AN INVESTIGATION INTO CUSTOMER ACCOUNTING IN CUSTOMER-FOCUSED ORGANISATIONS

BY

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ABSTRACT

Management accounting information should aid management in the design and implementation of strategy. Firms adopting a customer-focused strategy need customer accounting (CA) metrics. Yet accounting literature provides limited insights into what CA metrics are used, how they are used, or what factors influence CA measure choice or hinder more widespread adoption of CA practices. This thesis enhances knowledge of actual CA practices as they operate in firms with a customer-focused strategy and uses contingency theory to explain the choice of CA practices and their use in three exploratory case studies consisting of two national banks and a global courier company.

The two strategic business units in Alphabank employ locally-developed, activity-based costing systems to produce CA information. Personal Banking incorporates a 'customer needs met' variable into a customer lifetime value measure used to segment customers based on potential profitability. Business Banking is smaller and currently uses historical customer profitability analysis at the individual customer level. Despite Alphabank's overall customer-focused strategy, only product profitability is reported at executive level, and tensions between finance and operations potentially hinder more widespread CA usage.

Betabank offers excellent customer service, but despite being very customer-focused they do not measure customer profitability. Executives use predominantly aggregate financial figures with a focus on net interest margin. Service excellence is paramount and Betabank do not consider financial CA useful as they do not segment customers. However, they extensively use non-financial customer related measures to monitor excellent customer service provision in order to enhance future profitability.

The courier company uses activity-based costing to produce historical customer profitability analysis which reports direct margin, gross margin and earnings before interest and tax. The analysis discloses significant profitability differences between customer segments, and even between individual customers within segments where customer relationship management is employed. They do not measure full customer lifetime value but the next year's customer profitability can be modelled using historical cost drivers. Financial CA measures drive initiatives

to enhance customer profitability and/or trigger price negotiations. Non-financial CA measures are used to drive the customer-focused strategy and enhance profitability.

The three cases demonstrate a considerable diversity in their usage of financial CA practices, with Betabank choosing to use no financial CA at all. Competitive intensity and the use of customer relationship management are found to be key drivers of CA usage at the individual customer level. Segmental customer profitability analysis is used when a large number of customers receive standard services at standard prices. No individual customer profitability analysis is needed for such homogenous customers as they can be efficiently managed using revenue. Non-financial CA measures were found to be widely used and hence a key contribution of this study is that in practice customer-related, non-financial performance measures are a key component of CA practices and may be extensively used to drive a customer-focused strategy.

From case analysis a contingency-based framework has been develop which identifies combinations of factors with strong interrelationships and common influences on the choice and usage of CA measures. This framework provides three main groupings of contingent factors (type of competitive advantage, level of customer heterogeneity, and stage of organisational development) which together potentially have strong predictive power in relation to the nature of CA measures which benefit firms with a customer-focused strategy.

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LIST OF ABBREVIATIONS

General abbreviations

ABC	*Activity-Based Costing*
BSC	*Balanced Scorecard*
CA	*Customer Accounting*
CE	*Customer Equity*
CLV	*Customer Lifetime Value*
CP	*Customer Profitability*
CPA	*Customer Profitability Analysis*
CPAIC	*CPA at Individual Customer Level*
CRM	*Customer Relationship Management*
CS	*Customer Satisfaction*
CSPA	*Customer segment profitability analysis*
GFC	*Global Financial Crisis*
ICT	*Information and Communications Technology*
MA	*Management Accounting*
MCS	*Management Control Systems*
NPS	*Net Promoter Score*
P&L	*Profit and Loss Account*
PMS	*Performance Measurement Systems*
PPA	*Product Profitability Analysis*
SBU	*Strategic Business Unit*
SHV	*Shareholder Value*
SME	*Small and Medium-sized Enterprises*

Abbreviations used for cases and case units of analysis

Alphabank:BB	*Alphabank's Business Banking SBU*
Alphabank:EL	*Alphabank's Executive Level*
Alphabank:PB	*Alphabank's Personal Banking SBU*
GCC	*Global Courier Company*

GCC:SAM/KAM	*Global Courier Company: SAM and KAM customer segments*
GCC:TSM/Adhoc	*Global Courier Company: TSM and Ad hoc customer segments*

Abbreviations by GCC (and in this thesis) for customer segments

Ad hoc	*Small, infrequent customers, served remotely*
KAM	*Customers served by Key Account Managers*
SAM	*Customers served by Strategic Account Managers*
TSM	*Customers served by Territory Sales Managers*

Abbreviations used for interviewees - Alphabank

BBM	*Business Banking Manager*
CFO	*Chief Financial Officer*
GCFO	*Group Chief Financial Officer*
HRM	*Human Resources Manager*
PBM	*Personal Banking Manager*
PBA	*Personal Banking Analyst*
PBM	*Personal Banking Manager*

Abbreviations used for interviewees - Betabank

FPA	*Financial Planning Analyst*
HCS	*Head of Customer Systems*
HOF	*Head of Finance*
PD	*Propositions Director*

Abbreviations used for interviewees - Global Courier Company

CCM	*Country Commercial Manager*
CFM	*Country Financial Manager*
CMD	*Country Managing Director*
HOGS	*Head of Global Sales and Customer Service*

1 INTRODUCTION

1.2 Background

Management Accounting (MA) is a service function within a firm that provides information to "assist management in the formulation and implementation of an organization's strategy" (Atkinson et al., 2012, p.4). MA should focus on meeting the needs of its internal customers, that is, managers and staff, who strive to ensure the firm achieves its corporate goals. For most for-profit firms, corporate goals will include the need to create shareholder value (SHV), and Rappaport (1998) maintains that it is self-evident that the primary goal of management should be the maximisation of SHV and hence the net present value of the firm's future cash flows. He also argues that "the source of a company's long-term cash flow is its satisfied customers" (p.8). But, there is a potential trade-off between delivering customer satisfaction (CS) and creating SHV (Ryals, 2008b) and therefore some form of customer accounting (CA), preferably including a forward-looking metric, is necessary to enable firms to maximise SHV.

CA is defined as including "all accounting practices directed towards appraising profit, sales, or present value of earnings relating to a customer or group of customers" (Guilding & McManus, 2002, p.48). The CA literature was once described as "little more than fledgling" (McManus and Guilding, 2008, p.783). This is despite numerous previous suggestions in the literature, and the business world generally, for a greater focus on customers. Kotler (2003), a marketing academic, observes that firms adopting a customer-focused strategy, one that "focuses on customer needs…and produces profits by satisfying customers" (p.20), need to change emphasis from products to customers. To monitor a customer-focused strategy he suggests that firms must measure both customer profitability (CP) and customer lifetime value (CLV), a forward-looking CA metric. He cites Narver and Slater (1990) for empirical evidence that firms adopting a customer-focused strategy achieve superior performance.

Kaplan and Norton (2008) state that "unless an organisation links its strategy to its governance and operational processes, it won't be able to sustain its success" (p.156). However, firm survival requires sales revenues generated from customers to be greater than long-term costs, including the cost of capital (Rappaport, 1998). Kaplan and Narayanan (2001, p.13) support this view and

advise companies to forecast and calculate the "total life-cycle profitability" of customers. They are clearly suggesting a forward-looking CA metric such as CLV. The CA coverage in accounting literature almost entirely concentrates on historical CP and is limited compared with coverage of product costing (Bates and Whittington, 2009). The marketing literature is more focused on forward-looking metrics such as CLV and customer equity (CE) (Weir, 2008). However, Gleaves et al. (2008) highlight general confusion and contradiction in the marketing literature with respect to the understanding of CA and conclude that marketing requires input from MA to shore-up and clarify its CA measures. This conclusion is consistent with Roslender and Hart's (2002) previous observations as they emphasized more intention than achievement generally with respect to the use of CA metrics, but observed that greater progress was made when marketing and MA collaborated.

In the marketing literature Kotler (2003) suggests that as customer-focused firms change in emphasis from product to customer, they should move from measuring short-term CP to a focus on CLV. How has the MA function responded to this call? Kaplan and Norton (2004a) seem to agree that a shift in focus from product to customer is needed. They discuss the trend away from a product driven economy, based on tangible assets, to a knowledge and service economy based on intangible assets and say that choosing the 'customer value proposition' is central to strategy. Hence, the balanced scorecard (BSC) has had a customer perspective from the outset (Kaplan and Norton 1992, 1993), which initially contained only non-financial measures. CP was quickly included (Kaplan and Norton 1996b), but with no specific guidance of how it should be measured other than a cross reference to the literature on activity-based costing[1]. Kaplan and Cooper (1998) stress that manufacturing costs, and operating costs in service industries, can be strongly influenced by customer behaviour and demand, and they claim this "causes customer costing to become even more important than product costing" (p.89). It is therefore pertinent to ask: has there been any shift in MA's emphasis from product costing to customer costing and what is MA's approach to profitability analysis?

There is a general shift in many firms from a focus on products to a focus on customers and a corresponding desire within the MA literature for a more comprehensive analysis with the

[1]Kaplan and Norton (1996b) suggest that ABC systems permit companies to measure CP and reference Cooper and Kaplan (1991a).

customer, not the product, as the main cost object. There is little evidence in the literature that MA practice is meeting the need as it remains predominantly product focused and the few CA developments reported are historical in orientation. The marketing literature includes forward-looking CA metrics like CLV and CE but is mainly normative and contains considerable confusion and inconsistency. There is therefore a need to investigate the nature of CA practices actually used in firms with a customer-focused strategy.

1.3 Research Motivations

Research to date, whether case-based (for example, Lind & Strömsten, 2006), surveys of practice (Guilding & McManus, 2002; Lord[2] et al., 2007; Tanima & Bates, 2015) or normative (Holm et al., 2012), has identified some of the factors that appear to influence the type of CA metrics used by firms adopting a customer-focused strategy. Moreover, surveys of practice indicate higher use rates than was anticipated, and statistically significantly higher perceived managerial merit scores for all CA practices than reported usage rates, highlighting potential for the development of CA practices. However, despite a growing literature on CA practices, particularly in the marketing journals, no comprehensive explanation of the use of CA practices has yet emerged. There remains a knowledge gap in respect of what specific CA metrics are used in practice, or how they are used, and to date no comprehensive theory has been developed of how CA measures may be effectively employed within a firm's management control system (MCS) to manage and monitor a customer-focused strategy.

Firms following a customer-focused strategy need appropriate, forward-looking CA metrics to help monitor and manage the successful implementation of the chosen strategy (Kotler, 2003, Kaplan & Narayanan, 2001). However, the accounting literature offers no robust theory on what CA metrics might be appropriate in what circumstances. Kaplan and Norton have included CP in their BSC since 1996, but their advice on how to measure CP is rather general. Kaplan and Norton (1996b) advise firms "to measure not only the extent of business they do with customers, but also the profitability of business" (p.71). The use of the word 'probably' leaves one wondering under what conditions firms would 'definitely' want to measure CP, and when they conceivably might not need to. Moreover, Kaplan and Norton (1996b) go on to suggest that ABC systems

[2] In some databases this paper is alternatively cited as Shanahan, Y. P., Lord, B. R. and Nolan, B. M. (2007). The use and perceived merit of CA in New Zealand. *Accounting Research Journal, 20*(1) 47-59.

"permit companies to measure individual and aggregate customer profitability" (p.71), but they do not explain when aggregate CP is sufficient or when CP at the individual customer level is desirable, or likely to be essential.

MA should be a service function, meeting the needs of its internal customers, who ultimately are the managers responsible for steering a firm towards its stated goals. Hence, in relation to a customer-focused firm, one could argue that Doyle's (2000, p.234) comment that "marketing's lack of credibility in the boardroom is much to do with its failure to quantify the contribution of marketing strategy to corporate performance" is an indication of a lack of appropriate information support from MA. Similarly, Srivastava et al. (1998) stress the need to strengthen the marketing-finance interface in order to fully understand and leverage the linkages between marketing activities and SHV. Srivastava et al. (1999) argue that a "new and unavoidable challenge for marketing managers is the need to assess the cash flow consequences of their decisions, commitments, and investments" (p.178), and hence they stress the importance of integrating marketing with business processes and SHV. Responding to the calls for a shift in emphasis from historical customer profitability analysis (CPA) to a forward looking measure like CLV (for example, Kotler, 2003; Kaplan and Narayanan, 2001) would appear to be the appropriate first step towards this integration.

The area of CA should be gaining increasing attention due to the adoption by many firms of the customer concept of marketing strategy (Kotler, 2003), and the popularity of the BSC, within which one of three key means of differentiation is on the basis of customer intimacy (Kaplan & Norton, 2004a). CA remained significantly under researched for some time (Guilding & McManus, 2002, Bates & Whittington, 2009) and McManus and Guilding (2008) conclude that there was an underdeveloped accounting literature on CA, which remained dominated by a focus on cost allocation procedures and ABC, and largely ignores forward-looking metrics. It has been left mainly to the marketing literature to propose appropriate CLV models, but Gleaves et al. (2008) highlighted contradiction and confusion within this literature and there remains a potential deficiency in the support that MA is providing to customer-focused companies, or a gap in the literature with respect to empirical evidence of the actual practice of CA in customer-focused companies. McManus (2013, p.141) observes "a slight increase in the number of studies promoting accounting analyses based on individual customers or customer groups", but she opines that "the number of studies remains small". She investigated the usage of the CA

measures and three marketing practices (acquisition/attrition analysis, CS and market share analyses) in Australian hotels and in particular found that competitive intensity drove a greater need for such measures. She recommended further studies on "the link between CA and marketing metrics usage and organisational performance" and also the integration of such information into management decision-making and long term organisational performance (p.150).

1.4 Research Objectives and Research Questions

The above evidence suggests that there is limited detailed guidance in the literature of what CA techniques are actually utilised in practice and hence little evidence of what CA metrics are beneficial to management in what circumstances. Lind and Strömsten (2006) use contingency theory to develop a framework to explain a firm's choice of CA technique based on its 'customer resource interfaces', but their study resulted in only limited insights. The authors themselves state that "the empirical results are not as unambiguous as the framework indicates" (p.1264) and they therefore argue that "more research on customer accounting is needed" (p.1265). Moreover, the contrast in volumes of coverage of CA practices in the MA and marketing literatures (McManus & Guilding, 2008, Bates & Whittington, 2009), and the contradiction and confusion within the marketing literature itself (Gleaves et al. 2008), highlight a potential deficiency in the support that MA provides customer-focused companies, or a gap in the literature with respect to the actual practice of CA in customer-focused companies. Therefore, the research objective of this study is as follows:

To examine the use of CA practices in firms that have adopted a customer-focused strategy.

Further survey work can do little more than provide an update on the general level of usage of CA practices and may merely confirm that a knowledge gap still exists. To gain deeper insights into what CA practices are used, and how they are used, requires detailed case study research, similar to Andon et al. (2001), Roslender and Hart (2002, 2003), Lind and Strömsten (2006) and McManus and Guilding (2009). An exploratory, multi-case study research project is therefore designed to investigate CA as it operates in three organisations with a customer-focused strategy. The study is therefore designed to address the following research questions:

1. ***What CA measures are used in organisations with a customer-focused strategy?***
2. ***How are CA measures used to manage and monitor the customer-focused strategy?***

Whilst the type of CA measures used and the nature of their usage will be of significant interest, it is also important to investigate what drives the choice of specific CA measures and the way they are used, as this will enhance the study's contributions and make it of likely relevance to a wider audience. The following third research question is therefore added:

3. ***What are the factors that influence the choice of CA measures and the way they are used, or hinder more widespread usage, within organisations with a customer-focused strategy?***

1.5 Theory

It is anticipated that numerous factors will influence the choice of CA measures and the way they are used by any firm, including the firm's industry sector, the nature of its competitive environment and the strategy chosen to deal with that environment. CA measures will sit within a firm's MCS and contingency-based MCS studies now comprise a substantial and diverse body of research (Chenhall & Chapman, 2006). In such research a contingency theory framework is used to establish "how MCS are best designed and implemented to 'fit' the context, or contingencies, within which MCS are employed" (Chenhall & Chapman, 2006, p.35). Otley (1980) describes how contingency theory may firstly help MA researchers to theorise the contingent factors that might influence the type of MCS that different firms use, and secondly provide a lens through which to interpret contingent results which emerge from a particular study or from a comparison of two or more prior studies. The application of both these approaches to addressing research question three is explained fully in chapter three. Contingency theory is used, in combination with an analysis of relevant literature (chapter two), to identify the contingent factors that may influence management when deciding what CA practices, if any, may be useful and how they should be used to manage and monitor a customer-focused strategy and drive profitability. There are likely to be complex relationships between these factors and the literature cautions against over simplification when researching these relationships (for example, Otley, 1980; Langfield-Smith, 1997; Chenhall, 2003). This study investigates nine key propositions relating to contingent factors and their likely relationship with the use of CA practices generally

and different types of CA practices, but it is anticipated that interrelationships will be involved.

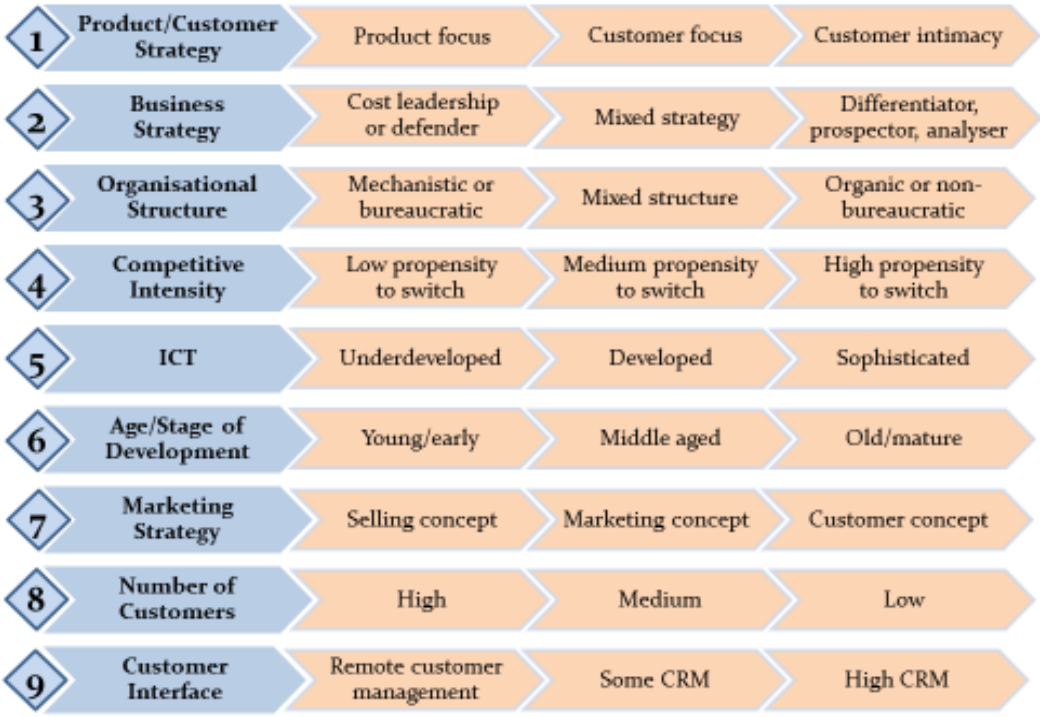

Figure 1.1: Factors likely to affect choice of CA measures and their usage

The development of these nine propositions is explained in chapter three and the contingent factors related to them are shown (in blue) in figure 1.1, together with the related range of outcomes that might be observed. In respect of each factor, the literature predicts that moving from left to right will result in a greater need for CA practices and the likely use of more sophisticated CA measures. It is likely that there are other contingent factors that influence MCS, and CA practices specifically, that are therefore relevant to this study. The researcher therefore needs to keep an open mind when conducting interviews and analysing data, in order to identify other possible contingent factors that influence the choice of CA measures and the way they are used, or hinder more widespread usage of CA practices.

1.6 Method

Case studies are now a widely accepted method for MA research (Scapens, 2004) and their usage has increased considerably in recent years (Hopper and Bui, 2015; Bromwich and Scapens, 2016). The MA literature on CA demonstrates that it has a weak theory base (Guilding & McManus, 2002: Weir, 2008) and hence the case study method is appropriate because it is "of particular value where the theory base is comparatively weak and the environment under study is messy" (Harrison 2002, p.158). Moreover, given the complexity of the interactions between MCS and

strategy (Langfield-Smith, 1997) in-depth, case-based research is suitable approach to provide detailed insights (Otley, 1980; Chenhall, 2003; Langfield-Smith, 2007) and was therefore chosen for this study. The use of a multiple-case method is suitable for in depth comparative analysis and developing theory (Eisenhardt, 1989), and facilitates literal and theoretical replication (Yin, 2014) in order to investigate the impacts of key case specific and industry-level contextual factors on a firm's strategies and MCS (Hopper et. al., 2001).

Case sites suitable to facilitate investigation of this study's research objectives were identified as for-profit firms that had specifically adopted a customer-focused strategy and were likely to use CA metrics. Relevant cases were needed, that is, cases that offer the opportunity to collect detailed data directly relating to the objective of the research (Yin, 2009). The relevant case sites chosen were an Australasian bank (Alphabank), a European bank (Betabank) and a Global Courier Company (GCC), conducting international business and also domestic business in a European region. Within the Alphabank case there were three embedded units of analysis: the personal banking strategic business unit (SBU), the business banking SBU and the executive level of the whole bank. Betabank was largely centralise and able to be treated as a single case. Within GCC, there were two embedded units of analysis relating to two key customer segments with significantly different operational characteristics and profitability profiles. Therefore, from three cases, six units of analysis are provided for cross-case analysis.

The contingency-based framework (figure 1.1) is used in conjunction with the available literature, to analyse the case study data collected, and to help explain any similarities and inconsistencies between cases, or sub-units embedded within cases, and/or between what these exploratory case studies reveal and the prior knowledge about CA practices, as disclosed in the extant literature.

1.7 Outline of Thesis

The next chapter provides a literature review of CA and highlights the significant distinctions between the treatment of CA in the accounting and marketing literatures. Past survey and case research into CA practices is reviewed to identify gaps in our knowledge of the practical application of CA, particularly in relation to firms with a customer-focused strategy. The review is then used to formulate the research objective for this study and to formulate research

questions one and two. Chapter three justifies the use of contingency theory for this study, and after a review of the contingency-based research on MCS a third research question is posed. To answer this question, nine propositions relating to the main contingent factors that are likely to influence the choice of CA measures used by firms with a customer-focused strategy, and the way those measures are used to drive strategy, are developed. Chapter four explains and justifies the use of case study methodology for this research and explains the design of a multiple-case study, involving three case firms, two with embedded units of analysis within them, to address the research questions posed in chapters two and three.

Chapter five presents and analyses the results of case one, Alphabank, an exploratory case in the banking sector. Alphabank is an Australasian challenger[3] bank with a customer-focused strategy. It was chosen as a representative case (Yin, 2014) and, as expected, provides examples of CA practices. Chapter six presents and analyses the results of case two, Betabank, a European challenger bank and a second exploratory case within the same industrial sector. Initially intended to be a literal replication (Yin, 2014) of case one, it transpired to be a theoretical replication (Yin, 2014) due to its lack of use of financial CA measures. Chapter seven presents and analyses the results of a further exploratory case in an alternative industrial sector. This case provides an opportunity to investigate the same contingent factors and the same propositions in an alternative context, and is therefore a literal replication. Case three is a global company operating in the express courier sector. Chapter eight provides a detailed cross-case analysis, summarises the results for all cases and highlights this study's contributions and limitations, before suggesting areas for future research. Finally, the conclusions of this study are presented.

[3] A challenger bank is a relatively small retail bank set up with the intention of competing for business with large, long-established national banks.

2 LITERATURE REVIEW

2.1 Introduction

It is the responsibility of the MA function to provide management with information to support the successful implementation of a firm's strategy. "Management accounting must serve the strategic objectives of the firm", but there is no set of universal procedures that apply to all "without regard to the underlying values, goals, and strategies of particular firms" (Kaplan, 1984, p.414). In recent years, many firms have adopted a customer-focused strategy, and yet the accounting literature on CA has been described as 'little more than fledgling' especially when compared to the extensive marketing literature on "dimensions of organisational performance" (McManus & Guilding, 2008, p.783). Burns & Baldvinsdottir (2007) argue that the MA role is changing "from 'scorekeeping' to proactive 'business-consultancy' roles" (p.131) and advise that "customer management has become a central concern for today's management accountants" (p.119). But, unless actual MA practices are well in advance of those described in recent accounting literature on CA, managers in firms that have adopted a customer-focused strategy may be 'groping in the dark' due to the inadequacy of the information provided by the MA function.

2.2 The Use of CA Practices to Maximise SHV

From a neo-classical economics viewpoint, the primary goal of management is the maximisation of SHV (Rappaport, 1998), and this requires the maximisation of the net present value of future net cash flows (Rappaport, 1998, Drury, 2008). Rappaport (1998) also argues that "the source of a company's long-term cash flow is its satisfied customers" (p.8). But, only customers that are profitable in the long term will enhance SHV and Ness et al. (2001) advise against forging "superior relationships with the wrong customers" (p.49). Moreover, Ryals (2008b) identifies a potential trade-off between delivering CS and creating SHV and hence some form of CA, preferably including a forward-looking metric, is necessary to enable firms to maximise SHV. Research has suggested that historical CA measures, such as CP, and the forward-looking CA measures CLV and CE are useful drivers of SHV, and Gleaves et al. (2008) produce a useful framework depicting the links between CP, CLV, CE and SHV (discussed in 2.5.1). Similarly, Bauer and Hammerschmidt (2005) attempt to synthesise CLV and SHV in order to develop "an

integrative model to calculate the corporate value" (p.342).

Although survey evidence discloses higher than expected usage of historical CA practices, given the scant literature coverage at that time, there is much lower usage of forward-looking CA measures, despite the perception of managers that these forward-looking CA practices are of high perceived merit (Guilding & McManus, 2002). Gleaves et al. (2008) suggest that accountants' inbuilt conservatism make them reluctant to utilise the more creative and judgement-based, forward-looking CA measures. But as these are measures that will help identify the potential contribution the firm's customers make to enhancing SHV, one must ask two questions. Firstly, is there a danger that a reluctance of the MA function to develop and utilise forward-looking CA measures will undermine attempts by the firm to execute a customer-focused strategy? Secondly, is the identification and reporting of appropriate CA metrics the critical 'missing link' between the adoption of a customer-focused strategy and the achievement of the SHV maximisation goal?

The goal of SHV maximisation is not universally accepted but, whatever their overall goal, all firms must decide how to allocate scarce resources. For a customer-focused firm, the allocation of resources, particularly marketing resources, between customers or customer groups will be a key decision. For many firms, especially those that differentiate on the basis of customer intimacy (Kaplan & Norton, 2004a), the costs-to-serve, and hence CP, may vary enormously from customer to customer. Smith and Dikolli (1995) identify numerous characteristics that may distinguish profitable from unprofitable customers and group them under four headings: purchasing patterns, delivery policy, accounting procedures and inventory holding and recommend using ABC to accurately track resource consumption by customer. Thus, any customer-focused firm, where costs-to-serve vary between customers or customer groups, needs the MA function to measure CP and provide CA metrics that assist management to make decisions about unprofitable, break-even and profitable customers. These decisions will include which customers warrant extra investment and whether any customers should actually be 'discouraged'. On the latter point Cooper and Kaplan (1991a) caution managers against using the information provided by ABC naively to support a decision to drop customers. Instead the information can support decisions to re-price customer transactions, change customer mix or to perform activities more efficiently.

In a recent analysis of MA past and future, Cokins (2013) describes how ABC was needed for causal cost tracing to manage the complexity caused by increasingly diverse types of products, services, channels and customers. He entitles the MA era from 1980 to date as the 'consumer era' and sees us moving forward (from 2015 on) into the predictive analytics era, with a shift in emphasis from a historical to a predictive view of strategy and operations. One of his major trends in MA is that "Expansion from product to channel and customer profitability analysis" (p.23). He describes channel and CP reporting, using ABC, as "an increasingly more relevant need" (p.24). He advocates moving beyond historical CPA to forward-looking CA measures and hence treating customers as investments and he calls for MA to help the sales and marketing function find out "the best types of customer to retain, grow, win back and acquire" in order to maximise SHV (p.25).

2.3 Using CA Measures to Support a Customer-Focused Strategy

CA "includes all accounting practices directed towards appraising profit, sales, or present value of earnings relating to a customer or group of customers" (Guilding & McManus, 2002, p.48) and hence CA is the umbrella term used in this study cover all types of CA practices. CPA involves calculating historical profit earned from a specific customer or group of customers and is also called customer account profitability or customer profitability (Weir, 2008). For CPA at the individual customer level (hereafter CPAIC), the profit calculation is based on costs and sales which can be traced to a particular customer. This technique allows for the identification of the most profitable customers. (Guilding & McManus, 2002). Customer segment profitability analysis (CSPA) is the practice of measuring CP, on a segment or customer group basis. Customer lifetime value (CLV) involves extending the time horizon for CP analysis to include future years. The practice focuses on all anticipated future revenue streams from, and costs involved in servicing a particular customer or customer group (Guilding & McManus, 2002). Given that CLV is an assessment of customer value over several years, discounting is required and hence Gupta and Lehmann (2005, p.15) define CLV for a single customer as "the present value of all current and future profits generated from a customer over the life of his or her business with the firm". CE is the valuation of customers or customer groups as assets, which involves the calculation of the present value of a group of customers to the company (Guilding & McManus, 2002). More specifically, Bayón et al. (2002, p.213) define CE as *"the combined lifetime values of all current*

and future customers". If using this definition of CE, and assuming that all operating costs have been traced to customers (including acquisition and retention costs), the value of the firm is equal to CE plus or minus any (appropriately discounted) non-operating income or costs (Gleaves et al., 2008). Thus there is a clear link between CLV and CE and SHV (Doyle, 2002; Bauer & Hammerschmidt, 2005; Stahl et al., 2003; Ryals & Knox, 2005).

Kaplan and Norton (2008) state that "unless an organisation links its strategy to its governance and operational processes, it won't be able to sustain its success" (p.156). Kotler (2003) identifies a general shift in marketing strategy from a product focus to a customer focus and yet claims that many companies measure CS, but most fail to measure CP. Prior to 1950 marketing management had been dominated by the production, product and selling concepts, which are all based on "a product centred 'make-and-sell' philosophy" (p.20). In contrast, Kotler (2003) explains the marketing concept "focuses on customer needs…and produces profits by satisfying customers" (p.20) and he cites Narver and Slater (1990) as an example of the marketing concept driving superior performance. Such firms focus on customer segments and hence may be expected to benefit from measuring CSPA. Further support for the positive relationship between market orientation and financial performance is provided by Slater and Narver (2000) and Saxe and Weitz (1982, p.343-4). The latter argue that firms following the marketing concept must "determine the needs of a target market and adapt itself to satisfying needs better than its competitors". Moreover, they opine generating CS is key to satisfying the firm's goals. Homburg et al. (2009) find evidence for the oft stated claim that "a high degree of customer orientation is associated with superior knowledge of customer needs" (p.76) and that training front-line staff to develop accurate "customer needs knowledge" will enhance CS.

Kotler (2003) advises some firms go further and operate under the customer concept, and hence forge a one-to-one relationship with their customers. He suggests that such firms need to conduct CPAIC. It is argued here that firms operating either the marketing or customer concepts have a clear market orientation and a customer-focused strategy. Cravens and Piercy (2009, p.124) advocate the use of CLV "to examine long-term customer attractiveness" and say that retail banks in many countries "aggressively recruit young people as customers when they are undergraduate and graduate students" when they are likely to be unprofitable to the bank, "with the goal of retaining the customer with a better than average chance of becoming a high-net-worth individual" and so becoming highly profitable for the bank if they can be retained. This

example demonstrates the need for the forward-looking CLV measure in preference to historical CPA.

Kotler (2003) highlights the considerable increase in the number of companies adopting the customer concept, but claims that such customer-focused firms know how to provide value *to* their customers but do not adequately measure the value they derive *from* their customers. A significant change in marketing strategy should lead to a corresponding change in the tailored marketing (or management) accounting system (Ward, 2004) and there is a clear need for customer-focused MA support in these companies, not least to ensure that they avoid developing "superior relationships with the wrong customers" (Ness et al*.,* 2001, p.49). Arguably, the MA function in such customer-focused firms should implement CA practices that adequately support and monitor the success (or otherwise) of the chosen strategy. Thus, measures of customer segment profitability may need to be supplemented by measures at an individual customer level. Mitchell (2004) provides evidence of this approach by highlighting a resurgence of ABC within banks who use CP information within their customer relationship management (CRM) system, but he warned the less sophisticated banks not to pick up low-profitability customers divested by others and advised that "profitability analysis at the customer level is no longer optional" (p.28). LoFrumento (2007) argues that successful implementation of CRM requires accurate CPAIC, which should be used to estimate CLV. Vorhies et al. (2010) found firms that increased their brand management and CRM capabilities enhanced their financial performance (measured by relative return on assets). Moreover, Payne and Frow (2005) link CRM to the creation of SHV through the creation of "profitable, long-term relationships with customers" (p.168) and Chen and Popovich (2003) link CRM with a shift in emphasis from product to customer portfolios and maximisation of CP.

Kaplan and Norton (2004a) claim that the 'customer value proposition' is core to any business strategy and must describe "the unique mix of product and service attributes, customer relations, and corporate image that a company offers" (p.172). They argue that the 'customer value proposition' is typically chosen from one of three differentiators: operational excellence, customer intimacy, or product leadership. They say, "For customer intimacy, an organisation must stress the quality of its relationships with customers, including exceptional service and the completeness of solutions it offers" (p.170). Companies choosing a strategy with customer intimacy as their differentiator will need to support and monitor their strategy with appropriate

CA metrics. Treacy and Wiersema (1993) are explicit about the need to measure CLV and they explain that "customer-intimate companies are willing to spend now to build customer loyalty for the long term. They typically look at the customer's lifetime value to the company, not the value of any single transaction" (pp.87-88).

In summary, the above discussion demonstrates a need to integrate MCS with a firm's chosen strategy (Kaplan & Norton, 2004a, 2008) and highlights a general shift in many firms to a focus on customer groups or even individual customers (Kotler, 2003) and hence a need for CA practices, both historical and forward-looking, to support investment in high value customers (Cravens & Piercy, 2009) and avoid costly relationships with unprofitable customers (Ness et al., 2001; Mitchell, 2004). Moreover, the shift in emphasis from product to customer and the related need for CRM implementation requires support from CA practices if SHV is to be created (LoFrumento, 2007; Payne & Frow, 2005; Chen & Popovich, 2003). The majority of this literature, particularly the marketing literature, is normative and there is a contrast between accounting's approach to CA and marketing's approach. This contrast is outlined in the next two sections, and section 2.5 provides a synthesis of the two literatures.

2.4 The CA Literature: A Contrast between Accounting and Marketing

There follows a detailed review of the accounting literature on CA and a review of the marketing literature on CA. It will become apparent that there are considerable contrasts, in terms of volumes and emphases, between the two.

2.4.1 CA in the Accounting Literature

The accounting literature on CA is introduced in three sections, starting with early literature of a largely normative nature setting out the need for CA. This is followed by the survey evidence of CA usage and perceived merit and the links between ABC adoption and CA, leading into insights provided by case-based research. Then the main findings from the accounting literature are summarised.

