

**BUNDLED COMPETENCIES, CONFIGURATION AND ACTIVITY SYSTEMS:  
UNDERSTANDING THE BASIS FOR COMPETITIVE ADVANTAGE IN ING DIRECT**

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**ABSTRACT**

The Australian banking sector is characterised by intense rivalry between competitors, lowered barriers to entry, a high threat of substitute products and powerful consumers. Despite increased competition and an influx of foreign-owned banks, four major domestic banks have continued to dominate retail banking. ING Direct, a recent entry into the market, is an exception to a pattern of poor performance amongst the foreign-owned banks, having emerged as a high-performing firm, achieving significant profitability and market share. In this paper, we identify the “activity system” (Porter, 1996) that underlies this performance. We suggest that the success of ING Direct is in significant part attributable to the coherence of its strategy, marketing, operations, structure and human resource practices.

**KEYWORDS**

Competitive advantage, competencies, configuration, activity systems

## INTRODUCTION

ING Direct (Australia) is a member of the Dutch based, global financial services organisation ING Group. ING Group encompasses banking, insurance and asset management, servicing over 60 million customers in 60 countries and employing over 115,000 employees. ING Direct is based on a global business strategy to be a low-cost, high-value provider of financial services by providing customers with an attractive value proposition and high levels of customer service to achieve scale within large, mature markets. Unlike traditional banks, ING Direct has no physical branches. The direct banking operation is delivered via two key delivery channels: (1) the internet and (2) the call centre, and offers two key products: (1) a savings account with no fees, a high interest rate and no minimum deposit and (2) mortgages provided solely through third party introducers. The Australian operation grew out of Mercantile Mutual Finance, a commercial property business, owned by the ING Group that employed approximately 24 people. After being awarded a banking license in 1994, Mercantile Mutual Finance spent the first few years building a mortgage business. Then in 1997, when the ING Direct strategy was adopted, the savings business was added. Since then the operation has grown to over 500 staff.

ING Direct (Australia) has more than 560,000 customers, \$9.4 billion on deposit and a \$10.3 billion mortgage portfolio and robust financial performance (see Table 1).

**Table 1: ING Direct (Australia) Ltd financial performance 1999-2003**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Net revenue	28,065	40,356	94,732	194,711	275, 583
Net profit after tax (loss)	(6,361)	(17,108)	3,169	44,302	77,851
Mortgage loans \$'000	1,382	2,202	5,017	8,730	12,365
Savings Maximiser \$'000	90	2,020	5,073	7,651	11,435
ROE after tax	(10%)	(24%)	2%	10%	15%

Source: ING Bank (Australia) Limited, Financial reports for the years ended 1999-2003.

ING Direct has achieved its success in a highly competitive industry. The retail banking industry in Australia, after a deregulation shakeup, is characterised by intense rivalry, threat from new entries, the developing threat of new products and increasing consumer power. This is further exacerbated by the dominance of the Big Four banks, ANZ Banking Group, Commonwealth Bank of Australia, National Australia Bank, and Westpac Banking Corporation, who together control 65% of total banking assets (AXISS Australia, 2000). To a large part, the great flux of foreign banks into the Australian market has been unable to diminish the Big Four's stranglehold on retail banking (Wright, 2002). In this context, the success of ING Direct, a foreign bank entry, is noteworthy.

## INDUSTRY CHARACTERISTICS

ING Direct operates within the Australian banking sector. Measured by profitability, banking is Australia's biggest industry sector (Kavanagh, 2003). There are 51 banks active in Australia, with 37 of these being foreign-owned. The sector is dominated by four domestic retail banks: ANZ Banking Group, Commonwealth Bank of Australia, National Australia Bank, and Westpac Banking Corporation. Overall, these four banks control 65% of the total banking assets and are relatively large and profitable by world standards (Duncan & Elliott, 2002). The domestic banks have an extensive retail branch network and provide a wide range of financial products, including savings, credit, funds management and insurance options. For the most part, foreign-owned banks have focused on the wholesale rather than the retail banking market. Notable exceptions have been Citibank and BankWest, who have attempted to roll out extensive retail banking operations (AXISS Australia, 2000).

