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AUTHORS	Samuel Grandval Stéphanie Vergnaud
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Interrelationships Among Business Units as a Way to Leverage Resources

Samuel Grandval, Stéphanie Vergnaud

Abstract

This article aims to increase the understanding of two types of diversification undertaken by Caisse d'Epargne based *a priori* on the sharing of common activities: the diversification towards insurance and towards banking product for SMEs.

To this end we apply the Interrelationships approach of Porter according to which the outcome of sharing common activities must be superior to the costs of exploiting synergy effects.

The comparison of advantage and cost will be preceded by analysis of the different skills of commercial banking with the aim of leveraging strategy synergy points.

Key words: Diversification, Synergies, Interrelationships among Business Units, Resources, Competencies.

Introduction

The value chain concept has resulted in many recommendations to refocus on core business. In fact, Porter's work (1986) is based on the observation that companies, in their exaggerated development policies, were losing sight of competitive advantages and activity control. Thus, although uncountable mergers and acquisitions were made at the end of the 1990s, decentralisation operations were being undertaken at the same time. Their aim was to reassure shareholders that the company resulting from the merger retains its focus.

Nowadays, theoreticians and practitioners clearly agree on the need to back policies that refocus on the core business. In his work however, Porter (1986) does not reject the possibility of exploiting the interrelationships between business units that result from activity sharing among various businesses. He does, however, attract the attention of strategists towards the restrictions of exploiting these interrelationships, which could make the benefits of a diversification strategy unpredictable. An analysis of interrelationships between business units would therefore make it possible to distinguish diversification based on illusory resource and competence sharing from diversification based on true sharing of common activities.

At the end of the 1980s, banks launched into the insurance business. The concept of strategic convergence had appeared. The early stages produced mixed results. Banks realised that insurance risk and claim management was a completely different business to banking. The former service requires competencies that are very different to those of the latter, even though certain competencies may be shared between "retail banking" and "personal insurance" (Lamarque, 1997).

This article aims to increase understanding of two types of diversification undertaken by Caisse d'Epargne based *a priori* on the sharing of common activities: diversification towards insurance and towards SME banking products. To this end we apply the Porter's interrelationship approach (1986) according to which the outcome of sharing common activities must be greater than the cost of exploiting synergy effects. The comparison of advantages and costs will be preceded by an analysis of the various skills of commercial banking with the aim of leveraging strategic synergy points. The concept of competence in particular will be understood according to reflections and concepts borrowed from the resource-based theory.

1. Interrelationships between value chains

The idea that combining different but similar activities can create a chain by synergy has been justifying diversification for a long time. However, the difficulty in exploiting and clearly

identifying these synergies has led to many failures. Nowadays, these failures have quite rightly led to a certain mistrust at the mention of diversification, particularly in financial markets¹, even though refocusing can be compatible with consistent diversification (Batsch, 2003). The interrelationship between value chains approach should have the property of redeeming diversification strategies based on activity sharing. On the other hand, this approach should provide a scope of permanent analysis that exposes the false synergies of risky strategic plans.

According to Porter (1986), interrelationships between value chains have the specific aim of reducing costs or strengthening value chain differentiation in practically every activity, to the extent that they compensate for the additional costs they cause. This value creation is also mentioned in the resource-based view for which, according to Tywoniak (1998, p. 174-175), *"competitive advantage is no longer necessarily to be found in exploiting a protected, dominant position in a market (or niche), but in improved resource leverage"*.

1.1. Linked diversification as a resource lever

Thus, activity sharing among several services should make it possible to initially leverage a company's resources: "representing a company through its resources gives rise to basic questions regarding the approach to key success factors in company diversification strategy formulation, such as the following:

- On which of the company's own resources should diversification be based?
- What resources should be developed during diversification?
- In what order and in what market should diversification be carried out?
- What type of company should be purchased by the company in the event of a lack of resources?" (Wernerfelt, 1984).

