Modelling competitiveness of integrated financial services in South Africa

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ABSTRACT

Financial services integration, where a financial services organisation starts to offer products from another financial services sector, has proliferated since the 1980's and this development is expected to continue into the foreseeable future. Some financial services integrations are considered to be very successful whereas others were less successful or considered to be failures. This study developed a model of enhanced profitability and competitive advantage of financial services organisations when implementing financial services integration. A draft model was developed based on a literature review making use of Fuzzy Cognitive Mapping (FCM). In-depth, semi-structured interviews with 22 respondents were used to obtain the views of financial services analysts, consultants, auditors, executives and senior managers to update the FCM. The FCM was finalised following validation by the research respondents. The key drivers of enhanced competitiveness when integrating a product from another financial services sector are identified as organisational fit, compatible corporate culture, target market alignment, sourcing of appropriate skills when integrating complex or specialist products, operating scale, a strong brand and integrating complementary products.

DECLARATION

I, Lizet Murray, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Lizet Murray

Signed at Bellville, Cape Town

On the 29th day of January 2009

DEDICATION

In loving memory of my father and mother

Sias and Martha Oosthuizen,

whose love and support made me strong

and whose example created the passion in me to strive for quality and to persevere.

To Hilton Murray,

my loving husband,

without whom this would not have been achievable.

ACKNOWLEDGEMENTS

I wish to express my sincere thanks to:

- Hilton, my husband, for your continued support, motivation, love and for always believing in me
- Dr. Geoffrey Bick, my supervisor, for academic guidance and enthusiastic support
- Dr. Anthony Stacey, for technical assistance and guidance
- My respondents, for your time, enthusiasm and willingness to assist with rich data
- My family and friends for your understanding during my absence in the last few years. I look forward to catching up on lost time
- And finally to Him through whom all things are possible.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of the research was to develop a model that can assist in predicting whether a planned financial services integration will enhance the competitiveness of a financial services organisation as reflected in increased profitability and improved competitive advantage. It provides a tool for decision-making when assessing the desirability of integrating financial services organisations.

1.2 Context of the study

The 80's and 90's saw a trend towards integration in financial services with financial institutions widening the range of services provided in Europe and countries such as Australia and New Zealand due to profound operational and structural changes (Koguchi 1993). Banks, securities firms and insurance companies started to compete for the same markets and government policies began to allow ownership linkages between various types of financial firms, resulting in the trend for retail banks to offer insurance products known as Bancassurance from the French term or allfinanz in German (Koguchi 1993). Insurers became increasingly interested in acquiring banks' sales networks (Koguchi 1993). The 90's and the new millennium saw the trend extending to countries such as the USA, Canada and Japan, especially following the relaxation of legislation governing the provision of financial services offerings (Koguchi 1993). The passing of the Financial Modernization Act (USA 1999), also known as the Gramm-Leach-Bliley Act in the USA in 1999, for example, removed almost entirely the remaining barriers separating banks, securities firms, and insurance companies and thereby altering the expansion opportunities for commercial banks and insurance companies (Lown *et al.* 2000; Fields *et al.* 2007). The penetration of bancassurance varies across different markets but has increased in recent years (Sigma 2007). Bancassurance has become widely recognised and a successful model in Europe, specifically in France, Spain, Portugal, Italy and

Belgium where it represents more than half of the premium income in life insurance (Staikouras 2006). Penetration of bancassurance in both developed and emerging markets is increasing globally and has become a key distribution channel over the last two decades (Potgieter and Christelis 2008). In the US and Canada however the phenomenon of bancassurance is much less successful and it is still in development in emerging markets such as Singapore, India, China, Indonesia and Philippines (Artikis *et al.* 2008).

1.2.1 *Definition of financial services integration*

The literature provides several definitions for "financial services integration" and related terms:

"Perhaps the most familiar definition of *financial services integration* is that it occurs whenever production or distribution of a financial service traditionally associated with one of the three financial sectors is by actors from another sector. Terms such as *bancassurance, allfinanz,* universal banking, and financial conglomerates are all used to convey some notion of integration" (Skipper Jr 2000:3). The author continues to state that "the degree of integration may range from shallow to deep". The author identifies the three financial sectors as commercial banking, investment banking and insurance.

"…a proposed working definition of *financial services industry integration* as inclusive of any event that joins two or more financial services organisations or combines two or more dimensions of the production of distribution of financial services" (Berger 2000:26).

Bain and Harper (2000:1) use the term *financial convergence* and quote from the Australian Financial System Inquiry (1996:73) as follows: "an existing financial service provider diversifying its business to offer a broader range of financial service, such that its business begins to encroach on areas traditionally the preserve of other financial institutions". The authors proceed to define a *financial conglomerate* as "an institution that diversifies through subsidiaries" (Bain and Harper 2000:1).

Financial conglomerate is also defined as "any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two of the three major financial sectors. The three sectors are commercial banking, investment banking and insurance" (Skipper Jr 2000:4).

Bancassurance (with *allfinanz* sometimes used as a substitute term) has been defined as "the … model in which bank and insurer become synonymous and customers can meet all their financial services needs in one place" (Weil 2003:7); as "bank and insurance combinations" (Fields *et al.* 2007:777); as "integration via distribution across all three major sectors (Skipper Jr 2000:4); and as "the selling of insurance products by banks" (Skipper Jr 2000:4; Harrison 2002).

The extent of integration and the organisational form can vary significantly from full integration where all financial services are produced and distributed within a single organisation, to arrangements within groups of companies (parents and subsidiaries), joint ventures and similar arrangements, and finally marketing arrangements only between banks and insurers (Skipper Jr 2000).

Financial services integration in this study refers to any arrangement whereby production, distribution or both of a financial services product or service traditionally associated with one of four financial services sectors, namely commercial banking, investment banking, life insurance and general insurance, are by an entity in another of the four sectors. It includes any degree of integration and organisational form. Where reference is made to "integrated organisations" it implies organisations where financial services integration has occurred through introduction of a product from another financial services sector, regardless of the organisational form used.

1.2.2 *South African context*

In South Africa ownership and the level of integration of financial services are influenced by the legislative regime resulting in varying degrees of adoption of bancassurance across the banking and insurance sector (Harrison 2002).

Potgieter and Christelis (2008) found that bancassurance has recently grown in importance in South Africa and represents 22% of retail bank earnings of the big four banks. They also conclude that banks form a significant distribution channel for insurers.

1.2.3 *Reasons for integration and consequences*

Berger *et al.* (1999) note the following reasons for the acceleration in financial services integration:

- Technological progress increasing scale economies in producing financial services;
- Improvements in financial condition of institutions and increase in free cash flow availability;
- Elimination of excess capacity available;
- International consolidation of markets; and
- Deregulation.

They are of the opinion that future consolidation will continue and is likely to involve large financial services institutions in different markets, based on existing trends and changes in economic environments (Berger *et al.* 1999).

According to the Corporate Executive Board (2006) an intensified search for new sources of revenue growth is the reason for the growing number of financial services organisations that are looking outside their traditional products for new opportunities. Artikis *et al.* (2008) are of the view that deregulation made provision of financial services more flexible and promoted competition amongst financial institutions, with one of the most prominent changes the emergence and expansion of bancassurance.

Integration efforts were met with mixed reactions from the investment market. Some studies could not prove that insurer-bank integration improves operating returns (Scordis *et al.* 2002) but other studies found that bancassurance firms are viable entities with financial markets responding favourably to bancassurance merger announcements (Fields *et al.* 2007). Financial conglomerates locally and internationally experienced mixed business success following implementation of the strategy. Some providers such as Wells Fargo & Co survived and thrived (Weil 2003) while others sold off non-core divisions, for example Citigroup selling off the life and annuity division of its Travelers Insurance business in 2005 subsequent to acquiring it in 1999 (InformationWeek 2005). Artikis *et al.* (2008) also state that there is no clear convergence in the literature on whether bancassurance is effective and desirable.

1.2.4 *Competitiveness*

Devlin (2001) states that the primary determinant of an organisation's success will be the competitiveness of the offering delivered to the marketplace. Competitive advantage is obtained through offering a unique and differentiated product or service that is valued by the customer, thereby setting the organisation apart (Devlin 1997; Strümpfer 2005). The competitive advantage of financial service organisations is impacted by the intangible nature of the offering as well as the complexity of the product and service (Devlin and Ennew 1997).

Competitiveness can be defined to include the notions of customer values, shareholder values and an organisation's ability to act and react in its changing competitive environment (Feurer and Chaharbaghi 1994). The authors state that when an organisation is able to deliver superior value to customers, it creates a competitive advantage. Similarly an organisation is competitive in the eyes of its shareholder if it provides adequate return on investment. An organisation's ability to react to its environment is determined by its financial strength and its people and technologies (Feurer and Chaharbaghi 1994).

For the purpose of this study the impact of financial services integration on competitiveness is assessed by the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders. The organisation's ability to react to its environment is not analysed.

1.3 Problem statement

1.3.1 *Main problem*

The research problem is to develop a model of enhanced profitability and competitive advantage of financial services organisations when implementing financial services integration.

1.3.2 *Sub-problems*

The first sub-problem is to develop a predictive model of the impact of integration on the competitiveness of the organisation with reference to profitability and competitive advantage.

The second sub-problem is to utilise the model in order to identify the key uncertainties that impact on profitability and the sources of competitive advantage when integrating financial services organisations.

1.4 Significance of the study

This study will provide a tool to financial services managers to aid in decision-making when considering financial services integration in the form of a predictive model of the impact of integration on profitability and competitive advantage. It will be of use to financial service managers currently attempting to integrate offerings or planning to do so in future.

Although several studies and literature sources could be accessed with reference to competitive advantage in the financial services industry and similarly several papers have been published on financial services integration, no attempt to specifically link the impact of integration on competitiveness could be found. The study should therefore enhance the knowledge pool relating to successes and failures in financial services integration and be of value to academia.

The identification and exploration of the impact of integration on profitability and competitive advantage can assist strategy practitioners in formulating tactics that will increase profitability and competitive advantage through integration.

The study should contribute to broadening the limited information currently available on financial services integration in South Africa and provide a platform for further research on the topic.

1.5 Delimitations

- The study is delimited to the integration of financial services organisations where such integration results in the sale of products and services of at least two of four financial services sectors, namely commercial banking, investment banking, life insurance and general insurance. No effort was made to explore the impact of integration between organisations within the same financial services sector.

- Mergers and acquisitions may evoke significant reactions from competitors in an effort to counter the actions of the consolidating firms, referred to as external effects (Berger *et al.* 1999). It is reasonable to assume that integration in general could have a similar effect on competitors. For the purposes of building a predictive model in this study, these external effects were not considered.

- In this study competitiveness was assessed only by impact on profitability and on competitive advantage, not any other performance indicators such as market share. Similarly the potential impact on other stakeholders such as employees was not taken into account in designing the model.

- The potential impact of financial services integration on the financial market in general due to the increase of systemic risk, i.e. the risk that credit or liquidity problems for one or more financial market participants create credit or liquidity problems for other participants in the financial system (Berger *et al.* 1999) by changes in the risks of integrated organisations, was not considered in development of the model.

- Potential non-value adding managerial motives for integration such as executive compensation linked to the size of the organisation, as well as the impact of regulatory authorities such as the Competition Commission which approves or rejects mergers and acquisitions were not taken into account in the design of the model.

- Factors relating to the starting condition for two firms considering financial services integration were taken into account in this study. No attempt was made to assess the impact of post integration activities and managerial actions (i.e. the factors affecting the implementation of the integration) which could have an impact of the eventual success of the integration.

1.6 Definition of terms

FCM - Fuzzy cognitive mapping (please refer to section 3.2.1 for a detailed discussion)

M & A – Mergers and acquisitions

1.7 Assumptions

- Although different integration models exist in the financial services industry, the drivers identified impacting on profitability and competitive advantage were not specifically assessed in the context of different models but were considered to apply to all financial services integrations. According to Skipper (2000) several structural forms could be used to provide integrated financial services. These are Full Integration wherein all financial services are underwritten and distributed by a single organisation; the Universal Bank where commercial and investment banking is conducted in a single entity but other financial services are provided from a different capital base;

Bank or Insurer Parent with subsidiaries providing other financial services; Holding Company Arrangement where a non-operating holding company owns the shares of separately capitalised financial services providers; and finally Joint Venture and Marketing arrangements between unaffiliated financial services firms. It was assumed that this will not influence the validity of the study as the structural form chosen for integration will be based on the outcome that is required; i.e. if increased profitability is a desired outcome of integration, the drivers impacting on profitability will be incorporated into the decision-making on the structural form.

- It was assumed that the phenomenon of financial services integration is known well enough by respondents in South Africa to ensure success of the study. This is considered to be a reasonable assumption as examples of integrated financial services exist in South Africa. Furthermore, participants were selected from managers within the financial services industry which increased the probability of knowledge of the concept of integration.

2 LITERATURE REVIEW

2.1 Introduction

This chapter outlines the literature on the impact of financial services integration on the competitiveness of financial services organisations.

As discussed in section 1.2 Feurer and Chaharbaghi (1994) proposed that competitiveness can be defined to include the notions of customer values, shareholder values and an organisation's ability to act and react in its changing competitive environment. They state that when an organisation is able to deliver superior value to customers, it creates a competitive advantage. Similarly an organisation is competitive in the eyes of its shareholder if it provides adequate return on investment. An organisation's ability to react to its environment is determined by its financial strength and its people and technologies.

For the purpose of this study the impact of financial services integration on competitiveness is assessed by the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders. The organisation's ability to react to its environment is not analysed. Figure 1 illustrates how competitiveness is defined in this study.

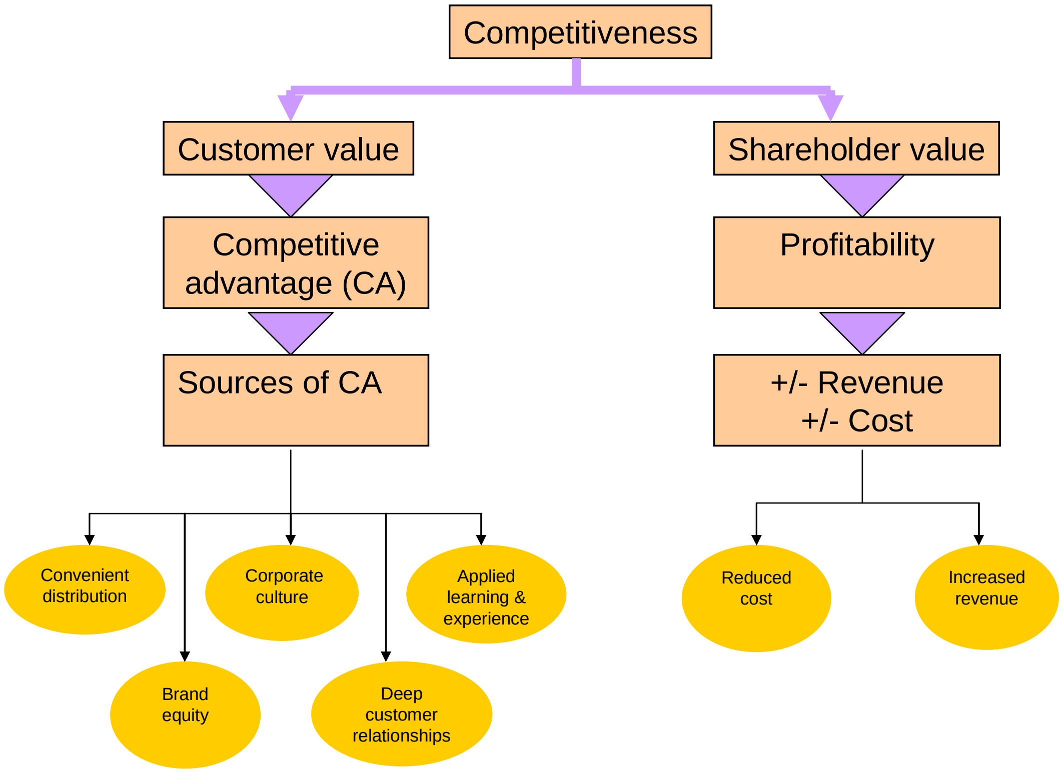

Figure 1: Competitiveness illustrated

The study seeks to assess the direct and indirect impact on competitiveness of the trigger or event of introducing a product from another financial services sector into an existing organisational environment as illustrated in Figure 2.

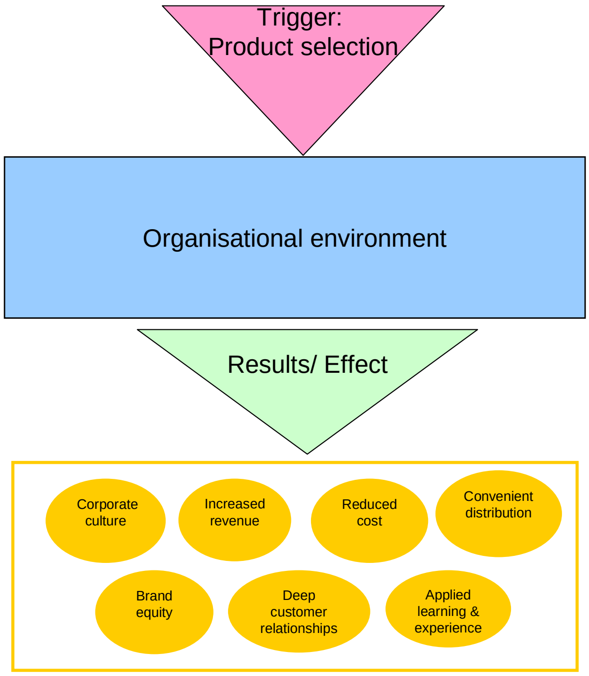

Figure 2: Diagram illustrating relationship between elements of the model

Figure 2 illustrates the concept where the pink triangle represents the product type selected for integration into the organisational environment represented by the blue rectangle. The combination of product type and environmental conditions produces results or effects (green triangle) that impact on the sources of competitive advantage and profitability of the organisation as illustrated by the orange nodes.

Figure 3 sets out the concept of the problem statement and literature review in a diagram. The premise is that financial services integration potentially impacts positively or negatively on the competitiveness of an organisation. The impact on competitiveness is reflected in the impact on customer value and shareholder value.

Value as perceived by the customer is determined by the competitive advantage of the organisation (Feurer and Chaharbaghi 1994). Competitive advantage is derived from various sources, referred to as core competencies in the literature (Feurer and Chaharbaghi 1994; Gruca *et al.* 1997; Strümpfer 2005). It therefore follows that understanding the factors impacting on the sources of competitive advantage when financial services are integrated, will contribute to the understanding of the impact of integration on competitiveness.

Feurer and Chaharbaghi (1994:51) are of the opinion that "an organisation is competitive in the eyes of its shareholders if it is able to provide satisfactory return on investment". An increase in profitability will increase the shareholders' return on investment. The concept of profitability of the organisation as determined by revenue less cost was used as a proxy for shareholder value in this study. Factors such as shareholders' risk appetite and other shareholder interest that may not be directly related to financial performance such as access to key technologies were not considered. Profitability will increase when revenue increases and everything else stays the same, and visa versa. Profitability will decrease when cost increases and everything else stays the same, and visa versa. It therefore follows that understanding the factors that impact on the revenue and cost of an organisation when integrating a product from another financial services sector, will provide insight into the effect of integration on competitiveness.

The factors impacting on competitiveness could be categorised as either the product type selected (the trigger for integration) or the organisational environment within which the integrated product is introduced and the effects or consequences of integration. All these dimensions were identified from the literature. Following this assessment the causal relationship of the various factors was determined in order to be in a position to build a model that can be used to assist in predicting whether a planned financial services integration will enhance competitiveness of an organisation.

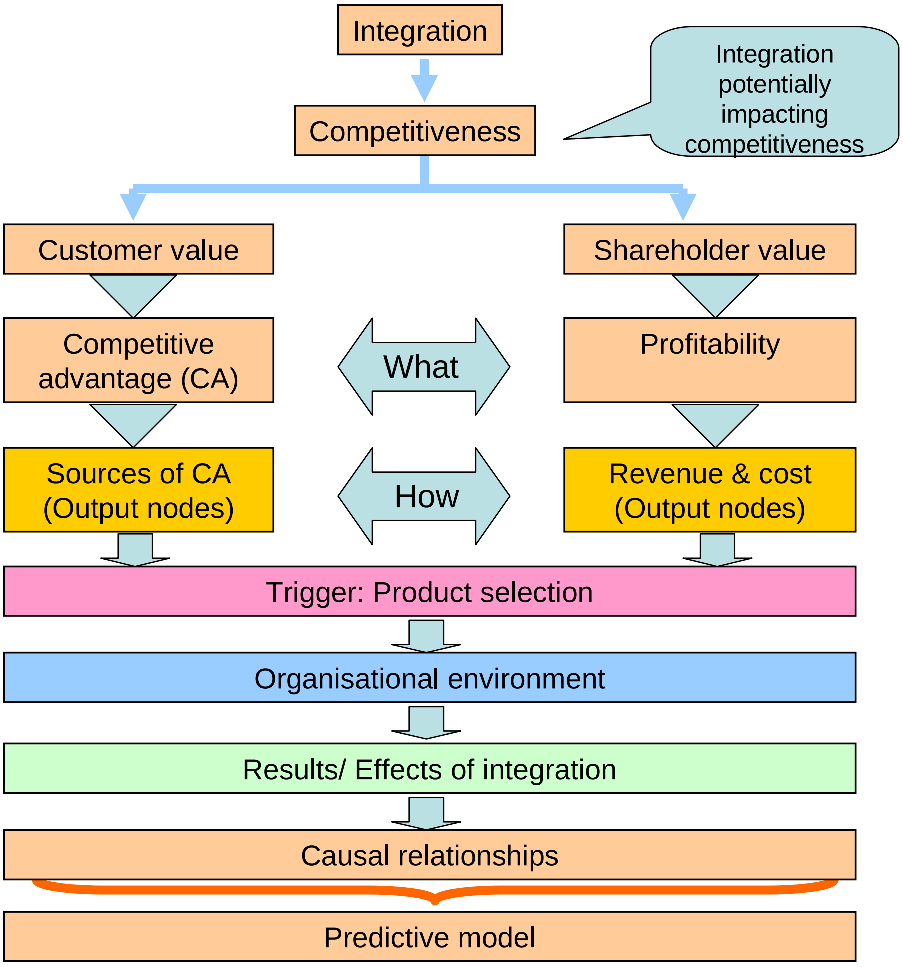

Figure 3: Concept diagram of research problem and literature review

The literature review starts with a background discussion on financial services integration and competitive advantage, incorporating a definition of financial services integration. This is followed by a section on competitive advantage, including identification of the sources of competitive advantage in financial services integration.

Section 2.4 considers the impact of financial services integration on the competitiveness of the organisation by discussing the impact on cost, revenue and the sources of competitive advantage.

The chapter is concluded with the development of research questions in section 2.5.

2.2 Background

As discussed in Section 1.2, the 80’s and 90’s saw a trend towards integration in financial services with financial institutions widening the range of services provided in Europe and countries such as Australia and New Zealand due to profound operational and structural changes (Koguchi 1993). The 90’s and the new millennium saw the trend extending to countries such as the USA, Canada and Japan especially following the relaxation of legislation governing the provision of financial services offerings. Bancassurance has become widely recognised and a successful model in Europe, specifically in France, Spain, Portugal, Italy and Belgium where it represents more than half of the premium income in life insurance (Staikouras 2006). In South Africa ownership and the level of integration of financial services are influenced by the legislative regime resulting in varying degrees of adoption of bancassurance across the banking and insurance sector (Harrison 2002). Potgieter and Christelis (2008) found that bancassurance has recently grown in importance in South Africa and represents 22% of retail bank earnings of the big four banks. They also conclude that banks form a significant distribution channel for insurers.

Integration efforts had mixed results with some being successful and other failing to deliver on expected benefits (Weil 2003).

Competitive advantage is obtained through offering a unique and differentiated product or service that is valued by the customer, thereby setting the organisation apart (Devlin 1997; Strümpfer 2005).

For the purpose of this study the impact of financial services integration on competitiveness has been assessed by the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders.

2.2.1 *Financial services integration*

The literature provides several definitions for “financial services integration” and related terms as discussed in section 1.2.

Financial services integration in this study refers to any arrangement whereby production, distribution or both of a financial services product or service traditionally associated with one of four financial services sectors, namely commercial banking, investment banking, life insurance and general insurance, is by an entity in another of the four sectors. It includes any degree of integration and organisational form. Where reference is made to “integrated organisations” it implies organisations where financial services integration has occurred through introduction of a product from another financial services sector, regardless of the organisational form used.

2.3 Sources of competitive advantage in the financial services industry

The first element of competitiveness that could be affected by financial services integration is its relative value proposition to the client, or competitive advantage. The effect of integration on the sources of competitive advantage could result in increased or decreased competitiveness. To understand the potential impact of integration on the competitive advantage of financial services organisations, it is necessary to first understand the sources of competitive advantage.

The literature review starts with a general discussion on competitive advantage followed by a review of competitive advantage in financial services organisations, considering both how value is created and what sources are used to create value and thereby a competitive advantage.

2.3.1 *Competitive advantage*

Competitive advantage must be built around attributes valued by customers (Devlin and Ennew 1997). When an organisation can deliver offerings of superior value relative to competitors, competitive advantage is created (Porter 1985; Devlin and Ennew 1997; Devlin 1997; Ma 1999; Devlin 2001; Harrison 2002). A competitive advantage arises out of an offering being sufficiently different from potential substitutes from the customer's perspective (Strümpfer 2005). It can be the result of implementing a unique value-creating strategy or through superior execution of the same strategy as competitors (Bharadwaj *et al.* 1993).

Two main schools of thought are recognised as to the sources of competitive advantage, namely the structural or positional view and the resource-based view (Harrison 2002). The *structural* view holds that the industry structure impacts on performance of the organisation and grows out of the interrelationships across the value chain. The competitive advantage is created through the adoption of a low cost or differentiation strategy (Porter 1985). According to the *resource-based* view, the unique resources and capabilities or skills of the organisation are considered to be the source of competitive advantage to achieve differentiation or low cost (Bharadwaj *et al.* 1993; Clulow *et al.* 2003). These unique resources and capabilities are collective referred to as core competencies (Feurer and Chaharbaghi 1994; Strümpfer 2005). Put differently, "critical resources which strengthen a firm's competitive position by creating superior value are often identified as the core competencies" (Gruca *et al.* 1997:606). Although a company's competitiveness is based on the price and performance of current products in the short term, the sources of advantage in the long term derives from the ability to effectively build core competencies (Prahalad and Hamel 1990). Prahalad and Hamel (1990) further state that core competencies are the collective learning of the organisation, specifically on coordinating skills across traditional business unit boundaries to produce offerings and integrate technologies. These core competencies only provide a source of competitive advantage if they are relevant to the needs of the market (Devlin and Ennew 1997). Furthermore, in order for unique resources and capabilities to qualify as sources of competitive advantage they need to be valuable, rare, imperfectly imitable and non-substitutable (Devlin and Ennew 1997). Prahalad and Hamel (1990) identify core competencies based on three tests, namely that they open up access to a wide variety of markets; significantly contribute to the perceived customer benefit; and are difficult to imitate.

An integrated view of the creation of competitive advantage describes how the advantage was gained and what the state of the advantage is (Day and Wensley 1988). According to this framework the relative superiority in the skills and resources that a business deploys results in positional advantages of superior customer value or relatively lower cost as well as improved performance outcomes of customer satisfaction and loyalty, increased market share and profitability (Day and Wensley 1988). Day and Wensley (1988) furthermore state that investment of profits to sustain the advantage completes the cyclical process. The usefulness of assessing competitive advantage comes from accurately identifying the small number of skills and resources that have the greatest impact on positioning and performance outcomes (Day and Wensley 1988). The framework for comparing competitive advantage of competitors developed by Day and Wesley (1988) is reflected in Figure 4.

The framework illustrates how the sources of competitive advantage in the form of either superior skills or superior resources, result in positional advantage of either superior customer value or lower relative costs. A superior positional advantage will in turn improve performance outcomes as reflected in customer satisfaction and loyalty, market share and profitability. In order to sustain the competitive advantage, it is necessary to invest the profits resulting from this advantage back into the sources of competitive advantage.

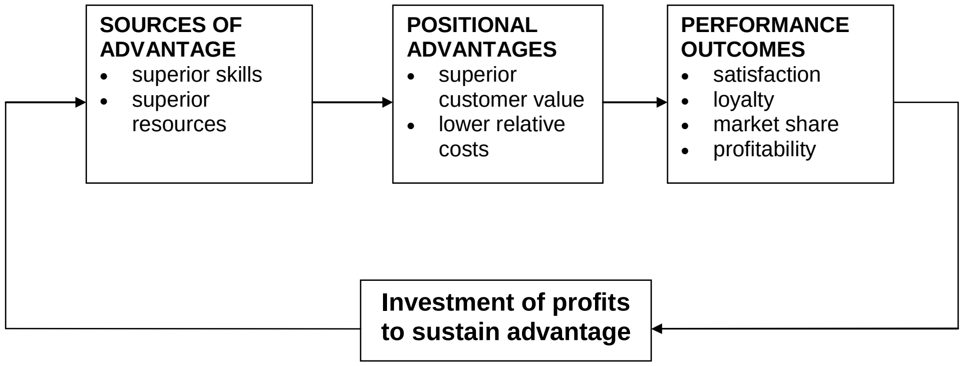

Figure 4: The elements of competitive advantage (Day and Wensley 1988)

Pitt *et al.* (2000) go further and state that the notion of a distinct position of either superior customer value or lower relative costs has become obsolete in today's marketing environment where innovation is often quickly copied by competitors. The new imperative is to create superior and differentiated value, while simultaneously lowering cost. They also propose that measurement of outcomes in terms of historical hard measures of market share and profitability, as well as soft measures with some indication of future value, i.e. satisfaction and loyalty, should be replaced by a single measure, namely the lifetime value of the client that effectively measures customer equity. It still remains paramount to invest in the sources of competitive advantage that in turn create customer equity.

This study focuses on the impact of financial services integration on the sources of competitive advantage.

2.3.2 *Competitive advantage in financial services organisations*

Creating competitive advantage - Adding value

Consumers are interested in value for money and effective differentiation represents the primary option for adding value to offerings (Devlin 1997). Differentiation of merchandise, "that which is being made available to the consumer" (Mathur 1988:33) can be distinguished from differentiation of support which Mathur (1988:33) defines as “advice, training or assistance” which is provided with the merchandise. Merchandise may be differentiated using content, image or both and support may be differentiated using expertise, personalisation or both. For financial services it is argued that elements of functional or process service quality should be included in the concept of differentiation (Devlin 1997). Devlin (1997) argues that differentiation could therefore be based on four options, namely features and quality of core service; functional or process service quality; image and reputation; and low price. A combination of strategies could be used. The author found in a study amongst retail financial services managers that price is more important in adding value to simple financial services whereas image and reputation are important factors in adding value to complex financial services (Devlin 1997). A study of customer perceptions of the value delivered by retail banks in South Africa (Bick *et al.* 2004) found that retail banking customers valued problem-free, convenient and efficient banking more than product leadership or customer intimacy.

Financial services organisations face problems with defining their competitive arena and sources of competitive advantage which may be related to the service characteristics of intangibility and complexity (Devlin and Ennew 1997). The authors state that customers choose between offerings and not companies and therefore a market focus on competitive advantage is required. The potential options for gaining competitive advantage are illustrated in Figure 5. The lighter area represents the core service offering and the darker area the further options available to achieve competitive advantage. The left-hand quadrants tend to be associated with a particular service whereas the right-hand quadrants tend to be associated with the organisation as a whole. It is postulated that competitive advantage in financial services organisations is more likely to be based on support considerations such as service quality or image and reputation factors pertaining to the organisation as a whole.

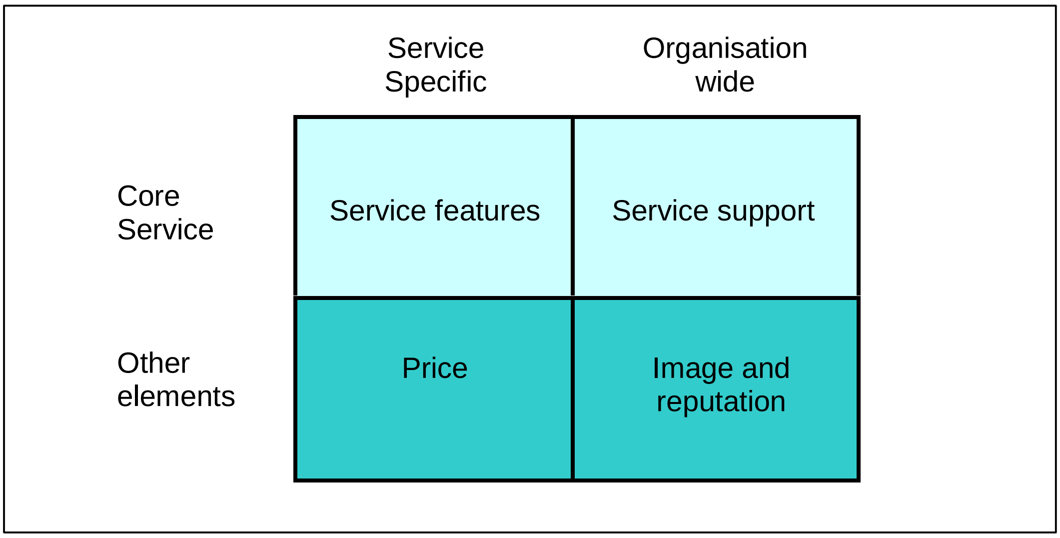

Figure 5: Classification of competitive advantage (Devlin and Ennew 1997)

Sources of competitive advantage – means of adding value

Strümpfer (2005) sets out some common core competencies that could yield a competitive advantage as institutional knowledge; embedded business processes; business reputation and consumers trust; size; and legal position. He lists typical strategies to deploy these competencies, as set out in Table 1.

Table 1: Core competencies and strategies to gain competitive advantage (Strümpfer 2005)

Core competency	**Strategies to gain competitive advantage**
Institutional knowledge	Institutional research and development capability Company know-how Functional knowledge pools Knowledge of customers value systems Culture and values Shares assumptions and values
Embedded business processes	Leadership style and commitment building processes Consumer research Distribution channels Stakeholder relationships Communication systems, both internal and external Employee training and skills development processes

Core competency	Strategies to gain competitive advantage
Business reputation and consumers trust	Business brand Reputation
Size	Investments in size and image Installed base of infrastructure Dominant size and presence Relative financial strength Investments in distribution systems Economies of scale
Legal position	Patents, trade marks and brands Concession agreements Ownership or control of prime geographic sites

Bharadwaj, *et al.* (1993) developed several propositions for the sources of sustainable competitive advantage in service industries.

Scale effects: Economies of scale are more important the greater the equipment intensity of a service industry and the larger the number of local units such as branches operating under a corporate common identity, as it increases the likelihood to achieve cost advantage and standardisation.

Economies of scope: Multi-business firms have the opportunity to reduce cost by sharing activities between businesses, increase revenues through cross-selling and share knowledge or skills. It therefore follows that the greater the cost interrelationships between different businesses in the firm's portfolio, the greater the cost synergies as a source of competitive advantage.

Product, process and managerial innovations: Product, processes and innovations in service industries are difficult to protect and innovation only becomes an important source of competitive advantage where tacit knowledge is required to market a service, increasing the complexity of assets needed for marketing. A greater number of co-specialised assets needed to market a service (when commercialising an innovation requires other specialised assets in marketing or production), increases the importance of innovation as a source of competitive advantage.

Brand equity: The greater the intangibility of a service, as well as the experience and credence attributes of an existing or new service, the greater the importance of brand equity as a source of competitive advantage.

Relationships/ Pre-commitment contracts: Relationships are of greater importance for competitive advantage where the experience and credence attributes of a service are high.

Spatial pre-emption: Where services are decentralised, spatial pre-emption (having first mover advantage in obtaining strategic physical locations) is of greater importance for competitive advantage.

Communication good effects: The value of certain products such as telephone networks increases as the number of users increase. These products are called communication goods. Where these goods are high in experience and credence attributes, a particular brand can become the industry standard and a powerful means of coordination, thereby creating a competitive advantage. This source is considered less important in the financial services industry by the researcher.