To a large extent, since their entry into the market in 1985/86, foreign-owned banks have been poor performers. Factors identified as contributing to this poor performance include initial regulatory restrictions, the boom-bust nature of the late 1980s economic climate and the aggressive reaction by the Big 4 domestic banks to increased competition (Wright, 2002). As a result, after 20 years of the internationalisation of the Australian banking sector, domestic banks remain dominant in the retail banking sector. In contrast to other foreign-bank attempts, ING Direct is an example of a foreign bank that has managed to infiltrate the Australian retail banking sector. This has occurred despite the intense competition.

### **Industry Attractiveness**

Porter's (1980) 'five competitive forces' model provides a framework for assessing the potential profitability of an industry. According to the model, the stronger and more pervasive the competitive forces, the less likely is superior performance. Based on this framework, it is evident that fuelled by two global trends (1) deregulation; and (2) technological innovation, the Australian banking industry has gone from being heavily protected to being highly competitive (Bradley & Stewart, 2002).

The Australian banking industry is characterised by increasingly *low barriers to entry* and a high level of *rivalry amongst competitors*. Once a protected and highly concentrated industry, the banking sector held high barriers to entry. The deregulation of the banking sector, which began in the mid-1980s and continued into the early 1990s, saw barriers to entry lowered and a significant influx of foreign-banks into the Australian market (Merrett, 2002). The arrival of new players into the market led to increased competition as the domestic banks reacted aggressively to the changed competitive landscape (Wright, 2002). Today, the banking sector, as part of the wider financial services industry is experiencing rapid growth, diversification and intense competition, (Clulow et al, 2003). The heightened competition has resulted from global rather than simply local or national forces (Jones et al, 2002).

Information technology has also been a key factor in the competitiveness of the banking sector, contributing to the lowering of entry barriers, increasing jockeying amongst competitors and increasing the *threat of substitute products*. Technological innovation, which began with back office operations, has

extended to the opening of new electronic distribution channels such as automated teller machines, telephone banking and more recently, internet banking (Batiz & Wood, 2002). These new methods of distribution have led to the development of new banking products that do not require the back-up of an extensive physical branch network. As a result, cheaper economies of scale can be realized. Although Australian banks were not quick to take up the internet banking option, all banks now have an internet presence, due to a large part on competitive forces, as well as consumer demand (Bradley & Stewart, 2002).

The *power of consumers* has also been on the rise. Deregulation and innovation within the industry has led to wider consumer choice (Levesque & McDougall, 1996). As a result, consumers have been 'unbundling' the purchase of their financial products and drawing upon more than one financial services provider, rather than remaining loyal to one institution (Jones et al, 2002). Over this time, consumers have also become more vocal in their criticism of banking operations. A number of well-publicised public relations concerns have led to widespread cynicism amongst consumers toward the behaviour of their banks (Duncan & Elliott, 2002). As a result, financial service providers have been increasingly forced to achieve a substantial increase in customer service levels as a point of differentiation (Krishnan, et al, 1999).

One competitive force that has seen both decrease and rise, is the *power of suppliers*. Through a process of deregulation, the government has released its hold on the banking sector by issuing more banking licenses and lessening regulatory restrictions (Thomson & Abbott, 2001). As mentioned earlier, however, this has led to an increase, not a decrease, in the competitive nature of the industry. The other key supplier, the providers of funds have more power as the range of investment options has increased.

### **BUNDLED COMPETENCIES, CONFIGURATION AND ACTIVITY SYSTEMS**

Given the competitive nature of the industry and the fact that ING Direct has succeeded where other foreign-owned banks have failed, we were interested in investigating what factors internal to the firm may have contributed to its success. In doing so, a link is made between what are often seen as disparate traditions within the strategy literature.

