

**SERVEMPLOI**

**Thematic Report - Restructuring**

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## Summary

This report discusses aspects connected with the restructuring and reorganization of the retail and financial sectors. It draws on the third national fieldwork reports and on data from the SERVEMPLOI case studies and longitudinal panel.

Changes and pressures affecting the two sectors analysed have structural and organizational consequences. Globalization processes and the growing liberalization, flexibilization and competitiveness that characterize the financial and retail sectors necessarily entail redefinition of the structural characteristics and organizational models of companies and of the markets in which they operate.

These ongoing changes have produced some sort of convergence between two sectors hitherto characterized by very different structural, organizational and work models. Both, in fact, are increasingly shifting towards cost cutting and customer-oriented strategies.

During the past decade, financial services have gone through a period of continuing structural changes associated with the globalization of the international financial system and consequently with the opening up of markets and the progressive abandonment of local referents. The main consequence of this situation has been growing competition among banks for new shares of the market and the expansion of their range of products. Competition, in fact, appears to have driven the majority of the innovations introduced in the past decade in the financial services sector, and it has profoundly changed the configuration of the organizations that operate within it.

The immediate as well as cross effects of this competitiveness of the financial system are (i) the implementation of cost-cutting policies through strategies to rationalize and streamline activities and (ii) an increasing orientation to customer satisfaction in order to increase and maintain market shares.

The retail sector, too, has been affected by increasing competitive pressures, which have induced companies to rationalize their organizational structure and to consolidate, and also if possible expand, their market share by redefining their sales strategies and their customer relations. Overall, increasing numbers of companies are seeking to extend their internal efficiency targets to include more efficient customer services: for example, by offering a wider range of products, new services and consumption models, and by concentrating on better quality and/or lower prices. Of

particular significance are the changes that have taken place in the supply chain: that is, the set of agents, functions and processes that enable goods and the relative information to flow from the point of initial supply to that of final demand, the aim being to create value for the customer.

In both sectors, the introduction of ICT has been a crucial factor in these ongoing changes, because it is a means to rationalize and simplify procedures, and because it offers opportunities to devise and develop new services (e.g. call centres, on-line services, etc.) and to ensure the efficient/efficacious management of the increasing mass of information that characterizes the organizations studied.

<i>How are firms (re)organizing their internal activities?</i>
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**FINANCIAL SECTOR**

Globalisation and the increasingly fierce competitive environment of the financial system in recent years have brought profound changes in the world of banking and insurance services; changes that have been facilitated and accelerated by the introduction of large-scale technological innovation resulting from the development of ICT.

Two general trends can be discerned at the managerial level: one is an endeavour to cut costs, the other is an endeavour to increase income. Cost cutting has been pursued mainly through rationalization of the activities performed internally to financial systems, and its main consequence has been a reduction of branch networks. The second strategy has instead concentrated on the coverage of new physical and virtual spaces, the acquisition of new customers, and on extending the range of services and products also through the development of remote banking.

*Concentration and rationalisation processes*

Perhaps the most distinctive feature of the restructuring of financial services is organizational concentration, a process aimed at acquiring greater efficiency and profitability through scale economies and a broader and more complete range of services. Concentration often entails a differentiation of organizational structures with respect to the production of services. Production is shifting towards forms of multi-specialist production with specific reference to individual operating segments (Masera, 1994), so that economies of scope rather than of scale can be exploited. Competition in the market takes place at the level of the business unit, in terms of the supply of innovative products combining low cost with high quality and thus ensuring customer satisfaction. The same orientation accounts for the spread of so-called 'narrow banks', or banks which – unlike the traditional universalist ones – concentrate

on a restricted range of highly specialized services usually involving the large-scale use of ICT (Lindblom and Andersson, 1997).

Organizational differentiation is often also characterized by geographical separation. In some countries finance companies are concentrating their retail services into a small number of low-cost sites on the edge of cities while moving the services to more expensive locations (Marshall and Richardson 1996), cases in point being the UK Bank Clearing Services and the Bank of Ireland call centre. At the same time, the centralized growth of professional service work may intensify the spatial concentration of command, control, and support functions, as in the case of Italy Virtual Bank, where company policy is entirely oriented to centralizing as many services as possible to the parent company, while the bank concentrates on managing specialized functions.

In some cases, concentration is the result of takeovers or mergers. In these situations the intention is to optimize the resources (personnel, services and technologies) available to the new system in its entirety. Consequently, the aim of management policies is to reduce the overstaffing and duplications resulting from the amalgamation of similar organizations (Giorgino and Tasca 1999). For example, at the UK Insurance Company it was the takeover of another insurance company that necessitated this concentration process. The company felt it necessary to merge the two brands, and to streamline its facilities, closing some offices and consolidating its activities into fewer locations.

“What we had to do was to bring together two organizations with very disparate cultures and very different organizational structures. And we wanted to do that in a way that responded to the human needs of the 6500 people first of all, obviously retain the profitable business of both organisations, and form an effective unit going forward for the kind of challenges that we foresee. (...) In creating that, the number of sites that we occupied was halved, and the number of people employed in the ultimate organization reduced by about 2000” (Paul Johnson, Director of Strategy and Programme Management, UK Insurance Company).

Similar problems arose for the Danish Bank. A series of mergers and acquisitions gave rise to the third largest branch network in Denmark, which the Danish Bank is now trying to rationalize and downsize.

Processes of concentration and rationalization very often concern back-office tasks and routine jobs. This is what has happened at the Danish Bank, for example, where administrative tasks are being increasingly moved from the branch network to central facilities (i.e. cheque clearance and the clearance of Dankort payment slips), or in the UK Bank Clearing Services (services which handle the processing of paper credits and debits after they have been paid into customers' bank accounts).

This rationalization of functions and the transfer of less attractive tasks to divisions with lower running costs (because staff are paid less and the geographical location is less costly) enables considerable cost cutting and optimization of the core business; but it has a number of harmful consequences on work patterns. There is talk, in fact, of 'white collar factories' (Fernie and Metcalf 1997, Poynter 2000) or 'clerical factories' (Marshall and Bachtler 1984) because of the tendency for internal activities of more standard and repetitive nature and with lower knowledge content – like back-office work, data processing and call centres – to be concentrated in sites detached from the central organization. Note that these facilities are mainly staffed by women.

