**Customer based business strategy and its role in creating value:**

**Case Study of a Leading Scandinavian Bank**

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By

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*Abstract*

Every major corporation aspires to be the market leader in its field. The path to reach the coveted #1 position varies, with some companies choosing to focus on increasing revenue and reducing cost while others prioritize customer service and satisfaction as the key imperative, allowing profitability to take a back seat for some time. This paper focuses on the need for a holistic strategy based on different levers like employee engagement, customer satisfaction and shareholder value. Delivering a leading customer experience requires committed and engaged employees. A best-in-class customer experience will drive customer loyalty, growth, create shareholder value and build a strong position in society. The objective of the study is to examine the relationship between these levers and determine the interdependence between them in a quantitative manner. The tools used for the analysis are trend analysis, XY plot and autoregressive models. It can be inferred from the study that while a tenuous relationship exists between employee engagement and customer satisfaction, the relationship between customer satisfaction and shareholder value is determined to be robust.

***Keywords*:** *Strategy, Scandinavian banking, Customer satisfaction, Financial performance, Employee engagement*

**A holistic framework for measuring the relationships between employee engagement, customer satisfaction and shareholder value:**

**Case of a Scandinavian Bank**

***Introduction***

The international financial crisis from 2009 to 2011 was denoted by a time period of immense losses for a majority of the financial institutions in western countries. A leading Scandinavian bank was also under pressure to remain profitable throughout the recession despite a large deposit deficit and sizable losses in its Irish division. This was achieved by exclusively prioritizing gains in operational efficiency in order to meet the market and investor’s expectations of growth. A side effect of this was a limited focus on customers and erosion of the public’s trust. This mandated a change in strategy to a holistic focus on employees, customers and shareholders together, rather than in isolation.

***Literature Review***

There are existing studies that address the quantitative relationships between the employee-customer-profits value chain. The most well-known study focused on Sears, Roebuck and Company and how it radically changed the way it did business and dramatically improved its financial results. It was published in Harvard Business Review in 1998 by Anthony J. Rucci, Steven P. Kirn and Richard T. Quinn, and detailed a system known as Total Performance Indicators, or TPI—a set of measures that shows how well Sears was doing with customers, employees, and investors. However close to 20 years on, there are questions on the sustainability of such a framework in a rapidly changing world given its current financial state.

Some of these concerns are addressed in a 2006 thesis titled ‘Sustainability of the Service-Profit Chain’ by Kalyan Sunder Pasupathy. As part of this dissertation, a methodology to evaluate investments in service operations was developed. It laid the groundwork for taking the evaluation of service operations from a static realm to a dynamic perspective, driven by the fact that organizations change over time and change is inevitable.

William J. Feuss, Joel Harmon, Jeana Wirtenberg and Jeffrey Wides published a comprehensive cross industry paper in 2004, titled ‘Linking Employees, Customers and Financial Performance in Organizations’. The results supported the notion that the people-service-profit chain is alive and well by making the relationships between various types of financial and non-financial data more visible and hence more actionable.

However, the common theme in all existing literature is the lack of reliable, comprehensive data to define and measure relevant metrics and the importance for each company to build a customized framework to determine the interconnections between employees, customers and financial performance.

***Research Design, Data & Methodology***

*Objectives*

Objective of this analysis was to design a customized approach to determine the interdependence of customer satisfaction, ROE (return on equity) and employee engagement. The expected outcome should highlight the driving parameter among these three.

*Data Description*

A key part of measuring the relationship specific to the Scandinavian bank is identifying internal data sources for employee and customer satisfaction. Customer knowledge surveys for different business units across key competitors was used to measure satisfaction across different attributes like role of advisors, quality and timeliness of service. As the surveys have been deployed from 2012 onwards, it resulted in a rich analysis spanning the financial crisis and its aftermath to truly understand the implications of the consumer focused business strategy. Employee satisfaction surveys were available from 2014 onwards in the form of a detailed questionnaire related to different aspects of an employee’s opinion of the organization ranging from internal IT systems to overall satisfaction. These surveys were combined with publically available financial data and reports to analyze trends, depict simple relationships and build more statistically robust models to understand the interconnections.

*Methodology*

A phased approach, to first determine the relationship between employee engagement and customer satisfaction, followed by customer satisfaction and financial performance was adopted. In the first phase, point in time data from 2014 and 2015, related to employee and customers was analyzed using scatter (XY) plots. This depicted how one data series is affected by the other. Descriptive statistics like correlation, line of best fit and co-efficient of determination were used to draw inferences about the direction and strength of relationship between employee and customer perceptions. In the second phase, time series data from 2012 to 2016 was used to build an autoregressive model between financial performance and customer satisfaction attributes in different areas like overall satisfaction, service quality and timeliness of employees. Statistical measures like Durbin Watson statistic and MAPE were used to determine model fit and test for autocorrelation.

***Conclusion***

Maintaining a laser focus on customers and employees, while driving towards higher profitability is a mandate that is common across leadership teams of almost every fortune 500 company. What differentiates high performing companies from others is the ability to execute on that vision and highlight that this series of relationships can also be validated using quantifiable data. The value of this information is immeasurable to any management team seeking to understand how changes in any dimension related to either employees or customers will affect their financial performance. The results of this analysis reveal that while a tentative relationship exists between employee engagement and customer satisfaction, the strength and direction of the association varied across business segments. This has key implications in defining the investment strategy of the bank depending on whether a business unit benefits from marketing of the brand versus strengthening customer service. Internal alignment of surveys will also help in strengthening the rigor of this relationship. The quantitative link between customer satisfaction and financial performance was established in a robust manner with customer interactions with employees and performance of competitors playing a key role in driving shareholder value.

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