



# Strategic renewal in banking: with Finnish banking as the case study

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### 1. Executive summary

Increasing competition, regulation, globalisation, and commoditisation have been challenging European banking. As each bank has had to develop its own approach to best respond to these ever-changing opportunities and threats from within its own environment, strategies to contend with these challenges have not arisen within an organizational vacuum. Traditionally, banking incumbents have kept the competition at bay by means of innovation mainly in products and services.

In the context of this banking industry, this study has developed a theoretical framework of the strategic competencies that will be needed not only in business, but also in developing a network model. To best realize this, we have had to assume that in the near future banking innovations will involve new business and network models, and that a general proliferation in management competence will be needed, that the existing competencies will be insufficient to respond to the strategic renewal need, therefore the integration of internal and external resources will require elaboration. With regard to the banking industry, besides the understanding of needed strategic competencies, this study has also increased the understanding and role of this changing banking environment.

This study set out to investigate the strategic renewal of Finnish banking from the management perspective, and now that our analysis has been complete, this study represents a framework for assessing strategic renewal. Drivers, strategy, business model and implementation were the main elements of the framework, and to make a company successful, management must create connections between these elements by guiding and acquiring new competencies.

The relevance of the framework has been verified empirically by interview. Vis-à-vis the change drivers, strategy, and the operative model, we found strong support for the framework, and yet, with regard to the links between business model, implementation and competencies, we found that the support has been weak.

Banks have been well aware of the fundamental change drivers in their operative landscape and see them as global phenomena. These change drivers were often assumed to have rather indifferent natures, and yet, surprisingly, they became quite vigorous once the actual business changes to realize them were implemented. Technological development and regulatory changes were seen to be rather

predictable, creating a strong need for the development of banking activities. Government regulation was not seen as a major external driver, as it was more of a catalyst underlying natural drivers such as internationalisation and competition.

Results clearly indicated that path dependence (meaning, future development was dependent upon such things as past and current institutions, traditions, and corporate culture) dominant in different banking institutions reverberated in a bank's values, client base, branch network, core competencies, and management. Path dependence determined how agile a bank could be in the arena of strategic renewal and whether it had the dexterity to alter its operative technique as the landscape rapidly changes.

Traditionally, Finnish banks have had strong cooperation and partnership, mostly through intra-industry enterprises such as the Finnish Banking Association, Luottokunta (a joint venture to issue credit cards), and Automatia (a joint venture to operate Automated Teller Machines [ATMs]). At the same time, inter-industry cooperation has increased (meaning, the partnerships with retail chains), with the connection between banking and insurance being particularly strong. How will this cooperation and partnership progress into the future as banking becomes increasingly integrated into the international economic system? This question is problematic: our results suggested that cooperation in domestic banking was in steady decline, and that this will have far-reaching consequences: in any case, the analysis of these consequences was beyond the scope of this study.

One of the core results of the study was related to customer-centricity, as it was revealed that it was equally important to understand the life-cycle events and customs of both one's retail and corporate clients. In the case of the latter, international and network business models created demand for new methods of banking services. The most important factor in customer-centricity remained the same, customer confidence. The two core questions we asked to reveal this deduction: How flexible must bank brands be? How far can banks be stretched from their traditional banking services? After the analysis, we were directed to three elements of customer confidence: economic trust (sound financial decision making); technical trust (secure operation); and, trustworthiness (overall possessing a trusting nature).

That being said, more puzzling were the results on what we understood were the needed strategic competencies. Our interpretation of the findings can be stated quite

simply, that the supply of adept personnel was directly dependent upon structural reasons. Still, with regard to future prospects, it was not exactly clear what would be the needed competencies, what would be the needed competencies for strategic renewal, and what would ensure development of high-quality banking services in Finland.

As a concluding remark, we argued that the pace and magnitude of the current strategic renewal outstripped even those years of the banking crisis (1991-1994). During those arduous times, banks faced both serious management challenges, and incessant structural change calling for the creation of the appropriate competence to succeed. Similar challenges are at hand, as banks are integrating internationally and ownership is transferring abroad.

## 2. Introduction

In the strategic management literature, banks had been examined rather superficially despite their predominant role in financial markets. Still, there was extensive and vibrant literature on banking based on economic and efficiency analysis, and it was for this reason that we focused our study on this rapidly developing industry from a management viewpoint. As the operative landscape was ever changing, we found it remarkable that research on management of financial institutions, as a business was fairly rare despite the fact that strategies and direction within these firms were under constant pressure. At this time, increasing competition, regulation, globalisation, and commoditisation have been challenging European banking.

Actually, we saw that it was equally important to not only study the actual drivers of change, and their implications, but also how financial institutions were able to both change their operations in terms of strategic renewal and build competencies to operate in this challenging environment. Negligent banking has always been costly for both the banks themselves, as they are businesses with the central role of financing the operation of the economy, and the economic system as a whole.

