

Does the Internet compete with or complement bricks-and-mortar bank branches?

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Keywords

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Abstract

What does the Internet imply for the business of banking and how will it affect it? Are branch offices "doomed" and obsolete? Explores the major Swedish banks' adoption of the Internet with a view to highlighting the ensuing changes in the way banks conduct their business and deliver their services. Although the number of branches is shrinking in rhythm with increased Internet use, their role is increasingly changing as banks move from a view of the Internet as a means for improving efficiency, to one of seeing it as a strategic device for transforming the business. Since more and more of the transaction processing load is taken over by technology, banks are concentrating on strengthening their marketing approach and re-inventing their business model. In this context, traditional bank branches, with an infrastructure supporting transaction processing, are being transformed into an open-space interface within which bank experts engage intimately with their customers, delivering specialised, advisory services.

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Introduction

The Internet has taken the financial sector by storm. Given that financial services are informational, thus amenable to digitisation, the Internet seems to be an inexpensive communication, transaction and delivery channel (Peterson *et al.*, 1997; Furash 1999; Mols, 1999). A traditional payment transaction costs \$1.08, whereas on the Internet the same transaction costs 13¢ or less. Thus, it is claimed that the Internet's single most significant effect/benefit is to cut the cost of interaction: "the searching, co-ordinating, and monitoring that people and companies must do when they exchange goods, services, or ideas" (Nevens, 1999). The cost of searching for a mortgage, executing a bank transaction, and obtaining customer support, drops by as much as 80 percent or more when these activities are handled electronically (Nevens, 1999).

Because the Internet is also a prime means of communication, it is assumed to affect banks' relationships with their customers. On this count, the Internet is seen as a viable alternative, or supplementary distribution channel (Mols, 1999). The issue of distribution of financial service offerings has become important for banks since innovations in their services do not yield lasting comparative advantages, having a relatively short life-span and being easy to copy (Devlin, 1995).

For the last few decades or so, theorists and analysts have been predicting deep changes in the banking industry. Today, because of the Internet's advantages compared to the traditional bricks-and-mortar branch infrastructure, it is suggested that the changes this time are even more significant, and radically different from previous ones. The main argument is that the Internet is "not just another marketing channel; it is not just another advertising medium; it is not just a way to speed up transactions. The Internet is a foundation for a new industrial order" (Gascoyne and Ozcubukcu, 1996; Furash, 1999), posed to dramatically change the

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distribution channel structure of retail banks (Tilden, 1996), and to “shake banking’s medieval foundations” (Nehmzow, 1997).

However, Greenland (1994) maintains that despite developments in non-branch financial service provision – such as telephone banking – the high-street outlet will continue to be the main distribution channel. More recently, and along the same lines, Moutinho *et al.* (1997) suggest that contrary to all the predictions that the branch-based distribution network is “doomed” and would become obsolete in a computerised society, the full-service branch office has survived, although it has seen its role and image changing to meet the requirements of the changing banking environment (Moutinho *et al.*, 1997). But would not changes in the distribution network be dependent upon the way the Internet is perceived, assimilated and deployed by banks? If the role of the Internet is seen as one supporting existing infrastructure, then the changes may not be significant; but if it is used as a strategic device to re-invent the business of banks, then we would expect the role of branches to change even more. For distribution channels are a reflection of the nature of work to done and the mode of processing and delivering the services. When these change, the distribution network is bound to change too.

The aim of the paper

The aim of the present paper is to explore the changes in the way banks conduct their businesses in implementing the Internet and how these changes affect the bricks-and-mortar distribution channels of banks. To these ends, I use the cases of the major Swedish banks’ adaptive responses (Cohen and Levinthal, 1990) to the Internet in order to highlight the salient on-going changes that have bearing upon the traditional distribution outlets. The expression “adoptive response” refers to the extent to which banks:

- recognise the significance of the Internet for their businesses; and
- apply it to improve the efficiency in handling transaction, enhance their relationships with customers, extend their business prospects, transform and redefine their core and business models in innovative ways.

It is assumed that when the Internet is used for efficiency purposes, the impact on the

branch network will be less significant than when it is deployed for strategic purposes, such as re-inventing the business. Before exploring why banks adopt the Internet, a short presentation of the Swedish banking industry and the favourable Internet context it is enjoying are made.