In their diversification policies, companies base their strategy on competence sharing. Although a company will indeed share out competencies through diversification, this is not enough to qualify it as linked diversification or even as strategically relevant diversification (Campbell, Luchs, 1992). In fact, as Thiétart stresses (1988, p. 135), one of the reasons for diversification may be an unfavourable context: *"when the company's traditional products begin to stagnate, due to weak demand or increased competition, the company may be tempted to diversify into new markets or activities"*. The competitive context of the banking sector may lead us to believe that this caused many banks to diversify. The aim of this paper is to verify that these diversifications are based on true interrelationships between business units.

Linked diversification can actually create a lever effect on shared resources or competencies (Markides, Williamson, 1994; Bergh, 1995) but the complexity and costs generated by synergy exploitation can reduce the advantages of this type of diversification (Porter, 1986, 1987; Grant et al., 1988; Collis and Mongomery, 1995). Chatterjee and Wernerfelt (1991) maintain that the performance of a linked diversification strategy often depends on the organisation's situation in terms of resources and, particularly, on the nature of its underused resources. If the latter are key resources, then the lever effect is greater still. Thus, linked diversification must be based on sharing activities that are originally key competencies. However, this does not necessarily provide a strategic justification for diversification. In fact, costs that call the relevance of this strategy into question may be generated when exploiting interrelationships. The aim of this paper is therefore essentially to test the existence of these costs (compromise, co-ordination, rigidity) in the banking sector. The results of previous investigations on key competencies allow us to identify interrelationships between business units. In fact, the underlying hypothesis is that interrelationships are strategic if they consist in sharing activities that are originally key competencies. Porter (1986), assesses the strategic nature of interrelationships according to the following two basic questions:

1. Is a high fraction of the operating costs or assets represented by the value-creating activity?
2. Is the value-creating activity highly sensitive to the scale, training and use of abilities?

¹ "Diversified companies find favour among certain portfolio managers", Les Echos, 2/5/2003.

3. If the answer to these two questions is yes, then the interrelationships can be said to be strategic.

However, Porter's criteria seem to be too limited and internally focused to be sufficient. Furthermore, since the resource-based view also takes into account the competitive context and the customers' expectations, a combination of the two approaches will allow us to identify truly strategic interrelationships.

1.2. Interrelationships between business units

According to Porter (1986), "activity sharing can lead to a lasting competitive advantage, as long as the advantages of sharing exceed the related costs, and with the condition that the competition finds it difficult to do likewise. Sharing leads to a competitive advantage if it reduces costs or increases differentiation. It always implies costs, which include everything from co-ordination costs to the need to modify unit strategies in order to make activity sharing easier."

Porter's interrelationship between business units approach encourages strategists to consider the costs generated by adopting a multiple activity strategy and to compare them to the advantages resulting from value chain interrelationships. The need to acquire new competencies generates costs that are no less considerable. If a manager wants to increase differentiation, we recommend that he/she establishes its level, importance and compares it once more to the costs it will generate. Here we can see that the concerns expressed by Porter concur with the objective of the resource-based view: according to Barney (1991, p. 101), resources are "*assets, abilities, organisational processes, company attributes, information, know-how, etc., controlled by the company that allow it to design and implement strategies that are likely to increase its effectiveness and efficiency*". Similarly, Porter insists on the unique feature that this activity sharing must have. The scarcity axioms (the resource must be scarce, in other words, only a limited number of companies must be able to access it, ideally only one) and non-imitation axioms (the resource or competence must be difficult to imitate in order to prevent competitors from copying the strategy) of the resource-based view (Barney, 1991) also share this concern. Here we can see a striking theoretical similarity.

The concern of this paper is to test the appropriation axiom: according to Barney (1995), in order to establish a competitive advantage, a company must organise its processes and its structure to achieve the true potential of its core competencies and resources. In fact, our aim is to confirm that the business model presented by the management brings a true competitive advantage or, at least, prevents competitive disadvantage by copying competitor strategies.

In fact, the relevance of these interrelationships cannot always be verified: "It often seems that intangible interrelationships are artificial and represent, more than anything else, a subsequent rationalisation of diversification carried out for other reasons" (Porter, 1986).

