis

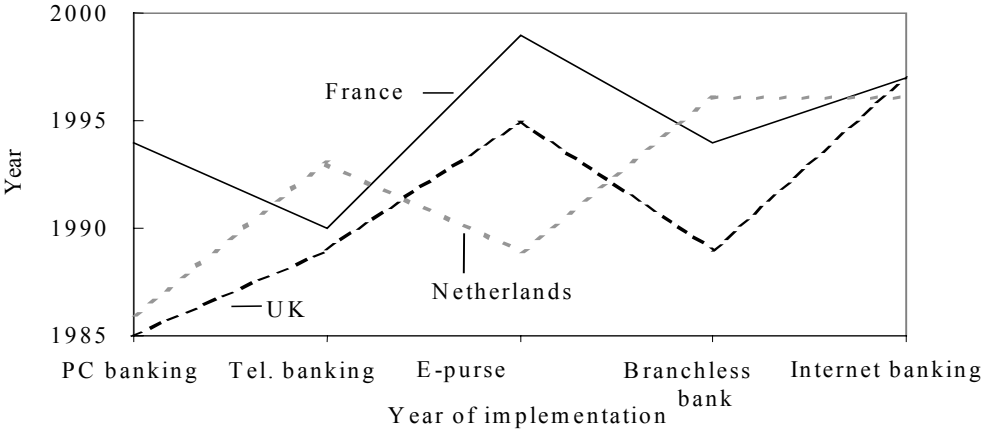
This section addresses coevolutionary dynamics by investigating interaction effects between environmental selection, institutional, and managerial intentionality effects in strategic renewal behaviour. We investigate coevolutionary dynamics in three ways. First, we investigate the link between the country and firm level of analysis. Specifically, we investigate the connection between countries' speed of implementing regulatory changes on the one hand, and the pace of implementing new technologies by incumbent financials operating in those countries on the other hand. We then concentrate on one country and assess differences in the diffusion of five technologies among the five largest Dutch financials. Finally, we examine the coevolutionary path of the evolvement of the Dutch financial regulatory and supervisory structure and the genesis and development of Dutch incumbent ING.

We first focus on how across the three countries the pace of implementing regulatory changes relates to the diffusion speed of new technologies by incumbent firms. We hypothesise that de- and reregulations increase the level of competition, which induces incumbents to speed up the implementation of new technologies to maintain their competitive positioning. The expectation is that first moving countries regarding regulatory changes (the Netherlands and the UK) have higher implementation speeds of new technologies compared to late moving countries (France).

Figure 6.10 depicts each country's first moving incumbent in implementing remote banking technologies, in introducing the e-purse, and in establishing a branchless bank. We

selected these innovations above innovations that required collective efforts, such as the introduction of an EFTPoS network, to highlight strategic renewal actions by individual incumbents. Figure 6.10 illustrates that British incumbents were first in implementing these technological innovations, whereas French incumbents lagged in implementing new technologies. Dutch incumbents were faster than French incumbents in three out of five new technologies. This suggests that incumbents in first mover countries regarding regulatory changes also move first in implementing technological innovations. This may induce positive feedback effects. Regulators of countries that have fast moving firms in implementing technological innovations may be inclined to speed up regulatory change, which enables a next series of technological innovations. Figure 6.10 further reveals first mover behaviour at firm level concerning the timing of strategic renewal actions. BNP is a first mover in three technologies in France, and ING is first in implementing four of five technologies in the Netherlands.

Figure 6.10 First mover incumbents in implementing five technological innovations in France, the Netherlands and the UK (1985-1999)



Technological Innovation**	France	The Netherlands	United Kingdom
Tel. banking	1990 (Paribas)	1993 (ING)	1989 (First Direct)
PC banking	1994 (BNP)	1986 (Postbank [ING])	1985 (Bank of Scotland)
E-purse	1999 (Crédit Mutuel)	1989 (Dutch bank consortium)	1995 (Mondex consortium)
Branchless bank	1994 (BNP)	1996 (ING)	1989 (First Direct)
Internet banking	1997 (BNP Paribas)	1996 (ING)	1997 (Nationwide)

Source: Erasmus Strategic Renewal Center

* Indicates the year of implementation of the first mover in one of the five countries investigated (also see Table 4.12).

** Also see Table 4.12.

We now focus on one country to investigate coevolutionary dynamics and interaction effects. We selected the Netherlands for reasons of data availability and for the fact that we could investigate all five large Dutch incumbents, who have a combined market share of about 90%. Figure 6.10 illustrated that ING moved first in implementing four out of five technological innovations. ING played a distinct role in the development of the e-purse in the Netherlands. This case illustrates cross-industry interaction effects between the banking and telecom industries, and the role of mavericks in developing a financial services technology. It further exemplifies how interactions between financial incumbents and non-financial players can drive technological developments.

In 1989, a consortium including all major Dutch banks (including a predecessor of ING), consumer organisations and retailers undertook a chipcard trial in Woerden. The consortium however decided not to pursue this technology. Another attempt in the early nineties, which was initiated by PTT Telecom, the Dutch telephone operator, also failed as the Dutch banks that were invited to join forces to develop a common e-purse application did not want to develop a joint e-purse at that time. Eventually, in 1995 a consortium of large Dutch banks, including ING, developed the Chipknip – the Dutch e-purse. ING's Postbank left the consortium within a month after its introduction. It decided to pursue a different, more innovative e-purse strategy. It linked up with PTT Telecom and developed the more sophisticated Chipper. The original consortium accelerated the rollout of their Chipknip e-purse and introduced it at the end of 1996. Postbank and PTT Telecom introduced the Chipper in the second half of 1997 (BIS, 2000). The Chipknip consortium reacted to the Chipper project by improving the functionality of their product to remain competitive. Despite all these efforts, the use of both the Chipknip and Chipper by the public was moderate. Chipper and Chipknip jointly promoted the use of both e-purse systems and eventually signed an interoperability agreement. In 1999, the two alliances agreed on a convenant and integrated the two e-purse systems (De Vries and Nielen, 2001).

This case illustrates how managerial intentionality of PTT Telecom and ING on e-purse technology accelerated the introduction of the Chipknip and took its functionality to a higher level. As an example of the feedback mechanism of firm-environment relations (Baum and Singh, 1994), these first movers subsequently influenced the selection pressures on other incumbents. On the other hand, the moderate success of both e-purse systems by consumers led to environmental pressures to join forces and integrate both systems.