For a long period of time, strategic change in business has been one of the main research questions of management science. This study built upon this tradition, utilizing the competence-based approach developed by Sanchez & Heene (1997), Heene & Sanchez (1996) and Sanchez (2004), much like how Flier et al. (2005) as they analysed Netherlands' financial sector utilizing information from annual reports and the media. Specifically, they examined strategic renewal paths of large financial institutions during 1990-97, and their results suggested similar renewal paths with one notable exception among financial institutions measured in terms of internal and

external actions. Moreover, they developed a framework and metrics for measuring strategic renewal in the banking sector.

In the context of a fast changing environment, we developed a framework of strategic competencies that we believed were needed in both business and network model development. Besides the understanding of needed strategic competencies, we found that this study increased ones understanding of the changing banking environment and the role this has had on banking as a business.

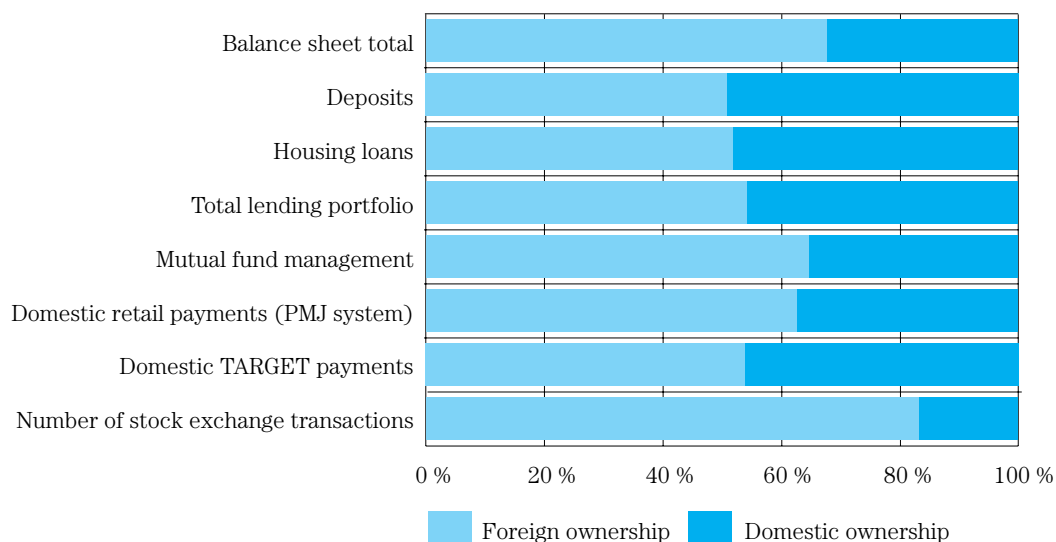
The remaining part of the paper has been organized thusly: Section 3 characterizes the operative landscape of banking in Finland; Section 4 presents a framework for assessing strategic renewal; Section 5 describes methodology; Section 6 displays the results; and, Section 7 provides discussion and conclusions.

## 3. The operative landscape of banking in Finland

Since deregulation in the 1980s, the Finnish banking sector has developed rapidly. Between 1991 and 1994 it endured a very difficult banking crisis; appreciatively it has since recovered to be one of the most digitalized banking industries in the world. In 2006 the number of online banking agreements signed by households and companies exceeded 3.9 million (from a population of 5.2 million). Today, Finnish banks have been showing signs of deeper integration into the European level banking system. As Figure 1 illustrates, foreign owned financial institutions operate the majority of Finnish banking activities these days.

In 2006 there were 338 banks operating in Finland: 13 of which were commercial, 232 were members of the co-operative OP-group, 42 were local co-operatives, 40 were savings banks, and 11 were deposit-taking branches of foreign credit institutions. They employed approximately 30,000 employees.

Figure 2.

**The level of foreign ownership of market capitalization**

*Suorce: Federation of Finnish Financial Services*

The Finnish financial sector continued to consolidate in 2006 as two major structural changes were settled: den Danske Bank acquired the Finnish Sampo Bank Plc; and, OP-Group acquired an industry company Pohjola- Group. Peripherally, Aktia Savings Bank acquired Veritas Life-Insurance Company Ltd., and some other savings banks joined forces with the Local Insurance Group to set up Duo, a life-insurance company.

Profitability within the Finnish banking sector has been very good. The sum of the operating profits, including Nordea Finland, was 2 billion EUR, approximately 9 percent of the total balance sheet.

These notions illustrate the challenges that Finnish financial institutions faced: the operative landscape increasingly digitalized, owners were foreign, and the degree of internationalisation in operations increased. On the other hand, there were still a large number of banks focusing on local activities only; hence it could be argued that the fragmentation of the Finnish banking sector has increased. Presumably, financial institutions were finding individual strategic approaches to cope with change drivers, meaning that they must have had operative models and competencies to implement measures outlined for their strategies.

#### 4. The framework for assessing strategic renewal

The framework for assessing strategic renewal was mainly based on Sanchez and Heene (1997), because to us they presented a methodologically sound approach connecting theory and practice for competence-based strategy and competition. According to their holistic position, the operation of the organization should be connected to those

internal (such as competencies, human resources) and external (such as competition, clients, suppliers) forces that have had an impact on an organization, as all of these forces were connected to the business model (thus creating an open system). In fact, the approach could be seen as a combination of core-competence assessment and the economics of industrial organization.