2. Identifying interrelationships between business units in the banking sector

According to Métais (2002): "we are legitimately led to ask ourselves what distinguishes the resource-based view from that proposed by Porter ten years ago, given that resource-based studies lead to a value chain, that strategic resource studies finally end up in competitive analyses and that the scheme is still based on adaptation". Consequently, it becomes pertinent to use the resource-based view to identify interrelationships between business units in the banking sector and assess their strategic impact (Lamarque, 1999, 2001). We will assess the key competencies of each business and then common key competencies. Our second task consists in establishing the activities that underlie these common competencies in order to judge the extent to which the activities should be shared and the costs generated by this sharing. In short, we recommend not underestimating the costs linked to new activities and the competencies to be developed for the purpose of these new activities.

2.1. Key competencies of the commercial banking business

Lamarque (1999) lists the businesses currently included in commercial banking: private customer banking (collection, credits, services); SME and professional banking (financing, means

of payment and cash equivalents, specialised services); insurance products (life, provident scheme, damage) and specialised financing (leasing, optional leasing).

The scope of our study is relevant to the private customer banking, SME and professional banking and insurance product businesses.

2.1.1. Methodology

Our study effort is based on carrying out a unique case study¹ based on semi-directed interviews. We have a double objective: first of all, to test Porter's interrelationship approach by testing the existence and measuring the importance of three cost categories (compromise, coordination and rigidity) in the banking sector. Using these results, we will then attempt to answer the following questions: *Are the Caisse d'Epargne's diversification policies based on true interrelationships between business units? and, If not, what are the motives behind this type of strategy?* Since this case study allows us among other things to test an existing theory based on an analytical generalisation (Yin, 1990; Royer & Zarlowski, 1999), it becomes relevant in the scope of our research.

In order to reduce the risk of idiosyncrasy in our empirical data (Eisenhardt, 1989), we carried out additional interviews with competitors². This allowed us to cross-analyse the data by comparing viewpoints. Furthermore, we triangulated our primary data with secondary data (economic press, trade press and internal document analysis).

2.1.2. Identification of key competencies

Lamarque (1997) identifies the common key competencies in the retail banking and insurance businesses, as well as each of their specific key competencies. For this purpose he differentiates life insurance from provident schemes and damage insurance. The following paragraphs show the similarities and differences between the private customer banking and insurance (life, provident scheme and damage) businesses.

Table 1 intends to complete Lamarque's results by separating the private customer banking activity from the SME and professional banking activity. The objective is to establish common key competencies and, on the other hand, specific key competencies for each of these businesses. This table is based on interviews carried out at various banking institutions.

Table 1

Analysis of key competencies for private customer banking and SME and professional banking

Offers fairly straightforward products Knows the needs of its customers: information regarding their situation Standard mass-produced products with low exposure per unit and low frequency Customer-based segmentation Specific information system Trains specific staff to sell banking and insurance products	Brand image/reputation Distribution network architecture Invests and manages collected funds Ongoing relationship	Requires specialists for: • analysis of balance sheet, financing plans, growth plans, etc.; • each line of business; • financial, legal and tax set-ups; • company communication. High-exposure custom-made products
Specific to private customer banking		Specific to SME and professional banking
Shared competencies		

It is difficult to obtain interviewee unanimity regarding similarities and differences between the private customer banking and SME banking businesses. Although they can identify key

¹ Contacts: Mr Dosière, Chairperson of the board of directors of Caisse d'Epargne Poitou-Charentes, member of the Caisse Nationale supervisory board, member of the Caisse Nationale strategic committee; and employees who wish to remain anonymous.

² Contacts: Mr Wilmouth, banking expert with an SME and capital bank (*Banque de patrimoine*), and Mr Auger, Manager of the Crédit Lyonnais trust fund in Poitiers.

competencies (some specific to each business, some shared), our contacts are divided on their interpretation. We will see this separation in the following paragraphs.

In commercial banking, the interrelationships between value chains are produced by activities that underlie the following key competencies: brand image/reputation, distribution network architecture and collected fund investment and management. The activities that underlie these key competencies are therefore shared as a rule.

2.2. Similarities

When observing the key competencies of the various activities, certain competence similarities appear in different activities.

