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COLLABORATION AND STRATEGIC ALLIANCES AMONG COMPETING FINANCIAL INTERMEDIARIES. CASES IN BRITISH AND MEXICAN BANKING (1945-1975)

Abstract

This research explores the evolution of co-operation among different types of intermediaries in British and Mexican financial systems and elaborates an international comparison. It focuses in how and why collaboration between commercial banks and non-bank financial competitors emerged in the context of the external innovations that modified the contestability of bank markets. Changes in Mexican banking consider collaboration between commercial banks and small regional banks, with an emphasis on the 1945 to 1975 period. The success of collaboration between non-bank and non-finance providers to modify competitive capabilities and competitive challenges in UK deposit markets is the benchmark for co-operation in Mexican banking. Business histories in the UK and Mexico enabled to consider how some relations emerged out of integration strategies, with the purpose of establishing financial conglomerates. Other banks and non-bank providers in Mexico and the UK sought to create co-operative agreements that allowed circumventing barriers to enter deposit markets and developing competitive capabilities. As a result, the research sheds light on the success of collaboration agreements through changes in competitive strength rather than the longevity of the transaction or the formality and structural visibility of the agreements.

Resumen.

Este artículo estudia la evolución de arreglos cooperativos entre distintos tipos de intermediarios en los sistemas financieros de México y Gran Bretaña, y elabora una comparación internacional. El artículo se enfoca en cómo y por qué emerge colaboración entre bancos comerciales e intermediarios no bancarios que compiten entre si, en un contexto en el que el acceso a mercados cambia. Se analizan la colaboración entre bancos comerciales grandes y bancos comerciales regionales en México en el período 1945-1975. Para el mismo periodo se analiza la colaboración entre intermediarios bancarios en el Reino Unido. El éxito para modificar capacidades competitivas entre los mercados Británicos es usado como referente de la cooperación en la banca Mexicana. Las historias empresariales de México y de Gran Bretaña muestran cómo algunas relaciones entre intermediarios surgieron como estrategias de integración para establecer conglomerados. Sin embargo, otros bancos e intermediarios no bancarios de ambos países buscaron arreglos cooperativos para romper barreras a la penetración de los mercados de depósitos y crédito, así como desarrollar capacidades competitivas. Este artículo se enfoca en el éxito de los acuerdos con base en cambios en la competitividad de la empresa, más que en el enfoque tradicional basado en longevidad de la transacción o su visibilidad estructural.

1. Introduction*

Gilbert's (1984) landmark compilation warned that conspicuously absent from the analysis of structure-conduct-performance in banking was the need to assess the effects regulatory change has to determine bank performance (p. 626). It was until recently, however, that an important number contributions thoroughly debated the economic role of market competition, its benefits and its workings in financial mediation (Cetorelli 2001, 38). This paper contributes to research into the effects of regulation on performance in bank markets by looking into how and why collaboration between commercial banks and non-bank financial competitors emerges in the context of changed competition (as reflected by distinct competitive environments in Mexico and the UK). The combination of secondary sources and previously unavailable archival material suggests a wide spectrum in the organisational forms adopted by collaboration between actual and potential participants in banking. What is distinctive about the forms of collaboration explored in this paper is the importance attributed to assessing market potential.

Collaboration in markets with a handful of participants can enable those with the fewer resources and capabilities to absorb market intelligence without disrupting competitive equilibria. At the same time, collaboration can enable the creation of inter-organisational processes and procedures to distribute otherwise inaccessible information. Competitive collaboration, therefore, can provide advantages to financial intermediaries established in markets such as Mexican banking, where incomplete information is pervasive and there are acute asymmetries between principal and agent. Collaboration is also of interest for managers of banks working in competitive but otherwise geographically segmented market such as the UK retail financial services in the post war period as a cost effective alternative to implement geographic diversification prior to per capita income rising. Hence, both the context of a closed economy with a financial system in early stages of development and in the context of an industrial economy with a developed financial system, inter-firm co-operation proved to be relatively successful organisational response to market constraints.

This paper, therefore, provides insights into the formation and evolution of inter-firm collaboration in banking while elaborating an international comparison between two distinct competitive environments. Research results suggest that collaboration allowed participants in Mexican and UK banking to internalise competencies and learning from their associates while co-operation aimed to overcome regulatory and environmental restrictions to market penetration. Research results advance the literature discussing organisational alliances and collaboration in general, by suggesting that the assessment of market potential is critical to instigate collaboration while implementing related and semi-related diversification. Specifically, this paper documents evidence pointing towards established participants and potential entrants

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in bank markets seeking collaboration to inform strategic actions that could lead to activities associated with high sunk costs, such as the development of retail branch banking distribution.

The paper proceeds as follows. Section 2 offers a review of analytic categories and research design. Section 3 summarises the structure in Mexican and UK banking markets with an emphasis on the 1945-1975 period. Section 4 considers associations that emerged out of strategies of competitive collaboration. This through the relationship between Mexican commercial banks, as well as the role of finance houses (non-bank, purchase-hire, intermediaries) in the strategy of the main UK commercial banks. Section 5 explores a second theme through alliances that create co-operative agreements, circumvent barriers to enter bank markets and develop competitive capabilities. This is illustrated through co-operative links of Mexican commercial banks as well as collaboration between savings and clearing banks in Scotland. Section 6 offers a summary and tentative conclusions.

2. *Understanding Competitive Collaboration*

In the literature, regulation has been viewed as mitigating competition as well as hindering the adoption of technological innovation (e.g. Baumol *et al.*, 1982). Regulatory innovations developing into barriers to enter markets for financial services in general and commercial banking in particular, can be traced to bank charters in the late eighteen century. However, and according to Gilbert (1984, 617), it was until 1960 when concerns were raised regarding the design of an optimal banking structure when, responding to a ruling of the Supreme Court, US government agencies had to consider the anti-trust effects of mergers in banking. More recently and even after a period of intense regulatory change during the 1970s and 1980s, the potential for fraud, money laundering and systemic failure impinges supervision, regulation and minimum capital requirement as prerequisites to participate in bank markets (e.g. Group of Ten 1997; Cetorelli 2001).

External change (such as regulatory innovations) can modify competition in bank markets. There are a several potential strategic responses of actual and potential participants in banking to external innovations and competitive collaboration is one of them. However and according to Ros (1998, 353) and Jacobsen and Tschoegl (1999, 137), competitive collaboration, as undertaken by participant in banking during the second half of the twentieth century, seems to be an under-research organisational form. Moreover, practitioner and academic research on inter-firm co-operation has predominately focus attention on cross-border growth of banking institutions while excluding the assessment of collaboration amongst banks, non-bank and non-finance intermediaries with the potential of contesting domestic bank markets (Glaister and Thwaites 1994, 442).

In this paper research into competitive collaboration between banks and non-bank as well as between banks, non-bank and non-finance organisations aiming to contest bank markets proceeds through an historical evaluation of associations in two different competitive environments while, simultaneously, elaborating an

international comparison. The assessment of the evolution of competitive collaboration advances through analytic categories sympathetic to the view of Doz and Hamel (1998), that is, assessing the success of collaboration agreements through changes in competitive strength rather than on the longevity of the transaction or the formality and structural visibility of agreements.

Firms engage in competitive collaboration through strategic alliances, outsourcing agreements, product licensing, co-operative research and an extended range of 'rights' (including rights to sell or buy). Such strategies allow partners in the transaction to achieve critical scale in a competency, distribution capability or markets currently out of their reach (Hamel *et al.* 1989, 134). According to Hamel (1991), the main value of competitive collaboration for individual organisations is co-operation turning into a form of inter-partner learning. There is an evolutionary content in this view because learning implies adaptation and change, and indeed an important analytical stream has focused in the evolution of collaboration. In other words, the evolution of inter-firm co-operation is viewed in the broad sense of the life cycle of a product or service, that is, as a notion of transformation over time and adaptation to contextual and environmental contingencies.

A complementary view to explore the formation and evolution of collaboration is that of Ross and Lorange (1993). This view offers and overarching framework to assess inter-firm co-operation under two complementary approaches. First, a transactional view based in the degree of integration of firms, a continuous scale from market interaction to full vertical integration that places collaboration as form of arms-length integration. A second approach is based in commitment, which emphasises the degree of mutual interdependence between the parties involved in an alliance. These views together allow a well-structured definition of the formation of competitive collaboration agreements and the organisational form they are likely to adopt, as well as offering a consistent reference to study the evolution and longevity of collaboration agreements.