Corporate culture: The more important people are in the delivery of the service, the greater the importance of culture as a source of competitive advantage.

Organisational learning and experience: When knowledge is complex and tacit, i.e. difficult to reproduce, it can be a source of competitive advantage for the organisation.

Information technology: IT could be a source of competitive advantage if it can positively impact a service firm's value chain by lowering cost or enhancing differentiation; building barriers to entry and switching cost; and spawning new businesses.

Devlin and Ennew (1997) found that issues relating to distribution are seen as increasingly important because distribution channels that are convenient and add value to the offering, increase competitive advantage.

Clulow, *et al.* (2003) used Fahy's model (Fahy 2000) to identify the resources and capabilities that have value as sources of competitive advantage for a financial services firm. They found that tangible assets are not key resources in this context as they are easily duplicated. The intangible assets of client trust, reputation and networks were identified as having value to the firm, provide barriers to duplication and allow the firm to capture value within the firm rather than by other claimants such as suppliers (appropriability), hence constituting sources of competitive advantage. Capabilities were also identified as sources of competitive advantage. The organisation's culture and history embedded within personnel, combined knowledge and skills of employees and managerial skill as an integral force to develop resources were identified as sources of competitive advantage.

It could therefore be concluded that the most important sources of competitive advantage for financial services providers from those identified by Bharadwaj, *et al.* (1993) and Devlin and Ennew (1997) would be brand equity as the culmination of client trust and reputation; client relationships forming part of organisational networks; corporate culture; organisational learning and experience resulting in combined knowledge and skills of employees; and distribution channels, another part of the organisational network.

It is postulated that financial services integration could impact either positively or negatively on these sources of competitive advantage thereby impacting positively or negatively on the organisation's competitiveness. The drivers potentially impacting on these sources of competitive advantage at the time of financial integration are discussed in section 2.4.2 below.

It is concluded that the key sources of competitive advantage in financial services are:

- Brand equity;

- Deep customer relationships;
- Corporate culture;
- Applied organisational learning and experience; and
- Convenient distribution.

2.4 The impact of financial services integration on competitiveness

As discussed in section 1.2 competitiveness can be defined to include the notions of customer values, shareholder values and an organisation's ability to act and react in its changing competitive environment (Feurer and Chaharbaghi 1994). Customer value is delivered by creating a competitive advantage which in turn is derived from the sources identified in section 2.3. Various measurements can be used to calculate shareholder value. For the purposes of this study the concept of profitability of the organisation as determined by revenue less cost was used as a proxy for shareholder value. Factors such as shareholders' risk appetite and other shareholder interest that may not be directly related to financial performance such as access to key technologies were not considered.

In order to understand the potential impact of integration on the competitiveness of a financial services organisation the factors impacting on the sources of competitive advantage and profitability were assessed. The organisation's ability to react to its environment was not analysed.

The factors impacting on competitiveness following financial services integration were assessed by considering the cost and revenue effects of integration. The factors impacting on competitive advantage were also identified from the literature.

2.4.1 *The economic effects of financial services integration*

Impact on profitability of the organisation is determined by the impact on revenue and cost. In this study the potential impact on any form of revenue and cost was considered and no attempt was made to distinguish between different types of revenue (for example premium income versus fee income) or cost (for example commission paid versus operational expenses).

According to Skipper Jr (2000) integration of financial services would only be economically logical if it results in a reduction of operating cost, an increase in revenue or both. Financial services firms can maximise value in one of two ways through consolidation, namely by increasing efficiency or increasing market power in setting prices (Berger *et al.* 1999). Increased efficiency could result in reduced cost or increased revenue. Staikouras (2006) reports that the motive for convergence in the financial services industry remains the pursuit of new business opportunities and/or a taste of new profitable financial structures.

a) Cost effects

The cost of the organisation could be reduced when integrating products from another financial services sector through economies of scope in production and operational efficiency. Economies of scale exist if the average production cost falls with increased output where the product mix is constant (Skipper Jr 2000) and is therefore not relevant in this specific study.

Economies of scope in production is realised if multiple products can be produced at less cost than the sum of the costs of producing each separately (Skipper Jr 2000). The fixed costs of managing client relationships seem to lend themselves to sharing across a range of different financial services (Skipper Jr 2000) and could arise from sharing of information technology, physical inputs such as offices, sharing of a single investment department, and other back office operations, sharing of distribution channels, decreased cost of raising capital due to size of issue, sharing of managerial expertise and knowledge, and the effect of good reputation of one firm enhancing reputation of the other firm (Berger 2000; Santomero *et al.* 2000; Skipper Jr 2000). Artikis *et al.* (2008) state that bancassurance would give the bank the opportunity to utilise its branch network more efficiently, reducing operating cost. Bancassurance is often considered to be more cost effective than traditional channels and the ability to leverage fixed cost, brand awareness, frequent client interaction and the extensive use of technology, suggests a significant competitive advantage over other distribution channels (Sigma 2007). Berger *et al.* (1994:2) however report that there are "relatively minor scope economies that reduce cost by 5% or less when products are produced jointly".

Neave and Tombak (2003) state that mergers between financial services organisations could reduce operating cost through scope economies when cross-selling is realised. They do however report that studies revealed mixed results on the realisation of scope economies.

Santomero *et al.* (2000) state that distribution capability is related to *operating scale* and may therefore benefit larger organisations. A study found that banks expanding into bancassurance are likely to be more profitable if they have a large customer base and a moderate number of branches that can produce large volumes of cross selling (Bergendahl 1995). Potgieter and Christelis (2008) are also of the view that a key driver for potential bancassurance is the retail distribution footprint and the size of a bank's client base. They further state that given the mostly fixed-cost base of banks in South Africa, bancassurance revenue contributes to covering fixed costs and therefore improve overall returns. Berger *et al.* (2000) also found that insurance firms are more likely to realise profit-scope economies if they are large. Asaftei (2008) concluded that deregulation of financial services is most effective for large banking companies offering a wider range of financial services that it can cross-sell, with links through a common brand name and common account. He does state however that the reliance on non-traditional products may not be sustainable.

Bergendahl (1995) furthermore concluded that it is important for bancassurers to offer standardised and thus low-cost products. Bancassurance is especially useful at targeting the mass market with *simple products*, thereby avoiding the high distribution cost of *complex products* (Potgieter and Christelis 2008). Current successes in bancassurance are built on simple products distributed through integrated operations (manufacturing and distribution) but there is a move to diversification into more complex products and multi-supplier strategies (Sigma 2007).

Berger *et al.* (1999) state that diversifying M&A may improve efficiency through *expanding the skill set* of managers. They also refer to studies outside of financial services, however, that suggest that diversifying M&As are generally value-reducing and that increased corporate focus is value enhancing.

Another form of economies of scope can be realised through *risk diversification* because the returns associated with different financial sectors generally have relatively low correlations (Berger 2000). Increased diversification could increase stability of a firm and increase value by reducing distress cost, reducing non-proportional tax liability due to decrease in volatility and enhancing earnings from lines of businesses where a reputation for *stability* is important (Santomero *et al.* 2000). Berger *et al.* (1999) is of the opinion that greater scale, a *more diverse mix* of financial services provided, or an increased geographical spread of risks usually implies potential for improved diversification, which in turn reduces the cost of protection against financial distress. Increased size may also create a perception of "too big to fail" , i.e. that explicit or implicit government guarantees will protect debt holders or shareholders, thereby decreasing the cost of funding and increasing share values (Berger *et al* .1999).

Others have argued however that integrated firms are less stable and therefore increase risk due to the potential impact on other entities within the group/ conglomerate should one entity fail (Santomero *et al.* 2000). This is referred to as *contamination risk* in this study and includes the impact of failure of one entity within a group, or of one product introduced from another financial services sector. The argument of uncorrelated business may also not hold as management is likely to add services related to their value added capabilities or comparative advantage (Santomero *et al.* 2000). The Sigma (2007) report states that the risk correlation may not favour some banks undertaking insurance risks, especially if those policies are high in market risk correlated with existing risks in the bank's portfolio.

Diseconomies of scope may also result from integration brought about by the *complexity of managing* organisations following integration. Lack of managerial skills across a range of services, cultural conflict, inertia and inability to respond quickly to customer demand, bureaucracy and turf battles and lack of creativity may inhibit coordination and cooperation required to realise synergies (Berger 2000; Santomero *et al.* 2000; Skipper Jr 2000). Integrated financial services organisations are complex and this complexity may offset the benefits from integration (Skipper Jr 2000).

Neave and Tombak (2003) also state that larger firms are more difficult to manage which could impact negatively on earnings. Convergence creates interdependencies between business units adding to the difficulty of management. They also refer to the difficulty of integrating information systems and increased governance cost from additional training, potential governance misalignments, loss of market discipline and loss of incentives, all of which increases operating cost.

Santomero *et al.* (2000) state that the issues of managing diverse firms in different markets and geographies could increase complexity. Inexperience of management in areas not their core strength could pose problems, especially in the short run. Joint ventures and strategic alliances may be a way to reduce this risk (Skipper Jr 2000).

Understanding of the risks of the organisation as a whole and not only its parts is required. Financial and risk management is complicated by the different risk management and performance management approaches and criteria traditionally used across the different sectors of the financial services industry. A management issue is if and how these differences should be reconciled (Skipper Jr 2000). These matters contribute to the complexity of managing integrated organisations.

The *regulatory burden* may increase as regulators develop mechanisms to oversee the integrated firm. These costs may eliminate the benefits of integration (Santomero *et al.* 2000). Increased size and complexity require regulators to increase their monitoring activities (Neave and Tombak 2003).

Limited studies have been performed on efficiencies from economies of scope in integrated organisations but the research does suggest little, if any, cost scope efficiency gains from integration (Berger 2000). A more recent study, however, based on the insurance industry comparing firms specialising in either life or general insurance to firms integrating both offerings, found that realisation of economies of scope is related to the type of business of the insurer (*personal insurance versus commercial insurance*) and the use of a *vertically integrated distribution* system (Berger *et al.* 2000). Personal buyers are more likely to value one-stop shopping whereas commercial buyers may prefer to create their own baskets through their brokers or risk managers (Berger *et al.* 2000). Berger *et al.* (2000) also point out that insurers using vertically integrated distribution systems control the marketing channels and are therefore likely to be more successful. When using *independent intermediaries*, the intermediary usually captures the benefits of joint production. According to Potgieter and Christelis (2008) however, the global focus for bancassurers is shifting to distribution from manufacturing of products - a move towards open architecture and best advice, not maximising products sold within the same group. Products are procured from various providers and distributed through the bank channels. The Sigma (2007) report also states that there is a shift away from using a standardised, single channel sales approach to a multiple-channel distribution strategy. This includes channels such as the Internet, direct-mailing and phone-banking.

Operational efficiencies from dynamic efficiencies or X-efficiencies relate to how close a firm's actual costs are to the cost of a best-practice firm producing the same outputs (Berger 2000; Skipper Jr 2000). These efficiencies may arise if an acquirer firm is more efficient than a target firm or where integrated firms have an informational advantage over specialised firms enabling faster time to market for products, especially those products carrying attributes from more than one financial services sector, i.e. complementary products (Berger 2000; Skipper Jr 2000). Berger *et al.* (1994) summarise the outcome of various studies by stating that managerial ability to control costs is more important than scale and scope economies. Research shows large potential for operational efficiency gains from integration, contributed to by the fact that acquiring firms usually deliberately choose less efficient acquisition targets (Berger *et al.* 1999; Berger 2000).

In summary it can be concluded that a reduction in cost through financial services integration seems likely specifically where:

- the organisation has a large operating base in terms of its distribution channel and/or client base,
- integration results in increased diversification,
- limited complexity is introduced through integration, and
- the organisation uses an integrated distribution channel and sells simple products to individuals.

b) Revenue effects

Limited research is available but evidence suggests that there are moderate revenue gains from integration (Berger 2000; Santomero *et al.* 2000; Skipper Jr 2000).

Economies of scope in consumption could be realised from the cross-selling of products and services as many financial products are complementary, for example mortgage loans, credit life insurance and house owners cover (Skipper Jr 2000). A customer would buy insurance from a bank if it is simple to obtain banking and insurance from the same trusted source, by bundling bank products with insurance protection (Artikis *et al.* 2008).

Customers could realise *lower search, information, monitoring and transaction cost* from purchasing from a single provider and may be willing to pay more for products offered in this convenient way (Berger 2000; Skipper Jr 2000).

Consumption complementarities may arise from a reduction of customer cost, for example some customers may be willing to pay more for the convenience of one-stop-shopping (Berger 2000). Integration may improve *customer service* and increase revenue if customers find it more advantageous to buy from one provider (Santomero *et al.* 2000). Staikouras (2006) is of the opinion that the effective use of technology could create opportunities in product manufacturing and distribution, impacting on the success of bancassurance.

Neave and Tombak (2003) discuss mergers in financial services and state that improved earnings capabilities from capturing additional business is an intended outcome of mergers. This is being sought through offering new products and services and from finding new ways of cross-selling. There is however the possibility that anticipated growth may not be realised as expected. They put forward the example of Citigroup where both retail and corporate cross-selling were not at expected levels following the merger of City Bank and Travellers. The reason, according to Neave and Tombak (2003), for the under performance in the corporate market is large businesses' preference to select the best provider for each type of financial transaction rather than relying on a single provider.

Staikouras (2006) also reports that bancassurance is seen as a growth opportunity by banks who want to exploit their customer base and increase their share of disposable income of households. For insurers banks offer a new distribution channel, especially given the greater brand awareness of banks. Artikis *et al.* (2008) are of the view that bancassurance would offer a new distribution network in the form of bank branches and new distribution method in the form of bank personnel, thereby reducing dependence on agents. They could also enhance their profile through association with the bank brand and get closer to clients via the bank branches.

Artikis *et al.* (2008) also state that the idea of one-stop-shopping would appeal to the public but depends on the quality of service provided.

Ngobo (2004) states that the goal of almost every merger in the financial services sector is to cross-sell services to existing customers. Cross-selling could reduce acquisition cost, lead to a pricing advantage, reduce risk because the customer is known to the organisation and increase the duration that a customer stays with the organisation. It is however difficult to make cross-selling happen in practice.

Sharing the reputation associated with a brand can also be a source of revenue scope efficiency (Berger 2000). Berger (2000) furthermore argues that by combining different financial services categories, a financial services organisation may diversify risks and raising revenues through improved opportunities to make high-risk high expected return investments.

The success of cross-selling initiatives for integrated firms could be impacted by several factors. The type of product could improve the likelihood of success with *products to private individuals* seemingly more successful than *complex products required by businesses.* Berger *et al.* (2000) found that insurance firms are more likely to realise profit-scope economies if they emphasise personal lines of business. Daniel (2000) reflects that a Spanish bancassurer, while successful in products for private individuals, has not ventured into the field of complex contracts needed for businesses. Potgieter and Christelis (2008) are of the opinion that of the four big banks in South Africa, Absa's model is delivering the best results being built on simple (low advice) products, leveraging its strong retail distribution franchise. They did however find that although bancassurance in Europe is based on simple, standardised products sold to bank customers, increasingly in South Africa, bank operations are diversifying their products to include more complex products. They also indicate that internationally there is a growing trend to provide advice and add more complex products. They do however state that bancassurers in South Africa tend to provide commoditised, higher margin and simpler products from their own insurance companies and outsource more complex advice-driven products.

Artikis *et al.* (2008) state that the packaging of bancassurance services is determined by existing corporate structures and the complexity of insurance products. Less complicated products could be easily sold by banks. Sophisticated products incorporating investment elements are more difficult to attach to banking services, as they require dynamic and aggressive distribution channels. They do state however that it its hoped that markets will be following the North American lead on focusing on high-net-worth clients as a conduit to develop high margins bespoke products.

Bancassurers in countries such as France and Italy are diversifying into more complex and tailor-made products targeted at high net worth clients. This is a result of the increasing sophistication of customers and the banks' focus on refined client segments. The trend is also a counter measure for the over-reliance on certain products that may increase volatility in business income (Sigma 2007). The Sigma (2007) report also states that bancassurers are diversifying into segments that include business customers, especially Small Medium Enterprises. Although complex products are more difficult to sell, it is believed that they carry higher margins and growth in a saturated market.

Staikouras (2006) is of the view that the complexity of the bancassurance issues boils down to a triangular approach taking product complexity, distribution infrastructure and market integration and/or globalisation into account. Market globalisation refers to the level of market integration with developed economies and the level of segmentation in the financial services industry in terms of sharing of activities and/or collaborating. It also refers to how open the market is to new ideas and influences. Where the market is more global and products more complex, the presence of knowledgeable and specialised contacts is required, implying the need for a multi-layer service within the integrated intermediary, i.e. in-house advisors/ bancassurance specialists. The opposite is true where the market is domestic and products simple. In such a market distribution through impersonal contact is suitable, for example through the telephone, internet and packaged products. Where the market and products sets are somewhere in between these extremes, bank employees can provide basic services to clients and then refer them to an insurance representative or financial advisor for more complex requirements (Staikouras 2006).

Daniel (2000) states that the salesperson will have an impact; if he or she has confidence in selling a product they are more likely to be successful. He furthermore concludes that the *customer may prefer to use a trusted specialist* rather than a non-traditional provider. Berger (2000) also points out that integration may result in diseconomy of scope in consumption if specialists have better knowledge and could provide the customer with a more suitable offering, thereby charging higher prices than joint producers.

Lack of *management expertise* in financial services categories outside their area of expertise could result in increased risk and poorer operating performance forcing organisations to enter into lower risk/ lower return activities, impacting negatively on revenue (Berger 2000).

Corporate cultures vary across different financial services organisations and can lead to significant managerial issues (Skipper Jr 2000). Salespeople may consider themselves to be specialists in a specific field and may not be willing to cross-sell (Daniel 2000). Staikouras (2006) also reports on the difficulty in overcoming the difference in culture between commercial banks and insurers. Both sectors have distinctively different philosophy and behaviour in areas such as remuneration, employee turnover, customer orientation, risk acceptance and pro-active versus reactive sales behaviours. He states that banks have difficulty in marrying the sales culture of especially life insurance with the softer bank branch culture, resulting in the potential synergies of working together not being achieved. Staikouras (2006) considers business culture to be a key success/ risk factor for bancassurance success. Inflexibility towards accepting and adopting the other party's culture will lead nowhere. The new hybrid structure should develop a new culture adaptable to the needs of the customer base and each particular product.

Channel conflict could arise between distribution channels where integration could introduce new channels that may be in conflict with existing channels, especially where existing channels are independent brokers or agents (Skipper Jr 2000).

When there is a lack of *clarity about the target market*, integration is likely to be unsuccessful. There should be alignment between the target markets of the integrated organisation. Products to be offered should suit the target market. Some types of products carry a greater risk of creating diseconomies of scope, such as general insurance where rejected claims may result in loss of other business in the financial services conglomerate (Skipper Jr 2000).

Daniel (2000) states that for integration to be successful, the process to acquire a new product from another financial services sector should be no different from acquiring a product from the existing range. The *process should be easy*, profitable and straight-forward. Furthermore, the new products offered from another financial services sector should be seen by the customer as a *natural fit* or continuation of products already offered. A *complex process* and an offering that does *not naturally fit* with current products should have a negative impact on client relationships, thereby negatively impacting on revenue as well.

Ngobo (2004) found that cross-selling is more likely to succeed if the firm offers significant one-stop-shopping benefits to the customer and if the customer's perception is that the provider has the capacity to deliver high-quality services from two or more activities. Existing relationships and prior experience with the organisation are less important than the customers' perception of the transferability of the server provider's qualities from one service category to another.

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Conflicts of interest could arise when incentives within the integrated organisation do not align with the best interest of the customer. Perceived conflict of interest may result in customers preferring to transact with different entities. The appearance of conflict of interest could result in revenue scope diseconomies (Berger 2000). Neave and Tombak (2003) are of the view that combinations of commercial and investment banking have realised economies of scope at the expense of creating potential conflicts of interest. Santomero *et al.* (2000) state that many opponents of financial services integration are convinced that financial conglomerates will use their size and power to take advantage of the customer and create conflict of interest. Skipper (2000) identifies the following classes of conflict of interest:

- Salesperson's stake where salespeople are less likely to offer objective advice if they have a stake in selling affiliated products.
- Stuffing fiduciary accounts of customers with unwanted securities underwritten by the entity.
- Transferring bankruptcy credit risk of bank to third parties through issuing of bonds or equities.
- Offer below-market loans on condition that the proceeds are used to purchase other conglomerate products.
- Tie-in sales, for example threatening to rationing credit if other products are not purchased.
- Internal information transfer of sensitive information that could negatively impact on the customer when transacting with another part of the conglomerate.

Conglomerates could deal with potential conflicts of interest by training, supervision, monitoring, creating a culture of professionalism and focusing on ethical conduct. These mitigating activities are expensive however, reducing the effects of economies of scope (Skipper Jr 2000).

Market power of large size financial conglomerates may result in the ability to charge higher prices, at least to some market segments (Berger *et al.* 1999; Skipper Jr 2000). It could be argued that the ability to offer complementary products in a joined-up way could increase the market power of the integrated organisation by offering unique products to customers and/or increasing power of intermediaries.

In summary it can be concluded that an increase in revenue through financial services integration seems likely, specifically where:

- the organisation has a vertically integrated distribution channel and does not rely heavily on independent intermediaries,
- the type of offerings of the integrated organisation are simple, personal lines products,
- the products offered are complementary and do not require a high level of specialist skills,
- the process to acquire the product is simple and the product is a natural fit with existing offerings,
- the culture of the organisation is conducive to the introduction of a product from another financial services sector,
- the target markets of the integrating organisations are aligned,
- one of the integrating entities has a stronger brand from which the other can leverage to increase sales or the organisation can use an existing brand to introduce a product from another financial services sector,
- conflict of interest and channel conflict are absent or minimised, and
- adequate expertise is available to manage integrated firm.

2.4.2 *Impact of financial services integration on competitive advantage*

Gruca *et al.* (1997) propose that when an organisation's potential for synergy is fully realised it can lead to competitive advantage. They consider the potential for synergy to lie with sharing the critical resources or core competencies of the entity across business activities such as product lines, geographic markets and customer groups. However, it often seems obvious that a synergy should exist but it is not materialised. This is because sharing *per se* is not sufficient condition for synergy. Gruca *et al.* (1997) continue to identify the six stages required from resource sharing to sustained competitive advantage:

1. Shared resources must be core competencies for there to be potential for synergy through sharing. Critical resources enable a firm to materially improve their efficiency and effectiveness. Critical resources and output creation are directly related. When these resources are shared it creates the potential for synergy.

2. Shared resources must exhibit flexibility for there to be synergy potential. The resources must be able to create multiple outputs, i.e. be strategic substitutes. Flexibility is also present when different types of resources can be used to produce the outputs.

3. Sharing of critical resources must not face capacity constraints. For synergy to be realised resource cost must be fixed and additional outputs produced within the capacity constraints of the resource.

4. Realising potential synergy depends on the acquisition cost. If market price is paid for obtaining resources, there will be no benefit from the acquisition. When the organisation does not have unique knowledge of exploiting the resource, excess value to the firm will be lost if market acquisition price is paid.

5. Realisation of potential synergy can be inhibited by coordination costs. The effort of coordinating and integrating multiple businesses and responding to diverse market demands, can increase costs thereby reducing benefits of synergy. These cost include managerial time, new systems required for management of integrated activities and increase in information processing costs. Structural and cultural factors, as well as control and reward systems can contribute to realising synergies.

6. The sharing must be unique and non-inimitable. Shared resources should be unique to the firm if a sustainable competitive advantage is to be realised.

The resource sharing and integration itself may contribute to competitive advantage if it cannot be copied by competitors.

As concluded from section 2.3.2 the key resources of financial services firms likely to result in a competitive advantage seem to be the intangible assets of brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; and convenient distribution channels. These resources are therefore the likely candidates to result in the creation of synergy through sharing and result in a competitive advantage when integrating financial services organisations.

The potential impact of financial services integration on the key sources of competitive advantage of a financial services organisation, as identified in section 2.3.2, are now being considered in turn.

a) Brand equity

As stated before *sharing of reputation and brand* is a source of revenue scope efficiency (Berger 2000).

Increased diversification could increase stability of a firm thereby enhancing earnings from lines of businesses where a reputation for stability is important (Santomero *et al.* 2000).

Staikouras (2006) considers corporate brand values related to trust as a key success/risk factor for successful bancassurance offerings. Similarly he considers corporate reputation to be a key factor in determining bancassurance success. Reputation is formed through the organisation’s behaviour and then subsequently influences investors, consumers, suppliers, costs, expectations and media.

Artikis *et al.* (2008) are of the view that banks could gain a competitive advantage reputation-wise by adding value to their core products through bancassurance. They also state that non-life insurance products could be seen more as brand-assurance than bancassurance products as they are also sold by retailers or traders. They comment that brand-assurers may enjoy more trust from consumers than the traditional insurance provider.

Conflicts of interest could arise when incentives within the integrated organisation do not align with the best interest of the customer (Skipper Jr 2000). Perceived conflict of interest could impact negatively on brand and reputation as a firm could be seen as not having the best interest of the customer at heart.

Additional offerings should be communicated as a *continuation and logical extension* of the traditional offerings of the organisation. Customers may, for example, not expect an insurer to sell a credit product. It is important to communicate to customers how the product fits in and that it does make sense for the insurer to offer it. Careful consideration should be given to how far the brand could be extended into different product types (Daniel 2000). It could be assumed that *complementary products* would have a positive impact not only on brand equity but also customer relationships.

b) Deep customer relationships

As stated in section 2.3.1 competitive advantage is created when an organisation can deliver offerings of superior value relative to competitors that are sufficiently different from potential substitutes from the customer's perspective. Although financial services integration results from the initiative of providers, the innovation will only be successful if there is consumer demand (Daniel 2000). Staikouras (2006) states that bankers and insurers should carefully integrate in their business structure the aspects that enable them to identify real customer needs and to effectively satisfy these needs. He is of the opinion that the most effective way for the organisation to achieve its strategic and financial goals will be driven by client needs and market preferences, not through product push.

Staikouras (2006) states that customer relationships are essential to ensure success in bancassurance. A single point to provide information to clients and generate sales would reduce the risk of losing clients to competitors.

Artikis *et al.* (2008) state that customer is the most important element to the bancassurance model. Service could be enhanced through a single stop at a financial supermarket while bancassurance and competition should result in lower premiums and superior products and service.

Several studies have confirmed that the key to successful integration of financial services offerings it to make it an *integral part* of the process and sales pitch. From the consumer's perspective the impression should be created that it is a natural extension of the organisation's core offerings. The process for acquiring the product should be easy, profitable and straightforward (Daniel 2000). These elements of improved customer service should contribute to the enhancement of client relationships. A *complex process* and an offering that does *not naturally fit* with current products should have a negative impact on client relationships, thereby negatively impacting on revenue as well.

Economies of scope in consumption could be realised from the cross-selling of *complementary* products and services (Skipper Jr 2000). This will enlarge and extend the relationship with the client, and be likely to increase the switching cost for the customer as more products are involved. As mentioned before customers could also realise *lower search, information, monitoring and transaction cost* from purchasing from a single provider and may be willing to pay more for products offered in this convenient way (Berger 2000; Skipper Jr 2000). Integration may improve *customer service* and increase revenue if customers find it more advantageous to buy from one provider (Santomero *et al.* 2000). According to Staikouras (2006) the range of services offered to clients is essential for bancassurance success as it will shift the consumer's perception of the bank's role.

Santomero *et al.* (2000) state that by *sharing data* on customer behaviour and needs in the integrated organisation lowers monitoring cost and better cross-selling is likely to be realised. They see the biggest benefits from data sharing as improved *customer service* if customers find it more advantageous to buy multiple products from the same provider.

Conflict of interest within the integrated organisation as discussed in section 2.4.1 could impact negatively on client relationships as it will reduce the level of trust of the client in the organisation. It could be argued that having a good relationship with the client would have the opposite effect and reduce conflict of interest as client needs are taken into account in product design.

Channel conflict within the broker environment as discussed by Skipper Jr (2000) could impact negatively on client relationships, should affected intermediaries choose to influence clients negatively about the organisation.

The relationship with a client may be impacted negatively across all product holdings, should the client experience bad *service* relating to one of the products or, for example, a rejected claim on its general insurance. Such a client may elect to discontinue the relationship across all products (Skipper Jr 2000).

Skipper Jr (2000) is of the view that there should be alignment between the *target markets* of the integrated organisations otherwise integration is likely to be unsuccessful. Trying to service clients with completely different needs with shared distribution channels and/or the same products is likely to have a negative impact on the relationship with the customer as he will not perceive added value.

c) Corporate culture

“Culture refers to the norms, values, and beliefs the members of an organization maintain about the purpose of work and how they are expected to go about doing their work” (Tetenbaum 1999:26). Culture plays a very important role in mergers but is underrated in most mergers (Tetenbaum 1999).

Corporate cultures vary across different financial services organisations and can impact negatively on the organisations when trying to integrate them (Skipper Jr 2000, Staikouras 2006). Staikouras (2006) considers business culture to be a key success/ risk factor for bancassurance success. Inflexibility towards accepting and adopting the other party’s culture will lead nowhere. The new hybrid structure should develop a new culture adaptable to the needs of the customer base and each particular product. He considers management initiative to be the most decisive factor for success in bancassurance. Both management teams of the bank and the insurer should make an effort to make the two diverse cultures gel. Top management must lead the process. Artikis *et al.* (2008) are also of the view that strong management commitment is vital to bancassurance success and that cultural differences should be carefully integrated.

When faced with big cultural differences an acquiring company has three options, namely walking away from a merger; changing its own culture which may be unrealistic in the case of large, established firms; or changing the culture of the merger target post acquisition which could negatively impact on staff morale and performance (Clarke 1987).

d) Applied organisational learning and experience

Ideas flowing through an organisation redefine its industry and enable differentiation, thereby creating competitive advantage (Appelbaum and Gallagher 2000). In order for an entity to become a learning organisation it is necessary that information is shared and assessable (Krames 2003). Santomero *et al.* (2000) report that data on customer behaviour and needs is a scalable asset that can be better leveraged in the integrated organisation. They state that "greater customer knowledge is likely to mean lower monitoring costs and better cross-selling" (Santomero *et al.* 2000:5). By *sharing data* on client needs and behaviour, learning is increased, thereby better enabling the organisation to develop and provide offerings that is perceived by the client to add value.

Without the right people organisations cannot see through their growth strategies (Ready and Conger 2007). Superior talent is considered to be a key source of competitive advantage (Chambers *et al.* 1998). Berger *et al.* (1999) state that diversifying M&As may improve efficiency through *expanding the skill set* of managers. They also refer to studies outside of financial services, however, that suggest that diversifying M&As are generally value-reducing and that increased corporate focus is value enhancing.

e) Convenient distribution

As discussed, *channel conflict* could arise between distribution channels where integration introduces new channels that may be in conflict with existing channels (Skipper Jr 2000). Channel conflict will impact negatively on the relationship with intermediaries, which in turn could result in reduced sales from affected intermediaries. Skipper Jr (2000) remarks that channel conflict seems to be less of a challenge where the alternative products are introduced as a new venture in an existing firm, where integration does not involve agents or brokers and where integration occurs in less mature financial markets.

It is important that sales people should be fully competent to sell all the offerings (Daniel 2000).

As stated above, Santomero *et al.* (2000) state that a scalable asset is required for efficiency gains. A further potential candidate that they identify is a broad underutilised distribution channel. They are also of the view that distribution capability is related to *operating scale* and the increased size of integrated firms may therefore enhance competitiveness.

In summary, it is concluded that integration impacts in several ways on the sources of competitive advantage of the organisation:

- Increased diversification that enhances stability and the negative effect of conflicts of interest both impacting on the organisation's brand equity.

- Complementary products and those with a natural fit with the organisation would enhance brand equity and contribute to deep customer relationships.

- The importance of customer service through making the acquisition process easy, profitable and straightforward; extended relationships with customers through cross-selling; data sharing on customer behaviour and needs and alignment of target markets impacting positively on client relationships. On the other hand conflict of interest, channel conflict and a negative client experience with one of a client’s product holdings could impact negatively on the customer relationship.

- Differences in corporate culture of integrated organisations could diminish culture as a source of competitive advantage of the organisation.
- Organisational learning could be benefited by sharing of data in integrated organisations. Integration could also result in new skills and knowledge being acquired by staff members of integrated organisations.
- Integration could result in channel conflict in some instances. Larger distribution networks could however be a scalable asset that could enhance competitiveness.

2.5 Conclusion of literature review

Financial services integration could impact positively or negatively on the competitiveness of the integrated organisation. Competitiveness in this review was assessed based on the value created for customers, i.e. the competitive advantage of the organisation as well as the value created for shareholders as measured by the profitability of the organisation.

Competitive advantage is created when an organisation can deliver offerings to customers of superior value, sufficiently differentiated from competitors. The unique resources or capabilities of the organisation, or core competencies are the sources of competitive advantage for organisations.

It was concluded that the most important sources of competitive advantage for financial services providers would be brand equity as the culmination of client trust and reputation; deep customer relationships forming part of organisational networks; corporate culture; applied organisational learning and experience resulting in combined knowledge and skills of employees; and convenient distribution, another part of the organisational network. These resources should be shared through synergy in order to create a competitive advantage.

Financial services integration could have a positive economic impact through cost reduction, revenue increase or both. Cost reduction is the result of economies of scale, economies of scope in production or operational efficiencies. Revenue increase is the result of economies of scope in consumption or price increases through increased market power.

A reduction in cost through financial services integration seems likely specifically where:

- the organisation has a large operating base in terms of its distribution channel and/or client base,
- integration results in increased diversification,
- limited complexity is introduced through integration,
- the organisation uses an integrated distribution channel and sells simple products to individuals, and

An increase in revenue through financial services integration seems likely specifically where:

- the organisation has a vertically integrated distribution channel and does not rely heavily on independent intermediaries,
- the type of offerings of the integrated organisation is simple, personal lines products,
- the products offered are complementary and do not require a high level of specialists skills,
- the process to acquire the product is simple and the product is a natural fit with existing offerings,
- the culture of the organisation is conducive for the introduction of a product from another financial services sector,
- the target markets of the integrating organisations are aligned,

- one of the integrating entities has a stronger brand from which the other can leverage to increase sales or the organisation can use an existing brand to introduce a product from another financial services sector,
- conflict of interest and channel conflict are absent or minimised, and
- adequate expertise is available to manage integrated firm.

Various factors impacting on the sources of competitive advantage have been identified:

- Increased diversification that enhances stability and the negative effect of conflicts of interest both impacting on the organisation's brand equity.
- Complementary products and those with a natural fit with the organisation would enhance brand equity and contribute to deep customer relationships.
- The importance of customer service through making the acquisition process easy, profitable and straightforward; extended relationships with customers through cross-selling; data sharing on customer behaviour and needs and alignment of target markets impacting positively on client relationships. On the other hand, conflict of interest, channel conflict and a negative client experience with one of a client's product holdings could impact negatively on the customer relationship.
- Differences in corporate culture of integrated organisations could diminish culture as a source of competitive advantage of the organisation.
- Organisational learning could be benefited by sharing of data in integrated organisations. Integration could also result in new skills and knowledge being acquired by staff members of integrated organisations.
- Integration could result in channel conflict in some instances. Larger distribution networks could however be a scalable asset that could enhance competitiveness.

2.5.1 *Research questions*

The following research questions have been identified regarding the impact of financial services integration on the competitiveness of the organisation.

Research question 1

What are the factors and the causal links between these factors that impact on the profitability and sources of competitive advantage of a financial services organisation when integrating products from another financial services sector?

Prior research has identified various factors that could result in a reduction in cost, increase in revenue or impact on the sources of competitive advantage when a financial services organisation integrates a product from another financial services sector, as summarised in section 2.5. The key sources are: Baradwaj *et al*. (1993); Berger *et al.* (1994); Bergendahl (1995); Devlin and Ennew (1997); Berger *et al.* (1999); Berger (2000); Daniel (2000); Santomero *et al.* (2000); Clulow *et al.* (2003); Neave and Tombak (2003); Ngobo (2004); Staikouras (2006); Sigma (2007); Artikis (2008); Asaftei (2008); Potgieter and Christelis (2008).