2.2.1. Distribution network architecture

A single network must be able to simultaneously sell several products from different businesses. According to Lamarque (1997), this responds to *"the pressure on the networks to increase production, the prospect of selling better-paid products and of directly or indirectly improving the returns received by the bank branches"*. The latter would also have an advantage over insurance companies insofar as *"in retail banking, current management often attracts customers to branches"* (Lamarque, 1997). Hence, it is easier for them to steadily increase their product offer. In addition, this implies a proximity to the customer (geographically and psychologically). Thus, a bank's capacity to segment its customers and create a custom-made offer is an advantage over *"insurance companies, where the geographical dimension plays a more important role"* (Lamarque 1997). Proximity is less important in the SME banking field. The distribution network plays a less central role. The more important competence here relates to the many skills required and the ability to work on a custom-made basis for SMEs.

2.2.2. Customer files and the information system

According to Lamarque (1997), *"banking and insurance are both information industries. They both need information to know the expectations of their customers, but they also need it to limit their risks"*. Customer files can therefore be shared by all the activities. The banking file has one advantage over the insurance file, since it includes a lot more information and a much longer history. These files make it possible to inform the sales force and to help customers to decide on the products or services they wish to purchase.

However, although the information requirements for the banking and life insurance activities are identical, damage insurance requires slightly different information. As for the information required for the SME banking business: *"the information a bank requires to assess risks is very specific and a lot more important in terms of quantity and quality. In addition, a customer file is not enough to assess the risk or to target customers"* (Mr Dosière).

2.2.3. Brand image, power and reputation

Customers expect institutions to provide the security of a large national and international player. This power must be linked to proximity with the customer: listening to and advising the customer. According to Mr Dosière, *"SMEs are as sensitive to brand image as private customer banking customers, and they are sensitive to the proximity with their bank"*. The size of the distribution network provides the brand image, power and reputation.

In terms of marketing, the cost of an advertising campaign for packaged products, for instance, can be shared by all the activities. Likewise, an advertising campaign for a given product reflects on the other activities by mentioning the name of the bank.

Customers see life insurance, which is considered a financial product, as a similar activity to banking. However, this proximity remains to be proven for damage insurance. The reputation effect therefore does not work at its full capacity, except when the product is included in a packaged offer.

2.2.4. Collected fund management

According to Lamarque (1997), *"it is essential to have a direct hold on the market. Here is where institutions find all the solutions they require to make their investments (resulting from lodgements and, increasingly, from insurance premiums) in optimum conditions using the compe-*

tencies of a portfolio manager, thus covering their risks". In the case of Caisse d'Epargne, "its collection capacity is such that it needs to increase the number of its businesses in order to use the funds it collects" (Mr Auger). Thus, the collection and fund investment activity is shared by several businesses. The objective is to save resources. This saving allows these key competencies to be consolidated to maintain a competitive advantage using the excess resources generated (Hamel, 1994).

2.3. Differences

The study of key competencies for the multiple businesses of commercial banking gives rise to differences that relate to the specific nature of these businesses, which compromise the benefits that result from sharing different activities.

2.3.1. Product conception

The concept of risk is different in insurance and banking. The insurance company *"includes the probability of a claim in its contract"* (Lamarque, 1997). The banker *"on the other hand, must, as a rule, refuse a credit which he knows to be marred by risk"*. The means and the way in which risk is integrated are essentially different. However, a crossover of know-how in the matter is likely to increase the quality of both activities. This is an example of an intangible inter-relationship.

The second point relating to product conception concerns the degree of product complexity. Banking institutions cannot design excessively complex products due to the low technical nature of the network, which forces banks to offer straightforward, complete, safe products. Products such as comprehensive household insurance also have this feature, whereas health insurance policies are more complicated and would not suit the network. Banks tend towards products that combine, for example, credit and insurance, thus increasing their offer and the value they offer to the customer. This simplification has caused a transformation in the insurance sector. According to Mr Wilmouth: *"life insurance used to be a real labyrinth, with extremely complex contracts. Bankers brought about a new view of life insurance, and this shook the dust off old contracts, which were not even well written"*.

Lastly, another difference between banking and insurance: *"after-sales service for provident schemes or damage insurance bears no resemblance to the banking business. Therefore, this is a factor that will determine the long-term image of the banking network"* (Lamarque, 1997). Banks must therefore acquire and develop the competencies required to correctly run provident scheme or damage insurance back offices. Certain commercial banks have chosen to create joint ventures with insurance companies in order to acquire this competence.