Thirdly, we address interaction between the firm and regulatory level and zoom in on the case of Dutch incumbent ING to study coevolution effects. ING appeared to be an outlier in terms of its exploration/ exploitation ratio, which suggests managerial intentionality. ING's genesis was not only enabled by a change in Dutch financial regulations, but also triggered this change, which indicates interaction effects between firm behaviour and

national regulatory developments. Moreover, the successful development of ING subsequently contributed to an alteration of the Dutch governance structure of banking and insurance activities.
In the second half of the eighties, innovative Dutch financial services firms started to combine banking and insurance activities. This made it increasingly difficult to sustain the ban on combining banking and insurance operation within one firm. Similar developments took place in other EU-countries. These developments brought the Dutch government to lift the ban on combining banking and insurance operations from January 1, 1990. Dutch insurer Nationale Nederlanden was already negotiating with NMB Postbank to merge and establish the Internationale Nederlanden Group (ING). The merger was completed in March 1991. The newly formed ING was the first of the major Dutch financials in implementing the concept of integrated financial servicing.
As a result of increasing interdependencies between banking and insurance operations, the regulatory and supervisory systems have changed again. According to the 1990 change in regulation, banking and insurance activities should be legally separated. However, integrated financial institutions such as ING gradually dissected their operational structure from their legal structure to promote cross-fertilisation of banking and insurance activities. This complicated the supervision of the formerly sectorally separated financial activities. To add a cross-sector perspective to the sectoral supervisory model, in July 1999 the Dutch Board of Financial Supervisors, which represents supervisory agencies of the banking, insurance, and securities sectors, was founded.
In summary, developments in combining banking and insurance activities induced deregulations. Nationale Nederlanden and NMB Postbank preempted this bank-insurance deregulation and formed ING. The evolvement of the operational structure complicated the supervisory process, and led to the addition of a cross-sectoral Board to deal with these complexities. This case exemplifies mutual-causal interactions between actions of financial incumbents and national legislation.

6.3 Conclusion

This chapter investigated the content, context, and process of strategic renewal behaviour of financial incumbents in France, the Netherlands, and the United Kingdom. The findings indicate that the average ratio of exploration to exploitaton actions does not show substantial differences across the sample of financials. This points at environmental selection effects regarding the content of strategic renewal. The ratio of external to internal actions varies depending on the country within which financial incumbents are located. The strategic renewal context thus seems to be influenced by institutional effects. Firm specific differences in the frequency and volatility of strategic renewal actions points at managerial intentionality regarding the process dimension of strategic renewal. Outlier

behaviour of ING and Société Générale, which have deviating scores on the exploration/ exploitation ratio compared to the other firms in the sample, also indicate managerial intentionality.

In conclusion, these findings indicate that all three single lens perspectives are helpful to explain strategic renewal behaviour of large European financial services firms. However, no one single lens can fully explain all observations. The addition of coevolutionary interaction effects, as we did in the second section, appears to be helpful in understanding deviating patterns of strategic renewal. We will discuss these findings more extensively in the final chapter.

7 Discussion and conclusion

Exposure to changing environments (Guth and Ginsberg, 1990) and accumulating inertial pressures of maturing organisations (Hannan and Freeman, 1977; Delacroix and Swaminathan, 1991; Miller and Chen, 1994) require large incumbent firms to renew themselves. We adopted a dynamic action perspective of strategic renewal to study the interplay between adaptation and selection effects in strategic renewal behaviour of financial incumbents. More precisely, we distinguished between managerial intentionality, institutional, and environmental selection effects in the content, context, and process dimension of strategic renewal. The managerial intentionality perspective was covered by the strategic choice and dynamic capabilities approach. Classical and neo-institutional theory addressed the institutional perspective. Population ecology and the resource-based view of the firm informed about the environmental selection perspective. A coevolutionary perspective was added to integrate the single-lens perspectives. Coevolutionary theory asserts that it is the concurrent operation of adaptation and selection forces that explains strategic renewal. We built on three theoretical perspectives that capture the adaptation-selection debate and chose the European financial services industry as our research site. We investigated the industry and national level of analysis to assess changing environmental selection and national institutional forces. At firm level, we studied the response of financial incumbents in terms of their strategic renewal behaviour.
This final chapter discusses and concludes the findings of this study. We first discuss the key issues of our research by returning to our research questions and propositions. We then pull together the findings of changes in the landscape of European financial services and strategic renewal behaviour of financial incumbents. This is followed by an overview of scientific and managerial contributions. Limitations of our work and issues for further research are indicated next, after which we conclude this study.

7.1 Key issues

This research investigated changing environmental selection and institutional forces and strategic renewal behaviour of thirty large financial incumbents from seven European countries. It aimed to assess both adaptation and selection effects in the context, content, and process of strategic renewal behaviour of large incumbent firms operating in the European financial services sector. We moreover sought to increase understanding regarding interaction effects between single-lens perspectives in strategic renewal actions. Two research questions guided this thesis:

1. How do large multi-unit firms renew in an increasingly turbulent environment?

2. To which extent are strategic renewal actions driven by managerial intentionality, and/ or by environmental selection and institutional pressures?

To answer these research questions, we used three single-lens perspectives and coevolutionary theory to develop a framework of strategic renewal actions and a set of propositions. Exhibit 7.1 recapitulates the propositions.
To investigate these research questions and propositions, we needed to develop an appropriate research methodology, which measured realised strategy using contemporaneous data, and that allowed both longitudinal and cross-sectional analyses. We operationalised the strategic renewal construct along the context, content, and process dimensions and developed attributes for each dimension.
Chapter four investigated changes in the competitive landscape of European financial services. The findings suggest increasing convergence across national financial systems in the European Union, which was indicated by decreasing diffusion times of new regulations and technologies. This suggests increasing environmental selection forces. We also found that differences between financial systems of European countries are still significant. This indicates firms are still subject to institutional influences related to characteristics of their home market.
We continued by showing strategic renewal characteristics at the sector, country, and firm level of analysis using descriptive statistics. The outcomes suggested the concurrent operation of industry, country, and firm effects on financial incumbents' strategic renewal behaviour. Chapter six built on these preliminary findings by investigating this subsample of financial incumbents in greater detail. The analysis of the changing landscape of European financial services indicated fast and late moving countries in terms of implementing new regulations and technologies. We selected financial incumbents from two fast moving countries; the Netherlands and the United Kingdom, and incumbents from France, a late mover, to explore characteristics of strategic renewal behaviour of selected financial incumbents in the period 1990-1997. The outcomes showed similarities on country and industry level, indicating environmental selection and institutional effects. The results also revealed firm-specific differences, which suggest managerial intentionality. Moreover, we studied coevolutionary interaction effects operating between levels of analysis. We now discuss our findings in greater detail.

Exhibit 7.1 Overview of propositions

Proposition 1. From a managerial intentionality approach, renewal actions of incumbent firms will show firm-specific patterns regarding the temporal dimension of strategic renewal actions.

Proposition 2. From an institutional approach, an incumbent firm will mimic the renewal actions of other incumbent firms in its institutional environment.

Proposition 3. From an population ecology approach, incumbent firms pursue exploitation actions over exploration actions to achieve high reliability, accountability and reproducibility.

Proposition 4. From a coevolutionary perspective, interaction effects of environmental selection, institutional effects at country level, and managerial intentionality at firm level explain deviations of observed strategic renewal actions of incumbent firms from predictions derived from single-lens theories.

7.2 Differences and similarities in strategic renewal behaviour across sectors, countries, and firms

Table 7.1 summarises differences and similarities in strategic renewal behaviour at the sector, country, and firm levels of analysis. It shows that similarities prevail over differences at the sector level. At the country and firm level, differences prevail over similarities.