Understanding the interaction between formation and longevity of collation is particularly important because evolutionary processes are sensitive to the initial conditions in which collaboration emerges and receive its organisational form. Doz (1996) takes the evolutionary rationale with more precision and explores the effect of initial conditions on the learning processes rather than on outcomes. Doz studies successful and failing projects in the context of sequences of interactive cycles of learning, revaluation and adjustment. In particular how the initial conditions are important to create progressing patterns of learning as well as adaptation. Such patterns of learning, according to Doz, are rooted in how cognitive-individual learning evolves into a behavioural-organisational learning. Initial conditions may foster or block both types of learning and how learning process are reviewed themselves (learning to learn) by individuals and the organisation itself.

In this paper, evidence from building societies and non-bank intermediaries in the UK shows how collaboration permitted the latter to offer services out of their scope. Accordingly, evidence from Mexican banking illustrates small commercial banks associated to larger entities while looking to achieve scale in business processes such as credit cards, international banking and trust operations. As a result, fieldwork in this paper clearly illustrates how, through collaboration, firms expect to avoid unnecessary investments (i.e. enhance the allocation of scare financial resources),

gain time to improve their productive efficiency and quality control, and acquire their partners' skills and market characteristics. Indeed, empirical-inductive evidence documented in Borys and Jemison (1989), suggests that co-operation and alliances are a transitional step for further interaction between otherwise independent organisations, that could lead to integrated forms of management and certainly to the internalisation of partner skills.

Firms are free to enter any particular relationship provided there is a minimum common agreement, there is a clear perception of potential benefits and there is no indication that the negotiations themselves will create significant irrecoverable costs. To date, however, disagreement prevails on whether collaboration strategies deliver sustainable competitive advantage. Some are sceptical that networks of independent firms can articulate long-term management of interdependence (Harland 1996, 67). Others argue that collaboration strategies reflect changes in competitive tactics because they can effectively increase market competition through increased entry threats (Hamel *et al.* 1989; Williamson, 1975 and 1985). For Thorelli (1986) and Dietrich (1994, 113) barriers to exit may develop *ex-post* as firms enter into particular agreements. These barriers emerge when, as a response to pervasive environmental turbulence, partners must develop irrecoverable investments in specific physical assets or in organisational assets that encourage and maintain co-operation (such as mechanisms to share information and co-ordination).

Throughout these perspectives, however, possibilities that environmental turbulence creates sunk (i.e. irrecoverable) organisational costs and deters entry have often been ignored. For instance, that the potential that environmental turbulence in the UK developed into sunk organisational costs, helps to explain why the Co-operative Wholesale Society (CWS) failed to commit to the collaboration agreement with a building society and thus, CWS abandoned opportunities to diversify in UK retail bank markets. Cases in this paper, such as that including CWS's potential diversification, highlight how seldom does the discussion around competitive collaboration considers whether co-operation responds to opportunistic diversification strategies that pursue income growth rather than enhancement of core capabilities. Documented evidence in this paper thus offers cases of strategic visioning but failed implementation in the UK. Whereas cases in Mexican banking document opportunistic but otherwise successful collaboration, which moved forward on flexible organisational structures (escaping the budgetary rigour associated with the pursuit of strategic intent).

As noted by Ross (2000), development and transformation of the competitive capabilities of one or all of the partners should be seen as the appropriate indicator for successful collaboration. For instance, this paper offers details on how Trustee Savings Banks aimed to transform their capabilities in Scotland through collaboration with a commercial bank and how a Mexican commercial bank (i.e. Banamex) helped to transform the capabilities of its associates in Mexican regional bank markets.

In what follows the research explores competitive collaboration by taking the view of Baumol *et al.* (1982), Thorelli (1986) and Dietrich (1994) in as much as the only (relevant) costs to enter a market are those known to be sunk and which become exit barriers. From the 'contestable market' perspective the degree of competition diminishes through means other than those facilitating collusion or reducing the number of independent participants. Competitive pressures are lower to the extent that

known sunk costs reduce the threat of out-of-market participants entering the market. Strategic orientation is important to anticipate competitive advantage, including withstanding environmental turbulence unexpectedly turning idiosyncratic investments into exit barriers.

On the other hand, given the lack of widely accepted definitions of co-operative activity the discussion of inter-firm co-operation risks foundering because of the failure to specify the exact form of collaboration (Glaister and Thwaites 1994, 439). Inter-firm relations take many forms and serve many purposes. Hence, it is useful to differentiate what part of the value chain is part of the agreement is the focus of the agreement. Also whether there is (tacit or implicit) co-operation for direct involvement as measured by equity in joint ventures or the appointment of liaison managers (idem, p. 440). Secondly, whether participants have clear goals and shared expectations (Birnberg 1998, 422). Fuzzy objectives prevent designing adequate risk/reward agreements while asymmetric expectations of the various participants result in varying levels of commitment (i.e. a participant's willingness to develop idiosyncratic resources). Thirdly, the extent to which collaboration will complement pre-collaboration activities, operates to the disadvantage of other collaboration agreements and limits the agreement to original signatories (Ros 1998 and 2000). Finally, whether co-operation is a pro-active (i.e. offensive) or reactive (i.e. defensive) response to uncertainty and environmental turbulence (Spekman *et al.* 1998, 749).

In summary, the evolving nature of competitive collaboration and of any form of inter-organisational dynamics motivates to analyse cases under an historical perspective. An historical view to an economic problem requires interweaving conceptual structures with contextual events and identifying how and why transitions appear. In this sense the research that follows aims to bring the history back to the concepts using as evidence the comparative historical cases of Mexico and the United Kingdom. Rather than providing explanatory hypothesis to a problem, it aims to show how and why those business practices emerged in their respective contexts and explain their outcome in the light of conceptual tools.

3. *Environmental Turbulence and Strategy in Banking*

3.1 Structure of Mexican Bank Markets

From 1945 until 1982 when all but two commercial banks were nationalised, participants in Mexican banking markets experienced an unprecedented development on the back of a relatively stable environment. Banking activity expanded in terms of the number of firms and scale of activity. By 1940 less than fifty commercial banks operated, that number increased to 97 in 1945 and to 105 in 1971. The number of retail bank branches also increased from 265 branches in 1945, to 901 in 1960 and 1,777 in 1971. Financieras (non-bank intermediaries), the second most important private intermediary after commercial banks, also grew. By 1940 less than forty financieras operated, in 1945 they were 84, and 97 in 1965. However, the four-firm ratio on loans between 1945 and 1980 remained between 40 and 50 percent of the

market (Del Angel, 2001). In other words, in spite of economic growth a reduced number of participants had large shares of the market for deposits, loans and term investments suggests that commercial banks and particularly those bigger in terms of assets, benefited from organised capital markets being unavailable to most non-finance organisations.

Nevertheless, the emergence of new intermediaries coupled with economic growth was reflected in the growth of financial transactions. The overall level of financial activity increased in absolute terms and also with respect to the national product. For example, as a measure of increasing financial deepening, the proportion of total loans of private financial intermediaries over GDP was 7 percent in 1945, 9 percent in 1960, and 19 percent in 1970. The sum of total loans per capita was $1,376 pesos in 1945, $2,087 in 1955, $3,425 in 1960 and $9,046 in 1970[2]. These measures are relatively modest if compared with economies showing larger financial development. However they are significant considering that in the 1930s the Mexican financial system emerged out of the ashes after its almost total collapse during the 1910 to 1921 revolution. Two important factors that also contributed to a low population's access to financial services were Mexico's uneven geography and its early stage of development of transportation and communication systems then. In this way, more than a fully integrated national market, Mexico was an economy segmented in regional markets. And the structure of the banking industry reflected this segmentation.

Regulation specifying financial requirements and conditions for the establishment in bank markets dated to 1924 and later amended in 1941. This banking law remained the main legal code until the 1980s and in some instances until the late 1990s. Regulation specified strict separation of activities in financial markets and typified activities for specialised financial intermediaries. Commercial banks were restricted to loan provision, deposit taking, and trust operations. Regulation thus limited the number of activities within broader opportunities for brokering the financial needs of surplus- and deficit-spending agents as well as maintaining the national payment system. However, low per capita income and fragmented regional markets for goods and services could also limit banks' diversification.