2.4.1.1 The need for CA and Measurement Methods

Kaplan and Norton (1996a), describe a trend away from a product-driven economy, based on tangible assets, to a knowledge and service-driven economy based on intangible assets, and

make the 'customer value proposition' central to strategy. Hence, the BSC has had a customer perspective from the outset (Kaplan & Norton 1992, 1993) and CP was quickly included (Kaplan & Norton 1996a), but with no specific guidance of how it should be measured.

Kaplan and Cooper (1998) stress that manufacturing costs, and operating costs in service industries, can be strongly influenced by customer behaviour and demand. Moreover, Kaplan and Cooper (1998) claim this "causes customer costing to become even more important than product costing" (p.189). This is consistent with Johnson (1992) who warns against using ABC to help reduce costs and raise margins, whilst "doing business as usual" (p.153) and stresses the need to assess processes "in terms of satisfying customer wants" (p.152). Johnson (1992) suggests that customer-focused firms may find customer-specific information on costs useful to assess the impact that relationship-building activities have on profitability, but claims that in the 1990's few companies ever compiled such information. Shank (1996) offers one of the few case examples of such information being used in practice in that era. His Allied Stationery Products case describes how a 'commodity' paper products firm differentiates itself by offering customers value-added distribution and logistics services along with the core product. The firm used ABC to establish the customer specific costs and discovered a disparity of CP similar to the Kanthal case (Kaplan, 1989).

Foster and Gupta (1994) also observe an increased focus on customers and a need to measure CP. They identify a priority shift from the more traditional marketing focus on "revenues and the attraction of customers", to a focus on "retention as well as attraction of *profitable* customers", (emphasis in the original, p.44). However, they doubt whether marketing decisions would be supported by adequate accounting information. The inadequacy of information is taken up by Foster, Gupta and Sjoblom (1996), who observe that most MA systems focus on products, departments or geographic regions and few focus on the customer or measure CP. Their review of developments in MA's approach to profitability analysis highlights that product profitability analysis (PPA), generally backed by ABC systems, has experienced rapid development, and yet CPA developments have been very sluggish by comparison.

Evidence for the fast development of ABC product profitability is provided by Bjørnenak and Mitchell's (2002) review of journal literature on ABC from 1978 to 2000. They find a rapid rise in prominence of activity-based costing/cost management (ABC/M) from an initial focus on "ABC/M

(for product profitability assessment)" (p.504) through the development of ABC/M, "to the complementarities of ABC/M to other new high-profile management and accounting techniques" (p.504). However, they do not specifically highlight CPA, or any other form of CA, as either a key element of this ABC/M literature or as a complimentary technique. Moreover, Smith (1993, p.26) refers to a lack of appropriate information to support decisions related to the customer base and he argues that "customer profitability rather than product profitability might be a more appropriate focus" (p.26).

Shields (1997) conducts a seven-year content survey of major accounting journals but finds no articles on CA. Smith (2002) is surprised to find that over the 15 years surveyed there was not even one major academic paper on CPA published each year. The scant accounting literature, up until the early 2000s, mainly contains calls for the analysis of customer-related costs and hence a historical CPA, for example, Bellis-Jones (1989) and Howell and Soucy (1990). Ward (1992) uses the alternative term CAP. He does not advocate the use of ABC but prefers a marginal costing approach based on the contribution customers make to common fixed costs. Smith (1993) calls for a move from a product profitability measure to CPA, whist Smith and Dikolli (1995) highlight the many factors that cause different customers to have different costs-to-serve and hence the benefits of using ABC methodology to produce CPA. Moreover, Kaplan and Narayanan (2001) describe how CPA, based on ABC methodology, can prompt management actions to transform unprofitable customers into profitable ones, by process improvement, pricing adjustments and relationship management. Without actually using the term CLV, Kaplan and Narayanan (2001) suggest monitoring "the longitudinal variation of customers over time to calculate their total life-cycle profitability" (p.13), one of the few mentions of the need for a forward-looking CA metric (like CLV) to be found in the accounting literature. The only other one found is Andon et al.'s (2001) description of CLV usage in two Australian insurance firms, as discussed in 2.4.1.3 below.

Therefore, up to the early 2000s there is relatively little empirical evidence of CA practice in the MA literature, other than some teaching cases (Kaplan, 1989; Shank 1996), but there are many calls for CPA and advice on measurement mainly advocates use of ABC. However, ABC/M literature remains product focused (Bjørnenak & Mitchell, 2002). Forward-looking CA practices are hardly mentioned, except for Kaplan and Narayanan (2001) and Andon et al. (2001). Some empirical evidence of CA practices does begin to emerge post-2000 from both survey based research and case studies.

2.4.1.2 Insights from Survey Literature

Surveys specifically related to CA usage are rare, but surveys of ABC adoption (for example Innes and Mitchell, 1995, Innes et al., 2000) do find evidence that practitioners use CA, and the need for CPA is often cited as a key reason for the adoption of ABC. However, such survey evidence is unclear on the level of sophistication of the CA metrics in use. A replication in New Zealand of the latter UK survey (Innes et al., 2000) finds that 46.7% of the ABC adopters cited CP as one of the purposes of ABC (Cotton et al., 2003). Drury and Tayles (2006) discover little prior empirical work in the literature to explain the nature, role and content of profitability analysis, and yet their survey responses from 187 UK companies indicate that companies consider profitability analysis to be one of the most important MA practices. They discover that most firms use more than one cost objective in their profitability analysis, with 91% of respondents analysing profits by product or service and 74% by customer, at least annually. Interestingly, the split between respondents who ranked contribution as the most important profitability measure for decision making and those that incorporated some arbitrary overhead allocations was about 50/50. This observation is relevant to the debate on whether CA measures should be based on full cost ABC information or on contribution (2.6.2).

A key milestone in the CA literature is the first survey which specifically concentrates on CA or equivalent. Guilding and McManus (2002) attempted to delineate CA practices, defined five dimensions of CA and surveyed large Australian companies on their usage and perceived managerial merit of CA practices. They found scores for the perceived merit of CA to be significantly higher than reported usage rates and also highlighted a positive association between market orientation and CA usage. Lord et al.'s (2007) replication survey found generally lower usage and perceived merit rates in New Zealand, with statistically significant differences with respect to the mean usage of lifetime CPA, valuation of customers or customer groups as assets and of CA generally. Lord et al. (2007) found the managerial perceived merit of all practices except CPA were statistically significantly lower in New Zealand. However, they noted that using an all-inclusive category called CA appeared to cause confusion and thus produced distorted results[4]. The Lord et al. (2007) New Zealand study was replicated by Tanima and Bates (2015)

[4] Distorted because the mean scores for usage and perceived merit of the holistic term CA, which was meant to be inclusive of all types of CA, were lower than the mean scores for both CPA and CSPA.

with the problematic holistic CA measure excluded. Their survey, conducted in 2009, disclosed results in New Zealand much more closely aligned to the findings of the Australian survey (Guilding & McManus, 2002) than the prior New Zealand study by Lord et al. (2007). Most significantly for this research, Tanima and Bates (2015) find a similar gulf between the mean usage rates of the two historical CA measures and the two forward-looking measures in New Zealand to that found in the Australian survey. As this research investigates CA usage in cases in both Australasia and Europe, one might ask: What are CA usage rates and the scores for perceived managerial merit of CA in Europe? Unfortunately, we do not know, as to date the above mentioned three surveys are the only ones found in the literature that specifically measure CA usage and/or perceived merit rates. However, further evidence of CA usage is provided by the case study literature on CA (2.4.1.3).

In contrast to Guilding and McManus (2002) and Lord et al. (2007), Tanima and Bates (2015) also investigated whether the contingent factors: competitive strategy, market orientation, environmental uncertainty, costing methodology, company size, and industrial sector; were associated with the usage and perceived merit of CA practices. They also found significant positive associations between CA usage and perceived merit and the adoption of the marketing concept in respect of CSPA and CPAIC, and found a significant positive association between the use and perceived merit of CPAIC and adoption of the customer concept. These finding are discussed in chapter three (3.4.5).

Chenhall (2005) investigates the role of performance measurement systems (PMS) in assisting managers to develop competitive strategies. He calls them strategic performance measurement systems (SPMS) and explains that they “present managers with financial and non-financial measures covering different perspectives which, in combination, provide a way of translating strategy into a coherent set of performance measures” (p.395). He identifies customer orientation as one of three key dimensions of SPMS (the other two are strategic and operational linkages and supplier orientation) which is of key relevance to this study because it “focuses on customer linkages and includes financial and customer measures” (p.395). By analysing survey results from 80 large Australian industrial organisations, Chenhall (2005) identifies an association between the customer linkage dimension of SPMS and strategic delivery outcomes (for example, provision of fast deliveries and dependable delivery promises), which was fully mediated through organisational learning. Conversely, he finds that organisational learning does not intervene

between customer linkages and either flexibility or low-cost strategic outcomes. One of the key limitations of the Chenhall study was that the influence of contextual variables, such as different types of competitive environments and technologies, on the relationships studied were not investigated. Chenhall (2005) suggests the need for future research on these. This study will therefore consider competitive environment and technologies as contingent factors that may influence the use of CA practices (3.4.3).

More recently, McManus (2013) conducted a survey of 165 Australian hotel managers and found that "large, highly market oriented hotels with decentralised structure use more customer-focused accounting and marketing practices" (p.140). She also found that hotels facing highly competitive environments are more likely to use CPA and CLV, as well as market share analysis and customer acquisition and attrition rates, to monitor competitive advantage.

2.4.1.3 Insights from Case Study Literature

The only reasonably detailed description of the actual use of forward-looking CA practices found in the accounting literature is Andon et al. (2001). The authors describe the measurement of the economic value of customers to the organisation (EVCO) in three Australasian service organisations. The authors simplistically claim there are just two distinct CA approaches: CPA, supported by the MA literature, which they state is "a form of activity-based costing" and CLV championed in the marketing literature (p.63). Their CPA example is a bank with a sophisticated ABC system, which switched from PPA to CPA at both the segment and individual customer level. Interestingly, the CPA analysis was implemented by marketing personnel and only reviewed by the accounting function. Andon et al. (2001) also describe two cases of CLV implementation, both in the insurance industry. The health insurance firm measures average CLV by age-based customer segments and incorporates the variable 'average customer tenure', estimated from historical defection rates. Segmentation analysis identified the sub-segments with the greatest customer value. In contrast to the CPA mentioned above, operating costs (including fixed costs) were specifically excluded because they are not easily allocated to segments. The CLV calculations were conducted by marketing staff with the accounting function only involved in validation. The customer segmentation exercise led to changes in pricing structures and more focus on value thereafter.

Roslender and Hart (2002 and 2003) also conduct case-based research on SMA practices in 10

companies "regarded as at the leading edge in their various fields" (p.262) and included CPA as one of the SMA practices investigated. They find a desire to develop CA metrics, but a general lack of successful implementation or only historical CPA in use, suggesting forward-looking CA metrics are hard to define and measure, and hence just too problematic.

Furthermore, Kaplan and Norton (2004a) use the example of a bank (which they call Metro Bank) with a significant but stable market share needing to be selective about its customers. The bank chose the objective "identify and then upgrade or exit unprofitable customers" (p.112), used ABC to measure CPAIC level, and measured success in terms of reducing the percentage of unprofitable customers. With respect to customer acquisition, Metro Bank focused on cost per new customer acquired and their CLV. Kaplan and Norton (2004a) stressed Metro Bank's customer acquisition process "established relationships with clients who required a knowledgeable adviser who could build customized financial solutions" (p.121) and their retention process was based on providing a superior customer service. Kaplan and Norton (2004b) claim in order to create value a firm must have a sound strategy and its intangible assets must be aligned with it. They use another retail banking example which they describe as "migrating from its historic strategy of promoting individual products to offering complete financial solutions and one-stop shopping to targeted customers" (p.58). The authors highlight the need for analytical support from a CPA system based on ABC together with CRM software.

Of particular relevance, Lind and Strömsten (2006) develop a framework which they claim, can be used to explain a company's choice of CA techniques. Lind and Strömsten (2006) use the typology of four different customer relationships: transactional, facilitative, integrative and connective, identified by Ford et al. (1998) in their discussion of customer portfolio analysis. They combine this with Håkansson and Waluszweski's (2002) classification of technical and organisational resource interfaces to identify the CA practices likely to benefit the company in four alternative circumstances. Lind and Strömsten (2006) appear to have used a contingency theory approach to deduce a normative framework of CA usage from the extant literature. The framework is tested at two case study sites to establish if the CA practices predicted by the framework are observed in practice. The research design appears somewhat problematic as the case study sites appear to be used as exploratory cases and also to test the framework. Hence it is not surprising that the "case data support the framework developed". Even so, the authors themselves admit "the empirical results are not without ambiguity" (p.1257). The Lind and

Strömsten (2006) paper raises more questions than it answers, as the framework does not predict the use of more than one measure at the same time, nor the occasional (ad hoc) use of additional CA measures to those regularly in use. Although Lind and Strömsten (2006) do try to classify customer relationships it proves difficult to capture the full complexities of those relationships and they are certainly correct in stating "the framework presented here is only a first attempt to understand when companies use different types of customer accounting techniques" (p.1265). No attempts by other researchers to retest the Lind and Strömsten (2006) framework have been found, possibly due to difficulties in clearly identifying and distinguishing between transactional, facilitative, interactive and connective interfaces in practice.

Other CA case study research has been conducted in Australia. McManus (2007) describes the construction of a geographically segmented CPA using ABC methodology in a large telecommunications company (called Telco) in Australia with over 7.5 million customers. The CPA discloses significant differences in profitability between the customer segments, with customers in metropolitan and urban areas proving to be more profitable than customers in rural areas. The CPA is undertaken every six months and relied on activity costs which were estimations based on sample data and averages, but provides management with useful insights which directly influence subsequent marketing strategy. It is notable that the CPA covered only one business unit of Telco, and hence was only a partial picture of overall CP, as many customers use Telco's other products and services. Proposed future developments were to move from a historical analysis to a predictive one by developing CLV measures.

McManus and Guilding (2009) use field study evidence, gathered from semi-structured interviews in 14 Australian companies, to examine the extent of adoption of CA practices and also the barriers to CA adoption. Of interest for this study, Company J (a state bank) generates CA information in an ad hoc manner and measures customer value based on average margins and hence "customer value contribution" (p.45). An ABC system was under development to improve accuracy of cost allocations and facilitate progression from PPA to CPA, but different divisions used different computer systems which contained inconsistent customer numbers (p.52) and were organised by product not by customer. Therefore, a key barrier to further development was an inability to identify customers across the three main divisions (retail and business banking, and insurance) due to incompatible IT systems.

McManus and Guilding (2009) conclude that "there is a potential for cross-industry differences to drive the adoption and type of CA practices implemented" (p.57), as interview findings suggest that the more competitive the market that a firm operates in, the more likely that CA practices are used. Adopters were in telecommunications, insurance, electricity, accounting, and banking, which were industries deemed to be facing more competitive environments than non-adopters who were in manufacturing, construction and a rugby union club. The authors also argue that the firm's competitive strategy may have an influence on CA developments and considered defender and prospector strategies (Miles and Snow, 1978). McManus and Guilding (2009) argue that a defender (with an internal focus on high quality products, superior service and lower prices) will be less likely to adopt CA than a prospector (with an external focus – searching for market opportunities) but no conclusions were formed based on the interview data

McManus and Guilding (2009) found general support for the view that the size of the customer base influences the type of CPA that can be conducted (3.4.6). The telecommunications company has over seven million customers and only conducted CSPA, whilst the mineral processing company conducted customer cost analysis on a case by case basis as they had fewer customers. The authors claim segmentation has received little attention in the accounting literature and point to suggestions by interviewees for segmentation by age, geographic location, consumption pattern, payment pattern, industrial sector, customer value and behavioural and demographic factors. McManus and Guilding (2009) also identify specific barriers to CA adoption as: IT constraints, other organisational priorities, aversion to change and inadequate skills.

Around the same time, Dalci et al. (2010) conducted a case study in a Turkish hotel which converted its CPA system to Time-driven ABC and found that some of the customer segments that had been shown as unprofitable under conventional ABC were profitable under the new Time-driven ABC system. The new system also revealed the costs of idle capacity in respect of various activities.

2.4.1.4 Summary of Accounting Literature on CA Practices

The accounting CA literature reveals many calls for CA and the need for CA is often cited as the reason for ABC adoption (Innes and Mitchell, 1995, Innes et al., 2000, Cotton et al., 2003). Guilding and McManus (2002) found higher than expected historical CA usage in Australia, but statistically significantly lower usage of forward-looking CA measures and statistically

significantly higher perceived merit of all CA practices than actual usage. Tanima and Bates (2015) replicated these findings in New Zealand. However, this prior survey research provides limited insights into the precise nature of CA practices used in practice and there is still limited case-based research to fill this gap. Andon et al. (2001) describe examples of both CPA and CLV in the banking and insurance sectors respectively in Australia, but highlight the need to develop ABC systems and lack of information and communications technology (ICT) integration as barriers to further development. Roslender and Hart (2002, 2003) find a desire for CA but problems with development and implementation. Lind and Strömsten (2006) build a contingency theory based framework to relate CA practice usage to alternative customer/supplier interfaces, but initial results are "not without ambiguity" (p.1257) and the framework does not appear to have been subsequently tested. CSPA in a large Australian telecommunications firm discloses significant differences in profitability between segments and a desire to develop CLV (McManus, 2007). Further, the need for CA is industry specific, and CA adoption is more likely in firms facing a highly competitive environment (McManus and Guilding, 2009). Customer orientation is one of three key dimensions of SPMS (Chenhall, 2005) and requires a focus on customer linkages and support from both financial and customer measures. Similarly, Kaplan and Norton (2004b) highlight how retail banks "offering complete financial solutions and one-stop shopping to targeted customers." (p.58) need analytical support from a CPA system based on ABC together with CRM software.

2.4.2 CA in the Marketing Literature

Kotler (2003) observed that many firms have shifted from a focus on products to a focus on customers and yet most of them measure CS and not CP. In general, the marketing literature on CA "is much more broad-ranging with much greater attention directed to less measurable facets of customer related performance, lifetime customer valuation analysis and also ways that CA measures can be used to further decision making and control" (McManus & Guilding, 2008, p.785). Mulhern (1999) identifies no less than seven different ways that CP is referred to in the marketing literature and shows the terms CP and CLV are often used interchangeably. Moreover, Jain and Singh (2002) report that the terms CE and CP are used to identify what is actually CLV and found no consensus on a best method of calculating CLV. Although the use of historical CPA is described as common (Blattberg & Deighton, 1991, Storbacka, 1997, Mulhern, 1999, Jacobs et al., 2001), in contrast to the accounting literature the marketing literature focuses more on future

oriented metrics like CLV and CE. The emergence of a literature on CE demonstrates marketing is beginning to focus on the customer as an asset (Bell et al., 2002; Gupta & Lehmann, 2003, 2005; Rust, Lemon & Zeithaml, 2004). Blattberg and Deighton (1996) suggest that the CE metric is a key criterion in finding a balance between expenditure on customer acquisition and retention and they define CE as the sum of the discounted value of each individual customer's expected lifetime contribution to the company's fixed costs. In contrast, Bell et al. (2002) and Bayón et al. (2002) measure CE based on profits not contribution.

2.4.2.1 CA Measurement: The CLV models

There are a few case studies which disclose how these forward-looking CA measures have been used by companies to manage customer relationships and improve profitability, and there is a growing normative literature containing numerous suggestions of how CLV should be measured. Although the authors of many of these normative papers infer that their CLV models are generalisable to all companies, there is a significant variation in the models described and no dominant model has as yet emerged. Jain and Singh (2002) advise that there is no perfect CLV model, and each variation produced to date contains considerable limitations. Similarly, Malthouse and Blattberg (2005) claim CLV cannot be measured accurately and firms inevitably incur costs for misclassifying customers. Their own model uses net contribution, described as net of *direct marketing costs,* which one might presume includes acquisition and retention costs. However, these latter two terms are not specifically mentioned, or separately included in the CLV model. This contrasts with other authors who argue that acquisition and retention costs are necessary components of CLV (Blattberg & Deighton, 1996; Gupta et al., 2004; Kumar et al., 2004). The above discussion highlights how difficult it is to produce a generalisable CLV model that is not overly simplistic and implies that a CLV model should be tailored to a firm's specific circumstances. Therefore, a contingency theory based approach to the investigation of CA practices may be appropriate (chapter three).

CLV is more prominent than CE in the marketing literature, but, as mentioned above, definitions vary considerably. Hoekstra and Huizingh (1999) measure CLV by discounting future income from customers. Dwyer (1997) discounts customer gross profits less customer related burdens. Berger and Nasr's (1998) CLV model does not include customer acquisition costs or fixed costs. Bauer and Hammerschmidt (2005) are critical of any CLV models that do not incorporate important variables, such as customer retention rates, and they claim their model includes all the essential components of CLV. Hence it is one of the most complex models and a good example of a relatively all-inclusive model to show here.

$$\mathrm{CLV}_i = -\mathrm{AC}_i + \sum_t^T \left(r_i^t \frac{(\mathrm{AR}_{ti} + \mathrm{UR}_{ti} + \mathrm{CR}_{ti} + \mathrm{RV}_{ti}) - (\mathrm{SC}_{ti} + \mathrm{MC}_{ti})}{(1+d)^t} - \left(r_i^{t-1}(1-r_i)\right) \frac{\mathrm{TC}_i}{(1+d)^t} \right)$$

Equation 2.1: Bauer and Hammerschmidt, 2005, p.337

Where:

- AC = Acquisition costs = customer retention rate
- d = discount rate
- T = number of years in projection period
- AR = autonomous revenue
- UR = up-selling revenue
- CR = cross-selling revenue
- RV = reference value
- SC = sales costs
- MC = marketing costs
- TC = termination costs

The customer retention rate (r) is the probability that an individual customer will remain loyal for the next period which Bauer and Hammerschmidt (2005) say is determined by measures of CS, barriers to switching and the attractiveness of alternative products. There are four types of revenues in the model. Autonomous revenue (AR) represents the base or standard revenue from a customer as a result of standard marketing activity. Up-selling revenue (UR) represents the additional purchases of the same product made by loyal customers as the relationship develops

over time, often due to an increase in purchase frequency. Cross-selling revenue (CR) represents the extent to which a customer relationship can be extended to other products. Reference value (RV) is a relatively unusual term to be included in CLV models and is the "contribution margins resulting from referral activities of existing customers" (p.334). Bauer and Hammerschmidt (2005) explain that this is made up of reference 'volume' (the contribution from an increased volume of purchases from existing customers due to fellow customer recommendations) and reference 'potential' (the likely contribution from entirely new customers, following recommendations made within an existing customer's social network).

Bauer and Hammerschmidt (2005) include cost of sales, the marketing costs associated with acquisition and retention, the costs of serving the customer; and even termination costs. However, they specifically exclude allocated fixed costs. Bauer and Hammerschmidt (2005) attempt to synthesise CLV and SHV in order to develop "an integrative model to calculate the corporate value" (p.342), thus forging a clear link between CLV and SHV in a similar way to Gleaves et al. (2008). Bauer and Hammerschmidt (2005) also provide a simplified version of their model:

$$\mathrm{CLV}_{i0} = \sum_{t=0}^{T} r_i^t \frac{(R_{ti} - C_{ti})}{(1+d)^t}$$

Equation 2.2: Bauer and Hammerschmidt, 2005, p.339

This more simplistic representation of the CLV model, albeit with subtle variations, is the discounted value of revenue less costs related to the customers who are likely to be retained during the planning horizon, and is the most common one used in the CLV literature (for example, Jain & Singh, 2002; Berger & Nasr, 1998; Gupta et al., 2004; Venkatesan & Kumar, 2004).

2.4.2.2 Concerns with CLV Models

Some authors, for example, Berger and Nasr (1998), provide a variety of alternative models tailored for different customer situations, but it is clear from the discussion above there is much ambiguity in the literature on CLV, and often the models are too theoretical and too simplistic, partly because authors appear to be attempting to provide a completely generalisable model – an unrealistic aim. In contrast, Bauer and Hammerschmidt (2005) and Venkatesan and Kumar

(2004) each focus their CLV models on a specific type of customer relationship and the effects on patterns of retention (*lost-for-good* and *always–a-share* respectively). The contradictions with respect to whether acquisition costs should be included in a CLV model or not, leads to inevitable ambiguity as to how a *positive CLV* is to be interpreted. If acquisition costs are included, a positive CLV indicates a potentially valuable customer or customer segment. However, if the CLV model excludes acquisition costs, a positive CLV remains inconclusive as there is a further question to ask: Does the potential positive CLV exceed the necessary acquisition costs? This ambiguity in what the term CLV actually means is disconcerting. Whilst there should be room for different elements within a CLV model to accommodate different contexts, the overall purpose of the measure, and the way it is interpreted should be clear and consistent.

Ryals (2008a) concurs with Bauer and Hammerschmidt (2005), as after reviewing the CA literature she concludes that "the mainstream methods for valuing customers do not take 'indirect value' sufficiently into account, despite its acknowledged importance" (p.848). She defines indirect customer value as "value from the relationship that is not directly related to the financial value of that customer" (p.848) and argues that CLV and CE are both affected by three main areas of weakness: "forecasting, discounting and whether the tools really do measure all the value generated by customers" (p.850). Most CLV and CE models ignore the value of customer advocacy and the value of learning and innovation. Advocacy relates to word of mouth referrals which generate new business and reduce customer acquisition costs. Learning and innovation relates to developments for one customer which are transferrable to others. Ryals (2008a) presents two cases, one business-to-business and one business-to-customer, which demonstrate processes used to evaluate indirect customer value that provide managerially useful results. Ryals and Knox (2005) go even further and introduce a risk adjustment and argue that the lifetime of the customer relationship; the profit in each future period and an appropriate discount rate are needed to measure CLV. They recommend caution is exercised when using CLV to make business decisions and suggest a risk adjustment related the volatility of revenue streams. Close inspection shows the risk adjustments was about treating customers individually and making specific estimates of their likely claims, instead of using averages as in Andon et al., 2001.

2.4.2.3 The Need for Customer Measures within a PMS

Homburg et al. (2012) investigate the circumstances under which the use of a comprehensive marketing PMS has a positive impact on firm performance. They argue that a comprehensive marketing PMS is usually understood to be comprehensive if it has a broad set of performance measures which are linked through cause-and-effect relationships and reflect the firm's strategy. They found that marketing alignment (defined as, "The extent to which managers execute their tasks and projects in line with strategic marketing objectives" (p.76)) and market knowledge (defined as, "The extent to which structured and organized organizational knowledge about the market exists" (p.76)) were important mediating variables between marketing performance measures and firm performance. The authors claim this study sheds light on the links between marketing performance measures and firm performance. Homburg et al. (2012) also find evidence that a comprehensive marketing PMS is not beneficial for firms that do not follow a differentiation strategy, because they have low levels of marketing complexity.

2.4.2.4 Summary of Marketing Literature on CA Practices

This brief review of the marketing literature explains why Gleaves et al. (2008) highlight confusion and contradiction in the marketing literature with respect to the understanding of CP and conclude that "marketing therefore requires the input of MA to shore-up and clarify these issues" (p.840). There is contradictory usage of terminology and considerable inconsistency between definitions of CA practices (Mulhern, 1999; Jain & Singh, 2002). Much of the literature on CLV is normative and describes over simplistic models, presumably due to a desire to produce an entirely generalisable CLV model, but this desire leaves a gap in the literature with respect to detailed information about the factors that may influence the way CLV should be measured in different contexts. There is limited agreement on important issues such as whether CLV should include acquisition and retention costs, and whether CLV should be based on contribution or profit or cash flows. A minority of authors do focus their CLV models on a specific type of customer relationship and/or pattern of retention (for example, Bauer & Hammerschmidt, 2005; Venkatesan & Kumar; 2004), thus stressing the notion that an appropriate CLV measure is contingent on numerous factors and this needs investigation, particularly the problem of predicting customer retention rates. Despite the inevitable measurement difficulties some authors advocate including the indirect value generated by word of mouth recommendations in

their CLV models (Ryals, 2008a; Bauer & Hammerschmidt, 2005) and others believe that risk should also be considered (Ryals & Knox, 2005).

2.5 A Synthesis of the Two Literatures on CA

Logically, the MA function should utilise appropriate CA practices to support a customer-focused strategy, but the MA literature provides limited evidence on the precise nature of CA practices used in alternative circumstances as it covers little more than historical CPA. The marketing literature covers forward-looking measures, like CLV and CE, but it predominantly normative and even when backed by empirical evidence contains much confusion and contradiction (Gleaves et al*.,* 2008). The differences in the approach to CA in the MA and marketing literatures is of particular interest because it suggests that aspects relating to the nature of the two disciplines, and the actors within them, may affect the extent of cooperation and collaboration between them with respect to the development and utilisation of CA practices. As already mentioned (2.4.1.4), when Roslender and Hart (2002, 2003) investigated the use of SMA practices they found that despite a desire to develop CA metrics there was limited success. Even when there was a close relationship between management accountants and marketing managers there was only historical CPA in use and it was assumed forward-looking CA metrics were hard to define and measure, and hence just too difficult.

Andon et al. (2001) did find CLV as well as CPA, but it was developed by marketers and accountants would only get involved in verification. Sidhu and Roberts (2008) highlight the challenges faced by both accounting and marketing in their respective roles of "reporting and generating firm performance through customer facing activities" (p.684) and discuss the benefits of a closer marketing-accounting relationship. They argue that the two disciplines can find common ground through SHV analysis and, in line with Gleaves et al. (2008), they claim marketing "can gain financial discipline and credibility from accountants" and at the same time can help accountants to "gain a deeper understanding of the nature of the assets they are describing and a richer view of how the firm is performing" (p.684). McManus and Guilding (2009) highlight that CA appears to have been a catalyst for inter-functional co-operation in successfully implemented CA systems, but in other companies accounting staff were not even involved in the CA systems. Although specific to the hotel sector in Australia, an interesting finding, described as a non-finding, of the McManus (2013) survey was the lack of any relationship between the use of

accounting and marketing customer-focused performance measures and either financial hotel performance or non-financial hotel performance except CS. One suggested reason for this finding was that the use of a subjective measure of hotel performance (hotel managers' own assessment) was inaccurate and an alternative suggestion (citing McManus 2011) was that CA and marketing performance measures did not drive hotel performance because they were not used in firm decision making. McManus (2013) recommends that future studies should check how CA information is being used in decision making across the firm. This will be done in this study.

2.5.1 The Interrelationship between CA Metrics

Gleaves et al. (2008) highlight potential benefits from collaboration between marketers and accountants, and in an attempt to establish more clarity they specify their preferred definitions for CPA, CLV and CE. They also provide a model to help facilitate "synergy between the two disciplines...and a greater understanding" (p.840). The model seeks to clarify the interrelationships between CA metrics and their link to period operating profit. This model is a useful starting point for an understanding of CA practices (along with the literature discussed in section 2.4) and their potential link to SHV. The model is represented diagrammatically in figure 2.1 and described in detail below.

Gleaves et al. (2008) cite Pfeifer et al. (2005, p.14) who define individual CP as "the difference between the revenues earned from and the costs associated with the customer relationship during a specified period." Hence, if all costs have been traced to customers, the firm's annual operating profit is the sum of the CP of all customers served within the year.[5] After Gupta and Lehmann (2005, p.15), CLV for a single customer is defined as "the present value of all current and future profits generated from a customer over the life of his or her business with the firm." Hence, CP is simply the CLV for the current accounting year. After Bayón et al. (2002, p.213), CE is "the combined lifetime values of all current and future customers." Thus, the sum of all existing customers' CLVs plus the sum of all future customers' CLVs equates with CE. Moreover, if all operating costs have been traced to customers (including acquisition and retention costs) the value of the firm is equal to CE plus or minus any non-operating income or costs (appropriately

[5] Inevitably if some costs (e.g. facility sustaining costs) were not traced to customers these would become a reconciling item.

discounted).

The model therefore clearly demonstrates how CA metrics can provide management with a logical link between a customer-focused strategy and an ultimate goal of SHV maximisation. Given the variety of definitions used, and hence confusion in the literature, it is possible that many companies with a customer-focused strategy do not fully understand, or have not clearly articulated to key staff, the economic relationships described above and hence may not be supporting or monitoring their strategy with appropriate CA metrics. This may lead to the risk of poor strategy execution and the potential for non-achievement of overall corporate goals.

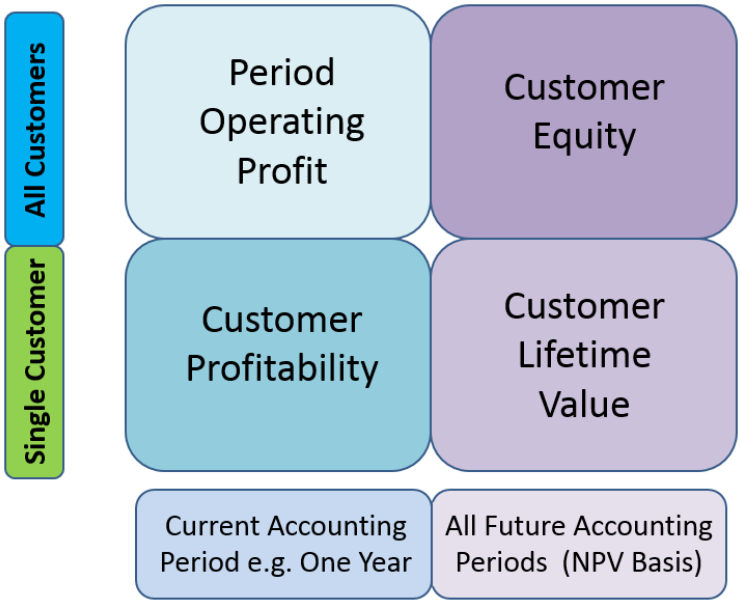

Figure 2.1: The Inter-Relationship between CA measures.
Source: Gleaves et al. (2008, p.838)

However, this model seems to be an over-simplification or be only applicable to firms dealing with heterogeneous customers on a one-to-one basis. Many firms, especially those with a large number of customers, are likely to find it necessary to split their customer base into customer segments. This is appropriate if all customers in a segment are largely homogenous, but have significant differences to customers in other segments. It is necessary to identify the characteristics of customers within each segment that give rise to significant differences in the pattern of revenue and/or costs-to-serve, and reflect such differences in the CA calculations.