Table 7.1 Summary of differences and similarities across sectors, countries, and firms

Metric	Sector	Country	Firm
Coding categories		*Different (D) or Similar (S)**	
External/internal	D	D	D
International/domestic	D	D	D
Exploration/exploitation	S	D	D
Expansion/contraction	S	D	D
Strategy type			
(Mean (%) total sample)			
A	S	D	D
B	D	S	S
C	S	D	D
D	S	S	S
E	D	D	D
F	D	D	D
G	S	S	D
H	D	D	D
I	S	D	D
J	S	S	S
K	S	D	D
L	S	D	D

* We used a 5% confidence level to evaluate the statistical significance of differences across sectors, countries, or firms ($p < 0.05$).

Differences and similarities across sectors

Does strategic renewal behaviour differ between banking and insurance firms? No significant difference was found on the exploration/ exploitation and expansion/ contraction categories. The sample average of 0.28 in the exploration/ exploitation category (i.e., 28% of all actions being exploration oriented) indicates environmental selection effects. This supports proposition 3, which stated that incumbent firms would prefer exploitation over exploitation actions in their quest for reliability, accountability and reproducibility (Hannan and Freeman, 1989). Banking and insurance firms further do not significantly differ on the expansion/ contraction category. Both banks (0.75) and insurers (0.72) prefered expansion over contraction actions. This is a further indication of industry generic, or environmental selection, effects that mediate strategic renewal behaviour of financial services firms.

Our analysis revealed that banking and insurance firms do differ on the external/ internal and international/ domestic coding category. Insurance companies seem to prefer external actions over internal actions (average ratio: 0.53), whilst banking firms use more internal actions (average ratio: 0.43). The international/ domestic category also appears to be significantly different depending on sector. Banks and insurers differed in six out of twelve

strategy types. The greatest difference is in strategy types H (increasing scale on international markets by acquiring or cooperating external parties) and E (increasing scale on the home market using the internal organisation). Insurance firms are more internationally oriented (0.63) than banks (0.48). Van der Zwet (2003) corroborated this finding. She also found a home bias of banking firms and a stronger international orientation in terms of origin of revenues of insurance firms.

Differences and similarities across countries

Strategic renewal behaviour appeared to strongly differ across the seven European countries. The four coding categories, and eight out of twelve strategy types, were significantly different at a 5% confidence level. These differences point at national institutional effects. In section 7.1.2, we already indicated that these effects might stem from being colocated in a national context (Porac, Thomas and Baden-Fuller, 1994), or that contextual variation (Dijksterhuis et al., 1999) due to different national contexts might impact managerial logics on how to undertake strategic renewal. Another explanation, which builds on cultural differences, is that differences between countries reflect cultural differences (Schneider, 1989; Newman and Nollen, 1996).

Contingency theory (Burns and Stalker, 1961; Lawrence and Lorsch, 1967) offers an alternative explanation to different strategic renewal behaviour depending on the national context. We noticed that especially periods of economic adversity could be traced back in financial firms' strategic renewal actions (cf. 5.4.9). This suggests that different strategic renewal behaviour may be caused by different situational characteristics within which firms operate. Different types of strategic renewal behaviour are required in different environmental circumstances.

Differences and similarities across firms

At the firm level, differences in renewal behaviour prevailed over similarities regarding strategic categories, strategy types, and frequency of strategic renewal actions. This indicates that incumbent financial firms seem to have had sufficient slack (Cyert and March, 1963) or managerial leeway (Child, 1972) to undertake firm-specific trajectories of strategic renewal. It should however be noted that not all firms survived during our research period. For instance, Axa incorporated UAP, another French insurer. In Norway and Sweden, the government had to set up large restructuring operations to salvage its financial companies. These incidences indicate that, although managerial intentionality effects appeared to be strong, firms had to cope with some strong inertial and environmental pressures.

7.3 Strategic renewal behaviour of British, Dutch and French financial incumbents

We investigated strategic renewal behaviour of British, Dutch, and French financials to investigate how financial incumbents renew in an increasingly turbulent environment, and to disentangle environmental selection, institutional, and managerial intentionality effects on strategic renewal. This analysis generated four observations:

1. The *content* dimension of strategic renewal, measured by the exploration/exploitation dimension of large financials' strategic renewal actions, is remarkably similar across the three countries. Industry-generic, or environmental selection effects may cause this similarity.
2. The *context* dimension of strategic renewal, operationalised by the external/internal dimension of strategic renewal actions, appears to be fairly similar between financial incumbents that share the same home market. Most strategic actions of Dutch incumbents are externally oriented, whilst British financials typically engaged in internally oriented strategic renewal actions. The external to internal ratio of French financial incumbents are more evenly balanced. This suggests country-specific, or *institutional* effects.
3. The *process* dimension of strategic renewal, which was indicated by the frequency and volatility of financial incumbents' strategic renewal actions, do not show similarities across or within countries, but seem to be different at the firm level of analysis. Moreover, two firms appeared to have deviated from the rest of the sample by having significantly higher exploration/ exploitation ratios. These findings point at firm-specific, or *managerial intentionality* effects.
4. *Coevolutionary interaction effects* were investigated by linking macro-level changes to micro-level changes. First, we assessed interaction effects between the country and firm level by studying the connection between the speed of implementing regulatory changes at country level and the pace of technological diffusion by financial incumbents at firm level. Second, we assessed different diffusion patterns of technologies of five large Dutch financials. The coevolution of firm strategic behaviour and regulatory changes was investigated by assessing the genesis and development of the Dutch ING and the evolvement of the Dutch regulatory and supervisory structure.

We now discuss these four effects more elaborately and link the findings to propositions.

Environmental selection effects on strategic renewal

The analysis of strategic renewal behaviour of British, Dutch, and French financials indicated that eleven, of the thirteen incumbent firms investigated, show similar averaged exploration/ exploitation ratios. These suggest selection pressures regarding the content dimension of strategic renewal, as financial incumbents preferred exploitation over exploration actions during the research period. This finding relates to proposition 3, which hypothesised that from a population ecology perspective, exploitation would outbalance exploration in the renewal behaviour of large incumbent firms. We note that the incumbents investigated (see Table 3.2) include insurance companies, banks, and allfinance firms, which are rooted in different regulatory and national environments, and have different path dependencies. Despite these differences, our sample of incumbent financials appeared to prefer increasing their reliability, accountability and reproducibility by favouring exploitation over exploration to maintain fit with their environment (Hannan and Freeman, 1984).

Similarity in exploration/ exploitation ratios also sheds light on organisations' historical legacy (Child, 1972). In terms of the resource-based view of the firm (Nelson and Winter, 1982), financial incumbents appear to prefer leveraging their routines and resources above changing the routines and developing new resources and competencies. Selection forces 'arise from the constraining role played by cultural elements, such as symbols, cognitive systems, and norms and rules' (Aldrich, 1999: 49). Regarding these cognitive systems, Weick (1979) suggests that managerial beliefs can be inferred from actions. To the extent this is the case, the firms investigated may share a common industry recipe (Spender, 1989), dominant logic (Prahalad and Bettis, 1986), or top management mindset regarding the exploration-exploitation dimension of strategic renewal actions (Barr et al., 1992). We did not investigate whether the causes of similarity stem from common dominant logics, similar top management mindsets regarding exploration/ exploitation actions, or in features commonly ascribed to strategic groups (McGee and Thomas, 1986; Peteraf and Shanley, 1997). The firms investigated, however, are all financial incumbents that share a common industrial context, the EU-financial services industry. This suggests that the impact of variation in national selection environments on the prevailing management logics regarding the exploration-exploitation dimension in the financial services sector appeared to be limited (Dijksterhuis et al., 1999).

