
Quality in Services

An examination of Amagerbanken.net and
competitive strategies in services

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PREFACE

This paper examines a product innovation in a service. By adopting a rational strategic framework, an Internet bank will be examined in detail, aiming at finding the most describing competitive strategy the firm pursued. The framework adopted does not differ between manufacturing and services, and is apparently suitable for both economic spheres. The result of the case-analysis is that instead of following one competitive strategy, a mix between some strategies is most appropriate.

The reason for this outcome in the analysis is explored in the different characteristics of goods and services, and these are considered. Based on a suspicion that quality plays a vital role forming a service firm's competitive ability, a quality scale is developed. This scale provides a measure-tool for quality in services and provides a rating in-between two extremes, an objective and a subjective perceptive. Analyzing the Internet bank and what quality interpretation it used, becomes crucial for the banks strategy formulation. The result is that a subjective quality approach can be a describing competitive strategy for the case in this analysis. This paper does therefore suggest a quality dimension as vital for service firms and their strategy formulation, and add this differentiation element to the original rational strategy theory.

The focus of this paper is competition and how strategy formulations not necessarily have to be black boxed in contradictive understandings. It shows how an intermediate way, through combining and taking the best of various approaches results in a better understanding of the case this paper examines.

The purpose of this paper is to help managers in service firms get a better understanding of how they can increase their competitive ability using quality of their products strategically. Moreover it sets out to combine and analyze research questions from various scientific fields, and examine science, technology and society as interfering and not distinct from each other. Thus this paper will also be my master thesis at ESST.

Key words: *strategy, innovation, services, and quality*

1 INTRODUCTORY CHAPTER

Strategy plays a vital role in the way managers think about themselves and their organizations. Every organization depends upon a strategy, because otherwise it is without direction in *an increasingly turbulent economic and political charged environment*¹. Firms are striving to show their surroundings that they have a "plan" or strategy that explains their behaviour. With origins in military affairs², strategic thinking has over decades been adopted to academic research, resulting in various interpretations, classifications and understandings. Because this field has been "stealing" ideas and fragments from other research fields, like economy, organizational studies and the corporate sector³, there are by no means agreements in the literature over the content. As a consequence the literature presents strategy as multidimensional, situational and industry-dependent⁴. This thesis will illuminate the most common understandings of strategies. The objective will be a detailed analysis of the banking industry by adopting a rational strategy approach. Hence the general problem formulation this thesis sets out to discuss is *can an adoption of a rational interpretation of strategy give a plausible understanding and explanation of a product innovation in services?* This problem formulation will be further developed and concretised in this introductory chapter, resulting in quantifiable research questions this thesis examines.

1.1 STRATEGIES

The various interpretations of the term strategy, illustrated above, have also resulted in various attempts to classify strategies. Most have the rational strategy approach as the point of departure, because this is the most recognized field⁵. The process of strategising is according this approach viewed as the use of rational techniques. The management will pick "one way" as the best for reaching the goal, which also maximises the managements control over the organization⁶.

¹ See Knights 1991: 252

² Uchupalanan 1998: 42, further reading see Knights 1991

³ Foss 1995: 7

⁴ Chaffee 1985: 89

⁵ Clark 1995: Ch 1

⁶ Knights 1991, Clark 1995

Among the several levels it is possible to analyse an organization at, its size and scope, its goals and objectives and its core values and profile can be called the firm's competitive strategy⁷. Approaching and analysing a firm's competitive ability using rational strategies is an accepted field and several researchers have been preoccupied with this. A framework that deals with these questions is one developed by Michael Porter in the 80s, which will constitute a theoretical frame in this paper. Regarding Porter, all firms must have a competitive strategy for survival, and he develops three generic categories or strategies, depending on the firm's overall aim. With Porter's rational approach it is possible to narrow down the research question, now being: *can an adoption of Porters rational interpretations of strategy give a plausible understanding and explanation of a product innovation in a service?*

Porter's generic strategies are meant to be appropriate for both manufacturing and service firms⁸. Since the 80s the strategies have been tested towards various industries, but the research on their appropriateness on services are rather limited. Therefore this thesis will be an attempt in doing so, founded on a suspicion that Porter's rational strategy approach is not valid on services. The service sector and research on services and innovation have for a long time been underestimated. Since the end of the 70s, beginning of the 80s, however, there has been an increased focus on these issues. With services as an overall issue, I have chosen the financial sector for further analysis. What is examined is the most important single trend⁹ in the banking industry today, where banks are delivering routine services via Internet instead of encouraging customers to visit the physical branches. Internet banking¹⁰ is beneficial for customers because it is more convenient, gives more accessible state of accounts and a wider range of services are available. For the bank, Internet banking gives more satisfied customers and opens for the possibility to attract new customers. Whereas Web-banking provides a new market, competition among banks winning the customers favour is of main importance. Competition among banks is getting tougher for two main reasons.

⁷ Clark 1995: 2

⁸ Porter 1985: 4 and Porter 1980: 5

⁹ Essinger 1999: viii

Firstly banks are merging and getting bigger which changes the original competitive environment for the banks. Secondly, with Internet it becomes easier for the customers to compare and change banks, which again makes the customers increasingly disloyal and a fluent mass that is hard to attract on permanent basis. With an interest in these changes, I have chosen to analyse an Internet bank in detail. Amagerbanken in Denmark launched in June 1999 its first Internet bank, Amagerbanken.net, which will be the case for further analysis in this thesis

Questioning how reasonable the strategic processes actually are, challenge the rational view of strategy depicted above. Hence other and contradictive approaches that confront the rational view are emerging, like the processual approach. In a processual approach strategy is understood as a social construction based on the external situation of companies, internal culture or other factors¹¹. This means that the service company is so oriented towards the customers and their reactions so the firm completely adopts its organization to fit the surroundings and changes with them¹². With these characteristics a processual strategy approach is suggested to be more suitable for services. The emerging contradiction between Porter's rational strategy approach and services being more processual needs further investigation. Therefore it is interesting and necessary to examine the suitability of Porter's rational strategy view on services from a strategic perspective. The rational strategy approach, represented by Porter and his framework will therefore be the theoretical point of departure of this thesis. Opposite to the rational the processual approach with services, exemplified in this case by Amagerbanken.net, will be analysed. Hence, the final specific research question this thesis will discuss can be presented:

Can an adoption of Porter's rational interpretations of strategy give a plausible understanding and explanation of the innovation; Amagerbanken.net?

This will be the overall problem formulation this thesis sets out to answer.

Therefore a presentation of Porter's generic strategies becomes necessary, and

¹⁰ Throughout this thesis I will use the terms Internet bank, home bank and web bank similar.

¹¹ Sundbo 1998a: 118

¹² Sundbo 1998a: 132

chapter 2 deals with this. Testing the appropriateness of the strategies on Amagerbanken.net, through defining some indicators will be done in chapter 3.

Except from adopting Porter's strategies, quality, as a competitive strategy will also be discussed in this paper. Because quality is a complex issue and difficult to measure there are rather few attempts examining quality as a subject of competitive strategy formulation in the existing literature. Quality being a part of the service literature has in many respects a more processual strategy view. Another research question is thus: *Can quality be a competitive strategy and hence explain how and why Amagerbanken developed and implemented Amagerbanken.net?* In chapter 4 a framework, being a quality scale, will be developed on behalf of the existing quality literature. Thereafter this quality scale will be discussed towards Amagerbanken.net. The thesis ends with a general discussion of the appropriateness of a rational strategy view, exemplified with Porter, and the processual strategy view that services and quality represents and how these approaches can be linked.

1.1.1 Premises

This thesis rests, however, on some assumptions and premises. Firstly it will be taken for granted that Amagerbanken competes and that competition is important in the environment it operates. Moreover Amagerbanken.net will be analysed as a product innovation, without regard to eventually theoretical debates or complications this might involve¹³. But at the same time this product innovation is different from manufacturing a product, because it is a service. Hence another premise is that quality can be analysed as two extremes being subjective and objective quality. With the many approaches and partly covering fields in between these extremes, developing a quality scale becomes essential.

1.2 METHODOLOGY

¹³ This thesis will concentrate on a product innovation, understood as a new product being offered. Classifications of innovations also mentions other kinds like process, market and organizational innovations, see e.g. Freeman 1997.

In this section I will shortly outline the methodology used in this paper. This part has two purposes; to examine what data sources are in use and to do some methodological considerations.

The literatures presented in this paper are contributions from various research fields like strategy, competition, services and quality. It has become necessary to couple various research fields while it corresponds with topics the thesis covers. This is also in accordance with one of the purposes with the thesis, to increase the knowledge and highlight problems with the existing literature as point of departure. Because the case in this thesis is an Internet bank, visiting their homepage and <http://www.amagerbanken.net> has been crucial. While these Web pages are in constant change, the dates are important when these are referred to. This also indicates that some of the Internet pages are different today than what they were when I visited them.

Competition and the market in which the firm operates is the point of departure in Porter's analytical method. Therefore the most appropriate analysis of Amagerbanken.net would have been to adopt the same method as Porter, while his theories constitutes my analytical frame. To do this, however, requires more resources, time and information than possible considering this paper being a master thesis. The most appropriate considering these limitations was therefore to examine Amagerbanken.net from within the bank, doing qualitative interviews. Consequently the testing of Porter's generic strategies will basically be founded on the interviews and inside material from the bank and not a comparison between Amagerbanken and other banks in Denmark. Porter's theory will therefore be tested on one case. This deductive method also indicates generalization problems, which will be discussed in the final chapter. As for now; using this method means that I can only test the appropriateness of Porter's frame on my case and be careful with generalizations. Being aware of this methodological weakness, I will not test; rather see if it is possible to falsify Porter's theory on behalf of my case.

Before the respondents were contacted and the interviews took place, some questions had to be formulated. To formulate the right questions took quite some time, but in the end I decided to use Porter's attempts to operationalize the

strategies as a guide¹⁴. Because the persons I was going to interview had different positions and responsibilities in the bank, I could not use a standard questionnaire and ask them exactly the same questions while much of the diversity could then disappear. Being aware of the difficulties if the interviews became too static, I concentrated on some main-topics and issues that all respondents were to be asked. So even though they were not asked the same questions, the questions were about the same themes. This method is related to the semi-structured or open-minded interview¹⁵, where the interviewer makes more open questions and can freely change the order between them and even skip some questions¹⁶. The main advantage sticking to this way of interviewing is that the respondents may tell *their* story, rather than adjusting the results to fit in with any pre-established categorization. The problem with this method is that it takes more time to analyse the findings. Moreover this form of interviewing is more complicated, also for the interviewer, while the next question depends on the previous answer.

Keeping this in mind, Amagerbanken and the respondents were contacted. I started out with three respondents, and then they pointed out two more respondents for me. This can in some way remind of the snow-ball-method, where new respondents are added until no more “new” information emerges¹⁷. The respondents in this paper are: Judith Larsen, the vice-director at the main office and Helle Hvilshøj Rasmussen, working as a personnel consultant. In the development division I have interviewed the director Henning Andersen and two employees: Henrik Jacobsen and Lars Walløe¹⁸.

Another methodological question that appears is if the interviews will be representative for the whole bank? This is a question of reliability, the consistency or stability of a measure¹⁹. Regarding reliability there is a difference between qualitative and quantitative research, where the former is seeking to describe what people think about the world, and does not oblige the researcher to be “objective”

¹⁴ See Porter 1980: 40-41

¹⁵ Fontana and Frey 1994: Ch.22

¹⁶ Robson 1993: 238

¹⁷ Sundbo 1998a, Ch. 3

¹⁸ See appendix A for Amagerbanken's organizational structure and where the respondents belong in the organization

¹⁹ Cozby 1989: 30

and distance from the respondents as the latter does²⁰. With only five interviews it is important to see Amagerbanken in a bigger perspective. Amagerbanken is a small bank in the Danish bank environment, with only 450 employees where about 120 are in the management²¹. As a result central persons in the bank have more than one task, whereas larger banks have a bigger workforce. An example of the multidimensional function is the development department. Here they are only 12 employees, but responsible for various fields like marketing, Research and Development (R&D) and Design and Engineering (D&E). This department was also mainly responsible for Amagerbanken.net. When I interviewed 3 employees in this division, I got a quite good depiction concerning what the development department are doing and how the bank developed Amagerbanken.net.

Regarding the interviews there was discrepancy between the respondents on some issues. Disagreement between statements will be illustrated throughout the paper, where it is important for the analysis. But generally there were to a great extent agreement inside the bank. Without any speculations on the reasons for this I find it caused two reasons. Firstly Amagerbanken is rather small and the respondents knew each other that indicate that they could have answered what they knew the others would say. The other trigger is an internal campaign called “Den Røde Tråd” (“The Red Thread”), Amagerbanken just finished. This campaign had as overall purpose to make the employees move in the same direction and for the same goals²². Both these elements resulted in a quite one-sided of the bank’s attitude and development of Amagerbanken.net, and therefore I have also chosen to stress this agreement while it is more important than the little degree of discrepancy. The interviews will therefore be used to illuminate and discuss the theories, by using fragments, statements and ideas of what the respondents told me. Since the development department played an important role developing Amagerbanken.net, the respondents belonging here will mostly be referred to. To know which of the respondents I am referring to, a footnote after a statement will be found that tells whom said what. The interviews will also be supplied with

²⁰ King 1994: 31

²¹ Amagerbankens årsregnskab 1998

²² ”Den Røde Tråd” Part II: 4

other information from Amagerbanken, like folders, papers and statements on their homepage.