The Swedish banking sector is dominated by four banks:

- (1) Svenska Enskilda Banken (SEB);
- (2) Föreningsparbanken (FSB);
- (3) Merita-Norbanken (NMB); and
- (4) Svenska Handelsbanken (SHB).

With varying degrees of enthusiasm, the four banks have opted for the Internet. SEB can be seen as a pioneer, having secured its presence on the Web as early as 1995, shortly followed by FSB in 1996, MNB and SHB in 1997.

By international standards, the market in Sweden is exceptionally favourable for online services. According to *Business Week* (1999):

Scandinavia boasts the highest Web-surfing population per capita in the world, with Finland, Norway, and Sweden all topping 30 Internet users per 100 adults, while the USA trails with 28.

Of the Web surfers, 80 percent were born in the 1960s, the difference between men and women is not very significant. About 60 percent of these live in cities with more than 30,000 inhabitants. Among the users of the Internet, educated people have the lion’s share, around 75 percent. Furthermore, high income-earners seem to use the Internet more regularly than less educated people.

According to a report by SIFO, a Swedish trend analyst, electronic commerce has increased by 35 percent in 1999.

What problem(s) does the Internet propose to be a solution to?

In a study of online retail banks in the UK, Daniel and Storey (1997) have found a plethora of reasons why UK banks have opted for the Internet to:

- protect or enhance the organisation’s reputation for innovation;
- provide added value to customers;
- attract new customers;
- meet demand from current customers;
- imitate competitors launching services online;
- develop mass customised services, etc.

As can be appreciated, these accounts make different theoretical assumptions, as amplified in the following.

Theorists commonly make a distinction between *technology-driven* and *market-driven* innovations (Levy, 1998). Whereas the impetus for technology-driven innovations is assumed to come from the availability of new technology or a combination of new technologies, market-driven innovations are meant to be a response to a perceived customer need. The former argument finds support in the assumption that organisations “do not invent themselves their technology but import them from the environment” (Scott, 1998, p. 229). Along the same lines, Pennings (1998) notes that banks do not have much choice in adopting new technologies; and that “joining the bandwagon with respect to IT innovation is a strategic necessity, rather than a move to implement advantageous competitive choices. A bank would isolate itself if it were to refrain from joining an ATM network . . . The mere fact that imitations are abundant renders diffusion of innovation in the financial sector prototypical of ‘institutional isomorphism’” (DiMaggio and Powell, 1983). Widespread mimicking suggests that first movers’ advantages might be small, that adoption is motivated not only by the quest for product or service differentiation but also by a need to signal conformity to “widely held beliefs about banking services” (Pennings, 1998).

The latter account assumes that new customer needs have emerged as a result of changes in life-styles and working habits, such as convenience and ease of transactions above all else in selecting banks (McKechnie, 1992 in Devlin 1995). Arguably, individuals are becoming more and more affluent, preferring to spend more time on leisure, dedicating less time to financial matters (Devlin 1995), and requiring more convenient access and availability.

By and large, firms seem to adopt the Internet because they regard it first and foremost as a means for marketing, reducing transaction costs, achieving a higher degree of customer-orientation, and transforming their core businesses. Through close relationships with customers, firms can learn about the customers’ habits, needs and taste. On the basis of that customer knowledge base, it is possible for firms to target their customers more precisely, customise and personalise

their offerings to them. An intimate knowledge of the customer will enable firms to redefine themselves from the perspective of the customer (Gascoyne and Ozcubukcu, 1996; Furash, 1999).

Stages in adopting the Internet

In embracing the Internet and exploiting its potential, firms seem to go through different stages during which its role is seen to change. These different levels of exploitation are captured in different frameworks, which more or less pick up the various stages firms go through in assimilating the new technology. The following discussion is based upon Parsons *et al.*'s (1996) assumption that, in adopting the Internet, firms go through four main stages. The first phase, information presentation, which involves the initiative to launch a basic on-line presence mainly in order to present information to the customers. Information presentation may involve one-way communication (such as informing customers about products and services), or two-way communication (involving some degree of interaction, since by allowing users to send electronic mails to the firm in order to make enquiries, suggestions or complaints). In this stage, the overall purpose of using the Internet is a marketing one, namely to enhance the image and supply product information. So far, the firm has not set any formal structure for the Internet unit and Internet-related activities are enjoying little visibility in the organisation, mainly driven by individual interests. This can be seen as the first step a firm takes towards improving customer service through providing more information about its services and products. It is not very innovative since the Internet is used just as yet another information channel.