The predominant form for distributing financial services was through proprietary channels such as retail bank branch networks. Nevertheless, collaboration with regional players or non-bank participants would allow banks to increase geographic scope and to provide services commercial banks were otherwise unable to offer. Collaboration could be attractive to implement grow strategies of commercial banks that would prevail over reserve requirement regulations, over regulations constraining the maturity term of loans and over other environmental limitations. In particular, commercial banks used *financieras* (a non-bank intermediary), trust organisations and mortgage banks as affiliates to overcome regulatory restrictions on loan expansion.

Collaboration between banks and non-banks was diverse ranging from loose links with independent participants up to integrated operations as collaboration sometimes ended in full ownership. Collaboration was also influenced by commercial banks and

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[2] All measures in constant pesos, 1978=100.

affiliated financial organisations being embedded in larger business groups. The association of banks and non-banks developed in the early 1940s, primarily through the establishment of non-banking organisations by business groups with a controlling stake in bank capital. Links between banks and non-banks were then expected to develop through repeated custom and preferential access (i.e. relationship banking).

Growth in the strength and diversity of collaboration forced regulators to re-assess conditions to establish in Mexican bank markets. In 1970 modifications to the banking law acknowledged the collaboration between banks and affiliates in the provision of financial services. The legal recognition of otherwise evident ownership linkages and intensified operational relationships among financial organisations culminated in 1975, with regulatory changes that allowed the amalgamation of banks and non-bank financial intermediaries into multi-bank[3] entities (Del Angel 1998).

3.2 Stability and Turbulence in UK Bank Markets

Developments in Mexican markets were benchmark with those in the UK because this country always had a large and highly competitive wholesale banking markets and preceded other countries in regulatory change. Important features of the UK banking system as described by Pringle (1973, 11) include the absence of a formal statutory banking law, readiness to welcome the establishment of foreign banks, freedom for domestic banks to engage in international trade and to establish abroad.

As in the Mexican banking, a reduced number of large organisations dominated the market for domestic deposits in the UK. This feature dated to the amalgamation process that swept British banking after the introduction of limited liability banking during the late nineteenth century. By 1900 ten clearing banks captured 46 per cent of total deposits in England and Wales and by the end of the first world war, five major clearing banks captured 97 per cent of total deposits (Holmes and Green 1986, 121). The number of major banks remained stable during the next 50 years while, during the 1950s, British commercial banks actively pursued the aim of becoming depository institutions of excess funds and began to serve mid-income customers. From 1967 to 1973, mergers reduced yet again the number of clearing banks. By 1977, the top four biggest banks in terms of assets captured 73 percent of deposits by UK residents, controlled 58% of the 12,947 retail bank branches and employed 78 percent of the 258,065 persons in the sector (Price Commission 1978, 7).

Since 1920 English banking had been free of a major failure until the 1973 to 1974 secondary banking crisis. Operation of the banking system resulted from conventions agreed between the banks themselves and between banks and monetary authorities. Between 1950 and 1970 requests of monetary authorities became more

[3] Multi-banks or *banca múltiple* emerged from the amalgamation of commercial banks with specialised financial firms otherwise working in different market segments. Contrary to the belief that multi-banks were a form of universal banking, they were never allowed to legally operate as investment banks nor to offer bankassurance although their corporate governance made them suitable to operate as such.

regular and more specific, primarily asking banks (and later most financial intermediaries) to hold certain type of assets in proportion to their deposit liabilities (Pringle 1973, 14 and 121). In 1971 controls to restrict lending growth to an annual rate as well as qualitative guidance on the priorities to assign credit were dissolved. In the period of monetary expansion that followed several smaller financial intermediaries were able to grow sufficiently to present a competitive challenge to clearing banks (Price Commission 1978, 27). However, interest rate volatility and economic contraction resulted in the collapse of a number of intermediaries specialised in high volume, high worth transactions (i.e. secondary banks). The Bank of England with the clearing banks mounted a rescue operation through which some organisations ceased to trade or became subsidiaries of larger banks.

Since the late 1960s UK financial service organisations observed reduced rates of financial return, raised fees for deposit services, reduced branch operating costs and shifted to higher earning assets. In other words, external innovations (and in particular, regulatory change and information technology applications) were instrumental in the changes banks made to their balance-sheet size, in increasing business-portfolio diversity and in restructuring their geographic scope (Gardener and Molyneux 1990, 98). Changes in the size and diversity of banks followed external changes in bank markets but banks' strategic responses were still short of the competitive (or perfectly contestable market) benchmark (Bank of England 1991; Dickens and Phillipatos 1994; de Bandt and Davis 1999).

Documented evidence would thus suggest that, as result of environmental innovations, some bank strategies increased competition in bank markets while some other external changes provided incentives to pursue strategies aiming to deter new participants entering bank markets (such as deterring insurance companies to supply unsecured lending).

4. *Competitive Collaboration as a Strategy*

4.1 The Emergence of Competitive Collaboration in Mexican Markets

Being the biggest in terms of assets, Banco Nacional de México (Banamex) established associations with small provincial banks while increasing the geographic scope of its loan market. Associations emerged for diverse reasons but chiefly due to opportunistic responses such as other banks being in financial distress or other banks taking the initiative to build closer collaboration.

In the case of the banks in financial distress Banco de México, the central bank in Mexico, would ask Banamex to mount a rescue. In that way the central bank was able to intervene, have a second party implement reliable monitoring mechanisms and avoid collapse. Intervention would then proceed without recourse to public funds.

Examples of collaboration triggered by financial distress were Banco del Pacífico, Banco Ganadero y Agrícola, Banco del Noroeste de México, and Banco Provincial del Norte. Financial contributions by Banamex were accompanied by strict

monitoring mechanisms. In particular, Banamex's executives and senior managers entered the board of the distressed bank. New board members acted with non-executive powers to oversee restructuring processes and instituted draconian inspection methods (including outsourcing internal auditing to Banamex). In fact, restructuring and inspection were deemed more important than the injection of funds itself. Transferring expertise alongside financial resources aimed to guarantee that the formerly distress bank would service the agreement or in the case of contributions to share capital, minimising possibilities that the contribution would turn into loss. Discipline mechanisms also involved matching financial procedures to those at Banamex.

Associations with financial distressed banks could evolve into collaboration with Banamex but this was not to be the case of Banco del Pacífico, a commercial bank operating in the north-western regions of Baja California and Sinaloa. In the early forties Banco del Pacifico faced solvency problems due to a large proportion of non-performing loans in its portfolio. Most of the loans were concentrated in a single borrower, Alberto Alderete, who had been Governor of the northern region of Baja California and owner of an important brewery as well as other industrial assets. Alderete received substantial advances from the bank but without proper documentation as to how the loans were going to be serviced. At the time, evidence could neither be found as to how such large amount of advances had been approved[4]. The central bank considered that Banco del Pacífico should be rescued due to its high share of deposits in the region and asked Banamex to intervene on its behalf.

By 1945 top Banamex executives had joined the board of Banco del Pacífico as a mean to have better surveillance of the operations. By 1947 the new board expelled at least five of the top executives of Banco del Pacífico and applied corrective measures to recover the past-due portfolio[5]. Banamex advanced funds to Banco del Pacífico, some of which gave Banamex rights over Banco del Pacífico's share capital. As a result, Banamex retained its participation on the board of Banco del Pacífico well into 1952, when Atanasio G. Saravia and Agustín Legorreta from Banamex still enjoyed non-executive powers and figured on the board of Banco del Pacífico. Shortly after Banamex amalgamated Banco del Pacífico while turning non-financial assets into regional branches[6].

Other banks in the north-western region saved from collapse by Banamex were Banco del Noroeste and Banco Ganadero y Agrícola, respectively located in the states of Sinaloa and Sonora. Banco Provincial del Norte established in the northern state of Chihuahua and was another bank in financial distress assisted by Banamex.

Banco del Noroeste established in 1939 and had twelve branches serving what, at the time, some executives from Banamex considered an attractive regional market[7].

[4] Excelsior, 16-Oct-1947. Archivos Económicos-SHCP.

