ARE EUROPEAN BANKS INTERESTED IN THEIR CUSTOMERS?: THE USE AND MISUSE OF ICT FOR CRM FROM A HISTORICAL PERSPECTIVE, 1996-2001[1]

By

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ABSTRACT

Purpose

The creation of customer value is allegedly at the centre of relationships between service recipients and service providers (in general, such as financial service organisation, and commercial banks in particular).

Design/methodology/approach

The article combines archival research with 75 semi-structured interviews with senior managers in nine European markets to ascertain the role of customer value creation in the strategic response of banks to external innovation.

Findings

All countries recorded a shift from a supply-oriented strategic stance to the development of skills to retain customers and even becoming a one-stop financial service institution for their customers. However, greater emphasis on customer profitability was seldom followed by recognition of the key capabilities required for high customer value creation. This is as a response to most interviewees failing to provide an articulated account of how to achieve that profitability. Research in this article, therefore, suggested the predominance of supplied oriented strategies amongst European financial services and

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thus, contributes to a discussion central to the marketing of financial services, relationship banking and total quality management (TQM) in financial firms.

Originality/value

This article explores how customer orientation has come about, the role of information and communication technologies in that process and whether, on balance, customer orientation is a reality in retail finance.

INTRODUCTION

The advent of information and communications technology (ICT) has had a significant impact on the ways financial institutions operate. Although very important, the advent of ICT is not the only source of change in the external markets of financial service organisations and neither is ICT a recent phenomenon. The process of mechanisation and automation of banking leading to the introduction of computers and ICT had its origins in the later 19th century but accelerated in the 20th century during the inter-war period and then with the advent of computers in the 1960s (Bátiz-Lazo and Boyns 2004; Bátiz-Lazo and Wardley 2007; Bátiz-Lazo and Wood 2002; Booth 2007; Booth 2008; Wardley 2000). Banking organisations initially adopted the new technology in successive drives to reduce cost structures. Computer technology and ICT were key for banks' successful diversification into retail financial markets during the 1970s and 1980s. ICT was also instrumental in the internationalisation of retail finance (Bátiz-Lazo *et al.* 2011; Tschoegl 1987; Tschoegl 2002).

The implementation of new technology altered the way customers accessed financial markets through banks while new functionality opened new ways to deliver financial services and products to retail clients (Bátiz-Lazo and Hacialioglu 2005; Bátiz-Lazo and Woldensenbet 2006; Bátiz-Lazo and Wood 2002). Retail finance grew from rather simplistic services such as deposit taking, trustee investment, secured medium term loans and mortgages to encompass several forms of domestic and international payments, secured and unsecured credit, fixed and variable income investments and savings, financial advice, insurance, etcetera. A new agenda then emerged with the development of studies on customer relationship management. This agenda reflected increasing concerns on how to combine bank growth (resulting from ICT-facilitated cost reductions)

with customer retention (through ICT applications geared towards increased customer satisfaction and the perception of creating customer value).

This article summarises fieldwork into the strategic priorities of retail banking organisations with regard to customer value creation. Through interviews with bank managers, the research explores the links between the shareholder value creation and customer service. Results suggested the predominance of supply-oriented strategies amongst European banking organisations. Research in this article, therefore, contributes to a discussion central to the financial services marketing, relationship banking and total quality management.

To explore these ideas the article proceeds as follows. Section 2 sets the scene by presenting results from archival research revealing the roots of the link between automation, computer technology and changes in customer value creation as experienced in British retail financial markets. Section 3 offers a state of the art review of systematic studies on the importance of customer retention in international retail banking. Section 4 offers the methodology for interview selection in different countries. Section 5 summarise the main empirical results. Section 6 explores their implications and Section 7 offers tentative conclusions.

1. Results of Archival Research

1.1. About Mechanisation and Automation of Banking

In the early days of banking, financial institutions used to operate under rather different conditions than today's banking environment. The retail bank branch was the main point of contact between financial institutions and their customers. Long-term relationships of individual customers with the bank retail branch were needed to secure services such as loans or to establish credit ratings. For instance, Johnny Owen, a manager of the Birmingham retail branch of Nationwide building society in 1929, remembers:

> 'It was great fun. We (Ray Dobson and I) used to take turns at running the office while the other went out in search of business. We knew our customers well and could often recite details of their accounts to them without first referring to the records.' (Cassell 1984, 40).

As the quote suggest, rather simplistic services limited to issuing secured loans and

taking deposits allowed managers of retail bank branches to absorb and accumulate information from customers themselves. Not surprisingly managers of retail bank branches had independent authority and a significant standing in their local communities (Bátiz-Lazo and Wood 2002; Yavitz 1967). This was all to change alongside the mechanisation of banking processes and procedures but not before the creation of computerised database management systems (DBMS). To exploring these developments the discussion now turns.

1.2. The Creation of DBMS and the Origins of Mass Persuasion

Although a systematic comparative study of the automation of European retail financial services has yet to emerge, there is evidence to support the view that providers of financial services in the US and Europe were among the pioneers in the introduction of computer-related business applications in their operations (for example see Bátiz-Lazo and Boyns 2003; Bátiz-Lazo and Wardley 2007; Campbell-Kelly and Aspray 1996, 147; McKenney and Fisher 1993). The two decades of economic recovery that followed the Second World War, saw a rise in the volume of cheques to be cleared together with continuous shortages of unskilled female personnel to operate the cheque clearing system. This gave senior managers of banks and others working in retail financial markets an incentive to favour greater automation, which was in the form of newly, introduced electronic and programmable computers. These innovations were key for improved internal communications and control channels. As a result of such automation, central accounting units were established which led to the centralisation of customer account control (Bátiz-Lazo and Boyns 2003). Automation also alleviated staff requirements at established retail bank branches (Booth 2004) as well as the strategic imperative of dense retail bank branch networks (Keltner and Finegold 1996). Eventually, regional and branch managers lost autonomy to centralised senior managers[i] (Deng *et al.* 1991).

Yet, the process of automation was slow. For instance, it took from 1961 to 1974 for Barclays Bank to bring all retail bank branches 'on line'. Newly introduced computers only created relatively minor changes in information content or its flow, as the most

significant result of the first wave of computerisation was the substitution of high-speed equipment for manual clerical work and slower-speed calculating machines (Bátiz-Lazo and Boyns 2003; Bátiz-Lazo and Wood 2002; Yavitz 1967, 37). Mechanisation of banking during the first half of the twentieth century and later on early computerisation emphasised achieving greater efficiency through the automation of clerical (notably accounting) tasks (Bátiz-Lazo and Wardley 2007). Even after the introduction of System/360 by IBM in 1964, computers simply speeded up bookkeeping work and left the underlying information systems unchanged (Bátiz-Lazo and Wardley 2007; Campbell-Kelly and Aspray 1996, 152). Indeed, it was until the late 1970s when electronic data bases and easily accessible programming for their management became a reality (Haig 2004).