Research question 2

Which of the factors identified are the most influential and can be considered the key drivers of enhanced competitiveness?

3 RESEARCH METHODOLOGY

In this research a three-phased approach was followed. During the first phase a draft FCM was developed based on the literature review. The second phase consisted of semi-structured interviews, as well as development of scenarios with the purpose of validating and finalising the FCM. The final phase consisted of utilising the model by switching policy nodes on and off and thereby identifying the key drivers of competitiveness in financial services integration.

The methodology is set out in Table 2.

Table 2: Research methodology

	Phase 1		Phase 2				Phase 3	
Steps	**Identify factors & causality**	**Develop draft model**	**Gather data**	**Update model**	**Validate results**	**Finalise model**	**Apply model**	**Conclude on research questions**
Process	Literature review	Visual depiction of nodes; mathema-tical model developed in Excel	Semi-structured interviews with experts & content analyses	Update model based on interview results	Develop scenarios by switching policy nodes on and off. Validate results of scenarios with experts	Finalise model based on outcome of validation	Identify key drivers of compete-tiveness by applying model and switching nodes on and off	Conclude on research questions based on updated FCM
Output	Nodes & causality of FCM identified	FCM	Docu-mented responses	Updated FCM	Validated scenarios	Final FCM	Key drivers identified	Research report

3.1 Research methodology /paradigm

The research was qualitative in nature. Qualitative research seeks to understand the complex nature of phenomena by describing it from the viewpoint of the participants within the phenomena (Leedy and Ormrod 2001). The purpose of this research was to understand the complex phenomena of the impact on competitiveness of financial services organisations when integrating products from other financial services sectors, from the viewpoint of senior role players within the financial services industry. The intent of this study was to evaluate qualitative responses from respondents in order to develop a predictive model of the impact of financial services integration. In order to develop the model, the factors impacting on the financial services organisation at integration as well as the causal relationships of these factors had to be understood. Qualitative analyses can test hypotheses about causation and not only reflect correlations as is the case with quantitative analyses (Stevens 2003) and was therefore more appropriate for identifying the causal relationships between the factors impacting on organisations at financial services integration.

Several of the characteristics of qualitative research as described by Leedy and Ormrod (2001), apply to this study:

- The purpose of the study is to explore and interpret.
- The research process has the potential to reveal unknown variables.
- The sample size is small.
- In-depth, semi-structured interviews are used to collect data.
- The research includes personal views and perspectives due to the data collection process used.
- There are multiple possible realities constructed by different participants.
- The research is context bound.

Qualitative research has several advantages applicable to this study (Creswell 1994), including:

- rich data providing different and multiple perceptions, and
- being open-ended to derive a complex picture.

3.2 Research design

The literature review on financial services integration revealed several seemingly contradictory findings on the success or failure of financial services integration from the perspective of the client or shareholder. The methodology employed for this study had to take this into account.

The literature review identified many constructs and their causal relationships that have been used to construct a model. These constructs and causal relationships have been set out in Table 3 at the end of Chapter 3. In order to evaluate the accuracy of the model, semi-structured interviews have been conducted with a sample of the population.

3.2.1 *Fuzzy cognitive mapping (FCM)*

FCM is a methodology that is useful for modelling complex decision systems (Xirogiannis and Glykas 2004). It describes the behaviour in a system in terms of concepts (Stylios *et al.* 1997; Xirogiannis and Glykas 2004). Each concept represents a characteristic of the system in the form of events, actions, goals, values or trends(Stylios *et al.* 1997).

Kosko (1986) states that FCM allows researchers to predict how complex events interact as well as what the outcome of these events would be. They draw causal pictures in a graphical representation, tying facts, things and processes to values, policies and objectives. The concepts of the model are represented on the graph by nodes with the causal link depicted by arrows between the nodes (Kosko 1986). The direction of the arrow points from the source concept to the influenced concept (Balder 2004) and each arrow is assigned a positive or negative sign

(Kosko 1986). Positive signs (+) indicate a causal increase, whilst negative signs (-) indicate a causal decrease.

A numeric value for the node indicates whether the concept is currently active or not with zero indicating that it is not active and a positive value indicating that the concept is present. The absence of a positive value does not create a negative but implies that the specific concept is not related to the other concept (Kosko 1986).

Exact numerical values are of secondary importance in this model and therefore results are allowed to be stabilised by normalising the computed state value. The bivalent threshold function will be used.

$$Si\ (Xi) = 0,\ Xi < 0$$

$$Si\ (Xi) = 1,\ X1>0$$

Where

Xi = sum of the inputs to node I prior to normalisation

Si = state of node I after normalisation

A node = 1 when it is active or present and 0 when it is not active or present

A policy node is one where no causal arrow flows into it. These nodes can be switched on or off, allowing the researcher to play what-if games with it (Kosko 1986).

The advantages of using FCM for this study include the fact that it allows for modelling dynamic systems where further additions to the map can be included and the effects of these additions quickly seen as more information becomes available. This allows for a holistic picture of the scenario being modelled to be provided (Sharif and Irani 2006). Additional information obtained from the semi-structured interviews could therefore be incorporated into the FCM, creating a more complete model.

FCMs are relatively easy to draw, extend and compute (Balder 2004) which was beneficial during the interview process as it was relatively easy to communicate the input into the draft map to the individuals selected in the sample by making use of the visual representation of the FCM and changes could be easily updated during the interviews.

Balder (2004) identified some disadvantages associated with using FCMs as a decision support system. Output data is not available as a quantitative result, such as the Rand value of increased revenue, in the case of this study. A further problem arises because there is no consistent way of inserting time into the model. The number of iterations before stability is reached in the model, does not relate to time in reality.

The FCM developed for this study only provides an indication of where nodes are positively impacted in any given scenario. It does not provide for relative comparison where the same node is switched on in different scenarios but may have a difference in magnitude.

Despite the shortcomings of the technique, it is considered suitable for the research because it can be used to identify the causal links between the factors impacting on the customer and shareholder value when integrating financial services organisations and provide a predictive model in this situation. It is considered that the benefits of flexibility and ease of understanding, computing and updating the model outweigh the disadvantages, making it a suitable technique, especially in combination with the semi-structured interviews. The technique allows for the individuals in the sample to add their own ideas into the overall picture, changing concepts and causal relationships.

3.2.2 *Semi-structured interviews*

In addition to the literature review, semi-structured interviews have been used as the data collection method. Both the advantages and disadvantages associated with this method were taken into account in the decision to use the technique.

The main advantages of in-depth, semi-structured interviews include:

- adaptability; the researcher can probe responses and follow up on ideas (Bell 2005),
- the researcher can interpret the response through assessing non-verbal behaviour (Bell 2005),
- the researcher controls the questions asked (Creswell 1994),
- respondents can provide context through historical information (Creswell 1994),
- it enables immediate clarification of any misunderstandings (O'Sullivan *et al.* 1994),
- it creates an opportunity to cover an array of data and topics (O'Sullivan *et al.* 1994), and
- it provides access to information about complex social dynamics that would otherwise be difficult to obtain (O'Sullivan *et al.* 1994).

Several disadvantages are associated with this method and are as follows:

- interviews are time-consuming (Bell 2005),
- it is a subjective method and therefore there is a danger of researcher bias (Bell 2005),
- analysing responses could be challenging (Bell 2005),
- the respondent provides information from their own perspective (Creswell 1994), and
- interviewees are not all equally articulate and perceptive (Creswell 1994).

Despite the disadvantages, the in-depth, semi-structured interview method was selected as it is considered to be a source of rich material as input into the FCM.

The flexibility to the method makes it suitable for use in conjunction with FCM as it lends itself to in-depth discussion, probing and adaptable response by the researcher.

The researcher attempted to mitigate the disadvantages by clarity in designing the research questions and ensuring that the respondent understands the questions; understanding own biases; not intentionally leading the respondent; avoiding ambiguous words; making use of a draft FCM as a starting point for discussion; and providing the respondents with background information in advance of the interviews.

3.3 Population and sample

3.3.1 *Population*

The population for this research could be considered to include all parties interested in the outcome of financial services integration in South Africa, including managers of financial services organisations, strategy consultants, financial services analysts, insurance and banking industry bodies, external auditors to financial services organisations and regulators to the extent that they could be considered subject matters experts on financial services integration.

3.3.2 *Sample and sampling method*

The sample has been drawn from individuals representing different stakeholder groupings of the population, namely managers of financial services organisations, financial services analysts, strategy consultants and external auditors.

The sample design was be "purposive" (Morton-Williams 1985:30). The researcher purposefully selected respondents with the required experience to answer the questions posed (Creswell 1994). In combination with a purposive design, the researcher used snowball sampling, asking respondents to refer the researcher to other relevant respondents. No attempt was made to select respondents randomly. The objective was to select representative experts from the population who would be expected to provide normal perspectives and perceptions (Leedy and Ormrod 2001).

The interviews provided an additional source of data over and above the literature review to develop the FCM. As such the sample size of 22 respondents with the required expertise interviewed is considered adequate to provide the required level of insight. A list of the participants to the study is included in Appendix A.

3.4 Procedure for data collection

Nominated respondents were initially contacted telephonically with the purpose of inviting him/her to participate in the study. The initial telephonic conversation informed him/her of the purpose of the study, area covered and expected duration of the interview. Upon acceptance to participate, an electronic confirmation was sent to the participant, thanking him/her for agreeing to participate in the study and confirming the logistical details, i.e. date, time, place of interview. The letter also contained background to the study to provide the respondents with the opportunity to prepare for the interview. Correspondence was done on a Wits Business School letterhead. Respondents were guaranteed confidentiality and offered a copy of the completed research report as incentive to participate. Please refer to Appendix B for a copy of the letter sent to participants.

Most of the interviews took place at the place of work of the respondent in order to put the respondent at ease and limit any inconvenience on behalf of the respondent. Responses were recorded manually during the interview both on answer sheets (question 1) and directly on a copy of the FCM (question 2 to 4). The duration of the interviews were between an hour-and-a-half and two hours in most cases.

The protocol format suggested by Creswell (1994:152) was followed for the interviews and is as follows: "(a) a heading, (b) instructions to the interviewer (opening statements), (c) the key research questions to be asked, (d) probes to follow key questions, (e) transition messages for the interviewer, (f) space for recording the interviewer's comments and (g) space in which the researchers record reflective notes". The opening statement included an explanation of the research objectives and scope, as well as a review of the FCM concept in order to create an understanding and context in the mind of the respondent. Please refer to Appendix C to H for the Interview Protocol as well as supporting documents used during the interviews.

After scenarios had been built based on the updated FCM following the interviews ,the results of the scenarios were reviewed with 19 of the original sample of experts interviewed in order to validate the updated FCM. Telephone interviews were conducted in most cases. Before the interviews, background information (please refer to Appendix I), as well as the results of the various scenarios created (please refer to Appendix J) were distributed electronically to the participants in order to allow them to prepared for the interview.

3.5 Data analysis and interpretation

As a semi-structured interview approach was followed, the data analyses activity started concurrently with the collection process (Bell 2005). The draft FCM was used as a starting point for the discussion. Changes as per the respondents' views were made directly on the visual representation of the FCM during the interview. Changes were either in the form of a positive or negative link added to a node making use of coloured pens, or by indicating agreement or disagreement using markings on the existing links. The reasons given for the respondent's link to a node were recorded where specifically indicated by the respondent or provided in response to a question from the researcher where the respondent's view differed from the conclusions reached from the literature review.

The qualitative design took the form of a content analysis. Leedy and Ormrod (2001) defined it as a systematic examination of a body of material in order to identify patterns, themes, or biases. Saunders *et al.* (2003) state that the analyses of qualitative data start with classifying data into meaningful categories, followed by unitising data, i.e. attach relevant pieces of data to the different categories. This step is then followed by recognising relationships and developing the categories, i.e. analysing the data.

Each factor (concept) in the FCM was allocated a unique code. The codes were used to organise the data in an electronic database. Nodes of the FCM basically served as the different categories.

Reasons given by respondents for responses to the nodes and links, as well as general comments from Questions 1 and 4 were analysed to identify similarities and differences in responses, specifically where more than a third of respondents held a different view from the one identified in the literature. New ideas introduced by respondents were identified and placed in a new category. Similar ideas from different respondents were grouped together and the potential impact on the FCM considered.

The frequency of each link identified was tabulated in order to assess the importance of links and guide input into the model, especially where contradictory views were identified. No statistical analysis was performed on these results.

Opinions of respondents were considered together with the theory identified from the literature review to analyse the effect on the FCM. The data was then integrated and synthesised into the updated FCM.

The responses from the scenarios developed from the updated FCM were recorded together with comments made by respondents. Where a significant minority of respondents did not agree with the outcome of a specific scenario the reasons for the disagreement given were grouped together and analysed and the FCM adjusted according.

3.6 Validity and reliability

The validity of research is determined by the external and internal validity of the research. Bell (2005) defines validity as the design of research to provide credible conclusions. External validity refers to the extent of applicability of the results beyond the specific study (Leedy and Ormrod 2001). Internal validity of the research is the extent to which the research design and the data produced allows the researcher to draw accurate conclusions about the relationships within the data (Leedy and Ormrod 2001).

3.6.1 *External validity*

To ensure external validity findings have to be generalisable, implying that the sample is representative of the population (Leedy and Ormrod 2001). However the intent of qualitative research is to interpret the event from a unique perspective rather than to be able to infer findings onto the population (Creswell 1994).

In this study the validity criteria used is that of plausibility. Findings from the interviews have been triangulated from the findings of the literature review used to develop the initial FCM. Triangulation is a validity procedure where the researcher searches for convergence between different sources of data (Creswell and Miller 2000). Several scenarios were tested based on the FCM after incorporating the interview findings by switching policy nodes on and off and reviewing the outcome for plausibility.

The external validity of this study should be further enhanced by the fact that the sample of respondents was from various stakeholder groupings and took place in a real-life setting, something that enhances validity according to Leedy and Ormrod (2001).

3.6.2 *Internal validity*

Internal validity attempts to minimise the potential alternative explanations for results obtained from the data (Leedy and Ormrod 2001). Member checking is considered to be a crucial technique for establishing credibility (Creswell and Miller 2000). Member checking in this study consisted of validation by the research participants of the results of several scenarios run making use of the updated FCM, using the outcome of the validation to finalise the FCM.

3.6.3 *Reliability*

Reliability is ensured by the replicability of instruments, responses and analyses (Stevens 2003). In this study, given the intrinsic biases of both researcher and respondents, reliability is limited given that it is unlikely that the same study conducted in a different context would result in the exact same conclusions. The following procedures followed by the researcher should however increase the likelihood of replication, namely: using the theoretical framework as a base for connecting the views of respondents to, selection of knowledgeable individuals as respondents, providing background information about the research in advance of the interview to the respondents, operating in a systematic way during the interviews, making use of relevant categorisation system and clarifying any assumptions made by the researcher and respondents.

3.7 Predictive model

Various factors impact on the competitiveness of financial services organisations as discussed in section 2.4. The factors impacting on competitiveness could be categorised as either the product type selected or the organisational environment within which the integrated product is introduced (collectively forming the policy nodes of the FCM) and the effects or consequences of integration, i.e. those aspects of the organisation that are impacted by the integration and consequently impacts on competitiveness (the general nodes of the FCM). The policy nodes and general nodes could in turn affect some or all of the output nodes. These factors are related in a causal way. The nodes and causal relationships are reflected in Table 3. In order to determine the likely impact of financial services integration on the sources of competitive advantage as well as profitability of a financial services organisation, a draft FCM was developed. This model integrates the factors and relationship between the factors in a first draft to be used as a basis for further research. The model is set out in Figure 6.

Table 3: Nodes and links identified for the draft fuzzy cognitive map

CODE	POLICY NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
P01	Operating scale (underutilised distribution, large customer base)	+I10 +I04 +O01 +O07 +I02	(Bergendahl 1995); (Santomero *et al.* 2000); (Berger 2000); (Neave and Tombak 2003); (Potgieter and Christelis 2008); (Asaftei 2008)	Distribution capability related to operating scale benefiting larger organisations. More likely to generate profit from bancassurance if have large customer base and moderate number of branches that can produce large volumes of cross-selling.
P02	Incompatible corporate culture	-O01 -O02 -O05 +I08	(Skipper Jr 2000); (Daniel 2000); (Staikouras 2006); (Artikis *et al*. 2008)	Includes corporate culture as well as culture of distribution force – may view themselves as specialists who do not want to cross-sell.

CODE	POLICY NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
P03	Vertically integrated distribution	+I02	(Berger 2000); (Sigma 2007); (Staikouras 2006)	Channel owned by the financial services entity.
P04	Distribution not vertically integrated (independent)	-I02 +I01	(Berger 2000); Sigma 2007); (Potgieter and Christelis 2008); (Staikouras 2006)	Channel not owned by financial services entity.
P05	Type of offerings – simple, personal policies	+I02 +I10	(Bergendahl 1995); (Berger 2000); (Daniel 2000); (Potgieter and Christelis 2008); (Artikis *et al.* 2008)	Low/ no advice needed; standardised; product offered to individuals.
P06	Type of offerings – complex,	-I02	(Daniel 2000); (Berger 2000); (Potgieter and	High level of advice needed; product offered to

CODE	POLICY NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
	business policies		Christelis 2008); (Staikouras 2006); (Sigma 2007)	businesses.
P07	Product type – complementary offerings	+I10 +I04 +I15 +I12	(Skipper Jr 2000); (Berger 2000); (Artikis *et al.* 2008)	Bundled products such as home loans, credit life and homeowners insurance.
P08	Product type – specialist product requiring specialist input	-I10 -O04 +I13	(Berger 2000); Daniel (2000)	Product general considered to be a specialist product by the market.

CODE	POLICY NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
P09	Target market of entities not aligned	-I10 -O04	(Skipper Jr 2000); (Daniel 2000)	Also lack of clarity about the market to be targeted, e.g. affluent vs. mass market; where products offered are not suitable to the market.
P10	Low correlation with current products	+I05 +I02 +I07 +I08 +I15 +I13 +I11 +I06	(Berger *et al.* 1999); (Berger 2000); (Santomero *et al.* 2000)	Increased diversity through integration; low revenue correlations between product sets.

CODE	POLICY NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
		+I10		
P11	Superior relative brand and reputation strength of one of integrating parties	+I03	(Berger 2000); (Staikouras 2006); (Sigma 2007); (Artikis *et al.* 2008)	Superior relative strength of one of the parties in an integration; or currently having a strong brand that could be leveraged when introducing new product.
P12	Simple, seamless, easy process for sale of integrated offerings – natural fit; extension of existing offerings	+I14 +I10	(Daniel 2000); (Ngobo 2004)	Client perceives it as realistic that entity could offer this new product; process of acquisition is similar to process for current product set.
P13	Complex processes – not natural fit with existing offerings	-O01 -I10 -I14	(Daniel 2000)	Process of acquisition different from current products; customer does not naturally association offering with the organisation.

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
I01	Channel conflict	-O07 -O04 -O02	(Skipper Jr 2000)	Where integration introduces new channels that may be in conflict with existing channels.
I02	Economies of scope in production	+O01	(Berger *et al.* 1994); (Skipper Jr 2000); (Berger 2000); (Santomero *et al.* 2000); (Neave and Tombak 2003)	If multiple products can be produced at less cost than the sum of the costs of producing separately. Fixed cost of managing client relationships lends itself to sharing across different products/services (e.g. IT, offices, back office, distribution channels, decreased cost of capital due to increased size, managerial expertise and knowledge, impact of good reputation of one firm enhancing reputation of the other firm). The result is that the company can produce at lower marginal cost.

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
I03	Reputation and brand sharing	+I10	(Berger 2000)	Leveraging off existing strong brand with new product; sharing reputation associated with brand.
I04	Reduced customer cost	+I10 +O04	(Berger 2000); (Skipper Jr 2000)	Customers could realise lower search, information, monitoring and transaction cost from buying from a single provider.
I05	Risk diversification	+I02 +I06 +I10	(Berger *et al.* 1999); (Berger 2000); (Santomero *et al.* 2000)	Could be achieved through greater scale, more diverse mix of financial services provided, or increased geographical spread.
I06	Increased stability	+O01 +O03	(Santomero *et al.* 2000)	Reduced volatility in earnings through increased diversity; increased size increasing stability; reduced distress cost.

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
I07	Contamination risk if one entity or product fails	-I06 +I09 -O03	(Santomero *et al.* 2000)	Contamination risk if one entity or product fails, impacting negatively on other entities/ products.
I08	Management complexity	+I09 -O01	(Santomero *et al.* 2000); (Berger 2000); (Skipper Jr 2000); (Neave and Tombak 2003)	Lack of managerial skills across new range of products/services; cultural conflict; inertia and inability to respond quickly to customer demand; bureaucracy and turf battles; lack of creativity – inhibit coordination and cooperation required to realise synergies.
I09	Regulatory burden	-O01	(Santomero *et al.* 2000); (Neave and Tombak 2003)	Different mechanisms required to oversee integrated firm, increasing cost.

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
I10	Economies of scope in consumption (cross-selling)	+O02 +O04	(Bergendahl 1995); (Skipper Jr 2000); (Berger 2000); (Neave and Tombak 2003)	Realising more profit from one client at same cost. Users may value a package of product mix more than procuring from several entities. Customers may be willing to pay more per product as number of products with organisation increases. Company may have more scope to develop innovative new products and services as the market needs or technology changes. May respond more flexibly to demand shifts – customer may be willing to pay premium for this. Consumption scope economies should enlarge the extent of the relationship with the client and could increase switching cost.
I11	Perceived conflict of interest	-I10	(Berger 2000); (Skipper Jr 2000); (Neave and	Conflicts of interest could arise when incentives in the integrated organisation do not align with the best interest of the customer –

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
		-O03 +I09	Tombak 2003)	salesperson's stake negatively affecting objectivity; unwanted securities underwritten by entity on fiduciary accounts; transferring credit risk to third parties through bonds/equity issue; conditional offers based on other products being purchased; internal information transfer of sensitive information.
I12	Market power	+O02 +I11	(Berger *et al.* 1999); (Skipper Jr 2000)	Ability to offer joined-up products that are unique/ competitive could increase market power; increased size could influence prices charged/ power over intermediaries.
I13	Diverse management expertise required	+I08 -O02 +O06	(Berger *et al.* 1999); (Berger 2000)	New product and service lines require new skills. Lack of managerial skills across a range of services may inhibit coordination and cooperation required to realise synergies and could lead to diseconomies of scope. Lack of

CODE	GENERAL NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
				expertise could result in increased risk and poorer operating performance forcing organisations to enter into lower risk/ lower return activities, impacting negatively on revenue.
I14	Customer service	+O02 +O04 +O05	(Santomero *et al.* 2000); (Staikouras 2006)	Could be increased through integration if customers find it more advantageous to buy from one provider.
I15	Data and knowledge sharing	+O01 +I14	(Santomero *et al.* 2000)	Date on customer behaviour and needs is a scalable asset that can be better leveraged in an integrated organisation.

CODE	OUTPUT NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
O01	Reduced cost		(Berger 2000); (Skipper Jr 2000)	Element of increased shareholder value. The cost of the integrated organisation could be reduced through economies of scope in production and operational efficiency.
O02	Increased revenue		(Berger 2000); (Skipper Jr 2000)	Element of increased shareholder value. Increased revenue could be realised through economies of scope in consumption and increased market power.
O03	Brand equity	+I03	(Bharadwaj *et al.* 1993); (Clulow *et al.* 2003); (Staikouras 2006)	Intangible assets tend to be sources of competitive advantage; element of customer value; the greater the intangibility of a service, as well as the experience and credence attributes of an existing or new service, the greater the importance of brand equity as a source of competitive advantage.

CODE	OUTPUT NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
O04	Deep customer relationships	-I11 +O03	(Bharadwaj *et al.* 1993); (Clulow *et al.* 2003); (Staikouras 2006) ; (Artikis *et al.* 2008)	Intangible assets tend to be sources of competitive advantage; element of customer value. Relationships are of greater importance for competitive advantage where the experience and credence attributes of a service are high.
O05	Corporate culture		(Bharadwaj *et al.* 1993); (Clulow *et al.* 2003); (Staikouras 2006)	Intangible assets tend to be sources of competitive advantage; element of customer value. The more important people are in the delivery of the service, the greater the importance of culture as a source of competitive advantage.
O06	Applied learning and experience	+O05	(Bharadwaj *et al.* 1993); (Clulow *et al.* 2003)	Intangible assets tend to be sources of competitive advantage; element of customer value; ideas flowing through an organisation

CODE	OUTPUT NODES	CAUSAL LINK	LITERATURE REFERENCE	DEFINITION
				enables differentiation, creating competitive advantage. When knowledge is complex and tacit, i.e. difficult to reproduce it can be a source of competitive advantage for the organisation.
O07	Convenient distribution		(Santomero *et al.* 2000); (Devlin and Ennew 1997)	Distribution channels that are convenient and add value to the offering, increase competitive advantage. Both accessibility and availability are implied in convenience.

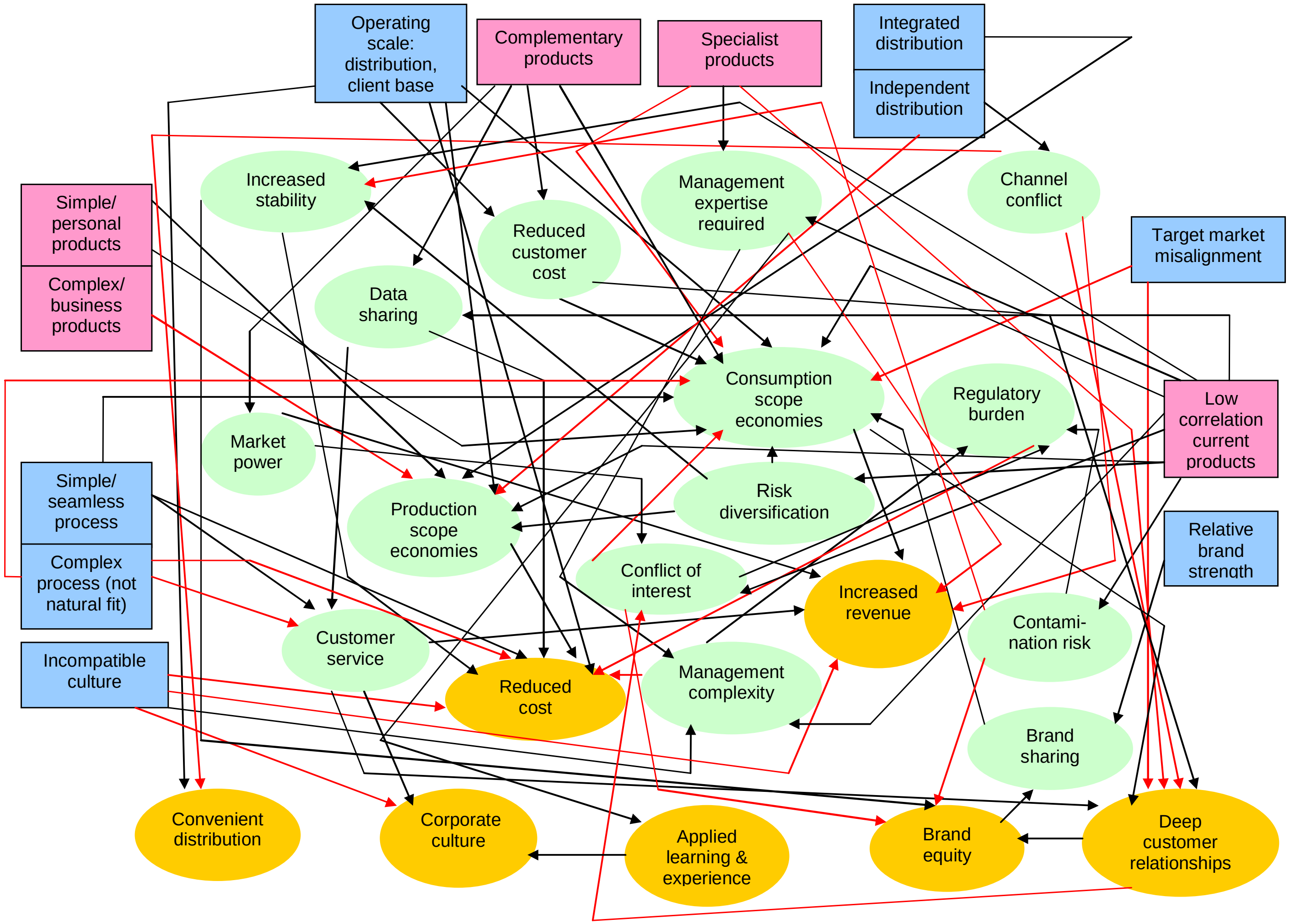

Figure 6: Draft FCM from literature review

4 SUMMARY OF INTERVIEWS

4.1 Introduction

Twenty-two interviews were held with relevant role players in the financial services industry. The draft FCM developed from the literature was used as the basis for the discussion. The interviews started with an open-ended question requesting the participants to share their view on the potential impact of financial services integration on the output nodes.

The second question focused on the effect of the general nodes on competitiveness. Section A of Question 2 required the participants to indicate whether each node will impact on the output nodes and if so whether the impact would be positive or negative. Links were drawn onto the FCM presented to the participants. This version of the FCM reflected only the general nodes and output nodes, no pre-printed links to allow for the participants' responses to be captured. The FCM used for Section B of Question 2 included the links identified from the literature review and required participants to indicate whether they agreed with the links or not.

Question 3 followed a similar pattern with Section A requiring the participants to identify links between the policy nodes and the output nodes and Section B asking for their input on existing links in the Draft FCM, as well as identification of any additional links that they would have expected but that were not indicated on the draft FCM.

Where time allowed for it respondents were asked in Question 4 whether they could identify any other product dimensions, environmental factors or consequences of integration not included in the model.

This chapter summarises the data collected during the interviews.

4.2 General nodes

Each factor (concept) in the FCM was allocated a unique code. The codes were used to organise the data in an electronic database. For section A of Question 2 relating to general nodes, the links to each output node identified by every participant were recorded in the database, together with specific comments made relating to links identified. All 22 participants to the research study completed Section A of Question 2. The frequency of each link was calculated and tabled. Appendix K reflects the results of this analysis.

The judgement of the researcher was used, and confirmed with a FCM expert, to categorise the results from the interviews. Where 11 or more, i.e. half, of the respondents identified a positive or negative link between a node and an output node, this was recorded for consideration in the final FCM. Where more than 11 respondents did not indicate either a positive or negative link to an output node, no impact was considered in the final FCM. Where exactly 11 respondents indicated no link to an output node but 10 respondents did make either a negative or positive link to an output node, these nodes were indicated as "inconclusive" for consideration in the final FCM, where clarity or additional input was required.

Table 4 reflects the outcome of the analysis. Red faces indicate a negative link between the node and output node as identified by the majority of respondents, whereas green faces indicate a positive link. Blue and yellow faces reflect inconclusive results on links, with blue indicating that 10 respondents indicated a positive link and yellow where 10 respondents indicated a negative link. Please refer to Figure 7 for the legend used in Table 4.

Legend	
Inconclusive Positive	😐
Positive	☺
Inconclusive Negative	😐
Negative	☹

Figure 7: Legend for results of Section A of Questions 2 and 3

Table 4: Summary of interviews, Question 2 Section A

No	General Nodes	Increased revenue (O02)	Reduced cost (O01)	Convenient distribution (O07)	Corporate culture (O05)	Applied learning and experience (O06)	Brand equity (O03)	Deep customer relationships (O04)
I01	Channel conflict			☹	☹			☹
I02	Economies of scope in production		☺					
I03	Reputation and brand sharing	☺						
I04	Reduced customer cost	☺					☺	☺
I05	Risk diversification	😐	😐					
I06	Increased stability	☺	☺				☺	☺
I07	Contamination risk if one entity/product fails	😐					☹	☹
I08	Management complexity		☹		☹			
I09	Regulatory burden		☹					
I10	Economies of scope in consumption	☺	☺					☺
I11	Perceived conflict of interest	☹					☹	☹
I12	Market power	☺	😐				☺	
I13	Diverse management expertise required		☹			☺		
I14	Customer service						☺	☺
I15	Data and knowledge sharing	☺	☺	☺		☺		☺

In Section B of Question 2 respondents were requested to indicate whether they agree with the links between nodes and output nodes on the draft FCM or not. Due to time constraints, only 20 respondents completed this section. Where respondents disagreed with a link, this was recorded on the map at the time of the interview and subsequently transferred to the database. The total number of disagreements was then calculated. Where a respondent not only disagreed with a link, but considered the link to be of an opposite nature, e.g. the link from a node to an output node on the draft FCM is negative, but the respondent is of the view that there is actually a positive causal relationship from the node to the output node, this was counted as two disagreements with the original link. Results of the analysis of the input from all respondents are reflected in Table 5.

The judgement of the researcher was used, and confirmed with a FCM expert, to categorise the results from the interviews. Coloured dots were used to indicate which links have been agreed to by the majority of respondents and with which links more than six (approximately a third) and more than 10, i.e. half of the respondents respectively did not agree with. Finally, where six or more respondents identified a new link, this is also indicated on the table. As discussed in detail in Chapter 5, where more than 10 respondents disagreed with a link, the FCM was adjusted accordingly and where six or more respondents disagreed or identified a new link, their views were considered and tested and in some cases the FCM was adjusted. The legend applicable to Table 5 is reflected in Figure 8.

Legend	
Less than 6 respondents disagree with link	●
Where 6 to 9 respondents disagree with link	●
Where 10 or more respondents disagree with link	●
Potential new link (6 or more respondents added a link)	●

Figure 8: Legend for results of Question 2 Section B

Table 5: Summary of interviews, Question 2 Section B

No	General Nodes	I01 Chanel conflict	I02 Production scope	I03 Reputaion & brand share	I04 Reduced customer cost	I05 Risk diversification	I06 Increased stability	I07 Contamination risk	I08 Management complexity	I09 Regulatory burden	I10 Consumption scope	I11 Conflict of interest	I12 Market power	I13 Diverse expertise	I14 Customer service	I15 Data sharing	O01 Reduced cost	O02 Increased revenue	O03 Brand equity	O04 Customer relationships	O05 Corporate culture	O06 Learning & experience	O07 Convenient distribution
I01	Channel conflict																	●		●			●
I02	Economies of scope in production																●						
I03	Reputation and brand sharing										●												
I04	Reduced customer cost										●									●			
I05	Risk diversification		●				●				●												
I06	Increased stability																●		●				
I07	Contamination risk if one entity/product fails						●			●									●				
I08	Management complexity									●							●						
I09	Regulatory burden																●						
I10	Economies of scope in consumption																	●		●			
I11	Perceived conflict of interest									●	●								●				
I12	Market power											●						●					
I13	Diverse management expertise required								●									●				●	
I14	Customer service																	●		●	●		
I15	Data and knowledge sharing														●		●						

4.3 Policy nodes

The process followed to record the data from the interviews for Section A and B of Question 3 were similar to that followed for Question 2. The focus of Question 3 was on policy nodes and the links between these nodes and output nodes in Section A of Question 3, and both general and output nodes in Section B of Question 3.

Due to time constraints only 10 participants completed the whole of Section A of Question 3. In some cases participants completed only parts of this section; the number of respondents therefore varies between 10 and 14 per policy node. The results were again summarised and are reflected in Appendix L.

The judgement of the researcher was used, and confirmed with a FCM expert, to categorise the results from the interviews. Where half of the respondents or more who responded to a specific question (i.e. between five to seven respondents) identified a positive or negative link between a node and an output node, this was recorded for consideration in the final FCM. Where more than half of respondents did not indicate either a positive of negative link to an output node, no impact will be considered in the final FCM. Where exactly half of respondents indicated no link to an output node but one less number of respondents (i.e. between 4 and 6 respondents) did make either a negative or positive link to an output node, these nodes were indicated as "inconclusive" for consideration in the final FCM, where clarity or additional input was required.

Table 6 reflects the outcome of the analyses. Red faces indicate a negative link between the node and output node as identified by the majority of respondents, whereas green faces indicate a positive link. Blue and yellow faces reflect inconclusive results on links with blue being used where between four and six respondents (depending on the number of respondents that answered a question) indicated a positive link and yellow where four to six respondents indicated a negative link. Please refer to Figure 7 for the legend used in Table 6.