[5] Excelsior, 16-Oct-1947. Archivos Económicos-SHCP.

[6] Del Angel, G., Interview, 2001.

[7] Del Angel, G., Interview, 2001.

During the 1950s Banco del Noroeste faced a growing proportion of non-performing loans which reached almost 20 percent of the total portfolio. Chart 1 illustrates the ratio of non-performing loans over total loans for the six regional banks identified as having been in financial distress and then intervened by Banamex.

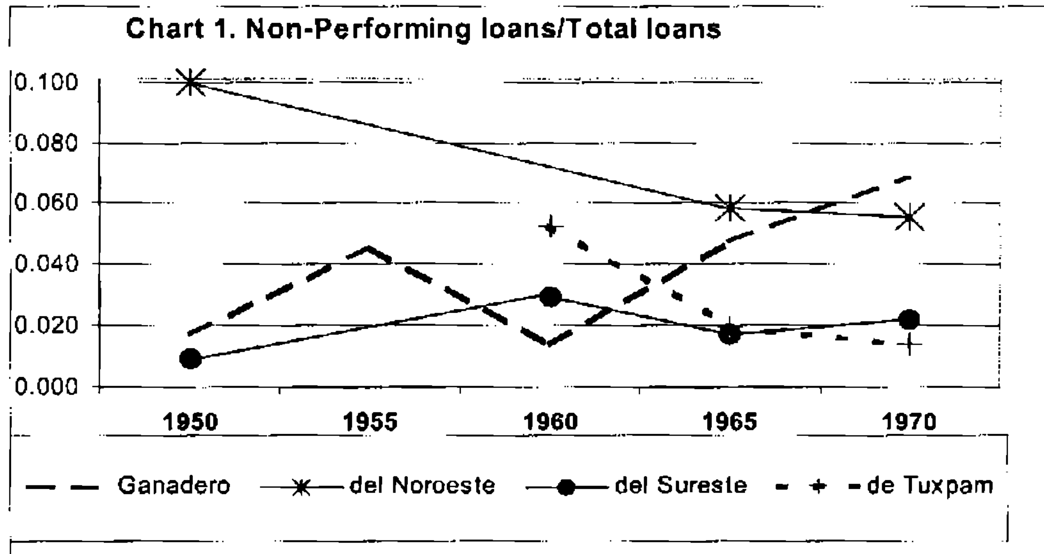

Chart 1 illustrates that in 1950 non-performing loans at Banco del Noroeste already were 10 percent of total advances. The chart also illustrates how this level was high even when considering to other financially distressed banks. Banamex's board sent Ladislao López Negrete, who by 1962 still remained on the board of Banco del Noroeste. The effects of corrective measures suggested after López Negrete's intervention are also shown in Chart 1, this as non-performing loans at Banco del Noroeste were only 6 percent of total loans in 1965. The trend is also evident in Chart 2, which illustrates the return on equity for the same sample of banks.

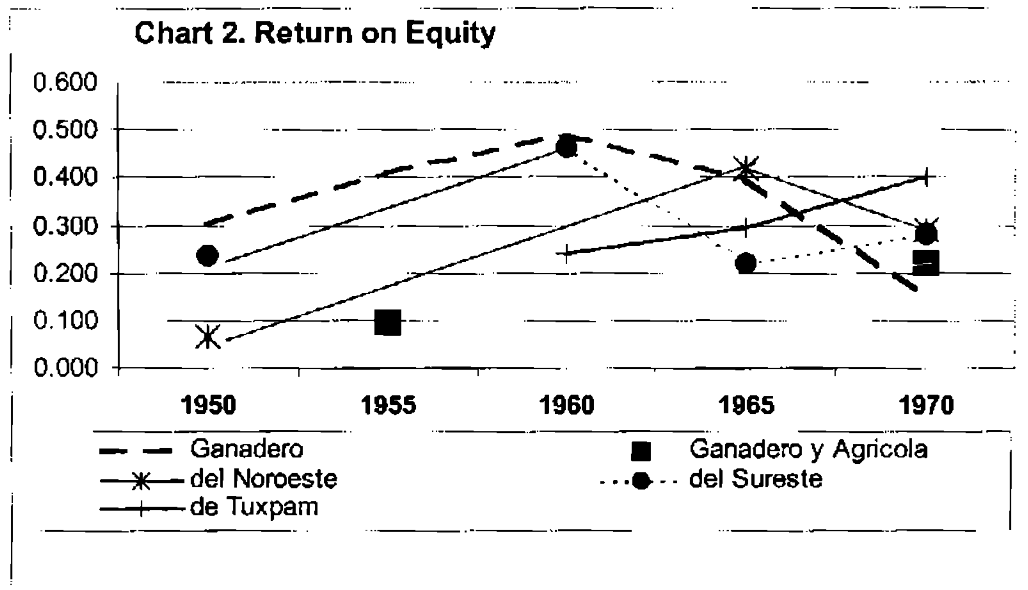

Chart 2 depicts an important increase in the profitability of Banco del Noroeste from 1950 to 1965. The return on equity increased to 41 per cent in 1965 when the average for the industry was between 15 and 20 percent. Closer to the average performance of the six financially distressed banks was Banco Ganadero y Agricola. Chart 2 shows Banco Ganadero y Agrícola with a relatively low profitability in 1955 (1 percent), which was even lower when compared to the average return on equity for all Mexican banks (20 percent). As a result of Banamex's intervention, by 1970 Banco Ganadero y Agrícola's return on equity had increased (20 percent) but so did the proportion of non-performing loans (from 45 percent of total advances in 1955 to 80 percent in 1970 and well above the industry average of 5 percent). After restructuring Banco del Noroeste and Banco Ganadero y Agrícola, Banamex maintained them as *associates* (more below).

Other large Mexican bank also developed a network by taking an interest in the share capital of smaller banks. From 1935 onwards Banco de Comercio, the second largest bank in terms of assets, developed a nation wide network of local banks. Although these links lacked formal managerial integration, banks in Banco de Comercio's network behaved as affiliates (i.e. regional subsidiaries) rather than as *associates* (i.e. independent collaborators).

Banco de Londres y México, founded in 1864, was the oldest and one of the fourth largest commercial banks in Mexico[8]. Originally established as a joint venture between British and Mexican investors, it was acquired by another group of Mexicans in the early 1930s. Later on and while aiming to expand its geographic scope along the US border and in the central Mexico region, Banco de Londres y México took a stake in the capital of Banco de Juárez and Banco de Jalisco. However, Banco de Londres also developed formal collaboration agreements with other providers such as three independent *financieras*.

[8] Excelsior, 9-May-1967. Archivos Económicos-SHCP.

In summary, some popular form of collaboration in Mexican markets associated with larger banks taking a stake in the smaller banks' share capital as well as supervising operations through non-executive directors. Direct involvement provided resilient monitoring mechanisms as well as symmetry in goals and commitment. Direct involvement seems to have precluded the need to draft detail agreements while maintaining organisational flexibility. Indeed, archival searches found little evidence documenting collaboration through direct involvement. At the same time and although pre-collaboration activities clearly complemented each other, collaboration associated with direct involvement were rather tactical moves (i.e. defensive responses), where larger banks could use negotiating advantage to capture residual claims or settle unexpected developments to their favour. Moreover, evidence is yet to emerge pointing to limitations in the agreements as to the number of participants. Dyadic partnerships, therefore, seem to have been the dominant organisational form.

4.2 Specialised Participants in UK Banking

In the UK, finance houses, savings banks and building societies competed in the market for deposits with clearing banks (i.e. those controlling the national payment system and able to issue claims redeemable on demand). Finance houses were the main organisations providing consumer finance for purposes other than house purchase and primarily involved in hire-purchase lending of automobiles to private individuals. Through the hire-purchase agreement individuals would rent (or hire) the good but would become proprietor when the last instalment was paid. Finance houses obtained resources directly from the general public through retail outlets but most funds developed from term deposits of large non-profit organisation and from organised money markets (Revell 1973, 317 and 322).

Regulatory change in 1966 brought finance houses subject to the same controls to restrict lending as clearing banks (Pringle 1973, 121). During the late 1960s the larger finance house companies diversified into leasing equipment to companies, develop export finance divisions as well as correspondent agreements with peers or banks in Europe and North America (idem, p. 93).