Some organizations have introduced schemes designed to motivate the staff working in these facilities. For example, UK Bank has undertaken an internal restructuring of its Clearing Services based on the principle of 'empowerment' for junior staff doing paper processing work. This has been partly prompted by the need to combat low morale and employee motivation.

One of the main organizational rationalization strategies is outsourcing, or the contracting out of certain non-core functions to other organizations. Whereas the majority of financial services were traditionally produced internally to the organization, the changes now in progress and the potential offered by technologies make outsourcing particularly attractive, especially with a view to curbing costs. The data show that financial services prefer to outsource two types of function in particular:

- more routine services like paper-based controls and accounting work (for example, in the mid-1990s German Bank outsourced some administrative functions, which previously made up the "back office". It was thus possible to deploy people without paying the relatively higher wages negotiated for traditional banking staff).
- activities that from an organizational point of view are more costly if conducted 'in-house', like computer programming (for example, in 1998 Italy Coop Bank began

to outsource the planning and management of its on-line service because, as the Technical Head explained, “today with the start-up of service outsourcing, technology has become more of a technical aspect, because from now on we won’t be able to develop products that our competitors don’t have”).

Outsourcing enables organizations to focus on core tasks, keeping knowledge-based functions in-house.

“Our bank decided to keep the most crucial activities in-house, particularly the administration of the financial promoters network, because this is extremely important. The commission system must work perfectly. And since ours is a complex commission system, because we have a complex pyramidal network, we have to keep it here, under perfect control. Our other in-house activities all involve relations with promoters, the help desk, the call centre. We keep all these activities in-house, they’re never outsourced. Instead, outsourced to the parent company or other companies is all manual or back-office work, for example, which gradually merges into administrative, ‘processing’ activities. So we try to outsource all these activities because they involve manual work and we’d have to hire too many people” (Branch Director, Italy Virtual Bank).

“I think an activity can be core, i.e., absolutely central to what we do, but it may not be a source of differentiation or advantage, and I think increasingly those are the knowledge-based activities, rather than the process-based activities. And therefore what we are doing is looking at all of our process-based activities to see whether other people could do them more efficiently. They are a source of disadvantage if done at the wrong cost, or the wrong service level” (Daniel Walker, Chief Information Officer, UK Bank).

Some companies have established new firms within an existing holding to run specific tasks. In this way cost efficiency is involved insofar as the new firm is able to gain profit from external customers, or insofar as employment conditions are less favourable for the employees in the new firm. The latter seems to be one of the main reasons for outsourcing in financial services. For instance, German Bank outsourced some administrative functions which previously made up the “back office”. In these smaller firms it is not only possible to achieve cost efficiency by centralizing these functions for all German branches but it is also possible to deploy people without

paying the relatively higher wages negotiated for traditional banking staff.

The consequences of these changes mainly concern female workers, who are in the majority in these organizations. In German Bank it seems to be quite usual for female employees who take a maternity leave to be only offered a job in one of the firm's outsourced functions and not in a traditional branch when they return to work.

### *Channels expansion*

The second strategy by which financial services have responded to growing competitive pressures and to the effects of globalization is to redefine the channels through which they deliver customer services.

Firstly, the changes in progress require a major overhaul of the branch network, which used to be the traditional channel for the delivery of financial services. The pattern is not uniform, however. In the majority of the cases analysed (e.g. UK Bank, Danish Bank, Bank of Ireland) one finds an across-the-board reduction of the branch network involving "financial-infrastructure withdrawal" from less profitable locations (Thrift and Leyshon 1994). Reduction of the branch network is particularly radical in the UK, where for instance the UK Insurance restructuring plan halved the number of sites in which the company operated. However, there are some countries, like Italy and especially Spain, where the trend is towards the opening of new branches, albeit within an overall framework of rationalizing the system and improving geographical coverage. In these cases, however, the branches' activities are being redefined and they tend increasingly to be financial consultation agencies. In Spain, for example, the large saving banks continue to open new offices in order to cover the major economic centres of Spain efficiently. Indeed, in order to survive in the market, the network of branch offices must be as extensive as possible. Many of these offices will be specialised in services to specific groups of customers and will be equipped with self-service technology.

This phenomenon is matched by the tendency of financial services to concentrate more and more on knowledge-based activities geared to the efficient management of information and data relative to customers and financial market trends. This explains why some banks tend to de-emphasise the importance of traditional outlets, concentrating instead on consolidating their networks of financial promoters. For

instance, Italy Virtual Bank has relied on financial promoters to increase its commercial efficiency. Since the second half of 2001 it has been operating in the promoter market in order to stabilize its entry into the market and to make management of its promoters' network more efficient.

Recent years have seen the development alongside the traditional channel of remote banking services supported by ICT. These enable banks to expand their range of services and to curb costs, so that they can respond to the pressures of competition. However, it should be pointed out that the virtual channel has not entirely replaced the virtual one. Various interviewees, in fact, emphasised the need to keep offices open as physical meeting places with customers, and the importance of direct contacts and interpersonal relations besides bank personnel (in their role as counsellors) and customers:

“There are sufficient reasons to justify the opening of offices for a bank without offices. The legal relationship between customer and provider requires the signing of written documents, at least for now. In matters of advice it is necessary to meet personally with the advisor from time to time and, above all, in some “place” where the differences between what the customer requested or thought he requested and what the provider supplied must be resolved.” (HR Director, Spanish Bank)

“Our management is convinced, and so is everyone else, that on-line banking cannot exist on its own. We need physical people – the promoters and the employees – and also local visibility. But obviously organized much more lightly than in a traditional bank. So we need only a few bank branches, which are very expensive, and many promoters' offices with a certain visibility” (Branch Director, Italy Virtual Bank).

### *Consequences for employees*

The organizational changes taking place in financial services have major implications for employees.