Institutional effects on strategic renewal

The second finding indicates institutional effects regarding the context dimension of strategic renewal. Differences on the external/internal dimension of strategic renewal actions may have resulted from the distinct economic and institutional structures of these countries. The Dutch financial services industry was highly concentrated in the research

period, whereas other countries were much less concentrated (cf. 4.1.3). If Dutch companies wanted to grow, they had to develop internationally. Given the degree of excess capacity of financial systems across Europe in the nineties (cf. 4.1.1), Dutch financials preferred to acquire financial activities abroad, or to cooperate with foreign financials. This explains the preference for using the external – and international – dimension of renewal actions of Dutch financials. British financials were confronted with a different climate. In the early nineties, the British financial players had to overcome a troublesome period caused by an economical slowdown. This induced restructuring operations, which are typically internal actions, aimed at streamlining the – domestic – organisation.

There are multiple potential explanations about the underlying mechanism. First, differences regarding the external/ internal ratio may be contingent on the national context. In the language of Porac, Thomas and Baden-Fuller (1994), the firms are 'colocated' in a national context. It appears that contextual variation (Dijksterhuis et al., 1999) due to different national contexts might have a modifying impact on prevailing management logics. A second explanation is that mimetic behaviour (DiMaggio and Powell, 1983) or bandwagon effects (Abrahamson and Rosenkopf, 1993) may have played an important role for financial incumbents regarding the context dimension of strategic renewal. Dutch financials showed a pattern of acquiring and partnering with foreign financials in a quest to grow their operations, whereas British financials exhibited similarities regarding restructuring their operations. A third explanation is that the divergence in external/ internal ratios reflects differences in managerial attitudes and values stemming from cultural differences (Schneider, 1989; Newman and Nollen, 1996). Overall, this second finding illustrates proposition 2.

Managerial intentionality effects on strategic renewal

The third finding is related to the process dimension of strategic renewal actions and points at managerial intentionality effects. British, Dutch and French financial incumbents differed markedly in terms of the frequency of renewal actions, i.e. the average number of renewal actions per year as shown in Table 6.4. The incumbents also diverged with respect to the standard deviation of both ratios, indicating firm specifics in terms of the volatility of strategic renewal patterns (cf. Tables 6.2 and 6.3). These findings show that financial incumbents appeared to have their own timing of renewal actions. This indicates that the financials investigated seem to have had sufficient slack (Cyert and March, 1963) to allow for, and use, different timing and frequency of actions of renewal. This finding suggests incumbents can overcome structural inertia and still be viable, illustrating proposition 1.

Table 6.3 indicates that ING and Société Générale have significantly higher average exploration/exploitation ratios than the other sample firms. These two incumbents seem to have deviated by exploring the environment to a greater extent than their competitors. These firms possibly have a higher absorptive capacity than the other incumbent firms.

Firms with higher levels of absorptive capacity tend to consider opportunities in their environment independent of current performance criteria in their industry, which might result in higher exploration/exploitation ratios. This facilitates managerial intentionality, which is reflected in more proactive strategic behaviour regarding the changing selection environment (Van Den Bosch et al., 1999, 2003). As such, ING and Société Générale could be interesting examples of managerial intentionality regarding the content dimension of strategic renewal. This finding indicates managerial intentionality at firm level.

Coevolutionary dynamics and principles of self-renewing incumbents

Explaining strategic renewal behaviour of financial incumbents using a managerial intentionality, institutional, or selection approach offers partial explanations. Depending on the level of analysis and point of view taken, propositions 1, 2 and 3 can all be illustrated within the corresponding theoretical approach. This suggests that single-lens theories offer partial, but complementary, explanations of strategic renewal behaviour. The analysis of coevolutionary interaction effects (cf. section 6.2) indicated that all three effects, and the interaction effects, play a significant role in understanding strategic renewal behaviour. Regarding coevolutionary effects, our research indicates that deviations of observed renewal actions from predictions of single-lens theories can be better understood using interaction effects based on a coevolutionary perspective, supporting proposition 4. We investigated interaction effects in three ways and found that:

- Incumbents from countries that were fast in implementing new regulations were faster in implementing new technologies than incumbents from countries that implemented new regulations in a later stage. This suggests positive feedback effects between de- and reregulations and the introduction of new technologies by financial incumbents.
- Deviant behaviour of one financial incumbent and linking up with a non-financial company having complementary resources resulted in an accelerated introduction and more sophisticated e-purse technology in the Netherlands. This indicates that managerial intentionality of one maverick incumbent that linked up with a non-financial player can result in increasing selection pressures on other incumbents.
- Preemptive moves of banking and insurance firms in combining bank and insurance products accelerated deregulations in combining banking and insurance services. These changes coevolved into the genesis and development of ING, which in turn induced changes in the Dutch supervisory structure of financial activities. This case suggests a chain of mutual-causal interactions between legislative and supervisory bodies and incumbents' actions.

Coevolution 'is at the root of self-organizing behaviour' (McKelvey, 2002: 1). We reflect on how our findings contribute to understanding principles of self-renewing organisations. Volberda and Lewin (2003) identify three overarching principles of how to become and

sustain a self-renewing organisation. The first principle relates to managing the 'internal rates of change'. Enabling strategies can drive momentum and early mover behaviour. The second principle is 'optimising self-organizing'. Managing the rate of internal growth through innovation is a key enabling strategy. Forms of decentralised structures are also associated with this principle. The third principle highlights the necessity of synchronizing concurrent exploitation and exploration (March, 1991). Slack is a requirement to pursue parallel strategies aimed at exploration. Do the findings of this thesis provide empirical evidence of these three key principles in the context of self-renewing incumbents?

To address this question, we relate the three principles to our findings of the strategic renewal of the Dutch incumbents. The first principle suggests relatively low external/internal ratios (i.e. internal renewal actions outnumber external ones). As indicated above, ING had the lowest external/internal ratio of the five Dutch incumbents (see Figure 6.9), and is first mover in implementing most technological innovations in the Netherlands (see Figure 6.10).

The second principle stresses the importance of internal growth through innovation and forms of decentralised organisational structures. Again, ING has the lowest external/internal ratio and the highest exploration/exploitation ratio of the Dutch incumbents. It is also well known for its decentralised structure. Due to large-scale merger and acquisition processes, ING emerged as a collection of unconnected divisions. Each division is subject to its own selection environment.

The third principle regards synchronising exploitation and exploration and pursuing multiple strategies. The principle does not explicate at what level, and during which time period, the synchronisation between exploitation and exploration activities has to take place. ING's on-line financial services strategy exemplifies the pursuance of a parallel exploration strategy. Major divisions, such as ING's Postbank and Nationale Nederlanden, developed their own on-line strategies. Only very recently top management emphasised the necessity of creating an ING-wide Internet portal. In sum, the empirical evidence provided here shows that our metrics can be helpful in further exploring self-renewing organisations and in operationalising the three principles.