The resource based view of the firm (RBV) provides an explanation for differences in performance between competing firms by attributing them to internal resources or competencies, rather than to factors external to the firm (Grant, 1991; Peteraf & Barney, 2003; Prahalad & Hamel, 1990). From this perspective, for a resource to be a source of sustained competitive advantage it must be rare, valuable, hard to imitate and the host firm must be organized in a way that allows the potential in these resources to be realized (Barney, 1995).

One criticism leveled at the RBV is that it focuses attention too much on individual competencies at the expense of "the way in which its activities fit and reinforce one another (Porter, 1996: 70). From this perspective, RBV ignores "the more important property of organizational coherence, i.e., the firm's ability to weave all of its resources and strategies into a mutually supportive competitive entity" (Campbell-Hunt et al, 2001: 6). However, this limitation is not fundamental to the RBV. For example, one of the leading RPV

theorists, Jay Barney (1996: 155) argues that:

“...it may be that not just a few resources and capabilities enable a firm to gain a competitive advantage but that literally thousands of these organizational attributes, bundled together, generate these advantages”

None-the less, the critics have a point – the “bundling effect” is a variation within the RBV rather than a concept that is central to the RBV approach.

By comparison, “organizational coherence” is central to the “configuration” approach to strategy (Miller, 1996) and also to Michael Porter’s (1996) work on the centrality of “fit” in the achievement of competitive advantage. For Porter (1996: 73), activities which fit and reinforce each other enhance a firm’s uniqueness and form a barrier to would-be imitators. Competitive advantage and the sustainability of that advantage are said to depend on the mutually reinforcing character of the various activities in a firm’s “activity system” (Porter, 1996).

In this paper we apply the concept of “activity system” to the performance of ING Direct (Australia) in an attempt to understand whether its network of internal characteristics might explain its emergence as a high- performing organization.

## METHOD

### Data Collection

The methodology for the study was guided by an in-depth case study approach. Data came from two sources, semi-structured interviews and archival material (company documents, media reports, etc). We conducted 53 interviews, 48 with management and staff within the Australian operation and five within the Executive Team of ING head office in Amsterdam. Interviews were between 30 and 90 minutes duration. At least two members from the research team were present at the majority of interviews. Interview selection was based on the concept of “horizontal and vertical slices” (Dunford & Palmer, 2002). Use of the horizontal slice involves collecting data from people across the various functions or businesses in the organization. In this study, the nine members of the ING Direct, Australia Executive Committee (including the CEO) comprised the horizontal slice. The vertical slice involves collecting data from people at different levels in the organization. In this study the vertical slice comprised 39 interviews with staff from various levels within the two key divisions (Retail Mortgage Group; Direct Sales and Operations). Random sampling was used to identify interviewees. Interviews were recorded and transcribed.

### Data Analysis

Data from the interviews were analysed using NVivo, a qualitative software package that has become the most widely used computer-based method of qualitative analysis (Ticehurst & Veal, 1999). Two of the researchers independently analysed interviews and interview notes to identify themes. Themes and sub-themes emerged through repeated treatment of the interviews and adjustments were made as new levels of understanding surfaced. Discussions took place between members of the research team until agreement was reached regarding the appropriateness of categorization of the text. Text was then tagged and analysed. Data

from annual reports, internal documents, the business media and online sources were used in conjunction with the interview data to reveal an understanding of the various activities undertaken by ING Direct. In the following sections, we outline the results of the study of ING Direct. We conclude with a discussion of the implications of the findings.

## ACTIVITY ANALYSIS OF ING DIRECT (AUSTRALIA)

### Strategy and Marketing

The key objective of ING Direct's strategy is to establish low-cost, high value banking services in mature markets. At the core of its strategy are three main features: challenging industry orthodoxy, focus and simplicity.

**1. Challenging Industry Orthodoxy.** ING Direct characterizes itself as being different to other banks. In reaction to criticism from bank customers regarding high fees, poor service and complex products, ING Direct presents itself as offering something different.