Usually customers would require more information, more interaction and transactions, and in response to such demands further investments in money and attention are devoted, hence the beginning of the second stage – transaction stage. A small full-time technical group of staff is set up, assuming responsibility for establishing and maintaining the Internet site. The investment at this stage is still lacking a clear vision and the site is mainly used as a context within which customers can carry out basic

transactions, such as paying bills, transferring money from one account to another, etc. The Internet is used as a cost-efficient supplementary channel to banks' branches, for promoting, transacting and delivering services and products.

In the third stage, the Internet unit develops its own structure and marketing-related and technology-related activities are separated. The online unit begins to gain the status of a stand-alone unit, conducting its own activities and pursuing its own objectives. The firm will expand the range of services and products offered, paying increasing attention to customer demands, by appreciating more and more the importance of the information it can gather from its customers and using it as input in developing new products and services. In order to innovate and create new products and services that solve more of the customer's overall problems and needs, the firm may have to join forces and collaborate with other partners. At the same time, it begins to make more sophisticated use of its site, such as customising it according to the requirements of customers. This may imply the addition of more technical features such as connecting the Internet with mobile telephony, offering the customer, no matter where they are, online services.

In the fourth stage, featuring the core business redefinition and transformation, the Internet is not only used as a full-fledged interface between the firm and its customers, but it is also conceived of, in lines with Gascoyne and Ozcubukcu (1996) and Furash's (1999) suggestion, as a means for rethinking and transforming its core business, by transcending time-space constraints (such as tapping new (international) markets and new businesses. To the extent that the business nature at this stage is revisited, the role and image of the branches will change.

In implementing the Internet, firms go through different levels of exploitation – ranging from a marketing approach (involving information presentation, interactivity, transactions, dynamic customisation) to a strategic one (pertinent to redefining and transforming the business model). In light of these two main approaches, the four major Swedish banks' adoptive responses are presented and discussed. Whether banks evince a marketing-oriented and/or business transformation-oriented features will be symptomatic of the degree of (envisaged)

transformation in bricks-and-mortar branches.

Method

To the extent that the study concerns changes in Swedish banks' distribution channels as a result of the implementation of the Internet, the four major banks are chosen as the empirical focus. The exploratory phase of the investigation began in 1998 with a number of loosely structured interviews with information technology and marketing. This initial exploration was meant to form an idea concerning the different strategies pursued by the banks. During that phase, banks' perceptions of the Internet differed markedly, reflecting the early doubtful attitude to the Internet and its potential. At this stage, differences between zealous adopters and doubting Thomases were not as explicit as at the second stage (spring, 1999). However, with increased Internet literacy and penetration, banks have begun to realise the cost-efficiency benefits of the Internet. In addition, more and more customers are getting more comfortable with using the Internet, increasingly asking for Internet services.

At the second phase, a more comprehensive investigation was carried out. On the basis of the four-stage model of Internet implementation suggested in the previous section, a questionnaire was generated. A total of 12 interviews were conducted with managers and executives. The duration of the interview was between one hour and one-hour-and-a-half. The overall aim was to identify the stage which each bank has reached in implementing the Internet and the degree of change in the bricks-and-mortar distribution systems. The interviews have sought to elicit answers to such questions as:

- How do the participants perceive the significance of the Internet for their business?
- What are the motives behind implementing the Internet?
- Was there an Internet strategy in place?
- How is the Internet changing the structure of the institution, their daily activities and the relevant skills?
- Has the Internet led or is leading to the closing down of bricks-and-mortar branches, etc?

Answers from each bank were contrasted so as to reflect the degree to which the Internet was embraced – as a marketing or a strategic tool, depending on the stage reached – and changes in the distribution channels.

Overview of the banks

In the last few years the Swedish financial sector has seen a number of mergers, acquisitions and fusion that have led to the four leading banks that provide the empirical focus for this study. FSB is one of Sweden's largest banks, primarily focusing on savings, loans and payment services to private individuals, small and medium-sized businesses, municipalities, etc. It has the country's largest distribution network for financial services with a total of 695 branches in 1998. In 1996 an employee at FSB took the initiative to set up a Web site and tried hard to preach the case for the Internet and intranet. The Internet was mainly used for communication purposes until March 1997 when it launched its online services.