7.4 Contributions

This study contributes to the field of strategic management research and to the development of coevolutionary theory on several issues. It also has a number of implications for the management of large incumbent firms. This section distinguishes between scientific and managerial contributions that emerged from our findings.

Scientific contributions

How does this study contribute to answering questions related to the adaptation-selection debate (Lewin and Volberda, 1999)? Many publications on coevolution have a conceptual nature (e.g., Lewin and Volberda, 1999; McKelvey, 1997) and most empirical contributions use a case study approach in which narration and a historical analysis are applied (e.g., Carney and Gedajlovic, 2002; Djelic and Ainamo, 1999; Huygens et al., 2001; Jones, 2001). Our study makes at least three contributions to coevolutionary research. First, we contributed to coevolutionary research by developing metrics that measure strategic renewal actions of firms, which allow distinguishing between environmental selection, institutional, managerial intentionality, and coevolutionary interactions effects (Lewin and Volberda, 1999) in strategic renewal behaviour of financial incumbents. Such metrics have been lacking up till now. Second, our results indicate that single-lens perspectives cannot explain coevolutionary interaction effects operating between different levels of analysis in the empirical world. Single-lens perspectives offer partial explanations of strategic renewal behaviour. The addition of a coevolutionary approach allows understanding interaction effects between levels of analysis and places single-lens findings in a broader perspective. Previous research on this topic reached similar conclusions (cf. Lewin and Volberda, 1999). Third, in a more detailed empirical analysis for one incumbent firm, it appeared these metrics provide preliminary evidence for three coevolutionary principles, which Volberda and Lewin (2003) associate with self-renewing organisations.

Managerial contributions

The results of our study indicate that the four theoretical perspectives all appear to be valuable lenses in studying and explaining strategic renewal. How do these results translate into managerial practice? Managers are often inclined to think that they can alter the path of their organisation. Our study indeed indicates room for managerial intentionality. We however also found that environmental selection effects influence incumbent financials' strategic renewal behaviour. This was most evident in the predilection for exploitation over exploration. Our findings suggest that renewal activities of financials incumbents' managers are typically aimed at rationalising current activities to increase the efficiency and productivity of their organisation or increasing the scale of their operations. Exploring the environment by entering new markets or by undertaking new activities is a much less employed way of renewal. Likewise, the national institutional context appeared to be strongly connected to financial incumbents' strategic renewal behaviour. These findings indicate that environmental selection and institutional effects, which place a limit on managerial leeway to renew the organisation, bind managerial intentionality.

This study raises the important managerial question as to whether there is one best trajectory of renewal, or, alternatively, whether there are multiple successful renewal

trajectories. The environmental selection perspective suggests one best fitting path of strategic renewal. This path should be exploited by the population of organizations and attributes manager little managerial leeway. The institutional relaxes the assumption of one best way somewhat, but indicates that institutional forces may drive firms into herd behaviour. Different institutional environments may result in multiple renewal trajectories. Following the herd may be appropriate if the company is risk-averse or lacks distinctive resources. The managerial intentionality perspective suggests multiple renewal trajectories are viable. Managers may opt for firm-specific renewal trajectories to utilise distinctive resources.

The results from our study show that firms can and do take multiple trajectories of renewal, although the results might be equifinal. Smith and Zeithaml (1996) and Volberda (1996; 1998) even showed multiple effective trajectories of strategic renewal within the same firm. On the basis of our empirical data, therefore, we conjecture that firms have not found a single 'one best path' of strategic renewal. Incumbents seem to have sufficient slack to undertake deviant strategic renewal trajectories and survive.

7.5 Limitations and issues for future research

No study is without limitations. We distinguish between limitations regarding the changing financial landscape of the European financial sector and strategic renewal behaviour of financial incumbents. We further note issues for further research.

Limitations and issues for future research regarding the changing European financial landscape

The analysis of the changing landscape in the European financial services sector has a number of limitations. As our regulatory and technological indicators are mainly related to the banking industry, developments in for instance the insurance and securities sector were largely kept out of the analysis. The ongoing revolution and blurring boundaries between these sectors and other industries, and the invasion of new 'clicks' players in the on-line financial services sector (see e.g. Hensmans et al., 2001) had significant impact on the competitive dynamics in the European financial landscape. This places further demands on the strategic renewal of financial incumbents. A second limitation is our focus on the diffusion of two forces. Other major influences, including changing demographics and consumer preferences, and the impact of disintermediation, corporate governance structures, and back office rationalisation were left out of the analysis. A third limitation is our focus on a selection of European Union countries.

A number of issues remain to be addressed in *future research*[39]. A first issue is the incorporation of more EU-countries into the analysis. Spain for instance offers an interesting research context because of its pace of consolidation and cross-border acquisitions and the emergence of new banking models (Canals, 1998). A second recommendation is to investigate the impact of global changes on the European financial services landscape. For example, how do initiatives such as the creation of global player Citigroup influence the pace and nature of strategic renewal journeys of European financial incumbents? The emergence of global players raises other questions. Who will belong to the top-ten truly global financial services providers? Which of the European based players will be on that list or will become a successful niche player (The Banker, 2000a)? Which financial firms will take which position in the envisioned multi-layered European financial landscape (cf. ECB, 1999; Groeneveld and Swank, 1998[40])? What are consequences for profitability and survival chances for not choosing, or for making the wrong choice? The third issue relates to differences in the speed of penetration of new technologies within countries. We focused on the introduction dates of regulations and new technologies in each of the countries investigated. We did not estimate the speed of penetration of new technologies across firms within countries. This analysis would increase our understanding of diffusion patterns across firms, and unveils first and late moving firms. These data can be used to assess interaction effects between the firm and other analysis levels. Section 6.2 indicated the value of such analyses. We further did not delve into dissimilarities arising from implementing different technologies, which are indicated to have differential consequences on effects rates (Berger, 2003). A last suggestion is to investigate the relation between the profitability of incumbents versus new entrants and the speed of adoption of technological and regulatory developments. For example, the relatively high ROEs of especially British banks have attracted new entrants with new approaches. These might have speeded up the diffusion of regulations and technologies in financial services in the United Kingdom (The Banker, 2000b).

[39] See Taylor (1999) for an action list to cope with changes in the financial services industry.

[40] Groeneveld and Swank (1998) and the European Central Bank (ECB, 1999) indicate that the European financial sector might be evolving into a three-layered structure. The first layer comprises small financial firms that have a strong domestic basis. The second layer consists of regional European players. These banks are active in a number of EU countries. The third layer regards a small number of very large financial service firms that cover both European and intercontinental financial markets. These sources indicate that there will probably remain room for niche players and specialised institutions.

Limitations and issues for future research regarding the strategic renewal behaviour of European financial incumbents

The strengths of this study include its cross-sectional time series sample of 30 firms based in seven European countries, the large number of strategic actions studied, and the development of new measures of strategic renewal. Our research however also has a number of limitations. Our data has potential biases. Strategic renewal actions were measured in terms of their number and not their magnitude. Weighing renewal actions in terms of their magnitude, however, was not possible. The Financial Times and the Annual Reports of the incumbents investigated do not systematically report the present, let alone the expected future impact or consequences of strategic renewal actions. Marginal activities however are less likely to be reported than those of greater significance. As the marginal projects of the investigated firms are subject to the same potential bias, and since actions are evaluated in terms of their ratios rather than counts, interpretation problems caused by this potential bias are largely avoided.