The risk assessment process for private customer banking, *"involving speculation according to the law of large numbers based on customer histories from the decision support systems, is different to SME banking, where risk is assessed on a case-by-case basis and each case involves larger amounts"* (Mr Dosière). On the other hand, *"products are practically custom-made, since it is more difficult to create standard products"* (Mr Wilmouth).

2.3.2. Specific training and cultural differences

The bank and insurance cultures are essentially different, particularly in their understanding of risk and their own business. A cultural revolution is required to undertake several activities, in order for employees to integrate the insurance business. The bank insurance culture is not doing very well in this aspect.

According to Lamarque (1997), *"the technical, qualification- and regulation-related complexity of insurance products still prevents banks from competing with insurance companies across the entire range (professional risks)"*. The insurance business therefore needs to develop certain competencies, which implies staff training. Acquiring these competencies will require considerable investments to train the sales force and recruit staff with the required profiles. These efforts concern the management specifically.

3. Strategic appraisal

According to Penan (1999), *"the notion of strategic competence refers to the capacity of a company to multiply its resources, combining them in an original manner. It is this permanent search for new combinations of individual know-how, specific assets and organisational rules that allows a company to maintain its competitive advantage"*.

It is up to us now to verify whether activity sharing should be at the source of the competitive advantage. In order to do so, we will look at it from a dynamic angle of resources and competencies. In fact, *"the competitive advantage of a company is related to the degree of consolidation and the speed of transformation of its strategic competencies"* (Penan, 1999).

3.1. Key competencies in the value chain process

The bank insurance example represents diversification based on competence sharing as a result of sharing the underlying processes. According to Lamarque (1997), *"the aim is to carry out savings in the field by using the network to distribute a larger number of products, redeeming its cost over a larger number of operations. Banks rely on their ability and efficiency in this field by exploiting their image and reputation, and their customer files and information systems, which are proving to be decisive competencies"*. We will therefore study the benefits of this competence sharing, which we will compare with the costs it generates. Beforehand, it is important to correctly identify the processes that underlie the shared key competencies.

According to Métais (2002), *"what differentiates a core competence from a process that makes up a value chain (despite often-identical definitions) is the cross-functional nature of the competence: each competence is applicable to most of the processes in a value chain"*. This conversion operation was carried out based on interviews conducted with our contacts. The results appear in Table 2 below.

Table 2

Key competencies in the value chain process

	Key competencies	Processes/activities at the source of the key competencies
Key competencies that are common to different businesses	Architecture of the distribution network	Distribution methods Bank infrastructure Customer relationship
	Reputation, power, brand image	Sales Marketing Bank infrastructure Customer consultants Claim/litigation management
	Customer file, information system	Technological development Product conception according to the target Decision support system
	Collected fund management	Internal logistics Financial management Authorisation delegation Back office/front office relationship Information system
	Long-lasting relationship	Branch manager Customer consultants Back office/front office relationship

Table 2 (continuous)

	Key competencies	Processes/activities at the source of the key competencies
Business-specific key competencies	Product conception	Marketing Financial management
	Claim management	Specialised back office
	Risk assessment	Authorisation delegation Human resources, training Information system
	Integrated activity culture	Human resources, training General management Internal communication
	Expertise	Part of the back office dedicated to each business (retail, insurance, SME, etc.)

It is difficult to specifically allocate a key competence to one or several activities because of the fact that certain competencies are cross-functional and thus applicable to the entire value chain (Lamarque, 1999).

3.2. Interrelationships between business units and cost saving

The objective of interrelationships between business units consists in redeeming the cost of shared activities across several businesses.

3.2.1. The distribution network

The distribution network may be shared by all the businesses. Moreover, this is a requirement, a sectoral rule due to the *"fierce competition between banks, which has caused considerable margin drops, bringing about the need to diversify"* (Mr Wilmouth). In view of this margin drop, the aim of activity interrelationships is to carry out multiple sales of commission- and premium-generating products and services in order to redeem customer acquisition costs, distribution network costs and loyalty-building effort costs among increasingly multibanking customers. In addition, packaged product offers create value for customers, who only have one contact for all their products.