Centralisation on the back of computer applications created a space for the standardisation of service offerings and the potential to reduce cost structures of traditional banking activities. Standardised service offerings could result in higher profitability through (potential) economies of scale and economies of scope. Centralisation on the back of computer applications thus questioned the strategic priority of developing a large and dense retail branch network as the sole point of contact between financial intermediaries and their clients. This at a time that saw retail financial intermediaries implement, for the first time, mass-marketing strategies by the central office (ironically under the name of 'direct marketing activities').

Barriers to enter retail bank markets meant a handful of UK banks, without facing much competition, could determine the range and quality level of their offerings at the expense of customer satisfaction. Competition was also limited amongst the building societies. By the mid-1960s, building societies dominated the supply of residential mortgages but operated under a mortgage interest rate cartel (which stayed in effect from 1939 until 1982). Not surprisingly, by the mid-1960s some individual account holders were voicing concerns that 'the customer [was] being made to fit the banking system.'[ii] Investigation into such concerns by the authorities resulted in recommendations for the UK financial institutions to restore their customer focus (Davies 1974; Ritchie 1998, 95). But financial intermediaries were slow to respond as only a handful of intermediaries had established separate marketing departments:

> "Few building societies had established separate marketing departments and, in the case of Nationwide, activities in this field had been responsibility of the person in charge of branches."(Cassell 1984, 104-5)

With the advent of regulatory change and greater technological innovations in the 1980s and 1990s, organisations operating in retail banking were ever more frequently accused of (allegedly) failing to meet customers' service expectations (for instance in UK banking see Marshall 1985; and for a similar call in the USA see Sontheimer and Thorn 1986). At the same time, the media forecasted the demise of those retail financial service organisations unable to implement more effective management of accounting and marketing practices (Baker 1993; Carey 1989). In other words, new markets and growth opportunities had emerged hand in hand with new ways to structure information flows and these developments effectively challenged the traditional way in which banks related to their retail customers.

By 1990, it was evident that similar developments to those in US and UK banking had taken place in other European countries. The European banking industry had experienced continual transformation resulting not only from the adoption of new technologies, but also from regulatory change and the globalisation of financial markets (among others De Guevara *et al.* 2005; Gardener *et al.* 1999). At the same time, a number of domestic and for the first time cross border mergers and acquisitions took place amongst the providers of retail banking services (Bátiz-Lazo *et al.* forthcoming; Focarelli and Pozzolo 2001; Tschoegl 2002). Amalgamations, however, increased competitive intensity within national markets rather than across European markets (De Guevara *et al.* 2005).

In summary, there have been a number of external developments influencing the performance of retail banks. For the purpose of this study, the two main factors that played a significant role in the development of retail banking in the second half of the twentieth century were the mechanisation of banking (leading to the introduction of information and communications technology applications) and subsequent developments in customer relationship management. To exploring the latter in detail will be the focus of the next section.

1.3. Customer Relationship Management

Relationship marketing emerged in the marketing literature in the 1980s (Berry, 1983). This was a response to perceived shortcomings in the transactional approach to marketing, which was based on the concept of the ‘marketing mix’. The main focus of the transactional approach’s ‘marketing mix’ was merely customer acquisition through product features and with little emphasis on customer service, which was seen as unnecessarily restrictive (Christopher *et al.*, 1991). Eventually, such constraints led to the emergence of a relationship-oriented approach to marketing, which was fundamentally concerned with the encouragement of customer retention (Grönroos, 1994). According to Keenan (2002), financial services companies worldwide spent about US$6.7 billion on retail CRM technology initiatives in 2001. As suggested by Table 1, mere fault-free provision of the core service was unlikely to be sufficient to encourage customers to engage in a long-term relationship; therefore a much wider focus was necessary.

Table 1: Salient Characteristics of Transactional and Relationship Marketing

Transactional focus	Relationship focus
➢ Focus on single sale	➢ Focus on customer retention
➢ Discontinuous customer contact	➢ Continuous customer contact
➢ Orientation on product features	➢ Orientation on product benefits
➢ Short time scale	➢ Long time scale
➢ Little emphasis on customer service	➢ High customer service emphasis
➢ Limited customer commitment	➢ High customer commitment
➢ Quality is primarily a concern of production	➢ Quality is the concern of all staff

Source: Christopher *et al.*, (1991:9).

The transactional approach was the dominant mantra in marketing practice in Europe until the 1980s (Grönroos, 2004). In this context, the implementation of ICT advances in banking organisations could be seen as leading to greater cost control and centralisation in the banking sector. Moreover, automation could be taken as being conductive to a

reduced retail bank branch network and homogeneous interaction of retail customers with bank personnel.

However, archival research suggested that some financial institutions were also cautious regarding the introduction of ICT innovations as it could exacerbate the growing ‘gap’[iii] between possibilities for standardised service delivery and customers' service expectations:

> “It was acknowledged that the reasons put forward for adopting E.D.P. [Electronic Data Processing] were similar to those which could be stated in considering the case for centralisation of accounts. The important aspect to be borne in mind, however, was that centralisation, other then of a computer system, would be impractical at this stage of the Society development.
>
> It is perhaps inevitable that there would be some loss of personal service to members but Management expressed the view that this was not likely to have any material effect on the development of the Society.”[iv]

Archival evidence thus suggested that banking organisations could also characterise as what Keltner and Finegold (1996; 1996) call ‘relationship oriented companies’, that is, as organisations that invest in technological developments strategically while aiming for ICT applications to complement rather than replace human capital. ‘Relationship oriented companies’ will pursue customer retention through satisfaction. This view led some authors to suggest that customer satisfaction lies at the centre of long-term success, and consequently measures of performance should be broadened to consider key non-financial indicators such as customer satisfaction (see further Ittner and Larcker, 1998).

Selecting the application of technological developments to increase retention by enhancing customer satisfaction could be seen as another way to promote bank growth. Indeed, the customer relationship alternative for bank growth increasingly became a central focus in the financial services and marketing literatures between the early 1980s and the turn of the millennia (more below).

In summary, archival evidence suggested that the diversification of banking organisations into retail financial markets on the back of ICT related technological change associated with an apparent paradox for banking organisations: On the one hand, greater efficiency through automation would result in greater centralisation. Bank growth would then have associated with a shift away from 'relationship banking' toward 'product'

strategies based on high turnover. On the other hand, enhanced service offerings to customers associated with devolution of discretion to customer-facing-staff at retail branches (i.e. greater decentralisation). Bank growth would then have associated with investments in the human resources and the organisational capabilities that resulted in a stable market share.