Reductions of the branch network have been accompanied in some cases by the retraining of personnel for work in centralized services and in sales support (at DK

Insurance Company, administrative staff have been retrained in order to move to positions as customers advisors) or by lay-offs/voluntary redundancies (German Bank has announced the laying-off of 2 600 people, half of them in Germany, in the coming two years; branch network reduction at UK Bank provides for reduction of the workforce by about 650 staff). In some cases, jointly-owned outsourcing companies have been created (as at the UK Clearing Services) where the costs of personnel are significantly reduced.

The rationalizing and streamlining of bureaucratic procedures made possible by ICT have produced a flattening of organizational structures and reductions in the number of hierarchical levels which has hit middle management particularly hard. Some of these changes in organizational and personnel policies prompt organisations to introduce employee involvement methods like team work and project work so that they may rely less on the supervision of workers (Applebaum and Batt 1994; Frenkel et al. 1999) and work more creatively on new products and problem solving. An interesting case is German Insurance, where customer service representatives, who previously worked in specialized departments for different fields of inquiry, now work in self-organizing, comprehensive customer service teams. These consist of one group leader one or two substitutes, about ten customer service representatives and two or three secretarial assistants. They are made up of employees who have both expertise in the various fields and good general knowledge of all of the fields of inquiry. Every team is able to answer any customer and agent question and is thus functionally equivalent to and independent of the other teams. Through the dispersion of knowledge from one department to several teams and from a few specialists to many generalists, the implementation of the teams has resulted in the decentralization of expertise at this company.

Thus, new job titles have been created as well as new conceptions of in-company responsibility more oriented to the achievement of objectives than to the execution of tasks. In some cases, team leaders have become key figures in the organization, and this has required changes to the way in which financial organizations recruit staff, with greater emphasis apparently now being placed on social and relational skills. At the UK Bank, internal restructuring has abolished 5 out of 9 layers of staff, reducing a team of 21 managers to 8, and introduced a new teamworking and team leader structure. Staff roles have been widened also in order to overcome problems of low morale caused by repetitive work, so that they are now 'multi-skilled'. One can note

that the more the middle management power decreases, the more amount of women in these positions increases, a well-known situation in the work market where the processes of devaluation of certain jobs or positions are often accompanied by feminisation processes

An important feature of the relationship with staff is the mounting pressure on employees to sell financial products. The increasing emphasis on commercial activity and greater competitiveness within the banking sector have brought heavy pressure to bear on bank employees, who must now not only follow a series of established procedures but also redefine their professional roles and become ‘sellers of products’. As a result, the image of the bank worker has changed significantly, as an Italian informant points out:

“Ten years ago this work was, I won’t say privileged, that’s not true, but it gave you a certain quality of life. Now it’s deteriorating, everything hinges on the commercial. They expect you to produce results. You have inputs from the company and you have to follow those” (Monica, Credit Bank)

This means that bank employees must now learn sales and personalized consultancy techniques. DK Insurance Company has merged administrative job functions into a single new job description: that of customer advisor. The HR manager interviewed at DK Insurance Company expects this trend to continue and become even more pronounced in the future. The next step in this process is expected to be a merger between customer advisor and insurance-agent.

Many organizations have introduced performance-related bonuses. For instance, the Swedish Bank has set up an incentives scheme whereby every employee has his/her own personal sales goal. This sales goal is decided on a month by month basis, and it is also evaluated with the manager during half an hour of dialogue once a month.

Several longitudinal study informants, like Sarah (Bank) in Ireland and Alice (Italy Bank) in Italy, said that opportunities for promotion and valorisation at their banks were increasingly dependent on success in selling products.

These developments are provoking on the one hand frustration among employees who feel themselves increasingly under pressure, and on the other a widening gap between sales staff in direct contact with customers (front-office) and employees with back-office and administrative roles. The data show, in fact, that there is widespread dissatisfaction among back-office workers (most of whom are female) because of the

scant value set on them in organizations increasingly focused on commercial activities. This dissatisfaction is expressed very clearly by Alice, an informant working at Italy Bank:

“The bank is pushing the commercial sector hard. It seems as if only the commercial sector exists, that there isn’t any other. The budget arrives, you have meetings, but only those working in the commercial department are really involved. They constantly go to meetings around the country, but this doesn’t happen for people working in the administrative sector, like me for example, in the general office. It seems as if the bank has split in two, you get the impression that if you’re in commercial services you’ve backed a winner, but if you’re in organization-administration ...”.

## RETAIL SECTOR

In the retail sector, too, the globalisation of markets and increasing competition have given rise to significant structural and organisational changes. In order to withstand competition and to achieve broader profit margins (or to reduce losses), retail companies have focused their strategies on the twofold goal of increasing their market presence and improving managerial efficiency (Resciniti 2000).

### *Increasing market presence*

Horizontal integration (mergers, takeovers, the opening of new outlets), franchising contracts and inter-company alliances, have enabled companies to increase their sales and to extend their territorial coverage.

All these strategies are apparent in the cases analysed by the SERVEMPLOI survey. In the UK, Grocery Retailer has responded to a loss of market share and a decline in customer numbers by merging its two supermarket companies into one. Italy Hypermarket is part of an Italian consortium of cooperatives resulting from the merger between two cooperative organizations in 1995. Both of the Spanish retail companies studied use franchising as a means to increase their sales networks.

Commercial expansion is proceeding in three main directions:

- new superstores continue to be opened on the edge of towns, albeit less frequently because of market saturation and the imposition of planning controls on new large-scale developments.
- one finds potential market growth in small city centre convenience stores (in the past five years UK Supermarket has opened a large number of new stores in city centres in an attempt to recapture customers who cannot or do not wish to travel to out-of-town stores.
- companies are seeking to expand in foreign countries, especially those with underdeveloped markets. For example, UK Supermarket has been expanding and opening new stores outside the UK, mainly in Eastern Europe and Asia, while German Drugstore has opened branches into the new federal states of East Germany and in six other European countries (Austria, Croatia, Czech Republic, Hungary, Italy, Slovakia and Slovenia). Today this drugstore chain has more branches in foreign countries than it has in Germany.