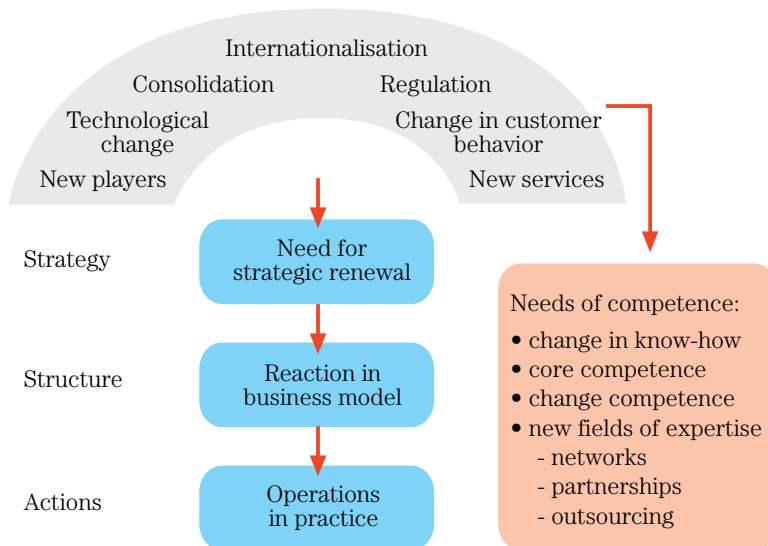
Another starting point for our study was Sanchez (2004) where he presented a taxonomical approach to identifying and managing five modes of competence: cognitive flexibility; the ability to find alternative management processes; coordination of resources; competence related to resource flexibility when dealing with alternative operations; and, applying the necessary skills and capabilities to the available resources. These modes were related to the different levels through which a firm operated, and they also established the channel through which a firm changed its production and created new business or products. In summary, there were three distinct core competencies: cognitive, coordination, and operative.

We built our framework to examine strategic renewal in bank management mainly on these abovementioned frameworks. The main elements consisted of an operative landscape (external issues), understanding the operative landscape (strategy), the ability to react with an operative model (structure), and operations in practice (actions). All of these elements created a need to develop business competencies, and so we defined a need for competence as one main element within the framework as it created the basis for survival.

The overall framework is presented below.

Figure 3.

**Framework for assessing strategic renewal**



As presented in the Section 3, the operative landscape for the banks in Finland was ever changing. On the basis of the literature, we identified seven general themes of change: new players entering the industry; technology; consolidation; internationalisation; government regulation; customer behaviour; and, new services.

In our framework, based on the literature, we identified four competencies that related not only to the operative landscape, but also strategy, structure, and actions. These were adjusted when considering a firm’s know-how, core competence, change capability, adaptation of new fields of expertise such as partnership, network, and outsourcing management.

**4.1 Strategy: the need for strategic renewal**

By strategy we mean creating an understanding of the operative landscape and using it to identify and formulate both a business approach and competitive advantage.

The need for strategic renewal could be seen as a permanent task of each organisation, since it is the point where the external operative landscape and internal organisation, competencies, resources, and other elements of the firm continue to interact.

In our investigation we defined strategic renewal to require specific competences such as analysing change in an operative landscape, the formulation of opportunities, the definition of alternatives, and the deduction the

correct conclusions (essentially a connection between the operative landscape and internal competencies).

**4.2 Structure: reaction to the business model**

After the strategic approach and goals had been defined, the next step was to initiate a reaction within the business model. We defined the business model as the management system that implemented the strategy, defined the operative indicators, and measured and supervised the activities.

The competences associated with the business model were the ability to develop a management system, decision making with regard to resource development and usage, organizational planning (process), and organizational change implementation (both internal and external).

**4.3 Actions: operations in practise**

According to the indicators and measures, the actual operative organization and processes implemented the business model in production.

The competence needs were usually more concrete at this level. The competence to operationalize the change consisted mainly of the ability to develop and simplify the interdependent processes.

**5. Methodology**

When it came to the empirical part of the study, the focus was on Finnish banking. The first issue we dealt with was whether the research question verified the theoretical framework for assessing strategic renewal; in other words, was it relevant to the banking industry. The second issue, by interview, were we able to construct from the banking industry specific evidence about how industry drivers, business models, and competencies interacted.

The study employed systematic combining and case study methodologies. Interviews included personnel in several banks operating in Finland.

Researchers such as Dubois and Gadde (1999 and 2002) first introduced systematic combining -- based on the logic of the abductive approach -- which they defined as a method to which the research framework, collection of data, and analysis arose simultaneously. According to this tactic the framework was modified not only to anticipate unforeseen empirical findings, but also gain theoretical insights during the research process.