1.3 PRESENTATION OF THE CASE: AMAGERBANKEN.NET

This section will focus on Amagerbanken and Amagerbanken.net. The reason for briefly examining the case is to identify the bank and get familiar with its background, but also because the firm's surroundings are important considering its competitive strategy. Therefore I will shortly present the history of the bank, Amagerbanken.net and how this Internet bank developed. The information provided here is a result from the interviews, internal papers got at Amagerbanken and Amagerbanken's home page at Internet.

1.3.1 Amagerbanken's history

A firm's history and the environment it is embedded in, is significant for its competitive ability and strategy. This is, regarding Porter, the firm's value chain²³, which influences both the customers' perception the firm and the firm's attitudes outwards. Hence it is appropriate to examine the history of the bank a little further.

Amagerbanken has its main seat at Amager, a district on an island of Copenhagen in Denmark. The Dutch first inhabited Amager. Over decades Amager became the rural part of the city since there were good soil here, and the main occupation at Amager was being a farmer. Divided by the sea, meant that there were bridges between the City and Amager, and the bridges soon got a more psychological meaning for the inhabitants. The people from the city looked down at the people at Amager, they being more rural and old-fashioned. To some degree this attitude is still alive in Copenhagen, something one can hardly ignore after spending some time there.

Amagerbanken was established in 1903 at Amager. At that time it was the smallest bank in Denmark, and the headquarters of the bank was the directors own

house. From that time of, the people at Amager did not have to travel into the city to do their banking businesses. The main customers were of course the population at Amager (mainly farmers and workers) but also the small businesses at Amager.

Amagerbanken's principle was to keep the money at Amager and make them circulate here. Moreover the basis of the bank was the stockholders that mainly were the inhabitants at Amager.

Until 1980 Amagerbanken was only located at Amager, with its 17 branches. In the 1970s, however, stagnation in the population growth and in businesses began. This made it necessary for the bank to develop further in other areas. Thus Amagerbanken "went over the bridges" in 1981, and established seven branches central in Copenhagen. In 1988 they also opened branches in two other Danish cities, Odense and Århus. To "go over the bridges" did not affect Amagerbanken's purpose, and they maintain doing bank business today after the same principles as in 1903. They stick to the personal close relationship to the customers and the locality²⁴.

Today Amagerbanken have about 100.000 private customers²⁵, and its main-seat is still Amager. Amagerbanken offers the same banking facilities as any other bank, like accounts, credit cards, investment in stocks and various kinds of loans, even though they are small. Hence it is a full-service bank²⁶, which means that even being small, it has the same banking offers like the bigger banks. And if Amagerbanken cannot provide a banking facility, it co-operates with someone who can offer it.

1.3.2 Home banking

To do banking business back home, instead of paying the branch a visit, is called home banking²⁷. There are several channels through which home banking can be

²³ More about the value chain in Chapter 2

²⁴ "Den Røde Tråd" Part II: 4

²⁵ Amagerbankens årsregnskab 1998

²⁶ Amagerbankens årsregnskab 1998

²⁷ Gandy and Chapman 1997

done, for instance mail, telephone or a PC. Today about 30.000 of Amagerbanken's customers are connected to electronic banking with a PC²⁸. Within PC banking, there are again several opportunities, where Internet banking is one option. Amagerbanken offers three diverse PC banking products²⁹:

1. Office banking for businesses. The customer will get the software programme on his PC. Thereafter he has to dial up the bank's server and Internet will be the channel for communication. This is an off-line product.
2. Home banking for private customers. This product works the same way as office banking for businesses, but is made for private customers.
3. Internet bank. The customer will not get any programs on his PC. Everything is on-line, on the Internet. The customer enters <http://www.amagerbanken.net>, verifies his identity and does the banking business³⁰.

According to the development department, the two first kinds of PC banking will be shut down within two years, and then everything will be on Internet³¹. The reasons for this are twofold. Firstly Amagerbanken will save money because they do not have to distribute a new software programme for all customers whenever they want to change the program. Therefore support activities will also diminish. Secondly the customers will be freer since they can visit the bank from any PC connected to the Internet. Even though there exists three home banking products today, this thesis will only focus on the Web-part of home banking, more precisely the one you enter at <http://www.amagerbanken.net.dk> on the Internet.

The relation between Amagerbanken.net and competition is somewhat rather complex. Since competition differ from industry to industry³², I will clarify that in the banking business, competition is mainly about achieving customers and through them make money. In relation to Amagerbanken.net, competition occurs

²⁸ Henning Andersen

²⁹ Henning Andersen, Økonomi & Kultur 1999:7

³⁰ See the Model VI, on page 54, which illustrates how Internet as a banking channel works.

³¹ Henning Andersen

³² For more reading see Chapter 2

at two separate levels. Firstly they compete with other banks about their customers. The goal will then be to get customers from the other banks and incorporate them in Amagerbanken's system. Secondly one can argue for competition inside the bank. Regarding the latter competition, Amagerbanken.net is a rival for other banking products Amagerbanken offers, but at the same time; transferring the existing customers over to Internet bank is more like a natural evolution. In the following I will only concentrate on the external competition, where Amagerbanken competes with other banks through Amagerbanken.net. The main reason for this is that I will analyse Amagerbanken.net within the competitive strategies developed by Porter and internal competition between the firm's own products are not considered.

2 Theoretical framework

This chapter will constitute the theoretical framework in this thesis. The question this chapter sets out to answer is how firms can improve their position in competitive environments by adopting a strategy that gives them competitive advantages from a rational perspective. To answer this I will depict Porter's generic strategies, namely cost leadership, differentiation and focus.

Porter has been quite central bringing strategy to economy. Porter himself is an economist, but his theories cross many research fields, which also illustrates the difficulties in combining fields. In the 1980s, Porter made a major contribution to the analysis of strategies and competition. By linking the five forces that drive industry competition to a number of generic strategies a firm can choose between, he approached both competition and strategy somewhat different than previous to his framework. Both this section and the following analysis will concentrate on Porters main contributions from this period, that are *Competitive Strategy* from 1980 and *Competitive Advantage* from 1985. *Competitive Strategy* is mainly an analysis of industries. The latter book is a continuing of this, but here Porter also concentrates upon the implementation of the strategies.

According to Porter's strategies there are no distinction between manufacturing and services, and by treating these spheres equally increases the investigative interest. With the improved investigations on services, many researches declare that manufacturing and services have to be analysed separated and the same tools, methods and concepts cannot be applied. This contradiction and the more processual strategy approach will thus be further discussed in chapter 4.

In this chapter, however, I will first give a summary of Porters strategies and how he derives these. I will by no means give a detailed explanation, rather line out Porters main arguments. Thereafter I will shortly illuminate how IT can affect

competition. But before turning to the strategies, I find it necessary to take a closer look at some basic concepts in Porter's theory.

2.1.1 Basic concepts

Competition in general is a central issue when it comes to economics. At firm level, however, competition is about how a firm can produce products or services of better quality and lower costs than its competitors and thereby getting a greater market-share than them³³. Competition is also about protecting the products or services against the competitors' imitations and copying³⁴. Hence Porter states that competition is at the core of failure or success of every firm in an industry³⁵.

Competitive advantage then, is how the firm can be superior to the competitors in one way or the other. Porter implies a broader meaning of competitive advantage by having a more holistic view of competitive advantage where he combines different research fields like marketing, production and finance³⁶. But getting an enhanced perspective on this does also imply some difficulties³⁷, where some of these will be discussed in this paper.

Competitive strategy, according Porter, will then be a search for the firm, trying to find the most favourable position to defend the firm against the forces that shape the competitive environment in the industry in question. The strategy forms the long-term profitability for the firm and it determines the relative competitive position within an industry³⁸. The goal is therefore that the firm finds a way through which it copes with competition. How this can be done will be the main question in the following.

³³ Prescott 1992:12

³⁴ See Freeman and Soete 1997: Ch.11

³⁵ Porter 1985: 1

³⁶ Porter 1985; xvi

³⁷ See Foss 1995

³⁸ Porter 1985: 1

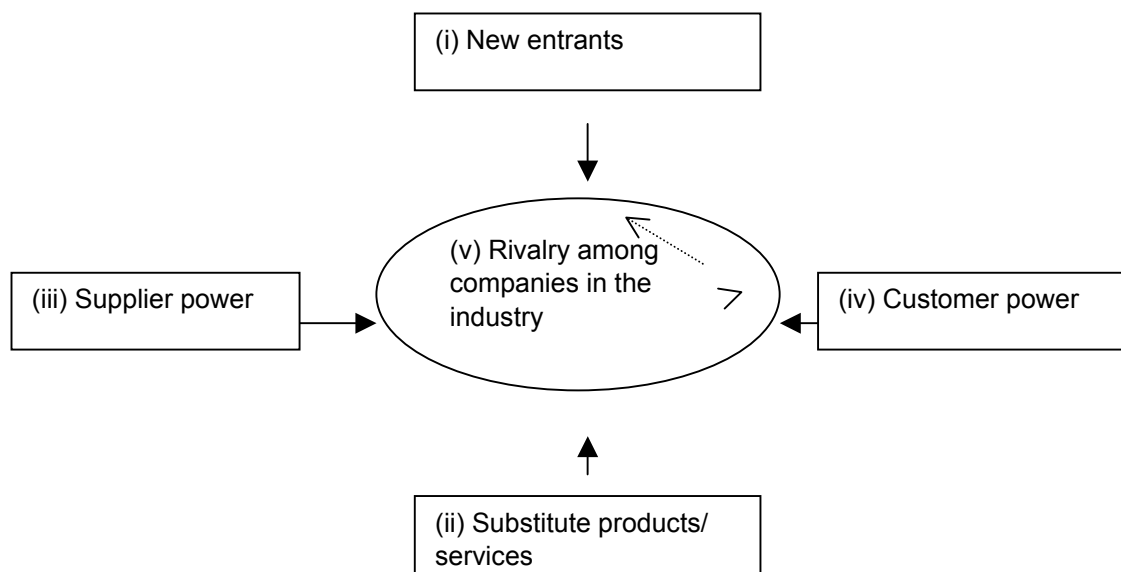
2.2 THE THEORY

In this section the question; how firms can create competitive advantages according to Porters strategies, will be depict. To answer this, I follow the same argumentation as Porter in his books. Hence I start with the competitive forces in all industries and thereafter explain why the strategies are developed. Thereafter I will illuminate each of the strategies. The overall purpose with this chapter is to increase the reader's knowledge about the generic strategies, so it becomes easier to understand the analysis in the next two chapters.

2.2.1 Competitive forces

For Porter, the unit of analysis is the industry producing similar products. At broadest level, five basic competitive forces drive this industry competition. These forces generate various threats and opportunities, common for all industries. There are substitution threats, both from new entrants and of substitute products or services. Moreover the bargaining power of suppliers and buyers constitute threats for the firm. Finally the intensity of rivalry among existing firms in the industry constitutes a threat³⁹. These threats can be illustrated as below in model I.

MODEL I⁴⁰



³⁹ Porter 1980: Ch.1 and Porter 1991: 12

⁴⁰ Adjustment of Porter 1991: 12

The collective strength of these five forces determines the intensity of the competition in the industry, and the profit potential for the firm. The strongest force(s) will therefore be crucial and determine the strategy formulation⁴¹ Porter stresses that the five forces are the common forces in all industries, but what the strong forces are and the effect of these, are industry-dependent. The creation of a competitive advantage stems from the many activities a firm is performing in the making of a product, like designing, producing, marketing, delivering and supporting. These activities and the interaction between them are called the value chain that is a result of the firm's history and the context in which it operates. The point, however, is that the firm have to examine its whole value chain to understand what competitive advantage it can gain and what strategy to imply⁴². According to Porter "(t)he goal of competitive strategy. . . is to find a position in an industry where a company can best defend itself against these competitive forces or can influence them in its favour"⁴³.

At the broadest level there are three defensive generic strategies a firm can choose between, cost leadership, product differentiation and focus. These strategies counteract with the forces in the environment and create a defensible position for the firm in the long run⁴⁴. What these strategies more precisely are will be depicted in the following sections.

2.2.2 COST LEADERSHIP

Following this strategy indicates that the firm choose to compete according to price and therefore it sets out to become the low-cost producer in its industry⁴⁵. This means that the firm has to control its expenses in different ways like a construction of efficient-sale facilities and stressing the savings through experience. Thus, this strategy also requires a tight control of the workers and minimal expenses in R&D, advertising etc. "*Low cost relative to the competitors*

⁴¹ Porter 1985: 6

⁴² Porter 1985:36-37

⁴³ Porter 1980: 4

⁴⁴ Porter 1980: 29-31

⁴⁵ Porter 1985: 12

*becomes the theme running through the entire strategy (...)*⁴⁶. The typical low-cost producer will therefore sell a standard, where low price is of major significance. Following this strategy gives the firm an opportunity to become the cheapest in the industry and thereby increase its market share on behalf of the competitors.