### *Improving managerial efficiency*

In order to improve managerial efficiency, retail companies have reorganised both internal processes and their relations with suppliers and customers (Caputo 1998, De Vita and Mercurio 1997). This has often led to increasing centralization, as in the case of centralized warehousing. For example, at British Supermarket in Ireland all produce is stored at a few central locations and shipped in just-in-time manner to individual stores where it is put straight onto shelves rather than into the back stores area. This allows job cuts in the back door area, a better control of stock and a larger sales area within existing supermarket size.

Sometimes this trend is off-set by a limited amount of de-centralization so that sales outlets can target specific demand by customers. Following reorganization at UK Best Value, a centralised ordering system has been replaced by a local store-based ordering system for certain products with a short shelf-life. This enables store managers to order daily and weekly on the basis of what they need and sell locally.

However, in the majority of cases centralization entails a loss of responsibilities and competencies by branch stores. At German Drugstore, for example, stores no longer have any contact with suppliers. The situation has totally changed since the beginning of warehousing when stores had their own contacts with the sales personnel of suppliers. Stores now send their orders to the retailer's warehouse by confirming or altering suggestions made by the warehousing system. From the point of view of sales personnel, mainly the store management, this means a loss of competencies:

“Today we don't know our suppliers personally. We cannot contact them when there is a problem with the merchandise and we aren't asked for suggestions regarding which articles would sell best in our store in particular.” (Store Manager, German Drugstore)

Centralization strategies closely interweave with technological innovation, as pointed out by the director of Italy Hypermarket:

“We've begun a strategy in which the key component is technological innovation. We've been examining our logistics and have decided that centralization is the answer, because there's a problem of scale economies and of regaining efficiency, which also involves profitability. People will continue to play an important part, but if I think of stocks management,

which in terms of surface areas and resources utilized is today an important part of a hypermarket. But tomorrow it will be less so, because we're moving towards the centralization of all our logistics. So it's obvious that new, different instruments will have to be used. Therefore the technological innovation of information systems will be vital. It's a direction in which we absolutely must go. Today the world leaders in retailing are also the leaders in costs. I mean, their costs are much lower than ours because they've acted on logistics as well as other functions, but logistics are decisive. Today it's there that you can recoup." (director Italy Hypermarket)

The use of ICT is undoubtedly a crucial factor in the changes taking place because it allows considerable simplification of procedures and the introduction of new instruments with which to monitor and control activities. Technological innovation, in fact, has substantially influenced the various phases of the work process, from the recording of purchases by scanners, to orders and stocks management, to the gathering of information about sales and candidates.

#### *Consequences for workforce*

These changes have had significant repercussions for staff. The centralized management of sales outlets has raised the problem, for example, of cutbacks among the middle managers once necessary to run a highly complex and decentralized system. At German Clothing Retailer, the work organization was restructured as a consequence of a merger. Formerly, each store had administrative, personnel and accounting staff. Today, practically all the administration, personnel, accounting and buying have been moved to the headquarters. In 1998 there were 320 employees at this store. Today there are just 190. Although positions such as central buyer and assistant buyer (at the headquarters) were created as a result of the restructuring, many more positions were simplified or completely eliminated, especially positions in middle management. For instance, the stores no longer have cashier supervisors or substitute cashier supervisors and there are fewer employees in personnel, bookkeeping and administration. There are also fewer department heads and substitute department heads.

This reduction of middle management may foreshadow a deskilling of the workforce whereby very few employees will be highly skilled, receive constant education and training and will be well paid, while the majority will be unskilled, work part-time, receive a minimum of training and education and will not stay in jobs for long unless they have to. An example of the growing proportion of unskilled workers is provided by the use of students as checkout operators. In Sweden, students typically work 8-12 hours a week and prefer to work from 4 p.m. to 8 p.m. They receive a minimum of training and typically stay in the job for a year.

Some companies, however, have recognized the need to motivate their employees by defining shared strategic goals or by rewarding ability and responsibility more substantially. For example, some of the organisations studied had introduced steering systems in order to incentivize employees and gain their commitment to the company's goals.

UK Supermarket has developed a graphic called a 'Steering Wheel' which covers the four key areas of the business: finances, operations, people, and customers. Each area has a series of objectives attached to it, and targets are set against these objectives for stores to meet. Staff is also trained in the Steering Wheel and its principles, on the basis that they need to understand the inter-relationship between different elements of the store and their own activities.

At the Sweden Clothing Retailer, steer cards are used to steer and motivate its shops: a goal is set for every day (sometimes even for every hour) and every article, and comparisons are made with last year's figures. The steer cards contain the key numbers that the shops are going to work for and against. The numbers are the goals and expectations decided by HQ, and among them is the share of 'satisfied customers' and 'satisfied employees'.

Another way to motivate employees – this time connected with the redefinition of tasks consequent on the reduction of middle management – is to distribute responsibilities and to promote 'work rotation' (as at the Swedish Supermarket). In this way all the workers are competent in several work areas, with an organization in flows not in departments. Also the cases studied in Ireland highlight the tendency of companies to multi-task and flexibilise the workforce, with a consequent redefinition of traditional retail skills.

DK Supermarket is about to introduce 'self-organizing units'. The idea behind this initiative is that if responsibility is delegated to a group, all its members will feel more responsible and become more motivated in their daily job routines.

***How are firms (re)organizing their external relations with suppliers and customers?***

**FINANCIAL SECTOR**

Redefinition of the organisational structure of financial services has also had a significant impact on their relations with customers and suppliers.

*Relations with customers*

One of the main consequences of increased competition in the financial sector has been intensification of customer-oriented strategies and diversification of the range of services and products offered.

To an increasing extent, financial services are applying a customer perspective: putting the customer at the centre means that closer attention is paid to customer satisfaction. 'The aim of the customer bank is to ensure customers are satisfied with the overall service the bank provides them' (Saurais 1995).