Table 6: Summary of interviews, Question 3 Section A

		Increased revenue (O02)	Reduced cost (O01)	Convenient distribution (O07)	Corporate culture (O05)	Applied learning and experience (O06)	Brand equity (O03)	Deep customer relationships (O04)
No	**Policy Nodes**							
P01	Operating scale (underutilised distribution, large customer base)		☺	☺				
P02	Incompatible corporate culture				☹		☹	☹
P03	Vertically integrated distribution							
P04	Distribution not vertically integrated (independent)							
P05	Type of offerings – simple, personal products	☺		😐				
P06	Type of offerings – complex, business products	☺	☹					😐
P07	Product type – complementary offerings	☺	☺	☺			☺	☺
P08	Product type – specialist product requiring specialist input	😐	😐			☺		
P09	Target market not aligned		😐				☹	☹
P10	Low correlations between product sets	☺	☹					
P11	Superior relative brand and reputation strength of one of integrating parties	☺						
P12	Natural fit; Simple, seamless, easy process	☺	☺	☺				
P13	Complex process (not natural fit)		☹	😐		☺		😐

In Section B of Question 3 respondents were requested to indicate whether they agreed with the links between policy nodes, general nodes and output nodes on the draft FCM or not, and to identify any additional links between these nodes. All 22 respondents completed this section. Where respondents disagreed with a link, this was recorded on the map at the time of the interview and subsequently transferred to the database. The total number of disagreements was then calculated. Where a respondent not only disagreed with a link, but considered the link to be of an opposite nature, e.g. the link from a policy node to a general node on the draft FCM is negative, but the respondent is of the view that there is actually a positive causal relationship from the policy node to the general node, this was counted as two disagreements with the original link. Results from the analysis of the input from all respondents are reflected in Table 7.

The judgement of the researcher was used, and confirmed with a FCM expert, to categorise the results from the interviews. Coloured dots were used to indicate which links have been agreed to by the majority of respondents and with which links more than seven (approximately a third) and more than 10 (almost half) respectively of respondents did not agree. Finally, where seven or more of respondents identified a new link, this is also indicated on the table. As discussed in detail in Chapter 5, where more than 10 respondents disagreed with a link, the FCM was adjusted accordingly and where seven or more respondents disagreed or identified a new link, their views were considered and tested and in some cases the FCM was adjusted. The legend applicable to Table 7 is reflected in Figure 9.

Legend	
Less than 7 respondents disagree with link	
Where 7 to 9 respondents disagree with link	
Where 10 or more respondents disagree with link	
Potential new link (7 or more respondents added a link)	

Figure 9: Legend for results of Question 3 Section B

Table 7: Summary of interviews, Question 3 Section B

	Policy Nodes	I01 Chanel conflict	I02 Production scope	I03 Reputaion & brand shar	I04 Reduced customer cost	I05 Risk diversification	I06 Increased stability	I07 Contamination risk	I08 Management complexity	I09 Regulatory burden	I10 Consumption scope	I11 Conflict of interest	I12 Market power	I13 Diverse expertise	I14 Customer service	I15 Data sharing	O01 Reduced cost	O02 Increased revenue	O03 Brand equity	O04 Customer relationships	O05 Corporate culture	O06 Learning & experience	O07 Convenient distribution
P01	Operating scale		●		●						●						●						●
P02	Incompatible corporate culture								●								●	●			●		
P03	Vertically integrated distribution		●																				
P04	Distribution not vertically integrated (independent)	●	●																				
P05	Type of offerings – simple, personal products		●								●												
P06	Type of offerings – complex, business products		●								●												
P07	Product type – complementary offerings				●						●		●			●							
P08	Product type – specialist product requiring specialist input										●			●						●			
P09	Target market not aligned										●									●			
P10	Low correlations between product sets		●			●	●	●	●		●	●		●		●							
P11	Superior relative brand and reputation strength of one of integrating parties			●																			
P12	Natural fit; Simple, seamless, easy process										●				●		●						
P13	Complex process (not natural fit)										●				●		●						

4.4 Output nodes

Data collected for Question 2 were summarised for links from output nodes to general nodes. Participants agreed with the links identified in the draft FCM and no potential new links were identified.

4.5 General comments

The reasons given by the respondents for the causal links identified during the interviews were recorded at the time of the interview and transferred to the database. Comments were only specifically requested where the respondent's views were different from that identified in the literature review. These notes, together with the responses to Questions 1 and 4, were analysed to identify similarities and differences in responses, specifically where more than a third of respondents held a different view from the one identified in the literature. New ideas introduced by respondents were identified from these notes and responses. Similar ideas from different respondents were grouped together and the potential impact on the FCM considered. Following is a summary of the ideas or issues considered for the updated model. Only ideas or issues where four or more respondents raised similar matters are included in Table 8.

Table 8: Summary of new ideas or issues identified by respondents

No	Idea, concept or issue Identified by respondents	No of respondents
1	Consider implications of modern distribution channels and technology on Convenient Distribution and the type of products sold	4
2	You could get complex products for individuals and simple products for business as well; not only simple to individuals and complex to business	4

No	Idea, concept or issue Identified by respondents	No of respondents
3	Complex products are more difficult and costly to sell. It is a higher risk to take but could have higher margins. Important that it fits with current business. More likelihood of success if someone else picks up the distribution cost	8
4	Brand equity could be negatively impacted by brand sharing if you have a strong brand - brand could be diluted. Multi-brands/ brand sharing does not work	4
5	Impact on production scope economies depends on availability of current capacity in infrastructure	4
6	If you only facilitate specialist or complex products, it could be very positive, e.g. if done through JV, Outsourcing. If you have a specialist partner, it is possible to profit from complex and specialist products	5
7	Market power should not increase conflict of interest in a competitive landscape; what some people call channel conflict, others call business	7
8	For integration to be successful it has to be needs focused, not product focused - value offering to client; ease of doing business; offering something that provides a competitive advantage	5
9	The product type influences the corporate culture (e.g. life insurance vs. general insurance; investment vs. retail banking)	5
10	Degree of fit with current business (market/ culture/ strategy) influences success of integration - you have to understand your current business, core competencies and values well to ensure proper fit	9

5 ENHANCEMENT OF FUZZY COGNITIVE MAP

5.1 Introduction

The data collected from the interviews was analysed and the impact on the draft FCM was assessed. Where the data gathered justified a change to the FCM, the map was updated.

The chapter starts with the assessment of the impact on general nodes and causal links, followed by a similar review of policy nodes and output nodes. Where relevant the effect of the general comments summarised in section 4.5 were incorporated into the draft FCM.

Data from the interviews as summarised in Chapter 4, as well as evidence from the literature were incorporated into the final conclusion on changes to the FCM.

The updated FCM was used to generate scenarios by switching on selected policy nodes and recording the effect on output nodes. These scenarios were reviewed by the respondents. The final FCM was prepared from the results of the validation of scenarios. This chapter concludes with the development of the final FCM.

5.2 General nodes

The causal links between the general nodes and output nodes are summarised in Table 8. Where general nodes have a causal link to another general node, the final link to an output node was determined and recorded in Table 9. A positive link is indicated by a green face and a negative link by a red face (Figure 10).

Legend	
Positive	☺
Negative	☹

Figure 10: Legend for Table 9 and Table 10

Table 9: Causal links between general nodes and output nodes on draft FCM

No	General Nodes	Increased revenue (O02)	Reduced cost (O01)	Convenient distribution (O07)	Corporate culture (O05)	Applied learning and experience (O06)	Brand equity (O03)	Deep customer relationships (O04)
I01	Channel conflict	☹		☹				☹
I02	Economies of scope in production		☺					
I03	Reputation and brand sharing	☺					☺	☺
I04	Reduced customer cost	☺					☺	☺
I05	Risk diversification	☺	☺				☺	☺
I06	Increased stability	☺					☺	☺
I07	Contamination risk if one entity/product fails	☹	☹				☹	☹
I08	Management complexity		☹					
I09	Regulatory burden		☹					
I10	Economies of scope in consumption	☺					☺	☺
I11	Perceived conflict of interest	☹					☹	☹
I12	Market power		☹				☹	☹
I13	Diverse management expertise required	☹	☹		☺	☺		
I14	Customer service	☺			☺		☺	☺
I15	Data and knowledge sharing	☺	☺		☺		☺	☺

The results from the interviews as reflected in Table 4 (Section A of Question 2) and Table 5 (Section B of Question 2) were compared to the causal links in the draft FCM as reflected in Table 9 as well as with the views reflected in the literature. The effect on each node and causal links was considered and is discussed in the rest of section 5.2.

5.2.1 *Channel conflict*

Respondents identified negative causal links from 'Channel conflict' to 'Convenient distribution' and 'Deep customer relationships' in Section A of Question 2, which corresponds to the draft FCM links. However only seven out of 22 respondents identified a negative link to 'Increased revenue' and three were of the opinion that it would actually have a positive effect since more distribution channels are created. Six of the 20 respondents to Section B of Question 2 also disagreed with the negative link to 'Increased revenue'. They considered channel conflict to be only a hygiene factor that would not have such a severe impact on revenue.

According to Skipper Jr (2000) channel conflict could arise where integration introduces new channels that may be in conflict with existing channels. Channel conflict could impact negatively on relationships with intermediaries and therefore sales generated by them. It could also impact on client relationships if they are negatively influenced by intermediaries.

Although the majority of respondents agreed with the negative impact on 'Increased revenue', almost a third disagreed. It was therefore decided to test the outcome of the FCM with the negative causal link on and off to determine which scenario is more plausible. It was found that when the negative link is on, no revenue is generated from products distributed through independent distribution channels. When the link is not negative, revenue is generated, but 'Brand equity' and 'Deep customer relationships' in this scenario are not switched on. This makes more logical sense, as the proliferation of independent channels indicates that some money must be made through it.

A negative impact on ‘Corporate culture’ was identified by 12 out of 22 respondents in Section A of Question 2.

Changes made to draft FCM:

- Negative link from ‘Channel conflict’ to ‘Increased revenue’ removed
- Negative link from ‘Channel conflict’ to ‘Corporate culture’ added.

5.2.2 *Economies of scope in production*

All the respondents identified a positive causal link to ‘Reduced cost’ in Section A of Question 2 and agreed to this link in Section B of the question as well, which corresponds to the draft FCM developed from the literature review.

No changes made to draft FCM

5.2.3 *Reputation and brand sharing*

Eleven out of 22 respondents identified a positive causal link to ‘Increased revenue’ in section A. Seventeen of 20 respondents agreed with the positive causal link to ‘Economies of scope in consumption’ in Section B of Question 2 that will indirectly lead to enhanced ‘Deep customer relationships’ and enhanced ‘Brand equity’. Three people held strong views that sharing a strong brand will negatively impact on the strong brand’s equity but eight respondents identified a positive link to ‘Brand equity’ in Section A.

According to Berger (2000) revenue efficiency gains could arise from sharing the reputation associated with a brand name that customers recognise and prefer to add products from another financial service. Skipper (2000) states that economies of scope in consumption could be generated when the good reputation of one firm enhances the sale of other conglomerate products. Since the majority had a positive view that corroborates the view held in literature, the links identified in the draft FCM were accepted.

No changes made to draft FCM

5.2.4 *Reduced customer cost*

A positive link to 'Increased revenue' was identified by 15 of 22 respondents, 11 identified a positive link to 'Brand equity' and 17 identified a positive link to 'Deep customer relationships' in Sec A of Question 2. This is reflecting the links as per the draft FCM. Respondents agreed with the links identified in Section B of the question.

Changes made to draft FCM:

- Remove positive link from 'Reduced customer cost' to 'Deep customer relationships'. The positive link between 'Reduced customer cost' and 'Economies of scope in consumption' will result in a positive impact on 'Deep customer relationships' as well and the direct link to this node is therefore not required.

5.2.5 *Risk diversification*

Only 10 of 22 respondents identified a positive link to 'Reduced cost' in Section A of Question 2. The positive link to 'Economies of scope in production' was also questioned by six of the 20 respondents in Part B.

According to Berger (2000) financial institutions may improve cost by integrating production of products from different sectors through risk diversification because returns associated with these usually have low correlations. Risk diversification may furthermore reduce the cost of capital and compliance cost. Santomero *et al.* (2000) discuss the fact that diversification could reduce distress cost. Santomero *et al.* (2000) also argue the opposite however - that diversification could actually increase cost and instability due to contamination risk.

Given the differences in opinion identified in the literature review and that results of the interviews were not clear-cut, it was decided to test the outcome of the FCM with and without the positive link to 'Economies of scope in production'. It was found that to keep or remove the positive link does not make a difference to the outcome of switching on of ‘Low correlation products’. It was therefore decided to keep this link.

Only 10 of 22 respondents identified a positive link to ‘Increased revenue’ in Section A of Question 2 but 18 out of 20 agreed with the positive link to ‘Economies of scope in consumption’ in Section B that will ultimately impact positively on ‘Increased revenue’, ‘Deep customer relationships’ and ‘Brand equity’. It was therefore decided to keep this link, as well as the link to ‘Increased stability’ as 19 out of 20 respondents agreed with this link.

No changes made to draft FCM

5.2.6 *Increased stability*

Positive links to ‘Increased revenue’ (13/22), ‘Reduced cost’ (14/22), ‘Customer relationships’ (14/22) and ‘Brand equity’ (13/22) identified in Section A of Question 2. ‘Reduced cost’, ‘Deep customer relationships’ and ‘Brand equity’ have been identified as positive links in the draft FCM as well.

Santomero *et al.* (2000) discuss the fact that proponents have held the view that stability would result in higher earnings source diversification, increased operating earnings stability and higher valuations. They also state that the firm may be able to increase the level of risky, yet profitable business.

Given that the literature supports the view that earnings would be more stable when diversified, it could be deducted that it will be higher over time and that a positive causal link to ‘Increased revenue’ exists.

Changes made to draft FCM:

- Add positive link from ‘Increased stability’ to ‘Increased revenue’.

5.2.7 *Contamination risk*

The majority of the 22 respondents to Section A of Question 2 identified a negative causal link to ‘Brand equity’ (18/22) and ‘Deep customer relationships’

(20/22), but only 10 and 9 respondents identified negative links to ‘Increased revenue’ and ‘Reduced cost’ respectively. The majority of respondents did however agree with the links identified in the draft FCM in Section B.

No changes made to draft FCM

5.2.8 *Management complexity*

16 of 22 respondents confirmed the negative causal link to ‘Reduced cost’ as reflected in the draft FCM in Section A of Question 2. Twelve respondents also identified a negative impact on ‘Corporate Culture’ in Section A.

The positive causal link to ‘Regulatory burden’ was questioned by eight of the 20 interviewees in Section B.

Santomero, *et al.* (2000) are of the view that the integrated firm comes with a lot of management complexity and regulatory baggage. Increased size and complexity require regulators to increase their monitoring activities (Neave and Tombak 2003). It could be argued however that it is not because of management complexity per se that the regulatory baggage is increased but because of the larger range of products and financial services the company is exposed to which in turn increases regulatory burden. This was a comment made by some respondents.

Given that the link to ‘Regulatory burden’ based on the literature is likely to be indirect, and a substantial number of respondents disagreeing with the link, it was decided to remove the link.

Given that the relationship between ‘Management complexity’ and ‘Regulatory burden’ has not been conclusively resolved, further research should seek to address it.

Changes made to draft FCM:

- Negative link from ‘Management complexity’ to ‘Corporate culture’ added

- Positive link from ‘Management complexity’ to ‘Regulatory burden’ removed.

5.2.9 *Regulatory burden*

Twenty of the 22 respondents identified a negative causal link to ‘Reduced cost’ in Section A of Question 2 which corresponds with the link identified from the literature in the draft FCM. Nineteen of 20 respondents agreed with the negative link to ‘Reduced cost’ in Section B.

No changes made to draft FCM

5.2.10 *Economies of scope in consumption*

All the respondents confirmed the positive links to ‘Increased revenue’ (22) and the majority identified a positive link to ‘Deep customer relationships’ (16/22) as reflected in the draft FCM in responding to Section A of Question 2. ‘Deep customer relationships’ will also result in enhanced ‘Brand equity’ according to the draft FCM. Ten of 22 respondents identified a positive causal link to ‘Brand equity’ in Section A of Question 2.

Eleven out of 22 also identified a positive link to ‘Reduced cost’ based on the view that the cost percentage would reduce due to increased revenue while cost remains the same, resulting in a reduction in marginal cost. The literature (Skipper 2000) links economies of scope in consumption to revenue effects, not cost effects. The FCM has therefore been developed to distinguish between revenue and cost effects. The link has therefore not been added.

No changes made to draft FCM

5.2.11 *Conflict of interest*

The majority of respondents identified negative causal links from ‘Conflict of interest’ to ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ in Section A of Question 2, confirming the links reflected in the draft FCM. They also agreed with the links in Section B. As discussed in section 5.2.12 and section 5.3.10, the links from 'Market power' and 'Low correlation products' to 'Conflict of interest' have been removed.

Skipper (2000) states that the potential for conflict of interest is endemic to financial services integration. It arises when incentives within the group do not align with the customer's best interest. Given the removal of the links into this node however, as well as the fact that the responses from the interviewees indicate that it cannot be assumed that specific product attributes (e.g. simple/ complex) or environmental conditions (simple process, target market misalign, etc.) would necessarily lead to misaligned incentives, it has been decided to remove the node from the FCM.

Future research should seek to resolve which set of circumstances is likely to result in conflict of interest when integrating. The extent of the impact and degree of seriousness of conflict of interest should also be considered.

Changes made to draft FCM:

- Remove 'Conflict of interest' node from FCM.

5.2.12 *Market power*

The draft FCM reflects a positive link to 'Increased revenue', but this is being set off by the link to 'Conflict of interest', that impacts negatively on 'Increased revenue' and 'Deep customer relationships'. 'Conflict of interest' also impacts negatively on 'Brand equity' in the draft FCM. Respondents identified positive links to both 'Increased revenue' (15/22) and 'Brand equity' (15/22) in Section A of Question 2 however. Ten of 22 respondents also identified a positive causal link to 'Reduced cost' in Section A. The link from 'Market power' to 'Conflict of interest' was questioned by seven of the 20 respondents to Sec B. Some respondents commented that competition in the market will eliminate conflict of interest.

According to the literature, market power of large size financial conglomerates may result in the ability to charge higher prices, at least to some market segments (Berger *et al.* 1999; Skipper Jr 2000). It could also be argued that the ability to offer complementary products in a joined-up way could increase the market power of integrated organisations by offering unique products to customers and/or increasing power of intermediaries. Skipper (2000) states that the potential for conflict of interest is endemic to integration. It arises when incentives within the group do not align with the customer's best interest. It could be argued that increased market power will increase the likelihood of conflict of interest. Santomero *et al.* (2000) state that many opponents of financial services integration are convinced that financial conglomerates will use their size and power to take advantage of the customer and create conflict of interest. Given the strong positive view of respondents on the effect of market power on competitiveness however, it has been decided to remove the link from 'Market power' to 'Conflict of interest'.

Changes made to draft FCM:

- Add positive link from 'Market power' to 'Brand equity'
- Remove link from 'Market power' to 'Conflict of interest'.

5.2.13 *Diverse management expertise required*

Twelve of 22 respondents identified a negative link to 'Reduced cost' and 13 of 22 identified a positive link to 'Applied learning and experience' in Section A of Question 2. The draft FCM reflected two additional links however, namely a positive link to 'Corporate culture', via the link to 'Applied learning and experience', as well as a negative link to 'Increased revenue' which has not been identified by respondents in Section A. Seven respondents identified a positive link to 'Corporate culture' and given that the majority agreed with the link between 'Applied learning and experience' and 'Corporate culture' as reflected in section 5.4, this link was accepted. Sixteen out of 20 respondents also questioned this negative link to 'Increased revenue' in Section B of Question 2.

According to the literature a lack of management expertise in financial services categories outside their area of expertise could result in increased risk and poorer operating performance forcing organisations to enter into lower risk/ lower return activities, impacting negatively on revenue (Berger 2000). Given the strong disagreement from respondents however, it was decided to remove this link.

Changes made to draft FCM:

- Remove negative link from ‘Diverse management experience required’ to ‘Increased revenue’.

5.2.14 *Customer service*

The majority of respondents indicated that a positive causal link exists between ‘Customer service’ and ‘Deep customer relationships’ (17/22) as well as ‘Brand equity’ (15/22) in Section A of Question 2, supporting the positive links to these nodes reflected in the draft FCM. Respondents did not identify positive links to ‘Increased revenue’ and ‘Corporate culture’ in Section A, but did agree with these links in Section B of Question 2. It was therefore decided to keep the links in the FCM.

No changes made to draft FCM

5.2.15 *Data and knowledge sharing*

The majority of respondents identified positive links to ‘Increased revenue’ (16/22), ‘Reduced cost’ (13/22), and ‘Deep customer relationships’ (19/22) in Section A of Question 2 that corresponds with these links as identified in the draft FCM. Additional links identified in the draft FCM not identified by respondents in Section A are ‘Corporate culture’ and ‘Brand equity’ via ‘Customer service’. The majority of respondents (19/20) agreed with the link to ‘Customer service’ in Section B of Question 2. It was therefore decided to accept the link.

Sixteen of 22 respondents identified a positive link to ‘Applied learning and experience’ in Section A of Question 2 and 12 of 22 identified a positive link to ‘Convenient distribution’. It was therefore decided to add these links to the FCM.

Changes made to draft FCM:

- Add positive link from ‘Data and knowledge sharing’ to ‘Convenient distribution’
- Add positive link from ‘Data and knowledge sharing’ to ‘Applied learning and experience’.

5.3 Policy nodes

The causal links between general nodes and output nodes are summarised in Table 10. Where these nodes have a causal link to another general node, the final link to an output node was determined and recorded in Table 10. A positive link is indicated by a green face and a negative link by a red face (Figure 10).

Table 10: Causal links between policy nodes and output nodes on draft FCM

No	Policy Nodes	Increased revenue (O02)	Reduced cost (O01)	Convenient distribution (O07)	Corporate culture (O05)	Applied learning and experience (O06)	Brand equity (O03)	Deep customer relationships (O04)
P01	Operating scale (underutilised distribution, large customer base)	☺	☺	☺			☺	☺
P02	Incompatible corporate culture	☹	☹		☹			
P03	Vertically integrated distribution		☺					
P04	Distribution not vertically integrated (independent)	☹	☹	☹				☹
P05	Type of offerings – simple, personal products	☺	☺				☺	☺
P06	Type of offerings – complex, business products		☹					
P07	Product type – complementary offerings	☺			☺		☹	☺
P08	Product type – specialist product requiring specialist input	☹	☹			☺	☹	☹
P09	Target market not aligned	☹					☹	☹
P10	Low correlations between product sets	☺			☺	☺	☹	☺
P11	Superior relative brand and reputation strength of one of integrating parties	☺					☺	☺
P12	Natural fit; simple, seamless, easy process	☺	☺		☺		☺	☺
P13	Complex process (not natural fit)	☹	☹		☹		☹	☹

The results from the interviews as reflected in Table 6 (Section A of Question 3) and Table 7 (Section B of Question 3) were compared to the causal links in the draft FCM as reflected in Table 10 as well as with the views reflected in the literature. The effect on each node and causal links was considered and is discussed in the rest of section 5.3.

5.3.1 *Operating scale*

Respondents identified links to ‘Reduced cost’ (8/10) and ‘Convenient distribution’ (7/10) in Section A of Question 3. Other output nodes impacted indirectly according to the draft FCM, namely ‘Increased revenue’, ‘Deep customer relationships’ and ‘Brand equity’ were not identified in Section A, but the majority of respondents agreed with the links as identified in Section B of Question 3.

No changes made to draft FCM

5.3.2 *Incompatible corporate culture*

Seven of 10 respondents identified a negative link to ‘Corporate culture’ in Section A of Question 3 that agrees to the link reflected in the draft FCM. However, only four of 10 identified negative links to ‘Increased revenue’ and ‘Reduced cost’, both of which are included in the draft FCM. The majority of respondents did agree with links on the FCM in Section B of Question 3. These links were therefore accepted. Seven out of 11 respondents identified a negative link to ‘Deep customer relationships’ in Section A and six identified a negative link to ‘Brand equity’.

According to the literature corporate culture varies across firms and across financial sectors and leads to significant managerial issues (Skipper Jr 2000). The cultural differences pose challenges for management of financial conglomerates. It may be difficult to get staff to promote and sell products from other financial services sectors (Daniel 2000; Skipper Jr 2000). Santomero *et al.* (2000) also refer to the management challenges associated with two clashing cultures, specifically in the context of mergers. They are of the view that the specific know-how of the acquired firm will be dissipated by the acquisition process. Staikouras (2006) considers business culture to be a key success/ risk factor for bancassurance success. Inflexibility towards accepting and adopting the other party's culture will lead nowhere. The new hybrid structure should develop a new culture adaptable to the needs of the customer base and each particular product. He considers management initiative to be the most decisive factor for success in bancassurance. Both management teams of the bank and the insurer should make an effort to make the two diverse cultures gel. Top management must lead the process. Given the importance assigned to culture in the literature as well as the view of the respondents, negative links to 'Deep customer relationships' and 'Brand equity' were added to the FCM.

Changes made to draft FCM:

- Add negative link from 'Incompatible corporate culture' to 'Deep customer relationships'
- Add negative link from 'Incompatible corporate culture' to 'Brand equity'.

5.3.3 *Vertically integrated distribution*

No links were identified to output nodes by a majority of respondents in Section A of Question 3.

Six out of 22 respondents added a link from 'Vertically integrated distribution' to 'Channel conflict' in Section B of Question 3. The literature however considers vertically integrated channels more likely to be successful due to an increased level of control compared to independent distribution channels and link channel conflict to independent channels (Skipper 2000). Given the literature review and the fact that only six respondents indicated that a link to 'Channel conflict' should be added, it was decided not to add a link.

No changes made to draft FCM

5.3.4 *Independent distribution*

No links were identified to output nodes by a majority of respondents in Section A of Question 3.

Seven out of 22 respondents did not agree with the negative link to ‘Economies of scope in production’ in response to Section B of Question 3. Three respondents indicated that the impact of ‘Independent distribution’ could be positive on ‘Economies of scope in production’.

According to Skipper (2000) distribution issues and conflict are considered to be very challenging in integration (Skipper 2000). He is of the view that it is easier to control an integrated channel. Independent intermediaries could capture the benefits of joint production for themselves (Berger 2000). Berger (2000) also found that insurance firms are more likely to realise profit-scope economies with integrated distribution systems. According to Potgieter and Christelis (2008), the global focus is shifting to distribution from manufacturing of products - a move towards open architecture and best advice, not maximising products sold within the same group.

Given the relatively high number of respondents that disagreed with the link in the draft FCM, the recent global trend towards open architecture, as well as some respondents considering the link to be as favourable as with an integrated channel, it was decided to remove the negative link but not to replace it with a positive link.

Changes made to draft FCM:

- Remove negative link from ‘Independent distribution’ to ‘Economies of scope in production’.

5.3.5 *Simple, personal products*

A majority of respondents (9/11) identified a positive causal link to ‘Increased revenue’ in Section A of Question 3 which correspondents with the positive link reflected in the draft FCM. Respondents did not identify positive links to 'Reduced cost', 'Deep customer relationships' and 'Brand equity' in Section A but did agree with the links to 'Economies of scope in production' and 'Economies of scope in consumption' that will trigger these output nodes in response to Section B of Question 3. It was therefore decided to keep this link.

Five respondents identified a positive causal link to 'Convenient distribution'. This link was not added to the FCM as it is not a majority view and not specifically highlighted in the literature.

No changes made to draft FCM

5.3.6 *Complex, business products*

The majority of respondents (9/12) indicated that a negative causal link to 'Reduced cost' exists. This is also reflected in the draft FCM. Seven of 22 respondents questioned the negative link to 'Economies of scope in production' in Section B of Question 3. Given the response in Section A however, this link is kept in the FCM.

Six of 11 respondents indicated in Section A of Question 3 that a positive causal link exists to 'Increased revenue' which is not reflected on the draft FCM. Seven of 22 respondents added a positive link to 'Economies of scope in consumption' in Section B of Question 3. Five of these respondents indicated that the positive link was conditional upon sourcing skills via an outsourced arrangement or partnership.

Berger (2000) found that insurance firms are more likely to realise profit-scope economies if they emphasise personal lines of business. Daniel (2000) reflects that Spanish bancassurers, while successful in products for private individuals, have not ventured into the field of complex contracts needed for businesses. Potgieter and Christelis (2008) found that although bancassurance in Europe is based on simple, standardised products sold to bank customers, increasingly in South Africa bank operations are diversifying their products to include more complex products. They also indicate that internationally there is a growing trend to provide advice and add more complex products. They further report that bancassurers in South Africa tend to provide commoditised, higher margin and simpler products from their own insurance companies and outsource more complex advice-driven products.

Given the view from about a third of respondents that a positive impact on revenue could be derived and more specifically when partnering to acquire the skills, as well as the findings in the literature especially those of Potgieter and Christelis (2008), it was decided to add a new node called ‘In-sourcing specialist skills’ to the environmental policy nodes. This node reflects the situation where skills are in-sourced via external contracting, outsourcing arrangements, joint ventures or partnerships.

Changes made to draft FCM:

- Additional node added ‘In-sourcing specialist skills’ with a positive link to ‘Economies of scope in consumption’.

5.3.7 *Complementary offerings*

Positive causal links have been identified by a majority of respondents in Section A of Question 3 to ‘Increased revenue’ (9/11), ‘Reduced cost’ (8/13), ‘Convenient distribution’ (10/13), ‘Brand equity’ (6/12) and ‘Deep customer relationships’ (8/12). A positive link to ‘Applied learning and experience’ was identified by five respondents. The draft FCM reflects positive links to ‘Increased revenue’, ‘Corporate culture’ and ‘Deep customer relationships’ only. Removal of the link between ‘Market power’ and ‘Conflict of interest’ (as discussed in section 5.2.12) will change the output nodes affected by ‘Complementary offerings’. The effect will be that ‘Increased revenue’, ‘Deep customer relationships’, ‘Brand equity’ and ‘Corporate culture’ would be positively impacted. The majority of respondents agreed to the links discussed in Section B of Question 3.

Economies of scope in consumption could be realised from the cross-selling of complementary products and services (Skipper Jr 2000). This will enlarge and extend the relationship with the client, and be likely to increase the switching cost for the customer as more products are involved. Customers could also realise lower search, information, monitoring and transaction *cost* from purchasing from a single provider and may be willing to pay more for products offered in this convenient way (Berger 2000; Skipper Jr 2000). Integration may improve customer service and increase revenue if customers find it more advantageous to buy from one provider (Santomero *et al.* 2000). This supports the view of respondents that 'Convenient distribution' will be positively impacted by integration.

Operational efficiencies may arise where integrated firms have an informational advantage over specialised firms enabling faster time to market for products, especially those products carrying attributes from more than one financial services sector, i.e. complementary products (Berger 2000; Skipper Jr 2000). According to Skipper (2000) and Berger (2000) the fixed cost of managing client relationships seems to lend itself to sharing across different financial services and could arise, amongst others from sharing of distribution channels and offices. It could be argued that complementary products will likely be sold by the same distribution channel and/or through the same office and should therefore result in reduced cost, as identified by eight respondents in Section A of Question 3.

Given the response to Section A of Question 3, as well as the support from the literature, it was decided to add the positive links to 'Convenient distribution' and 'Reduced cost'.

Changes made to draft FCM:

- Add positive link from 'Complementary offerings' to 'Convenient distribution'
- Add positive link from 'Complementary offerings' to 'Reduced cost'.

5.3.8 *Specialist products*

A positive link to ‘Applied learning and experience’ was identified in Section A of Question 3 by five out of 10 respondents. This is reflected in the draft FCM as well. ‘Applied learning and experience’ will trigger ‘Corporate culture’ as well as per the link discussed in section 5.4.

Although the draft FCM reflects negative links to ‘Increased revenue’, ‘Reduced cost’, ‘Deep customer relationships’ and ‘Brand equity’, these were not identified in Section A of Question 3. Thirteen of 22 respondents questioned the negative link to ‘Economies of scope in consumption’ in Section B of Question 3. Two respondents indicated that the link to ‘Economies of scope in consumption’ should be positive while a further five respondents indicated that a positive effect was conditional upon sourcing skills via an outsourced arrangement or partnership.

Fourteen of 22 respondents questioned the negative link to ‘Customer relationships’, five of these respondents indicated that a positive causal link to ‘Customer relationships’ is possible but conditional upon sourcing skills via an outsourced or partnership model.

Daniel (2000) concludes that the customer may prefer a trusted specialist rather than a non-traditional provider for specialist products. Diseconomy of scope in consumption may be realised if specialists have better knowledge and could provide the customer with a more suitable offering and charge higher prices (Berger 2000). Lower management expertise could also force the organisation to enter into lower risk/ lower return activities, impacting negatively on revenue (Berger, 2000).

Given that the literature does not indicate that a negative impact on ‘Economies of scope in consumption’ *will* be realised at integration but indicates that it *could* be impacted negatively, as well as the fact that the view from the majority of respondents was that the impact on ‘Economies of scope in consumption’ should not be negative, it was decided to remove the negative link. Similarly the negative link to ‘Deep customer relationships’ was removed which will also remove the negative link to ‘Brand equity’. Furthermore, given the view of a about third of respondents that a positive impact on revenue could be derived and more specifically when partnering to acquire the skills, it was decided to add a new node called ‘In-sourcing Specialist Skills’ to the policy nodes as discussed in section 5.3.6. This node reflects the situation where skills are in-sourced via external contracting, outsourcing arrangements, joint ventures or partnerships.

Changes made to draft FCM:

- Additional node added ‘In-sourcing Specialist Skills’ (refer to section 5.3.6)
- Remove the negative link from ‘Specialist products’ to ‘Economies of scope in consumption’
- Remove negative link from ‘Specialist products’ to ‘Deep customer relationships’.

5.3.9 *Target market not aligned*

The draft FCM reflects negative links to ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’. The negative link to ‘Deep customer relationships’ was identified by five of the 10 respondents in Section A of Question 3 and the negative link to ‘Brand equity’ was identified by eight out of 14 respondents. Only five of 11 respondents identified the negative link to ‘Increased revenue’. The majority of respondents agreed with the links identified in Section B of Question 3.

Five respondents identified a negative causal link to ‘Cost reduction’ in Section A of Question 3. Given that almost half of the respondents that replied to this question identified this negative link, the FCM was tested with and without a negative link to ‘Reduced cost’. When the negative link is not added, the results from the FCM are not logical, for example ‘Reduced cost’ is positively impacted when the target market is not aligned when simple products are integrated into the organisation. This does not make sense as it could be expected that additional and wasted cost would be incurred when the target market is not aligned, making it unlikely that unit cost will be reduced. It was therefore decided to add the negative link to ‘Reduced cost’.

Changes made to draft FCM:

- Add negative link from ‘Target market not aligned’ to ‘Reduced cost’.

5.3.10 *Low correlation product*

The draft FCM reflects positive links to ‘Increased revenue’, ‘Corporate culture’, ‘Applied learning and experience’ and ‘Deep customer relationships’. It has a negative link to ‘Brand equity’. The positive links to ‘Increased revenue’ and ‘Applied learning and experience’ have been confirmed by six and five out of 11 respondents respectively.

The majority of respondents (6/11) identified a negative link to ‘Reduced cost’ in Section A of Question 3 and 14 of 22 respondents questioned the positive link to ‘Economies of scope in production’ in Section B of Question 3. Santomero *et al.* (2000) indicate that increased diversity when low correlation products are provided could increase stability. This could reduce the probability of incurring distress cost which reduces funding cost. Economies of scope could be realised through risk diversification (Berger, 2000). Santomero *et al.* (2000) indicate that earning from customers that value a reputation for stability could increase and a firm could potentially enter into more risky, yet more profitable activities. Adding a low correlation product could however also have negative effects such as contamination risk and increased regulatory requirements that could increase cost (Santomero *et al.* 2000). The Sigma (2007) report states that the risk correlation may not favour some banks undertaking insurance risks, especially if those policies are high in market risk correlated with existing risks in the bank’s portfolio.

Given that the literature identifies both positive and negative impacts on ‘Reduced cost’, and the fact that the majority of respondents indicated a negative causal link to ‘Reduced cost’, it was decided to add a negative link to ‘Economies of scope in production’.