The research process consisted of different intertwined activities. Instead of looking at the research process as a number of sequential phases, we thought to investigate

at random, going back and forth between each research activity. And the reason for this? Quite simply, during both the collection and analysis of the data, the theoretical framework might have been influenced by variables that had not yet been defined, and data analysis might have led to an understanding of issues that might have remained hidden during the interviews (Coffey & Atkinson 1996; Dubois & Gadde 1999). Randomly going back and forth between theory and empirical material might have led to a better understanding of both theory and the empirical material (Coffey & Atkinson 1996; Dubois & Gadde 2002).

In connection with systematic combining, Dubois and Gadde (1999) argued that it was important to use different sources of data and use complementary data collection methods. Again, this was our guideline. We verified our approach from several sources such as the recent industry reports from the Federation of Finnish Financial Services and the annual reports from the banks themselves.

For our purposes, another important aspect of systematic combining was the notion of active and passive data as the latter might be revealed when the researcher set out to find answers to his or her questions. Active data on the other hand had more to do with discovery, meaning that it often appeared when the work progressed. Interviews that had been too structured would have hindered the researcher from discovering something unexpected, while interviews that had been too loosely structured would have perhaps created too much data.

In order to create an understanding of strategic renewal in Finnish banking in this examination, the case study method was applied as it was deemed the most appropriate means to analyse the interviews. According to the literature, Weick (1979) in particular, the case study method was considered too "situation specific," therefore unsuitable for generalizations. However, from our perspective, we saw this criticism as its strength, as our study did not want to make universal generalizations, to comment on every global circumstance or condition infinitesimally, but only to comment on Finnish banks. In fact, future researchers might want to expand upon this study, to further cover a larger number of banks, giving justification for more extensive generalizations. As Dubois and Gadde (1999) argued, we applied the case study method in order to better understand the interaction between the phenomenon studied and its context.

One of the risks associated with the case study method was that the researcher(s) might let his, her, or their subjectivity flounder upon uncertain evidence that would have then negatively affected both the findings and conclusion (Yin 1994). During the interview phase, to validate the findings, we put in a great deal of effort

to avoid this fallacy by conducting several interviews per banking institution.

### 5.1 The interview context

In order to investigate management and strategic renewal in banking, the Finnish banks were used for the purposes of the case study method. A few large players have dominated Finnish banking, and smaller banks have been mainly organised under associations (such as local cooperative banks or an association of savings banks). Moreover, institutions were experiencing different phases of re-organization as they were either adjusting operations following a merger or reacting to current changes on the operative landscape. These phenomena in banking in Finland established the context for the interviews.

### 5.2 The interviews themselves

Empirical data for the study consisted of ten interviews. Views presented in the interviews converged, giving validity to the findings.

The interviews, semi-structured by design, took place between May and October 2007. The main topics were decided beforehand, and the interviewees were allowed to speak freely on predetermined topics. The following topics were presented to the interviewees during the introduction phase of each interview:

- What are the main drivers of the industry from the perspective of both the Finnish banking sector and your own bank?
- How do these drivers reflect the business model of your bank?
- What are the competencies needed for profitable operation?

In order to limit the scope of discussion, the questions were partly directive and partly open-ended. As far as it was possible, interviewers systematically refused to give a more detailed structure of discussion or brought up any detailed sub-topics.

All interviews were recorded and transcribed afterwards. Each interview length was approximately one and a half hours.

## 6. Results

This research consisted of two phases. First, we constructed a framework for assessing strategic renewal, and then second, we focused on the empirical evidence contained within the interviews. The meaning of interviews was two-fold, as the structure of interviews did not disclose our defined framework. For this reason the interview results could be interpreted either to or *not to* provide support for the framework. Conversely, as a result of the

interviews, we were able to illustrate what kinds of issues were brought up relating to industry drivers, business model change, and competence.

### 6.1 The framework

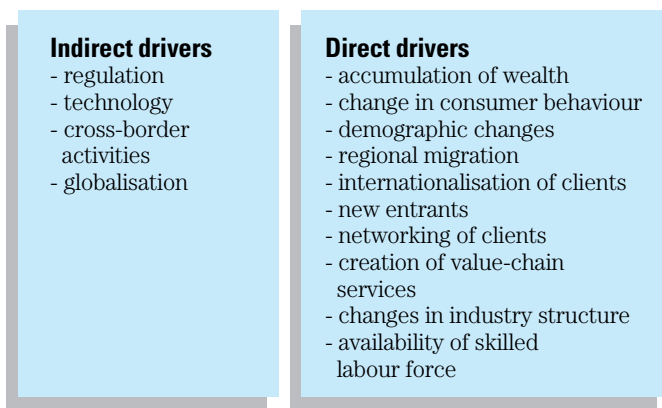
The interviews provided some support for the framework. Simply because it matched the framework fully, clearly the operative landscape and its connection to the strategy was the strongest link. The results on how these change needs were implemented with regard to both the operative model and operations in practice were more varying though. Mainly the focus was on product and service based approaches, and we found that implementing operational changes took a significant amount of time if the suitable processes to realise them had to be built. Competencies were identified to be important factors, and yet the tangible management of the competences, with regard to both the actual operations and strategy, were not to be connected structurally.