Until recently, commercial and private customers used a single bank, the 'Haus Bank', for most transactions, loans and deposits. No real price competition existed among banks that would compensate customers for the high costs of moving banking business from one bank to another. In the last two decades this situation has begun to change. Firms and private customers have started to use several banks for lending and depositing, and their banking loyalty has weakened as a result of increasing competition among banks. Customers have learnt to compare among offers and services and to choose those most congenial to them. Multi-banking has become an attractive economical alternative (Barlow 1990, Bergendahl and Lindblom 2000). The reduced bank loyalty among customers due to eroding barriers among financial services has compelled all firms to compete aggressively with each other in order to obtain new customers (Brooks 1987). At the same time it has also become important to retain present customers: it is far more costly to obtain new customers than to keep old ones. Whereas before banks employed aggressive strategies to acquire new customers, it seems that they are now beginning to realize that appropriate defensive strategies are required to limit customer exit and switching (Fornell 1992). The

traditional banking relationship based on bank-driven loyalty has therefore been replaced by customer-oriented relationship banking, that is, a form of relationship marketing which comprises various activities like the construction of products and services that suit the customer better (Bergendahl and Lindblom 2000).

Increasingly widespread is the idea that services should be 'customized' to reflect the diverse needs of customers. Consequently, consultation with customers is of vital importance, since customisation strategies require the existence of staff able to grasp the customers' needs and suggest the products best suited to them. For instance at Swedish Bank 1, employees and managers frequently use the image of "clothing" the customer: the idea being that the customers should be 'counselled', because once the bank gets the customers to the bank for a meeting with their 'own' private counsellor, the bank is able to 'clothe' them with clothes they never knew existed. This concept is at core of the transformation of work in this organization.

The function of the bank *vis-à-vis* its customers has thus radically changed. From the simple management of savings in more or less undifferentiated manner, banks are shifting to financial consultancy which on the one hand offers customers opportunities to make their money work productively, and on the other enables the banks to develop the potential of their customers.

Another important change apparent in financial services is their increasing commercial orientation. Today banks offer a wide range of constantly evolving products intended to satisfy their customers' requirements before and better than those offered by their competitors. In fact all services, and especially those with a multi-canal configuration, are extending the range of products offered to customers: saving and securities management, insurance packages, but also the booking of tickets for various kinds of events (as at Italian Credit Bank), and the sale of computers (as at Spanish bank A)<sup>1</sup>. As a consequence, as already emphasised, the role of bank clerk with customer contact is changing into that of sales representative.

Banks are also assuming this new identity by making physical changes to their premises. Cash desks or counters are disappearing, to be replaced with 'light'

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<sup>1</sup> However we can see also a different trend: Swedish Post not sales any more tickets and other products, but it is going back to pure moneyhandling.

facilities in open spaces with technological devices available for customers to perform certain operations on a self-service basis.

Bank offices are usually organised with open spaces and few closed doors. This makes the employees highly visible, and some of them find this arrangement very demanding and stressful. Moreover, the new layout emphasises the counselling function: indeed, as emerges from the case study at the Danish Bank, advisors for private and corporate customers are becoming the customer's entrance to the bank: they are, so to speak, its contact or 'face'.

The trend towards a greater accessibility and the emphasis on customer reception lead banks to put women in visible positions, so that customers are more attracted and feel more at their ease (Kerrfoot and Knight 1993, Halford and Savage 1995).

The growing commercial vocation of financial services has induced them to segment their clientele, on the one hand so that they can handle the variety of customer needs, on the other because they have realized that not all customers are equally profitable (Fornell 1992). It therefore becomes important for a bank (a) to identify a suitable segment of potentially profitable customers; (b) expose them to suitable services offered by the bank; (c) to establish such relations with them that they will stay with the bank. Bergendahl and Lindblom (2000) call this process 'segmentation-attraction-retention'.

In general, one finds that customers are segmented into four groups: (i) large firms; (ii) small and medium-size firms; (iii) private and wealthy customers; iv) the mass market. The second and third group are the segments most attractive to banks, some of which, like niche banks and narrow banks, have concentrated their marketing strategies precisely on these types of customer mainly interested in efficient and convenient credit and deposit services. The mass market is instead a segment where profit margins are much smaller; and it comprises customers attracted mainly by low-cost services. This requires that current accounts and payment services should be highly standardized. In this case, transaction accounts are the bases for primary relations (Kimball 1990); thereafter, when these relations have been established, the bank can begin to cross-sell additional services (Bergendahl and Lindblom 2000).

The type of service provided by banks therefore depends on the type of segment to which the customer belongs. For example, the Swedish Telephone Bank focuses on wealthy private persons and companies with interests in financial and/or economic questions/deals. Companies and wealthy customers may count on the services of

specialist personnel who propose changes in the packet of products furnished when they observe changes in customers' economic circumstances, or identify new financial products which may be advantageous them.

Customer segmentation is often associated with a segmentation of personnel on the basis of targets, and differences in targets may reflect different evaluations of staff by the company. For example, at Danish Bank advisors are divided into private customer advisors and business customer advisors, and it is more prestigious to service business customers than private ones (not coincidentally the former function is mainly performed by men, the latter by women).

While banks are making increasing use of personalized consultancy in their dealings with customers, the latter may access the same services by using ICT. Although several interviewees stressed that face-to-face contact is indispensable in financial services, in recent years on-line interaction with banks has grown increasingly common. One observes, in fact, the spread of so-called 'multi-channel' banks (like German Bank, UK Bank, or Italy Virtual Bank) accessed by telephone or via internet, which offer a continuous service outside traditional banking hours.

Overall, the internet's potential as regards banking services is still rather limited (even if in some countries, as Sweden, it has had a remarkable growth: e.g. 25% of Swedish Bank customers are connected to the internet bank), while telephone banking is spreading very rapidly. More and more banks operate call centres, both for financial operations and to provide assistance in the use of other channels (e.g. on-line trading). One of the main advantages of call centres is that they enable banks to offer an uninterrupted service and to manage customer information efficiently.

Remote banking technologies have reduced the amount of direct contacts with bank staff, both for more standardised operations and for more complex consultancy on, for example, on-line trading. As said, this has led to reductions in branch networks.

### *Relations with suppliers*

If we consider relations with suppliers we find some changes as well. Traditionally, the role of suppliers was to deliver and support the launching of products, and to provide assistance on specialist aspects. Banks, in fact, used to prefer to produce their financial products or technological support for them in-house. The investment was

difficult to share with others, not least because of confidentiality problems and the need to protect their commercial strategies. The advent of ICT has given rise to a different attitude, and the first agreements on technologies and the management of databases have recently been signed. The development of standardized products (debit and credit cards, but also on-line trading) have induced banks to share their investments, because the amount of information flowing in and out of banks is so great, and in any case relates to standard products, that confidentiality risks are very low. The growth of the Internet has increased hardware and software services to such an extent that it is no longer economical for banks to develop them on their own, while the convenience of sharing them increases apace.