The professionals are not in full agreement regarding the SME banking business. According to Mr Dosière, *"it is the responsibility of the branch managers to canvass and chase SME customers. Experts are available in the back office for whenever there is the slightest problem, but proximity to the SME is essential"*. The other banking experts grant less importance to this proximity as a key competence: *"presence is not essential since we work with customers who are in Chatellerault, Bressuire, Partenay and Niort, where we have no local presence"* (Mr Wilmouth). However, the gain of Caisse d'Épargne Poitou-Charentes in terms of SME market share has risen from 1% (1993) to 10% (2003). This result leads us to the conclusion that proximity and brand image play an essential role. According to Mr Auger, *"there are few synergies between retail banking and the SME banking business, at least at this stage. However, one of the objectives of the Crédit Agricole and Crédit Lyonnais merger was to discover potential synergies, if any should exist. But for the time being, the two businesses have kept their own independent networks. Furthermore, the network is less important for SMEs. This is due to the fact that SME head offices are increasingly located in major cities, particularly Paris, as SMEs merge and are taken over. It is enough to have a presence in these major cities"*.

3.2.2. The customer file

Creating and updating a customer file and information system can redeem itself on a larger scale. However, although these need to be adapted to the practice of certain activities, but in the end the quality of the file is increased. Multiple activities therefore lead to redeeming the costs of the information system and customer files on a larger scale. However, we should not underestimate the costs resulting from modifying the systems and files in order to make them compliant

with multiple activities. Thus, amortisation saves the resources partly redeployed to improve and enlarge the system. On the other hand, the SME customer file, which is very specific, cannot be usefully shared with other files.

3.2.3. Marketing

Marketing and advertising costs (particularly when involving packaged product sales) as well as customer consultant costs, are redeemed across an increased number of products, which implies significant cost savings. These savings are less obvious or even non-existent in SME banking, where not only the target but also the advertising media are different.

3.2.4. Collected fund management

Distribution of collected funds becomes more efficient since it is carried out across several businesses, making it possible to increase the possibilities of reducing financial risks and to invest all the collected funds. The latter advantage particularly affects Caisse d'Epargne, where a considerable amount of funds are collected, but not always invested in the most profitable way.

3.3. Interrelationships between business units and acquisition of new competencies

In this paragraph we will cover the costs of acquiring new competencies when the activity has not previously been performed or when trying to make the interrelationship exploitable.

The need to have as many available employees as possible who are capable (in terms of competencies and also legally) of selling all the products, particularly insurance products, forces Caisse d'Epargne to recruit *"high-level profiles. These enjoy high remuneration and are actively involved in both the back office and the branch office. Product multiplicity also implies internal training to sell these products, which represents a considerable but not insurmountable cost"* (Mr Dosière).

Likewise, product conception must be relatively straightforward in order to be easily marketable in the network, which implies back office costs. Damage insurance products require creating an after-sales service from scratch to manage claims, which is not traditionally a bank service. Thus, Caisse d'Epargne has several separate back offices for its after-sales service. One back office is in charge of private customers and professionals, another is in charge of insurance and a third one is in charge of SMEs. A joint venture (Ecureuil IARD) has been created between CE Poitou Charentes (70%) and the Mutuelles du Mans Assurances (30%) for the insurance business. This has allowed Caisse d'Epargne to acquire insurance company competencies, particularly in terms of claim management. As for SME banking, at first, each of Caisse d'Epargne's regional offices was more or less launched into the adventure of developing its own back office. Caisse d'Epargne then decided to buy Sanpaolo IMI in July 2003 in order to rationalise costs and strengthen its competence. This purchase was intended to act as an SME banking business back office for all the regional offices. This purchase contains all the specific competencies required to practise this business. Now, the retail banking distribution network is used to canvass and chase customers. As for the technical aspects, the back office activity will be centralised at Sanpaolo IMI. The regional offices will abandon their individual back offices for the SME banking business. The cost of the purchase is estimated at 700 million Euro. The real cost of this acquisition of competencies is non-existent according to Mr Dosière: *"In any case, Caisse d'Epargne owns enormous funds. It is wise to spend them before the State deducts from them"*.