Therefore, for firms that do segment their customers into homogenous groups, the Gleaves et al. (2008) model may be adapted as depicted in figure 2.2 below:

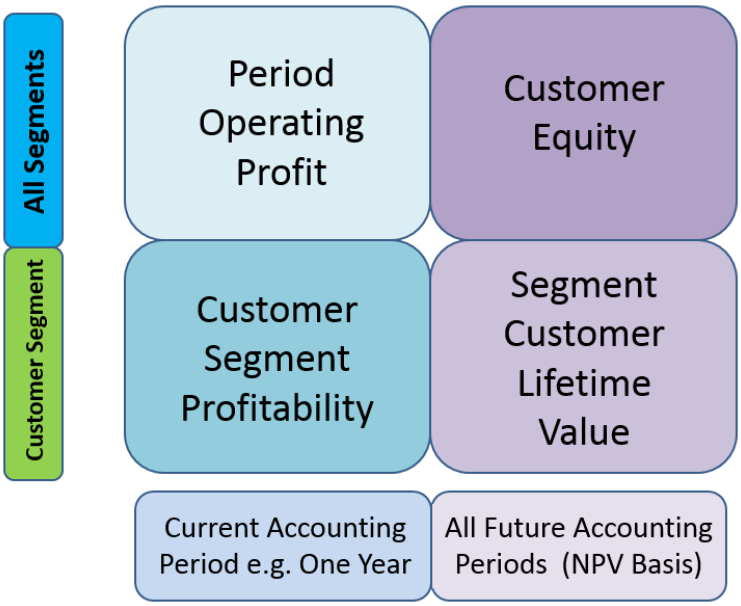

Figure 2.2: The Inter-Relationship between segment CA measures

2.5.2 The Treatment of Fixed Costs

A key assumption in the above described relationships is that some or all fixed costs are traced to customers and/or customer groups. There is clearly a departure between the accounting and marketing literatures on this point and the potential for misunderstanding. In the marketing literature there is frequently no attempt to take fixed cost, other than direct marketing costs, into account when calculating CLV, or ambiguity about whether they should be considered or not. However, in the accounting literature CA measures are generally assumed to be after the allocation of fixed costs using an appropriate form of ABC methodology (for example, Howell & Soucy, 1990; Smith, 1993; Smith & Dikolli, 1995; Kaplan & Narayanan, 2001). The notable exception here is Ward (1992) who advocates using CAP, a marginal costing approach based on the contribution that customers make to common fixed costs. The alternative treatment of fixed costs is a significant difference between the two literatures which appears to be largely overlooked.

Bates and Currie (2014) review the diversity of CLV models discussed in the recent (post 1995) literature and specifically comment on whether fixed costs are included in costs-to-serve or not. In their review of 16 key papers describing CLV model design they found only two papers (12.5%) that clearly calculated CLV after a deduction for fixed costs. They were Ryals and Knox (2005) and Stahl et al. (2003). Moreover, Bates and Currie (2014) report six cases (37.5%) where the authors made clear fixed costs were specifically excluded, for a particular reason. The authors of the

remaining seven papers (44%) did not specifically explain how fixed costs were to be treated in their CLV models, but the intention to exclude them could be inferred. Pfeifer et al. (2005) was the only paper (6%) that was crystal clear about the importance of the treatment of fixed costs, but the authors *sit on the fence* and explain that overheads are usually fixed in the short-term but variable in the long-term. They stress that by design their definition of CLV as "the present value of the future cash flows attributed to the customer relationship" (p.17) "leaves the attribution task to the user" (p.18).

Unfortunately, the survey based CA literature (2.4.1.2) is to date totally mute on whether CA measures used in practice do or do not include allocated fixed costs and the implications of this for how the information is used. The treatment of fixed costs in CLV models is an area of confusion, perhaps because they are predominantly described in the marketing literature and the importance of the issue is not well understood. However, the issue is similarly controversial in the MA literature with respect to the measurement of CPA. Although the normative CPA literature (2.4.1.1) generally advocates CPA based on ABC there are dissenters, such as Ward (1992), who prefers a marginal costing/contribution approach and this stance is justifiable in the light of the survey evidence that many firms, including manufacturing firms, do consider contribution to be the most important profitability measure for decision making (Dugdale et al., 2006; Drury and Tayles, 2006). Clearly there is not complete agreement whether CPA requires the backing of ABC or not, and if CPA is supported by ABC, the considerable debate about how ABC information should be used becomes an important consideration and is therefore discussed next.

2.6 What Type of MCS is Needed for CA Measurement?

The critical importance of a customer focus is obvious in the BSC (Kaplan & Norton, 1992, 1993 and 1996a), and strategy maps (Kaplan & Norton, 2004a) where they describe how the customer perspective should measure outcomes related to increases in the company's share of customer's spending through customer acquisition, satisfaction, retention, loyalty and growth. However, Kaplan and Norton (1996b) stress success in the aforementioned customer measures does not guarantee a firm's customers will be profitable. They argue that firms "should want more than satisfied and happy customers; they should want profitable customers" (p.71). They suggest the need for ABC systems which allow measurement of the profitability of individual customers or

customer groups. They highlight that some customers are likely to be unprofitable and this is especially likely for newly acquired customers. They say that "lifetime profitability becomes the basis for retaining or discouraging currently unprofitable customers" (p.72), but do not define 'lifetime profitability' or explain how it should be measured.

2.6.1 The Use of ABC for CA Measurement

Disturbingly, the accounting literature is almost silent on the definition of CLV and its measurement, and this is taken up by a marketing literature (2.4.2.1) which contains confusion and contradiction (Gleaves et al., 2008) and does not agree with Kaplan and Norton (1996a) that ABC should be used or attributable fixed costs should be traced to customers or customer groups (Bates & Currie, 2014). It seems likely, therefore, that a lack of costing system sophistication, in respect of the use of full cost systems for CA measurement, preferably employing ABC principles, is stifling the development of CA or its usefulness when it is developed by marketing personnel without a full understanding of costing principles. The debate about whether full cost information, particularly when supported by ABC, should be used for decisions is discussed below (2.6.2). It is notable that Al-Omiri and Drury (2007) argue that companies facing intensive competition seek differentiation "through increased customization of products and services in order to meet specific customer desires" (p.407). They thus hypothesised that firms need higher levels of costing system sophistication in order to accurately measure the costs of increased variety and customisation. However, they did not find any association between costing system sophistication and product diversity, a surprising result given that product diversity is often cited as a driver for ABC implementation. They thought it likely that their measures were too simplistic to capture the precise ways product diversity may influence the level of costing system sophistication. This is perhaps something best explored in case-based research.

2.6.2 How Should Full-Cost, ABC Information Be Used?

The ability of the user to attribute fixed costs accurately to customers will depend on the sophistication of the costing system used, which probably explains the difference in emphasis between the marketing and accounting literatures. Most researchers with a marketing background concentrate only on costs that are directly attributable to customers, presumably considering fixed costs to be irrelevant on the basis that they will not change as a result of the

decisions being made. Researchers with an accounting background are aware of ABC methodology and the subtle distinction between fixed costs and long-term variable costs (Kaplan & Cooper, 1998) and are hence more likely to work on a full cost basis. Moreover, the advice of Cooper and Kaplan (1992) is that "Managers cannot possibly apply introductory cost accounting relevant cost calculations to all possible product and customer mix decisions. The activity-based cost model…provides an aggregate view of the economic laws of motion of a complex enterprise, with thousands of individual products, customers, and facilities".

Cooper and Kaplan (1992) are highlighting that in a complex organisation with a large number of products and customers the textbook, special study, marginal costing approach to product and customer mix decisions is just impractical, and a full cost approach, based on ABC, is necessary. However, this view has not been universally accepted, and Kaplan and Cooper themselves discuss alternative approaches. For example, during a panel discussion at the 1989 Annual Meeting of the American Accounting Association (Robinson, 1990), Kaplan stresses that calculating an accurate unit-cost figure is impossible without the use of cost allocation, "with all its associated dangers" (p.7). Kaplan thus advises that overhead costs should not be allocated down to units, but instead unit-level contribution margin should be aggregated up and then batch related and product sustaining expenses can be deducted to arrive at a product level contribution margin. Kaplan concludes by saying that "ABC yields many contribution margins and enables managers to contemplate a richer variety of actions to transform unprofitable products and customers into profitable ones, and to raise the overall profitability of the organization." (p.15). Moreover, in the same panel discussion (Robinson, 1990) Shank opines that the use of a contribution margin approach is unsuitable for real companies facing real business problems, arguing that when using a contribution margin approach to product mix decisions, "the same logic leads you to never drop anything, because you are always better off with it" (p.18). Thus fixed costs should never be ignored, as in the long-run fixed costs have to be covered. Shank does ask: "When does the long-run happen? What morning do you get up and say, today's the long-run, now I'm going to do something about that loser?" (p.19). During the same panel discussion, Boer cites Clark (1923), who argues that "a manager can define a cost only in the context of a specific decision" (p.26). In other words, we need different costs for different purposes and MCS should produce a variety of unit costs, and contributions, to fit the different decisions managers make.

If an ABC system is used within MCS, it is likely some costs which may normally be considered

'fixed' with respect to volume of sales would become 'attributable' to customers using appropriate cost drivers. One could argue that, if CPA and CLV are calculated in order to find out which customers add the most value, any fixed costs which would likely remain constant when there were small changes in the number of customers served should be considered unavoidable and irrelevant. However, with significant changes to the customer base, a firm will inevitably reach a point where normally 'fixed' costs may substantially change. It would thus make sense to include such 'incremental' fixed costs in CA metrics. An ABC system makes this possible. It is interesting that the inclusion (or not) of fixed costs becomes a key factor related to the sophistication of CPA or CLV in the Holm et al. (2012) model discussed below.

Holm et al. (2012) theorise how CP should be measured in complex environments by using what they call "an interdisciplinary contingency framework". Their entirely normative paper cites previous calls for cross-functional collaboration between marketing and accounting departments (for example, Kumar et al. 2008 and Gleaves et al., 2008) to overcome the barriers to the design and implementation of effective CP measurement models and like Gleaves at al. (2008), Holm et al. (2012) is written by a cross-functional research team representing both marketing and accounting backgrounds. Unlike Gleaves et al. (2008), Holm et al. (2012) do not assume fixed costs will necessarily be allocated to customers for either the calculation of CP or for CLV. They theorise that the level of sophistication of CPA will depend on the level of customer service complexity, whilst the level of sophistication of CLV measurement will depend on the level of customer behavioural complexity. They derive a model (figure 2.3) which they claim may be used to predict the type of CA measures that will be employed. The presumption appears to be that the model is entirely generalisable.

To date, no evidence has been found in the literature that this model has been tested by using either case study or survey methods. Although the researchers provide lists of questions, and advise that these enable both customer behavioural complexity and customer service complexity to be measured using multi-item Likert scales, it remains likely that a barrier to such testing is devising a valid way to measure the extent of customer service and customer behavioural complexity.

Holm et al.'s (2012) model offers some potentially useful insights for this study, as it suggests characteristics that influence the length, depth and breadth of the customer relationship,

showing how these influence customer behavioural complexity. The authors also suggest characteristics that directly affect customer service complexity, for example, level of product/service customisation and the requirement for after sales service. The obvious problems with this model are that it is entirely theoretical and highly general. Holm et al. (2012) theorise that only if there is high complexity of both customer service and customer behaviour will there be a need for an integrated CPA/CLV model. What is hard to fathom is how a firm can have a sophisticated[6] CLV model without the backing of a sophisticated CPA model.

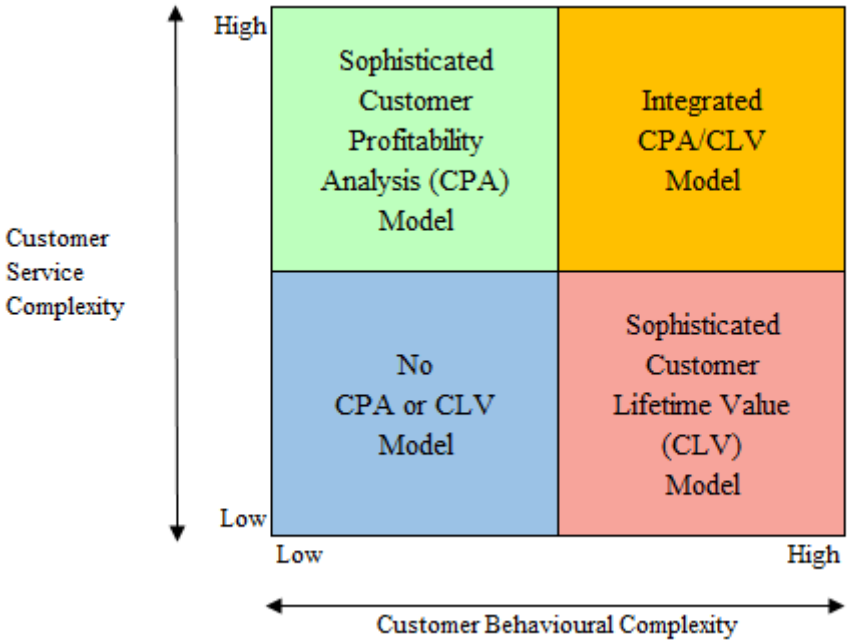

Figure 2.3: A framework for CA measurement model sophistication in environments characterized by different degrees of customer complexity. Source: Holm et al. (2012, p.395)

2.7 Linking CA Measures to Strategy and SHV

Rappaport (1998) maintains that the idea that the primary goal of management should be the maximisation of SHV "has moved from being ignored to being rejected to becoming self-evident" (p.3) and argues that a value-creating company will produce benefits for all its stakeholders and hence that "enlightened self interest dictated that shareholders and other stakeholders actively engage in a partnership of value creation" (p.7). Rappaport places particular emphasis on customers and employees, and with respect to the former states that "the source of a company's

[6] Sophistication is "the degree to which advanced techniques are used by managers when estimating model parameters" (Holm et al., 2012, p.389)

long-term cash flow is its satisfied customers" (p.8). Ryals (2008b) highlights a trade-off between creating SHV and delivering CS. She says that despite a positive relationship at lower levels of performance, there comes a point when the incremental cost of improving service levels further is higher than the incremental value gained from customers. Firm survival requires that the sales revenues generated from customers must be greater than the long-term costs, including the cost of capital (Rappaport, 1998). Seventeen years on there is little evidence in the accounting literature that the MA function has heeded the warnings and developed appropriate CA metrics to monitor long-term CP. As mentioned above, Guilding and McManus (2002) described the CA literature in accounting journals as "fledgling". Bates and Whittington (2009) discovered relatively minimal coverage of CPA in MA texts and nothing at all on the forward-looking measures of CLV and CE. They concluded at that time that CPA was not yet part of mainstream MA and little has changed since. What evidence there is in the accounting literature of utilisation of CA practices comes mainly from the banking and financial services sector (Kaplan & Norton, 1996b, 2004a; Kaplan & Narayanan 2001) and the insurance sector (Andon et al. 2001).

2.7.1 The Logical Links between CA Measures and SHV

As shown above, there is some awareness in the literature of the need for firms with a customer-focused strategy to implement a MCS that not only measures historic CP, but also provides estimates of the future revenues and costs associated with both existing customers and potential, future customers. Although the literature suggests that such measures are needed if proposed investments in customer retention and customer acquisition are to be justified, there is little evidence to suggest that there is widespread use of such measures in practice (Guilding & McManus 2002; McManus & Guilding; 2009). Moreover, the accounting literature specifically relating to CA practices, appears to ignore the use of customer related, non-financial measures, despite their inclusion in the accounting literature on BSC and in the marketing literature. A survey on Australian manufacturing firms in Australia by Perera, Harrison and Poole (1997) finds support for a hypothesised association between a customer-focused manufacturing strategy and the use of non-financial, operational performance measures, but no link to enhanced organisational performance was found. In the service industry, McManus (2013) found no positive link between improvements in accounting and marketing customer-focused performance measures (except CS) and overall hotel performance. An important question is therefore: How does management monitor the success, or otherwise, of a customer-focused

strategy? Ultimately one might expect firms with a customer-focused strategy to concentrate on the logical links between future looking CA metrics, such as CLV, CE and SHV, as demonstrated by Gleaves et al. (2008). Although, Holm et al. (2012) theorise high customer service complexity will necessitate sophisticated CPA and that high customer behavioural complexity will necessitate sophisticated CLV measurement, their model appears not to have been tested and excludes consideration of non-financial CA measures or the possibility of both CPA and CLV being used in unison.

Langfield-Smith (2005) suggests that the area of performance measurement, reward systems and the BSC is a promising direction for future research citing Ittner et al. (2003), who emphasise the need to look beyond the search for alignment of performance measures with strategy and investigate the specific value drivers of strategic success more fully. This study of how CA metrics are used by companies with a customer-focused strategy is in line with this suggestion. It was anticipated that the CA metrics employed will have been developed in the light of prior experimentation as to what are established to be the key drivers of customer value. Ittner and Larcker (2005) highlight that the choice of (among other things) specific performance measures is of critical importance to strategic control system implementation and success. They add that establishing mechanisms for the on-going analysis of strategic success is equally important. This suggests that both the choice of CA metrics and the way they are used to monitor strategic success will be particularly important in any firm following a customer-focused strategy, as it is critical to correctly identify the firm's value drivers and understand how they facilitate its strategic success.

Kaplan and Norton (1996b) stress the need to enable a firm's BSC to be linked to its strategy through a series of cause-and-effect relationships. They maintain that each measure included in the firm's BSC "should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit's strategy" to the firm (p.149). Ultimately, all measures should link to financial objectives and hence ensure that the firm's strategy is ensuring that key financial objectives are met. Kaplan and Norton (1996b) utilise a bank case study (which they call 'Metro Bank') to illustrate the application of these principles, but there is no financial CA measure in Metro Bank's BSC. Improvements in the customer perspective lead indicators: "depth of relationship" and "customer satisfaction", are expected to improve the customer perspective lag indicators: "share of segment" and "customer retention". In turn this should lead

to improvement in the financial perspective lead indicator: “revenue mix” and ultimately in the financial perspective lag indicators: “deposit service cost change”, “revenue growth” and “return on investment” (p.155). One might have expected some CA metrics. These do appear in later BSC literature. For example, Mobil’s strategy map links improvements in measures of the “customer intimacy proposition” in the customer perspective with improved CP in the financial perspective (Kaplan & Norton, 2000, p.171). Kaplan and Norton (2004a) links a number of non-financial measures relating to customer selection, acquisition, retention and growth with financial measures such as “increased customer profitability (measured by ABC system)” and “percent of unprofitable customers” (pp.122-133). Kaplan and Norton (2004a) highlight that it is cheaper to retain existing customers than to acquire new ones and stress that loyal customer’s value quality and service and will pay premium prices for them. They also link customer service and call centre capabilities with enhanced customer loyalty and reduced defections. Moreover, they argue that “customer commitment” is “even more valuable than customer loyalty”. This is demonstrated when customers tell others about their satisfaction, hence “number of referrals” is a key measure. Kaplan and Norton (2004a) consider “customer apostles” to be special cases of “highly credible and authoritative committed customers”. However, the highest form of loyalty relates to “customer owners”, who participate actively in the design of new products and supply recommendations on enhancements for service delivery” (p.117).

2.7.2 The Importance of Customer Satisfaction Measures

Jones and Sasser (1995) discuss why even satisfied customers defect, arguing that “complete customer satisfaction is key to securing customer loyalty and generating superior long-term financial performance” (p.89). Moreover, they say that in intensively competitive markets, for example, financial services, “there is a tremendous difference between the loyalty of merely satisfied customers and completely satisfied customers” and “the only truly loyal customers are totally satisfied customers” (p.91), as merely satisfied customers will buy less and are highly likely to defect. They also stress the importance of highly trained frontline staff who can listen effectively to customers and make amends when things go wrong. Jones and Sasser (1995) stress the importance of measuring CS at the individual customer level, to enable the firm to tailor satisfaction improvement programmes to individual customer needs.

According to Jones and Sasser (1995), CS and loyalty measures need to be detailed enough to

inform resource utilisation decisions. Some customers should be "fired" as "unhappy customers whose needs do not fit with the company's capabilities can devour excessive resources and wreak havoc on employee morale" (p.96). Some potential defectors can be "terrorists", because if the firm does not respond adequately to their complaints they will not only defect, but will tell others and damage the firm's reputation. The best customers are "loyalists", who are completely satisfied and keep returning, because there is a close fit between the company's offering and the customer's needs. Hence such customers may be relatively easy to serve. Some loyalists are so satisfied that their "experience so far exceeds their expectations, that they share their strong feelings with others" (p.96). These customers are called "apostles" and may be classed as a free extension to the firm's salesforce. Jones and Sasser (1995) also highlight that dissatisfied customers may have been highly satisfied until something went wrong with the product or service. Thus "if the company excels in making amends…[the] customer's faith in the company is not just restored, it is deepened; and they become apostles, spreading the good word about the company to potential customers" (p.96). Clearly it is important for firms to provide ample opportunities for customers to "express their dissatisfaction" and to measure the impact of customer dissatisfaction. Moreover, the process of dealing with customer problems needs to be carefully monitored, with the impact of successful problem resolution, and failure to resolve problems, carefully measured.

Reichheld (1996) highlights the need to interview lost customers and to undertake analysis to establish the root causes of defection. He argues that responses to surveys (or quickie interviews) customers often claim they left because of price, and yet deeper investigation may uncover other reasons. Often a series of events is needed to trigger defection. Moreover, the intelligence gleaned should be channelled to employees with the authority and ability to take corrective action, and staff incentives must be properly aligned to drive the right behaviour. Of direct relevance to this study is Reichheld's (1996) case discussion of a bank which incentivised staff to improve retention rates (not size of balances or accounts opened). The bank discovered that some products were more highly correlated with loyalty (and hence high retention rates) than others and "customers that opened three or more different types of account at the same time had the highest retention rates of all" (p.201). The bank therefore marketed appropriate 'combinations of accounts' instead of a single account (product). Conversely, certain promotions (such as bonus deposit rates) appealed to customers who proved to have lower retention rates.

Reichheld (1996) advises firms to "map out the whole lifecycle of a customer's interactions with the company and its products" (p.201), providing an example of the mapping of a "customer corridor" for a retail bank, (figure 2.4).

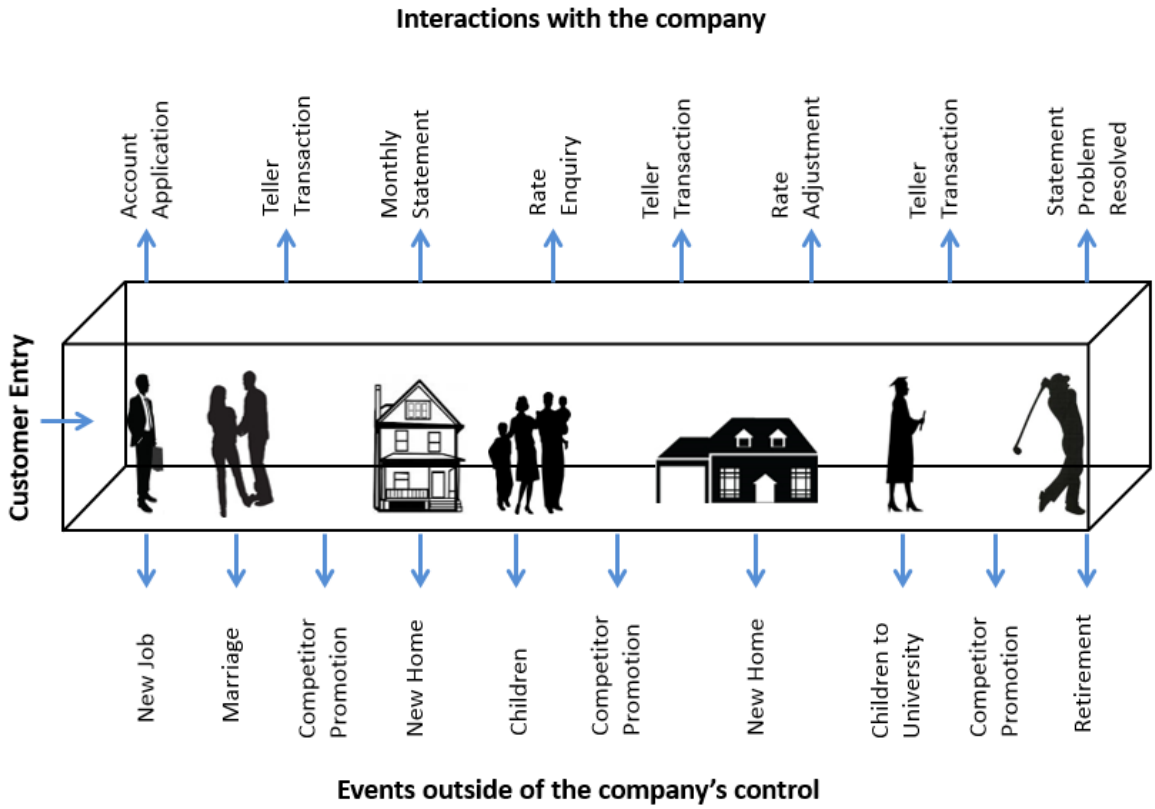

Figure 2.4: The customer corridor: Retail banking example.
Source: Reichheld (1996, p.202), adapted

Like, Jones and Sasser (1995), Reichheld (1996) stresses the importance of focusing on the most enthusiastic customers because they are a key driver of profitable growth. This is because they not only return with repeat business, but they also recommend the firm to their friends. Based on extensive empirical research, he advises against complex CS surveys in favour of asking a single question: "How likely is it that you would recommend [company x] to a friend or colleague?" (p.50). Customers answer using a scale which ranges from ten, "extremely likely", through five, "neutral", to zero, "not at all likely" and from this information the firm's net promoter score (NPS) can be calculated. Scores of nine and ten indicate 'promoters', seven and eight indicate "passively satisfied", and scores from zero to six inclusive indicate 'detractors'. NPS is calculated by subtracting the percentage of customers surveyed who are detractors from the percentage who are promoters. Hence NPS can be between -100 and +100, with a positive score considered to be good and above +50 considered excellent.

Reichheld (2003) claims that "retention rates provide, in many industries, a valuable link to profitability, but their relationship to growth is tenuous" (p.49). This is because the focus is on customers lost not customers acquired, and in some industries customers are retained temporarily due to high switching costs (for example a bank's mortgage customers), but will leave at the next opportunity (when they move house). Reichheld (2003) highlights the dangers of seeking growth by offering large price cuts or other incentives, as this will only offset the losses through defection temporally, unless customers are converted into "intensely loyal promoters" by continuing to provide excellent customer service. He concurs with Jones and Sasser (1995) when he also points out that both detractors and customers who are only passively satisfied, "typically take a toll on employees and increase service costs" (p.53). Further, Reichheld (2003) argues that a customer's willingness to recommend a company to a friend directly relates to the performance of frontline employees and the back office support which contributes to the overall customer experience. He advises firms to measure NPS and allow managers to act on it, as "the process and the results need to be owned and accepted by all of the business functions" (p.54).

2.8 Summary of Literature Review and the Research Aim and Questions

Both customers and employees help generate SHV (Rappaport, 1998), but satisfied customers are the "the source of a company's long-term cash flow" (p.8). Front-line staff trained to understand customer needs will enhance CS (Homburg et al., 2009), as long as they are properly incentivised, and have the authority and ability to take corrective action when things go wrong, and thus avoid defections (Reichheld 1996). However, not all customers should be retained. Unhappy customers may undermine employee morale and prove too costly to serve and therefore should be fired (Jones and Sasser, 1995; Reichheld, 2003). There is clearly a need for non-financial CA measures, like CS measures, retention rates and NPS, but there is inevitably a trade-off, and additional expenditure on CS will reap diminishing returns and undermine SHV (Ryals, 2008b). However, the accounting literature specifically relating to CA practices, appears to ignore the use of customer related, non-financial measures, despite their inclusion in the literature on BSC and in marketing literature. In particular, survey research on CA usage and perceived merit (Guilding & McManus, 2002; Lord et al., 2007; Tanima & Bates, 2015) has not considered the use of customer related, non-financial CA measures as CA practices, but McManus (2013) does investigate the use of both financial CA and marketing performance

measures in relation to several contextual factors which may influence their use in the Australian Hotel industry, only CS is found to impact hotel performance.

The marketing literature is more prolific with respect to the use of both financial and non-financial CA measures but contains contradictory usage of terminology and inconsistency of definitions of CA practices (Mulhern, 1999; Jain & Singh, 2002; Gleaves et al., 2008). The marketing literature covers forward-looking measures, like CLV and CE but the heavily normative literature on CLV lacks detail, perhaps in a desire to produce a highly generalisable CLV model. However, this results in limited agreement on the important variables to include and even whether CLV should be based on contribution or profit or cash flows. Some CLV models are designed for a specific type of customer relationship and/or pattern of retention (for example, Bauer & Hammerschmidt, 2005; Venkatesan & Kumar; 2004), thus helping to identify important contingent factors which must be included, such as retention rates, but advice of how to predict these remains vague. Some authors believe risk should be considered (Ryals and Knox, 2005) but possibly the most problematic variable is the indirect value generated by word of mouth recommendations (Ryals, 2008a; Bauer & Hammerschmidt, 2005). There are suggestions that MA should shore-up and clarify some of the measurement issues (Gleaves et al. 2008) and that most progress is made when accounting and marketing personnel work together (Roslender & Hart, 2002, 2003; Weir, 2008; McManus & Guilding, 2009).

Firm survival requires that the sales revenues generated from customers must be greater than the long-term costs, including the cost of capital (Rappaport, 1998) and hence more cooperation between accounting and marketing disciplines and clearer linkages between non-financial and financial CA measurement seem desirable and necessary. Gleaves et al. (2008) have linked both historical and forward-looking, financial CA measures to SHV, but an attempt to explain the choice of financial CA measures in relation to different customer relationships (Lind & Strömsten, 2006) has proved to be ambiguous.

The above analysis of the CA literature highlights a potential concern in relation to firms following a customer-focused strategy. It is suggested that such firms need CA metrics to help managers monitor and manage the progress of their chosen strategy (Kotler, 2003; Kaplan & Narayanan, 2001). Surveys of practice (Guilding & McManus, 2002; Lord et al., 2007; Tanima & Bates, 2015) have identified higher CA usage rates than were anticipated, but significantly lower usage of

forward-looking measures like CLV and CE. However, there is limited detailed empirical evidence of successful implementation of CA practices. Case-based research reveals problems with CA implementation (Roslender & Hart, 2002, 2003; McManus & Guilding, 2009), exacerbated by incompatible information systems (Andon et al., 2001; McManus, 2007). Accountants have been reluctant to take charge of forward-looking CA measures, claiming a lack of relevant skills. Most successful CA implementations were championed by marketing personnel (Andon et al., 2001) or with collaboration between accounting and marketing (Roslender & Hart 2002, 2003; McManus & Guilding, 2009).

There is evidence in the literature of forward-looking CA measures, like CLV, informing management action with respect to restructured prices (Andon et al., 2001) and revised marketing strategies (McManus, 2007; Andon et al., 2001), but also evidence that the use of financial CA and marketing measures does not improve performance (McManus, 2013), perhaps because they are not widely used in firm decision making. However, the prolific BSC literature stresses the need to identify performance measures that drive strategy and find potential cause-and-effect relationships between customer-related measures and financial performance. Kaplan and Norton (2004b) provide banking examples of the need to be selective about the type of customers acquired, with objectives like: “identify and then upgrade or exit unprofitable customers” (p.112) within one bank’s BSC and the need to offer “complete financial solutions” (p.58) in another. Chenhall (2005) identifies customer orientation as a key dimension of strategic PMS and finds that organisational learning mediates the association between customer orientation and strategic delivery outcomes. Similarly, Homburg et al. (2012) find that alignment of marketing performance measures with the firm’s differentiation strategy has a positive impact on performance. Other researchers identify linkages between customer management and/or CA metrics and SHV (Rappaport, 1998; Cokins, 2014; Gleaves et al., 2008; Bauer & Hammerschmidt, 2005; Payne & Frow, 2005).

Therefore, the aim or objective of this study is:

> ***To examine the use of CA practices in firms that have adopted a customer-focused strategy.***

To achieve this objective, and therefore address the research gaps identified in the literature

review above, the following research questions are addressed:

1. ***What CA measures are used in organisations with a customer-focused strategy?***

2. ***How are CA measures used to manage and monitor a customer-focused strategy?***

In addition to the limited detailed knowledge of what CA measures are used by firms with a customer-focused strategy (as identified above), no clear understanding has been developed of how CA may be effectively employed within a firm's MCS to manage and monitor a customer-focused strategy. Langfield-Smith (1997) claims that strategy is an evolving and multi-faceted concept, suggesting a need for in-depth research into how MCS and strategy interrelate. Further, it is believed that in this complex environment (Weir, 2008) a contingency theory approach to this study is merited.

Within this literature review several potential contingent factors which may impact on the choice of CA measures needed to support a customer-focused strategy and their specific usage have been identified, including: the nature of business strategy, competitive intensity, market orientation and the use of the marketing or customer concepts, size of the firm and/or its customer base, and the level of collaboration between MA and marketing staff. Also identified are some factors which may hinder more widespread use of CA practices, for example, ICT constraints, other organisational priorities, aversion to change and inadequate skills (McManus & Guilding, 2009). These will be investigated further in the next chapter where a third research question will be added, along with a theoretical framework to help answer it.

3 THEORY

This chapter explains why contingency theory has been chosen to inform this study. As the choice of an appropriate theory and method is inevitably influenced by the researchers own world view, mine is briefly outlined. This is followed by a discussion of alternative theories that might be a good fit with that world view and the reasoning behind the choice of contingency theory. After a brief review of the use of contingency theory in MA research, some conclusions on its applicability to this study are formed leading to the formulation of research question three.

3.1 Introduction

Kaplan (1984, p.414) stresses "Management accounting must serve the strategic objectives of the firm" and highlights that the MA discipline cannot develop its own set of procedures and measurement systems and universally apply these to all firms "without regard to the underlying values, goals and strategies of particular firms". Thus, each firm's MA system must be designed specifically to support its overriding corporate goals. Previously, Otley (1980) argued that there is no universally applicable accounting system and describes how a contingency theory must "identify *specific aspects* of an accounting system which are associated with certain *defined circumstances* and demonstrate an *appropriate matching*" (p.413, emphasis in original). Contingency-based studies on MCS now comprise a substantial and diverse body of research (Chenhall & Chapman, 2006). The central issue of contingency theory is the concept of 'fit' (Chapman, 1997). In MCS research a contingency theory framework is used to establish "how MCS are best designed and implemented to 'fit' the context, or contingencies, within which MCS are employed" (Chenhall & Chapman, 2006, p.35).

Otley (1980, p.414) describes two main uses of contingency theory in MA research, firstly to theorise the contingent factors which might influence the type of MCS different firms use and secondly to interpret contingent results that have emerged from a particular study or from a comparison of two or more prior studies. Each of these approaches are useful in this study. Firstly, contingency theory is used, in combination with an analysis of relevant literature (chapter two), to identify the contingent factors which may influence management when deciding whether CA practices may be beneficial, and if so, what CA practices they should use, and how they should use them to manage and monitor a customer-focused strategy and drive profitability.

In a similar way, the contingent factors which may potentially represent barriers to the development of, or more widespread usage of CA practices will be extracted from the prior literature. Subsequently, a contingency theory lens is used, again in conjunction with the available literature, to analyse the case study data collected, and to help explain any similarities and inconsistencies between cases and/or between what these exploratory case studies reveal and the prior knowledge about CA practices, as disclosed in the extant literature. Given that choice of theory and method is inevitably influenced by the researchers own world view I briefly outline mine below.

3.2 Theoretical perspective and epistemology

Crotty (1998) argues that epistemology helps inform the theoretical perspective of our research and requires us to pose questions about our view of reality, or our philosophical stance, in order to contextualise our research and justify the chosen research method. Nonetheless, accounting researchers rarely state their world view and the reader of research papers has to make their own assumptions, based on the observed theoretical perspective and epistemology that underpins the research method. In support, Puxty (1993) suggests that the reason management accounting researchers do not state their assumptions may be because they consider them so 'obvious' or even so 'natural' that the writer is not even aware of them. However, he stresses that their writings "can only be understood in the context of the web of beliefs and reasoned arguments that constitute the framework from which they come" (p. 54). Given that choice of theory method is inevitably influenced by the researchers own world view I briefly outline mine below.