Eleven of 22 respondents questioned the link to ‘Conflict of interest’ in Section B of Question 3. According to these respondents it cannot be assumed that ‘Conflict of interest' will result from adding a low correlation product. Market forces will counter the conflict of interest. It was therefore decided to remove the link to 'Conflict of interest'.

Seven of 22 respondents also questioned the link in Section B to 'Data sharing'. Data gathered relating to 'Low correlation products' may not be relevant. Since a large minority of respondents disagreed with the link, it was decided to test the FCM with and without a positive link to 'Data sharing'. When the positive link is switched off, integrating 'Low correlation products' results in 'Increased revenue' and enhanced 'Applied learning and experience', which are aligned to what could logically be expected from adding this type of product. However, when the positive link to 'Data sharing' is added 'Deep customer relationships', 'Corporate culture' and 'Convenient distribution' are also enhanced. It could not be assumed that a 'Low correlation product' per se would enhance these output nodes. It was therefore concluded that the positive link to 'Data sharing' should be removed.

The positive link to 'Economies of scope in consumption', results in a positive link to 'Deep customer relationships' as well. When the FCM is run with these links switched on, the effect is 'Increased revenue' and positive impacts on 'Applied learning and experience', 'Deep customer relationships', 'Corporate culture' and 'Convenient distribution'. As stated in the previous paragraph this does not make logical sense. When adding a negative link to 'Deep customer relationships', the model is more appropriate with only 'Increased revenue' and 'Applied learning and experience' positively impacted.

Changes made to draft FCM:

- Remove positive link from 'Low correlation product' to 'Economies of scope in production' and replace with negative link
- Remove direct link from 'Low correlation product' to 'Increased stability', as link will be made through 'Increased diversification'
- Remove link from 'Low correlation product' to 'Conflict of interest'

- Remove link from ‘Low correlation product’ to ‘Data sharing’
- Add negative link from ‘Low correlation product’ to ‘Deep customer relationships’.

5.3.11 *Relative brand strength*

The majority of respondents agreed with the positive links in the draft FCM to ‘Increased revenue’ (6/10) and strong minorities also agree with the positive impact on ‘Brand equity’ (5/11) as well as ‘Deep customer relationships’ (5/11) as reflected in their responses to Section A of Question 3. The majority of respondents also agreed with the link to ‘Reputation and Brand sharing’ in Section B of Question 3.

No changes made to draft FCM

5.3.12 *Simple process and natural fit*

The majority of respondents identified positive links in Section A of Question 3 to ‘Increased revenue’ (5/10) and ‘Reduced cost’ (8/10) which corresponds with the positive links to these nodes as per the draft FCM. The majority of respondents agreed with the links identified in Section B of Question 3.

Six of 11 respondents also identified a positive link to ‘Convenient distribution’ in Section A of Question 3. Several studies have confirmed that the key to successful integration of financial services offerings is to make it an integral part of the process and sales pitch. From the consumer’s perspective the impression should be created that it is a natural extension of the organisation’s core offerings. The process for acquiring the product should be easy, profitable and straightforward (Daniel 2000). It could be deducted that distribution should be perceived as more convenient by the customer if the product is a natural fit with the organisation and therefore easy to acquire.

Changes made to draft FCM:

- Add positive link from 'Simple process and natural fit' to 'Convenient distribution'.

5.3.13 *Complex process, not natural fit*

A majority of respondents (7/10) agreed in Section A of Question 3 with the negative link to 'Reduced cost' as reflected in the draft FCM. A strong minority also agreed with the negative links to 'Corporate culture' (4/10). Six of 12 respondents indicated a negative link to 'Deep customer relationships' which will also result in a negative link to 'Brand equity' as discussed in section 5.4. The negative link to 'Increased revenue' was not specifically identified in Section A, but the majority of respondents did agree with the negative link to 'Economies of scope in consumption' discussed in Section B of Question 3.

Five out of 10 respondents identified a positive link to 'Applied learning and experience' in Section A of Question 3. As it is however not clear that integrating products without a natural fit and a complex process into an organisation will necessarily result in enhancement of 'Applied learning and experience' as a source of competitive advantage, the FCM was tested with and without a positive link to this output node. When adding a positive link and switching on the policy node, both 'Applied learning and experience' and 'Corporate culture' are positively impacted. It is not likely that an ill fitting product and complex process will enhance corporate culture. It was therefore decided not to add the positive link to 'Applied learning and experience'.

Five of 11 respondents indicated in Section A of Question 3 that a negative link exists to 'Convenient distribution'. Since a positive link to 'Convenient distribution' was added to 'Simple process, natural fit' based on the argument that a product with a natural fit that is easy to acquire should enhance the convenience of the distribution channel as perceived by the customer, it follows that where the product does not fit and the process is complex, the opposite is likely to hold.

Changes made to draft FCM:

- Add negative link from ‘Complex process, not natural fit’ to ‘Convenient distribution’.

5.4 Output nodes

The links from output nodes to general nodes and other output nodes as per the draft FCM are reflected in Table 11. These nodes were confirmed by the majority of respondents in Section B of Question 2. The only change required, following the removal of the ‘Conflict of interest’ node, was the removal of the link form ‘Deep customer relationships’ to ‘Conflict of interest’.

Table 11: Causal links between output nodes and otherl nodes on draft FCM

OUTPUT NODES	**CAUSAL LINK**
Reduced cost	
Increased revenue	
Brand equity	+Reputation and brand sharing
Deep customer relationships	-Conflict of Interest +Brand equity
Corporate culture	
Applied learning and experience	+Corporate culture

OUTPUT NODES	CAUSAL LINK
Convenient distribution	

5.5 General comments

The general comments and new ideas extracted from respondents comments and responses to questions 1 and 4 as reported in Section 4.5 and Table 8 were reviewed and analysed to identify potential impacts and changes to the draft FCM. The result of the analysis is reported in Table 12.

Table 12: Analysis of general comments from participants

No	Idea, concept or issue identified by respondents	No of respondents
1	Consider implications of modern distribution channels and technology on Convenient Distribution and the type of products sold ***Action: To be recommended for future research***	4
2	You could get complex products for individuals and simple products for business as well; not only simple to individuals and complex to business ***Action: Decided to leave model unchanged as raised by minority of respondents***	4
3	Complex products are more difficult and costly to sell. It is a higher risk to take but could have higher margins. Important that it fits with current business. More likelihood of success if someone else picks up the distribution cost ***Action: Degree of fit will be incorporated into 'Simple process, natural fit' node; additional policy node 'In-sourcing specialist skills' added to FCM***	8
4	Brand equity could be negatively impacted by brand sharing if you have a strong brand - brand could be diluted. Multi-brands/ brand sharing does not work	4

No	Idea, concept or issue identified by respondents	No of respondents
	Action: Decided to leave model unchanged as raised by minority of respondents; recommended for future research	
5	Impact on production scope economies depends on availability of current capacity in infrastructure ***Action: Indicate as a condition/ assumption***	4
6	If you only facilitate specialist or complex products, it could be very positive, e.g. if done through JV, Outsourcing. If you have a specialist partner, it is possible to profit from complex and specialist products ***Action: Add node 'In-sourcing Specialist Skills' with positive link to' Economies of scope in consumption'***	5
7	Market power should not increase conflict of interest in a competitive landscape; what some people call channel conflict, others call business ***Action: 'Conflict of interest' node removed from model***	7
8	For integration to be successful it has to be needs focused, not product focused - value offering to client; ease of doing business; offering something that provides a competitive advantage ***Action: Indicate as a condition/ assumption in the model***	5
9	The product type influences the corporate culture (e.g. life insurance vs. general insurance; investment vs. retail banking) ***Action: None as the implications of culture is already reflected in the model***	5
10	Degree of fit with current business (market/ culture/ strategy) influences success of integration - you have to understand your current business, core competencies and values well to ensure proper fit ***Action: Degree of fit has been incorporated into 'Simple process, natural fit' node***	9

5.6 Summary of the changes to the draft FCM

The changes made to the draft FCM following the analysis of the interview results are summaried as follows:

Changes made to draft FCM:

- Negative link from ‘Channel conflict’ to ‘Increased revenue’ removed
- Negative link from ‘Channel conflict’ to ‘Corporate culture’ added
- Remove positive link from ‘Reduced customer cost’ to ‘Deep customer relationships’.
- Add positive link from ‘Increased stability’ to ‘Increased revenue’
- Negative link from ‘Management complexity’ to ‘Corporate culture’ added
- Positive link from ‘Management complexity’ to ‘Regulatory burden’ removed
- Remove ‘Conflict of interest’ node and related links from FCM
- Add positive link from ‘Market power’ to ‘Brand equity’
- Remove negative link from ‘Diverse management expertise required’ to ‘Increased revenue’
- Add positive link from ‘Data and knowledge sharing’ to ‘Convenient distribution’
- Add positive link from ‘Data and knowledge sharing’ to ‘Applied learning and experience’
- Add negative link from ‘Incompatible culture’ to ‘Deep customer relationships’
- Add negative link from ‘Incompatible culture’ to ‘Brand equity’
- Remove negative link from ‘Independent distribution’ to ‘Economies of scope in production’

- Add additional node ‘In-sourcing specialist skills’ with a positive link to ‘Economies of scope in consumption’
- Add positive link from ‘Complementary offerings’ to ‘Convenient distribution’
- Add positive link from ‘Complementary offerings’ to ‘Reduced cost’
- Remove the negative link from ‘Specialist products’ to ‘Economies of scope in consumption’
- Remove negative link from ‘Specialist products’ to ‘Deep customer relationships’
- Add negative link from ‘Target market not aligned’ to ‘Reduced cost’
- Remove positive link from ‘Low correlation product’ to ‘Economies of scope in production’ and replace with negative link
- Remove direct link from ‘Low correlation product’ to ‘Increased stability’, as link will be made through ‘Increased diversification’
- Remove link from ‘Low correlation product’ to ‘Data sharing’
- Add negative link from ‘Low correlation product’ to ‘Deep customer relationships’
- Add positive link from ‘Simple process, natural fit’ to ‘Convenient distribution’
- Add negative link from ‘Complex process, not natural fit’ to ‘Convenient distribution’

The updated FCM is reflected in Figure 11.

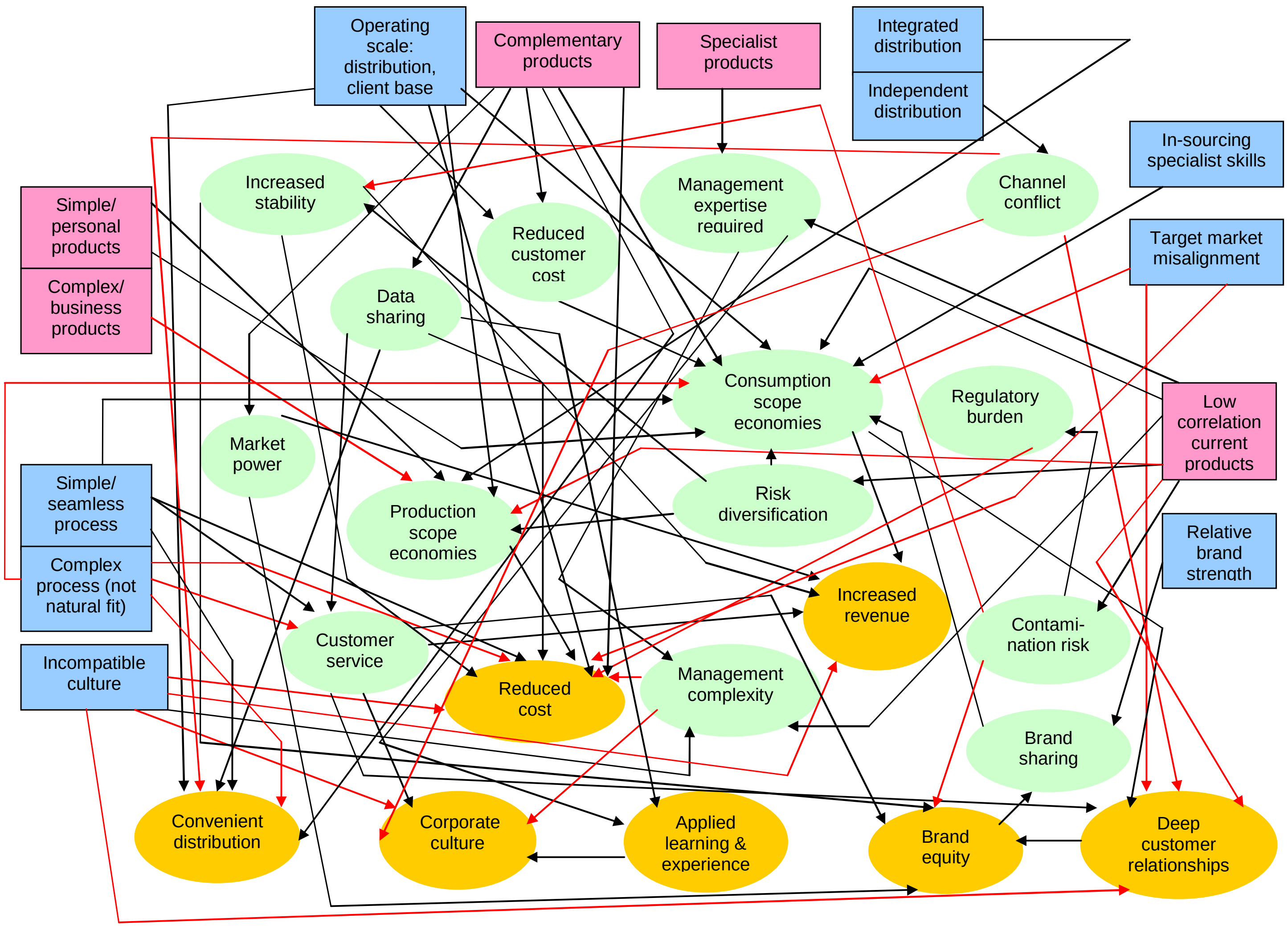

Figure 11: Updated FCM following interviews

5.7 Validation of scenarios

The final step in the development of the final FCM was to run a number of scenarios making use of the updated FCM. These scenarios were presented to the participants in the study and their comments analysed to assess the impact on the FCM. Nineteen respondents' views were obtained and are reflected in the rest of section 5.7.

Table 13 reflects the scenarios presented to the participants for validation. The policy nodes that were switched on in each scenario are indicated by a blue block and the resulting output nodes that were switched on, i.e. indicating how competitiveness is enhanced in a specific scenario, are indicated by a red block.

Table 13: Scenarios presented to research participants for validation

No	Policy nodes switched on/Scenario														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
1																					
2																					
3																					
4																					
5																					

No	Policy nodes switched on/Scenario														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
6																					
7																					
8																					
9																					
10																					
11																					

No	Policy nodes switched on/Scenario														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
12a																					
12b																					
12c																					
13a																					
13b																					
13c																					

No	Policy nodes switched on/Scenario														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
14a																					
14b																					
14c																					

Respondents were given the opportunity to indicate whether they agreed with a scenario and if they did not agree what outcome they would have expected given the policy nodes switched on in the scenario. The majority of respondents agreed with all the scenarios presented. Where more than a third of respondents did not agree with the outcome of a scenario, these responses were considered and the FCM adjusted where appropriate. The scenarios where a third or more of respondents questioned elements of the outcome were scenario 4, 7, 8 and 12. The reasons given for the disagreement were analysed in conjunction with the literature review and are reflected in Appendix M. The implications for the FCM are summarised in section 5.7.1 to 5.7.4.

5.7.1 *Scenario 4: Complex products to businesses*

Seven of 19 respondents indicated that complex products could potentially be successfully integrated into the organisation, under certain conditions. Given these views as well as support from the literature as discussed in Appendix M, it was decided to include skills acquired and integrated into organisation in the node ‘In-sourcing specialist skills’, but conditional upon:

- Appropriate skills have to be acquired through partnership, outsourced arrangement, acquisitions or by appointing enough competent individuals to create a critical mass.
- The increased risk has to be addressed through additional management measures and controls.
- It is important that the product fits with the organisation and current offerings.
- The product should furthermore meet the needs of clients.

The effect of the change is that ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ are positively impacted if ‘Complex, business products’ are integrated when skills are sourced via partnerships or introducing appropriate skills into the organisation.

The fit with the organisation is tested by switching on the ‘Simple process and natural fit’ node which result in ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ being positively impacted.

It is conceivable that the degree of enhancement and/or timeframe would not be the same when using in-house vs. outsourced skills. Potential other indirect effects could also materialise such as impact on the organisational culture. Future research on the differences and implications of using outsourced vs. in-house skills could address these matters.

5.7.2 *Scenario 7: Complementary product; incompatible corporate culture*

Six of 19 respondents were of the opinion that the impact of an incompatible corporate culture would be more severe over time than what the scenario indicates. A further three respondents also questioned the enhancement of brand if corporate culture is not aligned. Some respondents agreed that the nodes will be enhanced as indicated but to a lesser extent than when culture is compatible.

Given these views as well as input from the literature as reflected in Appendix M, it was decided to adjust the FCM as follows to reflect a more severe impact of ‘Incompatible corporate culture’:

- Remove negative link from ‘Incompatible corporate culture’ to ‘Increased revenue’ and replace with a negative link to ‘Economies of scope in consumption’ as incompatible culture will impact negatively on the organisation’s ability to cross-sell.

- Add negative link from ‘Incompatible corporate culture’ to ‘Customer service’ as organisation is likely to develop an inwards focus.

- Add negative link from ‘Incompatible corporate culture’ to ‘Data sharing’ as incompatible culture will not encourage people to share data but is likely to impact negatively on it due to reduced trust.

- Add negative link from ‘Incompatible corporate culture’ to Brand equity’ based on various respondents indicating that incompatible culture is likely to impact negatively on this node.

- Add negative link from ‘Incompatible corporate culture’ to ‘Applied learning and experience’ as lack of trust, increased red tape, reduced communication and sharing are likely to impact negatively on the organisation’s ability to apply learnings and experience.

- Add negative link from ‘Incompatible corporate culture’ to ‘Convenient distribution’ – if distribution force is not interested in selling product due to cultural issues, it is likely to impact negatively on customers who may have a negative experience.

The effect of the changes made to the FCM is that only ‘Increased revenue’ is enhanced when a complementary product is integrated into the organisation when there is not a cultural fit.

The severity of the effect of misaligned corporate culture was not fully resolved in this research and future research into the extent of the impact of culture at integration is required.

5.7.3 *Scenario 8: Specialist products*

Six of 19 respondents indicated that as in the case of complex products, specialist products could potentially be successfully integrated into the organisation, under certain conditions. As in the case of ‘Complex, business products’ it was decided to include skills acquired and integrated into organisation in the node ‘In-sourcing specialist skills’ (please refer to Appendix M), but conditional upon:

- Appropriate skills have to be acquired through partnership, outsourced arrangement, acquisitions or by appointing enough competent individuals to create a critical mass.

- Increased risk must be addressed through additional management measures and controls.

- It is important that the product fit with the organisation and current offerings.

- The product should furthermore meet the needs of clients.

The effect of the change is that ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ are positively impacted if ‘Specialist products’ are integrated when skills are sourced via partnerships or introducing appropriate skills into the organisation

The fit with the organisation is tested by switching on the ‘Simple process and natural fit’ node which results in ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ being positively impacted.

It is conceivable that the degree of enhancement and/or timeframe would not be the same when using in-house vs. outsourced skills. Potential other indirect effects could also materialise such as impact on the organisational culture. Future research on the differences and implications of using outsourced vs. in-house skills could address these matters.

5.7.4 *Scenario 12: Operating scale*

Although all respondents indicated that they do agree that operating scale is likely to enhance competitiveness when integrating simple products, some respondents (8/19) did not agree that competitiveness will be enhanced if complex products or products that do not fit naturally and are delivered through complex processes are integrated. Most of these respondents questioned the positive results when the product does not fit. Given these views as well as input from the literature as reflected in Appendix M, the FCM was adjusted as follows:

- Remove ‘Reduced cost’ link as link to ‘Economies of scope in production’ is already in place.

- Add negative link from ‘Complex process, not natural’ fit policy node to ‘Deep customer relationships’.
- Condition of simple and complex products is that clients’ needs are being met.

The effect of the changes on the outcome of the scenario is that ‘Reduced cost’, ‘Increased revenue’, ‘Brand equity’, ‘Deep customer relationships’ and ‘Convenient distribution’ are enhanced when ‘Simple, personal products’ are integrated where ‘Operating scale’ exists but that when ‘Complex, business products’ are introduced, ‘Reduced cost’ is not enhanced. When a product is integrated through a ‘Complex process, not natural fit’, but scale exists only ‘Increased revenue’ is positively impacted.

Future research should seek to further investigate the effect of scale when integrating complex products.

5.8 Summary of findings

The final FCM developed taking account of the findings in sections 5.6 and 5.7 is reflected in Figure 12.

The first research question stated in section 2.5 has been answered with the finalisation of the FCM. The nodes reflected in this FCM are the factors that impact on the profitability and sources of competitive advantage of a financial services organisation when integrating products from another financial services sector, while the links represent the causal links between these factors.

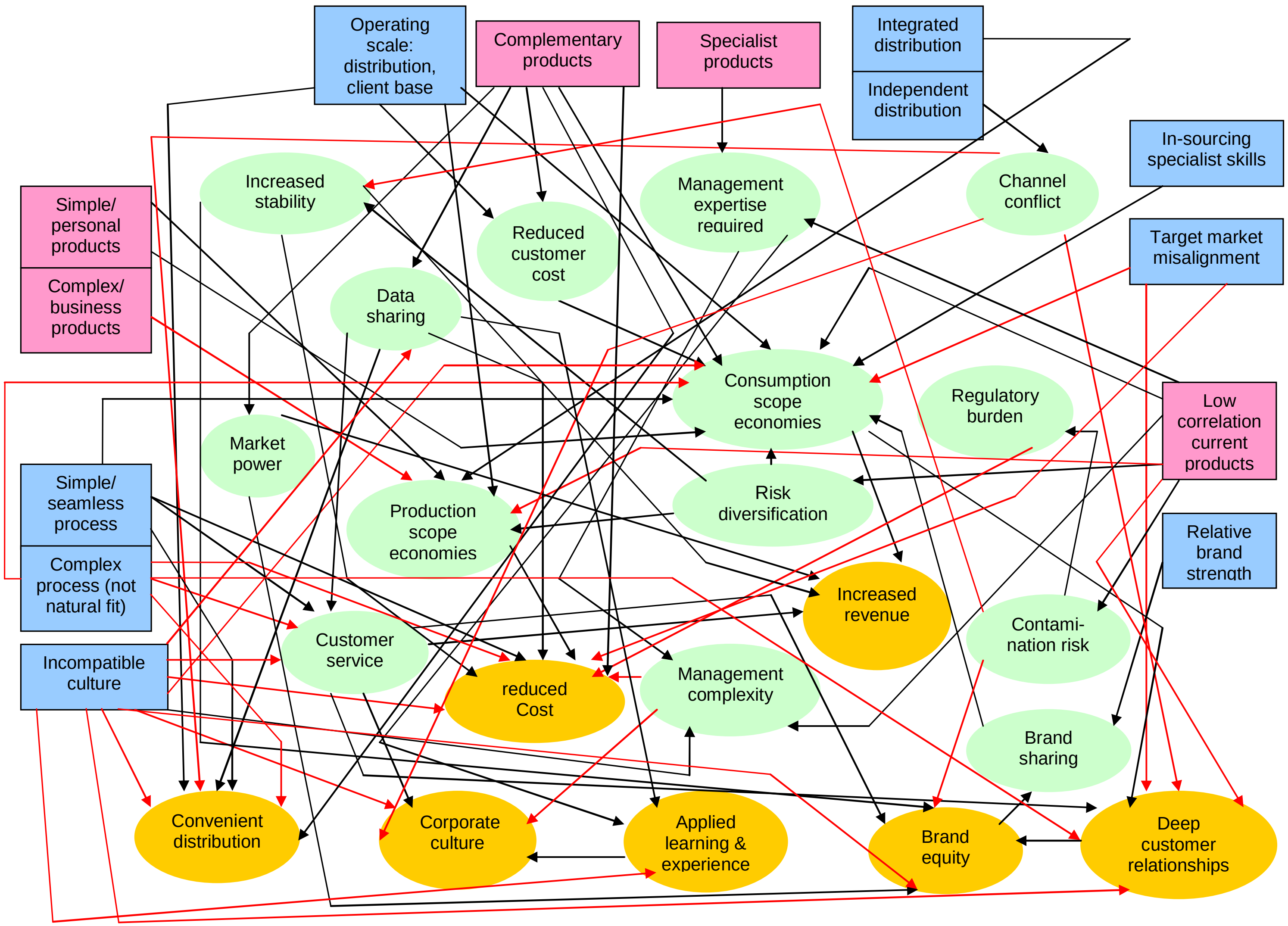

Figure 12: Final FCM following validation

6 UTILISATION OF THE FCM MODEL

6.1 Introduction

The second research question stated in section 2.5 seeks to resolve which of the factors identified in response to research question number one are the most influential and can be considered the key drivers of enhanced competitiveness.

In order to answer this question the final FCM developed in section 5 of this report was used to test different scenarios and compare the outcome with the findings from the literature review, thereby identifying the most influential factors that can be considered the key drivers of enhanced competitiveness when integrating products from another financial services sector.

Section 6.2 discussed the key drivers of enhanced competitiveness starting with the product type and then assessing the organisational environment factors. The chapter is concluded with a summary of the key drivers of enhanced competitiveness when integrating a product from another financial services sector.

6.2 Key drivers of enhanced competitiveness

The policy nodes of the final FCM were switched on in various combinations in order to identify the key drivers of enhancement of competitiveness when integrating products from another financial services sector into an organisation. Scenarios where the outcome is that one or more output nodes are switched on imply enhanced competitiveness. Some scenarios do however enhance more nodes than others. The patterns emerging from these scenarios were analysed in conjunction with the output from the literature review to identify the key drivers. The effect of the type of product was tested first, followed by the effect of the organisational environment factors. Table 14 reflects the results of the scenarios tested. Blue blocks indicate the policy nodes switched on and red blocks indicate which output nodes were switched on as a result of the scenario. A detailed discussion follows in section 6.2.1 and 6.2.2.

Table 14: Scenarios used for identification of key drivers of enhanced competitiveness

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
1																					
2																					
3																					
4																					
5																					

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
6																					
7																					
8																					
9																					
10																					
11																					

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
12																					
13																					
14																					
15																					
16																					
17																					

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
18																					
19																					
20																					
21																					
22																					
23																					

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
24																					
25																					
26																					
27																					
28																					
29																					

No	Policy nodes switched on														Output nodes on – enhanced competitiveness						
	Operating scale	Incompatible culture	Integrated distribution	Independent distribution	Simple, personal offerings	Complex, business offerings	Complementary offerings	Specialist product	Target market misaligned	Low correlation product	Superior brand	Organisational fit	Not natural fit	In-sourcing specialist skills	Increased revenue	Reduced cost	Convenient distribution	Corporate culture	Applied learning & experience	Brand equity	Deep customer relationships
30																					
31																					

6.2.1 *Product type*

The product types considered in the research and included in the final FCM were:

- Complementary (bundled) products
- Simple products sold to individuals vs. complex products sold to businesses
- Specialist products
- Products with a low correlation with current products.

All product types have the potential to enhance competitiveness as illustrated by the fact that switching on the policy nodes results in some of the output nodes being switched on. In the case of complex and specialist products, some conditions exist as discussed later in this section.

a) Complementary products

Complementary or bundled products affect all the output nodes positively, implying that integrating products through bundling is a very effective way to enhance competitiveness.

Analysis of the nodes of the FCM that are switched on when 'Complementary Offerings' is triggered (scenario 1) shows that complementary products enhance competitiveness by realising economies of scope in consumption through increasing the share of the customers wallet, further supported by a reduction in customer cost. Revenue is also enhanced through improved customer service as well as increased market power. Offering complementary products also enhances data sharing since additional client information is generated through selling a larger bundle of products to the client, thereby creating an informational advantage leading to operational efficiencies, as well as increased revenue. Cost savings and enhanced distribution is the result of selling more products, via the bundle, through the same distribution channel.

According to the literature economies of scope in consumption could be realised from the cross-selling of products and services as many financial products are complementary, for example mortgage loans, credit life insurance and house owners cover (Skipper Jr 2000). This will enlarge and extend the relationship with the client. A customer would buy insurance from a bank if it is simple to obtain banking and insurance from the same trusted source, by bundling bank products with insurance protection (Artikis *et al.* 2008).

Customers could realise lower search, information, monitoring and transaction cost from purchasing from a single provider and may be willing to pay more for products offered in this convenient way (Berger 2000; Skipper Jr 2000). Integration may improve customer service and increase revenue if customers find it more advantageous to buy from one provider (Santomero *et al.* 2000).

Market power of large size financial conglomerates may result in the ability to charge higher prices (Berger *et al.* 1999; Skipper Jr 2000). It could be argued that the ability to offer complementary products in a joined-up way could increase the market power of the integrated organisation by offering unique products to customers and/or increasing power of intermediaries.

Operational efficiencies where integrated firms have an informational advantage over specialised firms enabling faster time to market for products, especially those products carrying attributes from more than one financial services sector, i.e. complementary products (Berger 2000; Skipper Jr 2000).

According to Skipper (2000) and Berger (2000) the fixed cost of managing client relationships seems to lend itself to sharing across different financial services and could arise, amongst others from sharing of distribution channels and offices. It could be argued that complementary products will likely be sold by the same distribution channel and/or through the same office and should therefore result in reduced cost.

Integrating complementary products is considered a key driver of enhanced competitiveness of a financial services organisation.

b) Simple products sold to individuals vs. complex products sold to businesses

Various sources have argued that financial services integration is more likely to be successful if **simple, standardised products** are integrated and furthermore some sources indicated that providing these simple offerings to individuals as opposed to businesses is more likely to be successful.

Bergendahl (1995) concluded that it is important for bancassurers to offer standardised and thus low-cost products. Bancassurance is especially useful at targeting the mass market with simple products, thereby avoiding the high distribution cost of ***complex products*** (Potgieter and Christelis 2008). A study based on the insurance industry comparing firms specialising in either life or general insurance to firms integrating both offerings, found that realisation of economies of scope is related to the type of business of the insurer (personal insurance versus commercial insurance) (Berger 2000). Personal buyers are more likely to value one-stop shopping whereas commercial buyers may prefer to create their own baskets through their brokers or risk managers (Berger 2000). Daniel (2000) reflects that a Spanish bancassurer, while successful in products for private individuals, has not ventured into the field of complex contracts needed for businesses. Potgieter and Christelis (2008) are of the opinion that of the four big banks in South Africa, Absa's model is delivering the best results being built on simple (low advice) products, leveraging its strong retail distribution franchise.

There does seem to be a move towards integrating more complex products and also provide these to businesses worldwide. Current successes in bancassurance are built on simple products distributed through integrated operations (manufacturing and distribution) but there is a move to diversification into more complex products and multi-supplier strategies (Sigma 2007). Artikis *et al.* (2008) state less complicated products could be easily sold by banks. Sophisticated products incorporating investment elements are more difficult to attach to banking services, as they require dynamic and aggressive distribution channels. They do state however that it its hoped that markets will follow the North American lead of focusing on high-net-worth clients as a conduit to develop high margin bespoke products.

Potgieter and Christelis (2008) found that although bancassurance in Europe is based on simple, standardised products sold to bank customers, increasingly in South Africa, bank operations are diversifying their products to include more complex products. They also indicate that internationally there is a growing trend to provide advice and add more complex products. They do however state that bancassurers in South Africa tend to provide commoditised, higher margin and simpler products from their own insurance companies and outsource more complex advice-driven products.

Bancassurers in countries such as France and Italy are diversifying into more complex and tailor-made products targeted at high net worth clients. This is a result of the increasing sophistication of customers and the banks' focus on refined client segments. The trend is also a counter measure to the over-reliance on certain products that may increase volatility in business income (Sigma 2007). The Sigma (2007) report also states that bancassurers are diversifying into segments that include business customers, especially Small Medium Enterprises. Although complex products are more difficult to sell, it is believed that they carry higher margins and growth in a saturated market.

Staikouras (2006) is of the view that the complexity of the bancassurance issues boils down to a combination of product complexity, distribution infrastructure and market integration and/or globalisation. Where the market is more global and products more complex, the presence of knowledgeable and specialised contacts is required, implying the need for a multi-layer service within the integrated intermediary, i.e. in-house advisors/ bancassurance specialists. The opposite is true where the market is domestic and products simple. In such a market distribution through impersonal contact is suitable, for example through the telephone, internet and packaged products. Where the market and products sets are somewhere in between these extremes, bank employees can provide basic services to clients and then refer them to an insurance representative or financial advisor for more complex requirements (Staikouras 2006).

From the literature it can be concluded that although simple offerings to individuals are currently the most prevalent and successful business model for financial services integration, there is a move towards more complex products and markets, providers and customers become more sophisticated. It seems to represent a progressive continuum reflecting the maturity of the financial services market.

It is however also clear that it is not a simple matter of adding on a more complex product. Additional skills are required either in the form of a specialist employee as referred to by Staikouras (2006), or in the form of an outsourced arrangement as referred to by Potgieter and Christelis (2008).

When analysing the outcome of scenarios tested with the final FCM, a similar pattern emerges. When the node ‘Simple, personal products’ is switched on (scenario 2) competitiveness is enhanced as reflected by the output nodes of ‘Reduced cost’, ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ being switched on. This is the result of ‘Economies of scope in consumption’, ‘Economies of scope in production’ and ‘Reputation and brand sharing’ being turned on. When switching on ‘Complex, business products’ however (scenario 3), no output nodes are switched on, implying no enhancement of competitiveness. If, however, this policy node is switched on in conjunction with ‘In-sourcing specialist skills’ (scenario 4), ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ are switched on. This reflects the importance of acquiring the right skills when integrating complex products. It also reflects the reality that it would be more difficult to realise benefits and would probably cost more, hence ‘Reduced cost’ is not switched on as in the case of selling simple products to individuals.

To obtain appropriate skills when integrating a complex product from another financial services sector is a key driver of enhanced competitiveness.

c) Specialist product

When considering the integration of ***specialist products***, it is noted that Daniel (2000) states that the customer may prefer to use a trusted specialist rather than a non-traditional provider. Berger 2000 also points out that integration may result in diseconomy of scope in consumption if specialists have better knowledge and could provide the customer with a more suitable offering, thereby charging higher prices than joint producers. Lack of management expertise in financial services categories outside their area of expertise could result in increased risk and poorer operating performance forcing organisations to enter into lower risk/ lower return activities, impacting negatively on revenue (Berger 2000).

It is therefore important to acquire the right skills when integrating a specialist product onto a financial services organisation. When switching on the 'Specialist products' policy node in the final FCM (scenario 5), the only output node that is positively impacted is that of 'Applied learning and experience' reflecting the fact that the organisation will be exposed to new knowledge. Switching on the 'In-sourcing specialist skills' policy node as well however (scenario 6), also switches on 'Increased revenue', 'Brand equity' and 'Deep customer relationships', reflecting the importance of acquiring appropriate skills when introducing a specialist product from another financial services sector into the organisation.

To obtain appropriate skills when integrating a specialist product from another financial services sector is a key driver of enhanced competitiveness.

d) Products with a low correlation with current products

A product with a ***low correlation with current products*** will enhance 'Increased revenue', as reflected by the outcome of the final FCM (scenario 7), since it will produce revenue in cycles when current products produce less revenue. This is supported by the literature. Berger (2000) states that risk diversification could be a form of economies of scope because the returns associated with different financial sectors generally have relatively low correlations (Berger 2000). The outcome of the FCM also reflects enhanced learning and experience as the product integrated is likely to be different from current product sets, bringing new knowledge into the organisation. Berger *et al.* (1999) state that diversifying M&A may improve efficiency through expanding the skill *set* of managers.