One of the main strategies adopted in this regard is outsourcing. Non-core activities are outsourced to specialist service suppliers, such as cleaning companies, telecommunications providers, and IT service providers. Thus everything not directly concerning the sale of services is outsourced either to independent companies or to jointly-owned ones working for several banks, which ensure economies of scale. Outsourcing therefore involves back-office services (e.g. clearing services and basic data entry work at the UK Bank), on-line services and programming activity (in the UK, General Insurance outsources personnel programming activity to a specialist IT company) or liquidity funds. Suppliers of these functions are easy to find, and they are less costly than 'in-house' management.

## **RETAIL SECTOR**

Competitive pressure in the retail sector have generated significant changes in every link in the value chain, from the relationship with producers to that with the customer.

### *Redesigning logistics and supply chain*

Companies have begun to rationalise and optimise their logistics, and they have significantly altered their market strategies and attitudes towards customers. Whereas in the past the main problem was the efficient control of stocks and their allocation along the supply chain, today increasing importance is given to the creation of utility and customer satisfaction as competitive factors (Mentzer 1993), so that the concept

of 'supply chain' is being replaced by that of 'demand chain' (Poirer 1999, Parasuraman and Grewal 2000).

A crucial aspect of the restructuring of large-scale retail concerns logistics, the optimisation of which is a key factor in reducing costs and improving customer service. Part of this strategy are changes to the analysis and planning of customer services, stores management, the management of orders and stocks, and the optimisation of transport. Logistics is today required to deal with problems due to increasing numbers of items, the greater frequency with which new products are brought out, the need for a more rapid response to demand, and the high frequency of deliveries and their punctuality.

The data collected by the case studies and the longitudinal analysis provide various examples of changes in the logistics systems of the companies studied. In general, one finds a switch from a stock-based logic where the aim is the efficient management of storerooms, to a flow-based logic where the aim is to ensure the availability of the right kind of material, in the right quantity, in the right place, according to demand (Zanoni 1989).

The feature shared by these new strategies is their closer attention to customers. The redesigning of the supply chain, in fact, has taken place with a view to ECR (Efficient Consumer Response), the aim being to improve the trade-off between the level of service and operating costs. This is the case, for example, of German Drugstore. Whereas firms previously tended to increase their profits by forcing suppliers to reduce their prices or to offer extra services such as filling the shelves, for example, ECR requires a more comprehensive view of the "value-added chain" and of each of the partners' contribution to it. This approach enhances the importance of knowledge-related work for both retailers and suppliers.

In general, large retailers have a great deal of power over suppliers. This is because a large retailer accounts for a sizeable proportion of the supplier's turnover, while a particular supplier only accounts for a modest proportion of the retailer's purchases. Only some manufacturers of leading brand names can try to impose their own conditions, relying on the fact that their products are indispensable if the retailer's assortment is to be complete and competitive. This explains why relations with suppliers are sometimes handled by purchasing groups which negotiate terms with suppliers for all the supermarkets in the group. Italy Hypermarket belongs to a network of cooperatives (COOP), which is at present the largest purchasing group in

Italy, with a market share of 11.8%. In 1999, COOP and Conad, the two largest cooperative retail organizations in the country, set up a consortium in the food and non-food wholesale sector which negotiates framework agreements to regulate the supply contracts stipulated by individual companies belonging to COOP and Conad. Main activities of the consortium are the following: drawing up lists, negotiating discounts, delayed payments or discounts for early payment, and negotiating contributions for promotional campaigns.

### *Differentiation of product and services*

A second important set of changes concerns the upgrading of supply by extending the range of products and services offered, introducing new forms of personalized marketing, and enhancing the sales skills of personnel.

In order to increase and retain their market shares, numerous companies are introducing new services in their stores, such as dry cleaning, photographic processing, in-store restaurants (UK Best Value), cafés and hair salons (German Clothing Retailer), financial services (Spanish Supermarkets, Swedish Grocery Retailer), post services (Swedish Grocery Retailer).

Many of the companies studied segment their markets; that is, they seek to target supply on specific groups. For example, Best Value in the UK has launched a restructuring programme involving the doubling up of stores, with the pairing of a young womenswear brand with a young menswear brand. The principle behind this innovation is that customers can easily move from one part of the store to the other, or couples can shop in their respective brand stores simultaneously, and so sales can be increased:

“The BrandMAX programme has seen the number of joint sites shared by the two brands increase significantly. We believe there is potential to further develop the cross trading of the two brands – we already know that women influence over 60% of menswear purchases. This gives us a huge opportunity, particularly in joint sites, to encourage [Womenswear Store] shoppers to buy for friends and partners in [Menswear Store] and to get women who are ‘influencing’ men’s purchases in [Menswear Store] to shop at [Womenswear Store]. Both brands maintain their individual identities. For instance, there are many ways they can be combined, but it

is a priority to ensure that entrances and links are clearly signed” (Fashion Chain Annual Report 2000).

In Sweden the owner of the Supermarket segmented the market for their different chains (quality and low-prices stores). The Supermarket operates in a quality niche, where the high-income family with small children is the model-customer<sup>2</sup>.

Besides differentiating their products and services, retail companies are reorganizing the layouts of their sales outlets in order to improve their appearance. This was observed in many of the companies studied. For instance, Italy Hypermarket has reorganized its shops according to ‘worlds’, i.e. a layout in which goods are arranged by thematic category (e.g. the world of the child). The director of the Hypermarket described the system thus:

“The main intention behind the restructuring is to reorganize the non-food department completely. Everything that used to be called clothing and bazaar, which account for around 20% of our sales, will be organized into ‘worlds’, so that layout and display will follow the logic of worlds. There’ll be the world of the child, where you’ll find toys, which are now sold in the bazaar, children’s underwear, which is now in the clothing section, baby food and disposable nappies, now in the sundry goods section. All these will be sold together” (Director, Italy Hypermarket).