Inevitably influenced by my degree training in industrial economics and my subsequent professional qualifications as a Chartered Accountant I see the business world from a very 'objectivist/positivist' viewpoint. I have experienced many for-profit organisations with strong financial controls, run with the ultimate aim of maximising profit, return on investment, economic profit or shareholder value. Whilst I appreciate that managers and employees within such firms may be tempted to pursue alternative goals, I believe that it is possible to implement suitable performance measurement and rewards systems to achieve alignment of goals and hence achieve effective organisational control. The research objective for this PhD study, and the research questions set up to address that objective, reflect my objectivist/positivist world view,

and support the belief that a researcher can objectively answer the research questions posed by using the research strategy and method chosen.

This view and approach to accounting research is in line with Lillis (2006) who argues that such an approach "assumes that accounting practices are realities that can be observed and studied by researchers, albeit within a social context that is an integral part of that reality" (p.463). Moreover, Humphrey and Scapens (1996) highlight that theory may both inform and be informed by observation of practice and it may be assumed that the researcher is able to objectively observe and analyse accounting and organisational phenomena.

3.3 Alternative Theories

The theory applied in this research must be appropriate to address the research questions and also consistent with my educational background, practical experience and my objectivist/positivist theoretical perspective and epistemology as explained above. From an economics perspective, the objective of the MA function is to supply information to managers that helps them fulfil their roles with respect to the planning, decision making and control of the organisation they manage. Göx and Wagenhofer (2007, p.400) describe economic research on MA as focused on "the analysis of costs and benefits and on the design of information systems and their use in organisations". They also see the use of MA information for decision making as critical to efficient resource allocation within firms and offer examples of normative economic research on MA including investigating "decisions on the quantity and quality of inputs, product costing and pricing decisions. And decisions on the size and diversity of the product portfolio" (Göx & Wagenhofer, 2007, p.400). In the context of this research the focus of interest would shift from decisions about product costing and the product portfolio to the use of customer costing and efficient management of a customer portfolio. Moreover, Göx and Wagenhofer (2007) argue that the consideration of uncertainty is a key ingredient of economic models as a key purpose of a firm's MCS is to provide timely and relevant information in order to reduce uncertainty and therefore improve organisational effectiveness. However, normative economic thinking is rather prescriptive (Wickramasinghe & Alawattage, 2007) and focused on the construction of concepts and tools to help managers achieve optimum conditions and results. One of the weaknesses of normative economics is its highly theoretical base and dependence of simplifying assumptions, potentially leading to lack of applicability to a complex business world. More in tune with my

world view is positive economics, which "aims to 'describe' and 'explain' what actually happened, is happening or will happen" (Wickramasinghe & Alawattage, 2007, p.351). Positive economists only use the idea of optimal conditions and 'equilibrium' as a guide to help them construct of models or theories that are useful for describing and explaining how economic agents (such as consumers, managers and employees) and systems (such as organisations, markets and economies) achieve or divert from theoretically optimum conditions of equilibrium.

Wickramasinghe and Alawattage (2007) claim that the mainstream of MA research is represented by research undertaken under the rational perspective which draws on both organisational theory and neoclassical economics. The authors argue that neoclassical economics provides models or frameworks that treat MA as "a set of calculative practices which help decision-makers to maximise their utility (p.15) and organisational theory provides insights into the relationship between MA and contingencies. Wickramasinghe and Alawattage (2007) claim that the three rational theories of MA which have developed from both neoclassical economics and organisation theory are agency theory, transaction cost theory and contingency theory. These will be reviewed in turn.

Agency theory has been extensively used for improving our understanding of organisational processes and design. According to Håkansson and Lind (2004), agency theory is the second most popular theory used in inter-organisational control literature. This literature is particularly concerned with the buyer-supplier relationship and the consequences of information asymmetry and opportunism. Inter-organisational controls are needed to mitigate the effects of one company possessing information that can be used against the other company in order to bias the relationship in their favour financially. The controls need to encourage information sharing and provide incentives that encourage both companies to not behave opportunistically. Investigating the buyer-supplier relationship at this micro level of detail in not appropriate for this research and the focus is very much on CA practices from the selling firm's point of view and not the intricacies of the buyer-seller relationship per se.

Subraminiam (2007) says that a principle-agent relationship occurs when a one party (the principle) hires another party (the agent) to perform tasks, and hence make decisions, on their behalf. The common principle-agent relationship in the business world is between the owners of the organisation and its managers. Subraminiam (2007) states that two key impacts on the

efficiency of the principle-agent relationship are "the individualistic and opportunistic interests held by each party" and the exacerbation caused "by incomplete information, and uncertainty" (pp.55-56). The principle needs to control for the negative effects of such impacts by electing to closely monitor the agent's behaviour and/or provide incentives within the employment contract which will help align the interests of the agent with those of the principle.

Managers (agents) will use CA practices to inform their decisions about such things as customer acquisitions and retention, and the allocation of marketing and service delivery resources between different customers or customer groups. The business owners (principles) will desire such decisions to be made in their best interests, for example, to maximise shareholder value. Managers of course may wish to pursue their own selfish interest and these may conflict with the interests of owners. Clearly the agency problem is relevant in the context of research into CA practices. However, our specific knowledge of what CA practices are used and how they are used in business organisations is still quite limited (McManus, 2013) and agency theory would only be most useful for a micro level investigation into the use of CA measures within a firm's PMS and incentive system. There is no clear evidence in the literature that CA measures are sufficiently well developed to be used extensively as a basis for incentive systems and it therefore seems premature to use agency theory to inform research into CA practices which is inevitably quite exploratory in nature.

Transaction cost economics is based on the view that the prevalence of large organisations means that market transactions are no longer the major control mechanism for firms. The key to achieving economies and efficiency is to exercise management coordination within organisations. Under this theory the role of MA becomes to reduce the cost of managerial coordination and this is achieved by minimising transaction costs. (Wickramasinghe & Alawattage, 2007). It is argued by Johnson and Kaplan (1987) that MA was developed in order to support managerial actions in search of such efficiency.

According to Jones (2007), transaction cost economics was developed by Williamson (1975, 1986) to explain the boundaries of the form and the reasons for combining productive resources in large organisations instead of relying on small firms and the market mechanism. Jones (2007) states that transaction cost economics was originally used to explain why firms exist, and they exist "because of the need to mediate the additional information cost associated with the

purchase and subsequent monitoring of inputs provided by the market" (p.83). When using transaction cost economics, the key unit of analysis is the transaction and research into organisation needs to focus on the governance structures that are put in place to minimising the transaction costs. Nooteboom (1993) explained the sources of transaction costs as relating to contact, contract and control. At the contact stage the buyer incurs search costs and the seller incurs marketing costs. At the contract stage both buyer and seller incur the costs of negotiating and preparing a suitable agreement to regulate the exchange process. As with agency theory a key problem is the likelihood of incomplete or distorted disclosure of information by the parties to the transaction in order to gain an advantage. (Jones, 2007).

Jones (2007) argues that there is increasing evidence that the reduction of transaction costs is not the key objective in many modern organisations and cites the mainstream strategy literature (for example, Porter, 1985) as demonstrating that cost reduction is only one strategy option and many firms concentrate on "profitability drivers and proprietary knowledge" in order to create a hard to imitate competitive advantage (p.87).

Whilst transaction cost economics may appear to be useful for explaining inter-organisational relationships critiques have argued that it not sufficiently insightful. Dekker (2004) suggests that the sole focus of transaction cost economics on transaction cost minimization as the sole determinant of governance forms ignores the true variety in form and goal of inter-organizational relationships. He also argues that transaction cost economics takes little account of any social mechanisms of governance used in relation to inter-organizational relationships. Transaction cost economics does not appear to offer a comprehensive theory capable of supporting the broad exploratory investigation of CA practices envisaged in this study. Like agency theory is far too micro focused and potentially of much more benefit for research into firms with a cost leadership strategy and potentially inappropriate for an investigation into the use of CA practices in service firms with a customer-focused strategy.

Contingency theory is considered an appropriate perspective to aid researchers "to explore under what circumstances MA systems work better or worse" and to aid understanding of why MA practices change (Wickramasinghe & Alawattage, 2007, p.384). Moreover, the authors argue that "questionnaire surveys do not collect substantively rich accounts which can offer a proper understanding of underlying organisational and social realities about the functioning of

management control systems (p.404). Therefore, according to Wickramasinghe & Alawattage (2007), more detailed studies are needed and researchers have successfully used case studies to provide contingency theory explanations. The likely relevance of contingency theory to inform this study is considered below.

3.4 Overview of the contingency-based research into MCS

Otley (1980) defines contingency theory as follows: "The contingency theory approach to management accounting research is based on the premise that there is no universally appropriate accounting system which applies equally to all organisations in all circumstances. Rather a contingency theory attempts to identify specific aspects of an accounting system that are associated with certain defined circumstances and to demonstrate an appropriate matching" (p.413). He argues that contingency theory began to dominate the published research on the behavioural and organisational aspects of MA in the late 1970s, and it is still commonly used in the context of examining organisational MCS. Chenhall (2003) highlights that the terms MA, management accounting systems and MCS are often used interchangeably. In this study the term MCS will be used unless appropriate to quote the specific term used by authors.

Simons (1987) defines MCS as "formalised procedures and systems that use information to maintain or alter patterns in organizational activity" (p.358). Similarly, Chenhall (2003) argues that in contingency-based research studies, MCS are perceived to be the tools used to produce the information needed by managers to make decisions to *improve* organisational performance (emphasis in original). Moreover, a well-designed MCS must be an excellent fit with the context or contingencies within which it is required to operate (Chenhall and Chapman, 2006). Otley (1980) accepts there was a strong case for developing a contingency framework for MA, but at that time had several reservations regarding the lack of theoretical support for the identification of contingent variables. In particular, he did not think the notion of organisational effectiveness had received enough attention and he argued that MCS should not "be studied in isolation from its wider context" (p.426). Moreover, Otley (1980) observes the highly inter-connected structure of control devices used within a MCS, and advises that it is "unrealistic to expect purely statistical methods of analysis to unravel a complex pattern of inter-action". He therefore suggests that researchers "have a closer involvement" with the organisations they investigate in order to unravel complex relationships (p.424). Such close involvement is more likely facilitated by case

study research than survey-based research, adding weight to the choice of the multiple-case method chosen for this study (chapter four).

Chenhall (2003, p.134) notes that contingency-based studies have investigated MCS as both the dependent and the independent variable, and agrees with Otley (1980) that an outcome variable, like desired firm or management performance, should be measured. Chenhall (2003) argues that good fit leads to enhanced performance and poor fit leads to diminished performance. He also opines that MCS research which continues to focus only on dimensions of MCS as the outcome variables must implicitly assume (he says they are rarely explicit) that observed associations between context and MCS reflect "equilibrium conditions or optimal solutions" (p.134). This leads to the notion that only the fittest will survive. Hence if equilibrium is assumed it is unnecessary to study performance as every firm is assumed to have optimum performance in the light of its current situation. This assumption is clearly open to question and is a potential flaw that particularly affects survey-based research. Given such a flaw it could be argued that survey evidence of generally low CA usage rates, particularly with respect to forward-looking CA metrics (Guilding & McManus, 2002; Lord et al., 2007, Tanima & Bates, 2015), does not necessarily support a conclusion that greater usage of CA practices would not have been beneficial to the respondent firms (as might be the case if they were assumed to be in equilibrium). These three surveys found the managerial perceived merit of CA practices to be significantly higher than their usage rates and this implies firms might benefit from more widespread CA usage. Survey research therefore indicates there must be barriers preventing more development and widespread use of CA, but provides no insights into the nature of these barriers. More revealing in this respect is McManus and Guilding's (2009) study of CA in 14 Australian firms (chapter two), but that is the only paper found which specifically identifies barriers to the use of CA practices. This study will not assume case firms are in equilibrium, and will investigate how they currently use CA practices within their MCS to manage and monitor a customer-focused strategy. The potential for more comprehensive development and more widespread CA usage within case firms will be investigated, and if perceived to exist, the likely barriers will be investigated, thus contributing towards closing a gap in the literature on CA.

Since 1980, contingency theory has been used extensively to investigate how MCS are designed and implemented to 'fit' the context in which they operate. Much of the contingency based empirical research "involves a search for systematic relationships between specific elements of

the MCS and the particular strategy of the organisation" (Langfield-Smith, 1997, p.207). This body of research has predominantly studied the relationship between the characteristics of MCS and organisational performance and the effect that various contingent factors might have on the relationship. Typical contingent factors studied include: the environment, culture, strategy, technology, organisational structure, and size. After her review of empirical contingency studies aiming to identify the characteristics of MCS which are effective under different strategies, Langfield-Smith (1997, p.228) concludes, "the research evidence is fragmentary and sometimes conflicting" (p.228). However, she indicates case study research addressing the relationship between MCS and strategy had provided "interesting propositions and theories" including the notion that managers' perceptions are an important influence on the relationship between MCS and strategy. Langfield-Smith (1997) also argues that a focus on financial controls alone is inadequate and hence researchers should also consider the influence of non-financial controls. Moreover, Chenhall (2003, p.145-6) says that "when evaluating contingency relationships between MCS and structure, elements of environment, technology and strategy are likely to be implicated in the relationships and, as such, much can be gained from considering them at the same time".

Chenhall (2003) reviews and critically evaluates the empirical, contingency-based research on MCS published in a broad selection of accounting and management journals. He describes how early accounting researchers draw on the prior work of organisational theorists (for example, Burns & Stalker, 1961) to investigate the influence of environment, technology, structure and size on the design of MCS. He explains that post 1980 MCS research has confirmed how the effectiveness of MCS depends on contemporary aspects of those four variables and has also investigated the relevance of additional contextual variables to the design of MCS, in particular the role of strategy. Of note is that Chenhall (2003) points out that the definition of MCS has evolved from one focused on providing formal, financial information to assist management decisions to one that is much broader and incorporates relevant non-financial information. He says that this includes "external information related to markets, customers, competitors, non-financial information related to production processes, predictive information and a broad array of decision support mechanisms, and informal personal and social controls" (p 129). Chenhall (2003) also notes that "the conventional, functionalist contingency-based approach to research assumes that MCS are adopted to assist managers achieve some desired organizational

outcomes or organizational goals" (p.128) and that the appropriate design of MCSs will be contingent on the context in which they operate. Although an alternative, sociological approach would see MCS as "more active, furnishing individuals with power to achieve their own ends" (p.129), the more conventional view followed in contingency-based research (and in this study) "perceives MCS as a passive tool designed to assist manager's decision making" (p.129).

This initial overview of contingency-based research into MCS identifies that strategy, organisational structure, the environment, technology, and firm size are key contingent variables that have been studied in the contingency-based research. It also highlights the interrelated nature of such variables and hence the advice to study them simultaneously (Chenhall, 2003; Otley, 1980) and to recognise the inclusion of non-financial information in contemporary MCS (Langfield-Smith, 1997; Chenhall 2003).

When considered in the light of the wider literature review (chapter two), this initial overview of contingency-based research leads to the following additional question (research question three).

> ***What are the factors that influence the choice of CA measures and the way they are used, or hinder more widespread usage, within organisations with a customer-focused strategy?***

The next section focuses on the specific contingent factors that may be relevant in this study and the formulation of some tentative initial propositions for how these factors may influence the choice and use of CA practices, or hinder more widespread usage, within firms with a customer-focused strategy.

3.4.1 MCS and Strategy

Simons (1987) reports that prior research has stressed the need to understand the relationship between strategy and MCS before any theories concerning accounting controls used in complex organisations could be developed. Although he cites studies which conclude that increased competition resulted in increased used of sophisticated control procedures and that perceived organisational performance is higher when remuneration is linked correctly to organisational strategies, he questions their value because in these studies control was only measured by a single variable. Having collected data about 33 control attributes from 76 firms across 19

industries his main conclusions included confirmation that "firms following different strategies do indeed employ accounting control systems in different ways" (Simons 1987, p.370). He suggests that future research is needed to "uncover the complex relationship between specific accounting control systems…the variety of business strategies used by organisations, and the achievement of organisational goals" (p.371). In line with this suggestion, this study investigates how specific aspects of MCS, in particular CA practices, are used to manage and monitor a customer-focused strategy.

Moreover, Chenhall (2003) argues that the role of strategy is ideally dynamic and involves managers in a continual reassessment of the way environmental conditions, technologies and structures enhance performance. In this process MCS assists managers "in formulating strategy related to markets and products, required technologies and appropriate structures" (p.151). Thus, MCS is "implicated in the implementation and monitoring of strategies, providing feedback for learning and information to be used interactively to formulate strategy" (p.151). Chenhall (2003) (citing Simons) says that few MCS studies have investigated these issues, but instead have concentrated on identifying MCS which are appropriate for different strategic archetypes. This study helps fill this gap by specifically investigating how CA practices are used to manage and monitor a customer-focused strategy.

Having investigated how MCS differ among firms, Simons (1990) addresses the issue of why they differ and stresses MCS are important for both strategy implementation and strategy formulation, the latter through empowering institutional learning. He uses case-based research to develop a model suggesting it is "the distribution of management attention among the various control subsystems" (p.141) which is important. He introduces four concepts to develop his model: limited attention of managers; strategic uncertainties; interactive management control; and organisational learning. Of relevance to this research is the observation that top managers inevitably do not have enough time to process all the information provided by the MCS and this has important implications for the process of management control. Top managers can only pay attention to limited aspects of the MCS and must delegate most areas of management control to subordinates. Top managers decide what aspects to monitor based on a ranking of activities they could monitor from most critical to least critical. This ranking enables them to prioritise their time and focus attention on only the strategic uncertainties or activities they believe they must monitor personally to ensure that the firm's goals are achieved.

The relevance of Simons (1990) to this study is that interviews with top managers should identify their priorities, and these should be aligned with the strategic priorities of the organisation and the need to ensure that firm's goals are achieved. Hence, this study's interviews with top managers can be expected to capture the importance of CA measures within the firm's MCS with respect to driving its customer-focused objectives. Simons (1990) also argues that top managers' choice of interactive controls sends signals to all staff about what should be closely monitored and where new ideas need to be proposed and tested. These signals activate "organisational learning and, through the debate and dialogue which surrounds the interactive management control process, new strategies and tactics emerge over time" (p.137). He encourages researchers to strive for a better understanding of "the dynamic relationship between strategy and management control processes" (Simons 1990, p.142).

When discussing the limitations of prior, contingency-based, empirical research addressing the relationship between MCS and strategy, Langfield-Smith (1997) observes that "the important distinction between the existence and the use of controls" is not always acknowledged (p.226). She argues that the mere existence of a control may not be adequate to support a strategy and the researcher needs to examine the actual usage of controls and their importance to key decision makers. This distinction between existence and use of controls has influenced the design of this study and the choice of the case study method (chapter four) in preference to alternative methods like surveys. As well as investigating what CA measures are used in customer-focused firms, this study will investigate how those measures are used to manage and monitor the customer-focused strategy and hence drive performance.

Otley's (1980) reservations about the lack of theoretical support for the identification of contingent variables have continued to be a factor, as Langfield-Smith (1997, p.228) observes that the research evidence relating to "the characteristics of MCS associated with effectiveness under different strategies" is "fragmentary and sometimes conflicting". Similarly, Hartman and Moers (1999) have criticised many contingency-based studies for not clearly stating the nature of the interactions they were expecting to find and for not adequately theorising before they start testing, and thus being in danger of forming erroneous conclusions. Moreover, Luft and Shields (2003) lament the lack of exploration of non-linear relationships and blame this on a lack of precise conceptualisation.

Of key relevance is Langfield-Smith's (1997) critical review of the mainly contingency-based research on the relationship between MCS and strategy. Drawing on Johnson (1987), she describes strategy in terms of managerial decisions which are concerned with the organisation's long term direction and the scope of its activities; the matching of these activities to its environment and resource capabilities; resource allocation within the organisation; and the consideration of stakeholder expectations and values. Langfield-Smith (1997) maintains that most prior MCS research has concentrated on business (or competitive) strategies, which focus on how individual SBUs compete within their particular industries. However, she points to increasing interest in the relationship between MCS and operational strategies, which "address how the various functions of the organisation contribute to the particular business strategy and competitiveness of the organisation" (pp.209-210). She observes that this work has mainly related to manufacturing strategies and hence the current study will add to the knowledge base by considering strategies in service organisations. Chenhall (2003) also observes that there has been little research on MCS in the service sector.

3.4.1.1 Strategy Typologies

Langfield-Smith (1997) outlines several different strategy typologies presented in the prior research on the relationship between MCS and strategy, but the list is not exhaustive and she warns that "strategy is an evolving and multifaceted concept". This is recognised in this study which specifically investigates aspects of MCS in relation to a customer-focused strategy. Consequently, the prior, potentially outdated, strategy typologies will only be briefly outlined here, drawing heavily on Langfield-Smith's (1997) comprehensive summary and concentrating on aspects which may be relevant to this study.

The four strategy typologies outlined by Langfield-Smith (1997) are as follows:

a) Miles and Snow (1978) - Defenders, Prospectors, Analysers and Reactors
b) Porter (1980, 1985) - Cost Leadership, Differentiation and Focus
c) Miller and Friesen (1982) - Conservative and Entrepreneurial
d) Gupta and Govindarajan (1984) - Build, Harvest, Hold and Divest

a) Miles and Snow (1978) - Defenders, Prospectors, Analysers and Reactors

Langfield-Smith (1997) explains that the Miles and Snow (1987) typology describes alternative

strategies in terms of "the rate of change of products and markets" (p.211) and a continuum between defenders and prospectors. Defenders undertake little product or market development and have a narrow product range. They thus have little emphasis on marketing and research and development but the functions of finance, production and engineering are critical to their success. Prospectors continually search for market opportunities and hence force their competitors to respond to the change and uncertainty they create. Consequently, the functions of marketing and research and development are critical to their success and dominate finance and production such that efficiency and short term profit performance are less important than maintaining industry leadership and product innovation. Analysers are between these two on the continuum, and combine the strongest characteristics of defenders and prospectors. Miles and Snow (1978) describe a fourth organisational type, reactors, which is expected to lead to failure and hence has not been included in contingency-based research.

b) Porter (1980, 1985) - Cost Leadership, Differentiation and Focus

Langfield-Smith (1997) describes how Porter (1980, 1985) presents three generic strategies that should provide a basis for a sustainable competitive advantage: cost leadership, differentiation and focus. For a cost leadership strategy, the organisation must become the lowest cost producer in its industry. Examples of how this would be possible include large size and hence economies of scale, or unique access to favourable raw material prices or superior technological advantage. For a differentiation strategy, the organisation must provide products (or services) with unique attributes that are highly valued by its customers. Examples of such attributes include quality and dependability of the product, after sales service, product flexibility or wide availability. For a focus strategy, the organisation applies one of these two strategies to a specific segment of the market that has special needs and is poorly served by other organisations competing in the industry.

c) Miller and Friesen (1982) - Conservative and Entrepreneurial

Langfield-Smith (1997) explains that Miller and Friesen (1982) classify firms as either conservative or entrepreneurial, on the basis of their product innovation. Langfield-Smith (1997) maintains that these two extreme cases differ in terms of their "degree of environmental hostility, organizational differentiation, environmental heterogeneity and technocratization" (p.211). She explains that conservative firms only engage in innovation in response to a serious challenge

whereas "entrepreneurs aggressively pursue innovation, and control systems were used to warn against excessive innovation" (p.211).

d) Gupta and Govindarajan (1984) - Build, Harvest, Hold and Divest

Langfield-Smith (1997) describes how Gupta and Govindarajan (1984) focus on variations in the choice of strategic mission, which relate to the trade-off between the maximisation of short term profits and market share growth. A build strategy requires the firm to have some superiority in the industry, and it aims to improve market share and hence competitive position at the expense of short term profit and cash flows. Maximisation of short term profit and cash-flow, at the expense of market share, is called a harvest strategy. A hold strategy is used to protect market share and competitive position whilst generating a reasonable return on investment. This approach is typical of firms with a high market share operating in a high growth industry. A divest strategy applies when a firm plans to cease operation.

3.4.1.2 Strategy in this Study

Chenhall (2003) advises that there are in fact significant differences between the strategic archetypes and hence developing theory that is specific to the strategic archetypes under investigation requires considerable care. Moreover, he suggests that, as these strategic archetypes were developed in the 1970s and 1980s, their continued relevance should be questioned, particularly as strategies have become more complicated by "the need for most organizations to be both low cost producers and to provide customers with high quality, timely and reliable delivery" (p.152). He suggests that "more meaningful associations between strategy, environmental and internal operations may become apparent if specific elements of strategic priorities are investigated" (p.152). This study will investigate the more contemporary strategic approach of specifically customer-focused strategies, including a strategy based on customer intimacy. (Treacy and Wiersema, 1993; Kaplan and Norton, 2004a) and will, in particular, consider the impact of environmental influences and internal operations on strategy and CA practices.

Langfield-Smith (1997) further highlights confusion in the literature about the relationship between MCS and strategy with respect to the range of variables used. She attempts to integrate the research by considering the differences and similarities between the strategy typologies. She

claims that "the typology of prospector vs defender has a broad scope[7], while the competitive positioning of cost leadership vs differentiation is much narrower" (p.212). Meanwhile, the "entrepreneur vs conservative classification is focused on the extent of product innovation, while build vs harvest is based on the market share vs short-term profit trade-off" p.212). Further, Langfield-Smith (1997) finds that these typologies have common characteristics, particularly in relation to the extent of environmental uncertainty. She proposes various viable configurations, for example, a prospector might compete via differentiation and pursue a build mission (but not a hold or harvest mission, which are combined with a defender competing via cost leadership).

Chenhall (2003) explains that strategy is somewhat different to the other contingent variables as it is not an element of context but a "means whereby managers can influence the nature of the external environment, the technologies of the organisation, the structural arrangements and the control culture and the MCS" (p.150). He stresses managers are not "captured by their operating situation" but instead they have a strategic choice with respect to how they position the organisation in particular environments. Notwithstanding this element of choice, prior "contingency-based research predicts certain types of MCS will be more suited to particular strategies" (p.150). Included in his propositions concerning strategy and MCS is that "strategies characterized by defender and harvest orientations and following cost leadership are associated with formal performance measurement systems including objective budget performance targets, compared to more prospector strategies which require informal, open MCS characterized by more subjective long term controls and interactive use of budgets focused on informal communications" (p.151).

Langfield-Smith (1997) found some agreement among researchers using survey methods; for example, firms following a defender or cost leadership strategy use tight cost controls. However, she found case-based research by Simons produced 'surprising' results which contradicted prior research conclusions. Simons (1987) found that control systems were used less intensively by defenders, particularly large ones, than prospectors, and for large defenders, good financial performance was negatively correlated with tight budget controls and the use of output

[7] The scope of a MAS usually refers to the dimensions of focus, quantification and time horizon. A traditional or narrow scope MAS has an internal focus, uses money measurement and relates to historical data. A broad scope MAS provides information related to the external environment (e.g. GDP, market share, consumer tastes, technological advances), would include non-financial measures and would relate to future events. (Chenhall & Morris, 1986).

monitoring. Only for small defenders did he find that tight budget controls were positively correlated with good financial performance. Simons (1987) focused on financial controls, and his failure to consider non-financial controls is considered by Langfield-Smith (1997) to be a significant limitation. This study will avoid such a limitation by investigating both financial and non-financial aspects of CA practices.

Of particular relevance to this study is an investigation of the relationship between a firm's strategy and the usage and perceived merit of various CA practices by Tanima and Bates (2015). They used a survey to test hypotheses that CA usage rates, and the perceived managerial merit of CA, are higher in companies with a differentiation type strategy. They did not find consistent support for these hypotheses across all differentiation type strategies and all CA practices and suggested survey participants indicated they used multiple strategies. They conclude that large firms may use different strategies for different products or markets, and some firms may use a hybrid strategy (Thornhill & White, 2007) and thus the relationship between strategy and CA is highly complex. Further they suggest a need for future researchers to examine in detail the contingent relationship between alternative competitive strategies and CA practices and case study research may be more appropriate than survey research for investigations of such complex relationships.

Hoekstra and Huizingh (1999) argue that firms adopting a customer-focused strategy will need to support their strategy with appropriate CA metrics and the specific metrics which are appropriate are likely to depend on the precise nature of the customer-focused strategy. This contention is supported by McManus and Guilding (2009) who draw on the Miles and Snow (1978) strategy typology and suggest that a prospector (with an external focus – searching for market opportunities) will be more likely to adopt CA practices than a defender (with an internal focus on high quality products, superior service and lower prices). Similarly, a firm which adopts a differentiation strategy based on customer intimacy is likely to support their strategy with CA metrics, both historical and forward-looking, at the individual customer level (Treacy & Wiersema, 1993; Kaplan & Norton, 2004a; Kotler, 2003).

Based on the above discussion, the following propositions to support research question three can be developed:

Proposition 1: Firms that have adopted a customer-focused, differentiation strategy will extensively use CA measures, such as CSPA.

Proposition 2: Firms that have adopted a differentiation strategy based on customer intimacy for any customer segment will use CA measures, such as CPAIC for customers in that segment.

3.4.2 MCS and Structure

Chenhall (2003) describes organisational structure as "the formal specification of different roles for organisational members, or tasks for groups, to ensure that the activities of the organisation are carried out" (p.144). He highlights the many different definitions in the literature and stresses that differentiation or autonomy of managers is achieved by decentralisation while integration involves rules and operating procedures. He suggests that structural mechanisms, such as centralisation, standardisation, formalisation and configuration have been commonly used in contingency-based research. A common way of describing organisational structure, after Burns and Stalker (1961), is with reference to a continuum between mechanistic and organic structures but alternatives used include bureaucratic versus non-bureaucratic organisational structures (Perrow, 1970). Chenhall (2003) advises that such taxonomies are useful for investigating how particular aspects of MCS relate to the control culture of organisations. He further highlights that mechanistic controls "rely on formal rules, standardized operating procedures and routines" and organic systems are "flexible, responsive, involve fewer rules and standardized procedures and tend to be richer in data" (pp.131-2). It has generally been found that more organic structures are suited to uncertain environments and that strategies characterised by differentiation require differentiated, divisional structures. However, it is argued (for example Donaldson, 1987) that the organisational structure in place will influence the type of strategy chosen by top management and hence strategy might follow structure rather than vice-versa. Chenhall (2003) advises that "a need for flexible responses to specific customer's increases interdependencies across the value chain involving reciprocal interactions with customers, suppliers and functional units such as marketing, production, purchasing and research and development" (p.139). He also argues that organic systems are required "to manage the need for flexible responses to customers, which involves coordinating reciprocal interdependencies across the value chain (p.141).

After reviewing the findings of the prior contingency-based research on organisational structure and MCS, Chenhall (2003) formulated various propositions. He surmised that "large organisations with sophisticated technologies and high diversity that have more decentralised structures are associated with more formal, traditional MCS (e.g. budgets, formal communications)" (p.147). Gordon and Narayanan (1984) found that organic structures were best supported by broad scope, future oriented information. However, Chenhall (2003) highlights contradictory results with respect to the successful implementation of ABC, with examples of ABC operating in both mechanistic and organic organisations. Thus, one of Chenhall's (2003) propositions concerning organisational structure and MCS is that "Organic organizational structures are associated with perceptions that future orientated MCS are more useful, and with the effective implementation of activity analysis and activity-cost analysis" (p.147). This may be quite significant in relation to this study, because it implies that the use of forward-looking CA metrics, like CLV, may be associated with organic organisational structures and the effective implementation of ABC. However, survey research on the use and perceived merit of CA practices in New Zealand found only limited support for a contingent relationship between ABC adoption and usage and perceived merit of CA practices (Tanima & Bates, 2015). Although the researchers found significant positive relationships between ABC adoption and CPAIC usage, and the perceived merit of CPAIC and CSPA, they found no significant relationship between ABC adoption and other CA practices, such as CLV. These contradictions in the extant literature make this issue worthy of further investigation in this study.

Based on the above discussion, the following proposition to support research question three can be developed:

Proposition 3: Firms or SBUs that have an organic or non-bureaucratic organisational structure will use broad scope, future oriented measures, like CLV, supported by an ABC system.

3.4.3 MCS and the External Environment

Chenhall (2003) sees the external environment as a contextual variable at the foundation of contingency based research and claims that the most widely researched aspect of the environment is uncertainty. He distinguishes risk from uncertainty on the basis that risk relates to situations in which probabilities can be assigned, whereas probabilities cannot be assigned to

uncertainty and the relevant elements of an uncertain environment may not even be predictable. Chenhall (2003) reports that other aspects of the environment previously researched include: turbulence, hostility, diversity (variety in products, inputs, customers) and complexity (rapidly developing technology). In the context of this research and case studies in the banking sector, diversity in relation to the variety of products and services offered to or demanded by customers are likely to be important contextual factors and complexity in relation to technology may relate to the development of multiple delivery channels for customer services (branch, telephone (landline and mobile) internet) and to different payment methods (cheque, direct debit, conventional card payment, contactless payment technology). Similarly, in relation to case studies in the express delivery sector, diversity might relate to the nature of specialised services (including in-house services for customers) and alternative pick-up and delivery options and complexity may relate to alternative sizes and packaging and the nature of additional logistics services.

Tillema (2005) also found the scope of accounting instruments to depend on the dynamism of the SBU's environment (where a dynamic environment is one in which it is difficult to predict the future), which itself is caused by the young age of the SBU and/or the significant change in the environment. She argued that weak predictability of the financial consequences of operating activities makes the production of average and broad scope accounting instruments difficult, but also makes the use of narrow and broad scope accounting instruments less effective. Tillema (2005) believes that the contingency factor dynamism of the environment is closely related to the factor uncertainty, found in prior contingency-based research, but argues that previous studies did not recognise that the effects of uncertainty on MAS sophistication depend on the age of the operating activities. She thus claims that a 'new' contingency factor has been found "due to the open and explorative nature of case studies" (p.123).

3.4.3.1 Competitive Intensity

Al-Omiri and Drury (2007) find that higher levels of the costing system sophistication are positively associated with the importance of cost information and the intensity of competitive environment. However, they did not find an association with product diversity as they had expected. In case-based research on 14 Australian organisations, McManus and Guilding (2009) observed that "there is a potential for cross-industry differences to drive the adoption and type

of CA practices implemented" (p.57). However, the authors did not identify any specific industry characteristics which determined the need for CA, other than to suggest that the more competitive the market a firm competes in the more likely that CA practices are used. They did observe that CA practice adopters were in telecommunications, insurance, electricity, accounting, and banking, whilst non-adopters were in manufacturing, construction and a rugby union club, and argued that this indicated competitive intensity could be a key contingent factor driving the use of CA practices. In survey research on the usage of CA in Australia (Guilding & McManus, 2002) and in New Zealand (Lord et al., 2007), no strong support was found for the hypotheses that CA usage rates are higher in firms experiencing medium levels of competitive intensity.[8] Guilding and McManus (2002, p.57) suggested, that despite the lack of strong evidence with respect to competitive intensity, this variable "offers sufficient promise to warrant further investigation". Lord et al. (2007) suggest that "other factors are needed to explain the variation in use…of customer accounting practices" (p.56) and recommended competitive strategy, environmental uncertainty, company size and industry type as factors worthy of investigation.

McManus (2013) surveyed Australian hotels on their use of CA practices and marketing accounting measures and concluded that "hotels facing greater competition in their markets are required to keep their 'eye on the ball' in regard to their customers" (p.149). She found that hotels facing highly competitive environments are more likely to use CPA and CLV, as well as market share analysis and customer acquisition and attrition rates, to monitor competitive advantage. Tanima and Bates (2015) related competitive intensity and the need to operate in an unstable environment with the adoption of an organic organisational structure, but they only found a significant relationship with CE. They surmised that the lack of any significant relationships with other CA practices may indicate an environmental uncertainty construct which is more representative of customer-level complexities being needed, and suggested the propensity to switch to another supplier as a key customer related uncertainty (Lopez et al., 2006). This may be a better indicator of the need for CA.