2.2.3 DIFFERENTIATION

Following a differentiation strategy means that the firm is creating a product or a service that is perceived “industrywide as being unique”⁴⁷. Since the firm can differentiate through several dimensions, this strategy has various forms. The dimensions depend on what industry the firm is in, but examples are image, technology, features or customer service⁴⁸. The point, however, is that the firm is making something that is unique among some dimensions that the buyers highly value. This strategy is also less sensitive to price because it follows the customers brand loyalty. Unlike the cost leadership strategy there can be more than one firm in the industry following the differentiation strategy without this being a threat for the firms. The reason for this is that the various firms can differentiate among diverse dimensions.

2.2.4 FOCUS

The last strategy Porter develops is focus. Like the differentiation strategy also focus has various dimensions. To follow this strategy means that the firm chose to focus on a particular buyer group, a segment of the product line or a geographical market. Instead of serving a broad target, like cost leadership and differentiation do, a focus strategy is aiming at serving a particular target very well. Following a focus strategy has two main approaches. The first is a cost focus, where the firm concentrates at the costs for a narrower target in the market. The other is a differentiation focus where the firm is differentiating along one dimension for a segmented target in the market. So instead of competing with the industry as a whole, the firm concentrates on either following the cost or the differentiation

⁴⁶ Porter 1980: 35

⁴⁷ Porter 1980: 37

⁴⁸ An example of differentiation through design and brand image is Mercedes in the automobile industry, Porter 1980: 37

strategy, illuminated above, but now towards a market-segment. The main advantage for choosing this strategy is that other broadly-target competitors in the industry poorly serve the segment. The model underneath illustrates the relationship between the strategies.

MODEL II: THE STRATEGIES⁴⁹

COMPETITIVE ADVANTAGE			
STRATEGIC TARGET		Lower cost	Differentiation
	Broad target	1. Cost leadership	2. Differentiation
	Narrow target	3a. Cost focus	3b. Differentiation focus

There are therefore two variants of each of the main strategies, where the difference is the target the firm sets out to provide. Whether the target is narrow or broad, it will still be possible for the firm to compete over e.g. cost. The three generic strategies illuminated above have, as we have seen, different characteristics. To implement a strategy successfully is also an issue Porter emphasises. According to Porter the firm should be consequent, and stick to just one strategy and not try to implement some of them. If the firm sets forth to accomplish more than one strategy, it might end up with no competitive strategy at all, and will be guaranteed a low profitability in the industry. The *“manifestation of a firm’s unwillingness to make choices about how to compete”*⁵⁰ is also called the problem of being ”stuck in the middle”. The only way out is to make a fundamental strategic decision over what strategy to follow. Therefore it seems like Porter’s competitive strategies are excluding, rather than including each other. They are not complementary to each other and cannot be combined if the firm want to improve its competitive advantages. This requirement will be further discussed later in the thesis.

⁴⁹ Adjustment of Porter 1985: 12

⁵⁰ Porter 1985: 17

2.2.5 Information Technology and competition

So far the main focus has been competition in general, hence industries in general have been the case. Since the case throughout this thesis will be an Internet bank, I find it appropriate to examine competition in information technology (henceforth IT) intensive industries more detailed. The reason for this is that in some industries the competitive environment will include other threats that may alter the competition, than the ones Porter's strategies takes in account. Even though information and IT were important in the 1980s, the strategies do not question the impacts this might have upon competition. Since the end of the 80s, beginning of the 90s, IT has developed fast and nowadays is one of the issues at stake in almost all businesses. The question then will be what effects IT has upon competition and strategy in the banking industry.

In a survey Porter did together with Millar, they conclude that IT alters the rules of competition. IT creates competitive advantages by giving firms new ways to outperform the rivals and IT affects competition by spawning whole new businesses⁵¹. IT will, however, not change all industries, because there are some that has been quite IT intensive for a long time. Therefore there is a difference on the competitive ability IT has, depending on the industry being analysed. A technology intensive sector, that has paid IT attention for a long time is banking. Hence the competitive changes with IT are not crucial for the banking sector. Even so, Internet is making changes in the banking industry, like described in the introduction. These changes in the banking sector is among the reasons why banks are depict in this thesis, even though I will not further examine IT's consequences on banks in this paper

2.3 CRITICISM OF PORTER

Porter's examination of competition and strategy is highly recognised, but also criticised. The main challenges the strategies have meet will be mentioned below, but also detailed in chapter 4 and 5.

⁵¹ Porter and Millar 1985: 150

Porter analyses firms from a market perspective, where competition occurs in all industries and constitute a basis for a firms' competitive ability. This is also called the outside-in perspective. The management's predictions and the firm's strategy will depend on the market and industry being analysed. For finding the best solution, the firm must analyse the other firms in the same industry and thereafter derive their best strategy. Doing this can create problems because it is difficult to know the other firms in the branch well. If this is a premise for the firm's own strategy, a wrong estimation can give catastrophic results. Another critique towards Porter's strategies is that they are too static. If there are no possibilities to combine or mix them according to Porter, competition among related firms becomes too equal, and it can be hard for firms to survive⁵².

The generic strategy model of Porter has also met challenges on its applicability to various industries. This illustrates that there are differences between industries and that the model of Porter perhaps is a little too rigid and simplistic. Porter treats manufacturing and services equally, and takes it for granted that the same tools, frames, concepts and language can be applied when analysing different parts of the economy. This will be examined in chapter 4, so will quality aiming at finding out whether Porter's strategies are too rational and cannot be applied to services, which have a more processual strategy view.

By underestimating the power of technological change and overestimating the decision power of the managers, Porter's framework follows the trajectory with the mainstream industrial economics⁵³. Moreover Porter's framework does not take the problems of implementing a strategy in account, problems like learning, knowledge transferring etc. Applying Porter's strategies can therefore seem like a linear process, where a strategy is implemented after a firmly research of the industry. This rational, linear approach has also been criticised, reminding of the criticism of the linear innovation approach⁵⁴.

⁵² Miller and Friesen 1986

⁵³ For further reading see Pavitt 1997: Ch.2

⁵⁴ For further reading see Lundvall 1992 and Edquist 1997

2.3.1 Summary

In this chapter Porter's generic strategies have been highlighted. After a brief look at some basic concepts, competition in all industries was illuminated. Hence the reader got an understanding why Porter develops three generic strategies.

Thereafter each of the strategies was depicted, and finally some general criticism of the strategies followed.

In the next chapter I will use Porter's strategies analysing Amagerbanken, through some indicators. This will be done in order to verify whether Porters strategies are appropriate for analysing Amagerbanken.net.

3 The generic strategies and Amagerbanken.net

In the previous chapters, Porter's generic strategies and the case Amagerbanken.net have been illuminated. In this chapter, however, these will be combined, aiming at answering one of the research questions described in the introduction; *Can an adoption of Porter's rational interpretations of strategy give a plausible understanding and explanation of the innovation; Amagerbanken.net?* To structure the discussion, I have various under-headings throughout this chapter. These under-headings are the indicators being discussed, aiming at describing which of the strategies Amagerbanken followed and if they give a plausible understanding of the innovation. Cost leadership and differentiation are the strategies first being discussed, thereafter Amagerbanken.net's focus at a broad or narrow target.

The indicators stem from important themes Porter discuss in his books⁵⁵, themes that have an impact upon the firm's ability to compete within each of the strategies. Therefore the themes are understood as indicators for the strategies, in the following and why these are chosen will be examined underneath.

3.1 THE INDICATORS

To understand why Porter derives exactly these indicators, the two main strategies, cost leadership and differentiation has to be the point of departure. According to Porter's strategies, following a cost leadership strategy can be done in two major ways. The first is through controlling the cost drivers of the value activities. These cost drivers are; economics of scale, learning, the pattern of capacity utilization, linkages, interrelations, integration, timing, discretionary policies, location and institutional factors⁵⁶. The other way to follow a cost strategy is through a reconfiguration of the value chain. This means that the firm adopts a different and more efficient way to design, produce, distribute or market

⁵⁵ Porter 1985: Ch 2-3, Porter 1980: Ch 1-2

⁵⁶ Porter 1985: 70

the product. The firm will examine all its activities to see the opportunities to reduce costs somewhere.

By following a differentiation strategy, the firm introduces and sells something that is seen as being unique in the industry. This uniqueness is something else than being cheap, but still valuable for the buyers⁵⁷. The uniqueness also stems from the value chain, as for the cost leadership strategy. In the value chain every activity has the potential of being a source of uniqueness for the buyer. Porter mentions the sources for differentiation, that are policy choices, linkages, location, interrelationships, learning and spillovers, integration, scale, and finally; institutional factors⁵⁸.

The point, however, is that the cost drivers and the sources of differentiation have many similarities. According to Porter they emphasise many of the same subjects and co-vary from industry to industry. What indicators being important will depend on the industry being analysed. Therefore this chapter will concentrate on the most interesting competitive drivers for the banking industry and Amagerbanken.net. These are interrelationships, timing, location and organizational structure, and will be discussed in the following. Thereafter I will discuss what target Amagerbanken.net provides, whether this is a broad or narrow focus.

3.1.1 INTERRELATIONSHIPS

Interrelationships⁵⁹ take various forms, but broadly speaking it means that different, but related businesses are combined and create a value together⁶⁰. Even though interrelationships are important for both cost leadership and differentiation, the strategies emphasise various aspects of it, which will be discussed here. According to Porter's strategies the most important form for interrelationships is when a value activity can be shared and indicates that through sharing a value activity the cost of performing the activity will diminish. Sharing

⁵⁷ Porter 1985: 120

⁵⁸ Porter 1985: 124-127

⁵⁹ In this section interrelationships, co-operation and integration will be discussed together, even if there are some differences between them.

⁶⁰ Porter 1985: 78

reduces the unit costs if the cost in the activity is sensitive to “economies of scale, learning or if sharing improves the pattern of capacity utilization”⁶¹. The costs of performing the activity in question will be cheaper when sharing it, the firm saves money and chooses a cost strategy. Other forms of interrelationships, Porter mentions are sharing of know-how and vertical integration. But the most common kind of interrelation is where two or more firms share one or more value activities. Hence all participations in the relationship benefit from the co-operation through saving money instead of each developing the function in question separately. This means that if one firm can produce the same product cheaper through co-operation, it might be possible for the firm to sell the finished product cheaper as well. Hence Porter connects interrelationship to cost leadership strategy and both firms will get advantages from this large-scale production.

One way of finding out whether a cost leadership is suitable for the development of Amagerbanken.net is to examine whether Amagerbanken.net was developed in some kind of interrelationships.

According to Whaling⁶², the banking business in general, is one where co-operation is common and often necessary. The reason for this is the increasing complexity and that the economies of scale in transaction processing are increasing in the banking industry. It is raised beyond doubt that Amagerbanken in general has many partners with whom they co-operate, not at least because it is a small bank⁶³. For developing Amagerbanken.net, however, the main partner was BEC, an abbreviation for “the Banks EDB Central in Roskilde”. This central was founded in the 60s for improving the competition conditions for the smallest banks in Denmark⁶⁴.

The foundation of BEC is all the co-owners, namely 31 regional, local and other money institutions⁶⁵, Amagerbanken being among these. BEC developed a

⁶¹ Porter 1985: 326

⁶² Whaling 1996: 485

⁶³ ”Amagerbankens årsregnskap 1998”: 19

⁶⁴ 02.08.99, <http://www.bec.dk>

⁶⁵ 020899, <http://www.bec.dk>

common Internet solution for these involved banks, and thereafter Amagerbanken did *customize it with our own graphics and so on*⁶⁶. A respondent described the Amagerbanken.net co-operation with the EDB-central more as a *take it or leave it* solution⁶⁷. With this he meant that normally Amagerbanken contributes a lot developing products, but not regarding Amagerbanken.net. The only thing Amagerbanken did was to *give it our stamp with colours and such, so it does not look like the other banks products*⁶⁸.

For Amagerbanken, like the other partners in BEC, this reminds to some extent of an outsourcing, understood as a vertical disintegration of this particular function. Outsourcing is a method for the firm to reduce costs, as long as it does not outsource a core activity. In the service package the core activity is the main product or service for the firm, while the additional activities are the surrounded, supporting activities⁶⁹. For banks that only offer Internet solutions, the Web bank will be their core activity. This is not the case for Amagerbanken, because Amagerbanken.net is only one of many banking facilities it offers and hence an additional product. Therefore, the co-operation with BEC can be understood as an outsourcing, which reduces the costs for Amagerbanken. The bank does not have to develop the required knowledge or expertise itself. Amagerbanken is therefore getting an Internet bank cheaper than developing it self. Hence the service can also be sold cheaper than the competitors that have to gain their investments in research and development through higher prices on their Web bank. Amagerbanken.net is more or less a free Web bank, as the customers do not have to pay an establisher fee or anything for making transactions⁷⁰. This confirms the notion that Amagerbanken follows a cost strategy.