Other initiatives in the reorganization of sales outlets to increase customer satisfaction involve experiments to make the shopping experience more pleasant: as at UK Best value, which is trying to create a close but informal ambience in its stores and to provide an enjoyable experience for customers.

“Stores have been encouraged to develop their customer service and selling skills and create “retailtainment”. New staff uniforms communicate a more relaxed, informal and engaging message to customers” (Best Value annual report, 2001).

Also the DK Toyshop is interested in creating state-of- the-art customer service and in turning a visit to one of its shops into a pleasant and fun experience for children as well as their parents.

Another way to make the shopping experience more enjoyable is to reduce its discomforts, like long queues at the check-out counters. This is the intention behind

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<sup>2</sup> However now the owner of the Supermarket is changing strategy and merging the different units into one.

the introduction of self-scanning systems by which customers can scan their purchases themselves, as in the case of the Shop&Go System recently introduced at Swedish Supermarket. All these changes are part of an overall strategy of Customer Relationship Management (CRM), the aim of which is to pamper customers, anticipating their requirements and desires and increasing their loyalty to the company. At CRM particular importance is given to data warehouses and to loyalty programmes. A data warehouse is the coordinated and periodic copying of data from various sources, both inside and outside the enterprise, into an environment ready for analytical and informational processing (Simon 1997). The data are collected through loyalty programs, and in particular through the use of loyalty cards which combine payment with the awarding of ‘bonuses’ and discounts to loyal customers. In this way retailers and their supply chain partners can collect customer purchase data for inventory management and analyse the data to determine what categories individual customers are predominantly buying. Programs then group customers into clusters based on their purchases (Levy and Grewal 2000). Loyalty programmes were present in all the cases analysed. German retail firms have introduced them most recently, after the restrictive laws on individual discounts were abolished in July 2001.

A final aspect of the on-going change in the relationship with customers is the shift in sales techniques. In some of the companies studied, these are represented by abbreviations and acronyms, which facilitate their learning and use by staff.

For instance, UK Supermarket has developed three new schemes to guide staff in their dealings with customers. Each scheme has an acronym that employees can remember:

SOS (Say hello, Offer help, Say goodbye), which is designed to ensure that staff greets customers politely and offer assistance (for example, with packing their shopping) at the checkouts;

ECOH (Every Customer Offered Help), which is designed to ensure that staff offer assistance to customers anywhere in the store where it might be needed; and

Only One in Front, a scheme which is designed to reduce customers’ queuing times at the checkouts by ensuring that staff alert store management when the store becomes busy and new checkouts are opened if queues of more than two people develop at any one checkout point.

UK Fashion Chain instead proposes the “Greet and Smile” technique, which is the practice of having a sales assistant positioned by the store front door to greet customers as they enter the store.

The changes described thus far require redefinition of the skills required of staff. On the one hand, one observes the reorientation of staff to a narrower customer focus, with an emphasis on the concepts of harmony, affiliation and customer orientation; on the other, the tasks entailed by ambitious ECR projects require highly qualified and open-minded personnel. It might therefore be supposed that either ECR is a reason to change personnel policy practices in retailing in favour of more openness to highly qualified persons. Otherwise suppliers will take over more of the knowledge-related work of stocking and marketing from retailers, and in so doing probably alter the borders between retailing and manufacturing in favour of the latter, or new service firms in the sector of knowledge-based business services will emerge. It is interesting to note that at German Drugstore almost solely women are responsible for ECR, perhaps because more co-operative than competitive behaviour is required with suppliers.

A final area to consider concerns e-business. In recent years, many of the companies surveyed have examined the feasibility of pursuing an e-business strategy, and some of them have experimented with applications.

“The first thing to ask is how far e-commerce will affect or damage not only this shop but large-scale retailing as a whole. On the basis of results obtained over several years in other countries one can say that, at least as far as food is concerned, there isn't any great danger. But there are going to be some problems with the rest. In any event, we were one of the first companies in the cooperative movement and retailing generally to experiment with e-commerce” (Director Italy Hypermarket).

In the UK, all the companies studied offer online shopping services. In Ireland, Tesco and Superquinn have introduced Internet shopping, with purchases being delivered to the customer's door.

The major problem with these initiatives is not so much the technology as the issues of logistics and transportation. It is very time-consuming to pack goods that have been ordered via the Internet, and it is also very expensive to organise their transport. A very important issue is whether it would be more efficient to have existing shops handle the e-business initiatives, or whether new outlets should be created which only deal with e-business users.

The e-business initiative launched by DK Toyshop is arranged and co-ordinated as a separate unit in the toyshop. This means that the regular shop's workflow, logistics and responsibilities are not influenced directly by the initiative.

In some cases, Internet is used for more restricted e-business initiatives, as at DK Supermarket, which has opened a site for its loyalty card members. It is only possible to order non-foods (e.g. wine, bicycles and chairs), and the goods are not delivered. Instead the customer must select a shop from which s/he will collect the goods. After making the order, the customer receives an e-mail informing him/her about the time it will take before the goods are available in the shop. The e-mail also constitutes a customer receipt.

Almost all the companies, however, have websites, and in some cases they use e-mail to communicate with customers (as in the case of the Swedish Supermarket).

<b>How are these processes assisted by technologies, if at all?</b>
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### **Financial sector**

The growth and spread of financial services has been characterized by the widespread use of new technologies, which, by transforming operational capacities and extending them beyond their usual limits, have enabled significant reductions in costs.

Technology provides important support for the more traditional services and brokering functions, and in its most advanced applications it enables the development of new services and new methods for their delivery.

Initially, IT was introduced mainly in order to achieve economies of scale and to reduce costs, rather than to differentiate and maximize competitive opportunities. Today a more integrated strategy is used (Ruozi and Filotti 1994) which acknowledges that technology impacts at various levels, economic, structural and cultural, and affects both staff and customers.