2. SYSTEMATIC STUDIES

2.1. Supply Oriented and Customer Oriented Approach

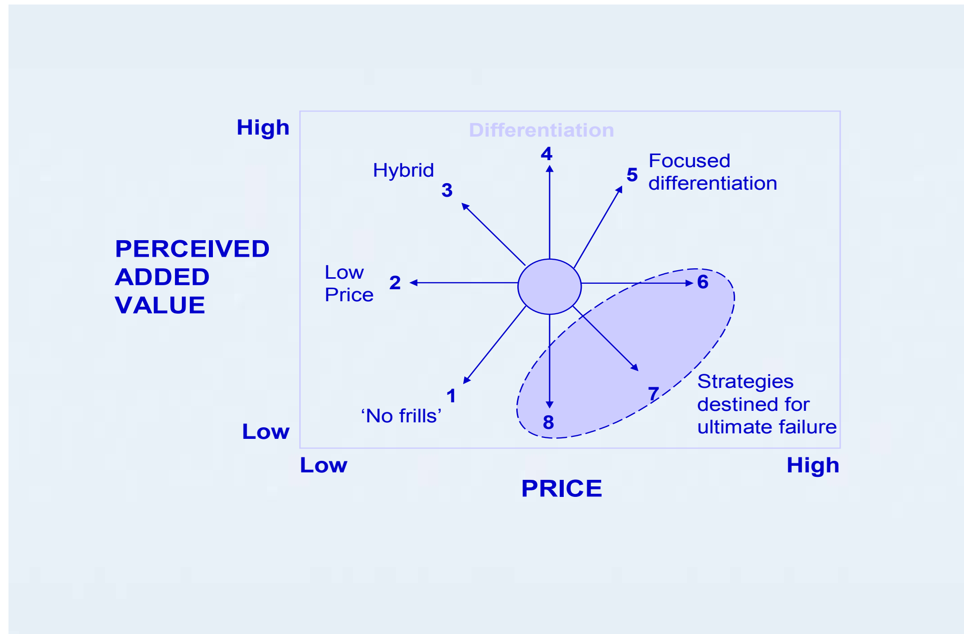
Our survey of systematic studies on bank marketing coincided with archival research as it also suggested possibilities for bank growth to be catalogued as either supply oriented or customer oriented. Contributions to the academic literature were inconclusive as to which of the two approaches predominated banking at the end of the 1990s.

Our survey of systematic studies in peered reviewed outlets (publishing articles dealing with bank growth and the marketing of retail financial services), suggested that during the 1980s a research agenda emerged to explore whether the proliferation of banks' business portfolio could improve the competitive positioning of banking organisations by responding customer needs through differentiated offerings that would appeal to distinct market segments (Binks *et al.* 1989). It was readily identified that the transition would necessitate changes in corporate culture (Andrew 1990; Axson 1992; Cowton *et al.* 2000; Stephenson and Kiely 1991) as well as urging for new training programmes to allow bank personnel to keep up with corporate change (Keltner and Finegold 1996; Perrien *et al.* 1992; Smith and Lewis 1989).

The customer-oriented approach emphasises the importance of customer value creation and the satisfaction of customer needs which should have been integrated into the company's top strategic priorities (Keltner 1995, 51); Piercy, 2002; Bowman and Faulkner, 1997; Christopher, Payne and Ballantyne, 1991). The widely cited 'strategic clock' by Bowman and Faulkner (1997) urged companies to understand what was valued by their customers and then develop differentiation strategies accordingly. This framework identified eight alternatives upon which to base corporate strategy (see Figure 1).

Figure 1: Bowman's Strategic Clock

(Potential strategic combinations of price and perceived value added)



Source: Bowman and Faulkner, 1997.

As illustrated in Figure 1, Bowman and Faulkner (1997) expanded Porter's (1980) price/quality dichotomy to allow for other strategies that could lead to sustained competitive advantage. As with Porter's Generic Strategies, Bowman considered competitive advantage in relation to cost advantage or differentiation advantage. Three strategies were stated to be unsustainable and therefore lead to ultimate failure as prices are increased at the expense of perceived added value (labelled as six, seven and eight in Figure 1).

Two combinations of price and perceived value added have the potential to achieve competitive advantage through different combinations of low price and low or high perceived value added ('no frills' and low price). Allegedly, these two strategies for growth emphasise profit related goals (i.e. supply-oriented). This approach to growth also associates with price and convenience as major source of competitive appeal; where high turnover is aimed by fee-based activities and low cost offerings. When applied to banking organisations, the supply-oriented approach to growth in bank markets further associates

with diversification across customer groups, product markets and geographies because of a platform (i.e. broad based) perception of core capabilities, that is, the acceptance of a high degree of cross-subsidies between customer groups, businesses and geographies (Bátiz-Lazo and Wood 1999; 2003; 2001).

The next three strategies in the Bowman's Clock are potentially successful strategies, which combine high perceived added value with low or high price (namely hybrid, differentiation and focused differentiation). These three strategies coincide with the customer-oriented approach to marketing. According to the customer-oriented approach, bank growth associates with geographic concentration, limited product diversity, customer-group specialisation (i.e. segmentation of customer groups) and intensive use of account executives because of a rather specific (i.e. unique to the bank) perception of core capabilities (Bátiz-Lazo and Wood 1999; 2003; 2001). Hence, bank managers are able to identify their organisation's core capabilities only if they have access to how added value is created for customers (Canals 1994, 197-9).

2.2. Customer Satisfaction

Customer-oriented strategies aim for customer retention through customer satisfaction which is defined as the degree to which a customer believe that the possession and/or use of a service evokes positive feelings (Rust and Oliver, 1994). Lewis (1993, 201) summarises this view and relates it to Grönroos' (1984) 'service quality gap' framework, where service quality programmes and a customer care 'philosophy' permeate the financial service organisation from top management to staff at point of contact with customers. According to a landmark paper by Parasuraman *et al.* (1988) quality of service is regarded an increasingly important differentiator between competing businesses in the retailing sector. Due to the nature of today's marketplace, which is characterised by similarly priced, look-alike product offerings from a variety of retailing firms, only those companies which provide excellent service quality will survive.

Similarly, our survey of systematic studies on bank marketing suggested that, throughout the bank marketing research agenda, customer satisfaction is considered the basic determinant of business success (e.g. Allred and Addams 2000; Athanassopoulos 1997; Dibb and Meadows 2001; Sargeant and Asif 1998). It is presented that the case of

repeated business and cross-selling opportunities is central to financial service organisations and depends on consumer satisfaction with a bank's service (Szymanski and Henard, 2001).

However, archival and anecdotal evidence (as documented by Channon 1998) suggested that customer-driven retail banking had yet to arrive by the mid-1990s. This as technological change had brought about greater service uniformity into retail banking and emphasised management control and lower cost levels rather than enhancing service offering for customers. For Baker (1993, 6), Knights *et al*. (1994, 17-18 and 20-3) and Boyce (2000), failure of the service quality framework resulted from strategies of participants in the markets for financial services and commercial banks in particular, placing greater emphasis on profit related goals (i.e. supplied oriented strategies) than growth driven by the satisfaction of customer needs (i.e. customer-oriented strategies).

Furthermore, our survey suggested that little light had been shed into how the link between customer satisfaction and profitability works empirically or whether customer value creation is among the top strategic priorities for senior managers in retail financial services. Hence, greater understanding was needed regarding how banks implemented customer value creation strategies (or if these strategies were implemented at all), as well as how the creation of value for customer by banks contributed to the creation of value for banks' shareholders.