3.4. Costs generated by activity sharing

Activity sharing implies costs *"because it forces units to modify their behaviour"* (Porter, 1986).

The customer file does not seem to be a true interrelationship between business units. In fact, in the past, *"this cost item was considerable bearing in mind the high costs of information system installation and hardware. The downwards trend in costs, however, has reduced their strategic importance"* (Mr Dosière). Now, let us judge whether or not the costs implied by sharing other activities exceed the gains in terms of efficiency.

3.4.1. Co-ordination costs

Business multiplication increases organisational complexity, and its management generates costs. An activity's degree of complexity determines the amount of these co-ordination costs. These can reduce economies of scale and gains from learning.

For banks, this type of costs can appear with the need to sell damage insurance, which is complex by nature. The problem is in co-ordinating the banking and insurance cultures. The files required to work in the various businesses are not identical. In order to make co-ordination easier, banks have tried to simplify insurance products, which has the advantage of allowing customers to compare offers. The complexity costs relating to sales of different products appear *"in the need to have relatively high-level, correctly trained profiles to sell all the products"* (Mr Auger).

As for co-ordination with SME banking, *"the purchase of Sanpaolo IMI fulfils the need to rationalise the back office, enabling improved co-ordination between the various branch offices and a single, consistent nation-wide SME policy"* (Mr Dosière). The aim is therefore to reduce co-ordination costs.

The main item in the cost of co-ordinating the various activities is setting up a good relationship between front office and back office.

3.4.2. Compromise costs

According to Porter (1986), *"sharing a task implies that it is performed in a consistent manner, even when this is not necessarily the best option for each of the units involved"*. Thus, having a shared insurance and banking product sales force implies that customer representatives may pay less attention to the products of each business and not know them as well as a sales force that is exclusively dedicated to retail banking products. Even if the overall result is positive at the level of each business, one of them may be at an individual disadvantage. Table 3 lists compromise costs that are likely to appear when exploiting interrelationships in the banking sector.

Table 3

Competitive advantage versus compromise costs

Central diversification point	Potential competitive advantages	Private customers/SMEs	Private customers/Insurance
Shared trademark	Advertising cost reduction	<i>No advantage</i> Different communication channels <i>Compromise costs</i> Product images are not very compatible.	<i>Advantage</i> The possibility of advertising bank insurance packages. <i>Compromise costs</i> Customers are reluctant to purchase their financial products and their insurance products from the same institution.
	Strengthening product image and reputation	<i>Advantage</i> Reputation acquired by the commercial-cum-universal bank status of Caisse d'Epargne. <i>No compromise costs</i>	<i>Advantage</i> Reputation acquired by the complete commercial bank status. <i>Compromise costs</i> The bank's reputation may suffer if claim management is average.
Shared advertising	Greater pressure when purchasing an advertising space	<i>No advantage</i> Different media (specialised press for SMEs; radio, television or billposting for private customers). <i>No compromise costs</i>	<i>Advantage</i> Bank insurance products can be advertised. <i>Compromise costs</i> Insurance may outshine the bank during communication.
Crossed product sales for one or the other	Reduction of new customer acquisition cost	<i>Advantage</i> Private customer representatives can canvass for SME customer representatives under the supervision of the branch manager. <i>No compromise costs</i>	<i>Advantage</i> Customer representatives can canvass both products (banking and insurance) and offer a single package. <i>Compromise costs</i> Insurance may attract more attention from customer representatives, because of better commission.