We note several issues for future research. A first suggestion is to develop research methodologies that measure strategic renewal actions not only in terms of their number, but also by magnitude and determine the impact on the indicators used in this study. Second, we suggest to include new entrants into future coevolutionary studies of strategic renewal behaviour. We mainly focused on financial incumbent firms and excluded new entrants. These new entrants may be either start-ups or incumbent firms from other industries, such as the ICT or retail industries. Interaction effects between strategic renewal behaviour of incumbent firms and new entrants penetrating the financial services landscape might increase exploration/ exploitation ratios of financial incumbents (Hensmans et al., 2001). Adding new entrants to the analysis also helps in comparing strategic renewal measures. For instance, measuring strategic renewal dimensions of new entrants is helpful in assessing the scores on these dimensions by financial incumbents and adds to put strategic renewal behaviour of financials in a broader perspective. Furthermore, introducing new entrants in the coevolutionary analysis enables investigating to what extent new entrants are related to damping mechanisms - being mechanisms that influence the rate of coevolution (McKelvey, 2002). Third, future studies could set up case studies of outlier companies in terms of strategic renewal behaviour. These case studies may be designed to enhance understanding regarding managerial, organisational and knowledge process factors that enable and inhibit self-renewing organisations. We already indicated that the absorptive capacity construct and its expected relation with proactive behaviour (Van Den Bosch et al., 1999; 2003) could be helpful in this endeavor. Case studies can also contribute to link strategic renewal behaviour to idealised renewal journeys (Volberda et al, 2001). Although our data provide some clues whether incumbents were engaged in an emergent, directed, facilitated, and/or transformational renewal trajectory, more detailed analysis is needed to be more conclusive. Fourth, our findings suggest that the national

context of financial services firms has a strong impact on the strategic renewal behaviour of individual firms. Next to institutional differences across countries, contingency factors in financial firms' environment might also play a role in influencing strategic renewal behaviour. Our discussion of renewal patterns of financials clustered on country level indicated a significant influence of country-specific characteristics including the five-firm concentration ratio, the state of the economy, and market size. These characteristics point at different contingencies operating on the strategic renewal behaviour of individual firms. Future research is required to unravel institutional and contingency effects on strategic renewal behaviour. Fifth, we suggest investigating to what extent CEO changes and changes in the composition of the Top Management Team impact incumbents' strategic renewal behaviour. For instance, do incumbent firms that hire more outside managers undertake more explorative actions than other incumbents? Do significant Top Management Team or CEO changes lead to a changing pattern of strategic renewal behaviour? Sixth, our discussion of renewal patterns of financials clustered on country level indicated a significant influence of country-specific characteristics including the five-firm concentration ratio, the state of the economy, and market size. These characteristics point at different contingencies operating on the strategic renewal behaviour of individual firms. Future research is required to unravel contingency effects from institutional effects regarding different cross-country strategic renewal behaviour. Another issue for future research is the impact of distinct journeys of strategic renewal on performance. For instance, do explorative firms perform better than exploitative firms? What is the difference in performance between internally and externally renewing firms? Do firms that follow distinctive renewal trajectories achieve better results than those that follow the herd? Finally, we suggest applying other analysis techniques in future research that allow to further address coevolutionary interaction effects. One example is to use event history analysis (cf. Greve, 2000) that allows incorporating temporal effects – one of the main requirements of coevolutionary research (Lewin and Volberda, 1999; McKelvey, 1997).

7.6 Conclusion

Can and do firms renew themselves to adapt to their environments? Our analysis suggests that a coevolutionary approach may be helpful to overcome partial explanations of single-lens perspectives, although more research is needed in this area. In previous research on this topic, similar conclusions have been reached. Lewin and Volberda (1999) for instance discussed antecedents of various aspects of coevolution. In comparison to previous studies, however, this research has at least three contributions. First, we proposed to use metrics linking strategic renewal actions of firms to environmental selection, institutional effects and managerial intentionality. Such metrics have been lacking up till now. Second, we showed that single-lens perspectives cannot explain coevolutionary interaction effects

operating in the empirical world between managerial intentionality at firm level, institutional effects at the country level, and environmental selection at the industry level of analysis. Third, in a more detailed empirical analysis for one incumbent firm, it appeared these metrics provide preliminary evidence for the three principles Volberda and Lewin (2003) associate with self-renewing organisations.

We suggest three ways to progress coevolutionary research. First, researchers may investigate other single-lens theories to assess selection, institutional effects and managerial intentionality in coevolutionary dynamics. Second, and even more important for building coevolutionary theories, is the development of conceptual metrics, such as those presented in this study, to link multiple levels of analysis. Third, these metrics can be applied in empirical research to explore the nature and types of coevolutionary interaction effects and of principles of self-renewing organisations. By combining these efforts, coevolutionary theory building and empirical research can progress.

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Samenvatting

Organisaties worden geconfronteerd met continu veranderende omgevingen en omstandigheden. Daarnaast hebben organisaties de neiging te verstarren wanneer zij groter worden. Het veranderen van omgevingen enerzijds en de neiging tot verstarring anderzijds vraagt om vernieuwing om te kunnen overleven. Vernieuwing kan worden bewerkstelligd door bestaande middelen op een andere manier in te zetten, of door verouderde activiteiten te revitaliseren. Bedrijven dienen echter tevens rekening te houden met hun huidige strategische activiteiten (Ghemawat, 1991), wat vraagt om stabiliteit. Dit impliceert een paradox. Organisaties dienen zowel de bestaande activiteiten te exploiteren om de huidige levensvatbaarheid in stand te houden, en tevens te exploreren om de toekomstige levensvatbaarheid veilig te stellen (Levinthal en March, 1993).

Vanuit een theoretisch oogpunt kan strategische vernieuwing op verschillende niveaus plaatsvinden en zowel door krachten van binnen als van buiten de organisatie worden beïnvloed. Strategische keuzetheorie (Child, 1972; Miles en Snow, 1978) gaat ervan uit dat organisaties in staat zijn hun lot te veranderen door zich aan de omgeving aan te passen of de omgeving te veranderen. Daarentegen stelt populatie-ecologie theorie (Hannan en Freeman, 1977, 1984; Aldrich en Pfeffer, 1976) dat omgevingen organisaties selecteren middels een proces van variatie, selectie en retentie. Managers dienen hun omgeving te exploiteren om een goede fit te creëren, terwijl exploratie de overlevingskansen juist verkleint. Organisaties met verouderde competenties zullen op termijn worden vervangen door nieuwe organisaties: strategische vernieuwing vindt plaats op populatieniveau. Institutionele theorie stelt dat organisaties convergeren naar institutioneel bepaalde archetypen. Volgens neo-institutionele theorie is strategische vernieuwing moeilijk te controleren daar het ontstaat uit de wisselwerking tussen de institutionele context en organisatiedynamiek.