If the Internet solution provided by BEC gives the same kind of Web-bank for the co-operating banks this raises another question. How can Amagerbanken.net then differ from its competitors? Regarding differentiation there are varoius ways to achieve this. As emphasised in chapter 2, one way to differ is the design of the

⁶⁶ Henning Andersen

⁶⁷ Lars Walløe

⁶⁸ Lars Walløe

⁶⁹ Normann 1986: Ch. 3

⁷⁰ 30.07.99, <http://www.amagerbanken.dk/Netbank/vejl/vejl.htm>.

product. In this respect, Amagerbanken has developed graphic, logo and designed the web page itself. The development department was responsible for these additional technological solutions for Amagerbanken.net, and mainly Jacobsen. He was employed only some months before they launched Amagerbanken.net. Amagerbanken did therefore buy some knowledge and expertise contributing in the making of Amagerbanken.net and did not outsource the whole product. Moreover Amagerbanken developed additional services like support activities in various forms. To make the Internet bank fit more to each specific bank is in accordance with BEC; *Even if BEC is established to take advantage of large-scale production, we also emphasize that our solutions are adjustable for the customer's desires*⁷¹. Even if Amagerbanken contributed to the development of Amagerbanken.net and added some services, the product was mainly made by BEC. The reasons for this outsourcing are the focus on price and endeavour to make a cheap solution.

3.1.2 TIMING

Timing reflects the competitive advantages or disadvantages of being the pioneer in new technology, a first-mover or a follower. Being a first mover means that the firm is an industrywide pioneer and the first to offer a product or service⁷² and achieves advantage because of the temporary monopolistic position obtained being ahead of rivals.

Amagerbanken.net is not the first Internet bank in Denmark, and therefore not a first mover. For the bank it was never an issue offering a Web bank or not, it was just a question of time. As a respondent said *we also needed it* (referring to Internet bank), *because the others had it*⁷³. Thus this discussion will focus on the consequences of being a technological follower. According to Porter being a follower can also be an active strategy, where the firm actually chooses not to be first on innovations⁷⁴. And Amagerbanken's strategy is depending on other banks as well, because *Competitive moves by one firm have noticeable effects on its*

⁷¹ 02.08.99, <http://www.bec.dk>

⁷² Porter 1985: Ch .5

⁷³ Henning Andersen

⁷⁴ Porter 1985: 181

*competitors and thus may incite retaliation or efforts to counter the move; that is, firms are mutual dependent*⁷⁵.

According to Porter's strategy time can also be a driver of uniqueness. For the differentiation strategy, the advantages of being the first-mover are emphasised, and not a follower that is important regarding cost leadership. Kalakota and Frei are also occupied with such questions. They say that the willingness of the bank to take risks in terms of being a first mover will differentiate the winners from the losers. The bank being the first-mover will gain a competitive advantage through the access to a new potential market that represent the most attractive customers for the bank, namely the "demographic segment of educated, professional, and affluent customers"⁷⁶. Even though the most attractive customer segment can be reached as a first mover, the involved risks are significant because a firm will never know, a priori, the success of its actions.

According to Porter the follower's advantages is that they can lower the costs, because they have learned from the leader's experience. Moreover to follow does not require any heavy investments in R&D, since the technology will more or less be bought or copied. Another advantage for the follower is the possibility to adapt the product more closely to the customers' needs and that conditions have reached stability according to this product⁷⁷. Being a first mover can mean that the firm might be ill prepared to respond to major shifts⁷⁸. When the technology evolves and changes so rapid, this also indicates that a first mover soon becomes one of the laggards. Andersen said that competition would increasingly be about who are renewing themselves and developing new possibilities. Amagerbanken.net will therefore never be a finished product, but evolving and developing all the time to stay in line with the technology, market and competitors. Another respondent puts it like this (we try to) *offer the best technological products towards the customers*⁷⁹.

⁷⁵ Porter 1980: 17

⁷⁶ Kalakota and Frei 1997: 59

⁷⁷ Porter 1985: 181-189

⁷⁸ Porter 1985: 190

⁷⁹ Helle Hvilshøj Rasmussen

Amagerbanken knows very well that they are not the first to launch Internet banking and tries to emphasise the advantages of being a follower: *We are not the first banks introducing Internet bank, the biggest banks; Den Danske Bank, Unibank etc. came on Internet earlier. But that also means that their products are developed within the technology that was available at that time. For this reason we can say that we are better in some areas, for instance on security*⁸⁰. Since Amagerbanken is a follower regarding Internet banking makes it difficult to differentiate, though simpler to compete on price. According the interviews, the only aspect the bank possible differentiates upon, is security. Security as a dimension of differentiation has several linkages to quality, and will thus be examined in chapter 4.

3.1.3 LOCATION

Location is another dimension discussed here, with the purpose to illuminate which strategy that fits with Amagerbanken.net. Porter states that location has influence over variables like the cost of labour, management, personnel and raw materials among others⁸¹. These variables are, however, typical for the traditional manufacturing industry, where the plant had a geographical location⁸². Thus location will affect the price, marketing and distribution of the product.

Speaking of Internet, it is common to make a distinction between the physical and the digital world. This means that wherever you are in the physical world, you can enter the same destination in the digital. Hence location will still be important when it comes to Amagerbanken.net, but with other implications. The respondents all mentioned this as a benefit for Internet banking compared with the other products Amagerbanken offers. The customer is not bounded by the banks physical location or the opening hours anymore. In this section the digital location of Amagerbanken.net will be discussed. As Amagerbanken also has various physical addresses, this is also relevant but will be discussed under organizational requirements, in part 3.2.4.

⁸⁰ Henning Andersen

⁸¹ Porter 1985: 82

⁸² See also Product life cycle theory, Freeman 1997: 357-360

The digital location will therefore mean where the firm is addressed on the Web, which in this case is <http://www.amagerbanken.net>. Moreover the digital location depends on how many profiles the firm has and its access-capability on Internet. The idea behind is that if it is easy to reach the firm, the more potential customers will visit its Web page and the more customers the firm will get in the long run. The question will therefore be where Amagerbanken.net stands, based on these criteria?

Amagerbanken has chosen a logical and “easy” address for its Internet bank, [amagerbanken.net](http://www.amagerbanken.net). The idea is that the customer does not have to search too long on the Web to find it. Moreover Amagerbanken also have various links to their page, as banners on the Web. These are for instance on their home page, <http://www.Amagerbanken.dk>, but also on the most common searching tool on Internet in Denmark: yahoo⁸³. Hence location on the Web also has something to do with the cost strategy, even in another sense than Porter’s.

Contradictorily this can also be an argument for uniqueness and differentiation, while location also might be a driver for this. When Porter discusses location as a differentiation dimension for banks, he states that the location of the branch and ATM’s are important⁸⁴. With Internet banking, the right location on Internet can also be mentioned, as above. The way Amagerbanken.net is marketed and where they are on the Web is unique for the bank. This aspects might be used for pushing a differentiation strategy forward, even though Internet as location most of all is a question of costs for Amagerbanken.

Like many of the other banking channels as telephone etc, Internet banking is a self-service⁸⁵, meaning that the customer does the banking business himself. Even though many of these channels are cheap for both the bank and the customer, they

⁸³ 14.06.99, <http://www.yahoo.dk>

⁸⁴ Porter 1985:126

⁸⁵ For further reading see Gershuny 1978

still require some kind of support from the bank. If you pay your bill through mail, there have to be somebody to punch it for you.

This is somewhat different with Internet banking, which makes it the cheapest solution both for the bank and the customer. The customer does the banking business himself, which leave the bank outside and it does not have to control, type or do anything more with the payment. Internet as location also has other advantages for the bank, like not paying house rent, clean or anything with this “location”. From the customers perspective the only thing they have to pay for is the telephone bill and make sure that they have the required knowledge to use the Web bank.

At Internet there are many banks, which means that this “location” is not unique for Amagerbanken.net, implying that these locations is not enough to differentiate from the competitors. However, their exact digital location is unique, but so are the locations for all the other banks. Regarding the location dimension it therefore seems like it was costs, and not to differentiate that was the main idea behind Amagerbanken.net.

3.1.4 ORGANIZATIONAL STRUCTURE

If Porters cost strategy is appropriate for Amagerbanken, it requires a structured organization. This means that control is important in the organization⁸⁶ and that the incentives in addition mostly come from the management. To follow the organizational requirements, according to the cost strategy reminds of a hierarchical organization. The question then will be if this is describing for Amagerbanken or not.

⁸⁶ Porter 1980: 40-41

The organization map⁸⁷ shows a pretty rigid organization, which seems hierarchical at first sight. Amagerbanken has a typical leader section, where only a few people are sitting, and below the employees are.

Even so, a hierarchical organization has more requirements than this. You also have to examine the chain of commands, who takes the initiative and how much power the co-workers have.

The employees in Amagerbanken have responsibility, but how the daily tasks are solved is up to the worker as long as the job is done within the aims, strategies and defined procedures of the bank. "Freedom under responsibility" is a slogan in the organization. As Rasmussen puts it, *we also have a pretty flat structure in the bank, where the person has a lot of freedom himself*. This view was also emphasised by others I interviewed like Jacobsen: (. . .) *It is rather short from top to the bottom, perhaps shorter than other places*. This makes it easier for the co-workers to take decisions, and as a consequence decisions are taken faster. On the other hand, however, the management of the bank take the most important settlements⁸⁸.

Another organizational aspect of the cost leadership strategy is the control of the workers⁸⁹. Since Amagerbanken follow a freer strategy, this is not really the case inside the bank. Interviewing the respondents it seemed more like the bank tried to satisfy the co-workers and their needs. Especially Rasmussen emphasised this, because this is her daily task as a personal manager. The workers have a discussion their manager once a year, where the dialogue itself is central. It also seemed like getting another job, or "climb" inside the bank was rather easy.

Following a differentiation strategy has other organizational requirements. These are stressing R&D a creative staff and a high degree of co-operation and communication between the levels and the staff in the firm⁹⁰. Taking R&D and creativity firstly in regard, Amagerbanken has their own new-thinking department, namely the development department. This group consists of

⁸⁷ See the appendix A

⁸⁸ "Amagerbankens årsregnskab" 1998

⁸⁹ This reminds of Taylorism, further reading see e.g. Ritzer 1996, chapter 8

employees with a very different background. Some are bank-educated, others are engineers, and others again are computer freaks. Therefore the variety itself can contribute to a more creative flair and may help new ideas emerge if the circumstances are there for this to happen. This division can be described as the heart of Amagerbanken concerning new ideas and products, and many of the respondents I interviewed referred to this department as a forerunner and that the workers here were almost like gurus. Many of the respondents just referred to them and did not want to say something themselves about things they knew this division knew better than them. On the other hand this department has only 12 employees. All together they have responsibility for the development of the bank, the future, support activities and marketing of new products. So to speak this division is the R&D and D&E division of Amagerbanken and this could be too much responsibility on such few people. Andersen said that there was a living danger to be caught up in the daily tasks, which again reduced the effort, put into the future and the further development of their products.

Other organizational requirements for the differentiation strategy are close co-operation and communication among the divisions in the firm. All the respondents I interviewed said that co-operation worked fine inside the bank. Considering Amagerbanken's size the employees seem to know each other like the respondents did. Therefore the employees also know who is responsible for what, and within small firms co-operation is sometimes inevitable.

This is also a main reason why Amagerbanken does not make "workgroups" when making new products like Amagerbanken.net⁹¹. According to Andersen a hindrance for co-operation, however, is location. Even though Amagerbanken is a small bank, the divisions have different addresses. This means that the small talk in the corridors only occurs with the people in the same building. Therefore appointments are also required meeting somebody else⁹². Rasmussen did not see this as a problem, cause the divisions and branches are still close to one another, except from the branches in Århus and Odense. There is a contradiction that

⁹⁰ Porter 1980: 40-41

⁹¹ Judith Larsen

⁹² Henning Andersen

might have occurred since some workers are not familiar with the various addresses that Amagerbanken has.

Even though Amagerbanken's organizational structure in the beginning seems to match with the requirements of a cost leadership strategy, a further investigation indicates that Amagerbanken de facto fulfils most of the requirements of the differentiation strategy.

3.1.5 Summary of the indicators

The generic strategies and indicators being discussed above, can be illustrated in a model, showing which strategy that was most important for each of the indicators. This is not a comprehensive competitive model, rather an attempt to summarize the debate above, before depicting whether Amagerbanken.net has a broad or narrow target.

MODEL III: THE STRATEGIES AND AMAGERBANKEN.NET

	Interrelationship	Time	Location	Organizational structure
Cost leadership	X	X	X	
Differentiation				X

3.1.6 Focus

In this section the previous discussions will continue, but now to illuminate whether Amagerbanken.net was meant for a broad or a narrow customer segment. If Amagerbanken.net has a broad target, Amagerbanken do not want to supply a special customer target or follow a focus strategy. If the opposite is the case, then we need to depict whether it is a cost focus or a differentiation focus that are most applicable for Amagerbanken.net.