According to Revell (1973, 315), in 1969 out of a population of 1,000 finance houses the nine largest accounted for nearly 60 percent of total debt outstanding, and the twenty-six largest for 78 percent. Of the total outstanding no less than 29 percent was accounted for by four-wholly own subsidiaries of banks accepting deposits of UK residents and a further 9 percent by one finance house jointly owned by two clearing banks (idem, p. 316). Large finance houses were thus firmly connected to one of the main commercial banks (Pringle 1973, 92). Outside of the eleven largest, the only other major finance houses were wholly-owned subsidiaries of companies in motor manufacturing and consumer durables, the largest being Ford Motor Credit Co. Ltd. (op.cit.).

In 1971 most guidance and controls on lending and deposit taking were removed while the growing similarity with deposit/clearing banks was recognised. This as finance houses were subject to reserve asset requirements of 10 percent (of eligible

liabilities) as opposed to the 12.5 percent applied to banks. Some larger houses then decided to apply for full banking status (Pringle 1973, 93).

Succinctly, evidence is yet to emerge that non-finance providers or indeed foreign banks used finance houses to diversify into UK bank markets. Guidance regulating solvency requirements and the limit of £50,000 pound above which consent for the raising of finance houses' new capital was necessary, seems to have done little in the way of preventing opportunities for the formation of hundreds of small houses (Revell 1973, 316). However, most of these remained dormant and it was the larger, bank-controlled houses which took the greatest share of the market.

Nevertheless, there have been instances where building societies (specialised savings banks) could have been used as a platform to enter bank markets. Until 1989, when Abbey National started a trend through which most of its peers converted into banks, building societies operated as mutuals and dealt primarily in financing home acquisitions. Their system of fixed mortgage interest rates reflected the failure of building societies gaining access to the clearing arrangement of the Committee of London Clearing Banks (finally resolved in the Building Society Act of 1986). This failure ensured that building societies could offer deposits withdrawable on demand but could not offer current accounts and could only engage in payment services through correspondent banks. Lack of short-term mediation possibilities, excess supply of long-term funds and low interest rates brought fierce competition amongst the building societies (Boléat 1986, 175; Davies 1981, 50). The aim of protecting societies from the consequences of extreme competition together with an environment conductive of cartels and the 1939 Building Societies Act (which restricted their activities to residential mortgages), encouraged the growth of a trade association called the Building Societies Association.

Starting in 1939 the Council of the Association issued recommended rates for personal deposits, term investments and mortgages. In effect, the recommended rate system created a cartel of building societies (Boléat 1986, 175). Under the recommended rate system competition to acquire mortgages shrank and building societies increasingly gave:

> '...priority to their own savers in the allocation of mortgage funds.' (Gough 1982, 23).

Societies could then reward loyal depositors with pricing for mortgage loans rather than market interest rates. However, coincident with the passing of the Building Societies Act came the outbreak of the second world war and so the testing of its provisions had to wait for a number of years during which public attention was being drawn elsewhere. In the mean time, competition between building societies structured round most of them adopting the same interest rates and commission-payment schemes while customers were forced to maintain patronage of a single institution in order to qualify for a mortgage loan. A number of small building societies operated on rates above recommended rates for borrowers or below recommended rates for deposits but this was an accepted part of building society practice (Boléat 1986, 175).

Building societies offered non-bank and non-finance intermediaries access to services and customer groups previously out of their reach. However, there has been but one documented instance of collaboration between a building and the banking arm of a non-finance organisation (see also Bátiz-Lazo 1998; Bátiz-Lazo and Wood 2001).

This agreement was forged shortly after the second world war, a time when UK property values had increased because during the war half a million homes were destroyed or made unfit, while the number of families had actually grown (Davies 1981, 64). In 1943, the Co-operative Permanent Building Society or CPBS (today Nationwide) approached the Co-operative Wholesale Society (CWS), at the time the biggest producer and retailer in the UK, to enter discussions in response to the change in property values and aiming to[9]:

- Develop business in the housing market;
- Encourage more housing societies within the co-operative movement; and
- Provide a range of loan producing insurance (through CWS's wholly owned insurance subsidiary) well as other expenditure associated with housing and equipment.

For the CPBS the offer provided unique access to the Co-operative Movement with its 10 million strong community of producers and consumers. However, the real attractiveness of this potential market depended on CPBS's ability to take advantage of that special relationship. The deal was formalised when, as a result of the official meetings, the CPBS modified its rules in 1944. For the first time in its history, CPBS appointed representatives of the CWS and the Scottish CWS onto its management board[10]. The CWS's ambitions in financial services were also reflected in the application by the CWS Bank, a wholly owned CWS subsidiary established in 1872 (and the only co-operative bank in the UK), for membership of the Committee of London Clearing Banks[11]. The application was refused on grounds not publicly disclosed but the CWS Bank was formally admitted in 1975.

Opportunities of having identified customer loyalty as a competitive strength and the collaboration that ensued never came to be. The CWS and Scottish CWS failed to invite nominations of the CPBS's directors to either one of their Boards. Links between the CWS and CPBS limited to the later making insurance referrals on the same terms as any other agent of the Co-operative Insurance Society. Moreover, CPBS's organic expansion attracted members and clients which were overwhelmingly outside of the Co-operative Moment. Simultaneously, CPBS' agencies within the Co-operative Movement failed to generate mortgage referrals while co-operative societies (including CWS wholly owned subsidiaries) consistently withdraw term deposits[12]. The CPBS's directors then took advantage of the approaching retirement of CWS and Scottish CWS representatives to their Board, stopped making nominations and in 1965 the alliance formally ended.

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[9] Richardson (1977, 167), Cassell (1984, 65) and Board Meeting Minutes of the Co-operative Permanent Building Society (17-Jun-1943 and 22-Oct-1943).

[10] Co-operative News, 18-Mar-1944.

[11] Financial Times, 21-Oct-1975.

[12] Confidential Minute Book, Co-operative Permanent Building Society, 14-Oct-1965.

In summary, collaboration with building societies had the potential of allowing non-bank and non-finance providers to challenge bank markets while offering diversification opportunities for banks product/service portfolio. Collaboration could be an attractive way to complement pre-collaboration activities. The issue being the extent to which collaboration would contribute to achieve strategic intent (Ros, 2000) as well as commitment and share expectations to achieve that intent. Interestingly, both in Mexican and British markets collaboration moved forward with a very loose agreement but with the appointment of representatives to the smaller partner's Board. This would suggest that monitoring and commitment from the larger partner (rather than the one with the critical capabilities) seems key for the success of the agreement itself. Monitoring would provide a low cost alternative to gather market intelligence, sort out uncertainty and enhance the assessment of potential investments. The nature and intensity of commitment from the bigger participant thus helps typifying whether collaboration was, on balance, was a proactive (i.e. offensive) or reactive (i.e. defensive) response to environmental turbulence.

5. Developing Capabilities through Co-operation

5.1 Strategic Alliances in Mexican Banking

Collaboration in Mexican banking took place between independent providers, without the recourse of making share capital contributions. Starting in the early 1940s some banks undertook agreements for the provision of services and business collaboration. In the vernacular these agreements were called 'associated banks', *bancos asociados*. Most collaborations took the form of strategic alliances between regional players and larger participants, characterised with head office in Mexico City and with nation wide operations. Table 1 summarises collaboration agreements developed between small regional banks and large banks[13].

Four reasons that can be attributed to explain competitive collaboration in Mexican banking include, first, large commercial banks offering second and third party processing to decreased scale and capital disadvantages in the provision of many services. Through associations large banks could enjoy economies of scale without management discontinuities and hence, reduce overall cost levels. Second, there was a reputation effect when smaller banks were perceived within the strategic remit of large banks as collaboration would have an element associated with greater stability and solvency. Third, through collaboration smaller banks could access otherwise unavailable skills and expertise. And fourth, through collaboration smaller banks had preferential access to inter-bank funding. This as large banks expanded their activities by offering rediscounting loan facilities to smaller banks.