Based on the above discussion, the following proposition to support research question three can

[8] Although Guilding and McManus (2002) did find a positive and statistically significant relationship between competitive intensity and usage of CSPA ($P<0.01$) Also, Lord et al. (2007) did find a statistically significant relationship between the square of competitive intensity and the perceived merit of CPAIC.

be developed:

Proposition 4: The more competitive the market in which a firm operates, the higher the propensity of customers to switch suppliers and the more likely the firm will use CA measures.

3.4.3.2 Technology

Chenhall (2003) points out that technology can relate to hardware (machines and tools), materials, people, software and knowledge and identifies the three generic types of technology of importance to MCS design as complexity (related to how standardised the work is, for example highly automated, mass production compared to a job shop), task uncertainty (related to the variability and therefore controllability of tasks) and interdependence. The latter increases the need for coordination and hence makes control more difficult. He argues that firms producing non-standard differentiated products will have complex processes and task uncertainty, and a need for flexible responses to specific customers will increase interdependencies and hence "traditional, mechanistic MCS based on financial controls would not seem to suit these circumstances" (p.139) and broad scope MCS will be more suitable. In the context of this research it seems likely that the more that service is customised to individual customer needs or the typical needs of customer groups, the more likely that broad scope MCS (including non-financial and forward-looking CA measures) would be beneficial. Chenhall (2003) advises that a "preoccupation with formal, hard measures may direct attention to those measures at the expense of the subtleties of the situation" (p.135). He suggests that aspects of CS or organisational culture require more subjective assessment of progress and hence may receive less attention than activities that are subjected to hard measures, like production rejects.

Moreover, a more contemporary view of the contingency factor technology might include the level of sophistication of the costing systems. CA metrics may be based on a contribution approach or a full cost approach, and the latter could be based on conventional absorption costing or on ABC methodology. Moreover, the level of integration of ICT is likely to impact the level of sophistication of the costing system and hence the type of CA metrics in use (Andon et al., 2001; Guilding, 2007). Al-Omiri and Drury (2007) hypothesised a positive relationship between the quality of an organisation's ICT (based on whether it was highly integrated, had user friendly query capabilities, contained a wide array of cost and performance information and was updated on a real time basis). However, quality of IT was not significantly associated with any of

their four measures of cost system sophistication and they surmised that the reduced cost of IT in recent years has led to its widespread adoption by all types of company and hence the quality of IT is no longer a barrier to implementing more sophisticated costing systems.

In contingency-based, case study research, Woods (2009) investigated the contingent factors that influence the practical application of the risk management system operating within a large UK City Council. As the manufacturing technology concepts used in prior contingency research were clearly not relevant in a service based public sector organisation, she redefined the technology variable in terms of information and communication technology (ICT). She found evidence to demonstrate "ICT is a contingent variable which directly affects the risk management control system and also the quality of overall service provision within the council" (p.78).

Based on the above discussion, the following proposition to support research question three can be developed:

Proposition 5: The more sophisticated the firm's ICT system the more likely the firm has the capacity to use CA measures.

3.4.4 MCS and Firm Age and/or Stage of Development

Chenhall (2003) observes that there is limited prior work on how MCS are best suited to different stages in the growth of firms and suggests that "important topics are the role of more formal systems at the stage of new firm formation, early growth, maturity and decline" (p.144). Moores and Yuen (2001) found that MAS formality changed to complement organizational characteristics across life-cycle stages and growth firms pay particular attention to increasing the formality of their MAS. Tillema (2005) used case study research in two Dutch power and gas companies to investigate the contingency factors that explain MAS sophistication, particularly with respect to scope. Chenhall and Morris (1986) say that narrow scope MAS focus on events within the organisation and historical, financial measures. Conversely, broad scope MAS focus on external events, non-financial measures and future events. Therefore, with respect to CA practices, CSPA and CPAIC would be classed as narrow scope, whilst CLV, CE and non-financial customer measures would be classed as broad scope.

Among other things, Tillema (2005) found that the level of importance an SBU attaches to

financial objectives is influenced by three factors: the extent to which an SBU is market-driven, the effort needed to avoid financial difficulties and its age. Specifically, she observed that the more market-driven the SBU the greater the focus on financial objectives and broad scope accounting instruments (particularly for capital investment decisions and decisions on introducing and dropping products). Moreover, the greater the past financial difficulties of the SBU the greater the focus on financial objectives, such as profits. The effect of age was apparent, with younger operating companies focused much more on the operating activities themselves, rather than the financial consequences of these activities. Managers were also extensively involved in developing formal organisational structures and procedures, thus limiting management time available to consider financial issues and the use of narrow scope accounting instruments. However, broader scope accounting instruments were introduced when the SBUs became older. This implies customer-focused firms in an early stage of development are likely to employ narrow scope financial CA measures, such as CPAS and CPAIC, but as such firms develop maturity they are likely to also use broad scope financial CA measures, such as CLV and CE, and customer-related, non-financial performance measures.

Based on the above discussion, the following proposition to support research question three can be developed:

Proposition 6: Young firms or SBUs at a relatively early stage of development are more likely to use narrow scope financial measures like CSPA and CPAIC. Mature firms or SBUs are more likely to also use broad scope measures, like CLV and CE, and non-financial performance measures.

3.4.5 MCS and Market Orientation

Within the literature specifically focused on CA, Guilding and McManus (2002) find some support for the hypothesis that CA usage rates are higher in firms with high market orientation. They found market orientation to be significantly positively associated with CA generally and with both lifetime CPA (equivalent to CLV) and valuation of customers or customer groups as assets (equivalent to CE), but surprisingly not with usage of CPA (either segmental or at individual customer level). Lord et al. (2007) found no support for this hypothesised relationship between CA usage and market orientation in a New Zealand context. Tanima and Bates (2015) found significant positive associations between the adoption of the marketing concept of marketing

strategy and usage of both CSPA and CPAIC (but not CLV or CE). They also found significant positive associations between the use and perceived merit of CPAIC and adoption of the customer concept of marketing strategy, which is: tailored offerings to individual customers (a customer intimacy type strategy). The researchers reasonably argue that this finding is consistent with the belief that companies which move from the marketing concept (a focus on customer segments) to the customer concept (a focus on individual customers) will benefit from CPAIC and hence "adoption of the customer concept is a likely contingent variable that directly affects the use of CA practices" (p.477)

Based on the above discussion, the following proposition to support research question three can be developed:

Proposition 7: Firms that adopt the marketing concept of marketing strategy will be more likely to use CSPA and firms that adopt the customer concept of marketing strategy will be more likely to use both CPAIC and CLV.

3.4.6 MCS and Size

It is intuitive that large companies with a large customer base may benefit from the use of CA practices and Al-Omiri and Drury (2007) find company size to be significantly related to the level of sophistication of a company's chosen costing system. In early contingency research (Merchant, 1981; Bruns & Waterhouse, 1975) it was found that large organisations use more formal control systems and a large number of specialists use sophisticated technologies. However, Chenhall (2003) observes that the effect of size on MCS has not received much attention, as most contingency-based studies have been of large organisations and have not specifically considered the effect of steps in size within such large organisations. The measures used for size include: profit; sales volume; assets; market capitalisation and number of employees, but Chenhall (2003) advises that context and dimensions of MCS being studied should determine the appropriate measure of size. The number of customers does not appear to have been used in prior contingency-based studies, but Tanima and Bates (2015) suggest, with respect to the study of CA practices, that the number of customers might be the appropriate measure of size to use. The interview-based study by McManus and Guilding (2009) provides some evidence to support the view that the size of the customer base influences the type of CPA that can be conducted. They

found that a telecommunications company with over seven million customers conducted CPA on a segmental basis, whilst a mineral processing company with significantly fewer customers conducted customer cost analysis, on a case by case basis.

Based on the above discussion, the following proposition to support research question three can be developed:

Proposition 8: Firms or SBUs with a small number of customers are more likely to use CPAIC and firms or SBUs with a large number of customers are more likely to use CSPA.

3.4.7 MCS and CRM

As discussed in the literature review (chapter two), Lind and Strömsten (2006) seem to use contingency theory to hypothesise what combinations of customer relationship (that is, transactional, facilitative, integrative and connective) and resource interface (technical and organisational) are supported by what type of CA metrics. Their model was tested on manufacturing units within a mobile phone company and a paper company, but the results were ambiguous. Lind and Strömsten (2006) classify their framework as "a first attempt to understand when companies use different types of customer accounting techniques" (p.1265) and as their model was inconclusive they call for more research on CA and particularly on the customer-supplier interface. As mentioned in chapter two, this topic has received attention in the marketing literature under the title of CRM (for example, Storbacka et al*.,* 1994; Payne & Frow, 2005, 2006), particularly in relation to the financial services industry (Ryals & Payne, 2001; Mitchell, 2004).

In particular, LoFrumento (2007) asks how a company can even begin to implement a CRM program if it "does not have an accurate view of each client's profitability" (p.12). But he goes further and suggests using current profitability information "to model the lifetime value of the customer – or, at least, the value over the next three to five years" (p.12). He cites a banking example in which customers were initially segmented on the bases of the size of their deposits. All tiers of deposits above US$25,000 appeared profitable in aggregate and hence all customers with balances over $25,000 had been targeted for retention. However, a study of individual CP showed 35% of customers were in fact unprofitable and there were unprofitable customers in every tier. This result implies the use of CP aggregated across large segments is dangerous and firms need to establish the appropriate level of granularity for their CA measures and analysis.

Payne and Frow (2005) claim despite "an explosion of interest in customer relationship management (CRM) by both academics and executives" (p.167) there is little agreement on how a CRM strategy should be developed or even on what CRM is. They provide a conceptual framework for CRM to help explain its role in enhancing customer value. They synthesise the prior literature and develop a lengthy CRM definition, the core of which is that "CRM is a strategic approach that is concerned with creating SHV through the development of appropriate relationships with key customers and customer segments" (p.168). They highlight the need to unite marketing strategies and IT and to facilitate cross-functional integration of people, operations and marketing capabilities in order "to create profitable, long-term relationships with customers". Chen and Popovich (2003) similarly stress the need for a cross-functional approach to CRM and claim a CRM based strategy "leverages marketing, operations, sales, customer service, human resources, R&D and finance as well as information technology and the internet to maximise the profitability of customer interactions" (p.673). Further, they argue that "CRM initiatives represent a fundamental shift in emphasis from managing product portfolios to managing portfolios of customers" (p.686). The authors advise that firms which can "successfully implement CRM will reap the rewards in customer loyalty and long run profitability" (p.672), but claim that successful implementation is elusive and "requires an integrated and balanced approach to technology, process and people" (p.673).

From the above it is clear that CRM may be a core element in a customer-focused strategy and is likely to be a driver of customer loyalty, long run profitability and ultimately SHV. Hence, the impact of CRM on the type of CA practices used by firms with a customer-focused strategy is worthy of investigation. The following proposition to support research question three can therefore be developed:

Proposition 9: The greater the extent of usage of CRM the higher the level of intimacy of the customer relationship and the greater the use of CA practices, particularly CPAIC and CLV.

3.4.8 The Use of Non-Financial Performance Measures

The need for non-financial performance measures is not strictly a contingent factor that may influence the use of financial CA measures. However, as mentioned above, Chenhall (2003) highlights how the definition of MCS has evolved into one that incorporates relevant non-

financial information. Therefore, the use of the non-financial measures and the way they interact with financial CA measures within an MCS is of interest in this study. Perera et al. (1997) investigated firms with a customer-focused manufacturing strategy and found that they put significant emphasis on non-financial manufacturing measures relating to quality, flexibility and dependability. However, no relationship was found between the use of these measures and improved organisational performance. Possible reasons offered were that changes in PMS are less important than organisational structural arrangements in terms of their likely effect on performance and that the cross sectional nature of the study may have resulted in no effect on performance being detected because there was no time lag. The authors did not examine whether non-financial performance measures were linked to rewards, and they suggest that a lack of any link may have reduced the strength of any association. Davila (2000) investigates the design and use of MCS in the new product development area and suggests that in addition to strategy and structure, uncertainty is a driving force in the design and use of MCS. He uses a broad definition of MCS which captures both financial and non-financial measures, the latter including "customer, product design and time-related measures". Moreover, he maintains that MCS are "effective tools to manage uncertainty because they supply the data needed to reduce Galbraith's "information gap"" (p.387), which is the difference between the amount of information required to perform a task and the amount of information already possessed by the organization" (Galbraith, 1973, p.5).

Davila (2000) found that customer information is used more extensively when market uncertainty increases, particularly by managers with authority over marketing decisions. Surprisingly he found no support for the hypothesis that "customer information will be used more intensively as the importance of a customer-focused product strategy increased" (p.394) and he offered no explanation for this apparently anomalous finding. However, he did find support for the hypothesis that "More intense use of customer information has a positive effect upon performance for products following a customer-focused strategy." (p.304). Davila (2000) concluded that research on MCS "cannot be restricted to traditional accounting measures, but needs to encompass a broader set of measures" (p.404) and argued this was necessary because managers "work with the implicit assumption good performance in non-financial measures will drive good financial performance" (p.404), a contention that is central to the BSC (for example, Kaplan and Norton, 1992, 1993, 1996a). The acceptance of a broader definition of MCS which

includes non-financial performance measures requires the consideration of the relationship between customer-related, non-financial performance measures (hereafter, non-financial CA) and financial CA practices.

3.5 Chapter Summary

Whilst contingency theory has its gainsayers, it has been widely applied in MA research, particularly survey-based research, and has identified a variety of variables that have been found to influence the design of MCS. Traditionally, the main contingent variables investigated were: business strategy; organisational structure; external environmental (particularly intensity of competition, uncertainty and technology) and organisational size and stage of development (Otley, 1980; Langfield-Smith, 1997, 2007; Chenhall, 2003). Culture may also be important and Chenhall (2003) proposes "national culture is associated with the design of MCS" (p.154). However, he highlights that the research to date on the relationship between MCS design and culture has provided mixed results and an overall lack of consensus. Moreover, as this study's case sites are all in either Western Europe or Australasia and are not thought to be exposed to significantly different national cultures, it was decided not to investigate national culture as a likely contingent factor. More contemporary contingent factors include information and communication technology (Al-Omiri & Drury, 2007; Woods; 2009), and the nature of the firm-customer relationship (Lind & Strömsten, 2006) or the extent to which CRM is practiced (Storbacka et al*.,* 1994; Payne & Frow, 2005, 2006).

The above analysis of contingency theory literature, and CA literature, has identified contingent factors which are likely to influence whether CA practices are used by organisations, particularly firms adopting a customer-focused strategy. Firms differentiating on the basis of customer intimacy (Treacy & Wiersema, 1993; Kaplan & Norton, 2004a) are expected to require both historical and forward-looking CA metrics. A firm's ability to produce this information at the individual customer level is likely to depend on firm size (McManus & Guilding, 2009), measured in a way that matches the nature of the MCS dimensions being studied (Chenhall, 2003), which in respect of CA metrics is likely to be the number of customers (Tanima & Bates, 2015). Firms facing intense competition are more likely to use CA practices (McManus & Guilding, 2009) and key aspects of technology affecting CA practice development are likely to include the level of costing systems development and ICT integration (Andon et al., 2001; Guilding, 2007; Woods, 2009).

Firms adopting the marketing or customer concept of marketing strategy are more likely to use CA practices, with the latter associated with CPAIC (Kotler, 2003; Tanima & Bates, 2015). Given the relatively limited depth of prior research into CA practices (McManus & Guilding, 2009; Gleaves et al. 2008; Bates & Whittington, 2009; McManus, 2013), and hence the exploratory nature of this investigation, it will be approached with an 'open mind' in order to facilitate any potential opportunity to discover alternative contingent factors so far not considered.

It is clear from the literature (chapter two and above) that there are numerous contingent factors affecting a company's MCS and the usage of CA measures within it. There may be complex relationships between these factors and the literature cautions against over simplification when researching these relationships (for example, Otley, 1980; Langfield-Smith, 1997; Chenhall, 2003). This study initially investigates nine key propositions relating to contingent factors that may influence the choice of CA practices and their use, but interrelationships are also anticipated. The contingent factors related to these nine propositions are shown (in blue) in figure 3.1, together with the possible range of outcomes which might be observed. This diagram depicts the indications from the literature that moving from left to right will result in a greater need for CA practices and the likely use of more sophisticated CA measures. For instance, looking at product/customer strategy, a firm with a mainly product-focused strategy will be unlikely to benefit from CA practices, whereas a firm with a customer-focused strategy is highly likely to benefit from some form of CA, probably historical CSPA. Moreover, a firm with a customer intimacy strategy, forging one-to-one relationships with individual customers, is likely to benefit from at least historical CPAIC and possibly also forward-looking measures such as CLV and CE.

As well as the contingent factors highlighted in figure 3.1, there are potentially other influences on MCS and CA practices that are relevant to this study. The researcher will therefore keep an open mind when conducting interviews and analysing data to avoid missing additional contingent factors which might influence the choice of CA measures and their usage, or might hinder more widespread usage of CA practices.

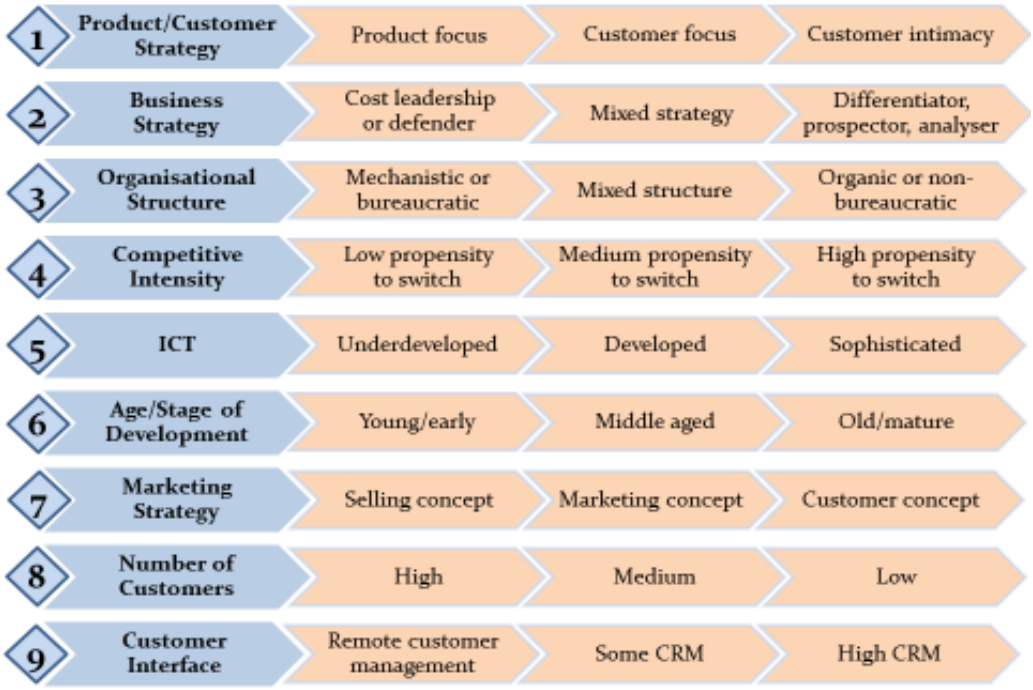

Figure 3.1: Factors likely to affect the choice of CA measures and their usage

This chapter adds a third research question, and describes how contingency theory is used to identify factors which might influence the type of CA practices used within the MCS of firms adopting a customer-focused strategy. In addition, a series of propositions and a framework (figure 3.1) has been developed. This will be used to inform individual case and cross-case analysis, and to compare this study's results with prior CA literature. The next chapter will discuss and justify the method of research chosen for addressing this study's research questions. For convenience, the nine propositions related to research question three are listed in appendix 1.

4 METHOD

4.1 Introduction

The literature review (chapter two) identifies significant gaps in our knowledge of what actual CA practices are used by for-profit firms that have adopted a customer-focused strategy, and also how CA metrics are used to manage and monitor their strategy and hence drive firm performance. Chapter three outlines how a contingency theory framework is developed and used to help explain how certain for-profit firms, with a customer-focused strategy, use CA practices within their MCS to monitor and enhance firm performance, and also to identify the likely contingent factors which may hinder more comprehensive development or more widespread usage of CA practices. This chapter describes how appropriate data will be collected and analysed in order to address this study's research questions.

The chapter is organised as follows. The first section justifies the choice of the case study method to addresses the research questions in preference over a survey method. The second section compares alternative case types and justifies the use of a multiple-case method for this study. The third section identifies potential research sites to facilitate data collection and the fourth section describes how suitable data access was facilitated. The fifth and sixth sections outline the specific techniques used for data collection and data analysis respectively. The final section provides a summary of the chapter.

4.2 Research Method: The Use of Case Studies

When undertaking a social science research project, such as research into MA practices, Yin (2009) suggests when a case study approach may be preferable to other methods, including experiments, surveys, or histories. If the research question is mainly focused on 'why' or 'how', it is appropriate to use case studies, histories or experiments as the preferred research methods, because "such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence" (p.9). Survey methods are suitable for answering 'what', 'who' and 'where' questions, and their derivatives of 'how many' and 'how much', because they help the researcher to describe the incidence and prevalence of a phenomenon. It was therefore appropriate for Guilding and McManus (2002) to use the survey method to establish the overall

extent of usage and perceived merit of various CA practices in Australia and for Lord et al. (2007) and Tanima and Bates (2015) to replicate their survey method in New Zealand. However, these surveys were not able to explain 'why' usage rates were high or low, or 'why' one CA practice was preferred over another. Nor were they able to provide any insights into 'how' CA measures were actually used by managers in decision making or to help them ensure the firm's chosen strategy was being effectively implemented and was in fact achieving the desired objectives. Scapens (2004) argues that detailed explanations are unlikely to be obtained by survey research and encourages researchers to utilise case study research methods to gain deeper insights into the nature of contemporary MA practices. Guilding and McManus (2002, p.57) themselves recognise the limitations of the survey method and argue that "the paucity of prior research relating to CA has hindered theory development in this study". However, they suggest that their findings might be "a catalyst for further research into the hitherto largely uncharted waters of CA".

Given the scarcity of research in the CA area (as discussed in chapter two), and thus the limited evidence to support hypotheses that are worthy of testing through additional survey based research, it is necessary to adopt a research method which is able to provide detailed explanations of why different CA practices are used in different specific circumstances and how they are used to support a firm's strategic objectives. Yin (2009) suggests there are two distinctions to be made when deciding between a history, case study or experiment. These are the extent of the researchers control over or access to the events being studied and the degree of focus on contemporary or historical events. If there is no access or control, the preferred method will be a history. If the event is contemporary, a case study or experiment is appropriate, with the former being preferred when the relevant behaviours cannot be manipulated. This supports the conclusion that a case study approach is the most appropriate method to address this study's MA research questions. It is notable that in recent years, case study research in the MA area has gained wider acceptance (Langfield-Smith, 2005; Scapens, 2004; Lye et al., 2006) and the use of the case research method has increased considerably (Hopper & Bui, 2015; Bromwich & Scapens, 2016).

Moreover, Otley (1980) is particularly critical of contingency-based, survey research for its lack of consistency and depth. He argues that the operationalization of the variables is often problematic, as it varies between studies and in many cases statistical methods are used to

reduce the individual variables to factors that "can be related to underlying theoretical concepts only by an intuitive leap by the researcher", rendering comparison from study to study "next to impossible" (p.417). He also argues that few researchers look beyond an association between contingent variables and MCS type and attempt to measure the effectiveness of the MCS; those that do have had their measures of effectiveness "strongly criticised" (p.418). Given his disappointment with the results of large-scale surveys, Otley (1980, p.425) suggests that a more fruitful method is to use case-based research involving a small number of carefully selected organisations which provide "a range of values on chosen contingent variables whilst controlling for other variables as far as possible". He maintains that such an approach is appropriate at an exploratory stage of research, and whilst investigation into MCS generally can no longer be considered exploratory, the investigation of the specific aspect of the use of CA practices within a MCS is still under-researched and hence can be considered to be at an exploratory stage.

Otley's (1980) reservations about the lack of theoretical support for the identification of contingent variables before testing using survey methods have continued to be a factor. In particular, Hartman and Moers (1999) have criticised many contingency-based survey studies for not clearly stating the nature of the interactions they were expecting to find, that is, for not adequately theorising before they start testing. Survey-based research is therefore fraught with problems if there is insufficient prior evidence upon which to theorise testable associations and, particularly in the under-researched area of CA, more case study research is needed to strengthen the knowledge base before more survey-based testing would be fruitful. Therefore, the case approach is adopted in this study, not least because field (case study) research allows for more in depth investigation than is possible with survey research. Ferreira and Merchant (1992) reviewed MCS related field research in the period 1984 to 1992 and claimed "most field researchers try to go beyond description and *build new theory"* (emphasis in the original, p.11). As has been pointed out, survey evidence (for example, Guilding & McManus, 2002; Lord et al., 2007; Tanima & Bates, 2015) has produced contradictory results or failed to confirm the theorised relationship between independent variables and CA usage. In depth field research is expected to bear more fruitful results in this complex environment. Moreover, Langfield-Smith (1997) has observed that the research evidence relating to "the characteristics of MCS associated with effectiveness under different strategies" is "fragmentary and sometimes conflicting" (p.228) and she has therefore highlighted the complexity of the interactions between MCS and strategy

and the need for further case-based research. Hence, it is argued here that the interactions between CA practices and a customer-focused strategy are also likely to be complex. This is because CA practices will be an integral part of the MCS in a customer-focused firm and there is a wide range of influences on customer valuation metrics (Weir, 2008). Furthermore, Langfield-Smith (1997, p.229) specifically identifies the unresolved question of "what role MCS can play to bring intended strategies to realization" as a research opportunity. She also argues that, because the interactions between MCS and strategy are complex, "perhaps only in-depth research can help us understand the complex nature of these relationships" (Langfield-Smith, 1997, p.228). As this study includes a closely related research question in relation to the use of CA practices within a MCS to manage and monitor a customer-focused strategy, the use of the case study method is appropriate.

Case based research by Ahrens and Chapman (2005) concentrates on the strategic uses of performance measures and the routines and practices surrounding them. The authors claim this focus enables them to "more clearly demonstrate the ways in which strategy and operational management interact" (p.121). However, Ahrens and Chapman (2005) conclude that "the conceptual linkages between organisational strategy and operational action cannot rely on mechanical cause-and-effect relationships" as these are short-lived in competitive markets (p.121), thus highlighting the complexity in this area, an important issue supporting the choice of case study method for this research. In addition, Ferreira and Merchant (1992, p.24) suggest that case study research is "particularly powerful for studying issues that are not yet well understood" and Harrison (2002, p.158) stresses that "case study research is of particular value where the theory base is comparatively weak and the environment under study is messy". Hence case study research on CA practices appears appropriate as the literature review (chapter two) has demonstrated the CA area has a weak theory base (Guilding & McManus, 2002). Moreover, despite the "more broad-ranging" marketing literature on CA (McManus & Guilding, 2008, p.785), it contains much confusion and contradiction (Gleaves et al., 2008) and could therefore be considered 'messy' enough to justify the use of case study research.

4.3 Type of Case for this Study

There are a variety of different ways that case studies can be used in accounting research and Scapens (2004) in particular reviews the uses of descriptive, illustrative, experimental,

exploratory and explanatory case studies. He suggests that in descriptive case studies the case companies can be selected to describe different MA practices or to highlight the similarity of MA practices in different companies or in the determination of 'best practice'. Scapens (2004) suggests that illustrative case studies are used to describe new or innovative MA practices, an approach encouraged by Kaplan (1986). However, an illustrative case study can only describe a particular MA practice and does not determine whether it is superior to previous practices or explain why or how these practices are used. Experimental case studies are used to investigate the potential benefits of new accounting procedures and techniques developed by researchers and to investigate their implementation problems (Scapens, 2004). An example would be de Haas and Algera's (2002) examination of the use of new techniques to stimulate goal congruent behaviour in a Dutch steel company.

Within the literature there is ambiguity in the distinction between exploratory and explanatory case studies (Scapens, 2004). He describes the former as preliminary investigations used to explore the possible reasons for particular accounting practice and to facilitate the generation of theory or hypotheses that can subsequently be tested using survey methods and quantitative techniques. In contrast, explanatory case studies attempt to identify the reason for observed accounting practices, but with a clear focus on the specific case. It is argued that "theory is useful insofar as it enables the researcher to provide convincing explanations for the observed practices" but it is not meant to provide generalisations (Scapens, 2004, p.260). Moreover, he explains that both exploratory and explanatory cases "are used to develop and extend theory" (p.261) and hence case selection should reflect the needs of theory development, not the desire to generalise. Eisenhardt (1989) also argues that case studies are suitable for developing theory and considers it a distinct advantage to study several cases. The use of a multiple-case analysis facilitates an understanding of the impacts of key case specific and industry-level contextual factors on a firm's strategies and MCS (Hopper, et al., 2001).

Given the undeveloped nature of CA practices and the limited amount of theory development in this area, as disclosed in the literature review (Chapter two), it is appropriate to commence this study with an exploratory case study, in order to investigate the use of CA practices in a relevant context (in particular a firm with a customer-focused strategy). Using a contingency theory lens, the contextual factors that determine the choice of CA measures and the way they are used are identified, along with issues which potentially hinder a more comprehensive development or

widespread usage of CA measures within an organisation. The initial case is exploratory and an inductive approach is used to explain the case observations through a contingency theory lens (as explained in chapter three) and also to inform the development of theory (Otley & Berry, 1994; Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

Only a limited amount can be discovered from one case, and therefore further case studies will be used, to provide a description of the use of CA practices in alternative settings, and for theory development and refinement. This approach is similar to that used by Slagmulder (1997), who justifies the use of case studies on the basis that firstly, there was little yet known about the phenomenon being studied or the contextual conditions in which it occurs and secondly, the desire to "explore a complex phenomenon within its natural setting" (p.106).

Further, Yin (2009) makes the distinction between single-case and multiple-case research designs. He suggests three key reasons for using a single-case design. First, when the research requires a 'critical case' for testing a well-formulated theory. Second, when an 'extreme' or unique' case is needed for the investigation of a particularly rare phenomenon. Third, when a 'revelatory' case provided the opportunity to investigate a previously inaccessible phenomenon. As none of these situations apply to this study of CA practices in a customer-focused organisation the use of a multiple-case design would appear to be more appropriate. Moreover, Yin (2009) warns of a potential vulnerability of the single-case design. This is when the case may not turn out to be what was initially expected or the extent of access proves insufficient to provide adequate evidence. Stake (2005) makes a distinction between two different types of single-case research, an intrinsic case study and an instrumental case study. The intrinsic case study is a single case study undertaken because the researcher seeks an understanding of the particular case "in all its particularity and ordinariness" (Stake, 2005, p.445) whereas an instrumental case study is where a single case is still "looked at in depth, its contexts scrutinised and its ordinary activities detailed, but all because this helps to pursue an external interest" (Stake, 2005, p.445).

In contrast a collective case study (or multiple-case study) is used to investigate a phenomenon or general conditions. The cases may be "similar or dissimilar, with redundancy and variety each important" and the cases are compared and contrasted in order to achieve "a better understanding, and perhaps better theorizing, about a still larger collection of cases" (Stake, 2005, p.446). Although multiple-case designs may inevitably be more resource intensive, the evidence

they provide is often considered more compelling and thus the overall study is regarded as more robust (Yin, 2009). Given the inevitable resource constraints, Yin (2009) advises that every case should have a specific purpose and the researcher should follow a "replication" logic (not a "sampling" logic). In multiple-case research design each case should be selected because it either predicts similar results or contrasting results. The former is termed 'literal replication' whilst the latter is termed 'theoretical replication' (Yin 2009, p.47). Note that, when a case which is chosen for the purpose of literal replication is in some way contradictory to initial propositions or concepts developed from previous cases, these must be revised accordingly and the framework being constructed must be modified. Such procedures enable a "rich theoretical framework" to be developed which "later becomes the vehicle for generalizing to new cases" (Yin 2009, p.47). Thus it is recognised that cases may not produce evidence to support initial propositions and modifications must be made to any theory under development. Yin (2009) highlights that this theory may be practical and not just academic.

Figure 4.1 depicts an adaptation of Yin's (2014) diagram describing a generic multiple-case study design, to reflect the actual design used for this study. A theoretical framework describing the factors influencing the choice and usage of CA measures is developed (chapter three) and this informs case selection and the strategy for data collection. The first case is an exploratory case in an Australasian bank with a customer-focused strategy. It is an embedded case (Yin, 2014) as there are three sub-units within the case, personal banking, business banking, and the executive level of the whole bank, thus affording the opportunity for deeper insights and effectively a literal replication within case one. Case two (a European bank) was initially intended to be a literal replication in a bank in Europe because it was expected to produce similar results despite the different geographical location. However, due to access difficulties (explained below), case two changed to a theoretical replication, as from the outset it was expected to produce contrasting results for anticipated reasons. Case three (a global courier company based in Europe) is a literal replication as it is expected to confirm the propositions about the way contingent factors influence the use of CA practices and hence apply the theoretical framework to a different industry context. Note that case three is also an embedded case as data from both a European domestic business unit and the global international business was available.

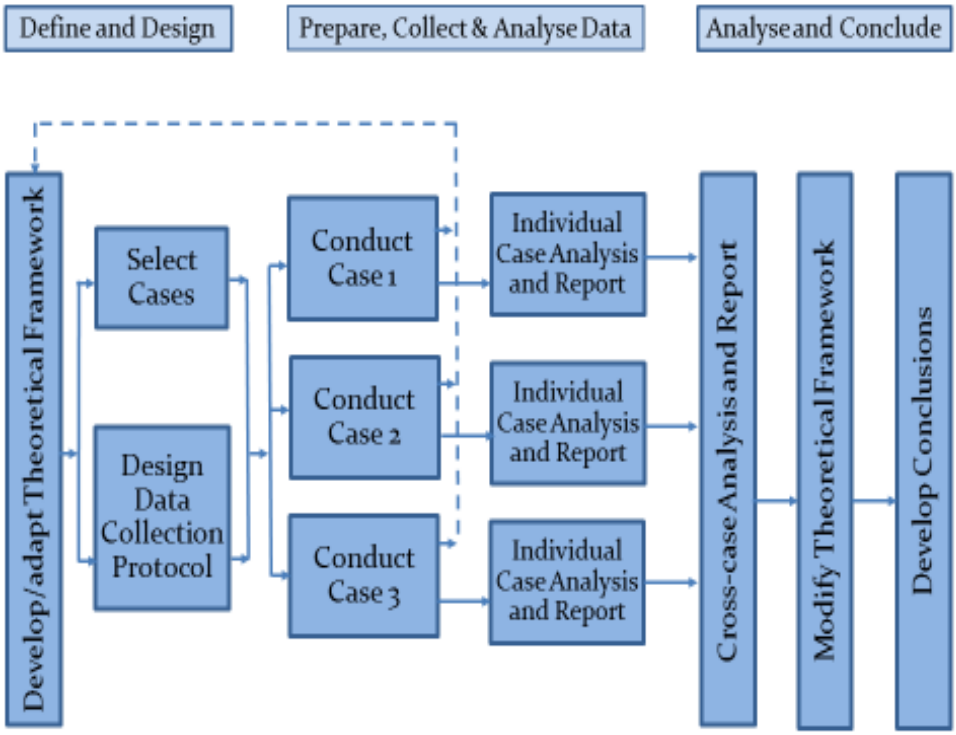

Figure 4.1: Multiple-case study design.
Source: Yin (2014, p.60) adapted

When a multi-case research method is used (Yin, 2009), the cases selected need to enable the researcher to focus on the research questions to be addressed and any propositions specified. This requires the researcher to seek out 'critical or extreme cases' as opposed to any notion of choosing representative cases. This issue is aggressively taken up by Yin (2009, p.38) who advises positivist researchers not to fall into "the trap of trying to select a 'representative' case or set of cases" in order to establish 'external validity' and be able to generalise from their findings. This latter approach erroneously views the case as a sample of one, which can be used to generalise to the wider population. Any theory generated from a selection of case studies 'may be' applicable to other similar cases (Ferreira and Merchant, 1992) but this cannot be assumed, it must be tested through replication (Yin, 2009). However, Yin (2014) explains that case research will "shed empirical light about some theoretical concepts or principles" (p.40) and strive to generate "lessons learned – that is, analytic generalisations – that go beyond the setting for the specific case…that has been studied" (p.40). He further claims: "An analytical generalization consists of a carefully posed theoretical statement, theory or theoretical proposition…that is applicable to other situations (not just like cases)" (p.68).