Regarding Porter's focus strategy the firm will concentrate on finding the right customer-segment for its products, accordingly further develop the product so it

will fit the group either considering the price or through the state of art of the product.

Before launching Amagerbanken.net the bank carried out a survey, figuring out who the Internet-users where, by mapping this group. Thereby Amagerbanken knew better how to hit this target. I asked all my respondents what the typical Web-bank user was like and the answers pointed in the same direction. The average Internet bank user belongs to one of the two following groups. Either he is a young student, living in a student hostel or he is a better-educated person that earns good and likes to control his life. The most frequent visit hours for both groups are between 10 and 12 a.m., and 6 and 10 p.m. The Internet-user will therefore spend his working time and the evening (when the kids are sleeping), paying his bills. After Amagerbanken carried out the survey they knew what the average Internet user was like, and most likely this group of people would be the one to use Internet-banks.

To say that Amagerbanken developed Amagerbanken.net *for* this segment is perhaps an exaggeration. If Amagerbanken made the product for a special group in the society, one should expect that they are favoured in one or another way. When Amagerbanken was going to market their new channel they first informed all the customers that already used PC-private, one of Amagerbanken.net's forerunners. This has at least two implications. First Amagerbanken signals that it wants to move the customers over to Amagerbanken.net. The other implication is that Amagerbanken.net was made for this customer segment that already is familiar with the technology, and therefore they heard about it first. It therefore seems like Amagerbanken.net was developed with a particular customer segment in mind, and hence focused on a narrow customer target.

3.2 SUMMARY

In this chapter Porter's strategies were discussed, aiming at problematizing and discuss the research question; *Can an adoption of Porter's rational*

interpretations of strategy give a plausible understanding and explanation of the innovation; Amagerbanken.net?

The discussion was arranged after some important indicators, where cost leadership and differentiation were discussed towards Amagerbanken.net, and finally discussing what focus Amagerbanken.net had.

It seems reasonable to suggest that Porters focus strategy is most appropriate for the development of Amagerbanken.net, while it is meant for a customer segment and therefore has narrower target. Focus has two understandings corresponding with the two other strategies, cost focus and differentiation focus. Through the various indicators, I have discussed which of these two strategies that seems to be most appropriate. For interrelation I found that an externalisation found place. Amagerbanken outsourced the development of Amagerbanken.net to BEC. The main reason for this was the costs of developing the product itself. For the timing indicator, I found that Amagerbanken.net was a follower also for cost reasons. Using Internet as the location of the bank was also mainly cost driven. When it comes to organization, however, my analysis points in direction of a differentiation strategy, even though it could seem like a cost strategy in the beginning. The co-workers are very independent and they have a great amount of freedom in Amagerbanken.

Therefore it seems difficult to draw any clear conclusion, which can point out the most applicable strategy according the development of Amagerbanken.net. As it seems now, Amagerbanken do not follow any pure strategy, rather a mix of them. This is what Porter called to be “stuck in the middle”, and warns firms against⁹³. These findings are not too surprising though. An investigation of Porters strategies done by Miller and Friesen⁹⁴, also concluded that none of the firms they were examining followed any clear strategy, rather a mix. Questioning whether this inappropriateness of Porter’s strategies is caused by the theory’s rational strategy approach is also an issue that will be discussed in the final conclusion.

⁹³ Porter 1985: 17

⁹⁴ Miller and Friesen 1986

This is among the reasons why Amagerbanken.net will be further analysed in the next chapter. Then I will address quality to services, and analyse whether another strategy can be more applicable for Amagerbanken.net. I will therefore discuss the other research question: *can quality be a competitive strategy and hence explain how and why Amagerbanken developed and implemented Amagerbanken.net?*

4 Quality in services

In the previous chapter the conclusion was that none of Porters strategies could give a plausible explanation of the development of Amagerbanken.net, rather that a mix of the strategies could describe it. A reason for this result could be that Porters strategies are very general, as emphasised earlier. The strategies are made for fitting in with all industries, and all various kinds of firms. Like Porter himself states in a footnote in "Competitive strategy", *these concepts* (referring to the generic strategies) *apply equally to products and services*⁹⁵. This is a continuance from "Competitive Advantage", where he states; *the principles of structural analysis developed here apply equally to product and service businesses*⁹⁶. The question then will be if this equality is appropriate. The case in this thesis is a typical service and in this chapter I will examine Amagerbanken.net once more, but now with quality as a characteristic of services in mind.

Another reason for the inappropriateness of Porter's strategies could be their rational strategy view. Like emphasised in the introductory chapter the service literature tend to stress the customers and their surroundings. The organization will in their view adopt and change according the environment. Thus services might be understood better by adopting theories and frames from the service literature that has this processual approach.

Hence I find it appropriate to examine more in detail what services are and how it differs from traditional products in manufacturing. This will be done in part 4.1.1. Quality, as a central element in services, will be described in part 4.1.2 and 4.1.3. In part 4.1.4 how quality in services is to be measured will be illuminated and a quality scale will be developed. The continuance of this and a further discussion of the objective and subjective interpretation of quality and Amagerbanken.net follow. The literature contributions in this chapter are a combination of several service researchers belonging to various camps. And as in the previous chapter,

⁹⁵ Porter 1985: 4

⁹⁶ Porter 1980: 5

the interviews will be used to highlight the theories and discuss Amagerbanken.net.

4.1.1 What are services?

When reading the literature of economic growth, one ends up with the impression that the engine behind growth is manufacturing and services are left as laggards⁹⁷. From the World War II the service sector has reached unannounced heights and today between 55 and 75 per cent of the total work force in the industrialised countries are connected to services⁹⁸. Services as an independent factor for growth in the economy is accordingly gaining more acceptance.

In considering the design of services it is important to consider the differences between goods and services. There is by no means an agreement over what services more precisely consist of, and theoretical discussions are still ongoing. Thus reading through the service-literature there are some characteristics of service activities that differ from goods⁹⁹, which are illuminated underneath.

In the typical service relation both the producer and the consumer are present at the same time and place. This is also called the "face to face" and "moment of truth"¹⁰⁰ factor of services and gives services their simultaneously character. With the emergence of computers and communications technologies, the geographical consequences of the face-to-face factor changes in many services, even though contact continues being necessary¹⁰¹.

Another characteristic of services is that the user participates in the production. Both the producer and the consumer are therefore involved in the process, which also makes each service product unique. For that reason a service can hardly be repeated or stored.

⁹⁷ Haukenes 1998: 8

⁹⁸ Illeris 1996: 5

⁹⁹ Based on Mattsson 1994, Illeris 1996, Edvardsson 1994 and Normann 1986

¹⁰⁰ Normann 1986

¹⁰¹ Oakland 1995: 45

A “change of condition”, rather than a material product, also characterizes a service product. This factor is also called “intangibility” in the literature. Thus it is also hard to apply the economic concepts of GDP and productivity to some services, and this can be a reason for the misinterpretation of services, mentioned above.

Services are therefore heterogeneous, and cannot be easily standardised. When services are a change of condition, it also means that they are irreversible and unrepeatable.

With these characteristics, it is possible to say something about a typical service, even though there are exceptions for almost all the characteristics. There are also various ways of classifying services, for instance with the distinction between private and public services as a point of departure or categorizing services after their attributes like labour intensity and the degree of interaction¹⁰². Some typical services that are mentioned in the literature are consultancies, cleaning bureaus, restaurants, schools, hairdressers and banks¹⁰³. Amagerbanken does consequentially belong in the service sector and Amagerbanken.net. is one of the service products it offers the customers.

Quality is an important issue, not only in manufacturing, but also in services. As Edvardsson puts it; *Quality is regarded by most producers, customers and consumers as more important than ever before in their manufacturing, service and purchasing strategies*¹⁰⁴. This statement as a point of departure, illustrates that quality is significant also in services. Before turning the classification and debate over quality, it is appropriate to take a closer look at what role quality plays in services. The following two sections will discuss and illuminate this question and why it is important to consider quality.

4.1.2 What is quality?

¹⁰² Oakland 1995: 46-47

¹⁰³ Illeris 1996: Ch. 2, Oakland 1995: 47

¹⁰⁴ Edvardsson et al 1994: vii

Many of us have experienced services that do not work as we expected, postal delays and trains that do not keep the timetable. Hence we complain over the quality level on the service provided. But what are we complaining over? What is quality and how can it more precisely be measured?

The word quality is not neutral. When we use quality alone without an adjective as poor or good we generally give the term value. Colloquially, quality has various understandings and interpretations because the term is a comparable. Stating that something has good quality mostly means that it has good quality, *compared with something else*. For this reason one can say that quality to a certain extent is subjective because this comparison will vary from person to person¹⁰⁵. This individual experience of a service forms the basis for the assessment of its quality. There are, however, some measurements and simply comparable standards for quality. These are the foundations of an objective quality measurement that exists parallel to the subjective approach.

Even though it is possible to identify these two main understandings of quality and quality measures, there are still problems in defining and generalizing. This in turn results in vague and meaningless definitions which again make it hard to operationalize and concretize quality.

Being aware of the difficulties and the lack of an overall definition of quality, it is still possible to say something about the diversity and the various interpretations. Hence I will further depict the two main directions, subjective and objective quality and how they are measured in the following. By doing this the reader will increase his understanding and difficulties surrounding quality and quality measurements. In the theoretical part, 4.2, I will argue for a quality scale that goes from pure objective to pure subjective quality. Within this scale it is possible to identify central researchers and place various directions within the quality literature. I will by no means give a full overview over the literature here, rather aiming at giving the term quality more comparable content by drawing a quality scale. This makes it possible to describe and discuss Amagerbanken.net towards

¹⁰⁵ Lund et al 1987: 20

the quality scale that will be done in part 4.3. Before illuminating quality, it is necessary to examine what role quality plays in services.

4.1.3 Does quality in services have a role to play?

As highlighted above there is no agreement about an overall definition of quality in services. Even so, most authors dealing with quality concur about the fact that quality is important for the firm's competitiveness and strategy. Some statements about services and quality that exemplifies this notion are:

*"Competing on price is not necessarily the optimum form of competition. Where quality is thought to be a key competitive element, producing down to price may be an inappropriate strategy to follow"*¹⁰⁶.

*"It is evidence that banking automatisation is perceived as a successful strategy to enhance banks service quality and consequently increase their ability to compete in the industry"*¹⁰⁷

Some even go further, stating that; *"Quality is the most important of all the competitive weapons, even few are convinced upon this"*¹⁰⁸

While service firms neither can compete in mass product development, nor process development, quality has been emphasised¹⁰⁹. This is caused by the characteristics of services, where firms do not produce a standard and the production is not as systematic as in industrial production¹¹⁰. Hence the service literature offers methods for how service firms can improve their quality, and through this, use quality as a competitive weapon. Therefore it is also important to measure the quality level within a firm. In the following section I will illuminate how the service and quality literature deals with the defining and measuring of

¹⁰⁶ Prescott: 1992: 29

¹⁰⁷ Ghorab 1995: 443

¹⁰⁸ Oakland 1993: 3

¹⁰⁹ There are exceptions from this, like Starbucks coffee shops in the U.S. that both compete on mass product development and quality. For further reading Ritzer 1996: Ch.8

¹¹⁰ Sundo 1998b: 138

quality. According to Edvardsson¹¹¹, quality measurement is the most important technique for a service aiming for more than a superficial improvement. In this part the main focus will be at measuring quality in services. The reason being that even though the research here is growing, quality measures are the least well-understood technique for services¹¹².

4.2 THE QUALITY SCALE

As mentioned above this section aims at developing and place researchers on a quality scale from pure objective to pure subjective quality. These are the two extremes, and there are various combinations and intermediate positions within them. In the following I will try to develop this measure tool and thereafter discuss Amagerbanken.net and where it shall be placed on the quality scale developed here.

When it comes to services it is hard both to measure and improve quality. The reason for this lays in the definition of services. A characteristic of services like the “moment of truth” requires that the quality control is a part of the production system in each employee, which is a lot harder both to control and improve. This is among the reasons why quality measurements in services mostly occur after the delivering of the service in question, and then focusing on the achieved feedback from the customers. There are, however, attempts made to measure and improve the quality on before hand. Objective quality is an attempt in doing so that will be described below.

¹¹¹ Edvardsson et al. 1994: 178

¹¹² Edvardsson et al. 1994: 178

4.2.1 Objective quality

The classic example of the objective quality understanding comes from manufacturing and is a product comparison between a Cadillac and a VW¹¹³. If the Cadillac lives up to the requirements the factory sets up it has quality. But we also speak of quality if the VW lives up to the requirements their factory sets up. Even though there is a quality difference between the Cadillac and the VW, both fulfil the objective quality requirements from their factory. Hence there we talk of quality in both a Michelin guide restaurant and at McDonalds, even though they have very different requirements according quality, which makes a comparison tricky.

Quality measurement has a long tradition in manufacturing industries, which also is the simplest way to measure quality¹¹⁴. Here quality is measured physical as size and shape and deviations from the standards. These measures make it possible to specify quality requirements in manufacturing and to describe the technical quality of product to customers. The goal is to prevent defects, which is also called zero-fault-production. Therefore it is also quite easy to increase the quality, by improving the quality control at each of the production levels¹¹⁵.

