Survival is not Compulsory:

Creating a customer focused culture in financial services

by Philip Atkinson

In the following short article author Philip Atkinson outlines the severity of the challenges, which lie ahead for businesses in the financial services sector. The changes that will impact upon the industry are now emerging with threats ahead for organisations that fail to adapt to changing conditions. E-commerce, the globalisation of markets & service provision, the demands for value for money by customers & policy holders, de-mutualisation of insurance & building societies, and the rapid growth in bank mergers and acquisitions across national boundaries are all creating serious challenges for those who fail to develop the right business culture.

In the last ten years we have witnessed huge changes in all sectors of the financial services industry – the next ten years will see the industry thoroughly transformed. The weak players will fall by the wayside or be integrated into larger conglomerates: customers will choose their service provider on different criteria from those of the past. Customer perception of service delivery will be imperative and will shape their choice of service provider. The traditional choice to stay with one bank or mortgage lender or insurance provider for life is being rejected and the new pattern of business will be based upon developing pro-active 'one-to-one' relationships. This paradigm shift in customer management will require a radical change in the internal culture of the business to service the now 'critical' customer with heightened market awareness.

Customer perception in recent months with the 'rip off Britain' slogan extends even more to financial services than to other industries. Recent years have witnessed larger institutions and independent financial advisers being questioned as to their motives regarding the miss-selling of pensions and other products. Industry watchdogs are under ever more pressure to be vigilant and are ready to expose those who deal and trade in a manner deemed less than equitable. Public opinion is already mistrustful of some institutions, fuelled by recent horror stories in the tabloids. Already, government committees are investigating overcharging for services, interjecting in the industry and exposing practices which may be perceived as generating profits and shareholder value rather than addressing the immediate concerns of their customers or policy holders. It is time to ensure that organisations that have perhaps failed to grasp the importance of the 'customer', develop strategies that do.

Currently, the customer may not be aware of who in the marketplace is customer focused and who is not. But the average customer, whether individual or institution, is starting to question the practices which underpin the service provided, the charges for those services – and the relative behaviour of other service providers.

Customer service is only a reflection of the internal customer

The business culture that predominates will determine the degree to which customer relationships are managed well or poorly. For instance, de-mutualisation may create a need for a performance driven culture, but may do so at the customer's expense. What is critical is to get the business culture right from the start, and structure for change. Most businesses have a variety of cultures that compete with each other and currently have no means to measure and differentiate that which is good and leads to effective performance from that which is poor. Focusing upon business culture and aligning this with business strategy will provide the platform to build a new organisation.

Mergers and acquisitions

Between 50 and 70% of companies that merge with others will never achieve the synergies for which they aspire. Research from the US confirms that larger does not always mean enhanced performance in insurance services. When two or more businesses come together to merge into a new entity, one culture has to prevail. A 'cocktail of cultures' is of no value whatsoever. Allowing multiple cultures to exist that are counter to each other creates confusion and ambiguity. Neither is it possible to integrate cultures that have grown more by default than design. Often the basics of post acquisition integration are achieved in the short term but longer-term people issues are left hanging in the air. For instance, although distribution or delivery channels are rationalised, business systems integrated and financial measures consolidated, little thought is given to the drivers or the enablers of the business – those who lead and manage others. And yet the success of a merger can often be measured in the first hundred days after integration. The coming together of several businesses may never actually achieve the results envisioned – simply because people were not aligned with processes.

Challenges that lie ahead for financial services

There are many challenges that lie ahead. Leading institutions will change beyond recognition. The relative importance of the role of the stock exchange will decline over coming years. More trading will be conducted on line and third party intermediaries will play a less significant part in transacting business. Those who act as third party intermediaries will have to focus their thoughts on achieving financial performance through customer management.

Whatever happens there will be increasing consolidation in the banking and insurance sectors. Many insurance businesses will choose to be acquired by larger institutions than be de-mutualised. Many more building societies and insurance companies will follow the de-mutualisation route, resulting in a refocusing dually on the shareholder and the policyholder. Managing these constituencies and building up processes to please these parties will be a challenge.