Table 3 (continuous)

Central diversification point	Potential competitive advantages	Private customers/SMEs	Private customers/Insurance
Crossed product sales for one or the other	Sale cost reduction	<i>No advantage</i> <i>No compromise costs</i>	<i>Advantage</i> Better use of the customer database by multiple-business customer representatives. <i>Compromise costs</i> Increased training level required for customer representatives. It becomes necessary to recruit new representatives at higher salary levels.
Shared sales force or sales offices	Reduction of sales costs and sales force infrastructure costs	<i>No advantage</i> Different customer purchasing behaviour. (SMEs require long-lasting relationships). Customer representative specialisation is inevitable. The need for a specialised back office. However, the infrastructure can be shared.	<i>Advantage</i> A single sales office for both products. <i>Compromise costs</i> Customers are reluctant to purchase their financial products and their insurance products at the same time in the same bank.
	Increased number of products on sale, improving access to customers and optimising customer convenience	<i>Advantage</i> The premises can be split, benefiting from the proximity effect. The competencies of the branch manager may be enough, but it is compulsory to have specialised salespersons. It is also necessary to have a back office.	<i>Advantage</i> Product packages that provide multiple responses to the customer. <i>Compromise costs</i> The salesperson does not have enough time with the customer to efficiently offer several products. Risk of a lack of interest in one of the products.
Shared information processing	Reduced cost of using improved technology, which increases the capacity for reaction and optimises information on customers.	<i>No advantage</i> Information systems are more complex, and therefore respond better to customer information collection and dissemination.	<i>Advantage</i> Sharing the information system and increasing its performance. <i>Compromise costs</i> The information system must be modified and designed to respond to requests generated by working in two businesses.

Source: from Porter (1986, p. 411-415).

The table shows that interrelationships between business units contribute to the competitive advantage. Nevertheless, compromise costs also appear. In the case of the back office, the compromise costs may be so large that they prevent the activity from being shared.

3.4.3. Rigidity costs

According to Porter (1986) "*there are two forms of rigidity: a potential difficulty to react to the manoeuvres of the competition and obstacles to release*". In fact, when activities are shared, actions performed on one business will affect the performance of the other. The time taken to consider the general interest may delay or prevent a response to the competition. Furthermore, obstacles to release only represent a cost when products are being released. The objective of the interrelationships between the various businesses in the banking sector, is to improve reactions to competitor actions, since the competition also has a multiple-business profile (especially bank insurance), or even to create a competitive advantage (SME banking). It is not possible for Caisse d'Epargne to quit any of its businesses due to the fact that a combination of businesses is what allows banks to generate profitability. In the event of quitting a business, the main rigidity costs would be restructuring and the negative effect on reputation.

3.5. Interrelationships between business units and differentiation

Interrelationships can help stress the unique nature of an activity. In other words, shared activities become more interesting for the purchaser. Packaged offers in the banking sector (for example, car insurance package with a car loan) create better customers. In fact, customers only have one contact for their insurance and financial products.

As for Caisse d'Epargne's SME banking business, geographical proximity and the possibility to speak to the branch manager from the workplace are a bonus for the company manager. In fact, other banks organise their SME banking network differently, without leveraging their proximity advantage. This is clearly different from the retail-banking network, with branch offices located only in large regional metropolis.

Conclusion

Caisse d'Epargne launched into insurance mainly in order to exploit interrelationships between business units in its distribution network. The gains resulting from sharing common activities turned out to be greater than the cost of exploiting synergy effects. Therefore, this development strategy can be compared to a linked diversification strategy backed by exploitation of true synergy effects and sharing of basic competencies. On the other hand, in a counterintuitive manner, the conception of banking products adapted to SME needs generates costs (the cost of acquiring new competencies and co-ordination costs) that exceed the profit resulting from activity sharing, since synergy effects are low. This diversification responds initially to a financial surplus investment scheme. This surplus is a result of the amount of funds collected by Caisse d'Epargne. Diversification towards SME banking is also important for Caisse d'Epargne in terms of legitimacy. In fact, it wishes not only to become a complete commercial bank, but also a universal bank since its partnership with the Caisse des Dépôts et Consignation and the purchase of CDC Ixis et Eulia. Consequently, our results coincide in part with those of Belaounia (2000), who mentions the superiority of the diversified positioning specialisation strategy in terms of value creation in the French banking sector. In fact, our empirical data lead us to believe that the SME banking business is completely different to the retail banking business.

Porter's interrelationship approach is still valid nowadays. It allows us to judge the strategic legitimacy of diversification based on competence sharing. It appears necessary to replicate this research approach in other sectors, particularly in cases in which the mentioned synergies do not seem justifiable, at least according to Porter.

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