This is the point of departure for an objective quality measurement in services, where quantitative aims for “objective facts” make the foundation. These facts are for instance how many times the telephone rings before it is answered or how long customers have to wait in line. The service provider can make pre-established quality goals, like answering the phone after two rings, which can be used to measure the quality level of the service.

The aim of objective quality approach is to find easily measurable objective criteria that constitute a standard for quality, like zero faults. There are pre-established objective criteria for quality, which are measurable. This view is in accordance with Lund’s definition of quality as fulfilment of demands. These

¹¹³ Lund et al. 1987: 21

¹¹⁴ Lund et al 1987: 27, Edvardsson et al 1994: Ch 7

¹¹⁵ Like the quality control that came with the industrialisation and F. Taylor, Lund et al 1987: 27

demands are two folded, the customers' demands and profitability¹¹⁶. In the following I will describe some researchers and methods that mainly deals with objective quality and measurement. I will start with the most objective quality measure and move towards the more subjective measures, into the quality shadow land in between the objective and subjective approach.

Most the bigger firms today are measuring their quality regularly, and a well-known way of doing this is through an objective method called Total Quality Index¹¹⁷. This means that the firm is identifying various factors of quality; these are interpreted as variables that are to be weighted. Through this the firm will get an objective answer describing their quality, which also makes the foundation when the firm will reach new and improved quality goals. This way of measuring objective quality is, however, industry dependent so even if TQI in many respects are extremely objective it will still be rather difficult to compare the quality level between firms. Another disadvantage with TQI is that it requires both money and time, which in many cases prevent small firms from using it.

Another attempt to measure quality objectively is made by Horovitz and Jurgens-Panak, in a research from 1992¹¹⁸. They analysed quality in 50 different service firms in Europe, and found that selling a service quality is not only to sell a commitment to something, but it is also about how it is sold. Therefore service quality consists of two aspects, and service firms must do well in both to become a service leader. These aspects are design and delivery. Service design is understood as the basic service¹¹⁹, the service package, offered the customers. To provide well-designed services is about "doing the right job". In a restaurant the number of stars in the Michelin guide measures this. To provide well-delivered service means, "doing the job right". For a service company the delivery concerns the experience the customer had when he used the service and if the customer appreciated doing business with the firm. To stick to the restaurant example it

¹¹⁶ Lund et al 1987

¹¹⁷ Edvardsson et al 1994: Ch. 7, Henceforth Total Quality Index will be called TQI

¹¹⁸ Horovitz and Jurgens-Panak 1992

¹¹⁹ Basic service is also understood as the core service by other authors, like Normann.

means whether the waiter did a good job or not. By stressing customers and their experience this approach is more subjective than TQI presented above, whereas the latter has e.g. pre-established categories.

Another objective measuring contribution comes from Edvardsson, Thomasson and Øvretveit, who have done various investigations of quality measurements in services. Their findings¹²⁰ are that the overall category for describing and measuring quality is **confidence**. Quality is therefore interpreted equal to the customers' confidence in the service. Moreover confidence can be sub-divided into following five groups: First there are honesty, reliability and responsibility. This means that the customer can rely on the service. Personal contact is the next sub-group, where a service provider takes responsibility for the quality. Third there are accessibility or willingness, meaning that the service is accessible regarding opening hours etc, and that the customer can get the required help. Attitude is the next sub-group, where the customer is treated in the manner he expects. Finally there is competence, where the service has to be competent enough to serve the customers requirements.

The second interpretation, personal contact, can be linked with Horovitz and Jurgens-Panaks' design approach, while this is something that is build into the service. The third and four sub-group, accessibility and attitude correspond with the delivery approach, because it has to do with the delivery of the service. A mixture between design and delivery are both honesty and competence. Understanding objective quality as a function of five confidence elements can be linked with Horovitz and Jurgens-Panaks' view, even though it is a further differentiation of their approach.

As for Horovitz and Jurgens-Panaks' view, Edvardsson stresses customers and their interpretation so the quality measuring is not purely objective. There are to a certain degree some pre-established objective facts, like the first (honesty) and

¹²⁰ For instance the one about quality in car repair shops, in Edvardsson et al 1994: chapter 7

third (accessibility) element of confidence. These objective elements will be used for analysing Amagerbanken.net.

On the other hand, both contributions involve the customers and their interpretation of quality and hence have subjective quality elements, which will be depicted in the next section. Therefore it is most reasonable to understand these approaches, as somewhere in between on the measuring quality scale, even though the objective elements will be used in the discussion of Amagerbanken.net.

4.2.2 Subjective quality

Instead of making pre-established aims and goals for quality, the subjective quality understanding puts the customers and their experiences in centre. By using qualitative methods for measuring the quality managers understand people's expectations and requirements. According to Edvardsson methods used are listening, studying, analysing and interpreting customers' statements¹²¹.

Regarding Sundbo¹²², there is at broadest level two subjective quality camps, the American-French¹²³ variant and the Nordic¹²⁴ variant where the subjective quality is an issue¹²⁵. Fundamentally there is no difference between these two variants, even though the American *has developed some certain practical instruments for quantifying customer satisfaction with the services*¹²⁶. These quantifying measures will be the intermediate positions on the quality scale; some were discussed above while others come here.

Regarding the Nordic variant, quality is understood as customer satisfaction, and the focus in the analysis and models are on the customers¹²⁷. This means that quality is measured after the fulfilment of the customers' expectations. The qualities of the service will depend on the gap between the customers'

¹²¹ Edvardsson et al. 1994: 181

¹²² Sundbo 1998b: 137

¹²³ Researchers like Oakland, Parasuraman and Zeithaml

¹²⁴ Researchers like Gummesson, Grönroos, Edvardsson and Normann

¹²⁵ There are authors that crosses the "boarders", even though they in the following mainly will be classified as the Nordic and the American variant

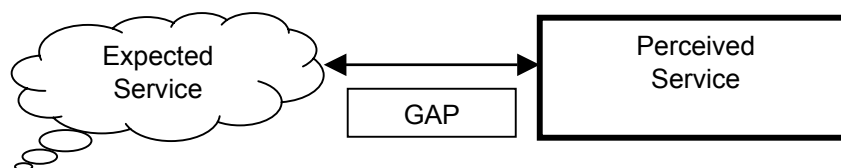
¹²⁶ Sundbo, 1998b: 138

¹²⁷ Edvardsson et al 1994: 88

expectations and experienced service, and service quality research in general has mainly been preoccupied with this customer perspective¹²⁸.

The argumentation runs as follows. Anyone receiving a service has expectations to the quality of it. Whether the customers' expectations to a service are fulfilled or not becomes crucial for the quality. This is therefore the point of departure for the subjective quality understanding. When the expected and received quality, do not correspond, we talk of a service gap. This can be positive if the quality was better than expected, but also negative if the perceived quality was worse. The customers' expectations are a function of several elements like their own idea what the service is like, what the customers have heard and read and whether they have experienced a similar service before. Therefore the expectations vary from person to person, but also over time and are subjective¹²⁹. A simplification over the service gap can be illustrated like the model below.

MODEL IV: SERVICE GAP¹³⁰



Expectations may often be higher than anticipated, and it is also hard for the service provider to change these¹³¹. There is, however, a “zone of tolerance”, which functions as a protector of the service provider and takes advantages of the customers “good will”. Hence the customer will accept some drawbacks of the service within this zone of tolerance.

To approach quality as more measurable than just customers' expectations make Edvardsson's approach more objective than the subjective understanding depicted above. Edvardsson classify four quality factors that are common for all

¹²⁸ Mattsson 1994: 47

¹²⁹ Øvretveit 1994: 33

¹³⁰ Simplification of Zeithaml et al 1990: 37

¹³¹ Mattsson 1994, Zeithaml et al 1990

services¹³², and an illumination of them illustrate another subjective understanding that also is somewhere in between on the quality scale.

These factors mentioned by Edvardsson are; the ability and willingness to serve the customer and that the staffs inspire confidence to the customer. The third factor is called empathy and refers to the interest in the customer, and the last factor is the handling of feedback from the customers. Hence quality in services can be understood as something that happens in the "moment of truth", and rest on the organization rather than the customer (even though there is an interaction and it is hard to separate them). Various ways to increase quality can therefore be to make standards, increase the knowledge¹³³ of the employees and to use internal feedback from the employees and external feedback from customers. Quality in services is at general level; about feedback and the way the customers' feedback is handled¹³⁴.

When depicting and analysing objective quality, we saw that there were approaches in between the extremes, like Jurgens-Panaks' approach. There are also subjective quality approaches that are hard to undoubtedly be placed on the quality scale. An example here is SERVQUAL.

Øvretveit¹³⁵ state that at general level, there are three approaches to measuring subjective quality; complain measures, satisfaction measures and SERVQUAL. The first is the simplest where you count and categorize complains over a given period of time. Satisfaction measures are the second most common, where the customers are invited to express their judgement over elements taking part in the service. SERVQUAL is a method developed by Barry, Parasuraman and Zeithaml¹³⁶. This method is based upon five quality dimensions; tangibles, reliability, responsiveness, assurance and empathy. There are two steps in this quality measure. The first step is to establish the customers' perception of an ideal service and the second is to measure the customers' perception towards a specific

¹³² Edvardsson et al 1994: 84

¹³³ Knowledge involves various processes like learning-by-doing, learning-by-using and learning-by-interacting, see Lundvall 1992: 9

¹³⁴ Normann 1986: 164

¹³⁵ Øvretveit 1993: Ch. 3

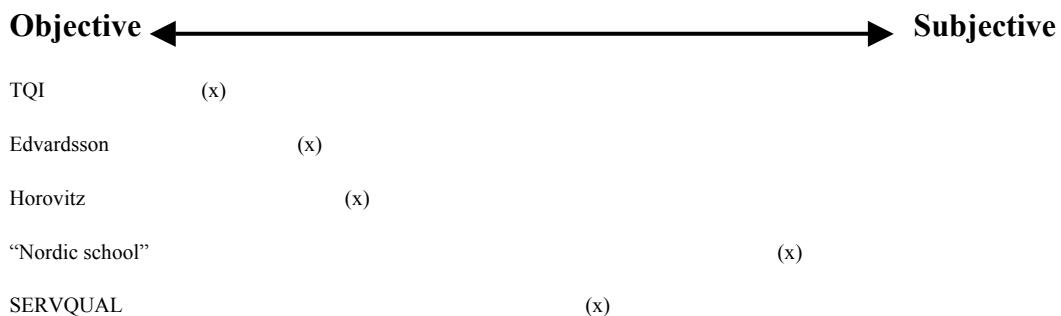
¹³⁶ Zeithaml et al 1990, Edvardsson et al 1994: 202 and Øvretveit 1993: 28

service. Customers are therefore asked to answer 22 questions that touch upon each of the quality dimensions. The simplification in this model has reached lots of criticism. Øvretveit¹³⁷, for instance, states that the model is too strict and static. It does not pay attention to changes, neither in the market nor between customer groups.

4.2.3 The Quality Scale

The aim of this section was to make a quality scale where the various researchers and approaches were to be placed. On behalf of the discussion, the quality scale is illustrated in the model below, where the (x) indicates their placement on the scale that goes from pure objective to pure subjective quality understanding. This is by no means a complete model over researchers that can be placed within this scale, rather an attempt to grade the mentioned contributions after their objectivity.

MODEL V: QUALITY SCALE AND THE VARIOUS APPROACHES



With this background of quality, its important role and measuring difficulties, we can finally move on to the analysis of Amagerbanken.net. As emphasised earlier, this paper examines Amagerbank.net from the view of the bank. Thus it is impossible to say anything about the expected quality the customers of the bank have. Moreover the subjective quality will be understood as how the bank wants their customers to expect the quality. What Amagerbanken.net say they will do and how the customers are to interpret this.

¹³⁷ Øvretveit 1994: 27-29

Like Sundbo states; *the company must ensure that the customer gets what he expects*¹³⁸. This can be a strategic element for the firm, because it can influence the expectations of the customer itself. Therefore I will measure subjective quality for Amagerbanken.net as what the Internet bank gives the impression of doing for the customers.

4.3 THE QUALITY SCALE AND AMAGERBANKEN.NET

In this section I will use the characteristics and measurements of quality, both objective and subjective, based on the previous discussion. The purpose will be to consider what role quality plays for Amagerbanken.net. Hence quality will be analysed as one way to create a competitive advantage for Amagerbanken, in accordance with the increased acknowledge of quality in services. The question discussed here is whether quality can be a competitive strategy and explain the development and implementation of Amagerbanken.net.

For structuring the debate some indicators that are important regarding quality will be depict. These indicators are, time, security and possibility room. Considering these indicators as central issues, correspond with the literature and interviews. Why exactly these indicators are important will be clarified more detailed during the discussion. Throughout this section the indicators will also be placed on a scale that goes from subjective to objective quality regarding Amagerbanken.net based on the previous theoretical debate. Hence it will be possible to map where Amagerbanken.net belongs on the quality scale. I will also consider the feedback mechanisms in Amagerbanken.net. Since feedback is important for both measuring and improving the quality, it can also be placed on the quality scale, grading how the feedback is received and measured.