3. Research Method

Research in this article explored the intent behind diversification decisions of financial service organisations and the role customer value creation played within those decisions. Fieldwork explored whether top managers of retail banks demonstrate an awareness of core capabilities. Retail banking was interesting as external change leading to changes in competitive intensity required changes in the strategy making of senior managers (Bátiz-Lazo and Wood 1999; Bátiz-Lazo and Wood 2001; Gardener *et al.* 1999). Exploring the awareness of banks' senior managers to core capabilities expected to develop an understanding of how effective distribution, client capture and treasury activities interweave with cost drivers such as experience or scale effects, scope or

service synergy effects, channel synergy, and cost substitution (with particular emphasis on ICT applications and human resource management). For instance, policies regarding human resource management (including staff retention) are particularly important to identify a bank's commitment to customer value creation, be it through TQM or relationship banking programmes (Keltner 1995; Keltner and Finegold 1996).

The common theme among these interviews was, therefore, ascertaining how the implementation of corporate strategy by individual teams of bank executives would determine diversification patterns including the pursuit of schemes to secure a stable and loyal customer base. Specifically, whether, on balance, senior executives of banks considered there was

- a link between customer value and shareholder value and were unable to articulate a strategy to simultaneously improve customer satisfaction and value creation for shareholders;
- no link between customer value and shareholder value;
- a link between customer value and shareholder value, but were unable to articulate a strategy to simultaneously improve customer satisfaction and value creation for shareholders; or
- a link between customer value and shareholder value, but were unwilling to articulate a customer satisfaction approach. This might be due to stupidity, or it might be due to a genuine belief that minimising cost is the best way to attract and retain customers (i.e. customers like differentiated offerings, but bank customer like standardised, cheap offerings more).

Participants in different markets were introduced to allow collecting comparable data on changes in growth opportunities internal to each market and to corroborate sector-wide phenomena common to all bank markets (as opposed to effects specific to a region or country). This selection allowed for a choice which emphasised *triangulation* to delete bias introduced by contextual features of individual participants as well as treats unique to a country or region. The use of *triangulation logic* as methodology resulted from Hakim (1987, 144) and Eisenhardt (1991, 624) which suggest that the selection of company histories should include the same process in organisations of diverse

organisational structure or different processes in organisations of similar structure. As a result, the selection of participants in the survey was grounded in (but not limited by) established theory. Semi-structured interviews aimed to address different aspects of how external change modified the implementation of strategy and in this way, illustrate changes in the incentives to develop relationship marketing policies.

Although a detailed population list of actual participants in retail bank markets was easily accessible from regulators or monetary authorities, surveying by post, email or telephone was considered an ineffective way to secure a response from top bank officials. Instead, face to face interview with senior executives would allow administering closed questions (in the form of handouts), as well as allowing to probe deeper into specific aspects during the course of the interview.

Potential respondents were contacted by telephone. The call was followed up by fax in which the academic nature as well as aims and objectives of the research were succinctly explained. The chief executive officer and at least one the senior director of the ten largest (in terms of total assets) participants in retail bank markets were targeted the British Isles (i.e. UK and Ireland), largest economies in continental Europe (i.e. Germany, Spain, France, Portugal, The Netherlands and Italy) and the Baltic Sea (Sweden, Denmark, Estonia, Lithuania, Latvia, Poland, Finland and Norway).

Consensus between archival research and state of the art survey developed into five broad areas of corporate strategy that needed to be addressed by the interviewer administered questionnaire, namely:

- The relative importance of creating customer value to deliver shareholder value;
- Identifying an internal ‘model’ or strategy for the creation of customer value (i.e. identifying any attempt to overcome a low-skill environment or the context of individual labour markets to invest the creation of skills, organisational capabilities and competencies that allowed banks to know customers personally as a source of competitive advantage).
- The role of customer value creation in diversification decisions (i.e. disposing or acquiring business lines);
- Assessing actual and potential competitors and their perceived threat to the retention of customers; and

- Establishing how the creation of customer value would influence where and how the bank would compete.

These areas of inquiry were discussed during 75 interview sessions at the interviewee's office. These interview sessions were scheduled to last between 45 and 75 minutes, although in some instances the open ended format resulted in interviews as long as two hours. All these 75 participants belonged to the three top levels of management. At the same time, the requirement was that they had more than two years of direct involvement in the design of strategy at regional, national or international level.

The first set of interviews consisted of 33 interviews (44%) and took place in Spain and the UK mainly between April and July 1996. As a result of this initial set of interviews, a specific instrument was designed to enquire further into the drivers of income growth generation in banks' strategies. This was then offered as part of meetings taking place after the Spanish survey had finalised and along side the same questionnaire used in Spanish and British interviews. The second set of interviews consisted of 21 participants (28%) from Ireland and Germany, and mainly took place between March and June 1999. The third part of the fieldwork consisted of 21 interviews (28%) in Portugal, Sweden, Norway and Estonia and took place between February and October 2001. Participants received four handouts in advance and these formed the basis of closed-form (yes/no) answers. Closed-form responses allowed re-grouping participants by region, namely Baltic sea (Pearson lineal correlation of closed-form responses equal to 0.890), Iberia (correlation coefficient of 0.721) and UK and Eire (correlation coefficient of 0.765). The result of this careful screening of participants was, first, that in all cases interviewees represented more than 60% of the total assets in each country. Second, that all interviews were productive in that they produced credible and internally consistent responses that reflected a sound knowledge of bank strategic management.

Alternative ways to cluster responses were tested as part of the analysis. Clustering interviews into different groups aimed to strengthen *triangulation* throughout the research (among others Eisenhardt 1989, 537; Yin 1984, 48). This as *triangulation* with several sources aimed corroborating sector-wide phenomena common to all bank markets as opposed to effects specific to a region or country. Groupings leading to greater social generality and relevance to theory were aggregates by governance structure (i.e. private

or mutual), organisational membership (i.e. interviews from individuals in the same institution as opposed to interviews from a single organisation), region (i.e. Iberia, Baltic Sea, British isles) and gender of the respondents.

Other factors (geography, gender, governance, etc.) were interesting only in so far as they effect what the questionnaire tells us about national outcomes and comparisons in the five subject areas above, for, if responses to questions differed by organisational origin, governance structure, etc., and the distribution of these factors was not quite the same for the group as a whole, then *triangulation* as a research strategy would have been rendered ineffective. Generally that was not the case. One way Analysis of Variance (ANOVA) suggested there was no other factor (geography, gender, governance, etc.) that, at the 95 percent level of significance) could account for a large source of variation in responses.

However, the inductive nature of semi-structured interviews suggested there could be systematic differences dividing the sample along the lines of corporate governance. Differentiating responses by corporate governance was interesting as there had been attempts to compare the role of customer relationship management and loyalty schemes in for-profit and mutual financial services (Allred and Addams 1999; Allred and Addams 2000; Cowton *et al.* 2000; Kangis and Voukelatos 1997; Lewis *et al.* 1994; Smith and Lewis 1989; Turner 1996) but only a limited number of cross-country comparisons (Bátiz-Lazo *et al.* 2011; Bátiz-Lazo and Wood 1999; Bátiz-Lazo and Wood 2001; Bátiz-Lazo and Wood 2003; Colgate 2000; Keltner 1995; Naughton and Soon-Lim Chan 1998).