### 6.2 Industry drivers

According to the interviews, industry drivers can be divided into two groups: indirect operative environment, and direct competitive landscape. See Figure 4 below.

Figure 4.

#### Industry drivers



The main indirect drivers included regulatory changes, technological changes, cross-border innovations, and globalisation.

Most of the regulatory changes were related to the Financial Services Action Plan issued from the EU commission. It included more than twenty directives concerning all fields of financial services, where SEPA (Single European Payment Area) and Basel2 were found to be the most significant. Banks saw these changes mostly as increasing their costs and regulatory burden. Interviews also indicated that the optimal size of the traditional bank was about to change due to these regulatory changes.

Technological changes were seen to continue at their current pace. Most interviews indicated that the magnitude of electronic services was still increasing and digitalization was potentially spreading to all banking services. On the strategic level, the role of digital communities and Web 2.0 was noted and was seen to raise a need for a new kind of financial service. Further, digital communities were not seen to relate to everyday banking business within the foreseeable future.

In general, cross-border innovations were seen to be a part of the internationalisation of the banking industry. Recent structural changes have moved ownership of Finnish banking services abroad, and this was seen to create a potential for cross-border innovations and true integration of financial services into the future. So far, the Finnish banking sector has witnessed small-scale near- or off-shoring of their services (this was also brought up in the interviews).

Under the theme globalisation we saw two distinct forces. First, the Finnish economy was connected increasingly to the global economic system, and its positive development and negative turbulence was experienced in Finland faster than it was ever felt previously. In this context, the development of the global economy was seen as one of the key change drivers. This globalisation was seen to spread to all SME (small and medium-sized) firms, most of whom had the majority of their business abroad. Second, Finland was integrating its economic system into the EU, and the pace of this integration was seen to be one of the main change drivers within the banking industry. Most importantly, this was seen to have an impact on the competitiveness of both the Finnish economy and Finnish companies alike. In practical terms, the impact of globalisation was seen to enter the Finnish economy largely on the basis of interest rate development and, to a lesser extent, through structural changes.

Other main direct change drivers were accumulation of wealth, changes in consumer behaviour and demographics, regional migration, internationalisation of clients, new entrants, networking of clients, creation of value-chain services, changes in industry structure, and the availability of a skilled labour force.

During the past couple of decades the accumulation of wealth had accelerated in Finland, due to not only the ageing population, but also to the fact that access to sophisticated saving and wealth management products and services has become viable. Respectively, the role of wealth services has increased in banking. Then again the accumulation of wealth has been related to inheritance, as current taxation gives incentives to carry wealth over one generation to the next, consolidating assets, gradually

leading to a change in customer structure as the younger generations, unlike their parents' generation, becomes wealthier at an earlier stage in their life-cycle.

In addition to ageing, consumers have been experiencing fundamental changes when it came to their behaviour towards the banks themselves. Formerly, banks were regarded by customers as semi-official institutions that had a major influence on their lives and well-being. Our study suggests that banks were increasingly considered as businesses that were providing, to some extent, standardized products and services. There was also a customer readiness to compare banks, have them compete against each other with regard to payment services and home loans (just to name two subjects).

At the time of this study, the rapidly ageing population was one of the main demographic changes Finland had to face in the near future, as it was well established that, in order to meet the coming needs, financial services providers had to expect an increasing demand for insurance, health-care, and other life-style services (such as catering and cleaning). This was seen as an opportunity to create and develop new financial services. At some point, traditional banking services might face other new demands, as the ageing population might be restricted from either their digitalized or branch-based services due to age related reasons. Further, over the past decade, another demographic change was occurring, as regional migration from countryside to regional centres such as Helsinki, Turku, Tampere and Oulu was continuing at a rapidly increasing pace.

Since working abroad was becoming more common, the internationalisation of clients has been rapidly affecting all businesses, including retail clients. These particular client segments needed sophisticated banking services even though case volumes were minor. Banks faced the challenge of providing services that were both cost-effective and -efficient. The internationalisation of clients was also connected to another phenomenon, that being client networking. This phenomenon has been revealed in several forms in the interviews and by discussing how those interviewed networked their clients, we have the aim to illustrate the changing role of business. Corporate clients were moving their traditional core activities to be operated by a network, as these created new kinds of financial and operational requirements for the banks as well. Their own operational networks were to gain ground to meet the demands of their clients. The creation of these value-chain services best illustrated how the banking industry tended to develop their services to match the business of the grocery shopping and health-care services for the retired.

In general, partly as a consequence of the above-mentioned industry drivers but also due to other factors, changes in the structure of the banking industry have had to follow the mergers, partnerships, and the consolidation of activities. Moreover, new entrants like retail-chains and other operators that considered banking as a support function for their core activities in the first place, challenged the traditional financial service providers.

The need for a skilled workforce was found to be a worsening challenge in Finland: simply stated, the industry had a top-heavy personnel structure: in the near future, the majority of experienced professionals would be retiring. Challenges in personnel structures were due once again to the banking crisis in Finland, where the industry as a whole was restructured and recruiting was restricted. Recruiting started again only after 1995 when the majority of recruited personnel were of a younger generation.