4.3.1 Time

¹³⁸ Sundbo 1998b: 138

The first indicator being discussed is time. One of the main reasons why customers want Internet banking is the convenience of doing banking business where and when ever. This is also a reason emphasised by Amagerbanken.net. Andersen said that among the advantages with Internet banking were the facts that

(...) you can enter it immediately and

(...) you can be connected from any PC wherever.

Time is therefore a relevant aspect considering the quality of Amagerbanken.net. Jacobsen said that speed would mean less in the future, because Internet probably runs faster then, but nowadays it is *a good measure of quality*.

The time-dimension has, however, two understandings. Firstly it means how long time it takes to download the page, and get connected to the Internet bank. This is in accordance with what a respondent said, when he was going to define quality;

*(...) how many platforms you can use, how long time it takes to download your page, how long it takes to start and begin using (...)*¹³⁹.

Secondly, time means when the Internet bank is operative and accessible, its functionality¹⁴⁰. Time is therefore relevant for quality and where it shall be placed on the quality scale in Amagerbanken.net's case will be discussed in the following.

The quality investigations made by Edvardsson, mentioned earlier, concluded that confidence was of major importance for objective quality. As we remember, confidence had five dimensions, where honesty, reliability and responsibility were one. This means that the service have to be reliable so the customers can trust it. For time, this implies that the Internet page will be downloaded, so the customer can do banking business through this channel. It is therefore possible to examine time as an objective quality, with the two dimensions of time being downloading and functionality.

¹³⁹ Henrik Jacobsen

¹⁴⁰ Henning Andersen

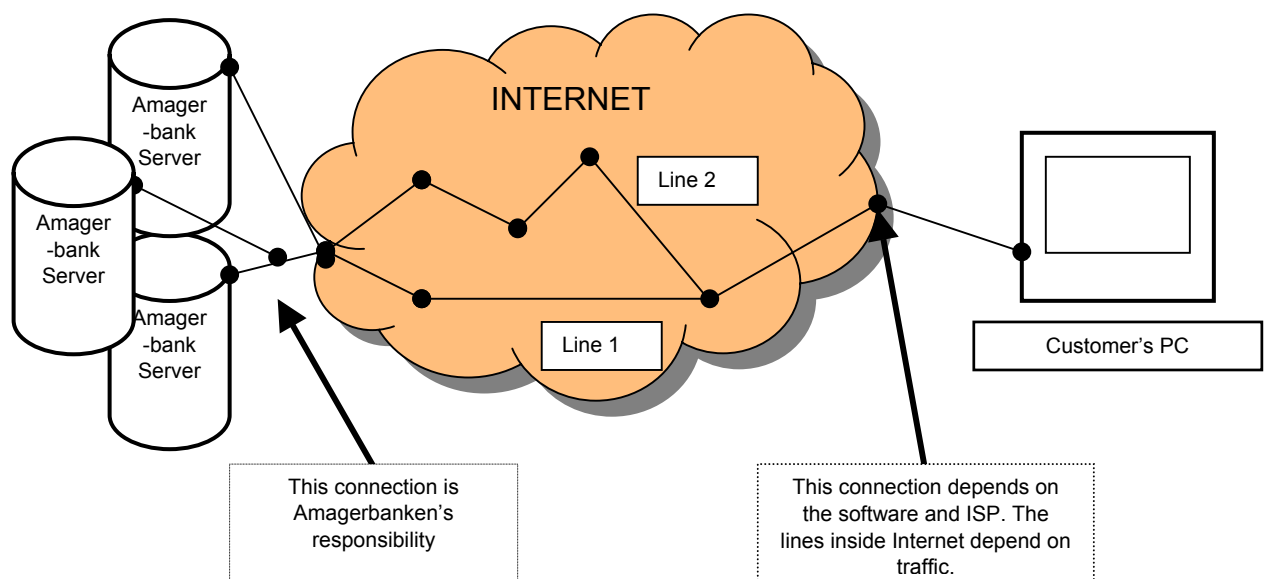
The first time dimension, how long it actually takes to download the page and begin the use of Amagerbanken.net will depend on two things. First it depends on the ISP (Internet Service Provider) and the quality of service that it delivers¹⁴¹.

This means that the Internet offers a best-effort delivery service, meaning that every effort is made to deliver the information but delivery is not guaranteed.

Because the information might have to be transmitted more than once and perhaps wait in line, the Internet connection might take some time. This will mostly occur in the evenings, when it is heavy traffic on the Web.

This time dimension is, however, out of Amagerbanken's control. What Amagerbanken has power over, is the servers connected to Amagerbanken.net. To increase the capacity of the Web, it requires better or more servers and higher output to the Web. According to Jacobsen this is one aspect where Amagerbanken has put a lot of effort. Establishing several platforms and servers increases the capacity of the net when there are many customers entering the page and has been vital for Amagerbanken.net. A model over this rather technical discussion might help the reader and follows below.

MODEL VI: THE INTERNET¹⁴²



¹⁴¹ Peterson 1996: 505

¹⁴² Simplification and summary of Peterson 1996: Ch. 1

When it comes to the other dimension of time, namely the functionality and how operative Amagerbanken.net is, the picture is somewhat different.

Amagerbanken.net is not an open 24 hours bank, which a customer might think when it comes to Internet banking. Amagerbanken.net is only open between 7 am and 1 am¹⁴³. This will perhaps not be a problem for the customers in Denmark, but travelling to other time zones might alter the "every- and-anywhere" image that Amagerbanken.net signalises. Regarding time as a dimension of objective quality, this will decrease the quality of Amagerbanken.net as such. The confidence of the product, understood as the reliability and honesty, will be insufficient.

Contradictory, time can also be understood as subjective quality where the customers' expectations are in focus. If the customers expect that Amagerbanken.net is operative all the time, they will be disappointed when they experience that this is not the case. Their expectations will not correspond with the experienced service, and there will be a service gap. Whether this is within the "zone of tolerance" or not, will again depend on the customer. On the other hand, if the customer knows that reaching Amagerbanken.net will depend on what time of day the customer is connecting the bank through Internet, and that the Internet-connection will vary, the gap between the expected and experienced service will not occur.

Time can therefore be analysed as an objective quality because it is measurable and comparable with the competitors. When it comes to time-dimensions like connection and opening hours it depends on the expectations each customer has. But, Amagerbanken.net is giving an honest, reliable impression, explaining the customer that the access might vary. Therefore it seems like according time, Amagerbanken will be somewhere in between the two extremes on the quality scale, but mostly competing on objective quality.

¹⁴³ 02.08.99 <http://www.amagerbanken.net>

4.3.2 Security

The lack of personal contact and the anonymity associated with transactions over Internet make it difficult to authenticate parties and conduct intruders; this in turn makes Internet vulnerable and increases the need for security services¹⁴⁴. Security and the provided technology used to increase the security change constantly, so does the certain requirements and standards regarding security. The manifestation of standards in the Internet banking industry does, however, make it possible to judge the quality of the service as an objective quality because standards are comparable.

The picture is, though, not so one-sided. The above-mentioned objective quality can also be named *objective security*. On the other hand, you have something called *experienced security*. This differs from the objective, while the objective has requirements, standards and is more comprehensive. The experienced security can be linked to the fact that Internet banks are interpreted as safe. Even though Internet as such is mostly perceived as rather unsafe, like shopping with credit cards on the Web, doing banking business on the Internet has given a safe impression. When banking on the Web is understood as safe, it depends on an experienced rather than objective security levels. For this reason there are two parallel security understandings, and which is most applicable for Amagerbanken.net will be discussed in the following.

Amagerbanken.net being one of the newest Internet banks and does fulfil some security standards. According to the development division Amagerbanken.net has the newest and best security solution. Andersen says that (...) *compared with other bank's security, our system is the best (...)* and Jacobsen agree stating that the SSL-standard¹⁴⁵ Amagerbanken.net has is *one of the better ones*.

If Amagerbanken decided to use statements like these, and measure how much better their solutions were compared with other banks, it could be an objective quality. This is also in accordance with the investigation done by Edvarsson

¹⁴⁴ Schutzer 1997: 180

where quality was interpreted as confidence. If Amagerbanken.net gave their customers the impression that it was the best, the customers could increase their faith and confidence in Amagerbanken.net. Accordingly Amagerbanken.net would use objective quality in competition getting new customers. Signalling security and trust towards the customers is of main importance using this as a quality strategy.

As depicted, Amagerbanken believe that their security is better than many of the competitors. However, the management have decided to be silent around this and not use security as a competitive force. The reason being mentioned by Jacobsen was that going out with this could destroy the increasing faith and trust Internet banking has gained. The customers could enquire the security in other banks and in the end the whole Internet banking environment could be questioned and the market destroyed. For this reason Amagerbanken leaves the security judgement to the customers and their experiences instead. It is obvious that the expectations and experiences will vary from person to person. A customer dealing with IT will most likely have other expectations according Internet banking security, than most other customers. Therefore the experienced security is more similar to subjective quality, which depends on the customer and his requirements

4.3.3 Possibility room

Possibility room can also be defined as a "service-room", meaning the features, what the customer actually can do, within the Internet bank. When Andersen described quality he mentioned features like:

A function of time, price and content. This means that the customer will get new functionality. Typical for PC banking is to wait half a year before we renew it, but now we can make something from month to month

Typical functions with Amagerbanken.net are the possibility to transfer money, pay bills and check the balance¹⁴⁶. Throughout these, there are limitations over the

¹⁴⁵ SSL means Secure Sockets Layer, and is one among many security-enhancing standards, Peterson 1996.

¹⁴⁶ 02.08.99 <http://www.Amagerbanken.net>

possibilities. Therefore also the possibility room can be interpreted in two ways. Either it is something that is objective, that has to do with the competence of quality Amagerbanken.net delivers, and can be analysed like Edvardsson does. This can easily be quantified and compared among other banks, which also makes the possibility room objective on the quality scale.

On the other hand the possibilities can be a subjective quality, depending on the customers' expectations. This also includes another element, how the possibilities are possible. If Amagerbanken.net is user-friendly¹⁴⁷ it might include many customer groups and be experienced as a high-quality product. When Amagerbanken.net has various support and help activities, it is quite easy to use. These functions are firstly a help-function in the program and the possibility to write a mail to the bank to answer the questions the customers might have. Moreover they have telephone service that is open every weekday between 1 and 8 am. As this can be quantified and measured argues for an objective quality understanding. Even though, also the possibility room will have various interpretations depending on the customers' expectations.

The dualistic character for this quality dimension means that it is difficult to position on the quality scale. Nevertheless most of these features are measurable and puts the service qualities in front of the customers' experience and their fulfilment. I will therefore argue for possibility room more as an objective than a subjective quality.

4.3.4 Feedback and Amagerbanken.net

To use, implement, measure and increase both objective and subjective quality, will to a great extent depend on the feedback from the customers¹⁴⁸. This feedback can be gathered through different ways, like group-interviews, questionnaires and other general comments. Amagerbanken asks customers what they think and customers come back telling the bank their experiences. These comments are also used for further development¹⁴⁹ and increasing quality. Even

¹⁴⁷ Henrik Jacobsen

¹⁴⁸ Øvretveit 1994 and Edvardsson et.al 1994

¹⁴⁹ Henrik Jacobsen

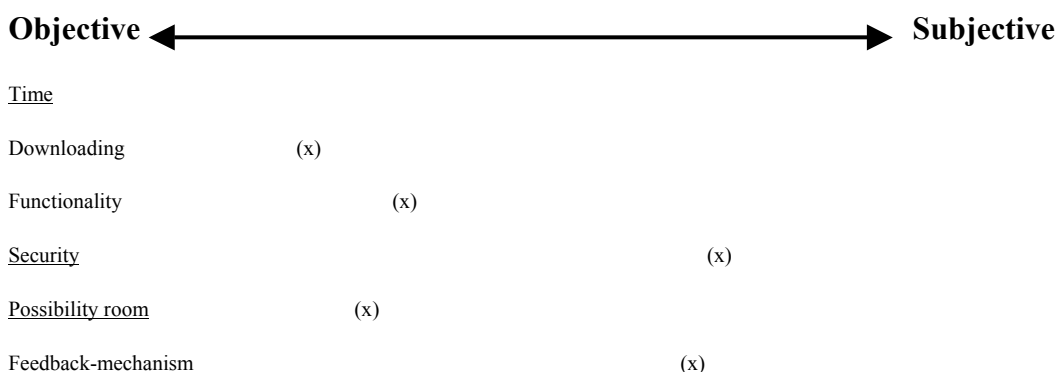
though Amagerbanken gets comments and use them, it does not have any systematic way of using or getting more feedback.