4.4 Choice of Case Study Sites

Having established that the case study method, and in particular the use of exploratory cases and a multiple-case research design, is appropriate for this study, it is necessary to identify the specific nature of the cases to be chosen. The cases chosen for study need to be relevant cases that offer the opportunity to address the research objective of this study, and there is therefore a need to focus on firms that have specifically adopted a customer-focused strategy. Like Yin (1994), Ryan et al. (1992) maintain that the issues involved in case selection are similar to those involved in scientific research when selecting topics for experiments, confirming the need to seek cases that will provide data relevant to the issues under investigation, as opposed to sampling from a homogenous population. This study's overall research objective is to enhance knowledge of actual CA practices as they operate in firms with a customer-focused strategy, and hence the three main cases selected are firms that operate a customer-focused strategy and are likely to employ CA practices. In order to contrast the type of MCS used by firms with a customer-focused strategy with the MCS used by a firm with a product-focused strategy, a fourth case, that is a firm with a largely product-focused strategy could be investigated in the future.

Whilst it is anticipated that firms with a customer-focused strategy will use both backward-looking, historical CA metrics and forward looking CA metrics, this is by no means certain. If they do not use the full range of CA practices, it will be important to investigate why they choose to limit the scope of their CA usage or why they find it difficult to define and use some of the possible alternative CA metrics. The need for CA practices, and CPA in particular, is often cited as a key reason for the adoption of ABC (Innes & Mitchell, 1995; Innes et al., 2000) and many authors suggest the need for CPA based on ABC methodology (for example, Bellis-Jones, 1989; Howell & Soucy, 1990; Smith, 1993; Smith & Dikolli, 1995; Cooper & Slagmulder, 1998; Kaplan & Cooper, 1998). Thus firms that have adopted ABC are perhaps the most likely to use CA practices. In general, Al-Omiri and Drury's (2007) survey of the choice of product costing system by large UK businesses found that businesses which use ABC tend to be large, sophisticated in terms of using advanced MA techniques, operating in an intensely competitive market, and tend to operate in a service industry. Such findings are broadly in line with previous research evidence (for example, Innes & Mitchell, 1995; Innes et al., 2000) and this implies large service firms operating in highly competitive markets should be a potential source for case sites demonstrating the use of CA

practices. Further, Chenhall (2003) observes that there has been little research on MCS in the service sector, and this provides a further incentive for seeking exploratory cases in the service sector for this study.

More specifically, Al-Omiri and Drury (2007) observed that the largest proportions of ABC adopters were the financial and commercial services sector (68%) and other services (33%), compared to an average ABC adoption rate of 29%. Moreover, Kaplan and Cooper (1998) argue that service companies in particular need ABC to "link the costs of the resources they supply to the revenues earned by the individual products and customers serviced by these resources" (p.228). They further argue that an understanding of this linkage, and of the interactions between customer usage, features, prices and process improvement enables managers to "make good decisions about the customer segments it wishes to serve, the products it will offer to customers in those segments, the method of delivering those products and services to those customers, and, ultimately, the quantity and mix of resources it will supply to enable all this to happen" (pp.228-229). Such factors lead to the conclusion the services sector is likely to be a good source for cases which demonstrate CA practices.

Further evidence that the financial and commercial services sector is likely to provide relevant cases for CA research is provided within the literature on the development of product and CP measures in that sector (for example, Cooper & Kaplan, 1991b, 1991c, 1991d; Taney, 1998; Hart & Smith, 1998; Norris, 2002; Rafiq & Garg, 2002; Mitchell, 2004). Of particular relevance is the suggestion by Kaplan & Narayanan (2001) that financial institutions must forecast "the longitudinal variation of customers over time to calculate their total life-cycle profitability" (p.13). They are advocating the need for one of the more sophisticated, forward-looking CA metrics, and it is therefore expected that innovative, forward-looking CA practices are likely to be discovered in the banking and financial services sector.

Of further relevance is that the financial services sector offers a diverse environment in terms of the variety of products offered, the variety of channels available for delivery of products and services to customers and the diversity of customer groups serviced. This sector also provides some relatively unusual accounting issues in relation to measuring CP, for example, accounting for the full costs and revenues associated with the different ways customers manage their current accounts and the effect of default risk with respect to customers that overdraw or take

out loans. This variety of products and services offered, and market sectors served, is an advantage as it offers the potential for establishing a 'case within a case' (for example, the retail banking and business banking arms of the same bank). Hence, a commercial bank would be a suitable choice of case site, an expectation supported by prior experience of the researcher with a European bank. Based on interviews in 2005, with accounting staff in this European bank, it was established that the bank had developed a CPA system to support a 'Managing for Value' initiative within its business banking division. The CPA system was in an early stage of development, but was believed to supply sufficiently accurate customer profitably information, at the individual customer level, to support customer related decisions made by regional managers and their customer relationship managers. Approaches to a number of banks resulted in the researcher securing suitable case study access in two national banks, one operating in Australasia (Alphabank) and one operating in a Europe (Betabank). Specific details related to gaining suitable access are discussed in section 4.5 below.

As mentioned above, Al-Omiri and Drury (2007) found that large UK firms using ABC tend to be in the service sector and also operate in intensely competitive markets. Andon et al. (2001) conducted case study research on three Australian service organisations that used CA practices, two in insurance and one bank. More specifically relevant, McManus and Guilding (2009) conclude that "the more competitive the market that a business competes in, the greater the likelihood that CA practices will be employed" (p.57). Consequently, service sector firms operating in highly competitive markets would seem to be a likely source for additional relevant cases.

Over the past five years, numerous press and market sector reports point out the high intensity of competition in the courier and parcel delivery sector. The recent annual reports of the four leading carriers in the global courier and parcel sector (DHL, FedEx, TNT and UPS) all refer to difficult trading conditions, particularly in Europe and North America, after the global financial crisis (GFC), with continued consolidation in the sector and hence strong competition leading to pressure on prices. A recent UK Market Synopsis report (2013) on courier and parcel services states "premium same-day and next-day courier and express services have been worst affected, as customers migrate towards more cost-effective, non-premium services" (p.2). It is thus anticipated the larger courier firms, which have been facing such intense competition, would find it beneficial to use CA practices to help them steer the business through difficult times. From

prior experience with one global courier business, the researcher was aware that the firm had developed an ABC system and was able to measure CP. This company was approached and proved to be a suitable case site, offering insights into CA practices related to both worldwide international operations, and also domestic operations in one of its European regions (two countries).

The three case sites chosen for this study are depicted in figure 4.2 and explained below.

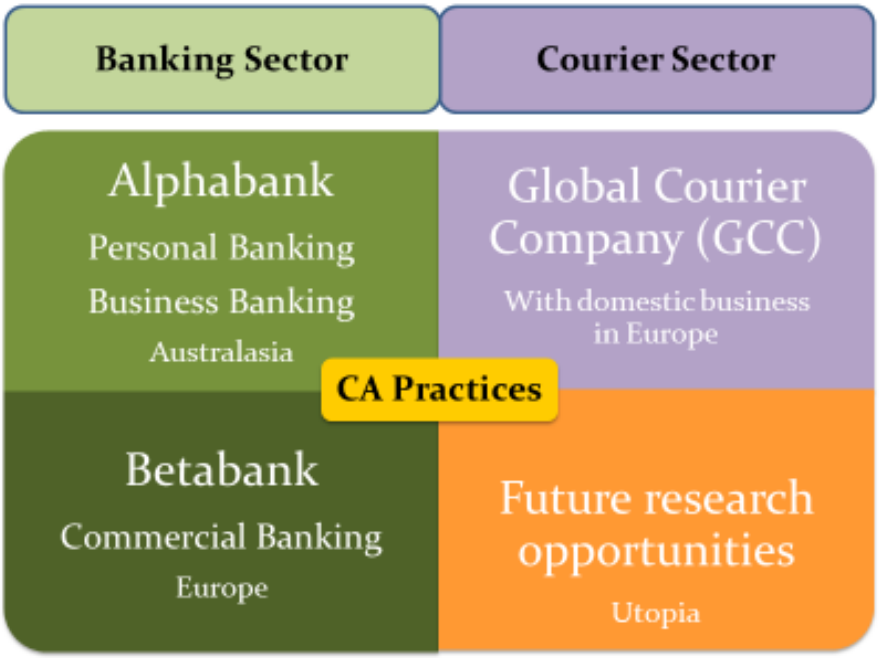

Figure 4.2: The nature and location of the three comparative cases

The initial case, Alphabank, provides three embedded units of analysis that operate within a bank with a customer-focused strategy and hence are expected to provide examples of the use of CA practices. The units are the personal banking SBU, the business banking SBU and the executive level of the whole bank. These three cases units are used to provide evidence to verify the accuracy of the contingency theory framework produced in chapter three (figure 3.1) or require it to be amended. In the original research design, the second main case was intended to be a literal replication (Yin, 2014) as it was meant to be a large international bank operating in Europe that was expected to make extensive use of CA practices. Due to access difficulties (discussed in 4.5) an alternative case was sought. Betabank was chosen despite establishing that no financial CA practices were used and hence it would not provide a literal replication. Some of the reasons for the lack of financial CA measures were discussed in an initial telephone interview which established that Betabank might be a unique case in which an intensively customer-focused

strategy would not be supported by financial CA measures as anticipated in the research propositions. It was decided that Betabank was an appropriate theoretical replication, that is, a case that "predicts contrasting results for anticipatable reasons" (Yin, 2014, p.57). Case three, the GCC is intended as a literal replication of the Alphabank case, on the basis that similar results are predicted and the propositions developed in chapter three will be further supported despite some important changes in context. The changes are a different industry, a different country and a large group with global as well as national operations, but none of these differences are expected to impact on contingent factors in a way that contradicts the propositions being investigated.

4.5 Gaining Case Access

In this type of study gaining suitable access is fraught with difficulties and, particularly if entering new fields, is likely to involve time-consuming negotiations with no guarantee of success. Silverman (2010) highlights that drawing on personal contacts can alleviate some of the problems. The approaches used for gaining access in this study are described below.

4.5.1 Case Access - The Australasian Case

Having established that the financial services sector and the courier sector were appropriate sources for relevant cases (4.4) the researcher used personal contacts and sought the help of senior academic colleagues to secure appropriate case access. To avoid cold calling, background research was conducted to identify any links between the key executives at commercial banks and the university or its staff. The initial focus for case one was on the larger international banks for two reasons. First, it was anticipated that large organisations would be more likely to employ sophisticated measures within their MCS (Chenhall, 2003), and therefore be more likely to use CA practices. Secondly, large international banks might offer the opportunity to study 'a case within a case', that is more than one case within one organisation. Initial approaches did not yield suitable access, not least because of worries over confidentiality in relation to the sensitive issue of CP. However, through the personal contacts of a University colleague, an introduction to the Chief Executive Officer (CEO) of the parent company of one national commercial bank was forthcoming. After email correspondence with the CEO about the nature of the planned research, the Group's Chief Financial Officer (CFO) was identified as the appropriate person with which to

discuss the possibility of research access and a meeting was arranged.

In advance of any interviews, all subjects were sent letters explaining the nature of the research, discussing issues of confidentiality and requesting signed confirmation of willingness to participate in the research. A sample letter and consent form is available on request.

Discussions with the Group's Chief Finance Officer (GCFO) established that there were a number of key customers who were common to several subsidiaries of the group, but there were no aggregate CA measures relating to such customers captured and reported at group level. However, it was established that there were likely to be CA practices used at subsidiary company level, particularly within SBUs within the commercial bank (Alphabank), and GCFO agreed to participation in the research and introduced the researcher (by email) to the Head of Human Resources in order to meet, discuss the nature of the research and establish the appropriate subjects to interview. The resultant interviews are discussed in section 4.6.6 below.

4.5.2 Case Access - The European Cases

The GFC had a significant effect on the financial services sector in Europe and several prior contacts of the researcher proved to be unfruitful (some because of significant changes in ownership and structure of the banks concerned, others because contacts had moved out of the sector). One of the interviewees at Alphabank had previously worked in a European bank and introduced the researcher to the Head of Analytics at a major international banking group based in Europe. Access negotiations reached an advanced stage but eventually floundered over issues of confidentiality. However, investigations revealed that one of the researcher's prior banking contacts was now the Head of Finance (HOF) at a relatively newly established commercial bank. Through initial email and telephone conversations it was established that this bank, Betabank would provide a suitable contrasting case (theoretical replication) to Alphabank and that appropriate access could be facilitated through HOF.

Having established that the express courier sector was likely to be an appropriate source for a case of CA usage in an alternative industry, the researcher pursued personal contacts (developed during the teaching of a series of executive courses at a courier company) and held a telephone meeting with the Head of Global Sales and Customer Service (HOGS). Because HOGS was based overseas it was established that a face to face meeting would be problematic, hence it was

agreed to conduct a research interview by telephone (the interview was recorded). At the end of the interview, mainly about CA across the international business, the subject agreed to connect the researcher with suitable subjects to delve further into CA practices at GCC, and to cover CA at a domestic business level as well as at international level (4.6.6).

4.6 Data Collection

In qualitative MA research, interviews are one of the most important data gathering techniques used (Myers, 2013) as they allow rich, in-depth data about complex phenomena to be gathered. Qualitative interviews have been likened to night goggles 'permitting us to see that which is not ordinarily on view and examine that which is looked at but seldom seen" (Rubin and Rubin, 2005, p.vii). One advantage of using interviews is that they allow the researcher "to focus on the subject's world" and thus the subject's language can be used instead of the researcher imposing their own (Myers, 2013, p.119), thus reducing the possibility of researcher bias.

4.6.1 Choice of Semi-Structured Interviews

One key choice to be made, is between using structured, semi-structured or unstructured interviews. Structured interviews require adherence to a strict set of pre-planned questions and consequently ensure consistency across multiple interviews (Myers, 2013). Yin (1994) likens this approach to survey-based research that requires sampling procedures. This may be an advantage for some types of research (for example, political polling and market research) but for this research adherence to a strict set of questions would preclude the opportunity to pursue new lines of enquiry that may emerge during an interview and may offer interesting insights. The opposite approach is to use unstructured interviews and hence use very few, if any, pre-planned questions (Myers, 2013). The key aim here is to get the subject to narrate freely and there is minimal attempt to maintain consistency with respect to the issues to be discussed. Such an approach enables an interviewee to tell the researcher everything that the subject believes might be relevant and important. In respect of unstructured interviews, Yin (1994, p.84) likens the role of the respondent to that of an "informant" and argues that key "informants" are often critical to the success of a case study. However, Myers (2013) highlights that without an element of structure some interviewees may not mention things that may in fact be important and other interviewees may talk too much, wander off the subject and leave the researcher with a mass of

irrelevant data to sift through.

The semi-structured interview approach sits somewhere in-between these two options and arguably tries to get the best of both worlds. It involves the use of a set of pre-planned questions, but with the researcher willing to improvise and ask appropriate follow up questions to delve further when interesting lines of enquiry open up (Myers, 2013). This approach ensures there is some consistency among interviews (a similar set of standard questions is used in all interviews) but allows scope for the interviewee to expand on the most interesting and relevant issues. This is the approach adopted for this study. Yin (1994, pp.84-85) calls this approach a "focused" interview and warns against asking "leading questions", but instead to use carefully worded, neutral questions that allow the respondent "to provide a fresh commentary".

Therefore, in this study, all case interviews were semi-structured and based around a set of questions designed to obtain information and opinions relevant to the research objective and the detailed research questions set for this study. There were initially two sets of questions, with some common questions, one set designed for central and business unit managers and the other set designed for use with employees below business unit manager level. This approach was designed to establish alternative viewpoints (Meyers, 2013) and also enable triangulation (4.6.2) of the information received from subjects at different levels within the organisation (Yin 1994). The set of questions used for interviewees at SBU manager level (see appendix 2) for the first exploratory case are either re-used in subsequent case investigations, to facilitate literal replication, or adjusted as necessary to reflect the alternative case contexts and hence support theoretical replication. An additional set of questions (with some commonality) was used for interviews of staff below head of SBU.

4.6.2 Triangulation

The principle of triangulation has long been recognised in qualitative research (Denzil & Lincoln, 2011) and originates from the principle of triangulation used in navigation, where a precise location is established in relation to three different reference points (Yin 2016). In relation to qualitative research the triangulation principle involves "the goal of seeking at least three ways of verifying or corroborating a procedure, piece of data or finding (Yin, 2016, p.87). By using triangulation, a researcher can strengthen the credibility of the study. Hopper and Hoque (2007)

describe three alternative types of triangulation applicable to MA research. They are theory triangulation, data triangulation and investigator triangulation. Yin (2016) argues that it is data triangulation that has received the most attention and after a brief discussion of the other two data triangulation and its relevance to this study will be discussed.

According to Hopper and Hoque (2007), theory triangulation involves examining the same research problem using alternative theoretical perspectives simultaneously, with the aim of gaining a more comprehensive understanding of accounting practices. The researcher may use theories with similar philosophical foundations (for example agency theory and transaction cost economics) or use theories with fundamentally different provides alternative interpretations of the same phenomena and should "enrich our understanding of everyday accounting practice (Hopper & Hoque, 2007, p.479). Investigator triangulation involves using more than one researcher to collect data and is useful for enhancing validity as it enables researcher with different perspectives to check on the extent of divergence of the data collected. If there is minimal divergence this increased confidence in the data's validity. (Hopper & Hoque, 2007). Whatever its merits this option is not appropriate in relation to a PhD study.

Data triangulation involves using a variety of different sources of data in a single study and may involve using a mix of all or some of the following: qualitative and quantitative methods, interviews, observations, shadowing, documentary evidence and questionnaires. Data triangulation enables the researcher to capitalise of the strengths of alternative types of data and to cross-check data collected by each method and/or use the method that is only available through particular methods. (Hopper & Hoque, 2007). The availability of alternative sources of data needs to be considered at the design stage of the research project and the ideal data triangulation would not only seek confirmation from different sources, but also from different types of data (Yin 2016). Taking this advice on board, as well as collecting the main data by semi-structured interviews with different interviewees in each case organisation (a minimum of four interviewees for each case), corroborative evidence will also be sought from company documents (whenever they can be made available) and also from publicly available documents. (paper-based and electronic). Details of the interviews conducted are discussed in section 4.6.6 and the nature of the corroborating documentary evidence collected is described in section 4.7.3.

4.6.3 Reflection

The continuous thinking-process undertaken by the researcher throughout the whole research study, including at the design stage, is generally known as reflection. The researcher must first undertake an initial literature review in the area of interest and reflect on the emerging issues and problems revealed in order to find a research gap worthy of in depth investigation and appropriate research questions. Further immersion in the literature should be followed by more reflection whilst seeking out the most suitable theory to inform the research and deciding on the nature of the data that needs to be collected (Ahrens and Chapman, 2006). Reflection may then be used during the data collection process in order to validate ideas that are emerging and cross-check those ideas using additional data (perhaps by adjusting interview questions or seeking additional interviewees). Then a considerable amount of reflection is required during the data analysis stage in order to establish a close fit between the research questions, the theory used to aid analysis and the data itself (Covaleski and Dirsmith, 1998). In line with this advice this study employs reflection in order to establish the initial research objective and research questions, when choosing a suitable theory, when developing initial interview questions and subsequently adjusting these after initial interviews and preliminary data analysis, when collecting data and when continuously interrogating the data to establish the relevant concepts and themes that will provide the insights upon which to base the research conclusions. This is not a streamlined, continuous process and instead is an iterative process whereby data analysis produces new concepts and themes leading to additional questions designed to solicit additional relevant data in subsequent interviews. As described below in the discussion on data analysis (4.7), the literature provides an additional source of data that may be used to corroborate evidence and confirm the relevance of themes and concepts that are emerging from the data analysis or, hopefully, remain mute and thus confirm new contributions produced by the research.

In this study a considerable amount of reflection was needed at particular stages. Firstly, when utilising the contingency theory literature in conjunction with CA literature to formulate the nine propositions relating to the contingent factors to be investigated and their likely effect on CA usage. Secondly during the latter stages of data analysis when the emerging conclusions form six case units were being compared and contrasted and when the contingency-based model, suitable to explain a firm's choice of CA practices and the way they are used, was being developed. During that process the data was disassembled and reassembled several times (Yin 2016), with

due reflection at each stage, in order to search for patterns that would help formulate the contingency-based model. The reassembling involved producing matrices to visually compare the contingent factor characteristics and their relationship with CA measures used (table 8.1), with the different uses of Financial CA measures (table 8.2) and with the different uses of non-financial CA measures (table 8.3). See chapter eight.

4.6.4 Interviewing Skills and Process

In order to conduct successful interviews, the researcher must possess a range of interview skills. Myers and Newman (2007) claim that eliciting and listening are the most important interview skills to develop. With respect to eliciting, they advise using open-ended questions, as these elicit more detailed answers and more discussion. Closed questions (those that lead to yes or no answers) should only be used for confirmation of the researcher's understanding of what the subject has previously said and to round off the interview. With respect to listening, Chrzanowska (2002) comments: "An interviewer needs to follow the content of what is being said, listen to the meaning underneath the words, and then gently bring this into the conversation. He or she offers or reflects back what they have heard, so that the respondent can confirm, deny, or elaborate. This way of working creates empathy, deepens the conversation and ensures the meaning has been understood" (p.112).

4.6.5 Entry Level into Case Sites

Myers and Newman (2007) advise that the level of entry at which the researcher enters the case firms may be critical to the successful collection of appropriate data. The risk of entering at too low a level is that it may then prove difficult to facilitate interviews with more senior managers. This was not a problem in this study, as use of personal business contacts facilitated initial access at a sufficiently senior level in all case organisations and then a 'snowballing' effect provided appropriate access to relevant subjects at lower levels. What is meant by 'snowballing' here is the practice of being referred by the initial contact or subsequent subjects to other suitable staff that are able to provide corroborative evidence and more details, or answer questions not able to be answered by the original subject. The specific details of case access and the nature of subjects interviewed are provided next.

4.6.6 The Interviews Conducted

Myers (2013) suggests that when the research method involves using relevant cases there is no ideal number of interviews. He argues that it would be erroneous to consider the number of interviews as equivalent to an appropriate sample size. The key issue, when using relevant cases, is to ensure that the interviewees represent a selection of 'voices' (Myers and Newman, 2007). Additionally, the researcher should assess when saturation is reached; that is, if there is confirmation of emerging themes from additional subjects, but they offer no new insights, there is little need for further interviews.

Across the whole study a total of 17 interviews were conducted with 14 different subjects. All except two interviews were taped and fully transcribed to facilitate complete data analysis and avoid researcher bias (Rubin & Rubin, 2012). In addition, a brief synopsis of each interview, and the researcher's reflections on its content, was written immediately afterwards, to aid memory and to facilitate appropriate preparation for subsequent interviews (Myers & Newman, 2007). The two interviews that were not recorded were introductory interviews (one a face to face interview with the CFO of the parent company of Alphabank, and the other an initial telephone interview with the Head of Finance at Betabank). Both these interviews were conducted to establish the suitability of the firm as a relevant case site for this study and to negotiate an appropriate level of access to suitable subjects. Appropriate notes were taken during these introductory interviews and they informed the structure of questions used in subsequent interviews.

The pattern of interviews across the three cases is outlined next. To preserve anonymity at both personal and organisational level the interviewees are identified only by acronyms which relate to their job roles, but their actual job titles are not disclosed. Again to preserve anonymity, all interviewees are referred to as 'he' throughout, although there was a mix of male and female interviewees.

a) Alphabank

Subsequent to an interview with GFO to arrange research access and gain an overview of the Group's activities and strategy, seven further face to face interviews, each lasting approximately an hour, were conducted at Alphabank, as follows:

- Human Resources Manager: HRM
- Chief Financial Officer: CFO
- Business Banking Manager: BBM (2 interviews)
- Personal Banking Manager: PBM (2 interviews)
- Personal Banking Analyst: PBA

b) Betabank

Subsequent to email communications, an introductory telephone interview (not recorded) with the Head of Finance (HOF) was used to establish this case as a relevant case for this study. This was necessary because initial indications were that Betabank used no financial CA practices, despite following an intensely customer-focused strategy and the researcher was seeking a literal replication case, that is, one suitable for largely confirming the results of the Alphabank case. During the introductory interview it was established that Betabank used only non-financial CA measures to support its customer-focused strategy and the main reason for not using financial CA measures related to Betabank's intensity of strategic focus on providing excellent customer service. It appeared to be justifiable to include this case in the study on the grounds that it might prove to be a unique case in itself, and would also provide a theoretical replication due to the clear contrasts with the Alphabank case (Yin, 2009). Four subsequent face to face interviews were conducted at Betabank, each lasting approximately an hour.

- Head of Finance: HOF
- Financial Planning Analyst: FPA
- Propositions Director: PD
- Head of Customer Systems: HCS

c) Global Courier Company (GCC)

In comparison to Alphabank, this case was mainly a literal replication (Yin, 2009), but with the opportunity to study the use of CA practices in a different industry and in an older, more developed company with a sophisticated ICT system. The initial interview with HOGS, largely about GCC's international business, snowballed into interviews at a regional division of GCC. For this case there were therefore four interviews in total, each lasting approximately an hour, as follows:

- Head of Global Sales and Customer Service: HOGS
- Country Managing Director: CMD
- Country Commercial Manager: CCM
- Country Financial Manager: CMA

The use of semi-structured interviews, the skills necessary and the nature of the questions used to provide adequate structure to the interviews have been discussed above. The analysis of data collected is discussed next.

4.7 Data Analysis

Myers (2013) highlights that the data collection and data analysis steps in qualitative research are inevitably interlinked. By design, the scope of data collected is largely determined by the questions the researcher chooses to ask, and the multi-case methodology used in this study requires that the analysis of data from one case influences the questions asked in subsequent cases. Nevertheless, the actual approach to data analysis should be rigorous and consistent and requires the development of an appropriate coding system (Myers, 2013).

4.7.1 Choice of Data Analysis Approach

A coding system was developed for this study in order to ensure that the data analysis was rigorous (Miles & Huberman, 1994; Myers, 2013; Rubin & Rubin, 2012; Silverman, 2010). This coding system is described in section 4.7.2below. “Codes are tags or labels for assigning units of meaning to the descriptive or inferential information complied during the study” (Miles & Huberman, 1994, p.56). Rubin and Rubin (2013, p.92) suggest a core part of early qualitative data analysis is to “identify concepts, themes, events and examples” of relevance to the research questions and mark them in the text of the transcripts. This enables any excerpts marked with the same code to be sorted into a single data file to enable a summary to be prepared. Rubin and Rubin (2013) also suggest that notable quotes are collected together in a separate file, as they often indicate concepts that are of direct relevance to the research questions and/or propositions, and hence will need to be explored more systematically in subsequent cases. In this study, as transcripts were reviewed and coded, particular attention was paid to notable quotes and these were incorporated into the case descriptions (chapters five, six and seven). The use of these notable quotes in the case description and analysis chapters facilitates an accurate and rich

description of the cases using 'the voice of the interviewees' as much as possible, and thus reducing the potential for researcher bias.

Authors diverge on the issue of whether or not to use computer programmes for qualitative data analysis. For example, Myers (2013) strongly recommends the use of software packages, particularly if using grounded theory or content analysis. However, Rubin and Rubin (2013) warn that software packages tend to "rely on the number of times a given idea pops up as a proxy for importance" (p.92) and they stress choosing what is important is not a task that the researcher can delegate to a computer. They argue that qualitative analysis requires "attention to variation, to differences in emphasis, to shades of meaning", which cannot be represented by mere counts and there is no way "to tease out shades of meaning in a mechanical manner; you have to keep your brain engaged." (p.92). Silverman (2005) highlights that whether researchers use computer software or not, all the analytical decisions must be made by the researcher and he warns that the added attention needed to follow software procedures can "detract from the desired analytic thinking, energy and decisions that are needed to carry out a strong analysis" (p.176). Given the complex nature of the relationships being investigated in this study, and the need to be totally immersed in the data in order to identify novel ideas, it was decided to manually code and analyse the interview data.

Note that the extant literature may be treated as "just more data for analysis" (Glaser (1992, p.37) and hence may be used to generate concepts or themes that will enhance the theoretical framework being developed (Lye et al., 2006). Rubin and Rubin (2013) also advise that the literature is a source of potential concepts or themes to utilise when coding the data collected, but they warn that too heavy a reliance on the literature as a major influence on how to code might lead the researcher to miss novel insights, that is, issues or relationships that are present in the data but not previously referred to in the literature. They also suggest periodically reviewing and reflecting on the concepts and themes that have already been identified may uncover additional themes. Further, they highlight that different subjects may describe the 'idea' (or concept) in different terms and hence the researcher may have to identify the concept by its underlying characteristics, not a specific word or phrase. An example from this study (from the GCC case) was the 'idea' of the need to be 'cautious' when using CPAIC information to make decisions, particularly the decision to fire a customer. This concept was coded as "caution - with use of CA metrics". Re-inspection of previous transcripts showed the concept to be evident in

other cases, but not previously coded in this manner.

Themes are "summary statements, causal explanations, or conclusions" (Rubin and Rubin, 2013, p.194). Themes offer explanations of why something has happened and may identify the relationship between two or more concepts. Statements that contain words like 'because', 'therefore', or 'so that is why' often indicate a theme. Rubin and Rubin (2013) suggest that hundreds or thousands of themes may be present in the data and hence offer advice on how to select which concepts and themes to code. They suggest an initial focus on the research questions and any propositions, followed by coding in relation to concepts and themes suggested by the relevant literature. They then suggest seeking additional concepts and themes that are specifically identified as important by subjects and/or appear in notable quotes.

Following their advice in this study, concepts and themes specifically related to the research questions were coded first. Second, related to each research question, any concepts or themes specifically related to propositions were coded. This second coding step also covers Rubin and Rubin's (2013) advice to code for concepts and themes suggested by the literature review (chapter two) and theoretical framework (chapter three), as the propositions had been formulated from the relevant CA and contingency theory literature. Third, concepts or themes that were emphasised as important by interviewees and/or identified within notable quotes were coded. Last, less obvious concepts or themes that emerged by thinking about the way subjects describe certain issues or infer certain tensions were also coded. One example of this type of emergent theme in the Alphabank case is where BBM dwelt on the efforts made at SBU level to reconcile figures produced by their local ABC system with the general ledger figures produced by the finance function. Although at first this did not seem particularly significant to the researcher, BBM spent quite some time explaining the reconciliation procedures and stressed the level of accuracy achieved. The subsequent interview with the CFO highlighted a tension within the central finance function with respect to 'verification' of the CPA figures produced by SBUs and confirmed the need for the related codes of 'reconciliation' and 'verification'.

Rubin and Rubin (2013) further argue that less obvious concepts and themes can be suggested by distinctions drawn by individual subjects and contrasts between what different subjects have said about the same issues. Also figures of speech, metaphors and slogans may reveal themes. In particular, they argue that "stories are especially rich sources of themes" (p.197). An example

from this study is when HOGS tells a story about severe bad weather and its effect on delivery performance and subsequently on CS. A good example of a figure of speech revealing a theme is the frequent use of the word 'culture' by three of the four subjects interviewed at Betabank, and the term 'what we are about' used in a similar sense. Review of the quotes including such terms helped reveal the intense nature of Betabank's customer-focused strategy and how it was embedded in the bank's culture, particularly in relation to the need to provide excellent customer service.

Having identified the most relevant concepts and themes, and coded them in the text of each transcript, the next step was to sort across all interviews relating to that case by each code separately, review the resulting file for each code and then summarise the results related to that particular concept or theme with respect to that specific case. This was done on a case by case basis to produce an analysis of relevant concepts and themes for each individual case. To the extent that some variation was built into the choice of subject for interview, there was a need for further close examination of the data to determine how this variation impacted on results; that is, comparing, for each theme and concept, the results from an interview with a CFO and an interview with a SBU manager. For example, using the example of the codes 'reconciliation' and 'verification', mentioned above, BBM's viewpoint was that the CPA data was adequately reconciled to general ledger figures and therefore suitably 'verified' or proved to be valid. In contrast CFO's view was that the CPA was not generated by the central finance function, as it was not taken straight out of the general ledger, and thus it could not be 'verified' by them and hence was considered unreliable.

In order to generate or enhance theory the researcher must provide explanations for what has been described (Rubin & Rubin, 2013). Is there a set of related themes and concepts that together answer any of the research questions? There may be clusters of linked themes and by combining themes one can develop theory or add to existing theory. There is a need to identify causes and consequences and test any emerging theory against alternative sources (here the literature and other cases). Rubin and Rubin (2013) suggest that when moving from themes to theory it is necessary to check if the explanation is complete and balanced and whether it seems credible.

A theoretical framework of likely factors affecting the usage of CA measures and the way they are used to manage and monitor the customer-focused strategy of case firms was developed in

chapter three. The results from each case were overlaid upon that general framework to highlight the observed drivers in that particular case. These were compared as part of the cross-case analysis in the final chapter.

4.7.2 The Coding System

As described above, coding began with inspection of transcripts for concepts and themes related to research questions, followed by those related to specific propositions and hence also related to relevant CA and contingency theory literature.

	Initial Categories	*Emerging Categories*
What CA measures used?	CSPA CPAIC CLV CE Customer cost analysis Customer revenue analysis Sales Revenue	Forward-looking CP (but not CLV) PPA Customet needs met CES (with various components) NPS Activity measures Voice of customer Revenue per con (etc) Call centre measures Coincidence of delivery
How are CA measures used?	Drive strategy Drive profitabity Customer segmentation Pricing decisions Customer acquisition Customer retention Discourage/fire customer	Caution in use of CA Extra steps before acquisition Extra steps before discourage/fire Not something we do
What factors influence choice of CA measures?	Customer/product focus Business strategy Organisational structure Customer relationship/CRM Competitive intensity ICT Sophistication Age/Stage of firm development Marketing orientation/strategy Size of customer base Customer/supplier interface	Customer segment strategy Firm culture Not something we do
What factors hinder more widespread usage?	ICT - lack of development ICT - Data acquisition problems Other organisational priorities Aversion to change Inadequate skills Political context	Lack of ABC No desire for CA (by accountant) Conflict with firm culture Not something that's of value
What is the firm's strategy?	Customer focus Customer intimacy Product focus Differentiation Customer excellence	Customer segment strategy

Table 4.1: Initial codes relating to research questions and emerging themes

Subsequent trawls through the data coded concepts or themes that were particularly emphasised by interviewees, and/or were included within notable quotes, and/or emerged after reflection on the way subjects described issues or inferred tensions, or expressed opinions that differed to other interviewees. The first level of initial categories relating to research questions are shown in table 4.1. Also shown are the first level of emerging categories. Sub-categories within these initial categories were then established as the data analysis progressed.