MNB is the outcome of a merger between Nordbanken Holding AB and Merita Oyj, in 1998 (<http://www.corporateinformation.com/secorp.html>). In June 1997 MNB launched its homepage consisting of information concerning the bank and its products. At the end of the same year, the bank's telephone banking department, intent on expanding its services, set up an Internet bank. After the fusion with the Finnish ally – Merita which had gone a long way towards exploiting Internet banking – there was a change: the Internet is no longer simply regarded as a complementary distribution channel but also a strategic tool.

SEB is one of the largest financial groups in the Nordic area. The bank offers private individuals, companies and institutions a wide range of banking and insurance services including retail and merchant banking services, life, non-life and pension insurance, leasing, factoring, investment and other financial services (<http://www.corporateinformation.com/secorp.html>). The bank realised the significance of the Internet in 1995 when virtual portals were burgeoning; so it established itself on the main Swedish shopping site called "Torget". SEB was the first bank to launch its homepage, in 1995. In the fall of 1996, the

bank launched its Internet bank, shortly followed by an Internet office, providing a complete package of services for private customers

SHB is a Nordic universal bank which provides commercial and investment banking services, property finance, investment, fund and asset management, leasing, financing for purchase of capital goods, factoring and collection services, custody services, life insurance products and other financial services (<http://www.corporateinformation.com/secorp.html>). In 1996 SHB ventured onto the Net, providing mostly information such as annual reports and press releases, etc., which were useful for industry analysts and journalists. In October 1997, SHB launched its online services. To the extent that the bank is decentralised into stand-alone branches, there has not been any central policy governing Internet-related activities. Much discretion and decision-making power is left to each branch.

In the four banks under consideration, the initiative to set up a Web site was taken by information technology and marketing individuals, out of personal interests. Although it could be said that the banks did not have an explicitly formulated Internet strategy – but rather a strategy has emerged incrementally and gradually – it is possible to distinguish between pioneers and followers. SEB and FSB were first to venture onto the Web. SEB established its homepage (in 1995), and then its Internet banking in 1996. Shortly after, FSB, realised the increasing significance of the Internet when reports by trend analysts (such as SIFO) and the popular press predicted that customers were ready and willing to conduct transactions on the Internet. On the other hand, MNB and SHB were, at least initially, less enthusiastic about their venture. MNB and SHB can be seen as followers, attempting to adjust themselves to technological developments and to keep up with their competitors. Noteworthy is the point that SHB's hesitant steps towards the new technology can be accounted for in terms of its information technology strategy characterised by a wait-and-see approach.

So far the banks are not sure whether the Web has enabled them to increase their share of the market or not. SHB believes that its Internet customers (145,000)

consist of its existing bank customers, stating that the Internet is not a competitive device any more since all banks are offering online services today. However, the bank stresses the point that it would have lost customers if it did not establish its presence on the Web. As for the MNB, it is important to present itself as a bank that is innovative and receptive to new technologies, especially *vis-à-vis* the younger generation. Although SEB's pioneering initiative won it a number of customers in the beginning, it believes that the real breakthroughs will take place with the advent of digital TV, which will facilitate access to the Net and open it to a wider public.

With regard to the Internet organisation and its personnel, at FSB, SEB and to some extent MNB, the Internet unit enjoys the status of a separate unit, with top management holding the overall responsibility. In August 1999, SEB appointed the first Internet manager in the Swedish banking sector. In the early days of the Internet, Internet personnel consisted of employees who were interested in the Internet – hence not necessarily experts, but increasingly the banks are relying on internal Internet specialists, external consultants specialised in design, Web site building, publishing, etc. SHB, by contrast, has been slow to build a central Internet policy, because of its decentralized structure. No special Internet personnel recruiting has taken place, relying mostly on external resources for most of its Web-related activities (see its collaboration with IBM, further down). Table I highlights the main features of the four banks under consideration.

Discussions

This section discusses the different steps banks have taken in exploiting the Internet, the overall aim is to explore attendant changes in the distribution channels. It seems to emerge that the banks are using the Internet to achieve two main purposes:

- (1) The followers seem to be adopting a defensive strategy, using the Internet as a means to improve interactivity with their customers, offering them the possibility to carry out transactions, personalising their offerings, etc.
- (2) At a more radical level, other banks seem to be adopting an offensive strategy, taking the Internet more innovatively as a device for redefining their core business and transforming it altogether.