Deze variëteit aan paradigma's in organisatietheorie laat verschillende zijden van hetzelfde fenomeen zien. Het ontbreken van een uniforme theorie heeft voortgang belemmerd doordat diverse theorieën tot tegenstrijdige conclusies zijn gekomen (McKelvey, 1997). Daarom past deze studie een coevolutionaire benadering toe, waarbij een drietal perspectieven wordt toegepast, die op verschillende posities op het adaptatie-selectie continuüm liggen. Oftewel, we vatten strategische vernieuwing op als de gezamenlijke uitkomst van omgevingsdeterminisme en organisatorisch voluntarisme.

De doelstelling van dit onderzoek is de interactie tussen organisatorische adaptatie enerzijds, en selectie als gevolg van institutionele effecten en selectiekrachten ("population ecology") anderzijds, te begrijpen. Hiervan zijn twee onderzoeksvragen afgeleid. Ten eerste, hoe vernieuwen grote, complexe bedrijven zich in een steeds turbulenter wordende omgeving? Ten tweede, in welke mate worden strategische vernieuwingsacties beïnvloed door management intentionaliteit, en in welke mate door institutionele effecten en

selectiekrachten ("population ecology")? In dit verband wordt strategische vernieuwing opgevat als een driedimensionaal concept, bestaande uit de inhoud, context en het proces van strategische vernieuwing. Strategische vernieuwing wordt gedefinieerd als het patroon van strategische acties met als doel de organisatie en omgeving op elkaar af te stemmen: die acties zijn gericht op het veranderen van "path dependence" (Volberda e.a., 2001).
Om deze vragen te beantwoorden is een theoretisch kader ontwikkeld dat drie "single-lens" theoretische stromingen relateert aan een coevolutionair perspectief. Op basis hiervan is een aantal proposities ontwikkeld. De onderzoeksmethodologie is gericht op het in kaart brengen van strategische vernieuwingstrajecten van gevestigde financiële ondernemingen op basis van een documentanalyse gedurende de periode van 1990 tot en met 1997. Daarnaast zijn veranderingen in het Europese financiële landschap in kaart gebracht, waarbij we ons met name hebben gericht op processen van convergentie en divergentie tussen Europese landen. Door deze opzet hebben we strategische vernieuwing vanuit meerdere theoretische invalshoeken kunnen onderzoeken en meerdere niveaus in de analyse kunnen betrekken.

Theorie
Op basis van drie "single-lens" theoretische perspectieven, gekoppeld aan een coevolutionaire benadering, is een theoretisch kader van strategische vernieuwing ontwikkeld, alsmede een viertal proposities. Strategische keuzetheorie (Child, 1972; Miles en Snow, 1978) stelt dat organisaties kunnen veranderen door zich aan de omgeving aan te passen en door hun omgeving te beïnvloeden. Doelgerichte actie is hierbij een belangrijk concept, waarbij de theorie ervan uitgaat dat management intenties ertoe doen: grote, complexe bedrijven kunnen zichzelf vernieuwen. Institutionele theorie is gebaseerd op de notie van organisatorische gelijkvormigheid. Klassieke institutionele theorie stelt dat organisaties als gevolg van institutionele krachten zullen convergeren naar institutioneel bepaalde archetypen. Het neo-klassieke perspectief stelt dat organisatorische processen, zoals dat van strategische vernieuwing, voortkomen uit de wisselwerking tussen de institutionele context en ondernemingsspecifieke organisatorische dynamiek.
"Resource-based" theorie en populatie-ecologie concenterren zich op verschillende niveaus van analyse, maar hanteren gelijksoortige logica om verschillen in prestaties te verklaren. Samen geven zij invulling aan het omgevingsselectieperspectief (zie Barney, 2000a). "Resource-based" theorie beschouwt de onderneming als een bundel van materiële en immateriële middelen die dienen te worden geïdentificeerd, geselecteerd, ontwikkeld en benut teneinde superieure prestaties te genereren (Wernerfelt, 1984; Learned et al., 1969). Bedrijven zijn in staat om uitmuntende korte termijn prestaties te behalen, maar zijn op de lange termijn niet in staat tot verandering. Oftewel, 'Firms are stuck with what they have, and have to live with what they lack' (Baden-Fuller en Volberda, 1996: 11). Volgens populatie-ecologie theorie is strategische vernieuwing op organisatieniveau extreem lastig.

Vernieuwing vindt veeleer plaats middels een proces waarbij de markt bedrijven uitselecteert. De bestaande organisatiepopulatie wordt in de loop der tijd vervangen door nieuwe organisaties. Strategische vernieuwing vindt volgens dit perspectief plaats op het populatieniveau.
Interactie-effecten binnen en tussen verschillende analyseniveaus zijn een kernonderwerp in coevolutionair onderzoek. Interactie-effecten zijn veelal niet lineair en kunnen leiden tot intuïtief tegenstrijdige uitkomsten als gevolg van terugkoppelingsmechanismen. Binnen dit onderzoek hanteren we de definitie van coevolutie van Lewin en Volberda (1999: 526) als 'de gezamenlijke uitkomst van management intenties, institutionele en selectie-effecten'. Op basis van deze theoretische perspectieven is een aantal proposities ontwikkeld. Deze staan weergeven in onderstaande box.

Overzicht van proposities

Propositie 1. Vanuit een management intentionaliteitsperspectief zullen vernieuwingsacties van grote bestaande ondernemingen bedrijfsspecifieke patronen vertonen aangaande de tijdsdimensie van strategische vernieuwingsacties.

Propositie 2. Vanuit een institutionele benadering zal een grote bestaande onderneming de vernieuwingsacties van andere grote bestaande ondernemingen in de institutionele omgeving navolgen.

Propositie 3. Volgens de "population ecology"-benadering zullen grote bestaande ondernemingen meer exploitatie dan exploratie acties ondernemen teneinde een hoge mate van "reliability, accountability, and reproducibility" na te streven.

Propositie 4. Vanuit een coevolutionair perspectief verklaren interactie-effecten tussen "environmental selection", institutionele krachten op nationaal niveau, en management intentionaliteit op bedrijfsniveau, afwijkingen van strategische vernieuwingsacties van grote bestaande ondernemingen van voorspellingen op basis van "single-lens" theorieën.

Het empirische deel van deze dissertatie heeft zich met name gericht op de eerste drie proposities. Daarnaast zijn enkele empirische kwesties onderzocht die volgen uit de vierde propositie.

Methode

Teneinde de onderzoeksvragen en proposities te beantwoorden dient er een passende onderzoeksmethode te worden toegepast. De methodiek dient gerealiseerde strategische

acties te kunnen bepalen aan de hand van gelijktijdige data, waarmee zowel cross-sectionele als longitudinale analyses mogelijk zijn. Hiertoe is het strategisch vernieuwingsconstruct opgevat als een driedimensionaal concept, bestaande uit de inhouds-, context- en procesdimensie. Aan de hand van documentanalyses van artikelen in de Financial Times en jaarverslagen van de onderzochte ondernemingen zijn strategische acties geïdentificeerd en vervolgens gecodeerd voor een aantal attributen die relateren aan de drie voornoemde dimensies. Dit is gedaan voor de dertig grootste financiële ondernemingen uit in totaal zeven Europese landen gedurende de periode 1990 tot en met 1997. Daarnaast zijn ontwikkelingen in de omgeving van financiële bedrijven geanalyseerd. Hiertoe hebben we veranderingen met betrekking tot regulering en nieuwe technologieën in een vijftal Europese landen in kaart gebracht.