*We don't want to be classified as another bank. We'd rather be seen as a new way of doing banking and a new way of delivering service' (Top Management Team, male).*

The strategy is based on challenging assumptions regarding traditional banking. One assumption that ING Direct usurps is the notion that banking requires a strong retail presence. The use of a branchless system of banking, whereby customers access services via the telephone, internet and third party introducers is a key feature of ING Direct's strategy. In order to offer a savings product without the use of a branch system, ING Direct leverages off the resources of other banks. Customers link an established bank account to their ING Direct account, and deposits and withdrawals occur through this account. As a result, ING Direct meets bank regulations regarding identification when opening new accounts without having to site identification documents.

**2. Focus.** ING Direct has a focused strategy in regard to products and markets. Unlike other banking operations, ING Direct does not attempt to provide full-scale banking. It provides two key products: the savings maximiser account, and mortgages through third-party introducers.

*If you look at most of the banking institutions in Australia, their focus is everywhere. They're trying to be everything to everybody...that's not what we're about. We're saying that we want to maintain our focus...we wouldn't want these sort of marginal products for the sake of doing marginal products...that's why we are different (Top Management Team, male).*

Any new product must add significant value to the operation in order to be considered – the internal rule is that a new product should be able to deliver five percent of profits. Part of the challenge in maintaining a focused strategy is to curb the desire to expand into new areas simply for the sake of it.

*Dare to say, 'No we don't do this, period', and to be able to live with that (Head Office Top Management Team, male)*

Focus also allows ING Direct to concentrate on building scale – a key feature of its strategy.

*In order to succeed in any retail business scale is critical. You've got to have critical mass...To reach scale in any one of the product line means that you have to be very focused in that product line, invest a lot of time and effort in building it (Top Management Team, male).*

**3. Simplicity.** An important feature of the value proposition to customers is that ING provides simple, straightforward banking. Whereas other banks have been offering more complicated and difficult to understand products, ING Direct offers a savings product with no fees, no minimum deposit and a high interest rate.

*We take the approach that we want to just keep it simple and as straight forward as possible, so rather than go to XYZ bank and say, 'Ok you've got this account if you have less than three hundred dollars in it you get this rate.....but if you keep it for six months you get an extra bonus interest and by the way if you don't have so many transfers...' So you don't know actually what you're getting. We just say, 'Look we don't charge any fees, transfer as much as you like we don't care'. Simple as that. (Top Management Team, male).*

Focus and simplicity also extend to the marketing of ING Direct. Instead of creating complicated lifestyle branding exercises, ING Direct advertises product features only.

*We don't believe in brand advertising. So we do not conduct campaigns that talk about how fantastic this organisation is. We don't do that. What we do is basically build brand through product advertising. So we say to you this is what you get from us. These are the product values that you get. So if you look at our advertising we always talk about the interest rate, the features, no fees. All those kind of things. This is what you get. So we're not going to promise to take care of the bigger picture and change your life. We're not going to do that but what we'll say is if you give us fifty dollars you'll earn 4.75% and won't charge you any fees and its as simple as that' (Top Management Team, male).*

### Operations and Procedures

The strategy of simplicity is applied at the operations level through ease of use of the service for customers.

*When the direct product was introduced I went out and tried to open an account...it took me two minutes to set up an account and I thought 'Gee this is great'...and I've used the call centre, I've used the internet and it's just been so simple from start to finish, and to me that is our strategy (Top Management Team, male).*

Simplicity is also a feature of ING Direct's approach to technology. It is acknowledged that information systems need to support product delivery.

*For me personally it's more about management of information...in terms of our ability to move with the market or innovate ourselves, we need to make sure that our IT is going to support us' (Top Management Team, male).*

Management and staff acknowledge that the banking industry is highly regulated and that policies and procedures are essential to ensure compliance. These are not viewed as constraining but providing guidance and reassurance to staff in their day to day work. Policies and procedures are also viewed as a means of serving the customer, and are not viewed negatively. They are also viewed as are open to change and revision with staff in the front line roles involved in their development. There is acknowledgement that policies and procedures are unable to cover all situations and that flexibility at the staff level ensures greater service to clients.