These different approaches to the Internet are assumed to lead to different changes in the role, image and design of distribution channels.

Steps towards a dynamic customization

The four banks under consideration have reached different stages in adopting the Internet. Consistent with Gascoyne and Ozcubukcu (1996), the adaptive responses of banks deploying a defensive strategy stems from imitative behaviour of the competitors; whereas for those adopting an offensive response, the Internet is used to transform their core business.

The four banks offer one-way information presentation. However, with regard to two-way information presentation, banks differ. Only SEB and HSB offer two-way,

Table I A comparison of the Swedish banks

Bank	FSB	MNB	SEB	SHB
Employees	12,454	7,354	131,190	10,000
Branches	695	272	264	485
Internet strategy	Emerged gradually	Emerged gradually	Emerged gradually	Emerged gradually
Web site established	1996	June 1997	1995	1996
Internet banking	Yes	No	Yes	No (1998), yes (1999)
Internet user profile	Yes	No	Yes	No (1998), yes (1999)
Individualized services	Yes	Yes	Yes	Not planned
Reply to customer e-mails	No	No	Yes	Yes
Online service availability	24 hours a day	24 hours a day	24 hours a day	From 06.00 to 22.00
Internet organisation	Yes	Yes	Yes	Yes?
Number of Internet users by 1999	300,000	700,000	280,000	160,000

interactive communication through e-mail. SHB does not use the wealth of information to learn about its customers more intimately and to provide individualized services. For it assumes that local branches “know” better the customers and their needs. Also, in contrast to the other banks, SHB provides limited online service availability: the site is only available between 6 a.m. and midnight. MNB and SHB tend to offer their customers the possibility to conduct the basic services and transactions, they do not offer a two-way communication (i.e. e-mail) to their customers. Their knowledge of their customers is limited, and customers’ prospects to affect the banks’ offerings are greatly reduced. The banks have less chance of knowing the customer, and therefore less able to redefine themselves from their customers’ perspective and to become more customer-oriented.

SEB, FSB and (to a lesser degree MNB) are taking personalization and customization seriously and busily working on it. Using statistical methods they can analyse the types of customers who visit their Web and learn about their behaviour and needs, and thus are more able to respond more precisely to their needs. A further step that SEB has taken to meet Gascoyne and Ozcubukcu’s (1996) suggestion that firms should reconfigure their business – such as through collaborating with partners in order to provide customers with total solutions and new services – is its collaboration with Ahléns’, one of the major retailers in Sweden. The idea is that customers, when ordering their products on the Ahléns’ site, could use a link to SEB’s Internet site for paying their bills. Another similar move is that of SHB’s collaboration with IBM and Nokia in order to offer wireless banking services (as discussed in the next section).

SEB and FSB have gone somewhat further towards increased customer-orientation. More specifically, SEB makes sophisticated use of the Internet, providing two-way information presentation, interactivity and a site – called “investors forum” – which members can use to exchange views and tips about stocks and to communicate with one another as well as with the bank. Furthermore it has developed what it calls a “trading station”, which, both allows customers to trade and to gain access to market and global information that supports them in making

business decisions. According to Mr Gustavsson, head of IT and business development at SEB Merchant Banking, the trading station can best be compared to an online-broker service where the corporate client can trade, in real time, on various exchanges or market places via the Internet. SEB is in the process of increasing its range of Internet products for corporate clients. Hence, in its pursuit of innovation, it has started interest rate and futures trading via the Internet, allowing 700 corporate clients to carry out currency trading via its trading station. By the year 2000, SEB expects to have its trading station in Europe, USA and Asia. SEB claims to be alone in the world in offering this unique combination of services, through its trading station. Apart from the trading services provided, it also provides currency rates, interest rates, share indices, raw material prices, market information, international news, as well as access to SEB’s economic and technical analysis. The information is delivered in real time. As soon as a rate changes there is an update of the information contained in trading station. Furthermore, there is a confirmation system that provides the customer with instant confirmation and documentation. SEB is now starting to export its Internet bank. Denmark will be next in line after SEB’s purchase of Denmark’s Codan Bank. Several international Internet banking projects are being planned.