In summary, interview responses provided insights into how external change and in particular the adoption of information and communication technology, had influenced bank growth. It was anticipated that loose links in the perception of managers in the role of core capabilities for the creation of customer value and shareholder value would characterise with high diversification of customer groups, product markets and geographies. This broad conception of core capabilities would associate with strategic preference of profit-related goals over the satisfaction of 'customer needs'. Alternatively, clear links between customer value and the creation of shareholder value were likely to emerge from a perception of core capabilities as specific (i.e. unique to the bank) and

therefore, they would be associated with geographic concentration, limited product diversity, customer-group specialisation and intensive use of account executives.

4. Creating Customer Value and Growth in Bank Markets

4.1. Pre-eminence of Supply Oriented Growth

Interviewees believed themselves to be creating shareholder value. Three quarters of the sample considered creating shareholder value an overriding concern, while one quarter thought otherwise because of their mutual status. Of those who considered shareholder value a concern, 87% said they deliver shareholder value as an increasing share price (through a combination of dividends and share value) and 13% said their organisation delivers shareholder value as a high share price.

Interviewees were then asked to elaborate about the relation between shareholder value and customer value creation. It was anticipated that relationship banking would be appropriate to create customer value and develop competitive advantage by attracting and retaining 'high-end retail customers and small- and medium-sized business enterprises'. As noted by a Swedish interviewee:

> "It depends how you would define failure to begin with and how is it linked to what you considered success. If you consider success attending customer needs in a [specific] region then abandoning the region would be considered a failure. That's natural. Because otherwise in the long run they won't believe in you. As a savings bank we need a special relationship with the area and this includes being the "financial motor" in that area. You have to take the risk to support your area otherwise your area is not successful, the bank won't be successful."

In all instances participants agreed there was a one to one relationship between shareholder value and customer value. This is in line with views presented by previous research. For example, Wilson et al. (2002) report the importance of effective customer relationships as a key to customer value, and hence to shareholder value. All respondents in the current research agreed that banks exist only when creating customer value but they could seldom elaborate further from a notion that described customers maintaining patronage of the bank. At the same time, as far as interviewees could recall, the emphasis in bank markets in their country and at their bank had been to grow the portfolio of business lines rather than increased focus on core capabilities.

Results also suggested that management of diversity does not seem to be time invariant. Two participants (3% of total) said to be unsure whereas in 85% of the cases interviewees agreed there had been changes in the framework in which banks' pursued synergy since 1980 (or 1992 in Estonian interviews). Agreement to changes in the way in which banks' business lines create synergy was the same regardless of whether participants were part of the same financial group (i.e. 'conglomerate') or working in a regional or mutual bank. However, the biggest disagreement was to be found in Spain, where three participants working in regional organisations (9%) and three participants working in the same financial group (7%) considered the way synergy is created had remain stable. When in agreement, managers told of how banks created new synergies in the pursuit of greater growth and interviewees expected that changes in synergy creation should be reflected in banks' diversification and market positioning moves. New synergies required new capabilities and participants from all three regions agreed that the current wave of change in synergy creation had carried through greater emphasis on customer profitability (this in spite of most interviewees failing to provide an articulated account of how to achieve that profitability). This could be explained by the lack of emphasis on individual customer profitability in practice. Only few institutions were demonstrated to be measuring profit per customer or the lifetime value of customers (Payne and Frow 1999). As stated by Farquhar (2005, 1040): "Individual customer profitability is not being successfully measured and do not contribute actively to management decision making."

For managers working in the same banking group (86%) and working in regional or mutual banks (76%), core capabilities were deemed to be the most important element to determine the bank's expansion. The rest of the participants considered that bank growth responded to some form of external change (respectively 14% and 24%). Overwhelmingly, participants thought that bank growth was closely related to the business cycle (76% for those in the same banking group and 81% for those working in regional or mutual banks). However, it was clarified that diversification responded to enhanced core capabilities (45% for those in the same banking group and 56% for those working in regional or mutual banks) rather than the business cycle (respectively 17%

and 12%), maturity of the product market (respectively 12% and 22%), or some other form of external change (respectively 26% and 10%).

Table 2 summarises results of interview responses when participants were asked to choose the two most important objectives that would determine the speed and direction of banks' diversification patterns. By collecting comparable data on changes in growth opportunities and disregarding local regulatory constraint, the ranking offered the rationale behind bank diversification that was common to all competitive environments. Interviewees were consistently preoccupied with ways to create greater shareholder value rather than enhancing customer loyalty. On average, for the whole sample, greater income growth was the top concern (31%) followed in importance by changes in business focus (18%). Indeed, those working in independent organisations were evenly split between these two constructs (at 24%). As noted by a manager of a UK bank:

> "Actually we do no geographic diversification. In terms of product diversification we wouldn't have done a great deal recently, it's difficult to see where we could go in terms of broadening the product range, you know, at present we don't underwrite insurance, but we do virtually everything else. We address every single potential customer category within our geographic franchise, right through the personal market to the national market through to the high network market, right through the business sector to the government sector. What we haven't done very well is actually break those customer groups down and try and analyse whether you can develop added value packages for particular segments. That would be, I suppose, the primary area where we would diversify or apply [the interviewer's] definition of diversification."

A similar result was found by Farquhar (2004), who reports a 'possible conflict between shareholder value and customer profitability'. Farquhar discusses that a customer oriented approach is unlikely to be developed overnight; rather that involves the adoption of longer time scales.

Table 2: Drivers of Diversification Strategies (1996, 1999 and 2001)
(Importance of the two most relevant factors driving diversification strategies)

	Greater income growth		Risk control		Improving the performance of distribution channels		Improving the performance of core capabilities		Changing business focus		Acquiring new technology		Other		Sum	
Mutual or Regional																
Estonia	1		0		0		0		1		0		0		2	
Finland	1		1		0		0		0		0		0		2	
Germany	1		0		0		2		4		1		0		8	
Ireland	2		0		0		2		2		0		0		6	
Norway	1		0		0		1		0		0		0		2	
Portugal	0		1		0		0		2		1		0		4	
Spain	3		8		3		1		5		2		2		24	
Sweden	2		0		0		2		0		0		0		4	
UK	5		1		1		2		2		1		2		14	
Sum	16	*24%*	11	*17%*	4	*6%*	10	*15%*	16	*24%*	5	*8%*	4	*6%*	66	*100%*
Conglomerate																
Estonia	2		1		0		1		0		0		0		4	
Finland	0		0		0		0		0		0		0		0	
Germany	4		0		2		3		1		0		2		12	
Ireland	7		0		0		2		4		0		3		16	
Norway	0		0		0		0		0		0		0		0	
Portugal	6		3		2		0		1		1		3		16	
Spain	3		3		3		1		1		0		3		14	
Sweden	4		0		0		2		1		1		0		8	
UK	4		3		1		3		3		0		0		14	
Sum	30	*36%*	10	*12%*	8	*10%*	12	*14%*	11	*13%*	2	*2%*	11	*13%*	84	*100%*
Sum	46	*31%*	21	*14%*	12	*8%*	22	*15%*	27	*18%*	7	*5%*	15	*10%*	150	*100%*

Improvements in the performance of core capabilities (15%) and risk control (14%) ranked third. The greatest disagreement emerged around the relative importance of improving the performance of distribution channels (8%) and acquiring new technology (5%), while managers unable to choose only two drivers represented 10% of all participants. Survey results were consistent with the perception that diversification in bank markets has emphasised a shift away from financial relationships. This on the back of a shift towards increased importance of fee-income generation, reduction of overall cost levels, decomposition of financial products into their basic elements ("unbundling"), and the separation of the management from the ownership of assets ("securitisation").