This is contrasted by staff with more traditional banking operations, where flexibility, or interpretation of policies and procedures, is not encouraged.

*YYY Bank was very, very structured in everything it did...you had to follow a process before you*



*could go from A to B. Whereas here....they're more flexible so you move with the times...as opposed to being bogged down with something that was great and worked fifty years ago but just doesn't work now (Retail Mortgage Group, female).*

## Organisation Structure

ING Direct's organizational structure is characterized by its relatively flat hierarchy. Although there is a discernible hierarchy it is experienced as relatively flat. Seniority is not maintained through elaborate status symbols, grand offices or differences in style of dress. Senior managers are accessible.

*They don't have offices and they don't have discernable levels of management so to speak. Like I didn't know that the CEO was the CEO. He's not wearing a suit. He's not walking around like the king of the world. He just walks around like the rest of us. You don't get that from very many companies at all (Retail Mortgage Group, female).*

The flatness contributes to open and informal communication and helps the managers close to the business.

*We don't have huge layers of management and what you do find is that management, whatever that means, is actually very connected to the day to day issues here. I do go and sit in the call centre and listen to calls. I sometimes take calls in the call centre (Top Management Team, male).*

A minimum of hierarchy allows decisions to be made and change to occur quickly.

*There's not that much red tape that we have to go through. Basically if we decide to make a change and we agree that that's the best thing it normally gets done fairly quickly. It's not something that we have to wait years to get approval and sign off (Manager, female).*

It also allows decision making to occur at the lowest level possible.

*Even though there's managers to go through....they do let you make a lot of decisions on your own. As long as you've got reasoning behind it they're usually willing to back you up if it's the correct decision. They will stand by you. So in terms of that I think it's not a very strict hierarchy' (Retail Mortgage Group, female).*

A consequence of having a flat hierarchy is ING Direct's ability to be nimble.

*The structure within the mortgage operations unit we've changed a number of times over the past few years on a needs basis. We don't tend to get too stuck in our ways and I think an observation for me is that because of our size we can be really nimble, we can change quickly (Manager, female).*

A lack of a structured, formal, hierarchy allows staff a strong sense of involvement in the business, something which staff with experience of both contrasted with more traditional banks

*At XXXBank...products would come out of Melbourne the day prior to the markets. Things would be announced and you just had to wear it. Here...you're in the senior management team or you're in a couple of levels under the senior management team, you can get involved in anything if you're really passionate about. So you know in the time I've been here, and prior to being in senior management, I can see ideas that I've had that have come into policy and people have taken on board. You don't have to be a senior manager to get your say or a senior manager to make things happen' (Manager, male).*

Teamwork is an important feature of ING Direct's workplace. It is encouraged by the way the work is structured, ensuring that people must work effectively with others to get their own job done.

Staff in the call centre and in the mortgage operations are all structured into teams.

## Human Resource Practices

ING Direct has an open management style, in regard to which the CEO, Vaughn Richtor, is recognized as the embodiment. He is highly visible, regularly chats to staff and knows the majority of the 500 staff by first name. ING Direct is characterized by the relative absence of status differentials. Seniority is not associated with many of the normal privileges and symbols of hierarchical difference that employees had come to expect from their experience of other work organisations.

*They don't have offices and they don't have discernable levels of management so to speak. Like I didn't know that the CEO was the CEO. He's not wearing a suit. He's not walking around like the king of the world. He just walks around like the rest of us. You don't get that from very many companies at all (Retail Mortgage Group, female).*

Open plan, bright colours and motivational themes on every floor are also a feature of the workplace. The physical environment of the workplace is viewed by staff as reflective of management's commitment to the idea that there should be open communication and work should be fun. The relaxed nature of the organisation is reflected in the call centre.