Globalisation and cross border acquisitions in the industry are already at an all time high. This will increase with the resultant downsizing entailing reduced visible presence in certain localities, virtual businesses created, peopled by fewer people, and fewer local branches.

Technological advance will increase and with it skill demands to operate and maximise service delivery. Communication with customers will become less personal and massive transactions will take place through the internet.

The industry is changing and there is a requirement for user-friendly 'technical financial' expertise with more flexibility to respond to customers and to innovate and implement change. "Customer service is what the customer says it is" and those who can deliver and implement these changes will be those in demand by companies. People who can successfully drive change from the top will be increasingly valued over those who possess only technical expertise.

Competition will be the order of the day. Not just increased competition with other service providers, but competition across national boundaries. The Net knows no boundaries and it's just as easy to arrange a mortgage with an American bank as it is with your high street branch. Competition will also be intense for good quality people. Although they will be fewer they must be better and will be a scarce resource.

Flexibility in the staff is what will be valued most – those who can lead and build teams, those who can communicate with customers and understand business from both a strategic level yet operate at a local level will be of most value and increasingly are in scarce supply.

In a turbulent and increasingly competitive environment, managing staff retention and the development of people will increasingly occupy the manager's role. Coaching, mentoring and the development of people will gradually take equal emphasis with leadership – but many would argue that first managers have to move from the comfort levels of a transactional administrative style – to leadership, before becoming the facilitative coach. This is where the challenge is greatest – changing behaviour.

Third parties who currently act as a filter between the customer and the provider of service, whether they be an IFA, stockbroker, car dealership or retail outlet will require to demonstrate the best in customer management both to retain the loyalty of the customer and develop a longer term relationship with the service provider.

Drivers and results

With these massive changes already taking place there could be some serious fall-out in the industry. There is already over capacity in the industry whether we focus upon banking, insurance, motor finance, house mortgages or other services and products. There are too many institutions with similar undifferentiated products chasing too few customers. Cross selling is still a challenge to too many organisations – if this cannot be achieved 'one to one relationship' selling will never happen.

It will be critical that in this sector people have to be focused upon delivering results – through people. What causes the results to happen should be the yardstick by which people assess their own performance. Results must be viewed from the perspectives of all the constituencies in the process not just the shareholders. It is no good answering a phone call from a customer within three rings if you put him into a frustrating automated queuing system. Exploring how customers rate our service and exposing the critical success factors is the key to customer retention.

Some organisations draw a distinction between drivers and results. Identifying key drivers is critical to measure what enables results to happen. Get the 'drivers' right and the results will flow. In our experience, the key drivers are 'culture' and 'processes'. The business culture that enables the processes to develop and flow is based upon cross-functional working. One of the biggest challenges that organisations face is integrating the activities of a diverse group of people in functions that are highly differentiated to create processes that deliver results for the customer. To do this properly requires a major rethink around functional management.

In too many organisations 'matrix' is talked about a great deal, with flat structures with lots of people reporting to them but when you examine how people are rewarded it is on the old functional model – the 'know more to get promoted' has to be rejected for a more flexible reward model. Reward strategies have to be devised to reward for customer responsiveness. Few organisations have been able to grow this culture and this has a major effect on their staff-resourcing activities. Attracting, selecting, developing and retaining staff is a major issue. If a company does not look after and coach and develop their best people, then someone else will.

Culture causes results

Creating the right culture always comes first. The culture or way of working should be strictly driven by a tangible and stretching vision of what the company will become. Vision must be reflected by strong values for teamwork across boundaries focused upon delivering customer responsiveness. Values must drive the core strategies or competence of the business that in turn will determine the structure, roles and responsibilities and performance measures or KPI's. Cause-effect linkages must be established within the culture.

Transforming a business culture can take a relatively short amount of time – it takes as much time as the top people want it to take. Working through the Vision – to KPI's process is a methodological process that requires equal commitment in terms of enthusiasm as well as structure and process. A change that is less than challenging, inspiring and motivating will never be installed. ■

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"What is important is that change be integrated into the line and the organisation develops its own core competency of speedily implementing change. Business culture for too many organisations has been more an accident than a deliberate attempt to refocus energies. "