Although integrating a product with low revenue stream correlation enhances competitiveness, it is not considered a key driver as relatively few nodes (two) are enhanced.

e) General

An important condition for success in financial services integration is that, whatever the product type offered, it should meet ***client needs***. This condition has not been reflected as a separate node on the FCM, but it is implied that competitiveness will not be enhanced sustainably if the condition is not fulfilled. Several respondents referred to the importance of meeting client needs to ensure success and it is supported by the literature as well. Competitive advantage is created when an organisation can deliver offerings of superior value relative to competitors that is sufficiently different from potential substitutes from the customer's perspective. Although financial services integration results from the initiative of providers, the innovation will only be successful if there is consumer demand (Daniel 2000). Staikouras (2006) states that bankers and insurers should carefully integrate in their business structure the aspects that enable them to identify real customer needs and to effectively satisfy these needs. He is of the opinion that the most effective way for the organisation to achieve its strategic and financial goals will be driven by client needs and market preferences, not through product push. He continues by saying that customer relationships are essential to ensure success in bancassurance. Artikis *et al.* (2008) state that the customer is the most important element to the bancassurance model.

6.2.2 *Organisational environment factors*

The organisational environment factors considered in the research and included in the final FCM were:

- In-sourcing specialist skills
- Operating scale
- Integrated vs. independent distribution
- Simple seamless process and natural product fit vs. Complex process and not natural product fit
- Incompatible corporate culture
- Target market misalignment
- Relative brand strength.

a) In-sourcing specialist skills

The importance of ***in-sourcing of specialist skills***, specifically when integrating complex or specialist products was discussed in section 6.2.1.

To obtain appropriate skills when integrating a complex or specialist product from another financial services sector is a key driver of enhanced competitiveness.

b) Operating scale

The effect of ***operating scale*** was tested making use of the final FCM. When comparing the results from scenarios where simple products to individuals are integrated or complex products to businesses or specialist products as reflected in Figures 13 to 15 and in scenarios 8 to 10, it can be concluded that operating scale enhances competitiveness when integrating financial services offerings from another financial services sector into a financial services organisation.

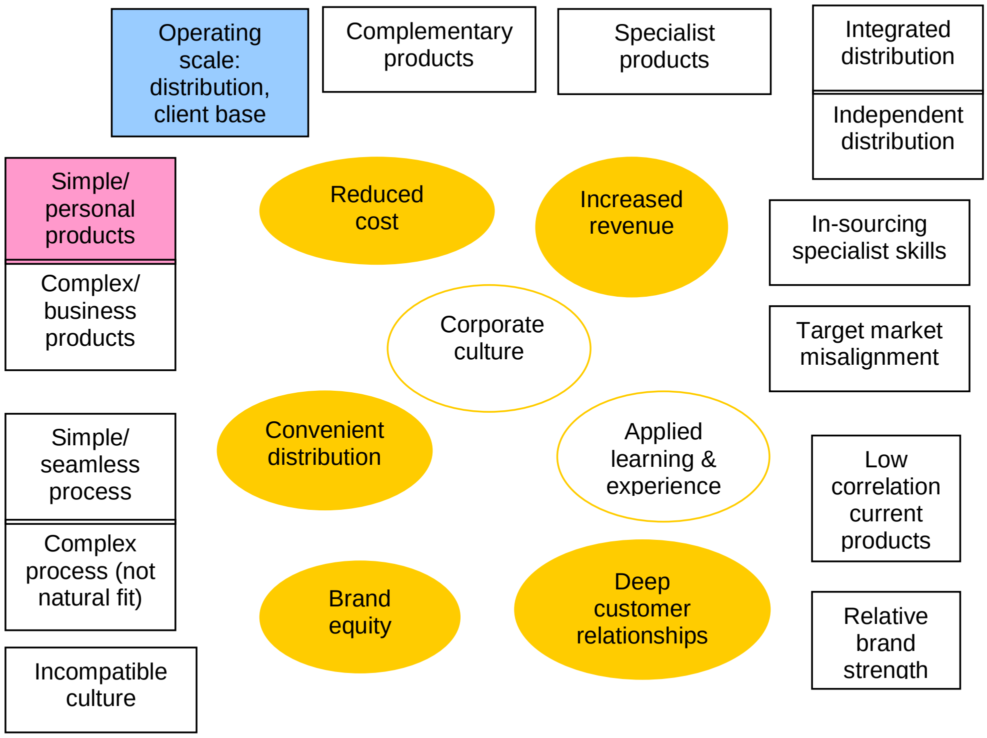

Figure 13: Simple product with operating scale

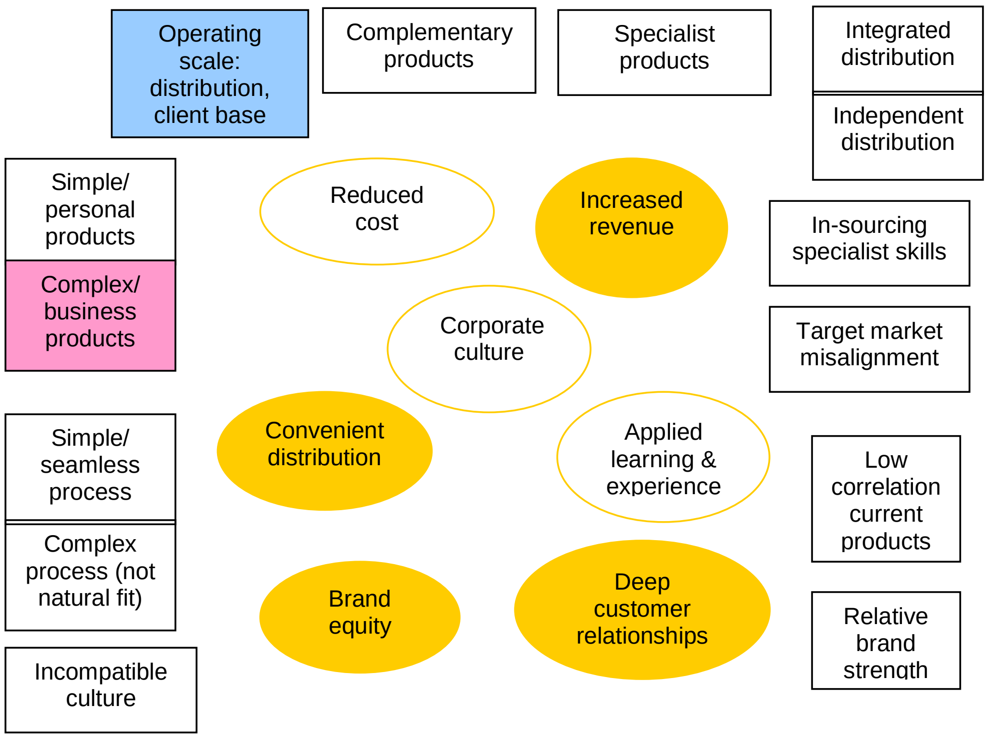

Figure 14: Complex product with operation scale

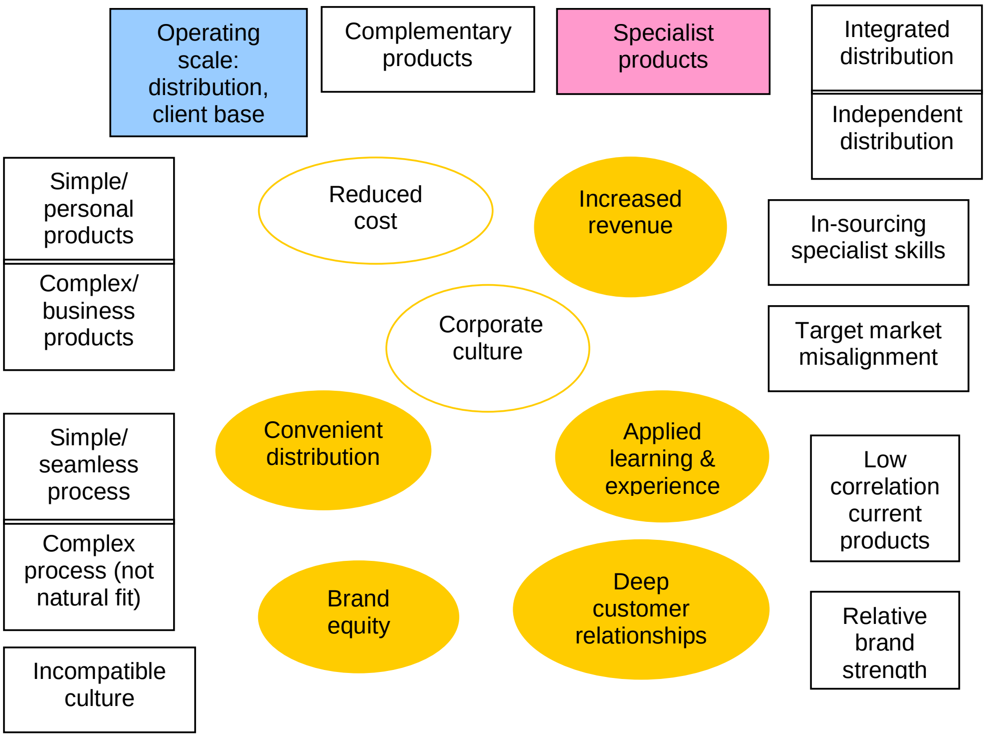

Figure 15: Specialist product with operating scale

When integrating simple products, operating scale results in the realisation of economies of scope in consumption and production, reduced customer cost, as well as brand sharing and more convenient distribution from the perspective of the customer which in turn enhances the output nodes as reflected. The assumption here is that there is available capacity in the infrastructure to absorb the new product(s). In the case of integrating complex or specialist products however, 'Reduced cost' is not enhanced due to the fact that the complexity associated with these products, will offset potential savings generated through sharing of distribution channels and other potential cost savings.

The literature supports the benefits of operating scale. Santomero *et al.* (2000) state that distribution capability is related to operating scale benefiting larger organisations. A study found that banks expanding into bancassurance are likely to be more profitable if they have a large customer base and a moderate number of branches that can produce large volumes of cross selling (Bergendahl 1995).

Potgieter and Christelis (2008) are also of the view that a key driver for potential bancassurance is the retail distribution footprint and the size of a bank's client base. They further state that given the mostly fixed-cost base of banks in South Africa, bancassurance revenue contributes to covering fixed costs and therefore improving overall returns. Berger (2000) also found that insurance firms are more likely to realise profit-scope economies if they are large. Asaftei (2008) concluded that deregulation of financial services is most effective for large banking companies offering a wider range of financial services that it can cross-sell, with links through a common brand name and common account. He does state however that the reliance on non-traditional products may not be sustainable. Market power of large size financial conglomerates may result in the ability to charge higher prices, at least to some market segments (Berger *et al.* 1999; Skipper Jr 2000).

To have operating scale when integrating a product from another financial services organisation is considered to be a key driver of enhanced competitiveness at integration.

c) Integrated vs. independent distribution

Some literature sources point out that using integrated distribution, i.e. owned by the organisation is likely to be more successful when integrating financial services offering. A study based on the insurance industry comparing firms specialising in either life or general insurance to firms integrating both offerings, found that realisation of economies of scope is related to the use of a ***vertically integrated distribution*** system (Berger 2000). Insurers using vertically integrated distribution systems control the marketing channels and are therefore likely to be more successful. When using ***independent intermediaries***, the intermediary usually captures the benefits of joint production.

Channel conflict could arise between distribution channels where integration introduces new channels that may be in conflict with existing channels (Skipper Jr 2000). Channel conflict will impact negatively on the relationship with intermediaries, which in turn could result in reduced sales from affected intermediaries. Skipper Jr (2000) remarks that channel conflict seems to be less of a challenge where the alternative products are introduced as a new venture in an existing firm, where integration does not involve agents or brokers and where integration occurs in less mature financial markets.

On the other hand, Potgieter and Christelis (2008) state that the global focus for bancassurers is shifting to distribution from manufacturing of products - a move towards open architecture and best advice, not maximising products sold within the same group. Products are procured from various providers and distributed through the bank channels. The Sigma (2007) report also states that there is a shift away from using a standardised, single channel sales approach to a multiple-channel distribution strategy in bancassurance.

Staikouras (2006) is of the view that the complexity of the bancassurance issues depends on product complexity, distribution infrastructure and market integration and/or globalisation into account. More global markets and complex products would require different distribution solutions including making use of specialists, compared with markets that are domestic and where product distribution through impersonal contact is suitable.

The analysis of the results from testing scenarios using the final FCM shows that distribution of a simple product through an integrated distribution channel enhances competitiveness through ‘Reduced cost’, ‘Increased revenue’, enhanced ‘Brand equity’ and ‘Deep customer relationships’ (scenario 11). When making use of an independent distribution channel, only ‘Reduced cost’ and ‘Increased revenue’ are switched on (scenario 12). This seems to support the notion that more benefits are to be derived if an integrated distribution channel is used. It does however assume that the independent channel makes use of its own brand and takes ownership of the customer relationship. Several respondents did point out however that where white-labelling arrangements are used and the product provider retains ownership of the client relationships, these output nodes would also be enhanced as in the case of making use of an integrated distribution channel.

The choice of distribution channel could therefore make a difference in competitiveness when integrating financial services, but if managed well both integrated and independent channels could deliver the same benefits.

The type of distribution channel (integrated vs. independent) is not considered a key driver of enhanced competitiveness.

d) Simple seamless process and natural product fit vs. Complex process and not natural product fit

When the final FCM is used to test the impact of 'Simple process, natural fit' it reflects an enhancement of competitiveness regardless of product complexity. All the output nodes, except for 'Applied learning and experience' are switched on when integrating simple (scenario 13) or complex products (scenario 14) (without having to switch on the 'In-sourcing specialist skills' policy node). When integrating specialist products (scenario 15) all the output nodes except for 'Reduced cost' are switched on (without having to switch on 'In-sourcing specialist skills' policy node), implying that the increased cost of introducing specialist products will offset the benefits of a natural fit in terms of cost savings. When, on the other hand, the node 'Complex process, not natural fit' is switched on in conjunction with simple (scenario 16), complex (scenario 17) or specialist products (scenario 18), competitiveness is not enhanced. The only output node switched on in the case of specialist products is that of 'Applied learning and experience'. The effect of 'Complex process, not natural fit' node on complementary products has not been considered as by definition it is unlikely that a complementary offering will not fit.

The literature also emphasises the importance for the product to fit into the organisation both in terms of processes, as well as what the client would expect to be offered by the organisation.

Several studies have confirmed that the key to successful integration of financial services offerings it to make it an integral part of the process and sales pitch. From the consumer's perspective the impression should be created that it is a natural extension of the organisation's core offerings. Additional offerings should be communicated as a continuation and logical extension of the traditional offerings of the organisation. Customers may, for example, not expect an insurer to sell a credit product. It is important to communicate to customers how the product fits in and that it does make sense for the insurer to offer it. Careful consideration should be given to how far the brand could be extended into different product types (Daniel 2000).

The process for acquiring the product should be easy, profitable and straightforward (Daniel 2000). These elements of improved customer service should contribute to the enhancement of client relationships. A complex process and an offering that does not naturally fit with current products should have a negative impact on client relationships, thereby negatively impacting on revenue as well.

Ngobo (2004) found that cross-selling is more likely to succeed if the firm offers significant one-stop-shopping benefits to the customer and if the customer's perception is that the provider has the capacity to deliver high-quality services from two or more activities. Existing relationships and prior experience with the organisation are less important than the customers' perception of the transferability of the server provider's qualities from one service category to another.

A key driver of enhanced competitiveness when integrating a product from another financial services sector is organisation fit in terms of processes and customers' perceptions of whether they will trust the organisation to offer the new product from another financial services sector.

e) Incompatible corporate culture

The negative impact of an incompatible corporate culture on the success of integration as measured by enhanced competitiveness is severe when considering the outcome of scenarios tested making use of the final FCM. Whether integrating simple (scenario 19), complex (scenario 20), specialist (scenario 21) or complementary products (scenario 22), as soon as 'Incompatible corporate culture' is switched on, none of the output nodes are switched on, i.e.

competitiveness is not enhanced. Even when an organisation has operating scale, the only output node that is positively impacted is ‘Increased revenue’ (scenario 23), whereas operating scale per se usually enhances ‘Reduced cost’, ‘Brand equity’, ‘Deep customer relationships’ and ‘Convenient distribution’ as well.

The literature also reflects the importance of corporate culture in integration. Skipper Jr (2000) said that corporate cultures vary across different financial services organisations and can lead to significant managerial issues. Sales people may consider themselves to be specialists in a specific field and may not be willing to cross-sell (Daniel 2000). Staikouras (2006) also reports on the difficulty in overcoming the difference in culture between commercial banks and insurers. Both sectors have distinctively different philosophy and behaviour in areas such as remuneration, employee turnover, customer orientation, risk acceptance and pro-active versus reactive sales behaviours. He states that banks have difficulty in marrying the sales culture of especially life insurance with the softer bank branch culture, resulting in the potential synergies of working together not being achieved. Staikouras (2006) considers business culture to be a key success/ risk factor for bancassurance success. Inflexibility towards accepting and adopting the other party’s culture will lead nowhere. The new hybrid structure should develop a new culture adaptable to the needs of the customer base and each particular product. He considers management initiative to be the most decisive factor for success in bancassurance. Both management teams of the bank and the insurer should make an effort to make the two diverse cultures gel. Top management must lead the process. Artikis *et al.* (2008) are also of the view that strong management commitment is vital to bancassurance success and that cultural differences should be carefully integrated.

A key driver of enhanced competitiveness from financial services integration is compatibility of the organisational culture with the new offering.

f) Target market misalignment

When there is a lack of clarity about the target market, integration is likely to be unsuccessful. There should be ***alignment between the target markets*** of the integrated organisation. Products to be offered should suit the target market. Some types of products carry a greater risk of creating diseconomies of scope, such as general insurance where rejected claims may result in loss of other business in the financial services conglomerate (Skipper Jr 2000). Trying to service clients with completely different needs with shared distribution channels and/or the same products is likely to have a negative impact on the relationship with the customer as he will not perceive added value.

This is illustrated in the outcome of the scenarios tested making use of the final FCM. When the target market is not aligned, competitiveness is not enhanced whether simple (scenario 24), complex (scenario 25) or specialist products (scenario 26) are integrated (the only exception is the ‘Applied learning and experience’ node being switched on when specialist products are integrated). The effect of ‘Target market misaligned’ node on complementary products has not been considered as it by definition is unlikely that a complementary offering will not be aligned to the target market. The FCM was also used to assess the impact of target market misalignment where the organisation has operating scale and integrates simple products (scenario 27). The only nodes positively impacting in these conditions are ‘Increased revenue’ and ‘Convenient distribution’. ‘Reduced cost’, ‘Brand equity’ and ‘Deep customer relationships’ switched on when target market is aligned, are not enhanced. Similar negative impacts are illustrated when assessing the effect on complex (scenario 28) and specialist products (scenario 29).

Alignment of the target market of the new offering with the organisation’s target market is a key driver of enhanced competitiveness from financial services integration.

g) Relative brand strength

Sharing the reputation associated with a brand can also be a source of revenue scope efficiency (Berger 2000). The ability to, amongst other attributes, leverage brand awareness suggests a significant competitive advantage for bancassurance over other distribution channels (Sigma 2007). Staikouras (2006) also reports that for insurers banks offer a new distribution channel, especially given the greater brand awareness of banks. Artikis *et al.* (2008) are also of the view that insurers could enhance their profile through association with the bank brand.

Staikouras (2006) considers corporate brand values related to trust as a key success/risk factor for successful bancassurance offerings. Similarly he considers corporate reputation to be a key factor in determining bancassurance success. Artikis *et al.* (2008) state that non-life insurance products could be seen more as brand-assurance than bancassurance products as they are also sold by retailers or traders. They comment that brand-assurers may enjoy more trust from consumers than the traditional insurance provider.

The impact of a relative strong brand has been tested making use of the final FCM. It was noticed that making use of a strong brand has a similar positive effect on complex (scenario 30) and specialist products (scenario 31) than in-sourcing specialist skills, namely enhancement of ‘Increased revenue’, enhanced ‘Brand equity’ and ‘Deep customer relationships’ which are not enhanced when the complex product or specialist product nodes are switched on by themselves.

It implies that making use of a strong brand when integrating financial services products from another financial services sector is a key driver of enhanced competitiveness.

6.3 Conclusion

The factors and the causal links between these factors that impact on the profitability and sources of competitive advantage of a financial services organisation, when integrating products from another financial services sector, have been identified with the development of the final FCM in Chapter 5. The purpose of Chapter 6 was to consider the answer to the second research question "Which of the factors identified are the most influential and can be considered the key drivers of enhanced competitiveness?" From the analysis in section 6.2 the following key drivers of enhanced competitiveness have been identified:

- *Organisational fit:* The product being integrated should fit with the organisation in terms of processes but also in terms of customers' perceptions of whether they will trust the organisation to offer the new product from another financial services sector.

- *Corporate culture:* The corporate culture of the organisation should be compatible with the integrated offering.

- *Target market alignment:* The target market of the new offering should be aligned to the organisation's target market.

- *Appropriate skills:* Where complex or specialist products are integrated from another financial services sector, the appropriate skills should be sourced to be able to deal with the increased complexity.

- *Operating scale:* Where an organisation has operating scale when integrating a product from another financial services organisation, the likelihood of enhanced profitability increases, assuming excess capacity within the existing infrastructure to absorb the new product(s).

- *Brand:* The use of a strong brand will enhance the chances of a successful integration in terms of competitiveness.

- *Product type:* All product types identified could enhance profitability but integrating a complementary product is the most effective way. An important condition for success in financial services integration, regardless of the product type being integrated, is that it should meet client needs.

7 CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

The first section of Chapter 7 provides for a conclusion of the research study, summarising the findings. This is followed by recommendations related to financial services integration, aimed mainly at financial services managers. Finally this chapter is concluded with suggestions for further research.

7.2 Conclusions of the study

The research sought to develop a model of enhanced profitability and competitive advantage of financial services organisations when implementing financial services integration.

Financial services integration, where a financial services organisation starts to produce or distribute products from another financial services sector, has proliferated since the 1980's and this development is expected to continue into the foreseeable future. Some financial services integrations are considered to be very successful whereas others were less successful or considered to be failures. The literature also reflects conflicting information on whether financial services integration should be considered a viable strategic option for financial services managers.

The study sought to understand the impact of financial services integration on the competitiveness of the organisation by assessing the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders. Although several studies and literature sources could be accessed with reference to competitive advantage in the financial services industry and similarly several papers have been published on financial services integration, no attempt to specifically link the impact of integration on competitiveness could be found.

7.2.1 *Responses to research questions*

Two research questions were explored. Responses to these questions are reflected below.

Research question 1:

What are the factors and the causal links between these factors that impact on the profitability and sources of competitive advantage of a financial services organisation when integrating products from another financial services sector?

A fuzzy cognitive map (FCM) was developed in response to this question. A visual representation of the FCM is included in Figure 12. The FCM can be used by decision makers in the financial services industry when assessing whether a planned financial services integration is likely to enhance competitiveness; i.e. positively impact on profitability or the sources of competitive advantage.

Research question 2:

Which of the factors identified are the most influential and can be considered the key drivers of enhanced competitiveness?

The FCM was used to conclude on this question. Scenarios were tested by switching different policy nodes of the FCM on and off and analysing the outcome of these scenarios and more specifically whether the output nodes were positively impacted or not. The output nodes represent profitability in the form of 'Increased revenue' and 'Reduced cost'. The sources of competitive advantage are represented by the output nodes 'Brand equity', 'Deep customer relationships', 'Applied learning and experience', 'Corporate culture' and 'Convenient distribution'.

The following key drivers of enhanced competitiveness have been identified:

- *Organisational fit:* The product being integrated should fit the with organisation in terms of processes but also in terms of customers' perceptions of whether they will trust the organisation to offer the product.

- *Corporate culture:* The corporate culture of the organisation should be compatible with the integrated offering.

- *Target market:* The target market of the new offering should be aligned to the organisation's target market.

- *Appropriate skills:* The appropriate skills should be sourced specifically when integrating complex or specialist products.

- *Operating scale:* Where an organisation has operating scale when integrating a product from another financial services organisation, the likelihood of enhanced profitability will increase.

- *Brand:* Making use of a strong brand will enhance the chances of a successful integration in terms of competitiveness.

- *Product type:* Integrating a complementary product is the most effective product type in terms of enhanced competitiveness.

An important condition for success in financial services integration, regardless of the product type being integrated, is that it should meet client needs.

7.3 Recommendations

Financial services integration is complex and success is something not automatically achieved as evidenced by the mixed fortunes of organisations that have ventured down this route. Financial services managers or strategists should consider the influential factors or key drivers impacting on competitiveness of the organisation when integrating products and services from another financial services sector before starting the process of integration and adjust their strategy and tactics accordingly.

It is important to firstly understand the organisation's objectives with financial services integration. If profitability is the only driver, the approach may differ than if the enhancement of competitive advantage is also a consideration.

The first key driver identified in this research relates to product fit; to ensure that the product being integrated fits with the organisation in terms of processes but also in terms of customers' perceptions of whether they will trust the organisation to offer the new product from another financial services sector. In order to assess whether a product and planned integration will fit into the organisation, it is important to understand the organisation well. This includes the organisation's market, clients' needs and perceptions, core competencies as well as the underlying brand principles. If, for example, the organisation's brand equity is derived from superior, personalised service, the product that selected for integration and the way in which it is planned to be integrated should contribute to superior, personalised service, not detract from it.

Secondly it is important that the corporate culture of the organisation is compatible with the integrated offering. Cultures across different financial services organisations are different. It is important that these differences are understood at the outset and managed to ensure that an appropriate culture is developed that will support the integrated organisation. Culture usually takes a long time to change however and it takes strong leadership commitment to realise the change.

The third key driver is to ensure that the target market of the new offering is aligned to the organisation's target market. This links to the requirement to ensure that the new planned product(s) meet client needs. The target market will not only determine the type of products to be sold, but also distribution and marketing strategy. Misaligned target markets will result in wasted resources and could impact negatively on customer relationships.

Sourcing the right skills, specifically where complex or specialist products are integrated from another financial services sector, is paramount and the fourth key driver of enhanced competitiveness. Complex and specialist products are more difficult to integrate and increase the degree of management complexity that the organisation has to cope with. These types of products are however important when high net worth clients are targeted and could result in higher margins. The quickest way to enhance competitiveness through integrating complex or specialist products seems to be to source the skills via an outsourced arrangement such as a partnership or joint venture; alternatively to act as distribution channel only. It does mean however that in the long term, the organisation is exposed to risks associated with these types of arrangements, such as inadequate service levels from the partner or the unplanned termination of the relationship. A longer-term strategic decision would be to acquire the required skills through acquisition of a niche business or appointment of an adequate number of staff to create a critical mass. It is however more difficult to realise success due to factors such as integration of these individuals into the organisation and cost is likely to be high, at least initially. It is also important to consider current organisational capabilities before embarking on integration of complex products of another financial services sector. A safer strategy would be to start with simpler products when embarking on the integration journey and then progress to more complex products once successes are being realised.

Having operating scale when integrating a product from another financial services organisation is another key driver that will increase the likelihood of enhanced profitability. The assumption in this case is that there is available capacity in the infrastructure to absorb the new product(s). It is difficult to achieve the cost savings that could potentially be generated through economies of scope as reflected in the mixed results reported in previous studies. The variable vs. fixed cost ratio will influence the magnitude of the savings.

Using a strong brand is the next key driver of enhanced competitiveness identified. Care should however be taken not to stretch the brand too far, thereby creating brand confusion. It is important that the client should be able to trust that the organisation will be able to deliver on the product integrated. Careful consideration should be given to how quickly and how far the brand is extended. It may be appropriate to use the brand of a partner, if the partner's brand is stronger in the target market. This will however mean that the organisation's own brand is not being built in the market targeted through another brand. If a dual branding strategy is followed, consideration should be given to whether the two brands are a good fit.

The final key driver for enhanced competitiveness identified in this study, is integrating a complementary product – this seems to be the most effective way to enhance competitiveness. Not all products lend themselves to bundling, however. It will therefore be necessary to integrate stand-alone products as well. It should also be noted that it is possible to tie in the client with a complementary product but that it may not necessarily mean that a deeper relationship with the client has been developed. If the client perceives conflict of interest due to, for example tie-in sales, it could result in a negative impact on the relationship and may not be sustainable in the long term.

An important condition for success in financial services integration regardless of the product type being integrated is that it should meet client needs. The client should perceive that value is created. Not all clients may prefer bundled products or one-stop-shopping. It is important to understand the profile of the organisation's clients before making these offers available to clients.

The model developed in this research making use of the fuzzy cognitive map (FCM) could be used as an initial assessment of the likely enhancement of competitiveness of a planned integration. Once the organisational environment and product types to be integrated are understood, these factors could be entered into the model and the impact on competitiveness assessed. Should the impact not meet the objectives of integration, the following actions could be considered:

- Abandon the initiative and identify an alternative opportunity.
- Adjust the initiative to remove negative factors and/or add positive factors.
- Focus management effort on the factors that impacts negatively on competitiveness to minimise the impact of these factors.

- Obtain additional information to increase the level of comfort that success is a likely outcome of the endeavour.

Should the outcome of the FCM indicate that an enhancement of competitiveness through the planned initiative is likely, the following actions should be taken:

- Develop a proper business case including financial implications and risk assessments making use of other appropriate models where relevant.
- Embark on a due diligence of acquisition targets and/or partners.
- Obtain relevant stakeholder commitment including that of senior management.
- Develop a detailed implementation plan and assign accountabilities for implementation.
- Implement plans applying appropriate project management principles.

7.4 Suggestions for further research

Given that the pursuit of financial services integration by organisations in the financial services industry is likely to continue in future but that past integrations produced mixed results, further research into what factors are likely to contribute to success, specifically in terms of organisational competitiveness, is much needed. This study highlighted several research issues for future research:

a) Management complexity and regulatory burden

Given that the relationship between management complexity and regulatory burden has not been conclusively resolved, further research should seek to address how an increase in management complexity would impact on the regulatory burden of the organisation when embarking on financial services integration and what the impact on competitiveness of the organisation would be.

b) Outsourced vs. in-house skills

This study concluded that the use of both outsourced and in-house skills could enhance competitiveness when integrating complex or specialist products from another financial services sector. It is conceivable however that the degree of enhancement and/or timeframe would not be the same. Potential other indirect effects could also materialise such as impact on the organisational culture. Future research on the differences and implications, as well as benefits and disadvantages of using outsourced vs. in-house skills to manage a financial services integration of complex or specialist products, could address these matters.

c) Corporate culture

The severity of the effect of misaligned corporate culture was not fully resolved in this research and future research to explore how and to what extent cultural differences between different financial services sectors would impact on the competitiveness of an organisation when attempting financial services integration is required.

Furthermore, although the literature refers to the importance of ensuring that cultures are compatible and/or changed to ensure that synergies in integration are realised, the "how to" achieve compatibility in cultures that are intrinsically different across financial services sectors could not be found. Generic research on culture and culture change is available but is not specifically linked to financial services integration. Further research into how compatibility of cultures could be improved in financial services integration could contribute to addressing this matter.

d) Technology

The impact of technology on financial services integration and more specifically the new forms of distribution channels being created through technological advances such as the Internet and call centres is an area where research is scant. Consideration could be given to whether the use of modern distribution channels could be considered a key driver of enhanced competitiveness at financial services integration as well as if and how making use of new channels could improve the likelihood of success.

Another aspect of technology that requires better understanding is how the ability to integrate information technology systems impacts on the success of integration and what factors have to be considered before embarking on integration to improve the likelihood of enhancing competitiveness through integration.

e) Brand strategy

The degree to which a brand could be stretched to add products from another financial services sector could be researched. Also the impact of co-branding or multi-branding strategies – would using a single brand strategy or a multi-brand strategy be more successful in financial services integration, or are both strategies equally likely to be successful? What is the likelihood of diluting a strong brand when partnering with a weaker brand when integrating products from another financial services sector? What are the implications of changes in generational attitudes towards brands when considering brand implications of financial services integration? How could branding strategies enhance competitiveness when embarking on financial services integration?

f) Conflict of interest

Conflict of interest or perceived conflict of interest is viewed quite seriously by some literature sources. Skipper (2000), for example, states that potential for conflict of interest is endemic of financial services integration. The results from this study however could not link any of the key drivers to conflict of interest. It therefore begs the question which set of circumstances is likely to result in conflict of interest when integrating financial services. The extent of the impact and degree of seriousness of conflict of interest should also be considered. Some financial services regulators, including the South African regulator, have considered or are considering regulating against conflict of interest. Some respondents in this study were however of the opinion that the effects of conflict of interest are either blown out of proportion or that market forces will regulate against it - no formal regulation is therefore required. Research into the conditions that will lead to conflict of interest, and the actual effect on consumers and the organisation could inform future decisions and implications for financial services integration.

g) Operating scale

This study concluded that operating scale is a key driver for enhanced competitiveness when integrating products from another financial services sector. Some respondents indicated however that when it comes to complex products, size is no guarantee of success, while others were of the view that size could actually negatively impact on competitiveness. Further research into the effect of scale when integrating complex products is required to conclude on this matter.

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APPENDIX A: List of interviewees

Name	Institution	Designation
Alex Kennedy	Absa Bank	Head of Bank Assurance: Africa
Anton Gildenhuys	Sanlam Personal Finance	Executive Head: Strategic Business Development
Arnold van der Linde	Financial Intermediaries Association of Southern Africa Integrisure	President Managing Director
Carol-Ann van der Merwe	Investec Bank	Responsible for Banking Services
Giel Muller	Indwe Insurance Brokers	Chief Executive Officer
Hannes Wilken	Telesure Group	Chief Financial Officer
Heinie Werth	Sanlam Developing Markets	Chief Executive
Hennie Nel	PriceWaterhouseCoopers	Director
Johan Nagel	FNB Life	Chief Executive Officer

Name	**Institution**	**Designation**
Johan Strümpher	Partners for Change – Strategy & Organisational Change Consultancy	Director
John Andrews	Nedbank Group Insurance Brokers	Manager: Technical & Support Services
Mark Claasen	PriceWaterhouseCoopers – Actuarial and Insurance Management Solutions	Director
Michael Blain	Centriq Insurance	Chief Executive
Norman Kelly	Sanlam Developing Markets	Head Actuary: Rest of Africa
Peter Todd	Absa Financial Services (AFS) & Absa Brokers	Managing Executive: Distribution Managing Director
Robert Domisse	Sanlam Developing Markets	General Manager: Structural Growth
Sarine Barnard	Investec Bank	Equity Analyst
Steve Burke	Visolution (Pty) Ltd (Strategy Consultants)	Director

Name	Institution	Designation
Steven Crompton	PriceWaterhouseCoopers – Actuarial and Insurance Management Solutions	Assistant Manager
Stewart Barret	Hollard Insurance	General Manager: Strategy
Theo Biesenbach	PSG Konsult	Chief Operating Officer
Vanessa Otto-Mentz	Santam Limited	Head: Strategy Unit

APPENDIX B: Letter to respondents

Dear (Name of participant)

MBA Research: Modelling competitiveness of integrated financial services in South Africa

Thank you for the opportunity to arrange for an interview with you to serve as input into my research study “Modelling competitiveness of integrated financial services in South Africa”. Any information collected during this interview will be treated as confidential. Input from several interviews will be combined to reflect the aggregated result of the study; individual responses will not be specifically identified. A copy of the completed research report will be provided to you once available.

Our meeting has been scheduled for (time) on the (date) at (place). In order to provide you with some more background, please find below a brief description of the research topic and purpose.

Integration trend

A trend towards integration in financial services has been noted since the 1980’s. It is defined as any arrangement whereby production, distribution or both of a financial services product or service traditionally associated with one of four financial services sectors, namely commercial banking, investment banking, life insurance and general insurance, is provided by an entity in another of the four sectors. An example of this type of integration is bancassurance, where a bank starts to provide insurance products to its clients. It includes any degree of integration and organisational form such as distribution arrangements, joint ventures and mergers.

Competitiveness

The purpose of the study is to assess the impact of financial services integration on competitiveness of the organisation. The study aims to determine the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders.