Concerns regarding greater income growth and changes in business focus were further explored through a purpose built instrument. Table 3 summarises these results.

Managers working in the same banking group regarded the control of the overall level of operating costs (21%) and applications of information technology (21%) their most important concerns to implement diversification moves. At the same time, managers working in regional or mutual banks also shared a concern for the overall level of costs (18%) but considered of slightly higher importance finding or creating synergy (21%). Interestingly, there was widespread consensus that labour laws, changes in government intervention or international regulation, in themselves, are not ultimately determinants of business strategies in banking organisations (scoring 0%). Rather, interviewees told how the implementation of strategic intent by individual teams of bank executives will determine diversification patterns, including the pursuit of schemes to secure a stable and loyal customer base.

Likewise, the financial services literature highlights the crucial role of senior management commitment and organisational structure in establishing a customer-driven culture (Farquhar 2003; Farquhar 2004; Van Clieaf 1996; Wilson *et al.* 2002). Nevertheless, this is an area that needs to be addressed by financial service providers. In a recent study senior management of a financial institution was argued to be ‘paying lip service’ to customer retention, while another CEO was reported to be only 10 percent devoted to existing customers and 90 percent to new (Farquhar 2005).

Table 3: Drivers of Diversification Strategies (1999 and 2001)

(Greatest source of concern for managers of banks in the next 5 to 10 years)

	Changes in government or internationl regulation	Control of operating costs	Cost control of distribution channels	Exploring markets in other countries	Finding new types of business (changing business focus)	Finding or creating related business lines (synergy)	Information technology	Product or service innovation	Trade unions	A combination of any of the above	Other	*Sum*
Mutual or Regional												
Estonia	0	0	0	0	0	1	1	0	0	0	0	2
Finland	0	0	0	0	0	1	0	0	0	1	0	2
Germany	0	1	2	1	1	1	0	0	0	2	0	8
Ireland	0	2	0	0	0	2	0	1	0	0	1	6
Norway	0	1	0	0	0	0	0	1	0	0	0	2
Portugal	0	0	0	1	0	0	1	2	0	0	0	4
Sweden	0	1	0	1	1	1	0	0	0	0	0	4
Sum	0 *0%*	5 *18%*	2 *7%*	3 *11%*	2 *7%*	6 *21%*	2 *7%*	4 *14%*	0 *0%*	3 *11%*	1 *4%*	28 *100%*
Conglomerate												
Estonia	0	2	0	0	0	1	0	0	0	0	1	4
Finland	0	0	0	0	0	0	0	0	0	0	0	0
Germany	0	0	2	1	2	0	5	1	0	1	0	12
Ireland	1	5	1	1	0	0	4	0	0	4	0	16
Norway	0	0	0	0	0	0	0	0	0	0	0	0
Portugal	0	2	1	3	2	2	0	4	0	2	0	16
Sweden	0	3	1	0	1	0	3	0	0	0	0	8
Sum	1 *2%*	12 *21%*	5 *9%*	5 *9%*	5 *9%*	3 *5%*	12 *21%*	5 *9%*	0 *0%*	7 *13%*	1 *2%*	56 *100%*
Sum	1 *1%*	17 *20%*	7 *8%*	8 *10%*	7 *8%*	9 *11%*	14 *17%*	9 *11%*	0 *0%*	10 *12%*	2 *2%*	84 *100%*

There was little consensus for other potential drivers of diversification. However, amongst managers working in the same banking group information technology (21%) emerged as a potential source of change. In this regard, interviewees told how external innovations and technological change in particular, associated with a shift away from relationship banking towards product strategies based on high turnover. Interviewees told how financial intermediaries have invested heavily in information technology to develop standardised offerings and compensate for high turn over in the labour force. Through this process financial service organisations could have moved away from many of their traditional sources of competitive advantage and encouraged customers in both the retail and wholesale segments to turn to other financial providers and non-bank credit sources to meet their liquidity or investment needs.

The effect of technology on customer relationships is investigated by few studies. A consensus among them is that the deficiencies with banking systems have led banks to pursue shareholder value generating strategies rather than emphasising customer value (Farquhar 2003). As a consequence, addressing individual customer needs still remains a potential hurdle for financial institutions (Farquhar 2004).

4.2. Growth and Differentiation

The possibilities that strategic decisions would develop into entry barriers to bank markets were also explored in the course of in-depth discussions. Table 4 summarises the possibility of different perceptions between in-market and out-of-market participants regarding the potential profitability of growth opportunities in bank markets. This as strategic investment decisions that affect market boundaries and market structure are hypothesised to discourage competition when potential entrants perceive entry barriers as being both relatively fixed and even exogenous to the strategies of established and new participants (such as regulation or technological change). The persistence of barriers to entry ensures market outcomes such as profit distribution and market concentration will also tend to continue over time (Geroski 1991, 157). External innovations that modify the potential of out-of-market participants to contest local markets therefore reflects a combination of changes in competition and the effectiveness of established participants implementing strategic intent.

Table 4: Potential Contestants of Bank Markets (1999 and 2001)

(The two institutions that represent the greatest challenge to established commercial banks)

	Mutual or Regional									Conglomerate									*Sum*	
	Estii	Fin	Ger	Eirie	Nor	Por	Swe	*Sum*		Estii	Fin	Ger	Eirie	Nor	Por	Swe	*Sum*			
Established banks or building societies	0	0	1	0.5	0	0	0.5	2	*14%*	0	0	0.5	1.5	0	0	0.5	2.5	*9%*	4.5	*11%*
Foreign banks	0.5	0.5	0	0	0	0	0	1	*7%*	0.5	0	0.5	1	0	4	1	7	*25%*	8	*19%*
Government owned banks or financial organisations	0	0	0	0	0	0	0	0	*0%*	0	0	0	0	0	0	0	0	*0%*	0	*0%*
Insurance companies	0	0	0.5	0.5	0	0	0.5	1.5	*11%*	0.5	0	0	1	0	0	0.5	2	*7%*	3.5	*8%*
Investment banks (local or foreign)	0	0	0	0	0	0.5	0.5	1	*7%*	0	0	1.5	0	0	0.5	0	2	*7%*	3	*7%*
Multimedia groups	0	0	0.5	0	0.5	0	0	1	*7%*	0	0	0.5	0	0	0	0	0.5	*2%*	1.5	*4%*
Mutual funds	0	0	0	0	0	0.5	0	0.5	*4%*	0	0	1	0	0	0.5	0	1.5	*5%*	2	*5%*
New banks (established with local capital)	0	0	0	0	0	0	0	0	*0%*	0	0	0	0	0	0.5	0	0.5	*2%*	0.5	*1%*
Off-springs of MNCs	0	0	0	0.5	0	0.5	0	1	*7%*	0	0	0	0.5	0	0	0	0.5	*2%*	1.5	*4%*
Retailers	0.5	0	0	0	0	0	0.5	1	*7%*	0.5	0	0	0.5	0	0	1	2	*7%*	3	*7%*
Single purpose financial organisations	0	0	1	0.5	0.5	0.5	0	2.5	*18%*	0	0	1.5	1	0	0.5	0	3	*11%*	5.5	*13%*
Software companies	0	0	0.5	0	0	0	0	0.5	*4%*	0	0	0	1	0	0	0.5	1.5	*5%*	2	*5%*
Supra-national organisations	0	0	0	0	0	0	0	0	*0%*	0	0	0	0	0	0.5	0	0.5	*2%*	0.5	*1%*
A combination of the above	0	0.5	0.5	0.5	0	0	0	1.5	*11%*	0	0	0	1	0	1	0.5	2.5	*9%*	4	*10%*
Other	0	0	0	0.5	0	0	0	0.5	*4%*	0.5	0	0.5	0.5	0	0.5	0	2	*7%*	2.5	*6%*
Sum	1	1	4	3	1	2	2	14	*100%*	2	0	6	8	0	8	4	28	*100%*	42	*100%*