### **6.3 Reaction in business model and its implementation**

In varying ways, the above-mentioned industry drivers had impacted the banks operating in Finland. This was due to the fact that even though the activities within the banking industry were rather homogenous, their institutional structures and business models were heterogeneous.

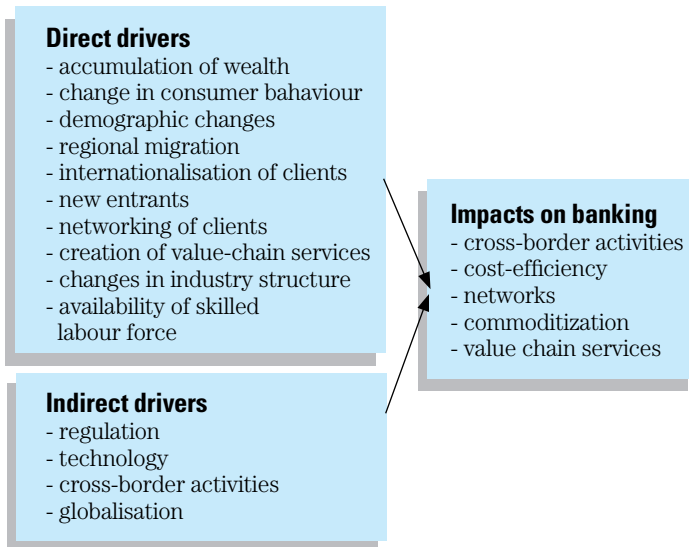
#### **6.3.1 Impacts of industry drivers**

The uncovered impacts of the industry drivers are to be illustrated next. There were several considered: cross-border activities, cost-efficiency, networks, commoditization, and value chain services.

Cross-border activities were seen in the operative models as an increase in usage of outsourcing service and partnership with international service providers. Cross-border activities were found to have even impacted product development, and in this regard at least some parts of the development process were actually executed abroad. When it came to business support services, much of it was operated from either an offshore or nearshore source.

Figure 5.

**Impacts of industry drivers**



Cost-efficiency has long been one of the operative principles of the banking industry in Finland. In their operative models this could be seen in increasing outsourcing, partnership building, and the constant search for scaled-economies with regard to the production of services. The role of outsourcing was clear; by centralizing activities within scaled-economies that were essentially just lower-cost locations, banks were able to create cost savings. The meaning of partnership in Finland could be thought of in two different ways: first, principally, banks have found it justifiable to co-ordinate payments and cards related activities, and then second, that the most recent partnerships have been related to reaching end-customers and developing associated service-concepts for them.

Of course, the most obvious partnerships in Finland have already been established. The results indicated that the banking industry has been awaiting radically styled partnerships that will shape the industry still further. Currently, core operative activities were reshaped partly because of some perceived cost-efficiency pressure; local players have been focusing on client interaction, and have in fact been relinquishing the more complicated parts of their value chains (such as equities trading and fund management). International players have been supporting this trend by increasingly providing services to that which has been relinquished.

A major question in increasing cost-efficiency has been the role of government regulation. Previously, government regulation and their associated regulatory costs largely determined the optimal size of a bank, however, the efforts of the EU commission -- to create a European-wide financial markets by harmonizing the regulatory framework -- will have implications on their optimal size.

In the near future a small local bank will begin feeling that some of its activities were actually detriments and would then be forced to relinquish these activities purely as a cost measure. Gradually, large international institutions will be able to provide these activities as services to small local players. Still, whatever happens, it remains to be seen what will be the role of regional banks.

One of the fundamental changes in their operations has been the commodisation of banking services. Clients have been quite adept at getting banks to compete against one another, and in fact banks have turned into true point-of-sale merchants (certainly something that did not exist a mere decade ago). Sales channels have also developed as internet- and telephone-banking have become commonplace.