The key sources of competitive advantage as identified in the literature are brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; and convenient distribution channels. The impact on profitability is determined through the impact on revenue and cost of the organisation. The concept can be illustrated as follows:

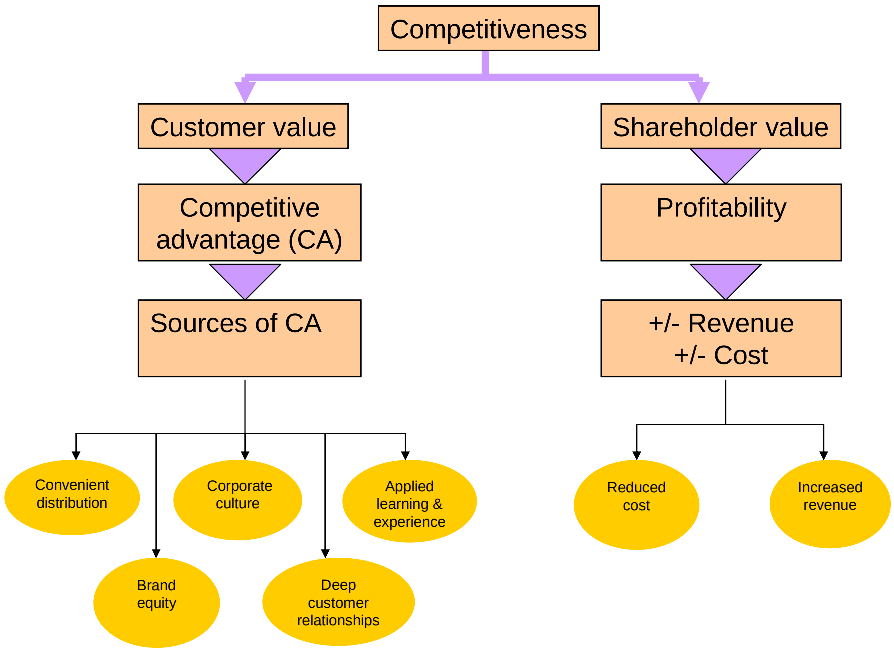


Figure 1: Competitiveness illustrated

The study seeks to assess the direct or indirect effect of the trigger or event of introducing a product into the organisation from another financial services sector, within an existing organisational environment on the competitiveness of the organisation. Introduction of a specialist product could, for example result in increased management complexity that in turn could result in increased cost. Introduction of a simple product on the other hand, may not increase management complexity.

The aim of the interview would therefore be to identify the effect or result of integration that will in turn impact on competitiveness (revenue; cost; brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; or convenient distribution channels). The diagram below illustrates the relationship between the trigger event (pink triangle), organisational environment (blue rectangle), resulting effects (light green triangle) and competitiveness factors (orange nodes).

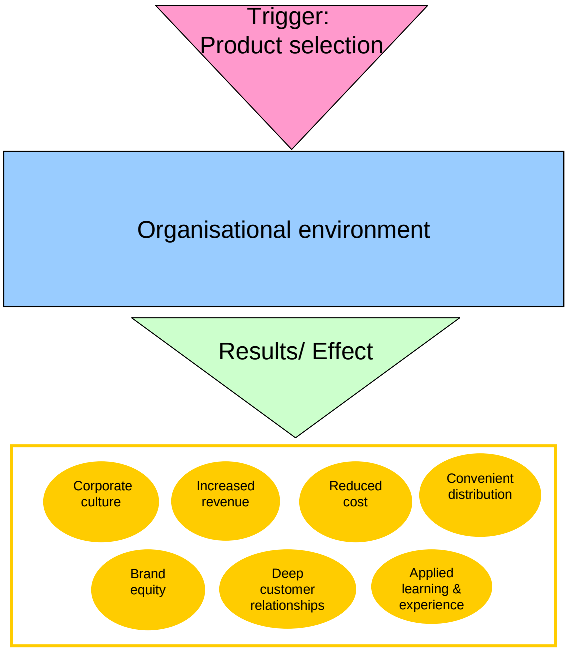


Figure 2: Scope of research study

The final outcome of the research will be the development of a model that will be used to test propositions or scenarios of the likely effects of integration on financial services organisations' competitiveness.

Model

The model that will be used to determine the potential outcome of financial services integration is the Fuzzy Cognitive Map (FCM). FCM's allows researchers to predict how complex events interact as well as what the outcome of these events would be. The concepts of the model are represented on a graph by nodes with the causal link depicted by arrows between the nodes. The direction of the arrow points from the source concept to the influenced concept and each arrow is assigned a positive or negative sign. Positive signs (+) indicate a causal increase, whilst negative signs (-) indicate a causal decrease.

In this case Policy nodes are indicated as blue or pink blocks. They are factors that impact on other factors but are not impacted by any external factors themselves. In this study these factors will consist of the potential triggers (type of product selected – pink blocks) as well as the organisational environment within which the product choice is made (e.g. existing large client base – blue blocks).

The nodes reflected as green bubbles are aspects of the organisation affected by financial services integration that in turn impacts on competitiveness (Result/effect as illustrated in figure 2 above). Output nodes are the sources of competitive advantage (brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; convenient distribution channels) and profitability (revenue and cost). An illustration of how a FCM could look is reflected in figure 3 below.

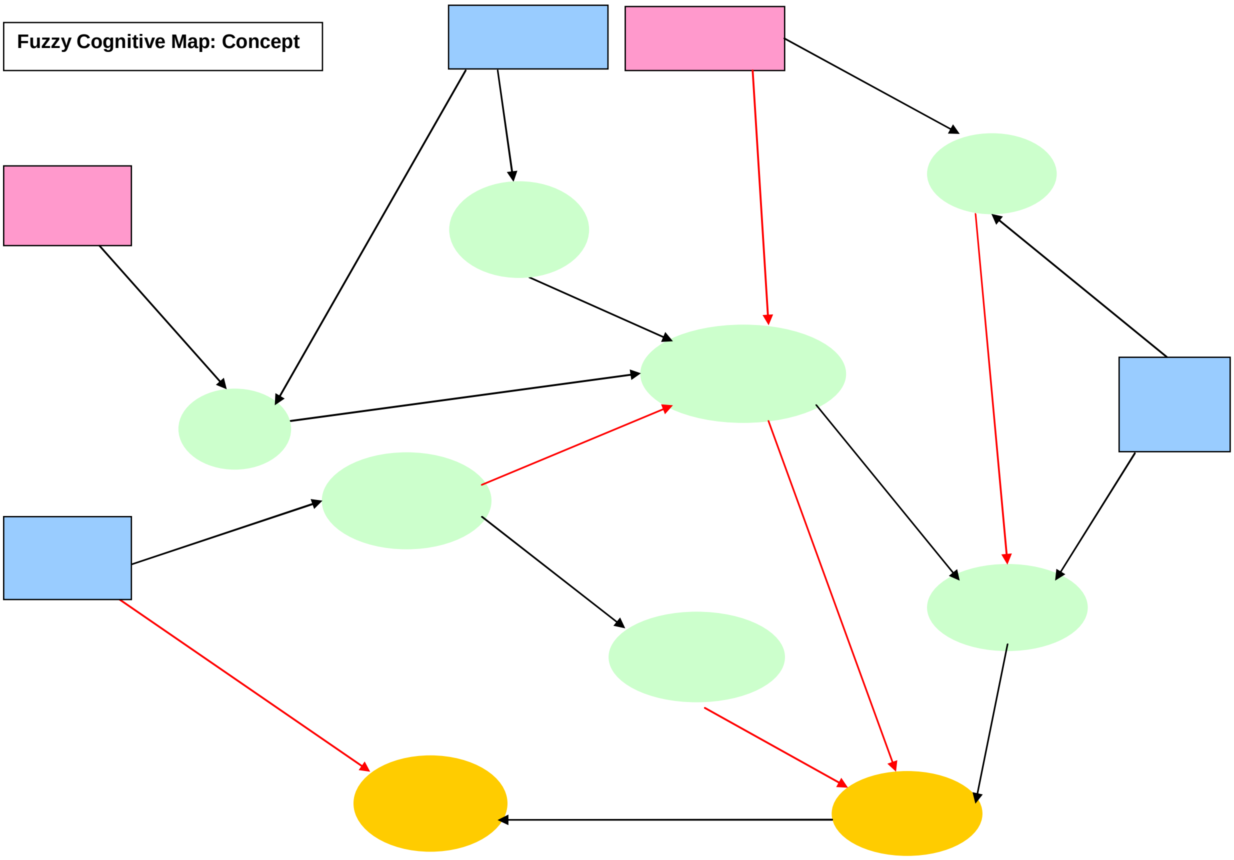


Figure 3: Fuzzy Cognitive Map example

Exclusions from study

The study does not consider the effect of potential competitor responses to integration; the potential impact of financial services integration on the financial market in general due to the increase of systemic risk; potential non-value adding managerial motives for integration such as executive compensation linked to the size of the organisation; or an assessment of post integration activities and managerial actions (i.e. the factors affecting the implementation of the integration) which could have an impact on the eventual success of the integration.

What is required from you?

During the interview you will be requested to provide your views on which factors may impact on competitiveness (revenue; cost; brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; or convenient distribution channels) when a financial services organisation starts to produce or distribute products associated with another financial services sector (i.e. integration as defined above). These factors will typically relate to the organisational attributes, products, distribution channels, or clients and markets that could influence the competitiveness of an organisation at product and/or service integration.

Useful questions to consider in this regard may be:

What will be the effect on revenue or cost of the organisation if a simple product targeted at the individual market is integrated into an organisation in a different financial services sector? Will the effect be different if a complex product, aimed at businesses is introduced? What, if any will be the impact on brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; or convenient distribution channels of the organisation?

What other product attributes may affect the success of product integration, i.e. impact positively or negatively on competitiveness?

Will the organisational environment affect the success of product integration as measured by the effect on competitiveness? Please consider organisational environmental factors such as size of the distribution network, culture, target market, level of vertical integration of the distribution network, brand strength, and other factors considered relevant.

How will the product attributes and/or organisational environment impact on competitiveness of the organisation, i.e. what would be the likely consequences of integrating a product from another financial services sector? Aspects to consider could include changes to the risk profile of the organisation, complexity, service levels which in turn may impact positively or negatively on competitiveness.

Should you wish to discuss any aspect of this research with my research supervisor from Wits Business School, Dr Geoff Bick, you are welcome to contact him on telephone number (011) 717 3947.

Once again thank you for your willingness to participate in this study.

Kind regards.

APPENDIX C: Interview protocol

Modelling competitiveness of integrated financial services in South Africa

Details of the respondent

Name:

Organisation:

Title:

Other relevant information relating to profile/ experience on topic:

Telephone number:

e-mail Address:

Date:

Time:

Duration of interview:

Documents required:

- Printed FCM's
- Interview protocol sheet
- Research summary (recording) sheet
- Definition and explanations document
- Concept of competitiveness diagram, research model and FCM concept

Opening statement to respondent: (Time available – 5 minutes)

A trend towards integration in financial services has been noted since the 1980's. It is defined as any arrangement whereby production, distribution or both of a financial services product or service traditionally associated with one of four financial services sectors, namely commercial banking, investment banking, life insurance and general insurance, is provided by an entity in another of the four sectors. An example of this type of integration is bancassurance, where a bank starts to provide insurance products to its clients. It includes any degree of integration and organisational form such as distribution arrangements, joint ventures and mergers.

The purpose of the study is to assess the impact of financial services integration on competitiveness of the organisation. The study aims to determine the impact on the competitive advantage of an organisation that represents the ability to deliver value to customers, as well as the impact on profitability representing the ability to deliver value to shareholders.

The key sources of competitive advantage as identified in the literature are brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; and convenient distribution channels. The impact on profitability is determined through the impact on revenue and cost of the organisation. The concept can be illustrated as follows: (Note to researcher: Use diagram of competitiveness Figure 1 to illustrate the concept)

The study seeks to assess the direct or indirect effect of the trigger or event of introducing a product into the organisation from another financial services sector, within an existing organisational environment on the competitiveness of the organisation. Introduction of a specialist product could, for example result in increased management complexity that in turn could result in increased cost. Introduction of a simple product on the other hand, may not increase management complexity.

The aim of the interview would therefore be to identify the effect or result of integration that will in turn impact on competitiveness (revenue; cost; brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; or convenient distribution channels). The diagram illustrates the relationship between the trigger event (pink triangle), organisational environment (blue rectangle), resulting effects (light green triangle) and competitiveness factors (orange nodes). (Note to researcher: Use diagram that illustrates the concept of what is to be tested – Figure 2).

The final outcome of the research will be the development of a model that will be used to test propositions of the likely effects of integration on financial services organisations' competitiveness.

The model that will be used to determine the potential outcome of financial services integration is the Fuzzy Cognitive Map (FCM). FCM's allows researchers to predict how complex events interact as well as what the outcome of these events would be. The concepts of the model are represented on a graph by nodes with the causal link depicted by arrows between the nodes. The direction of the arrow points from the source concept to the influenced concept and each arrow is assigned a positive or negative sign. Positive signs (+) indicate a causal increase, whilst negative signs (-) indicate a causal decrease.

In this case policy nodes are indicated as blue or pink blocks. They are factors that impact on other factors but are not impacted by any external factors themselves. In this study these factors will consist of the potential triggers (type of product selected – pink blocks) as well as the organisational environment within which the product choice is made (e.g. existing large client base – blue blocks).

The nodes indicated with green bubbles are aspects of the organisation affected by financial services integration that in turn impacts on competitiveness (Result/effect as illustrated in figure 2 above). Output nodes are the sources of competitive advantage (brand equity; deep customer relationships; corporate culture; applied organisational learning and experience; convenient distribution channels) and profitability (revenue and cost). (Note to researcher: Make use of concept FCM (Refer to letter to respondents in Appendix B) to explain nodes and links.

The study does not consider the effect of potential competitor responses to integration; the potential impact of financial services integration on the financial market in general due to the increase of systemic risk; potential non-value adding managerial motives for integration such as executive compensation linked to the size of the organisation; or an assessment of post integration activities and managerial actions (i.e. the factors affecting the implementation of the integration) which could have an impact of the eventual success of the integration.

Let's now explore a number of questions:

Question 1 (Time available – 15 minutes)

Research highlights a number of potential factors that could impact on the competitiveness of a financial services organisation at integration as defined above. Before we consider these factors from the literature however, I am interested to know how you believe the competitiveness of the organisation could be impacted when integrating a product from another financial services sector. How will the revenue, cost, brand equity, deep customer relationships; corporate culture; applied organisational learning and experience; and convenient distribution channels be affected? What will be the consequences of integration and how will these consequences impact on these competitiveness sources? What are the contextual variables that should be considered, i.e. would the impact on, for example, revenue be different if the context of a specific product integration is different from that of another example? Let's consider the impact per output node:

Prompt:

- Contextual variables to be considered: product attributes; organisational environment

Question 2:

Section A: (Time available – 15 minutes)

Let's now look at the factors suggested by research. We will start with the section of the FCM that reflects the general and output nodes. (Note to researcher: Appendix D). Please have a look at the nodes reflected on the map. Do you agree that the nodes will impact on competitiveness of the organisation? Will the node impact positively or negatively on the competitiveness or the organisation. Please also indicate where you believe that output nodes will impact either positively or negatively on other nodes. (Note to researcher: Use map without links; for each node confirm impact on each output node and draw link with different colours for positive and negative onto map. Where comments are made capture these on the map. Where no comments are made but respondent view differs from what is expected based on literature, ask for comments).

Section B: (Time available – 20 minutes)
Please have a look at the current links between the nodes (Note to researcher: Use FCM with only general and output nodes, with links, Appendix E). Do you agree or disagree with it? (Note to researcher: add or take out links on the map as appropriate by indicating with marks on the links; make notes where appropriate).

Question 3:

Section A: (Time available – 10 minutes)
We will now identify the likely policy nodes impacting on competitiveness at integration and the links with general and output nodes. Please refer to the sheet reflecting the different policy nodes. (Note to researcher: Start with policy node sheet with no links, Appendix F) Do you agree that the policy nodes will impact on competitiveness at integration? Would you consider the impact to be positive or negative? Are you missing any product attributes (Note to researcher: Do this section only if time allows. Use map without links; for each node confirm impact on each output node and draw link with different colours for positive and negative onto map. Where comments are made capture these on the map. Where no comments are made but respondent view differs from what is expected based on literature, ask for comments).

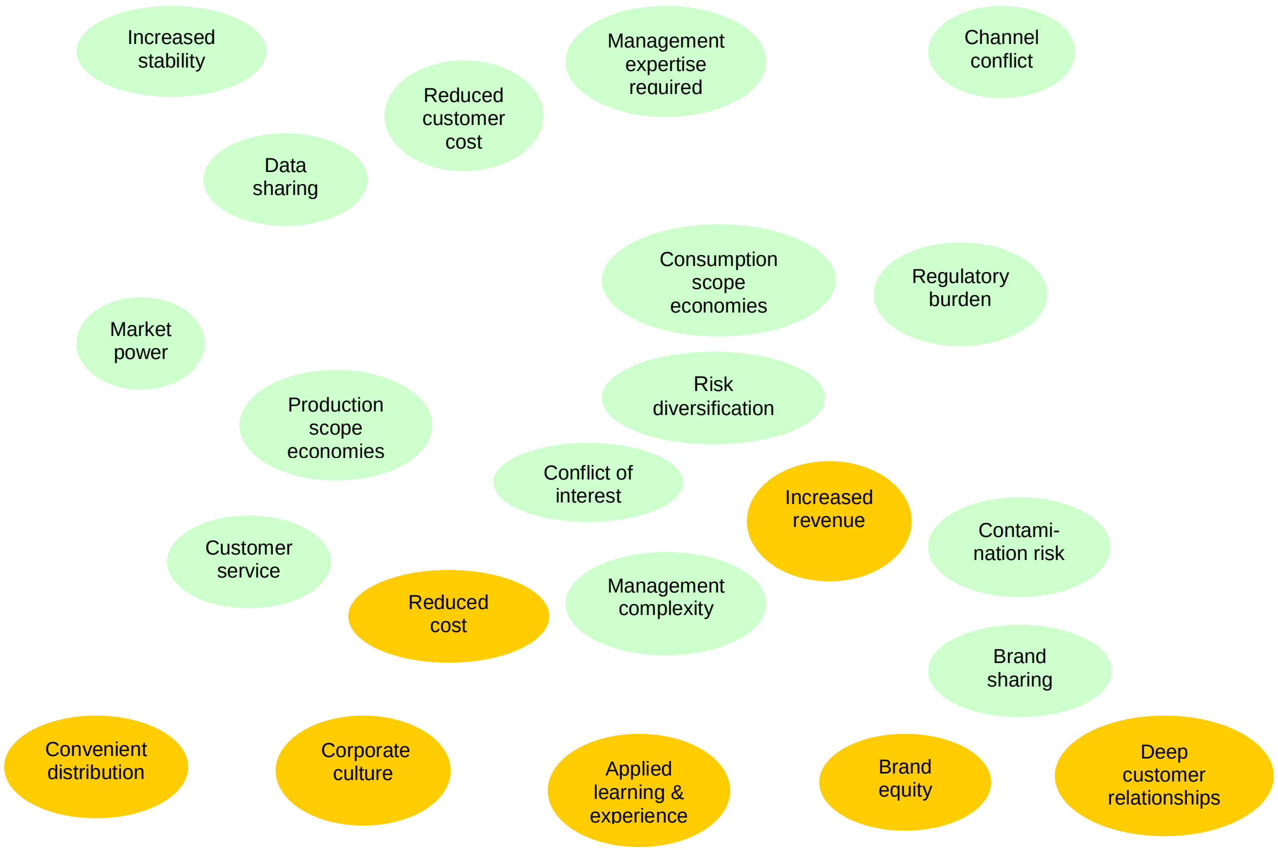
Section B: (Time available – 20 minutes)
Please consider the current links indicated. (Note to researcher: Consider each of the different sheets reflected in Appendix G and H with the respondent). Do you agree with it; if not, how would you change it? Would you add any other links not currently indicated on the map? (Note to researcher: add or take out links on the map as appropriate. Capture comments where appropriate).

Question 4: (Time available – 3 minutes)

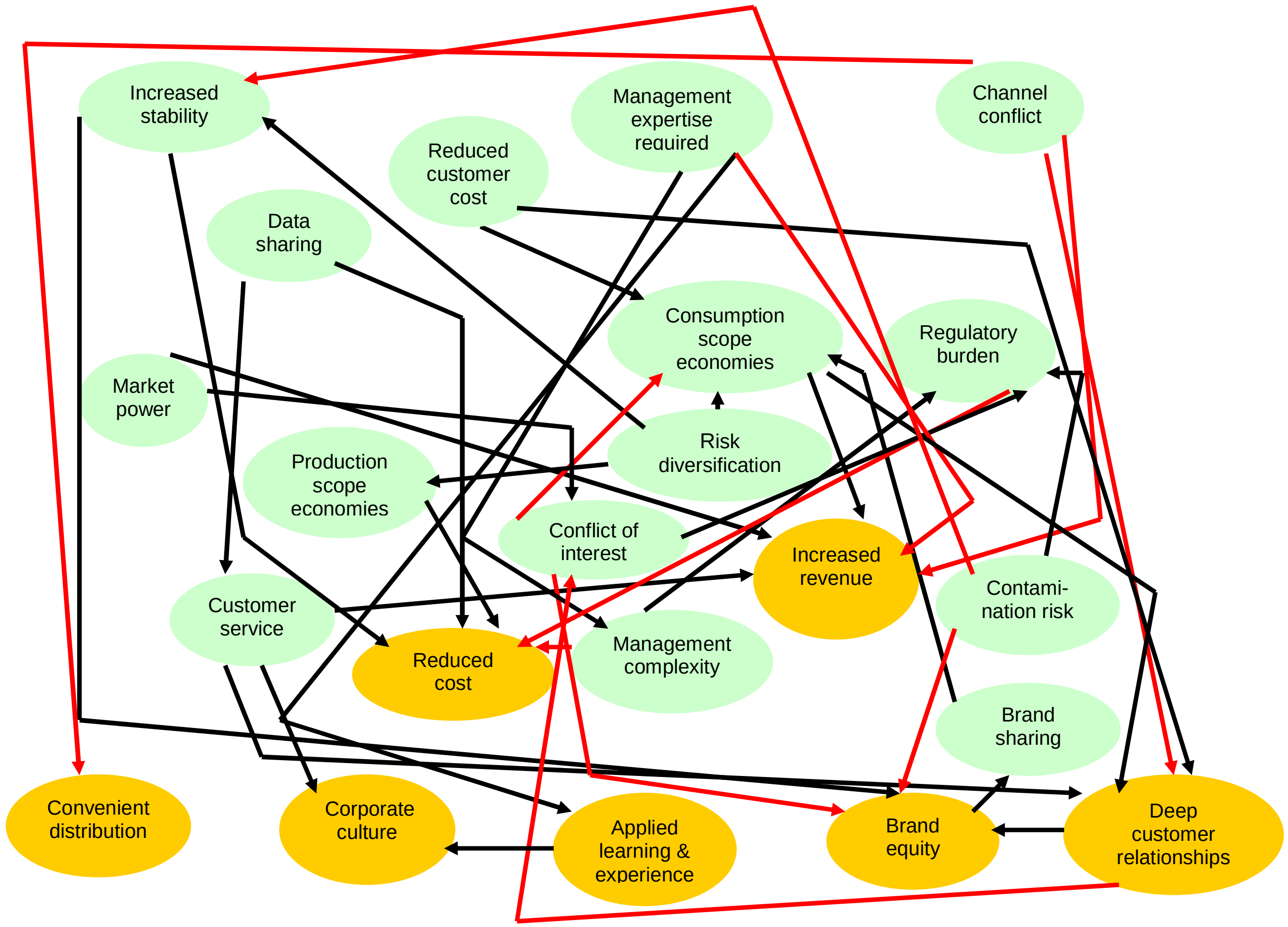
Now that we have reviewed the different elements of the model, could you think of any product dimensions, environmental factors or consequences of integration that has not been included in the model that should be added? (Note to researcher: This question will be addressed if time allows for it).

Prompt for researcher at end of interview to discuss (Time available – 2 minutes): Thank you for your time and valuable input. I will update the model developed to assess the impact of financial services integration on the competitiveness of an organisation once I have completed all the relevant interviews. I will then run a number of scenarios based on the updated model. I would appreciate your input at this point again to validate the outcome of these scenarios, thereby assessing the validity of the model. I will contact you in due course with the relevant information.

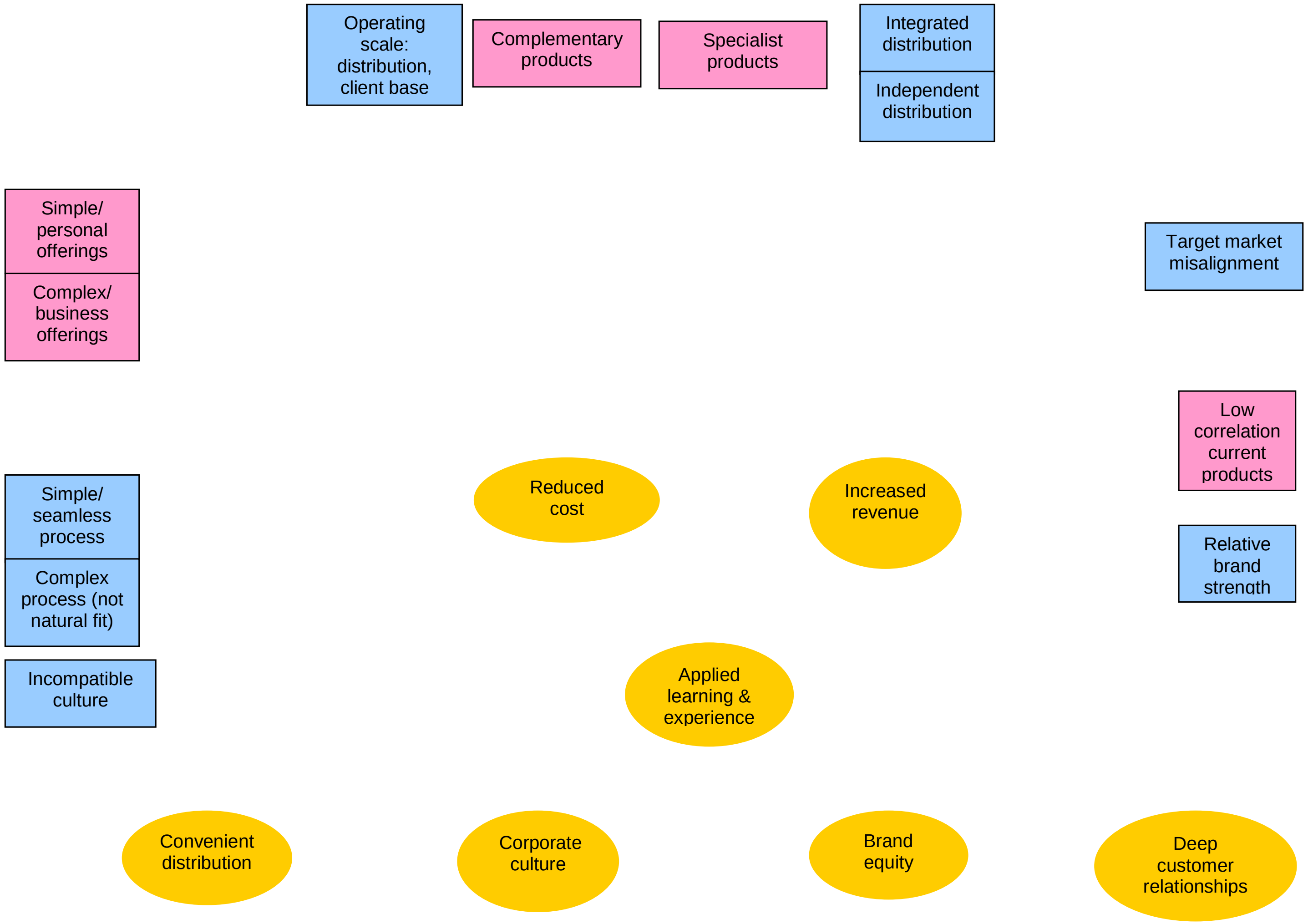
APPENDIX D: Fuzzy Cognitive Map – Question 2A



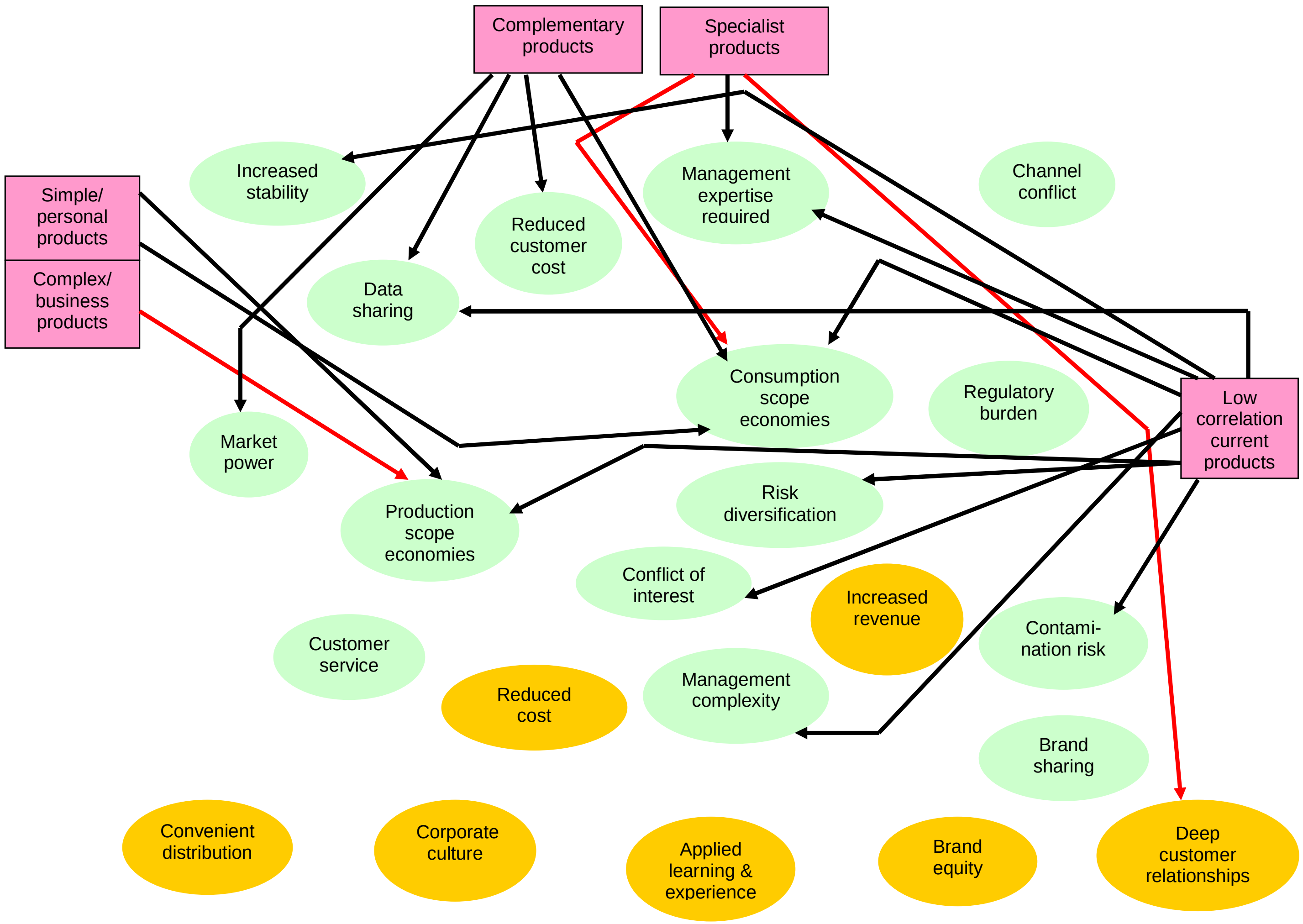
APPENDIX E: Fuzzy Cognitive Map – Question 2B



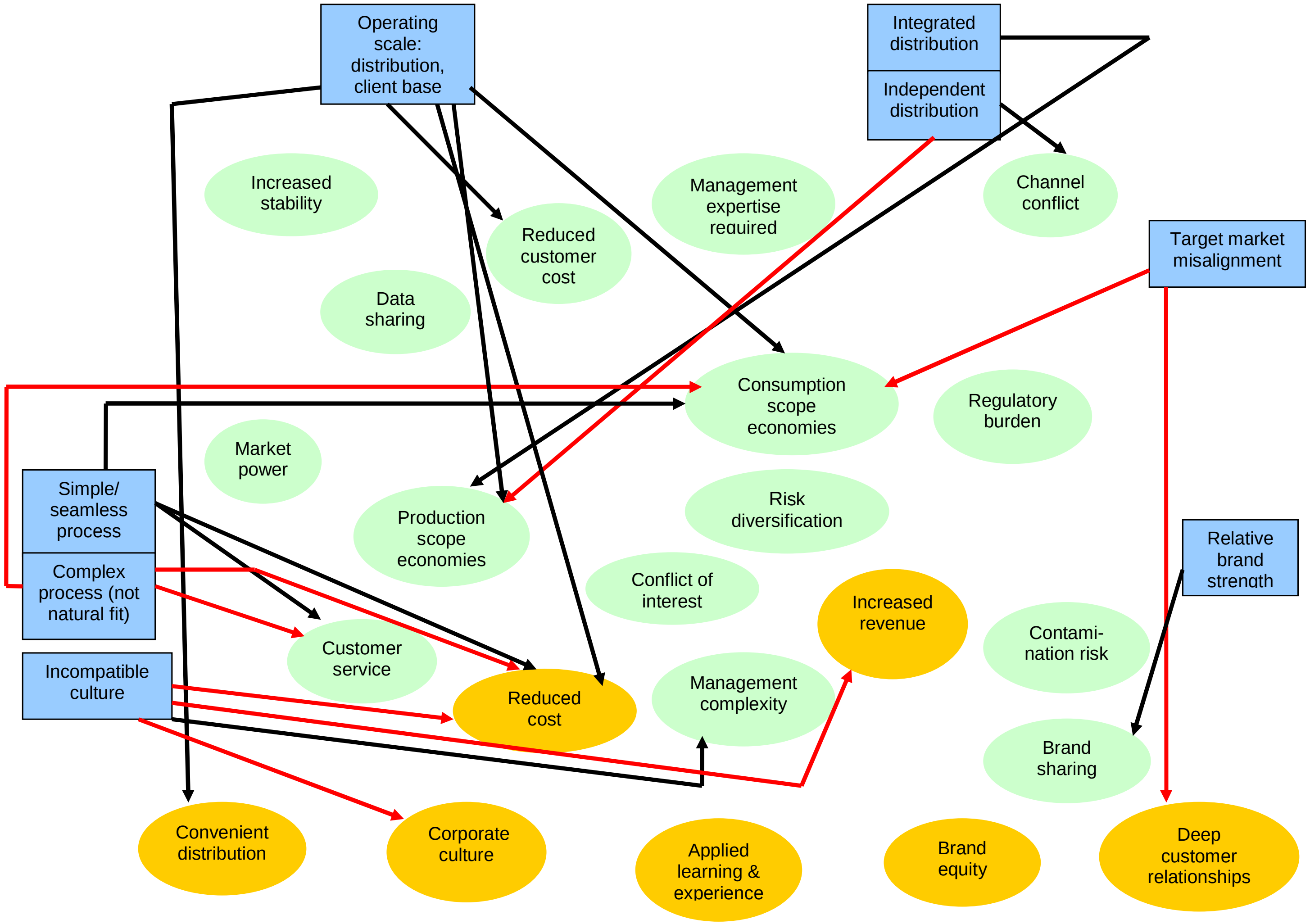
APPENDIX F: Fuzzy Cognitive Map – Question 3A



APPENDIX G: Fuzzy Cognitive Map – Question 3B



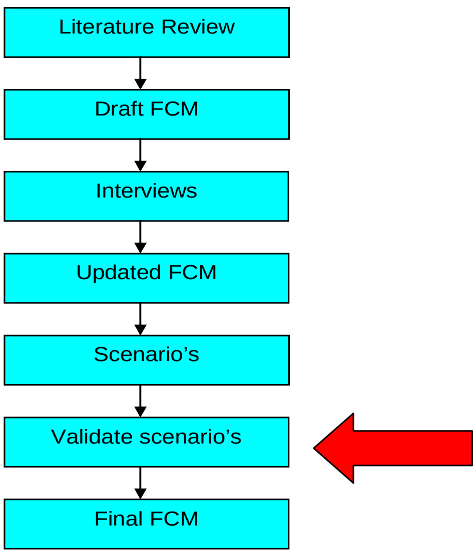
APPENDIX H: Fuzzy Cognitive Map – Question 3B



APPENDIX I: Background information to scenario's provided to respondents

Updated Fuzzy Cognitive Map and scenarios

The research process followed started with a literature review from which a Fuzzy Cognitive Map (FCM) was developed. Elements of this map, including nodes and links were tested with a number of respondents, 22 in total. The input from the respondents was used to update the FCM. Various scenarios were run making use of the updated map. The outcome of these scenarios will now be validated with the participants in the study. The information gathered will be used to finalise the FCM. The process is illustrated below.