Het veranderende landschap van de Europese financiële sector

Om de omstandigheden waarin gevestigde financiële ondernemingen zich vernieuwen te onderzoeken, hebben we veranderingen in het landschap van de Europese financiële sector onderzocht. Doelstelling was te onderzoeken of nationale financiële systemen die tezamen de Europese financiële sector vormen, convergeren of divergeren. Hiermee wordt een indicatie van veranderingen in selectiekrachten en van institutionele omgevingen verkregen. Ten eerste is een vergelijking gemaakt tussen nationale financiële systemen ("national financial systems") aan de hand van de ontwikkeling van indicatoren van capaciteit, winstgevendheid en concentratie in Europese landen gedurende de negentiger jaren. De resultaten geven aan dat nationale financiële systemen in verschillende stadia van ontwikkeling verkeren. Daarnaast lijkt er voldoende ruimte voor verdere ontwikkeling van nationale financiële systemen. Ten tweede is onderzoek gedaan naar de verspreiding van regulering en nieuwe technologieën over Europese landen. De voortdurende bekorting ten aanzien van implementatie van regulering en nieuwe technologieën wijzen op toenemende convergentie tussen nationale financiële systemen in de Europese Unie. Dit suggereert een toenemende selectiedruk vanuit de omgeving van Europese financiële bedrijven. Daarnaast bleken nog steeds belangrijke verschillen tussen landen te bestaan. Financiële bedrijven worden dus nog steeds beïnvloed door institutionele invloeden als gevolg van specifieke karakteristieken van hun thuismarkt.

Resultaten

We onderzochten generieke kenmerken van strategische vernieuwing op de dertig grootste gevestigde financiële ondernemingen uit zeven Europese landen. Uit deze analyse bleken zowel verschillen als overeenkomsten te bestaan in het strategisch vernieuwingsgedrag van de onderzochte financiële ondernemingen. Op sectorniveau vonden we meer overeenkomsten dan verschillen, terwijl we op land- en bedrijfsniveau meer verschillen dan overeenkomsten vonden in de set van strategische vernieuwingsattributen.

Op basis van deze eerste bevindingen hebben we een aantal bedrijven nader onderzocht om de aard van de verschillen en overeenkomsten op de drie niveaus van analyse – industrie-, land- en bedrijfsniveau – te bepalen. Uit de analyse van het veranderende landschap van de Europese financiële sector bleken sommige landen snel, en andere landen minder snel te zijn in het implementeren van nieuwe reguleringen en technologieën. In het zesde hoofdstuk analyseren we het strategisch vernieuwingsgedrag van financiële ondernemingen uit twee snel implementerende landen; Nederland en Engeland, en van ondernemingen uit een minder snel implementerend land; Frankrijk. Dit onderzoek vond plaats middels een analyse van de context-, inhouds- en procesdimensie van strategische vernieuwing. De resultaten gaven aan dat de gemiddelde verhouding tussen exploratie en exploitatie-acties behoorlijk constant is tussen de bedrijven uit de drie landen. Deze gelijkheid van scores wijst op omgevingsselectie-effecten wat betreft de inhoud van strategische vernieuwing en ondersteunt propositie 3. De gemiddelde verhouding tussen externe en interne acties in strategische vernieuwingsprocessen is behoorlijk constant tussen bedrijven die een zelfde thuismarkt hebben. De context van strategische vernieuwing lijkt dus beïnvloed te worden door institutionele effecten, wat overeenkomt met propositie 2. Verschillen in de frequentie en volatiliteit van strategische vernieuwingsacties wijzen op management intentionaliteitseffecten betreffende de procesdimensie van strategische vernieuwing. Deze bevindingen ondersteunen propositie 1. Daarnaast lijken ING en Société Générale voorbeelden te zijn van effecten van management intentionaliteit wat betreft hun opvallend hoge exploratiescore.
Het voorgaande geeft aan dat geen van de “single-lens” theoretische perspectieven de waarnemingen volledig kan verklaren. Daarom werden coevolutionaire interactie-effecten onderzocht door veranderingen op macro-niveau te verbinden met veranderingen op micro-niveau. De resultaten gaven aan dat het coevolutionair perspectief helpt afwijkende patronen van strategische vernieuwing te verklaren, wat propositie 4 ondersteunt.

Conclusies

Kunnen bedrijven zichzelf vernieuwen en zich aanpassen aan hun omgeving? Ons onderzoek geeft aan dat “single-lens” theoretische perspectieven deelverklaringen bieden voor het vernieuwingsgedrag van grote gevestigde ondernemingen; in het geval van deze studie van gevestigde financiële instellingen. “Single-lens” theorieën focussen elk op een afzonderlijke dimensie van strategische vernieuwing en hebben betrekking op verschillende niveaus van analyse. Daarmee kan strategisch vernieuwingsgedrag echter niet ‘integraal’ verklaard worden. Een coevolutionaire benadering kan bijdragen aan het begrijpen van verklaringen die “single-lens” theorieën leveren en tevens kan deze benadering bevindingen op verschillende analyseniveaus integreren.

Curriculum Vitae

Bert Flier (Barendrecht, November 27, 1972) studied Business Administration, with a specialization in strategic management, and Japanese Business Studies at the Erasmus University Rotterdam. From 1998 to 2002 he held a position as Research Associate at the Department of Strategy and Business Environment at the Rotterdam School of Management. He holds two Dutch national titles on the Ironman Distance Triathlon. From 2002, he continued working at the Department as an Assistant Professor. He serves as a member of the NOFIA (New Organisational Forms for the Information Age) research network. His research has been published in a variety of books and journals, and has been presented at international conferences. In 2001, he co-authored two articles in *Long Range Planning* on strategic renewal in European financial services. A co-authored publication in the *Journal of Management Studies* on coevolution in European financial services is due December 2003.

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Strategic Renewal of European Financial Incumbents:

Coevolution of environmental selection, institutional effects, and managerial intentionality

How do incumbent firms and environments coevolve and how are firm level adaptation and selection at industry level interrelated? Can and do large established organisations renew themselves to adapt to their environment? Three single-lens theories, relating to environmental selection, institutional theory, managerial intentionality, and a coevolutionary perspective are used to investigate strategic renewal of incumbent European financial services firms. We derive propositions and distinguish between three dimensions of strategic renewal to develop metrics that investigate our propositions in a multi-level, multi-country, longitudinal study of the European financial services industry.

The results suggest the following clues for further investigation. From an environmental selection perspective, we find financial incumbents have a preference for exploitation renewal actions. Country institutional environments appear to explain to what extent financial incumbents prefer internal and/or external renewal actions. Managerial intentionality seems to explain outlier behaviour and firm-specific frequency and timing of renewal actions. From a coevolutionary perspective, interaction effects contribute to explain deviations from predictions derived from the single-lens theories applied in this thesis.

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