During the late 1960s, associations had an important technological component. Investment in information technology infrastructure by large banks during the mid-

[13] Del Angel, G., Interview 2001.

sixties motivated small banks to approach them. An example of this type of collaboration was the creation of three independent credit card franchises. In 1968, Banamex became the first international member of the Interbank Card Association (ICA), later to become MasterCard International (Bátiz Lazo *et al.* 2001, 865). In the US, ICA was the main competing franchise to card issuing banks collaborating with Bank of America (later to be called VISA). ICA differed in being an association controlled by member banks which took responsibility for promoting the MasterCard brand and for setting standards for security and authorisation, clearing and settlement systems between members. ICA also had an alliance in Europe through *Eurocard* and managed to attract banks in Japan.

A second credit card network in México emerged in 1968 as large and medium size Mexican banks joined around the *Carnet* brand. These banks were Banco Comercial Mexicano, Banco de Londres y México, Banco del Atlántico, Banco Internacional and Banco de Industria y Comercio. Shortly after other medium banks joined *Carnet*, namely Banco Azteca, Banco del País, Banco Longoria, Banco Mercantíl, and Banco del Ahorro Nacional[14]. Yet a third card franchise emerged in Mexico in the late 1960s. This one encompassed Banco de Comercio and its associated banks.

However, collaboration in Mexican banking sought much more than achieving scale in technology. A good example of collaboration is Banamex and its associated local banks, in particular the agreement with Banco de Tuxpam. This bank established in 1942 in the north-eastern region of Tamaulipas with four branches. Banco de Tuxpam approached Banamex with the explicit purpose of establishing a 'mutually beneficial strategic relationship'. This represented an opportunity to penetrate markets in which Banamex did not have a solid position and the associate did[15]. Although there is no evidence of when the alliance started, there is evidence of involvement dating to the early 1960s as Banamex's directors figure in Banco de Tuxpam's Board of Directors. For instance, in 1962 Ladislao López Negrete and in 1968 Salvador Villar were recorded as being part of Banco de Tuxpam's Board. At the same time, the 1960s were years of sustained improvement in the financial performance of Banco de Tuxpam (see chart 1 and chart 2 above). Hence, this is an example of a successful co-operation where Banamex's intervention was triggered by the opportunity to learn about customers in a different geography rather than by financial distress. The small bank benefited from scale and scope advantages at the larger bank as well as the possibilities of preferential treatment in the inter-bank market and the transfer of financial expertise. In exchange, Banco de Tuxpam supplied knowledge and information about local markets and high-quality loan referrals (more below).

The agreement between Banamex and its associated banks could involve the provision of services that could also be opened to other banks (such as second party processing of credit card receivables). The core of the collaboration, however, was a more complete package of co-operation. First, there were explicit forms of co-

[14] Novedades-1969. Archivos Económicos-SHCP.

[15] Del Angel, G., Interview, 2001.

operation exclusive to the associated bank. Second, there were externalities derived from the alliance that added strategic value to the collaboration agreement.

A form of exclusive co-operation was the provision of trust services. Trusts were important as an additional service to clients as well as a key element of loan administration. Another service was the provision of international banking, in which Banamex had a comparative advantage. Banamex also offered training courses for the employees of associated banks.

An important part of strategic collaboration involved rediscounting loans of associated banks. Apparently, Banamex refused rediscounting loans from banks other than its associates[16]. Rediscounting allowed Banamex to expand its credit activities while agreements enabled some control over the client's credit worthiness. The associated bank would receive funds and manage the service of loans, carrying out the monitoring and recovery processes. Although rediscounted loans were limited to a small proportion of the associate's loan portfolio, rediscounting facilities generated confidence among the associate's clients and investors by creating the perception of augmented financial capabilities as well as signalling the presence of a mechanism that could prevent solvency problems. It is therefore likely that associated banks had an incentive to offer their highest quality loans to the rediscounting facility.

Although small banks had an internal auditing department, Banamex also provided auditing services to associated entities. Outsourcing internal auditing allowed associates access to superior skills as well as the transfer of some of those skills and expertise (particularly those related to financial procedures and inspection). Monitoring by a second party also translated into enhanced credibility and better reputation for the smaller bank. Expertise from Banamex was important especially for those banks that had appointed large customers and investors (rather than financial professionals) to their boards and directorates. Expertise combined with the enlarged financial capabilities of the smaller banks generated positive externalities to the small bank and created synergy from co-operation.

Negotiation and policing of the agreement would be limited to Banamex and the affiliated bank. At the same time, evidence is yet to emerge suggesting that the creation of a bigger network was ever pursued by Banamex (as was in the case of Banco de Comercio's network of associates). Apparently, banks that approached Banamex had the confidence that Banamex would exercise restrain, would respect the smaller bank's independence and would show consideration for arms-length co-operative agreements[17]. As a result, collaboration agreements seldom included the insertion of Banamex managers in the board of the other bank. Banamex could nevertheless require a small participation in the share capital of affiliated banks as part of the agreement. However, during the 1970s Banamex ceded its stock participation on all of the affiliated banks, with the exception of Banco Provincial del Norte. In fact, as opposed to the Banco Comercial Mexicano and Banco Internacional,

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[16] Del Angel, G., Interview, 2001.

[17] Del Angel, G., Interview, 2001.

Banamex failed to amalgamate its associates with the creation of financial conglomerates in 1975[18].

Other associated banks with Banamex were Banco del Sureste, established in 1944 in the southern state of Yucatan, and Banco Agricola e Industrial de Linares, established in 1945, in the northern state of Nuevo Leon. Banks which developed strategic alliances with Banamex but had a more independent relationship were Banco del Centro, established in 1935 in the central state of San Luis Potosi, Banco Ganadero in the north-eastern state of Veracruz and Banco de Oriente, established in 1944 in the Eastern state of Puebla. Banco del Centro started its alliance with Banamex in 1963. At the same time, however, Banco del Centro also established an alliance with another relatively large bank, Banco Internacional. The associations of Banco del Centro with larger entities focused in the provision of services. For instance, Banamex managed the credit card system of this bank. As Chart 1 shows, Banco del Centro had a return on equity slightly below the average of the industry for those years. However, it managed to maintain a low level of non-performing loans.

Some independent *financieras* also established collaboration agreements with Banamex. Most notably Financiera y Fiduciaria del Golfo, established in 1946 to support cattle raising activities in the north-eastern Huasteca region, and Financiera Peninsular. Before 1967 Financiera Peninsular was Financiera Americana, established in 1945. In 1967 Financiera Peninsular had a story of financial distress that required capital injections and a restructuring process.

Close competitors of Banamex also engaged in collaboration agreements. For instance, Banco de Londres y México developed links with three independent *financieras*, that is, financial organisations that were not a direct component of its business group, namely Financiera de Nuevo León, Financiera del Norte and Crédito de Monterrey. The alliances with those *financieras* ensured the bank a better position in the markets for corporate credit in northern Mexico and particularly amongst manufacturing interests established around the city of Monterrey. At the same time, the collaboration ensured that these *financieras* had preferential access to funds from retail deposits collected by the bank as well as financial expertise in the placement of loans.

In summary, associations in Mexican banking encompassed more than outsourcing agreements for the provision of services. Collaboration was considered to be strategic value by informing decisions that could lead to an expansion of the retail bank branch network. Large banks could offer auditing, trust services and international banking to its associates. Of greater value for smaller banks, however, were skills and financial expertise available at larger banks. In return smaller bank offered market intelligence about local markets and clientele. To a large extent many of the collaboration agreements tended to be at the initiative of the small bank and quite opportunistic for the large bank.

[18] Archivo Banamex, Noticias Banamex #73, 2-Jun-1970; Del Angel, G., Interview, 2001.

5.2 Alliances in Scottish Banking

In 1810 the first 'savings' bank under control of voluntary managers and trustees was established in Ruthwell, Scotland (Lawton 1950, 2; Revell 1973, 354). From the beginning savings banks were retail finance institutions characterising as mutuals, owned by depositors and generally operated through democratic guidelines. Savings banks sought to create thrifty habits amongst small and medium-size savers like craftsmen, house servants or the growing proletariat, that is, outside banks' target market (Tedde 1991, 5). In the first half of the nineteen century, bank-runs or bank collapses were common so mutual savings banks had no safe outlet for deposits. To create trust among potential depositors and as a matter of policy, funds from 1817 onwards were invested in government bonds or deposited at the Bank of England (Lawton 1950, 3).