Results suggested great diversity in the perception of which organisation had the greatest potential to contests bank markets. Members of the same banking group considered that foreign banks (25%) and single purpose financial institutions (11%) had the greatest potential. They were evenly split regarding the potential of other organisations with the capabilities to compete (such as savings banks, single purpose financial organisations or foreign commercial banks) or those able to develop capabilities and diversify into bank markets (such as insurance companies offering credit cards). Interviewees working in a regional or mutual bank considered that single purpose financial institutions were the most likely to mount a challenge (18%) because they would be established in the most profitable markets. Close competitors which were already established (such as other banks or other savings banks) were also likely to mount a challenge (14%). Insurance companies diversifying into banking were considered a threat (11%) to regional or mutual banks. At the same time 16% of responses of those working in the same banking group and 15% of responses from regional or mutual banks were unable to ascertain with clarity the potential threats of non-market participants.

The possibility that out-of-market participant could pre-empt strategic investments that define banks' product portfolio diversity, customer groups, or geographic scope was further investigated and results presented in Table 5 below. The table summarises the generic possibilities upon which managers of banks considered key to create sustainable competitive advantage. The top concern for 32% of those working in mutual or regional banks and 23% of those in the same banking group was the ability to create perceived value added. Results suggested managers of banks expect to maintain their market position by creating a perception of customer value creation, but just enough to assure customers maintaining patronage of the bank. In other words, survey results suggested that, on balance, short-term and transaction-oriented relations predominate in bank markets. The dominating role of transactional exchanges in the retailing of financial services is discussed by various researchers. For example, Egan and Shipley (1995) view that financial institutions tend to take their customers for granted, and are more concerned with operational rather than strategic aspects of their marketing activities. Similarly, Van Clieaf (1996) and Farquhar (2004) discuss that acquisition of customers rather than

Table 5: `Creation of Competitive Advantage (1999 and 2001)
(Key elements in the next 5 to 10 years)

	Mutual or Regional									Conglomerate									Sum	
	Estii	Fin	Ger	Eirie	Nor	Por	Swe	*Sum*		Estii	Fin	Ger	Eirie	Nor	Por	Swe	*Sum*			
Ability to create great perceived value added by customers	0.5	0.5	1	0.5	0.5	0.5	1	4.5	*32%*	0.5	0	2	1	0	2	1	6.5	*23%*	11	*26%*
Customer group diversification	0	0	0	0	0	0	0.5	0.5	*4%*	0	0	0.5	0	0	0.5	0	1	*4%*	1.5	*4%*
Financial resources to withstand price war	0	0	0	0	0	0.5	0	0.5	*4%*	0	0	0	0	0	1	0	1	*4%*	1.5	*4%*
Focused differentiation (serving niche markets)	0	0	0	0	0	0	0	0	*0%*	0	0	0	0	0	1	0	1	*4%*	1	*2%*
Geographic diversification	0.5	0	0	0	0	0	0	0.5	*4%*	0	0	0	0	0	0	0.5	0.5	*2%*	1	*2%*
Greater scope of products and services(diversification)	0	0	0.5	0	0	0	0	0.5	*4%*	0.5	0	0.5	1	0	1.5	0.5	4	*14%*	4.5	*11%*
Information technology (at point of contact with customer)	0	0	0.5	0.5	0	0	0	1	*7%*	0.5	0	0	2	0	0	0.5	3	*11%*	4	*10%*
Information technology (inside the bank)	0	0	0.5	0	0	0	0.5	1	*7%*	0	0	0	0	0	0	0	0	*0%*	1	*2%*
Low price / cost leader strategies	0	0	0	0	0	0.5	0	0.5	*4%*	0	0	0	0	0	0.5	0.5	1	*4%*	1.5	*4%*
Mergers, acquisitions or take-overs	0	0	0	0	0	0	0	0	*0%*	0	0	0	0	0	0.5	0	0.5	*2%*	0.5	*1%*
Price competition	0	0.5	1	1	0.5	0	0	3	*21%*	0.5	0	0	2	0	1	0	3.5	*13%*	6.5	*15%*
Product and service innovation	0	0	0	0	0	0.5	0	0.5	*4%*	0	0	1.5	0	0	0	0	1.5	*5%*	2	*5%*
Product or service differentiation (with price premium)	0	0	0	0	0	0	0	0	*0%*	0	0	0.5	0	0	0	0	0.5	*2%*	0.5	*1%*
Product or service differentiation (without price premium)	0	0	0.5	1	0	0	0	1.5	*11%*	0	0	0.5	2	0	0	1	3.5	*13%*	5	*12%*
Other	0	0	0	0	0	0	0	0	*0%*	0	0	0.5	0	0	0	0	0.5	*2%*	0.5	*1%*
Sum	1	1	4	3	1	2	2	14	*100%*	2	0	6	8	0	8	4	28	*100%*	42	*100%*

developing a long term relationship is still a main marketing strategy for financial institutions. Moreover, Keenan (2002) criticises banks for focusing on product profitability instead of nurturing long term relationships with customers.

Competitive advantage is neither expected to emerge from mergers and acquisitions nor from serving niche markets. Survey results also suggested that differentiation in bank markets doesn't associate with enhanced financial margins by pricing higher than competitors. This as a much more contested market would bring about greater price competition (21%) and competitive advantage would emerge from a distinctive service offering but without commanding a price premium (11%). Managers working the same business group shared similar concerns (both 13%) but expected that success would emerge from greater scope from in the business portfolio (14%).