Changes to FCM

The interviews resulted in a number of changes to the FCM. The most prominent of these changes is the addition of a new policy node relating to the organisational environment. A number of respondents were of the opinion that, contrary to the links identified from the literature review, integration of a complex product to be provided to businesses, as well as a specialist product (a product widely recognised by the market as being specialist) can have a positive effect on the competitiveness of the organisation. A condition was however identified by most of the respondents who held this view, namely that for an organisation to be successful with the addition of a complex or specialist product from another financial services organisation, the product should be provided by specialist in an outsourced type of arrangement, partnership or joint venture. A policy node was therefore added called ‘In-sourcing specialist skills’ to reflect this condition. Various links within the map were also changed following the interviews.

Scenarios

Several scenarios have been considered making use of updated FCM. The context of all the scenarios remains a financial services integration, i.e. an arrangement whereby production, distribution or both of a financial services product or service traditionally associated with one financial services sector is provided by an entity in another sector.

Scenarios were generated by “switching on” one or more of the policy nodes (type of product and/or organisational environment), i.e. assuming that these conditions are true for a specific scenario. This then resulted in an outcome where none, some or all output nodes (competitiveness factors) were activated or “switched on”. If an output node is switched on, it means that it is positively impacted/ enhanced by integration; if it is not switched on, it could mean no impact or a negative impact. The aim of this validation is to assess whether participants to the study agrees with the nodes enhanced by integration and to identify any other nodes that should have been enhanced in the opinion of the respondents.

Nodes affected in a specific scenario has been coloured for ease of identification and visually displayed in a Power Point presentation:

- Pink or blue for policy nodes describing product types or the environment that have been selected in a scenario respectively
- Orange for output nodes describing the effect on competitiveness – the output of the FCM for a specific scenario
- Nodes not coloured have not been turned on (policy nodes) or did not respond in the specific scenario (output nodes)

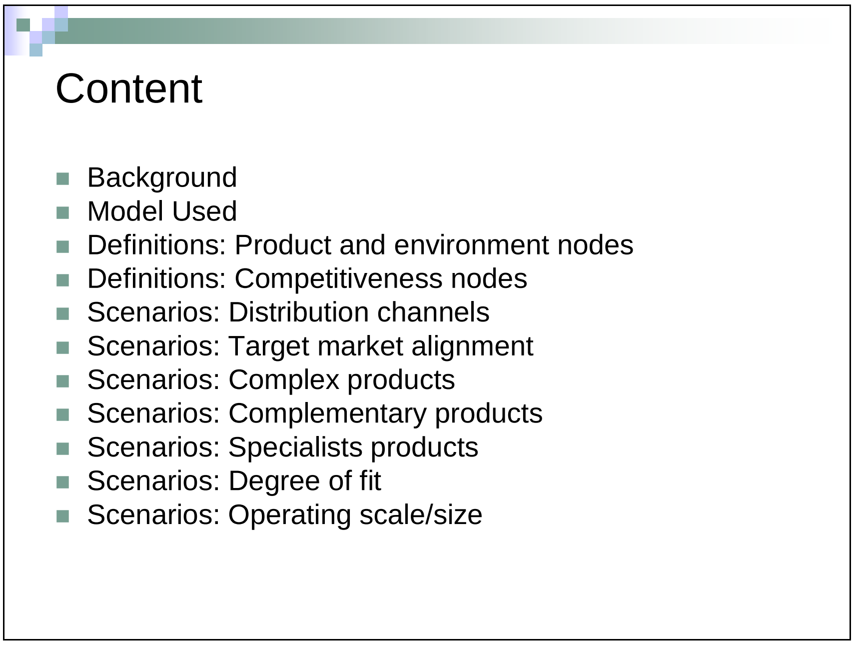
Required from research participants

Participants are requested to review the scenarios as per the Power Point presentation (Filename “Financial Services Integration Scenarios”). The Scenario Response Sheet (Word Document with filename “Scenario Response Sheet November 2008 FCM 15 v3) will be completed during a telephonic discussion between the participant and the researcher:

- Agreement or not with the outcome of the scenario
- Nodes to be added (where positive impact is expected but not currently indicated as an outcome of the scenario)
- Nodes to be removed (where positive impact is currently indicated but not considered to be appropriate)
- Comments – please indicate the reasons for adding or removing nodes

Input is only required on positive impact/ enhancing effects – i.e. where either a negative or no impact is to be expected, the node will not be switched on.

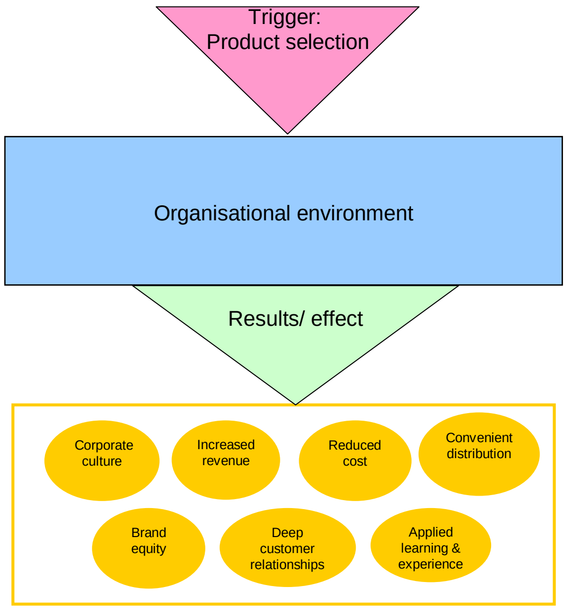
APPENDIX J: Results of scenarios as presented to respondents



Background

- Several scenario's have been considered making use of updated Fuzzy Cognitive Map (FCM), following interviews
- Context of all scenario's is financial services integration, i.e. addition of a product from another financial services sector
- Nodes affected in a specific scenario has been coloured:
  - Pink or blue for policy nodes describing product types or the environment that have been selected in a scenario
  - Orange for output nodes describing the effect on competitiveness – the output of the FCM for a specific scenario
  - Nodes not coloured have not been turned on (policy nodes) or did not respond in the specific scenario (output nodes)
  - The "input nodes" (reflected in light green on the FCM discussed during the interview), are not reflected on these representations of the scenario's
- Output nodes that are coloured ("switched on") means that they are positively impacted/ enhanced; if they are not switched on, it could mean no impact or a negative impact
- Your input is only required on positive impact/ enhancing effects – i.e. would you expect a positive impact on the nodes that are switched on? Would you have expected other nodes to be switched on (positively impacted) as well?
- Comparison of scenario's are made – therefore expect some duplication (scenario 1 compared to scenario 2 and 3)

Model Used



Definitions – Product (Pink) and Environment (Blue) Nodes

- **Operating scale** - underutilised distribution, large customer base
- **Incompatible corporate culture** - Includes corporate culture as well as culture of distribution force – may view themselves as specialists who do not want to cross-sell.
- **Vertically integrated distribution** - owned by the financial services entity
- **Independent distribution** - not owned by financial services entity
- **Simple, personal products** – low advice products offered to individuals
- **Complex, business products** – high advice products offered to businesses
- **Complementary offerings** - bundled products such as home loans, credit life and homeowners insurance
- **Specialist product** - requiring specialist input; generally regarded as specialist by market
- **Target market of entities not aligned** - e.g. affluent vs. mass market; where products offered are not suitable to the market
- **Low correlation products** – revenue streams not correlated
- **Relative brand strength** - superior relative brand and reputation strength of one of integrating parties
- **Simple process** - simple, seamless, easy process for sale of integrated offerings; natural fit; extension of existing offerings
- **Complex process** – not natural fit with existing offerings: Does not align with what organisation stands for in the mind of the client
- **In-sourcing specialist skills** – When skills are in-sourced (via external contracting/outsourcing of tasks/JV's/ Partnerships) to sell specialist and complex products

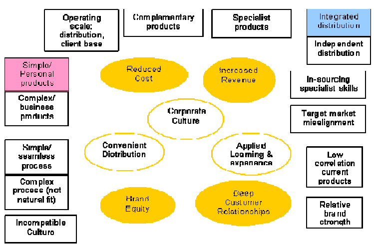
Definitions – Competitiveness (Orange Nodes)

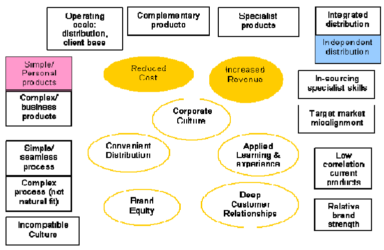
- **Reduced cost** – cost of integrated organisation could be reduced through economies of scale, economies of scope in production and operational efficiency
- **Increased revenue** – could be realised through economies of scope in consumption and increased market power
- **Brand equity** - the greater the intangibility of a service, as well as the experience and credence attributes of an existing or new service, the greater the importance of brand equity as a source of competitive advantage.
- **Deep customer relationships** - relationships is of greater importance for competitive advantage where the experience and credence attributes of a service is high
- **Corporate culture** - the more important people are in the delivery of the service, the greater the importance of culture as a source of competitive advantage
- **Applied learning and experience** - ideas flowing through an organisation enables differentiation, creating competitive advantage. When knowledge is complex and tacit, i.e. difficult to reproduce it can be a source of competitive advantage for the organisation
- **Convenient distribution** - distribution channels that are convenient and add value to the offering, increase competitive advantage. Both accessibility and availability are implied in convenience

Distribution Channels

Scenario 1:
An organisation integrates simple products (low advice) and sells it to individuals through an integrated distribution channel

Scenario 2:
An organisation integrates simple products (low advice) and sells it to individuals through an independent distribution channel



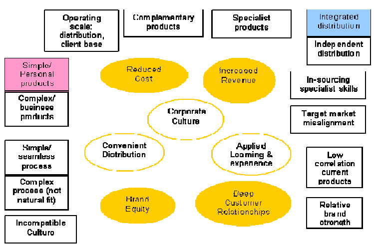


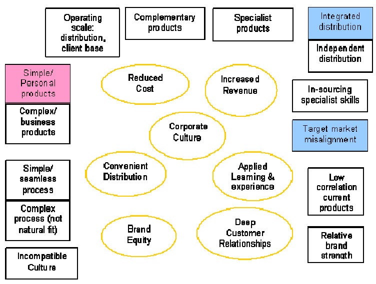
Implication: Revenue and Cost are enhanced whether an independent or integrated distribution channel is used for simple products to individuals, but Brand and Relationships are only enhanced through an integrated distribution channel

Target Market Alignment

Scenario 1:
An organisation integrates simple products (low advice) and sells it to individuals through an integrated distribution channel

Scenario 3:
An organisation integrates simple products (low advice) and sells it to individuals through an integrated distribution channel but target market is not aligned



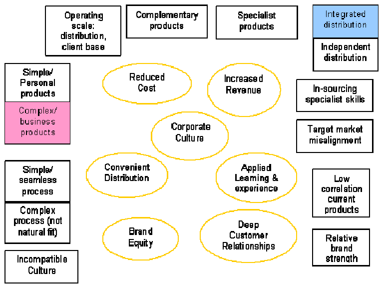


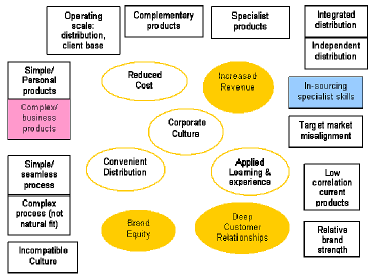
Implication: : If target market is not aligned, benefits are not realised from integrating simple products.

Complex Products

Scenario 4:
An organisation integrates complex products (high advice) and sells it to business clients through an integrated distribution channel

Scenario 5:
An organisation integrates complex products (high advice) and source specialist skills from another party (e.g via JV, partnership, outsourcing)



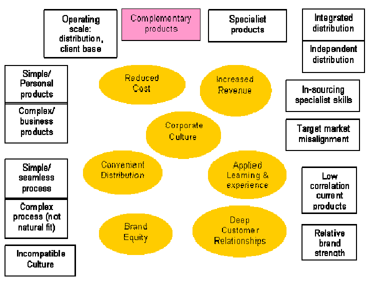


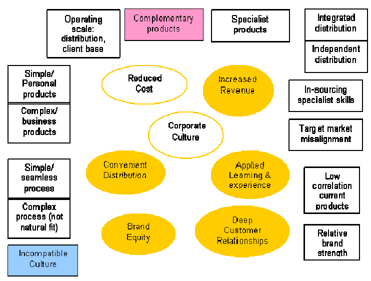
Implication: : Competitiveness is not enhanced when complex products to business clients are integrated into an organisation's offering unless specialist skills are sourced from outside the organisation, e.g through partnerships, JV's, outsourcing, in which case Revenue, Brand Equity and Customer Relationships are enhanced

Complementary Products

Scenario 6:
An organisation integrates a product into a complementary (bundled) offering with an existing product. Even if a complex product is added in this way, the result is still an enhancement of all the areas of competitiveness

Scenario 7:
An organisation integrates a product into a complementary (bundled) offering with an existing product but the corporate culture of the organisation is not compatible to the new product offering



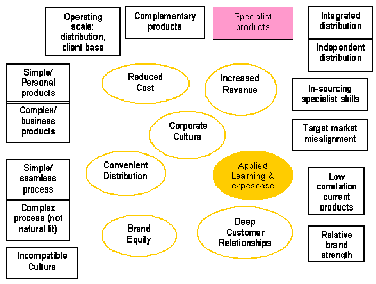


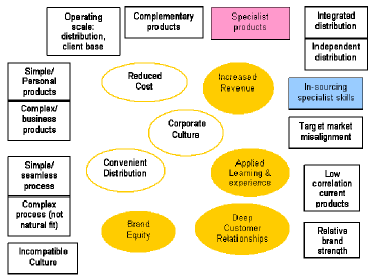
Implication: Complementary products is a very effective way to enhance competitiveness at integration but misaligned Corporate Culture reduces the enhancing effect of complementary offerings, with Cost and Company Culture not being enhanced if culture is not compatible

Specialists Products

Scenario 8:
An organisation adds a product from another financial services sector that is generally recognised to be of a specialist nature to its product offerings

Scenario 9:
An organisation adds a product from another financial services sector, that is generally recognised to be of a specialist nature to its product offerings and source specialist skills from another party (e.g. JV, partnership, outsourced)



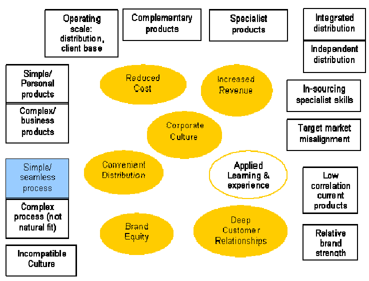


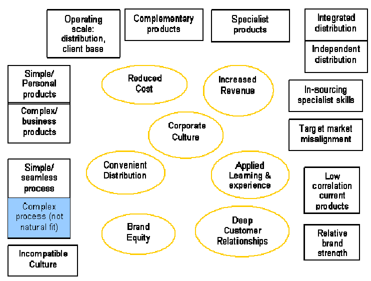
Implication: When specialist products are integrated into the organisation, only Applied Learning and Experience is enhanced; no enhancement of profitability is achieved unless specialist skills are sourced through e.g. JV, partnership, outsourced in which case Revenue and some sources of Competitive advantages are enhanced

Degree of Fit

Scenario 10:
The organisation integrates a product that has a natural fit with the current products and processes of an organisation, i.e. it is a natural extension of the organisation's core offerings and a simple process

Scenario 11:
The organisation integrates a product that does not have a natural fit with the current products and processes of an organisation and a complex process

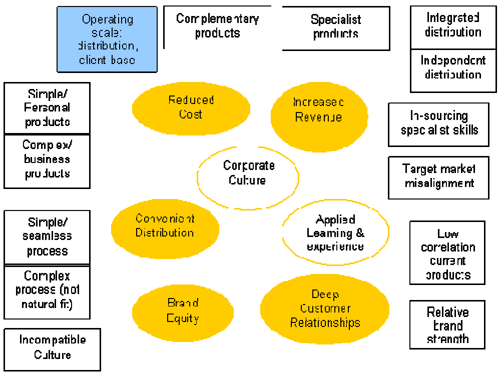




Implication: A product that does fit naturally with the organisation will enhance competitiveness whereas it will not be the case for products that does not fit naturally with the current core offerings

Operating Scale/ Size

Scenario 12:
An organisation with operating scale (a large organisation) with moderate to large number of branches and/or a large customer base ventures into another financial services sector. Even when a complex product for business are integrated, or when the product does not naturally fit (complex process), the result is still the same, i.e. enhancement of five of the Output nodes



Diversification

- It has been found that if a product with low correlation with existing products is integrated in the model revenue increases, even if it is a complex or specialist product, i.e. the positive effect of higher earnings source diversification and less volatility in revenue streams, cancels out the negative effects of complexity associated with these products. Would you agree with this outcome?

Brand Strength

- The results from the model indicate that having a strong brand to leverage (your own or another brand) will increase revenue, brand equity and customer relationships even if you sell a complex or specialist product, implying that a strong brand could overcome the negative effects associated with complexity. Do you agree with this?

Thank you for your contribution

APPENDIX K: Results Question 2 Section A

		Increased revenue (O02)				Reduced cost (O01)				Convenient distribution (O07)			
No	General Nodes	No effect	Pos effect	Neg effect	Total	No effect	Pos effect	Neg effect	Total	No effect	Pos effect	Neg effect	Total
I01	Channel conflict	14	2	6	22	13	0	9	22	7	3	12	22
I02	Economies of scope in production	12	10	0	22	0	22	0	22	12	9	1	22
I03	Reputation and brand sharing	11	11	0	22	14	7	1	22	13	8	1	22
I04	Reduced customer cost	7	15	0	22	18	4	0	22	13	9	0	22
I05	Risk diversification	11	10	1	22	11	10	1	22	19	3	0	22
I06	Increased stability	8	13	1	22	8	14	0	22	12	10	0	22
I07	Contamination risk if one entity/product fails	11	1	10	22	13	0	9	22	17	0	5	22
I08	Management complexity	17	1	4	22	4	2	16	22	17	0	5	22
I09	Regulatory burden	14	0	8	22	1	1	20	22	14	0	8	22
I10	Economies of scope in consumption	0	22	0	22	10	11	1	22	13	8	1	22
I11	Perceived conflict of interest	9	2	11	22	18	0	4	22	16	0	6	22
I12	Market power	7	15	0	22	11	10	1	22	12	10	0	22
I13	Diverse management expertise required	14	7	1	22	7	3	12	22	17	3	2	22
I14	Customer service	12	10	0	22	18	2	2	22	17	5	0	22
I15	Data and knowledge sharing	6	16	0	22	9	13	0	22	10	12	0	22

APPENDIX K: Results Question 2 Section A (continued)

		Corporate culture (O05)				Applied learning and experience (O06)				Brand equity (O03)				Deep customer relationships (O04)			
No	**General Nodes**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**
I01	Channel conflict	10	0	12	22	12	8	2	22	12	0	10	22	10	0	12	22
I02	Economies of scope in production	19	3	0	22	18	4	0	22	18	4	0	22	14	7	1	22
I03	Reputation and brand sharing	16	5	1	22	19	3	0	22	11	8	3	22	16	5	1	22
I04	Reduced customer cost	21	1	0	22	22	0	0	22	10	11	1	22	5	17	0	22
I05	Risk diversification	21	1	0	22	15	7	0	22	18	4	0	22	19	2	1	22
I06	Increased stability	12	6	4	22	11	7	4	22	9	13	0	22	8	14	0	22
I07	Contamination risk if one entity/product fails	18	0	4	22	16	6	0	22	4	0	18	22	2	0	20	22
I08	Management complexity	7	3	12	22	13	4	5	22	20	0	2	22	16	0	6	22
I09	Regulatory burden	14	0	8	22	19	3	0	22	15	1	6	22	15	0	7	22
I10	Economies of scope in consumption	18	3	1	22	20	2	0	22	12	10	0	22	5	16	1	22
I11	Perceived conflict of interest	12	0	10	22	19	1	2	22	2	0	20	22	2	0	20	22
I12	Market power	16	4	2	22	14	6	2	22	7	15	0	22	14	7	1	22
I13	Diverse management expertise required	10	8	4	22	8	13	1	22	16	6	0	22	16	5	1	22
I14	Customer service	14	8	0	22	14	8	0	22	7	15	0	22	5	17	0	22
I15	Data and knowledge sharing	18	4	0	22	6	16	0	22	16	5	1	22	2	19	1	22

APPENDIX L : Results Question 3 Section A

		Increased revenue (O02)				Reduced cost (O01)				Convenient distribution (O07)			
	Policy nodes	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**
P01	Operating scale (underutilised distribution, large customer base)	6	4	0	10	2	8	0	10	3	7	0	10
P02	Incompatible corporate culture	6	0	4	10	6	0	4	10	8	0	2	10
P03	Vertically integrated distribution	8	2	0	10	6	3	1	10	9	3	0	12
P04	Distribution not vertically integrated (independent)	8	2	0	10	7	2	1	10	8	3	0	11
P05	Type of offerings – simple, personal policies	2	9	0	11	7	4	0	11	6	5	0	11
P06	Type of offerings – complex, business policies	5	6	0	11	2	1	8	11	6	1	4	11
P07	Product type – complementary offerings	2	9	0	11	3	7	2	12	3	10	0	13
P08	Product type – specialist product requiring specialist input	5	4	1	10	5	1	4	10	9	0	2	11
P09	Target market of entities not aligned	7	0	5	12	6	0	5	11	8	0	2	10
P10	Low correlations between product sets	5	5	0	10	2	3	6	11	5	3	3	11
P11	Superior relative brand and reputation strength of one of integrating parties	4	6	0	10	9	1	0	10	9	1	0	10
P12	Natual fit; simple, seamless, easy process	5	5	0	10	2	8	0	10	5	6	0	11
P13	Complex process (not natural fit)	7	1	2	10	3	0	7	10	6	0	5	11

APPENDIX L: Results Question 3 Section A (continued)

		Corporate culture (O05)				Applied learning and experience (O06)				Brand equity (O03)				Deep customer relationships (O04)			
	Policy Nodes	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**	**No effect**	**Pos effect**	**Neg effect**	**Total**
P01	Operating scale (underutilised distribution, large customer base)	9	1	0	10	9	1	0	10	9	1	0	10	8	2	0	10
P02	Incompatible corporate culture	3	0	7	10	6	1	3	10	5	0	6	11	4	0	7	11
P03	Vertically integrated distribution	10	0	0	10	10	0	0	10	9	1	0	10	9	1	0	10
P04	Distribution not vertically integrated (independent)	9	0	1	10	10	0	0	10	10	0	0	10	8	1	1	10
P05	Type of offerings – simple, personal policies	7	3	0	10	8	2	0	10	9	1	0	10	8	2	0	10
P06	Type of offerings – complex, business policies	6	2	2	10	7	3	0	10	10	0	0	10	6	5	0	11
P07	Product type – complementary offerings	8	2	0	10	7	5	0	12	6	6	0	12	4	8	0	12
P08	Product type – specialist product requiring specialist input	10	0	0	10	5	5	0	10	7	3	0	10	6	4	0	10
P09	Target market of entities not aligned	9	0	2	11	7	2	1	10	6	0	8	14	5	0	5	10
P10	Low correlations between product sets	7	1	4	12	4	5	2	11	6	1	3	10	5	3	2	10
P11	Superior relative brand and reputation strength of one of integrating parties	9	1	0	10	10	0	0	10	4	5	2	11	6	4	0	10
P12	Natual fit; simple, seamless, easy process	9	1	0	10	9	1	0	10	10	0	0	10	8	2	0	10
P13	Complex process (not natural fit)	6	0	4	10	4	5	1	10	9	0	1	10	6	0	5	11

APPENDIX M: Outcome of validation of scenarios

Scenario 4: Complex Products to businesses

Seven respondents indicated that complex products could potentially be successfully integrated into the organisation, under certain conditions:

- Appropriate skills have to be acquired. These respondents were of the opinion that skills do not have to be obtained only in a partnership or outsourced arrangement but could be acquired either through acquisitions or by appointing enough competent individuals to create a critical mass.

- There was acknowledgement that integrating complex products is more risky than integrating simple products and it will take a longer time to realise benefits. It is however a strategic choice of whether capability will be developed internally over a longer period of time, or whether a partnership arrangement will be used that will realise benefits quicker but create exposure since the partner could terminate the relationship or deliver inadequate service.

- It is important that the product fits with the organisation and current offerings. It should furthermore meet the needs of clients.

- Where a financial services organisation plays in the higher end of the market (high net worth clients), it is important that they develop the capability to integrate complex products to meet client needs.

The literature indicates that success, specifically relating to the financial dimensions of competitiveness is more likely when integrating simple products to individuals. Berger (2000) found that insurance firms are more likely to realise profit-scope economies if they emphasise personal lines of business. Daniel (2000) reflects that Spanish bancassurers, while successful in products for private individuals, have not ventured into the field of complex contracts needed for businesses. Potgieter and Christelis (2008) however found that although bancassurance in Europe is based on simple, standardised products sold to bank customers, increasingly in South Africa bank operations are diversifying their products to include more complex products. They also indicate that internationally there is a growing trend to provide advice and add more complex products. They further report that bancassurers in South Africa tend to provide commoditised, higher margin and simpler products from their own insurance companies and outsource more complex advice-driven products.

Staikouras (2006) is of the view that the complexity of the bancassurance issues boils down to a triangular approach taking product complexity, distribution infrastructure and market integration and/or globalisation into account. Market globalisation refers to the level of market integration with developed economies and the level of segmentation in the financial services industry in terms of sharing of activities and/or collaborating. It also refers to how open the market is to new ideas and influences. Where the market is more global and products more complex, the presence of knowledgeable and specialised contacts is required, implying the need for a multi-layer service within the integrated intermediary, i.e. in-house advisors/ bancassurance specialists. The opposite is true where the market is domestic and products simple. In such a market distribution through impersonal contact is suitable, for example through the telephone, internet and packaged products. Where the market and products sets are somewhere in between these extremes, bank employees can provide basic services to clients and then refer them to an insurance representative or financial advisor for more complex requirements (Staikouras 2006).

Implications for FCM:

'In-sourcing specialist skills' to include skills acquired and integrated into organisation, but conditional upon:

- Appropriate skills have to be acquired through partnership, outsourced arrangement, acquisitions or by appointing enough competent individuals to create a critical mass.
- The increased risk should be addressed through additional management measures and controls.
- It is important that the product fits with the organisation and current offerings.
- The product should furthermore meet the needs of clients.

- Start with simple products when entering another financial services sector and then progress to more complex products over time.

The effect of the change is that ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ are positively impacted if ‘Complex, business products’ are integrated when skills are sourced via partnerships or introducing appropriate skills into the organisation.

The fit with the organisation is tested by switching on the ‘Simple process and natural fit’ node which results in ‘Increased revenue’, ‘Brand equity’ and ‘Deep customer relationships’ being positively impacted.

Scenario 7: Complementary product; incompatible corporate culture

Six respondents were of the opinion that the impact of an incompatible corporate culture would be more severe over time than what the scenario indicates. They indicated that a situation where the culture is not compatible may not be sustainable in the long term as customer relationships and therefore brand is likely to be negatively impacted. A further three respondents also questioned the enhancement of brand if corporate culture is not aligned. Some respondents agreed that the nodes will be enhanced as indicated, but to a lesser extent than when culture is compatible.

Economies of scope in consumption could be realised from the cross-selling of complementary products and services (Skipper Jr 2000). This will enlarge and extend the relationship with the client, and be likely to increase the switching cost for the customer as more products are involved. Integration may improve customer service and increase revenue if customers find it more advantageous to buy from one provider (Santomero *et al.* 2000).

According to the literature corporate culture varies across firms and across financial sectors and leads to significant managerial issues (Skipper Jr 2000). The cultural differences pose challenges for management of financial conglomerates. It may be difficult to get staff to promote and sell products from other financial services sectors (Daniel 2000; Skipper Jr 2000). Santomero *et al.* (2000) also refer to the management challenges associated with two clashing cultures, specifically in the context of mergers.

Staikouras (2006) reports on the difficulty in overcoming the difference in culture between commercial banks and insurers. Both sectors have distinctively different philosophy and behaviour in areas such as remuneration, employee turnover, customer orientation, risk acceptance and pro-active versus reactive sales behaviours. He states that banks have difficulty in marrying the sales culture of especially life insurance with the softer bank branch culture, resulting in the potential synergies of working together not being achieved. Staikouras (2006) considers business culture to be a key success/ risk factor for bancassurance success. Inflexibility towards accepting and adopting the other party's culture will lead nowhere. The new hybrid structure should develop a new culture adaptable to the needs of the customer base and each particular product.

Implications for FCM:

Given the view of about a third of respondents, as well as the views in literature about the importance of culture to fit, it was decided to adjust the model as follows:

- Remove negative link from 'Incompatible corporate culture' to 'Increased revenue' and replace with a negative link to 'Economies of scope in consumption' as incompatible culture will impact negatively on the organisation's ability to cross-sell.
- Add negative link from 'Incompatible corporate culture' to 'Customer service' as organisation is likely to develop an inwards focus.
- Add negative link from 'Incompatible corporate culture' to 'Data sharing' as incompatible culture will not encourage people to share data but is likely to impact negatively on it due to reduced trust.
- Add negative link from 'Incompatible corporate culture' to Brand equity' based on various respondents indicating that incompatible culture is likely to impact negatively on this node.
- Add negative link from 'Incompatible corporate culture' to 'Applied learning and experience' as lack of trust, increased red tape, reduced communication and sharing are likely to impact negatively on the organisation's ability to apply learnings and experience.

- Add negative link from ‘Incompatible corporate culture’ to ‘Convenient distribution’ – if distribution force is not interested in selling product due to cultural issues, it is likely to impact negatively on customer who may have a negative experience.

The effect of the changes made to the FCM is that only ‘Increased revenue’ is enhanced when a complementary product is integrated into the organisation when there is not a cultural fit.

Scenario 8: Specialist products

Six respondents indicated that as in the case of complex products, specialist products could potentially be successfully integrated into the organisation, under certain conditions:

- Appropriate skills have to be acquired. These respondents were of the opinion that skills do not have to be obtained only in a partnership or outsourced arrangement but could be acquired either through acquisitions or by appointing enough competent individuals to create a critical mass.

- There was acknowledgement that integrating specialist products is more risky than integrating simple products and it will take a longer time to realise benefits. It is however a strategic choice of whether capability will be developed internally over a longer period of time, or whether a partnership arrangement will be used that will realise benefits quicker but create exposure since the partner could terminate the relationship or deliver inadequate service.

- It is important that the product fit with the organisation and current offerings. It should furthermore meet the needs of clients.

Daniel (2000) states that the customer may prefer to use a trusted specialist rather than a non-traditional provider. Berger (2000) also points out that integration may result in diseconomy of scope in consumption if specialists have better knowledge and could provide the customer with a more suitable offering, thereby charging higher prices than joint producers.

Implications for FCM:

'In-sourcing specialist skills' to include skills acquired and integrated into organisation, but conditional upon:

- Appropriate skills have to be acquired through partnership, outsourced arrangement, acquisitions or by appointing enough competent individuals to create a critical mass.
- Addressing the increased risk through additional management measures and controls.
- It is important that the product fit with the organisation and current offerings.
- The product should furthermore meet the needs of clients.

The effect of the change is that 'Increased revenue', 'Brand equity' and 'Deep customer relationships' are positively impacted if 'Specialist products' are integrated when skills are sourced via partnerships or introducing appropriate skills into the organisation

The fit with the organisation is tested by switching on the 'Simple process and natural fit' node which results in 'Increased revenue', 'Brand equity' and 'Deep customer relationships' being positively impacted.

Scenario 12: Operating Scale

Although all respondents indicated that they do agree that operating scale is likely to enhance competitiveness when integrating simple products, some respondents (8) did not agree that competitiveness will be enhanced if complex products or products that do not fit naturally and are delivered through complex processes are integrated. Phrases such as "bigger is not always better", "capacity does not equal capability" and "stick to your knitting" were used to underscore this point. Disagreement mostly related to whether competitiveness would be enhanced if the product does not naturally fit and is delivered through complex processes. Some respondents indicated that you may still be able to realise revenue benefits, but are not likely to realise benefits of 'Reduced cost', 'Convenient distribution', 'Deep customer relationships' and 'Brand equity' if product is not a natural fit.

Other respondents however were of the opinion that enhancement of competitiveness will occur, potentially not to the same extent as when simple products are integrated but positive outcomes are expected none the less.

Another aspect raised by some respondents is that of client needs – if the product addresses the needs of the target market and delivers a compelling value proposition, scale will be a very effective way to generate benefits and enhance competitiveness.

Santomero *et al.* (2000) state that distribution capability is related to *operating scale* benefiting larger organisations. A study found that banks expanding into bancassurance are likely to be more profitable if they have a large customer base and a moderate number of branches that can produce large volumes of cross selling (Bergendahl 1995). Potgieter and Christelis (2008) are also of the view that a key driver for potential bancassurance is the retail distribution footprint and the size of a bank's client base. They further state that given the mostly fixed-cost base of banks in South Africa, bancassurance revenue contributes to covering fixed costs and therefore improve overall returns. Berger (2000) also found that insurance firms are more likely to realise profit-scope economies if they are large.

Bergendahl (1995) however concluded that it is important for bancassurers to offer standardised and thus low-cost products. Bancassurance is especially useful at targeting the mass market with simple products, thereby avoiding the high distribution cost *of* complex products (Potgieter and Christelis 2008). A study based on the insurance industry comparing firms specialising in either life or general insurance to firms integrating both offerings, found that realisation of economies of scope is related to the type of business of the insurer (personal insurance versus commercial insurance) (Berger 2000). Personal buyers are more likely to value one-stop shopping whereas commercial buyers may prefer to create their own baskets through their brokers or risk managers (Berger 2000).

Staikouras (2006) states that bankers and insurers should carefully integrate in their business structure the aspects that enable them to identify real customer needs and to effectively satisfy these needs. He is of the opinion that the most effective way for the organisation to achieve its strategic and financial goals will be driven by client needs and market preferences, not through product push.

Implications for FCM:

- Remove ‘Reduced cost’ link as link to ‘Economies of scope in production’ is already in place.
- Add negative link from ‘Complex process, not natural’ fit policy node to ‘Deep customer relationships’
- Condition of simple and complex products is that clients’ needs are being met.

The effect of the changes on the outcome of the scenario is that ‘Reduced cost’, ‘Increased revenue’, ‘Brand equity’, ‘deep customer relationships’ and ‘Convenient distribution’ are enhanced when ‘Simple, personal products’ are integrated where ‘Operating scale’ exists but that when ‘Complex, business products’ are introduced, ‘Reduced cost’ is not enhanced. When a product is integrated through a ‘Complex process, not natural fit’, but scale exists only ‘Increased revenue’ is positively impacted.

APPENDIX N: Consistency matrix

Sub-problem	Literature review	Research questions	Source of data	Type of data	Analysis
The first sub-problem is to develop a predictive model of the impact of integration on the competitiveness of the organisation with reference to profitability and competitive advantage.	See table 3, page 62 to 75	What are the factors and the causal links between these factors that impact on the profitability and sources of competitive advantage of a financial services organisation when integrating products from another financial services sector?	Interview protocol Questions 1-4; Responses to scenarios used for validation	Expert opinion based on semi-structured interviews	Content analyses; FCM
The second sub-problem is to utilise the model in order to identify the key uncertainties that impact on profitability and the sources of competitive advantage when integrating financial services organisations.	See table 3, page 62 to 75	Which of the factors identified are the most influential and can be considered the key drivers of enhanced competitiveness.	Interview protocol Questions 1-4; Responses to scenarios used for validation	Expert opinion based on semi-structured interviews	FCM