Likewise, in a step towards personalization of its services, FSB has developed an interface called the “Dialogue”, which allows customers access to their own page, where they can both affect the content of the site and communicate directly with the bank. In consequence, the bank can adapt itself to each customer on an individual basis. “With the scope that the Dialogue will have, we are offering by far the best solution for direct communication available in the Swedish banking market today” (says Mr Nordblad, responsible for FSB Internet service). The personalized page has the following content. Besides enabling the customer to make the usual bank transactions, the Dialogue provides access to an individual page where the customer can affect the contents and is also able to communicate directly with the bank. Orders and applications, messages

and queries can all be transmitted via the Internet.

As noted above, SHB's hesitant steps concerning a more sophisticated use of the Internet can be partly explained in terms of its reluctance to be an early adaptor of new technology and partly because of the way they define their customer (see underneath). However, on October 10, 1999, the bank initiated a collaboration with IBM and Nokia aiming to develop a platform – Wireless Application Protocol (WAP) – whereby customers will be able to carry out their banking services from their mobile telephones. In this way, “bank services will come to the customer, rather than the other way around, offering them around-the-clock and anywhere services”, says Mr Grönstedt, vice VD at Handelsbanken.

Hence the bank's initiative to offer wireless banking services can be seen as evidence that the bank is changing its attitude towards the Internet. For, the bank's adaptive response to the Internet has been until recently inconsistent and limited. So far it has not provided a 24-hour service, nor has it taken seriously the processing information derived from its customers in order to personalize their offerings, although in 1999 it declared that it does use customer information to build customer profiles. However, SHB online services have not had significant effects; for according to one of the interviewees at SHB: “there is no reason in hell or in heaven why we should change the way we work; I cannot see any other alternative ... bank branches will remain the way they have always been”. For SHB the Internet is a perfect means of information and a way of exporting monotonous tasks to customers. But the bank's approach is that its customers are those who come to its bricks-and-mortar branches. “For me it feels anonymous to be a customer on a huge, central Internet bank”, said an interviewee from SHB.

SHB supports the view that bank branches are neither doomed nor obsolete. On the contrary, they will remain the main mode of delivery of financial services. This view is consistent with a view of banks as principally involved in the financial services business whose main mode of delivery and processing is the branch and whose customers are those who come to its branches. The role of the Internet is to facilitate the flow of information between the banks and its customers, and to

enable customers to conduct cost-efficient financial transactions. In this context, no great changes are anticipated in the role and image of branches, except the closing down of some of them, given that more and more customers use online banking.

Redefining the core business

In line with the assumption that the Internet is to be taken as a means of transforming their core business, FSB and SEB predict that fundamental organizational and strategic changes will result from the Internet. They are already feeling the effects today. The first and immediate effect is a reduction in the number of branches and employees; since their online customers do more and more of their administrative work; for instance, 1 million bills are settled via FSB's Internet bank every month. Furthermore, as put by an IT head at FSB during an interview, “internally, it feels like people have all of a sudden woken up to the integrative power of the Internet, and its potential to streamline and facilitate their activities”. Likewise, from outside the organization, customers are putting pressure on the bank, requiring more online services.

SEB claims that the Internet will affect its business strategy and model in more fundamental ways. It regards the Internet as a way to change its brand name; to move away from a “tradition-bound institution, to an innovative and dynamic form of organizing, which capitalises on technology, a brand name, information about its customers and new ideas” (says an SEB official). For SEB there is no limit to the kind of services and products (not only financial services) it will be able to provide, nor to the number of new markets it can tap. The bank is going through a radical change in terms of its core business. SEB's market has grown beyond its national borders, and is ranked No. 2 in the world by *Baron* (Dagens Industri, 1999). Furthermore, in September 1999, SEB launched a unique form of co-operation with SMART and six airlines. SMART is northern Europe's leading company as regards electronic distribution of travel information, bookings and tickets. Its most important product is Amadeus, a global booking system. Through its collaboration with SMART, SEB offers its customers the opportunity to pay for their air travel online, in the same way as paying ordinary bills. Over and above SMART, SEB

is also co-operating with SAS, Air France, Finnair, Icelandair, Sabena and Air Portugal. SEB's travel service is evidence of the way it is utilising the business logic of the Internet to provide its customers added value. As stressed during an interview with Mr Larson, head of SEB's Internet Bank: "We are probably one of the first Internet banks in the world to provide this type of service".