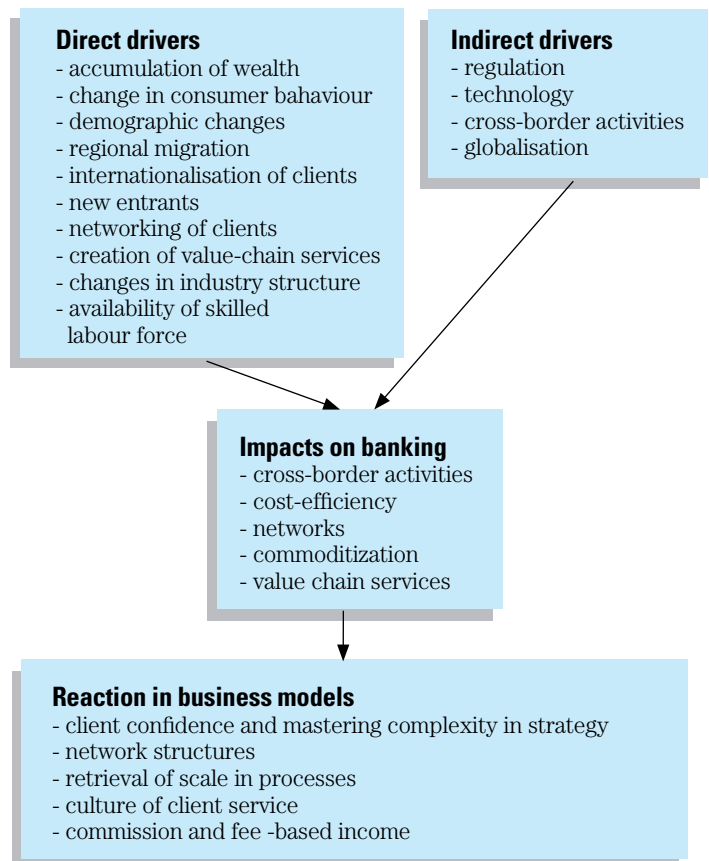
The creation of value-chain services in this connection has illustrated the tendency of banks to develop their services to match both business and client value-chains.

**6.3.2 Reaction in the operative model**

According to the business model elements, reactions in the operative model were reported to fall into five different categories: strategic issues, operative networks, operations, business culture, and the profit generation model.

Figure 6.

**Reaction in business model**



The most prominent strategic issue in banking has been the confidential relationship between the bank and its clients. From the interviews, the evidence clearly indicated that this relationship would continue to solidify and become even more important in the coming years. The other strategic issues included the role of advice and service provision, employer image, participation in the standardisation of work (also at the international level), specialisation, and the optimal size of banking operations. This challenging operative environment was also reflected in the notion that the deeper one went to integrate with the global economic system, the greater the unpredictability, making strategic planning an increasingly complex task.

Operative networks have taken on variable forms. The creation of banking and insurance (known as “bank-assurance”) has been considered the primary means of creating operative networks in Finland. And the secondary means of creating operative networks: the role of cross-border networks. And the tertiary: partnerships. As all of these forms of operative networks have existed for quite some time now, the only question that came to our minds was this: What kind of partnerships are we going to see in the future?

With regard to operations, these were the most important elements that we considered: processes, economies of scale, cross-border activities, and services for value-chains. When it came to processing, the roles of automation and outsourcing were what almost everyone discussed. Current technologies and outsourcing opportunities provided viable possibilities to seek efficiency in processes, and in fact economies of scale have become one of the most important drivers to initiate this focus. Interviews indicated that gradually the idea of decreasing marginal costs through economy of scale would be tested against all the other activities. The general move toward outsourcing and economy of scale has also been apparent in cross-border activities. We have witnessed several cross-border mergers in Finland, and simultaneous cross-border activities have grown in both outsourcing processes and partnerships. In addition, cross-border activities have increasingly included elements of product and business concept development. As clients’ operations were increasingly network-based, bank services developed accordingly: this was indicated by the rise of the value chain related services. Banks have also been seeking their role in facilitating traditional production and consumption value chains in an environment that has become increasingly dominated by networks.

The most significant change in business culture related to banking activities has been in client interaction. Switching costs have declined (meaning that exit barriers have diminished), consequently clients no longer

considered themselves “owned by the bank:” they feel that they have the freedom to change banks. In practical terms, as competition increased, this was seen as a move from the more traditional bank branch paradigm to one that saw the bank become more of a sales office. Related to this, customership has become more fragmented as customers increased their shopping in more than one bank. In order to develop the correct corresponding services, banks took up the challenge of both following and understanding their clients trends and needs. Results have clearly indicated that a perceptual change in the status of banks in the Finnish society has affected the actual operations of the banks themselves.

### **Client centrality on the rise:**

Some of those interviewed believed that customer-centricity was maturing though it was now still in its infancy. The following issues were seen to strengthen in client centrality:

- Usage of customer information in service provision
- Sophisticated pricing schemes
- Value chain services for communities and networks
- Emergence of service-integrators
- White-label banking services to support other services
- Provision of socially responsible financial services

While there has certainly been room for traditional banking services at least two new trends in the client base were emerging: ageing clients wanted social interaction and care-taking services; and, younger clients, because of their intimate knowledge of the digital-age, have been more fragmented, demanding location free, around the clock service without social interaction.

When it came to the profit generation model, the changes in the operative landscape were reflected there as well. The role of fee and commission-based income has steadily increased and will increase further into the future. Also, cost-awareness has become a major element of the business model for banks as its meaning as a source of competitive advantage has increased significantly. Another impact of competition, especially concerning loans, has been the constant decline of margins. In general, the findings indicated that the earnings of the banks moved from their traditional, more regulated, actions towards services and sophisticated savings and insurance products that were fee and commission-based.