Savings banks paying interest on deposits (at a rate ranging from 3 to 5 percent per annum) proliferated. The number of successful institutions in the British Isles grew until it reached 645 in 1861 (Tedde 1991, 3). Market diversification started as some of these banks made advances to local authorities, but the Savings Bank Act of 1891 expressly prohibited this practice. It was until 1965 that savings banks were allowed to issue current accounts, undertake the payment of utility bills, and safe guard securities and valuables, because through out most of its history deposits at savings banks were used to finance government debt (Pringle 1973, 23 and 95).

By 1975 the large number of separate banks had been reduced by amalgamation to 73 loosely tied up in an association with £2,806 million in total assets. According to Revell (1973, 355) five of the banks had over £100 million pounds in assets (25 percent of amalgamated total), 14 had between £50 and £100 million (35 percent), 39 between £10 and £50 million (38 percent) and 17 under £10 million (2 percent). Regulatory changes in 1976 further amalgamated independent savings banks into 19 federated organisations working under a single central institution (called Trustee Savings Bank or TSB). That same year the TSB became functional member of the Banker's Clearing House (Price Commission 1978, 44).

Although together the TSBs would rank in size with any of the four main London clearing banks, the geographical distribution of their 1,655 retail bank branches was uneven. The three largest banks were in London and the South East, Glasgow and Belfast while among the twenty largest many resulted from merges of smaller banks over a wide area (Revell 1973, 355). Typically, the north of England would contribute with 50 percent of all funds, the south of England and Wales with 27 percent, Scotland for 19 percent and Northern Ireland for less than 5 percent (idem, p. 356). Branch density, however, was higher in Scotland and the North of England. Hence, in 1978 there was one retail saving bank branch per 18,000 persons in Scotland but only one per 75,000 persons in the otherwise high density area of London (Price Comission 1978, 44). The same pattern emerged from individual accounts, with two out of five

persons in Scotland having a saving bank account, one out of five in the north of England and one out of twenty in London and the home countries[19].

An interesting development was co-operation between the Bank of Scotland and ten of the largest Scottish trustees savings banks (together accounting for 95 percent of Scotland's saving bank branches)[20]. Through the 'Scotloan' scheme, the Bank of Scotland operated and underwrote a personal instalment loan scheme for customers referred by associated savings banks, up to a maximum of £1,000 pounds and available to customers of 'undoubted sufficiency' for a period of 6 to 36 months, at 7 percent interest per annum[21].

The scheme was designed by the Bank of Scotland in July 1971; promoted privately amongst regional banks, savings banks and finance houses; and advertised in the national and Scottish press between September and November of 1972[22]. The bank appointed John McNeill, formerly of the Inspector's Department, as Controller of the new Savings Bank Loan Centre[23]. The collaboration played on the geographic strengths and customer loyalty of the TSBs and superior financial capabilities at the bank. Collaboration was also attractive because each TSB bank served a separate geographic area. There was little competition between savings banks, although they were actively challenged by other organisations. At the same time, Bank of Scotland main competitors were very much engaged in developing capabilities in international markets through clubs and consortia with other European banks (see further Ross, 1998 and 2000).

Unfortunately, the visionary collaboration in the Scottish banking agreement failed to deliver significant results. The OPEC-led rise in oil prices and subsequent inflation together with secondary banking crisis added to environmental volatility and uncertainty. At the same time, there was internal instability which associated with top managers in all UK savings banks being very much engaged in deliberations about the future organisational structure and functioning of the movement as well as individual savings banks (Moss and Russell 1994, pp. 275-83). Introspection moved in tandem with government efforts to enhance the working of savings banks and together gave rise to the publication of the TSB Bill in 1975, which granted savings banks rights to offer equivalent services to those of the commercial banks (idem). The amalgamation of individual banks into purposely created regional banks then brought about the introduction of personal lending in 1977 by the TSBs (Marshall 1985, 40; Moss and

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[19] Committee on the Working of the Monetary System (i.e. Radcliffe Committee), *Memoranda of Evidence*, Vol. 2, p. 78 (as quoted by Revell 1973, 356).

[20] The first to accept the bank's invitation was the Savings Bank of Glasgow, the second largest in the UK. It was followed by those of Edinburgh, Paisely, Perth, and Kirkcaldy. Three months later they were joined by those of Aberdeen, Dundee, Falkirk and Counties, South of Scotland, Stirling and Counties.

[21] Yates (2001) while quoting Board and Committee Minutes, Ref. No. NRA 945 1/6/13, 27-Jul-1971.

[22] Intercom (Bank of Scotland's Internal News Bulletin), numbers 22 (September 1972) and 23 (November 1972). See also Revell (1973, 363).

[23] Yates (2001) while quoting Board and Committee Minutes, Ref. No. NRA 945 1/6/14, 11-Jul-1972.

Russell 1994, 283). However, by 1979 the relentless move of Giro Bank, the Trustee Savings Banks and the Co-operative Bank resulted in only just over £200 million pounds in direct consumer loans and this accounted for less than 3 percent of total consumer lending that year[24].

The preference of TSB managers to pursue organic growth and catch up with other competitors in retail bank markets was clear. This move was further supported through the introduction of a VISA credit card (1978), insurance and unit trust services through a wholly-owned insurance subsidiary, commercial business servicing small and mid-size enterprises (1979) and instalment credit (1981). However, efforts to diversify geographically into London and the South East as well as investments in information technology to support product diversification proved insufficient to break with the strong inertia in the personal mass market.

In yet another policy change, a holding company was formed in 1984 (TSB Group Plc) to provide central services while the federation of banks merged into four banking companies, namely TSBs of England and Wales, Scotland, Northern Ireland and Channel Island (Marshall 1985, 41). This was in preparation for the TSB Group being floated in the stock exchange in 1986 (Heffernan 1996, 148 and 264). But the inability of managers to break away with inertia remained and the TSB Group merged with Lloyds Bank in 1995.

In summary, for the Bank of Scotland, using savings banks as distributors was a proactive (i.e. offensive) response to penetrate a previously unexplored market segment. However, evidence has yet to emerge supporting the idea of high commitment from the savings banks. It would rather seem as collaboration for the savings banks was form of defensive co-operation, emerging as a reactive response to environmental change. Defensive co-operation is often characterised by avoidance of investment, that is, co-operation is considered a superior alternative for growth to the time and/or financial resources required to developing capabilities internally. Avoiding uncertainty is also central to mount a reactive response as co-operation can provide participants more time to adjust to environmental turbulence. However, when collaboration is used as a means of avoiding investment rather than appraising opportunities, co-operation is unlikely to be successful (Hamel *et al.* 1989, 139).

[24] The Economist, 'Retail Banking in Britain: The Neglected Consumer', p. 9, 8-Dec-1979.

6. Concluding Remarks

The nature of information sharing and learning is central to the formation and longevity of competitive collaboration. Cases in Mexican and UK banking suggest that information sharing is also relevant to assess diversification moves delivering new income streams when tapping into new customer groups or geographies. Assessing market potential is critical for activities associated with high sunk costs such as retail branch banking distribution.

A second issue is the extent to which clearly defined goals and detail collaboration agreements could be expected to achieve success. Evidence documented in this paper as well as that for commercial banks by Ros (1998 and 2000), would suggest that maintaining commitment and opportunities to inform activities resulting in investments with high sunk costs, are more important in the formation stage of collaboration than detailed agreements, well defined goals and even strategic foresight. For instance, the visionary intent of both Bank of Scotland to deliver through TSB and the CPBS to deliver through co-operative retail stores anticipated foreign operations under perform returns available in home markets. However, both these visionary attempts failed to consolidate because of internal turbulence at the their collaboration partners rather than owing to a poor agreement. At the same time, the opportunistic collaboration of Banamex with smaller regional banks was hardly ever documented but offered the latter exclusive access to rediscounting loan facilities in exchange for market intelligence from geographics where Banamex's retail bank branch network was to expand.

The configuration of the market and of the competitive space provides different environmental characteristics and incentives for the collaboration to succeed. In this story Mexico and UK represent two different competitive spaces. Mexico, due to its uneven geography and low development of transportation and communication systems then, had larger regional barriers to penetrate the markets than the UK. In Mexico markets were regionally segmented and the national market was little integrated. Needless to say that the penetration of the banking services into the population was low. In the UK, geography and better-developed transportation as well as communications systems facilitated the operation of financial systems. In addition, there were information systems that permitted to transfer information (about credit worthiness, for instance) easily, as well as the penetration of banking services, particularly checking and payroll services. Hence in Mexico there were apparently more incentives to develop collaboration and make it succeed.