Because transactions over the Internet are increasing at the expense of face-to-face, branch-based transactions, the bank is predicting deep changes in the division of labour. Shrinking transaction processing is likely to lead to redundancy among the workers involved. According to the four banks under consideration, the business of banks is set to shift from that of handling transactions towards providing counselling and advisory services requiring face-to-face interactions with customers. Will this change in the nature of work augur the end of bank branches or will it just imply that their role will change?

Indeed, the four banks under consideration are predicting that the number of bricks-and-mortar branches will diminish considerably. But this is only part of the story. For the other part is that branches are not doomed to vanish. Rather, their role will be redefined to reflect or support the processing and delivery of the newly-emerging services that customers require. In other words, the branches designed to mainly support a transaction-processing environment would not be suitable for a context which requires counselling, advisory services. This is evident in the way SEB has re-arranged the layout of its branches – an environment featuring a friendly atmosphere, where customers and bank staff members sit around a table side by side, rather than the traditional design characterised by a front desk separating bank staff from customers. This change in the physical arrangement of space in which customers and staff meet is also symptomatic of a deeper change; namely change in the skills of bank personnel. To the extent that more and more of the transactional chore is taken over by technology, banks are in the process of up-grading the skills of their staff from transaction processors to financial advisors. Financial advisors will populate the new branches – which are an appropriate context for interactional interchanges with customers, and an appropriate mode of delivery of specialized, advisory services.

Hence, not only will bank branches shrink and lose ground in favour of Internet banking (Crede, 1997; Heffernan, 1996; Howcroft and Kiely, 1995), but also and most importantly, the functions of branches will undergo a fundamental, qualitative change (Greenland, 1994; Moutinho *et al.*, 1997). As the cases under consideration bear witness, the proactive, offensive banks (SEB and FSB) have managed to make the transition that implies closing down a number of branches and upscaling the image of others, adopting a new spatial model which ties in better with the new services. Such services may not necessarily be directly related to the field of finance. In the case of SEB, which has tapped new businesses and is predicting others, its traditional infrastructure geared towards supporting and guaranteeing the security of financial services may not be viable anymore in the context of the new business domain.

Concluding remarks

From the empirical material underlying this study, it seems to emerge that the four major Swedish banks are responding to the Internet differently. Depending on the extent to which they have embraced the Internet and put it to use, banks are undergoing change to various degrees. Those banks which see the Internet as a complement to, or a substitute for the traditional distribution channels, have achieved better communication with their customers, better interactivity, witnessed a decrease in transaction processing, and solidified their ties with their customers remotely, resulting in a diminished significance of branches and subsequent reduction in their number. For SHB, branches will remain the main interface with their customers. However, although a significant part of what constitutes banks' activities is being migrated and delegated to technology, newly-emerging, advisory tasks are increasing. The result is a more explicit division of labour: technology for automating transactions processing, and branch-based, face-to-face interactions for offering problem-solving services.

Contrary to the remote exchange of information, communication, transaction and delivery of those financial services that are amenable to digitization, advisory financial services are interpersonal, communication-

intensive, requiring face-to-face interaction. Transitioning from transaction processing to providing advisory services requires learning more specialized financial skills. This mode of processing and delivering services is bound to change the design, image and role of the bricks-and-mortar distribution channels originally geared towards guaranteeing and supporting transaction processing and handling money.

Furthermore, those banks which perceive the Internet as a means to redefine the core business, the changes are more radical. For instance, tapping the travel industry business amounts to learning new skills, knowledge of new markets, new customers and requirements. Not only do banks such as SEB have to change the design of their branches in order to accommodate the processing and delivery of their new services, but also their brand name and identity.

Indeed, banks' branches are undergoing two types of change:

- (1) quantitative; and
- (2) qualitative.

To the extent that Internet maturity, literacy and acceptance among customers increase, more and more transactions are taking place outside the branches, and, therefore, the number of branches is set to decrease. However, since more and more of the administrative chores are delegated to technology, banks can concentrate on other more specialized, advisory and counselling services, which subsequently will lead them to extend their business scope. Such new domains, new services and markets, which may not necessarily be directly related to finance, require different skills and a different supporting infrastructure, a different mode of service processing and delivery – one that puts emphasis on face-to-face interactions with customers.

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