## 6.4 Is there a need for competence?

From a business model perspective, competence and labour issues were important enablers. Business models have had to adjust according to the available competence. Then again, acquiring the appropriate competencies has been a question of costs and availability if a bank aimed to implement a chosen business model. Changes in the operative landscape, such as internationalisation, created a new type of need for networking and business competence. The actual challenge was to combine these competence needs and the traditional, more local, manner of operating with the banking industry in Finland. In concrete terms, this means that one has to create a business model that will ensure the capability of finding and keeping personnel that has the precise competence.

According to the presented conceptual framework, the major element in the management of strategic renewal has been the means (the competence) to implement operations in practice. Interviews indicated that the need for competence development was important (and for several reasons): understanding the network business models, orchestrating operations, managing the complexity of the products and services in a rapidly changing operative environment, the ability to focus on core business issues, and project competence. However, evidence was fractional and was not well considered by those who were interviewed. In most cases, the connection between competence and other elements in the framework (such as the business model and drivers), were remote and not well correlated. The approach to competency building was mainly taken as a matter for the Human Resource department to sort through.

### Switching competences:

The role of the banks in the economy has changed, and this has had an effect on the competence needed to succeed in business. Some of the comments we have encountered:

- It is not an easy task to change former bank clerks into salespersonnel
- Banking is more and more about advice
- Being more competent than the clients has been a real challenge
- Strategy work has been unpredictable and has required sophisticated tools and expertise
- Hierarchies have been transformed into low organizations: and so, how have the teams really been operating – hierarchical or horizontal?
- New types of management skills were needed in order to network the business model

## 7. Discussion and conclusions

The objective of this study was to investigate strategic renewal of Finnish banking from the management perspective. The study presented a framework for assessing strategic renewal. Change drivers, strategy, business model and implementation were the main elements of the framework. To make a bank successful, management created a connection between these elements by guiding and acquiring new competence.

The relevance of the framework was verified empirically by interview (both semi-structured and open-ended). We found support for the framework, especially with regard to the change drivers, strategy, and operative model. However, support for the linkages between the business model, implementation, and competencies were weak.

Interviews verified that the banks were very well aware of the fundamental change drivers in their operative landscape and they saw them as global phenomena. These change drivers were assumed to be slow but became surprisingly rapid when the actual business changes were implemented. An example of this has been the retail on-line trading of shares in Finland, which was slow to develop at first, and yet has experienced a great deal of rapid change over the last decade or so. Technological development and regulatory changes were seen to be rather predictable, creating a strong need for the development of banking activities. Government regulation, as such, was not seen as a major external driver, as it was more of a catalyst, underlying natural change drivers such as internationalisation and competition. Also, government regulation was seen as an unbearable cost for a small bank that was providing full-scale service. The banking industry has been expecting to see more specialised institutions and new ways to operate due to government regulatory change.

The results clearly indicated that path dependence (future development was dependent upon past and current institutions, traditions, and business culture) was dominant in different banking institutions. Traditions were reflected in the values, client base, branch network, core competencies, and management. Path dependence also determined how agile institutions were in not only strategic renewal, but also how they were able to alter their technique as the operative landscape changed rapidly.

Finnish banks have had strong traditions in cooperation and partnership. This cooperation was mostly intra-industry within organisations such as the Finnish Banking Association, Luottokunta (a joint venture between Finnish banks to issue credit cards), and Automatia (a joint venture to operate ATMs). At the same time, cooperation on an inter-industry basis has increased (partnerships with retail chains). The connection between banking and insurance

has been strong traditionally in Finland. How will these partnerships develop in the future as banking is all the more integrated into the international economic system? Our results have suggested that the role of domestic banking cooperation was steadily in decline and that this will have many consequences for banking services in Finland. However, analysis of these consequences was beyond the scope of this study.

### **Networks, networks, networks:**

Few mentioned Automatia or Luottokunta. Everybody mentioned communities, retail chain, and insurance partners. "We have seen easy partnerships, wait for the next ones."

One of the core results of the study was related to customer-centricity. Previously, banks in Finland were largely product and production oriented, and now the focus can be argued to have been transferred fully to the side of customer-centricity. It was all the more important to understand the life-cycle events of both the retail and corporate clients. With regard to the corporate clients, international and networked business models have created a demand for new kinds of banking services. The most important factor in customer-centricity was still the traditional customer confidence. This has implications on service offering and also on choices of cooperative partners. The core questions we asked: How flexible are the bank brands? and, How far can they be stretched from that which are traditionally considered as banking services? We found three elements of confidence: economic trust (sound financial decision making); technical trust (secure operation); and, trustworthiness (overall possessing a trusting nature).

Results on needed strategic competencies were puzzling, as the interviews did not give any concise view. Our interpretation of these interviews was that, due to structural reasons, the supply of personnel was already one of their main concerns. However, it was not quite clear what were the needed competencies. In addition, it was not clear which were the needed competencies for strategic renewal, and for ensuring development of high-quality banking services in Finland.

As a concluding remark we argue that the pace and magnitude of current strategic renewal is even faster than in the years of the banking crises. During that time, the banks faced a serious challenge to their management and they still needed to create the appropriate competence to succeed. Now at a time when banking has been integrating internationally and as ownership of the banks has been transferring abroad, similar challenges are at hand.

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