The introduction of ICT has significant consequences for organizational models. The greater efficiency resulting from the use of ICT is associated with a reduction in internal bureaucracy and the development of flatter, less hierarchical, 'information-based' organizations (Hepworth 1989). The introduction of ICT gives employees more responsibility and the freedom to take more decisions within certain limits, and also to give prompt answers to customers' enquiries. At the same time it implies a routinisation of work

Technological innovation also produces cultural change, giving rise to 'information-based' organizations (Hepworth 1989) because it enables companies to develop more efficient ways to collect information on customers and their attitudes towards the company's products.

However, the use of ICT is not evenly distributed across the organizations analysed. There are significant niches in which manual work and paper support still predominate: for example at the UK Clearing Services. On the other hand, there are company initiatives – so-called 'virtual banks' – for which technology is crucial. In these cases, it is the ICT component that proves highly attractive to customers, often

in the form of a multi-channel service comprising very advanced technologies like WAP for example (as in the case of Italy Virtual Bank).

However, the physical channel is often maintained alongside the virtual one. For example, Italy Virtual Bank is augmenting its network of promoters because the virtual dimension on its own is not yet profitable.

Another important instrument provided by ICT in support of banking activities are the in-company webs on which operators may find all the information that they require for their work, but which also increasingly enable customers to interact with the bank or to perform various kinds of operation (from bank transfers to on-line trading).

Technological development also depends on the infrastructures available. In Ireland, for example, the rapid growth of Internet systems and phone banking has been favoured by the government's decision to install high-speed lines to foster economic development.

Frazer (1985) has identified four types of customer interface technology:

- a) accounting technology (makes accounting operations more efficient)
- b) automation technology (reduces the costs of handling payment instruments)
- c) liberating technology (frees the bank from the constraints of time and place in service delivery, for example by making it possible for customers to perform banking operations outside opening hours)
- d) innovating technology (allows the introduction of new services).

All four types of technology can be found in the cases studied. The first two have a mainly labour-saving function and principally concern back-office work. More interesting are the third and fourth types of technology, which require the significant involvement of customers, who must consequently be shown how to use them (Ruozi and Filotti 1994). It is therefore necessary for banks to introduce specific measures to train their customers in the use of technologies.

In effect, the use of ICT requires considerable background knowledge which customers often do not possess, and also a change of culture.

“There's a need for people trained in the services provided by the virtual bank. People who know how to say to customers: 'Instead of making a bank transfer which costs one euro, why don't you use the multi-channel, which is free? The cost of the operation is much less and it's extremely easy to use. Look, I'll show you ...' The Internet certainly requires cultural action by us banks to get customers, as well as local authorities,

used to the fact that they have a channel of access to services different from the usual one” (Senior Manager, Italy Virtual Bank).

It is predicted in Spain that branches will in the future have the important task of introducing their private or corporate customers to the use of Web portals. Part of the work of the women interviewed for the case studies was precisely that of educating customers in how the new channels function and persuading them to use them (e.g. Swedish Bank).

Besides meeting functional and structural needs, the introduction of new technologies is also intended to enhance the bank’s image.

“Technology is very important. Firstly because it gives you visibility, especially in the market, if you’re the first to start up a WAP service all the papers write about it, and even if the service doesn’t perform exceptionally well, everyone’s talking about you” (Branch director, Italy Virtual Bank).

Offering a wide range of technologically advanced services gives visibility and attractiveness to companies, although the potential of these services is still little exploited, and the effective ability of customers to use of them – and therefore to make them profitable – is still limited.

## **RETAIL**

Technological innovation is indubitably one of the factors exerting the greatest impact on the strategies and behaviour of retail companies, and it is essential for their competitiveness. This is particularly true of ICT, because they greatly reduce the cost of storing, processing and transmitting data, and especially because they are being put to increasingly diversified uses which foster product and process innovation.

The impact of technology on the economics and organization of retailing is more than the progressive rationalization of activities and structures made possible by the automation of check-out and payment procedures (debit card scanners and EFT), by the greater efficacy of in-house information systems (EDI systems), and by the better management of stocks. Rather, it should be viewed as a radical change of scenario from the traditional methods used in the retail trade. It links with a profound change in management methods (purchases, logistics, administration, marketing) and in external

relations with the other components in the supply chain from producer to consumer (Davenport 1993, Resciniti 2000).

In particular, in a competitive context where information is the main resource, a decisive role is played by the technologies, which give control over it and whose effects have wrought a veritable revolution with respect to the past (Pilotti, Rosolin, Rullani 1986). The implementation of the principal managerial and organizational solutions for the coordination of information flows – like for example the ECR (Efficient Consumer Response) strategy – is indeed inconceivable without the use of new technologies.

The adoption of EDI (Electronic Data Interchange) systems (as at the Danish retail Chain or the French chain Norauto) and the use of electronic mail have brought improvements in the management of orders which may yield significant benefits in terms of operational efficiency and the quality of customer service. Reducing times and errors, in fact, shorten the order cycle. EDI permits the transfer of information and standard-format documents (orders, invoices, price lists) directly among the computers of different organizations. This interchange of company data enables companies to interact with customers, suppliers, transporters, and the suppliers of logistic services, and allows implementation of an efficient just-in-time process.

ICT permit the development of integrated systems and improve the linkages among the various components of the supply chain (suppliers, retailers and consumers). The case studies show that the introduction of new technologies has had consequences for all the links in this chain. Various companies have implemented technological systems: for the centralization of warehousing (Irish Supermarket, Italy Hypermarket, UK Grocery Retailer), for merchandising (UK Fashion Chain), for forms of integrated supply chain management (UK Fashion Chain, German Drugstore), for loyalty programs and data warehouses (Italy Hypermarket, DK Supermarket, Norauto, Swedish Supermarket), for the redesign of store layout (Italian Regional Chain Supermarket), for e-business initiatives (UK Supermarket, DK Toy Shop).

The introduction of new technologies also has various implications for the working conditions of staff. It helps to streamline and flatten the organization, since new technology makes it possible to automate the workflow and to provide a very small management group with a complete overview of the retail stores. This may give rise to two very distinct groups of workers in the retail sector. On the one hand, automation increasingly standardizes and routinizes work, thereby lowering the skills

levels required and reducing the need to train personnel (most of whom in these jobs are women); on the other, it requires the existence of increasingly tech-based roles, so that more highly-qualified personnel will be required.

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