4.7.3 Documentary evidence

There were at least four interviewees at each case site and this facilitated the triangulation of data in order to verify the consistency of information or on occasion to pick up on differences of opinion. Moreover, whenever possible, documentary evidence was used to verify claims made by interviewees, for example the annual reports of case firms and academic papers specifically relating to the case companies[9], market reports and internal documents made available to the researcher. Much of the data being discussed was sensitive in nature and hence it was often not possible to take away documents, but in some cases the researcher was shown examples of CA reports available in the firm's ICT system. For example, the insights provided in figure 4.3 relating to the segmentation of customers in Alphabank Business Banking, and the product, channel and relationship needs of customers were gleaned from a diagram shown to me by the business banking manager on his laptop. Although he would not supply a printed version of the actual diagram, he discussed it in some detail and was willing to review figure 5.6 and verify that my interpretation of the diagram was "about right" at a subsequent meeting. Figures 5.3 and 5.5 were produced and verified in a similar way. Conversely, at Betabank, the interview discussions about the content of the monthly reporting 'deck' (6.3.1.1) was followed up by the Head of Finance sending me a complete copy of the previous month's financial 'deck'. Table 4.2 is a list of the key documents referred to for verification purposes

[9] Such annual reports and company specific academic papers are not able to be referenced because they would reveal the identity of the case companies.

Documents and other sources of data used for background and verification
Alphabank - published documents
Annual Reports of Alphabank's parent company - 2012 to 2015
Disclosure Statement and Annual Reports of Alphabank -2012-2015
Various interim financial reports and press releases concerning Alphabank
Company history and other information available from public website
Analyst and press reports on Alphabank
Banking and financial services country and regional market reports
Similar documents relating to competitors reviewed as necessary
Alphabank - internal documents
Alphabank's staff/organisation chart
Various CA systems and report outputs - mainly viewed online
Alphabank Business Banking cost system descritions (including figures 5.7 to 5.10)
Betabank - published documents
Annual and quartely financial statements 2013 - 2015
Company history and other information available from public website
Analyst and press reports on Betabank
Similar documents relating to competitors (reviewed as necessary)
Banking and financial services country and regional market reports
Betabank - internal documents
Example of a monthly deck including store profitability report (March 2014)
Supporting systems and report that back up monthly deck - viewed online.
Betabank marketing and promotional materials
Book about Betabank's business model, strategy and culture (written by its Chairman)
Global Courier Company - published documents
Annual and quartely financial statements 2013 - 2015
Company history and other information available from public website
GCC website facilities, for example, track and trace and customer feedback system
Analyst and press reports on GCC
Similar documents relating to competitors reviewed as necessary
Courier and parcel services country, European and global market reports
Global Courier Company - internal documents
GCC marketing and promotional materials
Spreadsheet extracts (for example, revenue and customer count by customer segment)

Table 4.2: Documents and other sources of data on case companies

4.8 Chapter Summary

Case studies are now a widely accepted method for MA research (Scapens, 2004) and their usage has increased considerably in recent years (Hopper & Bui, 2015; Bromwich & Scapens, 2016). They are considered appropriate to answer 'how' research questions related to contemporary issues (Yin, 2014). The MA literature on CA demonstrates that it has a weak theory base (Guilding & McManus, 2002: Weir, 2008) and hence the case study method is appropriate because it is "of particular value where the theory base is comparatively weak and the environment under study is messy" (Harrison 2002, p.158). Moreover, given the complexity of the interactions between MCS and strategy (Langfield-Smith, 1987, p.229) in-depth, case-based research is the most likely approach to provide detailed insights (Otley, 1980; Chenhall, 2003; Langfield-Smith, 2007) and was therefore chosen for this study. Moreover, a multiple-case method has been justified. The study consists of three exploratory cases, with two of those cases containing embedded units of analysis.

Case sites suitable to facilitate investigation of this study's research objectives were identified as for-profit firms that have adopted a customer-focused strategy and were likely to use CA metrics. Relevant cases were needed, that is, cases that offer the opportunity to collect detailed data directly relating to the objective of the research (Yin, 2009). The use of a multiple-case method is suitable for in-depth comparative analysis and developing theory (Eisenhardt, 1989), and facilitates literal and theoretical replication (Yin, 2014) in order to investigate of the impacts of key case specific and industry-level contextual factors on a firm's strategies and MCS (Hopper et al., 2001). The relevant case sites chosen were an Australasian bank (Alphabank), a European bank (Betabank) and a global courier company (GCC) conducting international business and also domestic business in a European region. The Alphabank case contains three embedded units of analysis: the personal banking SBU, the business banking SBU and the Executive level of the whole bank. Betabank is a single case because it is largely centralised. The GCC case contains two embedded units of analysis relating to key customer segments with significantly different operational characteristics and profitability profiles. Therefore, six units of analysis are provided for cross-case analysis.

In the next chapter the results of the first exploratory case, Alphabank, an Australasian commercial bank, are presented.

5 CASE ONE: ALPHABANK

This chapter presents and analyses the results of case one, Alphabank, an exploratory case in the banking sector. Alphabank is a challenger bank which operates in Australasia. Although Alphabank provides international services, the majority of its business activity takes place in a single Australasian country. As explained in the method chapter (section 4.6.6), Alphabank is a representative case (Yin, 2009) as a bank with a customer-focused strategy is expected to provide examples of CA practices. These are investigated at Alphabank's executive level (Alphabank:EL) and its two main SBUs, personal banking (Alphabank:PB) and business banking (Alphabank:BB), thus providing three embedded units of analysis which add "significant opportunities for extensive analysis, enhancing the insights into the single case" (Yin, 2009, p.46). This chapter describes Alphabank:EL's overall customer-focused strategy, and specific strategies applied by Alphabank:PB and Alphabank:BB. The CA practices used by each unit are described in detail and the ways they are used to manage and monitor the unit's customer-focused strategy are investigated. Moreover, the contingent factors that determine the choice of CA measures, and the way they are used, or hinder more widespread usage, are identified for each embedded unit. Finally, some conclusions are formed from the analysis of this overall case and its embedded units.

5.1 Description of Case and Staff Interviewed

For confidentiality reasons limited information will be disclosed about the case study site. Alphabank is a challenger bank that was set up over 12 years ago and has grown rapidly on the back of low fees and good CS scores. It now has total assets of over $15,000 million (Australian) and above 800,000 customers. Alphabank:PB has above 600,000 customers and an overall main bank market share of 10.3% in the country in which it operates. Alphabank:BB is relatively small, but growing. It has above 30,000 customers and is considered 'a specialist SME (Small and medium sized enterprises) business' bank.

Interviews were conducted with members of the bank's central management team (Alphabank:EL) and also with managers and other staff within Alphabank:PB and Alphabank:BB. Consequently, the two largest market SBUs (by revenue) of Alphabank were included in the study and these account for 85% of Alphabank's revenues (in 2014) as shown in figure 5.1 below:

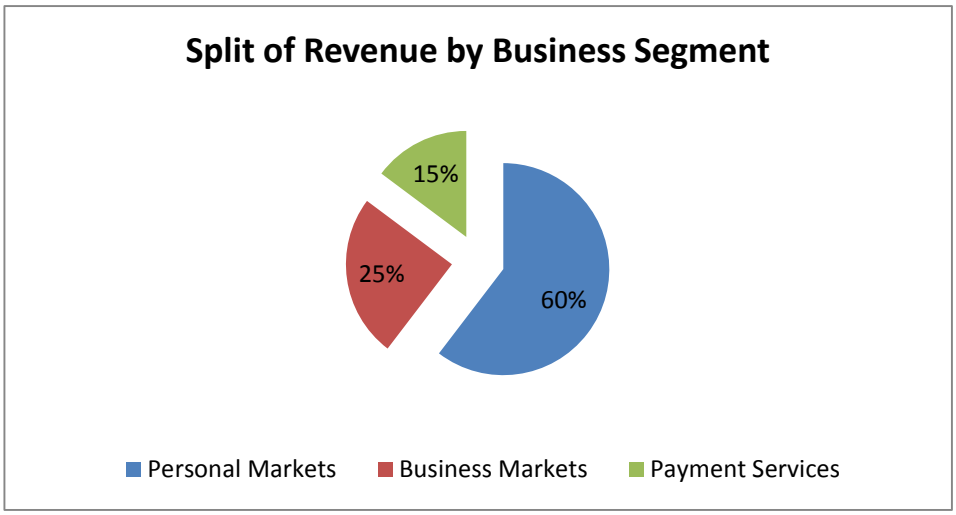

Figure 5.1: Alphabank's main business SBUs by revenue

This case offers the opportunity to compare and contrast CA practices in two important Alphabank SBUs, personal and business banking, and review dissemination of CA information to executive level management and the use of this information. Alphabank now has around 1,000 staff and hence a relatively complex organisation chart; however, the approximate relationship between interviewees is depicted in Figure 5.2 below.

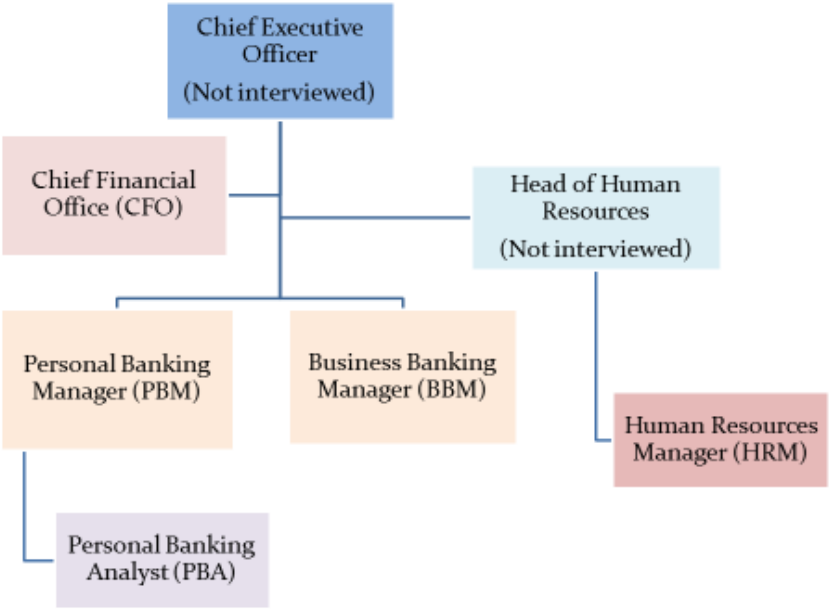

Figure 5.2: Alphabank: Relationship of interviewees

The PBM is responsible for "the management, development and design of the product set, so I look after the products that serve the personal markets". However, he stresses that Alphabank:PB's emphasis from the outset has been "how do you grow your markets, not what products do you design and develop." He argues that Alphabank:PB is taking a broader view than competitor banks and is asking "what are our customers thinking, feeling, doing" and then

designing the product portfolio that focuses on customer needs (in line with Kotler, 2003). The PBA reports to PBM and heads the team which has built the department's CPA and CLV models. The BBM is responsible for business markets, and at Alphabank:BB these cover "everything from sole-traders right through to institutional banking." However, BBM stresses that for business markets, the strategy "first and foremost is focused on the SME sector."

Interviewees that are part of central management and support functions (Alphabank:EL) were the HRM and the Chief Finance Officer (CFO). HRM described the roles of key staff and helped identify the appropriate staff to interview. He also provides valuable insights into Alphabank:EL's overall strategy, outlines how the BSC is used to drive that strategy and describes the HR team's own scorecard, containing supporting measures in addition to the HR measures transferred to the executive level BSC. CFO is responsible for financial reporting to the executive team, consisting mainly of "whole of enterprise reporting" and explains that "the two things we can credibly report on is business unit and then product profitability".

5.2 Whole of Company and Alphabank:EL

Before a detailed analysis of CA practices and their use at SBU level, a holistic view of the overall Alphabank case will be considered from a whole of company viewpoint, including a description of executive level corporate strategy and its links with SBU strategies. The overall MCS containing the bank's performance measurement system (a BSC) and costing system will also be described.

5.2.1 Alphabank's Customer-Focused Strategy

The group that owns Alphabank certainly confirms a heavy emphasis on customers in their annual reports. They discuss the wide variety of customers that they serve, from individuals to large corporations, and argue that placing the customer experience and expectations at the centre of how they do business makes sound business sense. HRM confirms that Alphabank:EL has a customer-focused strategy and he demonstrated how strategy is well communicated and understood throughout the organisation, with significant buy-in by saying: "We can't sit there and blame management for not making our bank make money, it's up to everybody in the organisation. So there is a sense of ownership."

Regarding whether the bank is product focused or customer focused, CFO explains that the

strategy has changed over time, saying, "I think in the first five years we were absolutely customer focused because everything was about acquiring the customer." To facilitate more growth there was subsequently a need to expand the product offering beyond the basic banking needs of customers and hence the bank became more product focused for a while. But now there is a shift back toward a customer focus. CFO explains,

> *"I think we're probably just reining ourselves back a little bit now….We can't try to be the bank for everybody, we do have to probably target what we're doing. So…in terms of everything we're doing around our strategy it is around the customer orientation. I don't think it's probably as obvious externally as it is internally."*

Both SBU managers are very clear on the nature of their SBUs' strategies. BBM claims that: "it's a very customer-focused strategy, not a product one" and he demonstrates the emphasis on customer instead of product by adding: "In fact one of the internal debates I often have with our head of marketing is can we do away with product labels and product descriptors, because actually what we try and sell is a solution". BBM clearly sees Alphabank:BB's strategy as customer-focused and stresses it is based on being 'customer intimate' and the key to success is: "knowing and understanding your customer well…[so that] at the point of sale you can flex your proposition, as opposed to being operationally efficient or manufacturing lots of different products." He is stressing the need to know and understand the customer in order to deliver a strategy based on customer intimacy (Treacy and Wiersema, 1993; Kaplan and Norton, 2004a) which requires the firm's 'customer value proposition' to be tailored to the individual customer's needs. He is contrasting this approach of customer intimacy to the alternative differentiation strategies discussed by Kaplan and Norton (2004a) of operational excellence or product leadership. He adds:

> *"Why's that important? - Because it's a relationship led proposition…Some would think differently, but unlike a retail environment where it's more oriented towards a product sale, you actually have an on-going relationship with the enterprise over a period of time. You are a partner in their success."*

PBM is similarly very clear Alphabank:PB is customer-focused:

> *"…we took a slightly different view [to other banks] around product management at*

Alphabank back when we first launched and we've maintained that, which was we employ market managers as opposed to product managers. So we tasked these people from a marketing sense, to be able to say: how do you grow your market? Not: what products do you design and develop?"

Similarly to the CFO, PBM explains a subsequent need to develop a larger product portfolio and a hence become more product focused for a while:

"We had end to end business lines built around a product....We've changed that model completely in the last couple of years because [of] the tension that was coming from customers, who obviously wanted to have multiple products and services with us."

PBM explains that customers became dissatisfied if they had to deal with different teams for their credit card, their home loan and any other product. This was not a great experience for the customer, and also proved to be inefficient for Alphabank:PB's back office operations. Therefore, 'personal markets' was formed to bring all the personal banking operations back together. This rearrangement of Alphabank:PB operations with a clear customer focus, instead of a product focus, might be expected to change the organisational information requirements from PPA to CPA (Kaplan and Cooper, 1998). A focus on PPA could lead to a loss-making product being discontinued when there may be highly profitable customers who require that product and will defect if it is not in Alphabank:PB's portfolio.

In summary, interviewees clearly identify Alphabank:EL's strategy as customer-focused and this is effectively communicated internally, but is this obvious to external customers? Both PBM and BBM describe customer-focused strategies operating in Alphabank's two biggest market segments, personal and business banking. Alphabank:BB adopts the most intense type of customer-focused strategy, described as 'customer intimacy' (Treacy & Wiersema, 1993; Kaplan & Norton, 2004a). Customers do seem to perceive Alphabank as customer-focused, as Alphabank was ranked second for overall CS in one recent, independent customer survey[10] and fourth in another, but closely behind three other nationally owned banks and well ahead of all foreign owned banks included in the survey.

These surveys are based on asking a sample of consumers in the country in which Alphabank mainly operates to rank overall CS with their bank. This is an individual rating (not a combination of several ratings for various services). The surveys themselves cannot be cited as they would reveal the bank's identity.

5.2.2 The Competitive Intensity Faced by Alphabank

Various reports describe intense competition in the Australasian banking and financial services sector during 2014 (when interviews were conducted). There have been general improvements in financial performance in terms of profits and return on equity since the GFC, but one report states: "within the sector, competition remains intense over 2014" and highlights that banks are offering substantial incentives (including TVs and iPads) to switch. Competition is generally described as 'intense' in almost all reports and many say that customers are benefiting from this competition and historically low interest rates, although some banks are countering the effects of a squeeze on interest rate margins with increased fees for things like unauthorised overdrafts and credit card borrowing. A recent treasury report (in the country in which Alphabank operates) concludes that there is no severe lack of competition in the sector, but some fees are concerning. The same report argues that the sector is delivering outcomes consistent with a workable competitive market and profit levels are not obviously excessive. Since the GFC, market concentration has increased in the two largest Australasian countries and is considered to be high by international standards, as it is now above 80% in both and hence the market could be described as monopolistic competition. However, despite the market being concentrated, the banking sector remains highly competitive as customers have choices, and propensity to switch accounts has increased to around 10% per annum.

5.2.3 The Use of CA Measures at Executive Level

There appears to be a potential disconnect between the bank's overall customer-focused strategy and the executive level focus on mainly financial, 'whole of business' measures. There is currently no ABC system operating at executive level and the only segmental reporting currently used is SBU profitability and PP. However, there appears to be a desire to enhance MCS to enable the reporting of financial CA measures at executive level and also to bring non-financial CA measures into the executive level BSC, once they can be appropriately 'verified' by the finance team. These issues are now discussed.

5.2.3.1 Executive Level Accounting System and MCS

Despite the customer-focused strategy, CFO highlights that CP is not currently reported at Alphabank:EL, where the main focus is on "whole of enterprise reporting". However, CFO

explains, "Certainly the two things we can credibly report on is business unit and then product profitability". The MIS currently does not facilitate easy access to CP down to an individual customer level. "We can do it, but it's a reasonable sort of exercise to get there……we certainly don't hold customer information in our general ledger, our accounting system." CFO says that the customer information is held in databases used for data mining and ad hoc analysis, and not to provide measures reported in the executive level BSC. CFO states: "I am aware of some organisations who will be able to report CP right within their general ledger. We are somewhat restricted by the systems we've got."

CFO says that he "can't think of a situation where we would be reporting certainly specific customer type profitability in our management reporting". He sees this as a problem and therefore "one of the big challenges we have" because the bank is now following a customer-focused strategy. He discloses,

> *"We're saying we really want to be customer focused...and now we've got plenty of stats around…in terms of customer satisfaction, customer churn. But fundamentally saying, 'Are we making more money out of a 25-year-old, or a 30 to 35-year-old? Are we making more money out of the 18-year-old? Are we making more money out of the retiree?' Quite difficult to make those critical judgements."*

CFO is highlighting the extensive use of non-financial CA measures, but limited ability to understand the profitability of the customers in different age groups. CFO confirms that "standard reporting on customer profitability by demographic or region" is not available on a monthly basis, although he acknowledges that SBUs do conduct CPA. He says, "all they'll be able to do is to prove it up on a sort of one-off basis". CFO is clearly not happy with this type of reporting by SBUs as he is uncomfortable with information that is not held within the general ledger being used for any sort of profitability analysis. The following quote emphasises his disquiet:

> *"One of the things that is a bane in my life, is that a lot of parts of the organisation goes and takes the same level of information and analyses it in different ways. So we end up having several versions of the truth around profitability."*

CFO advises that with respect to CP measures, Alphabank:EL: "won't be too far away [from] being

able to get to monthly reporting if we want to" and confirmed there was a desire at executive management level for this type of information. However, CFO is clearly uncomfortable with the current situation and believes SBU managers are trying to make decisions without all the appropriate information. He says:

> *"I sit there as the CFO and…(PBM for example)…might put a paper up saying: 'This is what profit we're making on these customers'…and I'm going: 'well I've got no idea how I can marry up what I've got as the enterprise profitability to the customer profitability', because they're done on two completely different, separate bases…so that's quite a challenge. So you'd have to say, accept it on face value, I've got no means to verify that."*

CFO says that they are currently looking at system replacement "and part of that will be around customer reporting, profitability", but as that may be 5 years away they are currently attempting to verify the SBU figures by reconciliation with the financials in the general ledger.

CFO confirms that SBUs have their own BSCs which contain measures that may be included in the executive level BSC in the future. CFO says:

> *"at the executive level…we look at it at a very summary level…all these individual business units will have a lot of information...but then at the executive level it's more summarised…making those judgements around customer profitability at an enterprise-level [is] very, very difficult to do because that level of information is not there."*

Therefore, it seems there is a desire for the reporting of CP at executive level, but this is currently hampered by lack of systems development and potentially also by CFO's nervousness about measures produced outside the central finance function.

CFO further explains that in the last two years a dedicated strategy team has been set up, and suggests that "if we're saying this is our strategy and we need to be customer-focused, these are the customer metrics we need". CFO reports that the strategy team,

> *"are now starting to try to push those [CA] metrics through into the executive and saying: 'Well if we want to measure the customer, success of the customer profitability, they need to go up to the executive team', so it's good that's happening"*

However, CFO reports a problem:

"…at the same time they say: 'Hey finance, you guys need to verify them', so we're having to go through a process…we're trying to verify them… that's a little uneasy for us, because we're a whole lot of accountants who like just to see debits and credits."

What CFO has a problem with is the non-financial measures. He says: "to be completely honest, I think it's a real challenge for us". CFO is clearly ill at ease with the use of non-financial CA measures as he says:

"The directly financially orientated ones are fine, but when it gets into something where there's some judgement made [we get uncomfortable]. Net promoter score is a measure as to how well customers engage with us and we're going, 'Well okay, don't understand…that's not a financial measure'."

CFO describes these developments as: "an education process for both parties" and says: "the strategy guys are developing it and they are trying to bring the executive team along" which is a little problematic as some of the executives "haven't seen it before" and are only familiar with the monitoring of actual financial results against plan. Nonetheless, CFO explains that "I kind of get it. If you've got the [customer-focused] strategy and you've got these measures, you've got to be able to see them and make an assessment of them." He reflects on when he first started (2009), saying: "the only measure was me just producing the financials and saying we're on plan or off plan" but then asking "Well what does that mean in terms of the health and profitability of the customer?"

Despite the Bank's overall customer-focused strategy there is no capability to measure CP at executive level and hence the financial measures used do not adequately relate to the customer-focused strategy. Hence, there is a desire to include financial CA measures in the executive level BSC and the need for non-financial CA measures (such as NPS and CS measures) is being considered, although CFO for one seems to be uncertain about what such measures indicate and how they can be "verified".

The appetite for CA is much stronger at SBU level, as both PBM and BBM believe their customer-focused strategies need to be supported by CA measures. These two SBUs are of different size and are at different stages of development with respect to CA measurement and provide interesting contrasts, as is discussed below.

5.2.3.2 Using the BSC to Drive Customer-Focused Strategy

HRM explains that Alphabank:EL's BSC has recently been revised and each department or SBU have their own scorecards with key measures repeated on the executive BSC. HRM recounts: "We [HR] have just completed a scorecard for people, which then rolls back up into the overall scorecard for the organisation." He praises the effective implementation of the current scorecard, claiming this is "the first time that I have really felt that we have had the strategy as our anchor." Thus stressing adherence to a key BSC requirement that strategy must be central to the BSC (Kaplan & Norton, 1992, 1993, 1996a). HRM outlines some of the people measures in the HR department BSC:

> *"Under people is our engagement, and enablement scores as well, to ensure that people are actually enabled enough to do their job, and they have the right tools and resources in place, ensuring that they are engaged. If they are engaged they are then motivated, so we get productivity out of that."*

HRM explains that staff are motivated and rewarded against a mixture of financial and non-financial measures related to either individuals or their team.

HRM says: "Previously we had a strategy but really it just felt like words on a page, rather than 'here's your key deliverables'." When asked what had stopped the strategy being just words, HRM explained, "Because we are being measured. It's the measurement. Because we have KPIs and we have objectives that now align directly to the strategy." The BSC is cascaded throughout the bank, with relevant local objectives and measures (drivers) in departmental scorecards linked to overall organisational objectives and measures (results) in the executive level BSC. HRM stresses: "there is a sense of ownership" and hence significant buy-in, throughout the organisation, to the bank's strategic objectives and to the idea that staff are responsible for delivering against those objectives. He explains that the bank's executive team meet every Monday, in the strategy room, to review performance against the bank's key objectives. HRM says: "The weekly [meeting] is just a quick heads up, this is what's happening…They get together and they go through the objectives which sit on the strategy and they have an update."

HRM's description of the critical importance of the bank's executive level BSC, and the links with departmental/SBU scorecards is reiterated in a subsequent interview with BBM (5.4.4.3). Due to

time constraints, the use of the BSC was not pursued with PBM, but does provide a future research opportunity.

5.3 Alphabank Personal Banking SBU

Alphabank:PB is the oldest and largest of Alphabank's SBUs. It has over 600,000 customers and accounts for about 60% of the bank's overall revenues. This section will first describe Alphabank:PB's strategy and competitive environment and then its own MCS and costing system. The CA measures used by Alphabank:PB will be described next, followed by a detailed description of how these measures are used to drive the SBU's customer-focused strategy.

5.3.1 Strategy and Competitive Intensity

As discussed above (5.2.1) PBM describes how the Alphabank:PB has a focus on markets and customer needs rather than on individual products. Most customers require a bundle of products and services and it is in Alphabank's interest to supply as many of the customer's banking needs as possible. Alphabank was set up as a 'challenger bank', with personal banking as their core business and the need was initially to rapidly grow the customer base. Now Alphabank:PB has reached an efficient scale they need to understand which customer segments are profitable and ensure customers receive adequate service levels to minimise defections. They need sufficient information to avoid wasting resources on forging strong relationships with the wrong customers (Ness et al*.,* 2001), and need to avoid acquiring unprofitable customers divested by other banks (Mitchell, 2004).

The personal banking sector is highly competitive and there is much mistrust of banks since the GFC. Although there is dissatisfaction with large foreign owned banks, there is strong competition from large national banks with a longer pedigree than Alphabank. Moreover, now Alphabank:PB has grown its market share to around 10% 'the big banks' are beginning to realise how many of their customers are defecting to Alphabank:PB and are beginning to *"fight back"*, thus making it even more important for them to understand the appropriate levels of service to offer customers and still remain profitable.

The SBU is currently experiencing customer churn (defection rates) of between 8% and 9% per annum and PBM believes this is too high:

> *"The churn is partly because of the sheer volume and sometimes we struggle a bit with the volumes in terms of servicing and answering the phones…the other banks are stepping up their game now as they have got to the point where they are sick of losing customers to us"*

It appears Alphabank:PB are now facing fiercer competition from 'the big banks'. This is part of the market dynamics as the only real opportunity for growth in a mature banking market is to entice customers to switch.

5.3.2 MCS and Costing System

As mentioned above (5.2.3.1) there is no bank-wide ABC system. However, both SBU managers see the need for a full cost system and have been developing their own using ABC methodology in order to support their CP measurement initiatives. PBM explains that the revenue side is "reasonably straightforward" but "to figure out the costs is pretty difficult" but "the ones we've done in the past have tended to take into account the full costs required". For example, in relation to customer acquisitions they can accurately measure what they are paying to front-line staff and the costs relating to the issue of documents, but:

> *"the real headache becomes apportioning the cost of the head office function…so we've made some assumptions about just distributing that evenly across depending on the number of products you have and other bits and pieces…it gets a little bit hairy."*

PBM explains that for some areas they have

> *"put a lot more effort into actually timing how long it takes" for example for home loans, "sending a mobile mortgage manager out and how long it takes for the documents to be issued, what do those documents cost? Because it's a much more expensive exercise than 'onboarding' a transactional customer where we haven't done as much activity-based costing".*

Clearly the SBU's ABC system is still under development and not entirely accurate, but it is a full cost system (including head office costs) and based on ABC principles. PBM explains that call centre costs are apportioned in proportion to the number of calls made by each customer. Thus, all channel costs (for example, internet, telephone) are fully allocated on the basis of actual usage and where possible head office costs are directly allocated. So, at SBU level the methods of allocation of shared costs are considered quite carefully. PBM discusses "philosophical debates"

around things like a new investment to upgrade ATMs: "how should these costs be allocated? Should they be allocated to all customers that have the potential to use ATMs or should they be allocated on an actual usage basis?" CFO is involved in these debates. PBM says that after analysis using both bases it became clear any difference: "wasn't going to be at a level that would make you change a decision about a segment of customers", thus confirming the locally developed costing system is sufficiently accurate and fit for purpose.

Corporate costs, including shared services functions (for example finance and HR) are spread across all personal customers on the basis of number of customers: PBM explains, "It was decided that they were not driven by usage rates". He further argues,

> *"We have tried in the past to take a proper look at allocating all the costs of the business and then you can reconcile it back to the actual costs flowing through the P&L [the general ledger] to make sure that it is within a reasonable level of tolerance".*

PBA confirms that analysis is within 3% of the finance function's general ledger figures, and he thinks this is "accurate enough". Of interest here is that all costs, even head office and shared service costs, are being absorbed into the CPA and CLV calculations. In respect of CLV, this is in contrast to the majority of the models reported in the literature, which either exclude fixed costs or are rather vague about them (Bates and Currie, 2014).

5.3.3 The CA Measures Used by Alphabank:PB

PBM initially explains that banking is somewhat different to many other businesses and consequently the measurement of CP is not at all easy. PBM says: "it's tricky in banking because the dynamics are different." He explains this using the example of a high value customer:

> *"When you're paying your mortgage off you're very valuable to the bank because of the margin that we're deriving from those products. When you get to being the investment customer, actually you're not particularly profitable at all".*

However, the investment customer is:

> *"…valuable in the sense of the funds that you're lending to us, [that] we obviously use to lend out to our home loan customers. But actually, particularly since the global financial crisis, to get those funds in we have to pay customers, it's costing us a fortune. So for every*

dollar you're losing money for that when you look at the stricter sense of profitability".

This sort of difficulty might explain why there is as yet no overall CPA used at executive level and also why both SBUs use CP measures cautiously (5.3.4.4 and 5.4.5.2) and with a focus on particular customer segments.

PBA states that the CA measures provide SBU management with decision-relevant information for "quantifying and sizing up the key segments, but also the key drivers as well". To successfully implement the customer-focused strategy, Alphabank:PB needs information on the factors that directly impact the profitability of customer segments. PBA highlights the need "to prioritise between churn versus a better quality sales conversions or sales acquisition and 'onboarding' versus retention, and that helps shape the strategies." A "better quality sales conversion" means providing the right sort of experience to a new customer throughout the acquisition process and beyond. This is extremely important as Alphabank:PB is relatively young and still a challenger bank establishing itself in a highly competitive market. However, the fact that other banks now consider Alphabank:PB a serious competitive threat, and are "fighting back", establishes a need for more detailed CA that identifies what causes customers to defect, and thus informs decisions regarding how to retain profitable customers. This apparent need for a mixture of financial and non-financial CA measures is discussed below.

5.3.3.1 CPA Within the Alphabank:PB

Due to its sensitivity, limited data was disclosed on the precise nature of the CPA undertaken, but examples of how CPA is used are discussed below, as are CLV measures which use historical CPA as a foundation. CPA is based on a relatively sophisticated costing system designed within the Alphabank:PB using ABC methodology (5.3.2). Therefore, CPA is on a full cost basis and includes all channel costs (internet, telephone, branch) allocated to customers on the basis of actual usage. For example, there is an ABC burden rate (of $6 per call) and this may trigger the charging of fees for some customers (if they exceed the set number of calls that are free). One key purpose of the CPA is to aid in the process of segmenting customers into groups based on potential customer value. This segmentation is used for various purposes, including to steer customers to the right service teams, to focus marketing initiatives and as an initial basis for further analysis of specific customer segments using CLV (5.3.3.2).

PBM explains that customer revenue data is available monthly, but CSPA is conducted on an ad hoc basis, perhaps 6 monthly or annually, because the trends disclosed do not change significantly over the short term, unless there is some material change in the market place (such as new regulations like the imposition of a loan to income ratio). Therefore, unexpected changes in market conditions could trigger the need for an ad hoc CPA to assess the impact, indicating the need for CPA is contingent on the external environment, and in particular volatility in market conditions.

5.3.3.2 The Alphabank:PB's CLV Model

CLV modelling is even less regularly undertaken than CPA and is also not run across the whole customer base, but focused on specific target market segments to support or justify marketing initiatives or attempts to reduce costs-to-serve. PBM explains, "The guys are right now looking at some prime target markets that we will be going after and there are some metrics in there that compare current value of those customers with the future value that could be generated if we were to do these things."

The CLV model is based on a map of revenue streams and the costs-to-serve customers, with assumed "uplifts" (increases in revenues and associated costs due to a customer's requirements for additional banking services) as the relationship is strengthened over time. This type of CLV modelling is not run across the whole customer base but on certain segments, for example the youth segment and for home loan customers. The components of the model are discussed next.

a) Revenues

The main revenue uplifts are expected to occur when the bank successfully cross-sells to customers and thus increases their number of 'needs met'. Assumptions are made about customer churn (defection rates), which is a key unknown. The net present value of the future value of customer relationships remaining after 8 years is considered immaterial and ignored. Alphabank:PB's CLV model therefore only has an 8 year horizon[11], with assumptions on defection rates incorporated. The forecast revenue increases are based on assumed general increased

[11] It is not uncommon to find CLV models in the literature that are cut off at 5 and even 3 years, particularly in settings where defection rates are high.

activity and on successful cross-selling. PBA explains,

> *"We do a lot of work on projecting to 2020 and use cross-sell rates as a key driver. We know the average number of products per customer and we can quantify the value [based] on that, so once we have built a view on what that product growth is."*

They can calculate the CLV of the customer segment under scrutiny and clearly the "average number of products" is important. However, PBA says that 'needs met' is in fact the critical measure.

b) Costs-to-serve

The CLV model includes: "all the origination costs plus all the costs to service that we can calculate at this point in time." Origination (customer acquisition) costs are included in the model and these would not just be marketing costs being spread over the new customers acquired, as in some circumstances there would be fees and commissions paid to originators (who may not be working within the bank itself). Methods of cost allocation are reasonably sophisticated (5.3.2), hence costs-to-serve includes estimated costs for use of the call centre, ATM usage and a proportion of shared service costs (for example finance and HR).

c) Customer 'needs met' and retention rates (non-financial inputs)

A key driver of revenues and costs is how much business, in terms of 'needs met', the bank currently has with the customer and how much this can be expected to grow as the relationship matures. PBA explains that a customer may initially only have one 'need met' by the bank when onboarded aged 20, but over the next 8 years their wallet size grows and they progress through two 'needs met' and on to three 'needs met'. The bank is relatively young and has limited historical data on customers, but evidence obtained from analysing a 40-year-old customer is used to predict the future cash flow streams expected from a customer who is currently 18.

