1. Introduction

This chapter will draw together some of the threads that influence corporate strategy that have been dealt with elsewhere in this book, for example the impact of deregulation, financial innovation and new legislation. Any organisation, to be successful, has to respond to the competitive environment in which it operates. This has been particularly important to the formulation of business strategy for financial institutions due to the rapid pace of change in this environment during the last decade. To discuss the formulation of corporate strategy, it is necessary to discuss these external factors, the rapid pace of change and internal influences on policy such as the aims and the aspirations of managers and the response of financial institutions to these factors. The processes that have led to change will be identified, and their consequent impact on marketing and strategy analysed, to determine strategic policy areas and the response of the financial institutions in terms of marketing strategy and techniques employed. Undoubtedly the major influence on strategy has been the rapid pace of developments in the competitive environment.

This chapter will maintain the inter-disciplinary approach, which is one of the themes of the book, by introducing economic theory to analyse the competitive position of the financial institutions. It is possible to identify the reaction of the major institutions within a classical oligopolistic framework, and
some recent developments in economic theory will be applied to discuss these reactions.

2. Corporate strategy

Corporate strategy can be described as the strategic planning of responses to competitive and other pressures from the competitive and legal environment in which the institution operates. Since the planning of strategy is determined by senior management, corporate strategy may be described as 'managerial strategy' or simply, 'business strategy'. Following Porter's seminal work (1980), there are now a number of texts that follow in Porter's footsteps that give detailed analysis of the determination of corporate strategy: (Rothberg, 1981; Grieve-Smith, 1985; Luck, 1989; Johnson and Scholes, 1989). However, the reader may also like to note that Porter was preceded by writers such as Schelling (1960) and Ansoff (1965).

Strategy is formulated from a complex series of factors arising from the external competitive and legal environment and also, internally, through the aspirations and objectives of senior management. Although the aspirations and characteristics of management are important, it is difficult to obtain any hard objective evidence on the importance of different objectives. Managerial objectives will be discussed, but we will concentrate, in the first part of this chapter, on the factors that influence the competitive environment. These shape the competitive strategy of the major institutions. The emphasis is on competition between the banks, building societies and other institutions for retail deposits.

The strategy adopted in response to competitive forces may fall into one of Porter's (1980) three 'generic' competitive strategies: (a) cost leadership, (b) differentiation and (c) focus. Cost leadership is the pursuit of cost reduction in all departments to gain a competitive cost edge over rivals. For financial institutions, differentiation is the diversification into different services. Focus is the concentration of resources on improving one aspect of the organisation, for example meeting the demand from a particular market segment. We shall see later that all three of these strategic responses can be observed when we examine the competitive strategy of the major financial institutions.

3. Market structure

Competition for financial services fits an oligopolistic framework for analysis, with six major banks and 15 large building societies. However, the key feature of oligopolistic competition is not the number or 'fewness' of firms, but the extent to which each firm has to consider the actions of its rival when formulating strategic decisions. An oligopolistic market structure means that