5. Discussion

Since the 1960s, organisations working in bank markets have developed skills, resources and capabilities to co-ordinate closely complementary but dissimilar activities such as cheque clearing, managing payment systems, investment banking and personal insurance. The implementation of organisational model has been evident in diversification moves across bank markets while, at the same time, required the absorption of information technology applications as well as enhanced risk management skills to mediate between surplus- and deficit-spending individuals. In other words, top management's intent and purpose in the exploitation of computer technology are reflected in the way that the banking firm grows and diversifies, its boundaries shift and its internal organisation changes. Research in this article explored the extent to which strategic intent in banking responded to external change while aiming to satisfy 'customer needs' or meet 'supply oriented' goals.

Survey result suggested diversification strategies of organisations working in bank markets are characterised by the pre-eminence of greater income growth and cost containment as drivers of diversification decisions. This is in line with literature findings. For example, Farquhar (2003) reports that lowering costs or improving cost/income ratio are important elements in driving change within financial institutions. Results of the current research also suggested that, on balance, strategic intent in commercial bank markets builds upon ‘supply oriented’ growth rather than growth driven by the satisfaction of customer ‘needs’ (i.e. customer-oriented approach). Peter Soraparu, an executive director at the Bank Administration Institute, comments: “Banks forgot that the first word in CRM is ‘customer’” (Keenan 2002). In the current research, managers of

banks were considered unable to identify or control their banks' drivers of profitability. This as conspicuously absent from in-depth discussions was an articulated approach to creation of customer value. This result offers support to previous research. Egan and Shipley (Egan and Shipley 1995) present evidence that financial institutions are becoming increasingly aware of the importance of adopting a customer oriented approach; yet this awareness does not appear to reflect on banking strategies. Failing to identify how customer value is created reflected an inability to identify true drivers of performance at practical levels. Taking into account that only less than one quarter of organisations’ marketing budget is spent on customer retention (Payne and Frow 1999) this is not surprising.

Moreover, the inability to identify banks' current or future drivers of performance together with low strategic priority for customer value creation further suggested that any potential competitor whose strategy implements customer value concepts is likely to secure entry to bank markets. This finding further reinforced the perception that diversification strategies of non-finance intermediaries can easily contest bank markets because many non-finance intermediaries already posses and have master the customer retention capabilities that banks hope to develop.

The overwhelming majority of participants in our survey had a view that financial service firms working in retail markets prioritise supply oriented strategies. This had interesting managerial implications, particularly for the mutual organisations who claim to have a strong customer focus. It seems that customer driven-strategies are little more than ‘hot air’ in retail finance. Similar to this argument, Farquhar (2003) found that transactional marketing practices and customer acquisition were the preferred strategies among financial institutions with little emphasis on customer retention and relationship building. Farquhar explains this tendency due to the deficiencies with information systems.

Survey results also suggested that the establishment of new banks was not perceived as a threat (and neither were government owned banks, government owned financial organisations and supra-national organisations). This finding confirmed empirical evidence documented for manufacturing firms by Geroski (1995, 426). This evidence suggested that the capture of growth opportunities is likely to be observed as

diversification strategies of established participants rather than as new firms, because capital building from scratch to effective competitive threats is not, on average, very successful or even likely.

Survey results also suggested that managers of banks believe that, in spite of banks having little skills for customer value creation, there are few possibilities for out-of-market participants to contest bank markets. However, there are signs that external innovations have increased competitive intensity across all bank markets. This as possibilities that strategic intent will develop an advantage by impeding the free flow of resources or forcing potential entrants to face greater costs than incumbents were considered to be low. The high average ranking of single purpose financial institutions (a potential contestant for 18% of the mutual or regional banks and for 11% of those in the same banking group) and retailers (a concern of 7% for participants in the same banking group and for 7% of participants in mutual or regional banks) further suggested organisations with high customer value creation skills could overcome banks' strategic investments to develop "sunk" (irrecoverable) costs, economies of scale, increase the breath of business (i.e. economies of scope), or develop financial power.

ICT applications at point of contact with consumer were more important for managers working in the same business group (11%) than for managers in working in mutual or regional banks (7%). This suggested that managers working in the same business group expected differentiation to develop into higher market share through standardised service. Service offerings that can be responsive to some consumer characteristics and are susceptible to lower cost structures (through scale rather than scope of business). But implementing a 'hybrid' strategy that simultaneously achieves differentiation and a lower price than competitors depends on the ability to both understand and deliver customer value creation, while also having a cost base that permits lower cost structures. This strategy can be even more challenging as it is harder to generate the income flow that assures reinvestment to maintain and develop the resources and organisational capabilities needed for differentiation.

6. Conclusions

This paper offered fieldwork supporting the 'critical' view of the service quality

framework and therefore, contributing to the discussion challenging a central tenant in the literature discussing marketing of financial services, relationship banking and TQM programmes in financial organisations. In particular, research documented evidence to support the view that financial service organisations and banks in particular, place greater emphasis on profit related goals (i.e. supplied oriented) than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach). This may be due to historical reasons. Egan and Shipley (1995) state that the history of banking has been that customers approach to banks (not vice versa).

The discussion also included competitive and corporate strategy implications of survey results.

Interviewees were asked to elaborate about the relation between shareholder value and customer value creation. Moreover, managers of banks were considered able to identify their organisation's core capabilities if managers recognised how a bank's value added rises or falls when the organisation provides a changing bundle of services to their customers. In all instances survey participants agreed there was a one to one relationship between shareholder value and customer value. Everyone agreed that banks exist only when creating customer value but they could seldom elaborate further from a notion that described customers maintaining patronage of the bank. Failing to identify how customer value is created reflected an inability to identify true drivers of performance at practical levels. Moreover, the inability to identify banks' current or future drivers of performance together with low strategic priority for customer value creation further suggested that any potential competitor whose strategy implements customer value concepts is likely to secure entry to bank markets.

Survey results would also suggest that diversification has resulted in changing business focus. This as, on balance, diversification in bank markets has emphasised shift away from customer cultivation and emphasised fee-income generation. The nature of competition in the financial services market might play a significant role in such behaviour. Although the European banking has experienced continual transformation, the competition is still limited across European countries (De Guevara *et al.*, 2005). Survey results suggest diversification strategies of commercial banks are characterised by the pre-eminence of greater income growth and cost containment as drivers of diversification

decisions. Results also suggested that, on balance, managerial strategic intent in commercial bank markets builds upon 'supply oriented' growth rather than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach).

To the extent that managers of banks seem unable to understand what customer value creation is, banks may well be pursuing diversification on the basis of traditional ways of operating and taken for granted assumptions rooted in experience. At the same time, there is little evidence to suggest that overcoming features of labour markets is a priority. Since managers of banks seem to be happy to implement strategic intent based on the current set of resources, skills and organisational capabilities, it is likely that managers of banks have failed to address the most basic question of 'what is their value to customers?'

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Notes

[i] With the effect that ‘The banker as a man of stature had been lost.’ (Interview with senior executive of Lloyds Bank Group, 3 March 1995).

[ii] Financial Times, Letters to the Editor, 28 March 1964.

[iii] CPBS (5 Oct 1950) and WEBS (Special Meeting, 2 Jan 1968).

[iv] CPBS, *Special Policy Board Meeting: Electronic Data Processing*, 16 April 1964 (Ref. 296.b Centralisation of Accounts - Service to members).