Considering Amagerbanken in general as a personal bank, this indicates that the need for systematically feedback will be rather limited. The customers will make sure that Amagerbanken knows their experiences anyway. Therefore the locality and nearness, one of the overall strategies Amagerbanken has, influence Amagerbanken.net as well. The customers are used to being close to the bank, and therefore they will have the personal attitude, even though Amagerbanken.net is not personal in the same sense. Andersen stresses the contradiction between being a personal bank and implementing Internet banking. Therefore it is appropriate to claim that Amagerbanken.net does not give the personal quality as the bank in general. However, the Internet bank might still be perceived personal by the customers, while this corresponds with their existing attitude towards the bank.

4.4 PRELIMINARY RESULTS

A summary of the dimensions as objective and subjective quality can be illustrated in a model, a quality scale like below. The (x) will indicate where the indicators can be placed on a scale between pure objective and pure subjective quality, based on the discussion above. This is by no means an absolute answer, rather an attempt to place Amagerbanken.net with the illuminated indicators on the quality scale.

MODEL VII: THE QUALITY SCALE AND AMAGERBANKEN.NET



The aim of this chapter was to make a quality scale, and position Amagerbanken.net within this, so has been done. As illustrated in the previous discussion it is a complex issue to categorize the dimensions and position them on the quality scale, because each dimension has both objective and subjective elements. None of the extremes, being pure objective or pure subjective quality can describe Amagerbanken.net. Some of the indicators are more objective, like downloading, while others are more subjective, like security. Common for most of the indicators, however, is the importance of the customers' judgement over quality, and therefore feedback plays a vital role. Amagerbanken leaves the quality measurement to their customers. Quality could, like the discussion indicates, have been used more strategically by the bank stressing a more objective interpretation. With the importance of the customers' interpretation it results in a generally more subjective quality understanding appropriate for Amagerbanken.net.

The result of this analysis is therefore firstly that quality plays an important role for Amagerbanken.net. Secondly, the competition according to quality is more subjective than objective for two reasons. Amagerbanken does not take advantage of some of the quality dimensions that have a potential for being objective and the quality judgement are left for the customers' own experiences.

As illuminated, quality is important for competition and the subjective understanding seems most appropriate for Amagerbanken.net. With these results it becomes essential to do some considerations around the impacts of the results and how they correspond with the previous results in my analysis. How can quality, as being important for competition, and the subjective understanding match with Porter's generic strategies that founded the theoretical framework in this thesis? Another question that rises is of more general character; how can the processual strategy approach that the service literature presents match with Porters rational approach? These questions will be briefly depict in the next, and final chapter, which starts with a summary of the depicted issues and findings in this paper

5 Concluding chapter

In this final chapter, the central issues examined and the main results in this analysis will be summarized. Thereafter I will try to position the results in a perspective, by returning to the strategy debate and do some considerations around the implications of my results. Finally, I will question to what extent the findings in my thesis can be generalized and valid for other services apart from Amagerbanken.net.

5.1 SUMMARY AND DISCUSSION OF THE PRELIMINARY RESULTS

The topic in this thesis has been competitive strategies and their appropriateness for understanding a service product innovation. An analysis of Amagerbanken.net from a rational strategy approach was going to examine the research question set out in the introduction, *can an adoption of Porter's rational interpretations of strategy give a plausible understanding and explanation of the innovation; Amagerbanken.net?*

After having examined each of Porter's strategies in chapter 2, Amagerbanken.net was analysed through some chosen indicators, being interrelationships, timing, location and organizational structure. Thereafter what customer target Amagerbanken.net was meant for was discussed. The result of the analysis was that instead of following one strategy Amagerbanken followed a mix of mainly cost focus but with elements from differentiation strategy. This is what Porter called being "stuck in the middle" between strategies, and what he clearly warns firms against. A mix, instead of pure strategies is, however, in accordance with other investigations done, testing the appropriateness of Porter's generic strategies. The already mentioned investigation by Miller and Friesen, of the competitive strategies on consumer durable industries in the US¹⁵⁰ is one. For some industries, like the ones that Miller and Friesen investigated, it seems like a mix gives a better understanding and explanation, which also can be a reason for my result.

¹⁵⁰ Miller and Friesen 1986

Another reason for a mix strategy could be the effect of the equality Porter's strategies adopts between goods and services. By describing services and how they differ from manufacturing a reason why a mix of Porter's strategies seemed more reasonable was illuminated. The result was that services differ from goods among many dimensions, also with the interpretation of quality. Therefore another research question was discussed, explicitly: *can quality be a competitive strategy and hence explain how and why Amagerbanken developed and implemented Amagerbanken.net?*

Quality was further investigated and a quality scale was developed, to describe and categorize fields within the service literature between the two extremes, objective and subjective quality. Amagerbanken.net was then discussed towards some chosen indicators important for the quality extremes, time, security, possibility room and feedback. The result of this analysis was that to position Amagerbanken.net on the quality scale was difficult, while the indicators were diverse and pointed towards both extremes. The bank could have used some of these indicators for promoting a more objective quality strategy, but did not. Therefore the preliminary conclusion was that Amagerbanken left most of the quality judgement to their customers, and on this behalf a subjective quality interpretation seemed most appropriate for Amagerbanken.net.

The preliminary results presented above raise a question; how can Amagerbanken as competing on subjective quality be merged with Porter's strategies? Or to put it another way: does Porter's strategies include quality?

According to Porter's differentiation strategy, quality can be one of the drivers for uniqueness¹⁵¹. Even if Porter's theories do take quality in regard, this is quality in goods, which to a great extent reminds of an objective, measurable quality understanding as TQI. In this thesis a service was the case, and quality in services was interpreted as a scale with two extremes. Regarding Porter's generic competitive strategies, the subjective quality is not analysed while the theories do

¹⁵¹ Porter 1985: 124

not distinguish between goods and services. As shown, quality in services has other meanings and interpretations than in manufacturing. Instead of making quantifiable tools as mainly has been done in manufacturing, quality also plays a subjective role in services. Both the subjective and the objective interpretations co-exist in services and therefore the quality scale was used to investigate Amagerbanken.net. Because the “product” being offered in a service has the characteristics being illustrated in chapter 4, services have other qualifications than goods. To sell a service will therefore also be about selling subjective quality, while it is harder for services to compete through objective quality. Even though Porter mentions the various sources of differentiation, also quality, he does not mention the role subjective quality plays¹⁵². Based on the preliminary results, a falsification of my first research question is appropriate while the rational strategy approach illustrated by Porter’s theories cannot give a plausible understanding of Amagerbanken.net, mainly because the strategies treat services and goods equal. In the next section I will, however, depict another possibility than to falsify: a combination between the subjective quality approach in services and Porter’s strategies, because Porter’s strategies are meant to be suitable for services as well. Because Porter’s strategies have been illuminating and fruitful, I will show how they still can be useful for my case, by adding a dimension to Porter’s strategies. There are therefore possible to combine subjective quality and the generic strategies.

The only exception on the strategies’ validity is subjective quality as a source for competition. Even though Porter’s theories take quality in regard, this is the objective quality approach. By examining the equality between goods and services, that Porter’s theory takes for granted; we have seen that in services a subjective quality understanding is more appropriate. Subjective quality as a source for differentiation can be understood as an additional dimension through which service firms can differentiate. Among the drivers for uniqueness¹⁵³ that are reasons why the activity is unique, I will add subjective quality when services are

¹⁵² Porter 1985: Ch 4

¹⁵³ As mentioned in chapter 3, these are policy choices, linkages, location, interrelationships, learning and spillovers, integration, scale, and institutional factors, Porter 1985: 124-127

being analysed. The importance of quality for uniqueness and competitive ability is in accordance with Horovitz and Jurgens-Panaks' observations¹⁵⁴. While differentiation has more dimensions than cost strategy, which only competes on price, service firms have more possibilities for being unique. For price the firm is either the leader or not¹⁵⁵. For this reason there are more dimensions to differentiate at through service, where quality is one. Hence, on behalf of this examination I will suggest adding subjective quality as a dimension for uniqueness and differentiation to Porter's generic strategies. This indicates that service firms have more indicators to differentiate through by using subjective quality in competition, which this paper illustrates.

5.2 IMPLICATIONS

The discussion above resulted in an additional source of differentiation in Porter's strategies, subjective quality when a service is being analysed. Another question that rises is how the processual strategy view that the service literature represents can fit in with the overall rational approach that Porter represents.

Porter's rational strategy approach was used in the analysis to examine which of the generic strategies Amagerbanken followed when they developed and implemented Amagerbanken.net. Even though the result of this analysis was that a mix of the strategies was more appropriate than one single strategy it was still within the rational approach. With the introduction of services and the processual approach the result was that also a more processual interpretation of strategy was applicable. This indicates that the quality judgement of the service product is left for customers, and that Amagerbanken does not use quality as an objective competitive weapon. Therefore, for the quality element, the closeness to the market and customers are of vital importance. This does, however, correspond more with a processual strategy approach than a rational. Finally I suggested

¹⁵⁴ Horovitz and Jurgens-Panak 1992:78

¹⁵⁵ Horovitz and Jurgens-Panak call this the "Christopher Columbus syndrome". If you ask any person who was the first to discover America, he answers immediately. If you ask who was the second, however, the answer is not so obvious. The same goes for differentiation through price, nobody remembers the second one! Horovitz and Jurgens-Panak 1992

another differentiation dimension for analysing services, quality as a driver for uniqueness. The question then will be if this rather processual adding to Porter's rational approach is suitable?

The reason for combining these approaches was that applying only a rational approach did not seem to give any satisfying results while quality certainly had a role to play, resulting in an underestimation of central questions. But since these two strategy approaches rest on different premises, and move towards the whole subject of strategy differently, combining them fruitfully without regard to any complications this indicates will be wrong to do. By combining them, my approach in this analysis is more like a "choose and select", where they are combined to make the analyses appropriate and not so much with regard to the premises of the strategies.

Even though, this analysis was never an attempt to be a debate over strategies and various strategy approaches. It was merely an attempt to understand an innovation in a service firm. Therefore, it seems fruitful for increasing the knowledge and understanding of my case, to relate a more processual adding to a rational strategy understanding. An intermediate way is therefore suggested. This will be in accordance with the rational approach, while Amagerbanken has goals it wants to achieve and has been tested towards Porter's rational strategies. Moreover the processual approach is also defended while Amagerbanken leaves much of their quality judgement to the customers, and this closeness to the market and customers corresponds with a processual strategy understanding.

Therefore this more intermediate way, by crossing borders between established fields became most successful. With this combining approach the development of Amagerbanken.net became more reachable and illuminated more than just applying one strategy-approach. This intermediate approach became therefore necessary to examine the innovation from more than one angle.

5.3 GENERALIZATIONS AND FURTHER RESEARCH

The method and topics being discussed in this thesis raises some questions according the validity of the case and further generalization. What the implications from the findings in this thesis are will furthermore be considered in this final section. The final result that Porter's strategies are not the most plausible way to examine services without an additional differentiation dimension also needs to be depicted in a more general manner.

As described in the introductory chapter, the argumentation in this paper rests on some premises that might have influenced the result. Firstly the indicators or dimensions chosen in chapter 3 and 4 have an impact upon the result. There could be that these indicators only are important regarding Amagerbanken.net. For another service or another firm, other dimensions might be even more important. Secondly the chosen literature and issues being discussed in this paper is just a selection of a huge variety. Therefore the questions being discussed might have been prejudiced by the literature. Thirdly, this paper is just an analysis of one service firm, which also reduces the generalization possibilities while I can only conclude for Amagerbanken.net and not generalize for all Internet banks or services. Even the implications for Amagerbanken.net can be methodological questioned, while I only interviewed 5 people, which limits the validity of my results. If my sample had been bigger it could have resulted in more statistical significant differences, and it would have been easier to generalize for the whole bank and services in general. Finally, my analysis could have been more valid if the same method as Porter uses had been adopted, using competition and the market in which the firm operates as the point of departure and steadily analysed the firm within this context. This outside-in method does, however, require a lot more research and provided information than what I could offer with this master thesis.

All these methodological drawbacks result in a generalization problem in this thesis; I can hardly say anything about services in general. Analysing a bank as one service firm makes it not only hard, but also wrong to generalize and say something about services in general, while services is a general term for various branches and industries. Moreover I cannot generalize and conclude for banks in general either, since this thesis only examined one bank.

What my analysis indicates, however, is that quality plays an important role for Amagerbanken's competitive ability. By analysing a service, I have showed that there is a significant difference between services and goods. This indicates that for Amagerbanken, to use Porter's rational strategy approach for analysing Amagerbanken.net is not sufficient. While quality is multidimensional and has various interpretations in services than in goods, it was possible for the bank to take advantage of the subjective interpretation of quality and use this in competition.

My method, findings and conclusions will only be appropriate for Amagerbanken.net, which also correspond with the aim for this thesis. This does, however, not indicate that the results might be both interesting and perhaps truth when it comes to other service firms. There could be that this tendency can be found in other service firms as well. It would have been interesting to look more closely at this tendency and to do a further analysis of product innovations in services while I think my result can point towards a general trend to stress subjective quality, customers' interpretations and feedback in other service firms as well. This does, however, require more resources: time and further investigation with a more appropriate method to generalize from, and will be a subject for further research.

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7 Appendix A

Amagerbanken's organization chart with the respondents based on information provided by the bank:

