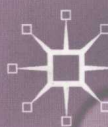


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Insights from the Banking Sector

Rehan ul-Haq

Foreword by Pierre Dussauge

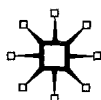


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Rehan ul-Haq

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Praise for Alliances and Co-Evolution

'Much of the – now vast – literature on business alliances has focused upon globalized mass manufacturing industries or upon hi-tech sectors such as semiconductors or pharmaceutical products. This book is a refreshing change in that it looks at the "Age of alliances" through the lens of a traditional service sector: banking. Serious students and practitioners of banking/finance, and of strategic management, would be well advised to read it, to comprehend the massive, and multi-faceted, nature of the "alliance revolutions" in the financial services sector. The significance of this book, however, goes far beyond this. Dr ul-Haq introduces new notions to alliance analysis in general. In particular, he makes a distinction (i) between "infrastructure" and "strategic" alliances, and (ii) between various forms of "co-evolution" in alliances. These new concepts are of immensely wider significance than that "merely" of the global financial services sector. For example, the contemporary debate about the nature, and future, of the European Union can be seen as one about whether it is, or should be, an infrastructure or strategic alliance. Moreover, Dr ul-Haq's co-evolution analysis is of wide applicability: not only as regards business firms, but also political parties and coalitions, and even alliances between organized criminal enterprises. I suspect, therefore, that this is one of those books which – although seemingly focused up a particular sector – will, eventually, have a *much* wider impact on the social and managerial "arts" and sciences generally, through its introduction of valuable new analytical concepts.' – **Professor John Burton**, *formerly Birmingham Business School, University of Birmingham, UK*

'In this extremely well-presented monograph, the author, Dr ul-Haq, generously shares with fellow-students as well as with advanced practitioners the rich fruits of his extensive reading, theoretical understanding and penetrating practical insights. His sure-footed analysis comes to life with a fascinating wealth of evidence drawn from painstaking personal interviews and questionnaires. The result is an exciting presentation of the unsuspected ways that Adam Smith's apparently simple precept of the division of labour leads on to varied and intricate patterns of collaboration between otherwise independent companies.

Some of these strategic alliance arrangements are for narrow, specific, short-term purposes, while others develop more widely and may even lead to a full-blown merger or take-over. This study illustrates from the dynamic world of local, national and international banking how both entrepreneurial bankers and their customers can benefit from carefully specified forms of corporate cooperation in an increasingly competitive universe which is here to stay.' – **Lord Harris of High Cross**, *Cross Bench Member of the House of Lords, Former Founding Chairman of the Institute of Economic Affairs, London, UK*

'Dr Rehan ul-Haq has published a unique book that combines considerable detail about banking operations and inter-bank alliances with an exhaustive coverage of theory on inter-firm cooperation. It is at once a review of the evolution of the banking sector and banking history, as well as a life-cycle approach to understanding alliances from their negotiation stage, to joint management, to their eventual dissolution. Dr ul-Haq's work reveals an impressive ability to marshal the growing academic literature on alliances, as well as scholarly papers from Economics and Organization Management, while applying these concepts to banking strategy. A deep, scholarly monograph which will be appreciated by students of inter-organizational cooperation, the book could also be highly rewarding to the erudite banker or strategist. In the empirical aspect of the book, Dr ul-Haq draws on 23 years of secondary data in the banking sector, on a questionnaire sent to 217 banks in 20 European nations, as well as on interviews. This range of empirical approaches, the deeply-considered sweep of theory, and what appears to be considerable knowledge of the banking sector and its evolution make this a unique compilation' – **Farok J. Contractor**, *Professor of International Management, Rutgers Business School, USA*

'Dr ul-Haq's book provides a penetrating analysis of strategic alliances informed by his considerable knowledge of the banking sector. His wide review of the literature is of great help to students, while the insights he offers on how alliances evolve over time fill significant gaps in our knowledge' – **John Child**, *Professor of Commerce, Birmingham Business School, University of Birmingham, UK*

Also by Dr Rehan ul-Haq

Itshert, J and ul-Haq, R (2003) *International Banking Strategic Alliances: Reflections on BNP/Dresdner*, Palgrave Macmillan: London & New York

Dedications and Acknowledgements

This book is dedicated to:

- To God for life and liberty.
- To my late father, Zafar ul-Haq FRCS, for instilling the work ethic.
- To my mother, Salmi Z Haq, for unstinting support.
- To my wife, Lubna S Haq, for great encouragement.
- To my daughter, Aaminah S Haq, for giving hope.
- To my Doctoral Supervisors and Directors of Research, Professors Ian C Morison, Peter Lawrence, Barry Howcroft and Ian Davidson.
- To the Senior Bank Directors for their time and insights.
- To the team at Palgrave Macmillan.

There are so many people who need to be acknowledged.

- The many academics who have provided enlightening insights and practical advice regarding this research.
- The many people who have provided encouragement.
- My family and friends, too many to mention individually, who put up with my overwhelming pre-occupation but still provided friendship.

A research book is an undertaking that requires (alongside the academic achievement) the ability to work in a dedicated way and to sustain interest over a long period of time. The support and advice of fellow academics, family, friends and colleagues has made this possible. The most important are the many managers and directors of banks throughout Europe who gave unstintingly of their time and insights in the course of this research. Without them this would not have happened. Thank you.

Preface

Alliances and Co-Evolution

Strategic alliances are a prevalent form of business organization. The critical characteristics of strategic alliances are detailed using Coase (1937) and the resulting definition tested through primary research and the alternative form, the infrastructure alliance posited. The book examines whether strategic alliances add value in the European banking sector through four types of analysis at two levels of engagement – a 23 year historical review (at industry level); a review of over 400 papers in the academic literature; a questionnaire survey (at firm level) and in-depth interviews (at firm level).

Bankers high pre-existing propensity to enter into strategic alliances is determined and three lifecycles, and the underpinning conditions identified – Clubs and Consortium Banks, Bankassurance and the Virtual bank – the latter involving a fundamental change in Coase (1937) enabled by the underpinning technology. Bankers were found to be followers of potential business streams and the strategic alliance was one form of market entry. The questionnaire research, however, identified that European bankers prefer to enter into alliances (as opposed to own branch or M&A) only in countries which had the appropriate supporting conditions such as definable, enforceable and terminable contracts, the provision of accounting information, stable governments and economic freedom. Direct discussions with senior bankers resulted in a number of valuable insights into the conceiving, forming, organizing, evolving and dissolving of alliances.

Further research into the infrastructure alliance, including ‘oscillation’ between infrastructure and strategic forms is proposed. The Co-Evolution Model of Strategic Alliances is proposed and taxonomy consisting of parallel co-evolution, convergent co-evolution, divergent co-evolution and the subsidiary taxonomy of differential parallel co-evolution, differential convergent co-evolution and differential divergent co-evolution detailed.

This model provides a mechanism for alliance managers to link together environmental change, changing strategic-intents of alliance partners, the nature, form and purpose of the alliance

thereby retaining strategic flexibility and continuing to enjoy the benefits of collaboration.

Strategic alliances are found to add value in European banking but this value is contingent on the strength of the business stream, the global, national and industry conditions and the nature of managerial decisions and drive and the ability of the alliance to co-evolve as the partners strategic intents evolve.

Foreword

by

Professor Pierre Dussauge

HEC – School of Management

Paris, France

Strategic alliances have been a topic of investigation for many years now. Early studies on inter-firm collaboration that envision alliances as more than mere collusion date back to the 60s and 70s. In the 80s and 90s, alliances actually emerged as one of the most researched subjects in the field of strategic management. Numerous books and literally hundreds of articles, some academic and others practitioner-oriented, were published on the subject, exploring such issues as (i) what firms form alliances and why, (ii) how should alliances be organized and managed, (iii) how do alliances evolve over time and (iv) what are the performance implications of alliance strategies, among others (see Gulati, 1998 for an overview). With companies continuing to actively collaborate with one another in the early years of the new millennium, and with many answers still to be provided on the above-mentioned questions, the stream of research on alliances seems unlikely to dry out anytime soon.

This, in itself, is enough of a reason to welcome the publication of a new research book on 'Alliances and Co-Evolution: Insights from the Banking Sector'. More importantly, this book and the research by Rehan ul-Haq from which it is derived, fill a surprising gap in the alliance literature. Most of the work on alliances – with the exception of studies on airline alliances, a sector which seems to have captured the attention of academics more than most others – has indeed tended to focus on manufacturing industries, either explicitly or, more often, implicitly. And while there may be a lot in common between alliances in manufacturing and alliances in service sectors, there are undoubtedly also very significant differences. Many of the forces that have driven companies in such manufacturing industries as automobiles, telecommunication equipment, aerospace, computers, pharmaceuticals, etc. to enter into countless collaborative arrangements, many of which are with competitors, are unlikely to play out in exactly the same way in the service sector. Skyrocketing R&D expenses for

example are more typical of manufacturing than they are of services; global competition has drastically affected most manufacturing industries while many services have remained somewhat sheltered in their specific domestic settings. Because of these differences between manufacturing industries and services, there is undoubtedly a lot to learn by taking a closer look at alliance strategies implemented by service firms. Indeed, Rehan ul-Haq's new book provides many intriguing new insights on alliances by specifically looking at alliances in the banking sector.

One first intriguing conclusion that Rehan ul-Haq derived from observing banking alliances has to do with the various types of alliances that he identified in this sector. Developing theoretically sound and empirically relevant alliance typologies has indeed been an important facet of alliance research over the last 20 years. Noting that alliances are an extraordinarily heterogeneous phenomenon, authors have suggested many different classifications of alliances (see among others Hennart, 1988; Yoshino and Rangan, 1995; Doz and Hamel, 1998; Dussauge and Garrette, 1999). None of these typologies however comprehensively addresses all the main management issues that get raised whenever firms choose to collaborate rather than to compete. This suggests that we still do not have a deep enough understanding of the various alliance types that firms get involved in. In that respect, by proposing a new perspective on alliance types derived from the observation of collaborative behaviours in the banking sector, i.e. *infrastructure* vs. *strategic* alliances, Rehan ul-Haq provides a fresh look at why firms choose to collaborate and at how this may affect future competition between allies or between members of the alliance and outsiders. Such a typology, which is much more parsimonious than most other categorizations that have been put forth to date, may provide a broader framework that is applicable to manufacturing industries and service sectors alike.

Another major contribution of this book is Rehan ul-Haq's attempt at providing a clear answer, in the specific context of the banking sector, to one of the most important – albeit frustrating – questions about alliances: do alliances create value for those firms that choose to form them? Rehan ul-Haq's conclusion, based on his in-depth knowledge of banking and on the opinions he gathered from bank managers, is unequivocally 'yes'. Though I am willing to agree with him in the particular context of European banking, I might be a little less enthusiastic than he is in a more general perspective. Indeed, I think one of the reasons why it has been so difficult to answer this question in the past is because it is very difficult to disentangle the reasons that lead firms to

form alliances from the factors that drive performance. In other words, firms that are more prone to collaborate may be stronger – or weaker – competitors, thus leading to the observation that firms forming alliances outperform – or under perform – others, when in fact collaboration is merely the appropriate behaviour for strong – or weak – firms. In fact, preliminary observations derived from current research suggest that alliances per se may have little specific impact on performance, if those factors that both lead companies to collaborate and drive their performance are taken into account. The conclusions Rehan ul-Haq has arrived at in the banking sector provide us with fresh empirical evidence that will help us disentangle these difficult issues.

Finally, this book is significant contribution to our knowledge and understanding of the banking sector and, as such, is of major interest for those of us interested in how this industry is evolving and adapting to rapid changes in the environment, in particular in the context of Europe. Overall, Rehan ul-Haq has done a superb job of providing us with both intriguing new insights into the strange world of strategic alliances and a valuable account of changes affecting the banking sector in Europe.

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List of Abbreviations

APACS	Association for Payment Clearing Services
ATM	Automated Teller Machines
BACS	Bulk electronic clearing for direct debits and credits
BNP	Banque Nationale de Paris
BoE	Bank of England
BOS	Bank of Scotland
BZW	Barclays de Zoete Wadd
CCC	Cheque and credit clearing
CEO	Chief Executive Officer
CHAPS	Clearing House Automated Payments System
EBIC	European Banking Industry Committee
EEC	European Economic Community
EJVs	Equity Joint Ventures
EU	European Union
FDI	Foreign Direct Investment
FSA	Financial Services Authority
HNWI	High Net Worth Individual
HR	Human Resources
HSBC	Hong Kong and Shanghai Banking Corporation
IBOS	International Banking-One Solution
ICAs	International Collaborative Arrangements
IJV	International Joint Venture
IMF	International Monetary Fund
IT	Information Technology
JV	Joint Venture
OPEC	Organization of Oil Producing and Exporting Countries
OS	Overseas
M&A	Mergers and Acquisitions
M&S Typology	Miles and Snow Typology
MBA	Master of Business Administration
M-Form	Multi-Divisional Form
MNEs	Multi National Enterprises
NJV	Non Joint Venture
R&D	Research and Development
SMEs	Small and Medium-sized Enterprises

SWIFT	Society of Worldwide Interbank Funds Transfer
U-Form	Unitary Form
UK+CE	United Kingdom and Continental European

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