Detailed agreements in UK banking seem to achieve little as a way to focus efforts in making the collaboration work. At the same time, fuzzy goals backed by cautious pragmatism and high commitment seem to be the formula behind tactical (i.e. opportunistic) strategies associated with success in changing competitive positioning within Mexican bank markets. Detail collaboration seems to require greater foresight as well as strict internal discipline to develop relevant skills and resources. This would suggest that even when partners' expectations were similar and reasonably consistent, detail collaboration could associate with a potential commitment to invest *ex-post* in assets unique (i.e. idiosyncratic) to the agreement. Potential irrecoverable investments

in specific physical or organisational assets that encourage and maintain co-operation (such as mechanisms to share information and co-ordination) would then explain failure to make co-operation work.

Archival search also seems to support arguments around the critical importance of market intelligence for the formation and eventual success of collaboration. In all cases documented in this paper, an agreement manager was appointed by the bigger partner (in terms of assets) but seldom, if ever, did this person seems to have produced detailed reports on the evolution of the agreement. Suggesting that the role of the agreement manager's role predominantly involved capturing contextual information about the partner's market and sharing implicit knowledge with the partner's managers. If true, this would reinforce the view that cognitive-individual learning evolves into behavioural-organisational learning through interactive cycles of doing, revaluation and adjustment. Moreover, that investments in organisational resources and capabilities to manage collaboration would follow to the extent that information acquired through collaboration offered lower managers' perception of failure for decisions involving high sunk cost investments (such as expanding the retail bank branch network). Hence, the importance of market intelligence in the formation stages of collaboration can help explain why the evolution of competitive collaboration can withstand the risk of environmental turbulence turning organisational investments into sunk costs.

In summary, organisational flexibility allowed by a rather tactical approach to collaboration can afford individual signatories, provide greater freedom to assess the potential of growth opportunities and associate with irrecoverable investments but only to the extent that collaboration is proving to be successful. Hence, engaging tactical collaboration is likelier to be successful as vaguely expressed aspirations offer greater possibilities to improve the competitive position of the own organisation while, at the same time, tactical collaboration will associate with low or negligible idiosyncratic investments.

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Table I : Strategic Alliances in Mexican Banking (1940-1975)

Leading Bank	Associated Banks
Banco Nacional de México (Banamex), one of the two largest in terms of assets.	Banco del Pacífico, Banco Ganadero, Banco del Estado de México, Banco de Tuxpam, Banco Ganadero y Agrícola, Banco del Noroeste de México, Banco Provincial de Norte, Banco del Sureste, Banco del Centro, Banco de Oriente and Banco Agricola e Industrial de Linares[25].
Banco Comercial Mexicano, one of the fourth largest in terms of assets.	Sources of 1957 indicate that they were Banco de La Laguna, Banco Comercial de la República, Banco Comercial de Veracruz, Banco de Oaxaca and Banco Comercial de Jalisco[26]. By 1958 Banco Ganadero de Camargo had joined them[27]. By 1974 Banco Comercial Mexicano de Monterrey, Banco Comercial Mexicano de Tamaulipas, Banco Comercial Peninsular also joined this network [28].
Banco de Londres y México, one of the four largest in terms of assets.	Financiera de Nuevo León, Financiera del Norte and Financiera Crédito de Monterrey.
Banco Internacional, one of the ten largest in terms of assets.	In 1965 they were Banco Provincial de Sinaloa, Banco Industrial de Jalisco, Banco de Yucatán, Banco de Nogales, Banco del Centro, Banco de Zamora and Banco de Oaxaca. In 1968 nine others were added including Banco Agrícola Sonorense, Banco de Baja California, Banco de Campeche, Banco de Matamoros, Banco de Nuevo Laredo, Banco General de Tabasco, Banco Guanajuatense and Banco Industrial de Jalisco[29].

[25] Source: Archivo Banamex, Noticias Banamex #73, 2-Jun-1970.

[26] Source: Excelsior, 29-Mar-1957. Archivos Económicos-SHCP.

[27] Source: Excelsior, 29-Mar-1957. Archivos Económicos-SHCP.

[28] Source: Excelsior, 22-Mar-1974. Archivos Económicos-SHCP.

[29] Source: Novedades, 5-Jun-1968. Archivos Económicos-SHCP.

Data Set.
Source: Anuario Financiero de Mexico, Years 1950-1970; Del Angel, G., 2001.

Banco del Centro	1950	1955	1960
SERV. FINANC./CAPITAL NETO	31.022	18.640	24.100
RESULTADOS/CAPITAL NETO	0.129	0.051	0.164
RESULTADOS/ACTIVOS TOTALES	0.006	0.004	0.009
CAPITAL NETO/CARTERA	0.088	0.132	0.109
CARTERA VENCIDA/CARTERA TOTAL	0.049	0.041	0.045
CARTERA VENCIDA/CAPITAL NETO	0.545	0.312	0.409

Banco Ganadero	1950	1955	1960	1965	1970
SERV. FINANC./CAPITAL NETO	14.252	29.147	29.487	34.106	38.020
RESULTADOS/CAPITAL NETO	0.303	0.409	0.489	0.397	0.153
RESULTADOS/ACTIVOS TOTALES	0.027	0.017	0.024	0.019	0.007
CAPITAL NETO/CARTERA	0.146	0.085	0.076	0.084	0.091
CARTERA VENCIDA/CARTERA TOTAL	0.017	0.045	0.014	0.048	0.069
CARTERA VENCIDA/CAPITAL NETO	0.188	0.535	0.182	0.567	0.757

Banco Ganadero y Agricola	1955	1970
SERV. FINANC./CAPITAL NETO	24.337	49.837
RESULTADOS/CAPITAL NETO	0.094	0.220
RESULTADOS/ACTIVOS TOTALES	0.005	0.008
CAPITAL NETO/CARTERA	0.113	0.074
CARTERA VENCIDA/CARTERA TOTAL	0.052	0.084
CARTERA VENCIDA/CAPITAL NETO	0.456	1.136

Banco del Noroeste	1950	1965	1970
SERV. FINANC./CAPITAL NETO	12.123	43.924	79.322
RESULTADOS/CAPITAL NETO	0.068	0.418	0.288
RESULTADOS/ACTIVOS TOTALES	0.012	0.016	0.008
CAPITAL NETO/CARTERA	0.385	0.066	0.050
CARTERA VENCIDA/CARTERA TOTAL	0.186	0.059	0.055
CARTERA VENCIDA/CAPITAL NETO	0.193	0.885	1.116

Banco del Sureste	1950	1960	1965	1970
SERV. FINANC./CAPITAL NETO	17.267	47.773	33.434	51.412
RESULTADOS/CAPITAL NETO	0.236	0.463	0.219	0.283
RESULTADOS/ACTIVOS TOTALES	0.019	0.018	0.017	0.013
CAPITAL NETO/CARTERA	0.277	0.086	0.144	0.083
CARTERA VENCIDA/CARTERA TOTAL	0.009	0.029	0.017	0.022
CARTERA VENCIDA/CAPITAL NETO	0.112	0.340	0.116	0.262

Banco de Tuxpam	1960	1965	1970
SERV. FINANC./CAPITAL NETO	18.354	19.558	36.533
RESULTADOS/CAPITAL NETO	0.241	0.293	0.403
RESULTADOS/ACTIVOS TOTALES	0.014	0.016	0.016
CAPITAL NETO/CARTERA	0.100	0.089	0.066
CARTERA VENCIDA/CARTERA TOTAL	0.052	0.020	0.014
CARTERA VENCIDA/CAPITAL NETO	0.520	0.221	0.210

Banco de Oriente	1955	1965	1970
SERV. FINANC./CAPITAL NETO	21.362	32.406	40.942
RESULTADOS/CAPITAL NETO	0.153	0.347	0.296
RESULTADOS/ACTIVOS TOTALES	0.011	0.013	0.011
CAPITAL NETO/CARTERA	0.150	0.073	0.070
CARTERA VENCIDA/CARTERA TOTAL	0.069	0.030	0.042
CARTERA VENCIDA/CAPITAL NETO	0.458	0.408	0.596