*It's not one where you're in a little cubicle with a headset on and you have no contact with anybody else, which is I think the impression that you might have with what a call centre would be like if you've never worked in one. It's a lot more sociable than that and we all sit and chat to each other between calls and that's the kind of thing that they want going on. They want that friendly kind of atmosphere (Contact Centre, female).*

ING focus on recognizing the efforts of staff. Rewards come in a variety of forms including praise (spoken and written), movie tickets, lunches with the CEO, weekly fresh fruit, organization-wide celebrations and a financial bonus system for all staff.

Its recruitment strategy is based on recruiting for "cultural fit". This leads to a situation where "there's very un-bank like people" (Contact Centre, female) employed at ING Direct.

*We'll actually more look against call centre experience than for it because we don't want someone who's been necessarily trained to the way the banks operate. We want to train them....we're more interested in customer service as opposed to contact centre [experience] (Contact Centre, male).*

The policy of recruiting for cultural fit is coupled with a strategy of appointing people to senior positions by promotion. This practice is firmly focused on retaining people who fit with ING Direct culture. Consistent with ING Direct's recruitment and retention strategy, is their focus on offering employees development opportunities which are viewed as a point of difference for ING Direct in regard to people management.

Staff are encouraged to be innovative and to question the status quo. Being an innovative culture involves encouraging people to come up with new ideas and to question. In this regard, "We won't crucify people for coming up with new ideas" (Top Management Team, male); "We try and create a culture where it's healthy to question" (Top Management team, male). Mistakes are viewed as being part of the learning process.

Although ING Direct promotes a relaxed and fun culture, it maintains a professional focus by

expecting results. Performance is heavily monitored across the entire business. However, the performance management system is experienced as developmental rather than punitive.

*If I have a weak area I've always been encouraged in that area but not in a negative kind of way. It's been very constructive...I've always found it really helpful" (Contact Centre, female).*

There is also a strong emphasis on the notion of working hard to provide quality service. Consistent with a focus on quality is the fact that the call centre does not measure average handling times, unlike the majority of call centres.

*We always tell our [people], you know, quality comes first. You take the time with the call. Just make sure the customer is happy. Answer all their questions. Obviously keep an eye on the boards to see if there are calls waiting, but don't rush your call just because you think "Oh gosh there's another call waiting I've got to get that". So yeah quality is very much the important factor (Contact Centre, female).*

Service quality is also the reason why the call centre is not outsourced.

*The call centre is the VIP lounge. It's got the most important people, our customers...the key differentiators we see is our call centre people and therefore we don't want them to be part of another organisation and another organization's culture. We want to have them as part of our culture...so the whole training and the management of the call centre is very critical to us (Top Management Team, male).*

## **DISCUSSION AND CONCLUSION**

Competitive advantage and the sustainability of that advantage depend on the mutually reinforcing character of the various activities in a firm's "activity system" (Porter, 1997). ING Direct (Australia) is a high performing newcomer in a highly competitive industry dominated by a few well-entrenched competitors. In order to develop an understanding of the way in which ING Direct achieves competitive success in this industry, we undertook an analysis of its activity system. The results of our study indicate that ING Direct intention to establish low-cost, high value banking services in mature markets is supported by has an activity system in which key elements of its strategy, marketing, operations and procedures, structure, and human resource management practices are mutually reinforcing. In support of the configuration/fit/activity system approaches, it would be difficult to explain the success of ING Direct without acknowledging the mutually reinforcing nature of the various identified activities.

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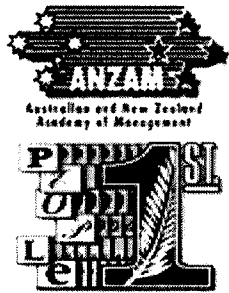


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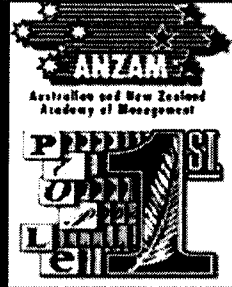


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