Such assumptions would be checked against industry benchmarks to ensure validity. Analysis of historical trends shows retention rates are much higher for customers with three or four 'needs met' than with one or two 'needs met'. The indicative figures in figure 5.3 highlights the relationship between customer 'needs met' and defection rates. The biggest proportion of total customer defections in any period relates to customers who only have one or two of their 'needs

met'. Consequently, successfully increasing the number of 'needs met' is a key driver of CLV, and hence long-term profitability, and 'needs met' is therefore a key variable in the CLV model developed by Alphabank:PB.

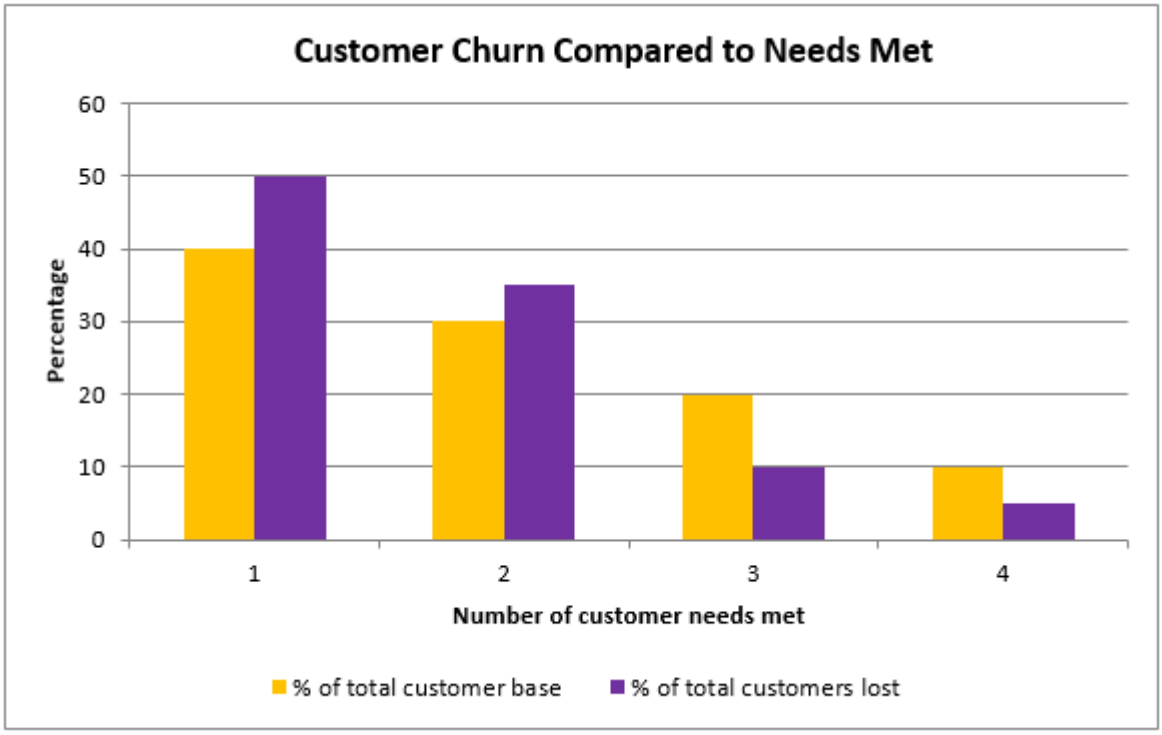

Figure 5.3: The relationship between 'needs met' and customer churn

This focus on 'needs met' is an interesting insight, as CLV literature discloses customer retention/defection rates used in many CLV models (Gupta et al., 2004, 2006; Blattberg & Deighton, 1996; Andon et al., 2001), and yet provides limited insights into how retention/defection rates are estimated in practice, except that historical patterns are useful guide. Bauer and Hammerschmidt (2005) include a term for the probability a customer will remain loyal (and therefore not defect) in their CLV model and claim this is a function of CS, switching barriers, variety seeking behaviour and the attractiveness of alternatives. However, they do not mention the number of customer 'needs met', as a key variable driving retention rates and hence CLV. Alphabank:PB has established that there is a much stronger relationship between 'needs met' and CP than between 'number of products' purchased and CP.

d) Other customer behaviour measures in CLV

PBM discloses that 'needs met' is only one example of the type of indicator that impacts on CP, and there are several other indicators built into the Alphabank:PB's CLV models. The bank has developed: "a decision tree based around some key drivers of [customer] behaviour based on

transactional behaviour and customer profiles". However, commercial sensitivity prevented further disclosure. The literature provides contradictory evidence on the drivers of CP. In contractual settings, customers become more profitable the longer they stay in the relationship (Libai et al., 2002; Reichheld & Sasser, 1990; Reichheld, 1999) because they buy more, buy more often, are cheaper to serve (due to familiarity) and are willing to pay higher prices (due to higher switching costs). However, Reinartz and Kumar (2000) found that the opposite was true in non-contractual relationships. They studied a mail order retailer, where switching costs are minimal and consumers are offered a vast array of choices. The authors conclude that the relationship between the duration of the customer relationship and profitability was complex and dependent on several factors. The Alphabank:PB case appears consistent with their conclusion.

5.3.3.3 Non-Financial CA Measures Used in Alphabank:PB

The questions used during case one interviews did not include specific questions about the use of non-financial CA measures, because at this stage of the study it was not perceived that the use of non-financial measures were an integral part of CA practices. Guilding and McManus (2002) only include financial CA measures in their survey and subsequent replications follow that lead. However, the following questions were used in interviews:

1. What drives improvement in CA measures?
2. Which of these drivers are separately measured?
3. If not all, should other drivers be measured?
4. If yes, why other drivers not already measured?

Such questions did generate information about the use and importance of non-financial performance measures in relation to CA practices. Once it was appreciated that non-financial CA measures are integral to the CA practices used to measure and manage a customer-focused strategy, additional questions were included to investigate this issue in subsequent cases.

The information gleaned about the use of non-financial CA measures at Alphabank:PB is discussed next.

a) Customer Satisfaction (CS)

PBM confirmed that the SBU measures CS, but when asked about the strength of the relationship

between such measures and CP he admits, "probably an area that we're weak on at the moment…is truly understanding our satisfaction scores, what drives them and therefore what we should do or not do to improve that". PBM explains that it was initially relatively easy to provide better customer service than 'the big banks' as customers joining Alphabank were usually "pushed" to switch by a poor service event at their previous bank. They were willing to try out a challenger bank with a national brand and a customer service promise. However, in the last two years, the big banks have "upped their game", so Alphabank:PB's defection rates have increased, requiring them to work harder to retain customers.

Achieving the right balance (between customer service and cost control) is problematic because Alphabank:PB is still small compared to competitors and that makes their unit costs higher. PBM explains that "they've [the big banks] been in existence for a hundred and thirty years, so they've got much, much larger customer bases they're spreading that cost over. So our big challenge is the 'jaws'". He is referring to the cost/income ratio and the graph of revenue growth and cost growth, which resembles a shark's mouth. The aim is to keep the cost line flat and the revenue line angling upwards. PBM says that this is challenging for Alphabank:PB at their current stage of development: "the CEO wants to see a flattening of costs, whereas we're creeping up, but as long as the jaws are widening" Alphabank:PB is on track and it should get easier to improve the cost/income ratio as they grow (growth rate is presently about 10% per annum).

Specifically about CS measurement, PBM says, "We have found that [customer] satisfaction is a bit of a weak measure at times…it's a really wishy-washy type of a question and doesn't drive a lot of behaviour". He argues that the question "would you recommend us to your family or friends?" is simpler and much more revealing about the overall level of CS. He was referring to NPS.

b) Net promoter score (NPS)

PBM says, "We use NPS quite a lot" and explains the measure as per Reichheld (2003). PBM describes promoters as customers who say: "I'm singing from the rooftops about you", whereas detractors are saying, "don't touch Alphabank:PB with a barge pole" and those in the middle are: "not worth anything to you, because they're just ambivalent". PBM discloses that Alphabank:PB's score: "hovers around that 50 to 60% mark, which is actually a really good score. It's world class". He explains that many banks have historically had a negative NPS and says,

"We found that's [NPS is] a much clearer indication of how our customers are feeling about us, because it's tended to mirror when we [have] been off in terms of growth or retention, because our NPS has been trending in the wrong direction".

PBM thus confirms that for Alphabank:PB, NPS is a consistently used non-financial CA measure (relating to customer loyalty and CS) and improvement in NPS has been found to be positively associated with growth and customer retention rates.

c) Call centre performance

Alphabank:PB measures call centre performance and PBM referred to a need to improve performance by shortening response times, but there was no further discussion of precise measures used or any links to other CS measures.

d) Customer 'needs met'

The number of 'needs met' (where 'needs met' are different service categories like transaction banking, credit facilities, house loans, and savings) is measured for each customer and is considered a much more useful measure than number of products held because 'needs met' has a closer association with retention rates. 'Needs met' is an important input to the CLV model (5.3.3.2 c).

e) Customer retention/defection rates

The number of customers lost (defections) is measured and retention rates are monitored. PBM says that they measure: "our overall retention levels, so by product line, by customer and we're seeing, actually, some really good improvement in the home loan front. So we know overall we've improved that by about 20% this year". The customer retention rate is an important input to the CLV model (5.3.3.2 c).

5.3.4 Use of CA Measures to Drive the Customer-Focused Strategy

The interviewees reveal at least three ways that Alphabank:PB has used financial CA measures to manage and monitor their customer-focused strategy. First, historical CPA identifies the variation of profitability between customer segments and monitors progress towards reducing that variation. Second, a forward-looking analysis mapping customer revenue growth against

customer age is used to justify the continued acquisition of a disproportionately large number of young customers. This could be classed as an investment decision, as long-term, positive returns have to be estimated and matched against initial negative cash flows (customer acquisition costs and operational losses in early years). Third, CPA and CLV measures of specific customer segments inform decisions about marketing strategies and also the control of costs-to-serve. These three specific uses of financial CA measures are explained below as is the need for caution when interpreting CA measures and the importance of non-financial CA measures.

5.3.4.1 Customer value decile analysis (CPA)

PBA says that the Alphabank:PB's 'value decile analysis' discloses the proportion of CP that is generated by the top 10% of customers and each subsequent 10% band, and shows the bank is sensitive to a very small pool of high value customers: "offset by a large pool of low value customers and cost eroding customers". PBA was initially reluctant to disclose specific figures, but after the researcher discussed the typical whale curve effects disclosed in the literature (Kaplan, 1989) he revealed the top 20% of customers generate 150% to 160% of total SBU profitability. Historically Alphabank:PB's key concern was that the average value of customers dropped pretty quickly, but this has significantly changed in recent years due to efforts to change the cost structure. SBU management realised they could probably not derive more value from the top 30% of customers and devised strategies to reduce costs-to-serve of loss-making customers. Some customers call the call centre 4 or 5 times a month and calls cost $6 each, so these become loss-making customers. A similar occurrence was reported by Treacy and Wiersema (1993) in relation to a financial brokerage firm with a customer intimacy strategy. The solution was to reorganise call centres to direct customers to the right team to deal appropriately with their call and use automated responses wherever possible (for example for account balance enquiries). High value customers would be identified and given a better level of service to ensure their satisfaction and retention. Alphabank:PB has now adopted a similar approach.

5.3.4.2 Investment Appraisal of the Youth Customer Segment

Customer segment analysis produced by the Alphabank:PB uses CA data to justify the continued investment in young customers. PBM argues:

"If we get better at what we do, if we keep more customers, if we build better relationships,

deepen our relationships, we talk about tenure and depth being our key metrics, then actually there's quite an up-lift possible, in terms of how much value we are extracting from our customer base".

The problem is the high acquisition costs of young customers together with likely losses on such customers in their early years with the bank. PBM needed to persuade executive management that continued investment in the youth sector was justified despite such investment having an adverse effect on short-term financial performance[12]. The way they did this was to use CA data to show the expected customer value that could be generated in the future if they made the investment in the youth sector now.

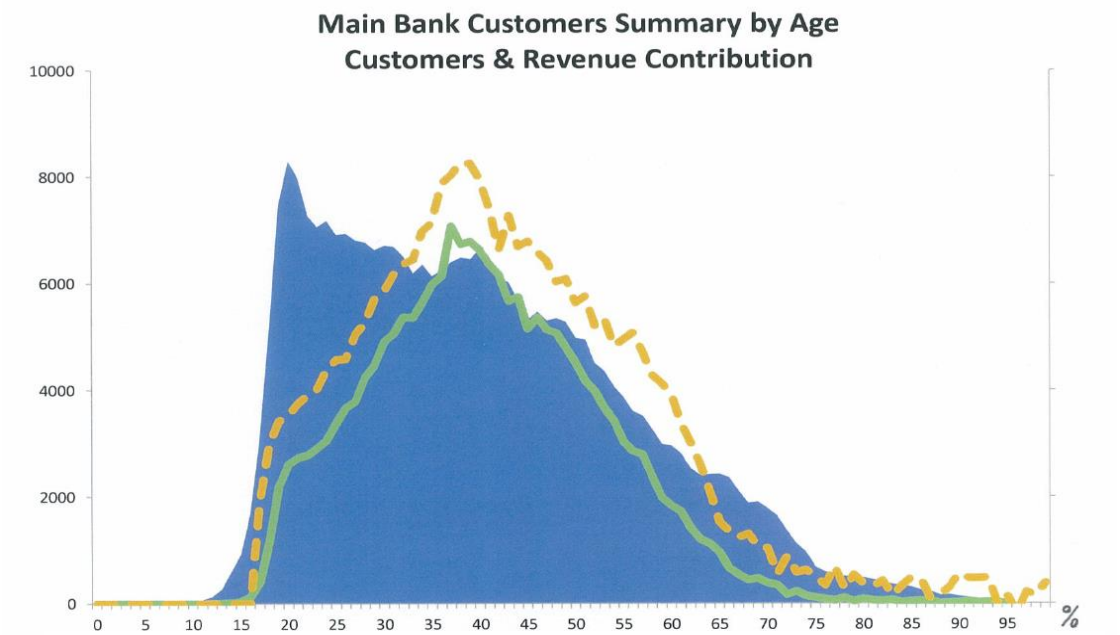

Figure 5.4: Graph of age profile of customer base and revenue uplift from CRM

- *Blue = Age distribution of customers – peak at 18 yrs.*
- *Green = Present annual revenue generated by each age group – peak at 38 yrs.*
- *Dotted yellow = Potential annual revenues if suitable CRM initiatives implemented.*

Figure 5.4 is a disguised version of a chart to convince the bank's executive management. The blue, shaded area represents a percentage basis age distribution of the customer base, a skewed distribution peaking at 18 years. The solid green line shows the annual revenue currently generated by customers of each age group and highlights the low level of revenues generated by 18 year olds and revenues rising with customer age. This peaks at about 38 years old. The dotted

[12] The bank would not disclose any actual figures to support this contention, but there is corroborating evidence for the likelihood of young current account customers initially being unprofitable. Kaplan and Cooper (1989) cite the Co-operative Bank case in which an ABC-based CPA disclosed that up to half of all current accounts were unprofitable. The most unprofitable were those with low balances and multiple transactions – typical of young customers.

yellow line shows the higher annual revenues expected if proposed CRM initiatives (the requested investment) were to be approved and implemented.

PBM explains the justification used,

> *"If you can keep these customers as they go through those key life stages, take more of their products and services with us, as they have those key needs at each life stage, then there is significant value to be unlocked over the next decade or so…we need to keep reminding our accountants and our sales force about why it is important to acquire at this young age even though we are not making a dime out of these guys, but in the long term they become valuable."*

PBM argues that CA analysis demonstrates: "a long-term view and what value is coming in the future if we stay the course, don't do stupid, short-term decisions when there is value there on the table in the long term." Alphabank:PB's approach to the youth sector is largely consistent with advice from Reichheld (1996) to "map out the whole lifecycle of a customer's interactions with the company and its products" (p.201) mentioned in the literature review (2.7.2).

5.3.4.3 Customer Segmentation Using CLV

PBM explains the benefit of the CLV,

> *"That [CLV measure] highlights where there is value in particular segments and therefore what we want to chase, where we will invest our marketing dollars, what channels we will use for those customers, what types of messages, what types of language we should use for those customers."*

Alphabank:PB initially needed to grow its customer base rapidly and any new customer was likely to make a positive contribution to fixed infrastructure costs. Now the SBU has passed 'minimum efficient scale' it needs to be more careful about customer acquisition and heed Mitchell's (2004) warning not to acquire low-profitability customers divested by other banks. PBM explains that CLV analysis helps answer questions like: "Should we be focusing on the customer that has $1.2m to invest in a term deposit or should we invest in a 24 year old who is saving up for a deposit on a house?"

A Specific Segmentation Example: Soloists and Delegators

Using CLV, Alphabank:PB has identified a distinction between identifiable customer groups (or extremes) which they call 'delegators' and 'soloists'. PBM describes Soloists as: "the rate shoppers, the 'rate tarts' that will heavily research on their own, and typically ring us and say 'X Bank are going to give me a 4.1% rate for 12 months, will you beat it?'" Therefore, soloists are the more savvy, price sensitive customers who do their own research and seek out the best deal. They are not particularly brand loyal and tend to be multi-relationship customers, with alternative suppliers for different banking needs. They are willing to switch suppliers to secure the most favourable terms.

Delegators are the opposite type of customers, with all customers positioned somewhere on a continuum between these two extremes. PBM elaborates: "We call them delegators because they are looking to delegate their [banking] problems to us". A delegator might have some money to invest and are unsure what to do with it. They are unwilling to undertake detailed research themselves and ring the bank for help. PBM argues: "If we can look after them [delegators] they will be brand loyal and will stick with us for years. These are the sort of customers who will tell their friends and family about you". This refers to the potential for delegators to bring additional value to the bank, over and above their direct profitability, through word of mouth recommendations that make other customers buy more or bring new customer acquisitions. Bauer and Hammerschmidt (2005) call this 'reference value', included as a specific variable in their CLV model and they criticise others for failing to integrate all relevant aspects of customer value into their CLV models. However, although Alphabank:PB is clearly aware of this potential 'reference value', it is not specifically included in their CLV model, presumably because it is particularly hard to estimate with any degree of accuracy. Ryals and Knox (2005) highlight that many firms understate the value of customers because they ignore the potential benefit of word of mouth recommendations, including the fact that they reduce acquisition costs. Jones and Sasser (1995) describe 'loyalists' as customers that are completely satisfied and consequently keep coming back to buy more products or services from the firm. Such customers are easy and cheap to serve and hence highly profitable. They call one particular type of loyalist customers 'apostles', because their experience of the firm exceeds their expectations and hence they are so satisfied that they share their favourable opinions with others.

Alphabank:PB's customer segmentation exercise has uncovered some key distinctions between customers and the potential effect they have on customer value. PBM says:

> *"The CLV calculations confirm that delegators are the ones to go after. You will then see that translate into…we will anchor our marketing messages around 'we're here to help, call us today, ready and waiting', those types of messages, because we want that to pitch at the delegators".*

Consequently, the calculation of CLV for customer segments informs marketing strategy in relation to which type of customers to target and what marketing messages to use. In particular, Alphabank:PB avoids spending a disproportionate amount of time and effort (and hence cost) on acquiring 'low value' customers (like soloists) who are unlikely to become loyal, long-term customers. PBM explains,

> *"There is no point offering a lot of goodies to a soloist,..it's going to cost us two thousand bucks to onboard the customer and they are going to leave in 12 months, when the next good deal comes along from someone else."*

5.3.4.4 Need for caution when using CA measures to manage strategy

PBM cautions historical CP may not be a reliable basis for predicting future customer value. Customers may presently be profitable (using measures like percentage return on sales) because they pay high fees. However, if they earn a relatively low income and do not want a home loan in the foreseeable future they are profitable, but not potentially high value customers. Hence it would be inappropriate to offer them the level of service designed for high value customers, in fact "they don't want to hear all these things that we want to talk to them about, they're not interested in that at all." PBM explains that "they actually are more anxious about getting through to someone quickly, [someone] who can help them with their problem there and then, that day, to get it sorted by nine o'clock that night, and so they want a quick, fast, efficient service."

Similarly, he says, "if we were just using a profitability measure and the absence of anything else, we wouldn't treat the million-dollar term deposit customer any differently. But, of course, that's not the right way to look at it". This is because the interest paid on the term deposit is simply a cost and CP would ignore the benefit gained from being able to lend more to home loan

customers. Therefore, there are a number of qualitative factors that have to be considered when classifying customers as high value or otherwise, and one cannot depend exclusively on financial CA measures, even the forward-looking measures like CLV.

5.3.4.5 The Importance of Non-Financial CA Measures

As Alphabank:PB grows in size and maturity they become more of a threat to 'the big banks' who therefore take notice and retaliate. Previously, the customers Alphabank:PB was 'stealing' from 'the big banks' were customers from lower socio-demographic groups, who are low value. Hence, 'the big banks' were not bothered about losing them. But that changed about two years ago. PBM says: "the other banks started to sit up and take notice, and actually [said] "these guys are taking customers that we now don't want to lose".' Therefore 'the big banks' started to retaliate and this effectively increased the competitiveness in the market for Alphabank:PB. As PBM describes it:

> *"There was a lot of switching and a lot of deals being made, a lot of cash being thrown around, and so it was only really at the beginning of last year that we started to sit up and say, right we actually need to be much better at managing our retention".*

PBM explains that previously for customer acquisitions "it was a sort of push factor rather than a pull factor", but more recently Alphabank:PB's CS levels started dipping because "the other banks started smartening up their act". Consequently, Alphabank:PB "had a bit of a leaky bucket" and needed to put more resources into retention and take appropriate action to stop losing valuable customers.

To ensure retention expenditure was properly focused, analysis was undertaken to establish two things: first, the general reasons why Alphabank:PB's CS levels were falling so they could halt the trend; second, the characteristics that predict which customers are "at higher risk of churn than the average and therefore we want to do something about it". Alphabank:PB discovered various areas of customer service must be improved to match the enhanced service levels provided by other banks, including call centre performance. Another finding was Alphabank:PB acquired customers through special promotions who after 'onboarding' were simply remaining as single 'needs met' customers, and such customers show no loyalty and have the highest propensity to defect, and may do so if Alphabank:PB has a service failure and/or another bank makes them a

good offer. Alphabank:PB needed to spend time following up newly acquired customers in order to cross-sell, meet more of their needs and 'lock them in'.

Alphabank:PB used their 'propensity model' to inform more proactive actions to avoid customer churn. PBM explains that "we also diverted some of our resources to actually just phoning our customers", particularly customers in the at-risk group. PBM says that we

> *"actually got on the phone to talk to those guys [customers at high risk of defection] to make sure we were checking in, what else we could be doing for them, how their accounts were going, any more help we could be providing, etcetera, etcetera. Which was the first time we'd really done that on any sort of concerted level."*

For customers with only a home loan with Alphabank:PB, a key 'trigger' was simply that the customer had recently called the contact centre after no calls in the previous six months. Analysis of historical data showed such isolated calls indicated a customer on the verge of defecting. The analysis produced numerous other possible indicators (not disclosed to the researcher) of customers at high risk of defection and these were used to focus retention initiatives.

5.4 Alphabank Business Banking SBU

Alphabank:BB is younger and much smaller than Alphabank PB. It has just over 30,000 customers and accounts for about 25% of the bank's overall revenues. This section will first describe Alphabank:BB's strategy and competitive environment and its approach to segmentation by business sector. Then its own MCS and costing system will be described. The CA measures used by Alphabank:PB will be described next, followed by a detailed description of how these measures are used to drive the SBU's customer-focused strategy.

5.4.1 Strategy and Competitive Intensity

BBM explains that Alphabank:BB's target market is SME customers, and the focus is on becoming the business customer's main bank, because "that is the gateway to everything else". To become a customer's main bank Alphabank:BB must provide transactional banking and then the customer is likely to use them for other services, for example, financing commercial property or foreign exchange transactions. BBM says that the "point of entry" is not necessarily transactional banking and success in 'onboarding' a new customer depends on having a "good sales

conversation" and hence answering positively the question: "have I understood my customer's needs, do I understand what they are trying to do in a business?" (as per Kotler, 2003).

Alphabank:BB's strategy involves limiting complexity and risk with the proxy measure used being turnover (sales). So the main target market is SMEs of up to $20 million turnover. Larger companies are only acquired if their needs are "within business banking's capability" and not too complex. Alphabank:BB does have "a handful" of bigger business customers, but their main target remains the SME market. BBM explains their internal "catchphrase" for their target customers is "make, sell and serve…so businesses that manufacture, sell a product or provide a service". They therefore have a focus on trading businesses rather than investment or construction businesses and follow the customer concept of marketing management and focus on individual customers. Thus, after assessing customer needs, they deliver a "tailored proposal" to new customers. BBM contrasts Alphabank:BB's approach with that of 'the big banks', who use the marketing concept and focus on groups of customers in different customer segments. He says: "for us, we treat it as one because we're a relatively small bank". Hence it appears to be their small size that enable them to apply the customer concept. BBM goes on to say: "it's about being customer intimate…we're not prejudging what you [the customer] might need based on your industry type."

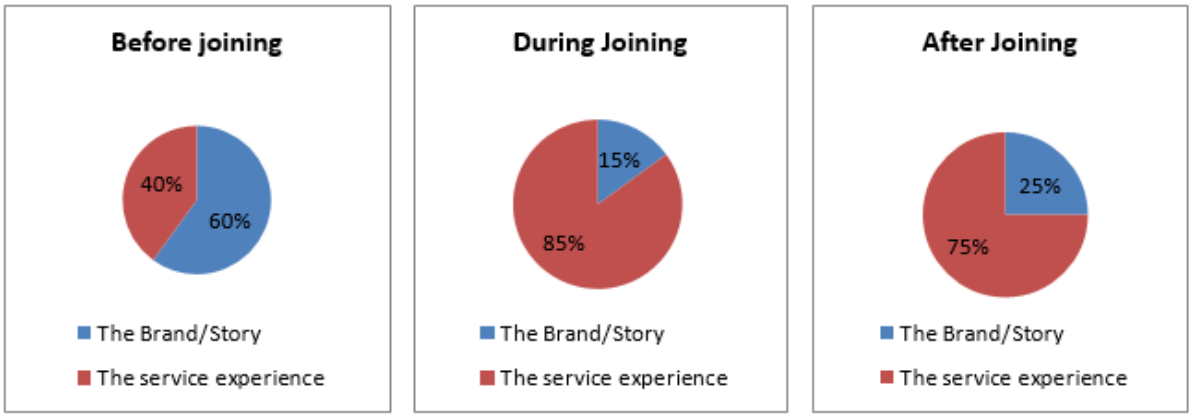

Figure 5.5: Importance of order winning criteria, before, during and after joining

BBM thinks the key order winning criterion is the Alphabank brand, which was initially built up by the success of Alphabank:PB. BBM argues that once potential customers realise there is a business banking division they merely need convincing that Alphabank:BB have "credibility". BBM says that new customers "love the story" and "they want to support a (national) bank...[because] there is a lot of emotional buy-in there".

Figure 5.5 is a simplified version of analysis conducted by Alphabank:BB to establish customers' order winning and order qualifying criteria at different stages of the 'onboarding' process. BBM claims that "It's the first time I've ever seen anyone actually map this properly, a lot of organisations talk about it, but they never actually have empirical data underneath it." Feedback from customer surveys was used to analyse the importance of customer's prior awareness of Alphabank:BB's brand compared to 'the service experience'. Before joining, new customers put much greater emphasis (60%) on their opinion of the strength of the brand (particularly the bank being customer-focused and likely to provide a good service, but also being a relatively new, nationally owned bank) than on what BBM calls "rational" criteria like price, product, service and location.

During the joining process, "ID collection, setting up legal entities, opening the products, transferring payment", Alphabank:BB must meet customer expectations and hence confirm their high opinion of the brand (or not). Thus they must "get it right, don't muck it up, do it quickly, keep me updated, keep me informed", so service experience becomes much more important (85%) and brand less important (15%). After three months, retained customers put more emphasis back onto the brand (ranking it at 25%) but nowhere near the 60% ranking given before joining. BBM explains, "While customers can be drawn in by the brand values and great staff culture, their expectations for service and capability quickly revert to basic bank hygiene and access to business experts."

BBM stresses the competition between banks for the larger customers is intense. He says of the large institutional customers: "these are fought over tooth and nail." So there is high competitive intensity for the large customers and BBM claims that: "the point here is about, yes, the profitability per customer grows as they get bigger, but your overall profit opportunity might be bigger in smaller customers". This explains Alphabank:BB's focus on the SME market.

5.4.2 Segmentation by Business Sector

BBM claims that turnover is considered a general proxy for complexity and risk and hence profitability, but this does not work across all customer types, hence a need for CPA. There are numerous factors that affect the nature of the relationship with different types of business and these are likely to affect costs-to-serve and profitability. Figure 5.6 below is a reproduction of a

diagram BBM used to demonstrate the differences and similarities between the customer segments in Alphabank:BB's portfolio. BBM describes customer needs in terms of three key dimensions: product, channel and relationship, and explains that product is "the nature of the products and services used", channel is "how I transact day-to-day" and relationship is "what you [the customer] require from interaction in terms of advice and support from the bank."

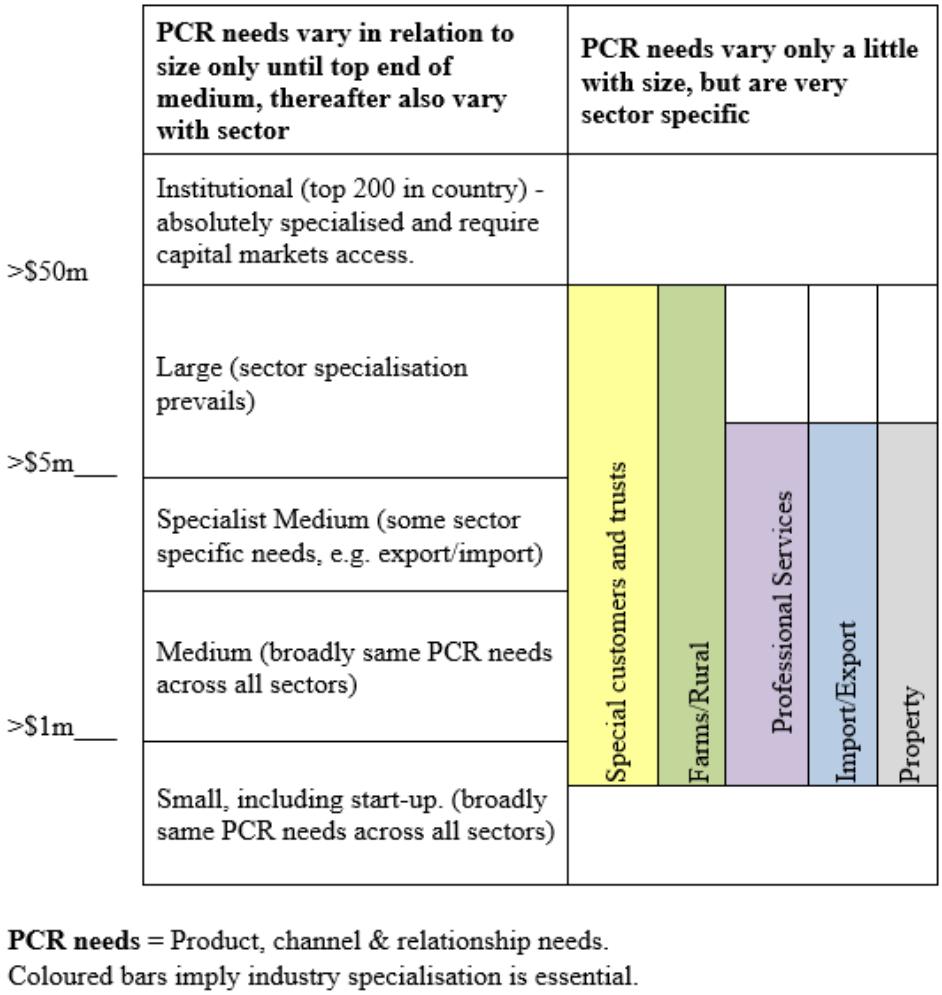

Figure 5.6: The product, channel and relationship needs in Alphabank:BB

BBM describes Alphabank:BB's three business banking channels as follows:

- Store (or branch) - mainly for transactional activities.
- Telephone:
  - There is a pool-managed telephony team that is non-relationship based and "deals with the bulk of the customers for their day-to-day interactions." For small, low complexity customers this may be the only channel they use.
  - Relationship managed over the phone by named relationship managers, each with

a portfolio of customers. For "slightly more complex customers with more complex needs."

- Face-to-face (CRM):
  - Generalist business bankers, based in regional offices. They deal with medium-sized, medium-complexity businesses and will visit customers at their own offices.
  - The commercial banking and property team deal with large, high complexity customers. These staff are highly specialist and based in the main centres.

BBM explains that the above channels are used for reporting purposes "because that's about customer interactions and productivity" and reporting by channel covers service standards, costs-to-serve and profitability.

For the majority of SMEs, customer needs change with size, hence the categories small, medium, large and institutional on the y axis in figure 5.6. For smaller businesses, having employees considerably changes banking needs, but if they do, whatever their type, small businesses (up to $1m annual turnover) and non-specialist medium businesses (between $1m and $5m turnover) have similar product, channel and relationship needs. At the upper end of medium there may be some sector specific needs (importing and exporting require special banking needs). For large businesses (above $5m turnover) sector specialisation prevails and for the very large (above $50m turnover) and institutional businesses it is entirely sector specific for example, the banking needs of a telecommunications company differ considerably from the needs of a power company).

However, certain sectors are exceptions to 'these rules' and size does not matter, because over a large size range there are specific, specialist banking needs for all businesses in that sector. Therefore, Alphabank:BB does not segment their customers merely by size and BBM says:

> *"We want to carve out by the sector, because their need is different [to businesses in other sectors] and therefore the way you serve them, your product set, your channels and your relationship looks pretty similar all the way through [the size range]."*

For example, retailing and farming operate on weekly and annual business cycles respectively and hence have very different banking needs. Thus, even small businesses in these special sectors need sector specific banking advice and a specialist relationship manager.

Although figure 5.6 is only indicative (full details not supplied because of their sensitive nature), however, there are clearly a variety of factors that influence an individual customer's product, channel and relationship needs. In particular, there are sector specific needs such that relationships between (say) size of customer and costs-to-serve may vary considerably from sector to sector. This makes the ability to measure CP essential.

5.4.3 MCS and Costing System

Alphabank:BB has developed its own costing system to measure segment profitability. BBM says that 80% of costs are channel costs "and the bulk of that's made up of our salespeople in those channels." These costs are traced to processes (or activities) using ABC principles. A high degree of accuracy is not necessary as BBM says: "I don't mean down to the nth degree of detail, but by key process like 'onboarding' a customer, making a loan, opening a deposit account, change a mandate on an account." Accuracy is sufficient to establish unit costs for key processes and hence attribute costs to customers (products or channels) based on the activities they cause.

The remaining 20% of costs relate to IT, risk, finance, and management overheads. BBM says: "we've done a lot of work to understand where our people spend their time, so that's survey [of staff activities] and activity based." Typical allocation bases include: IT system costs by "number of accounts on the platform" and marketing costs "per customer". Although a full cost model, BBM explains that the split between direct and indirect costs is maintained so that customer and product contribution to shared fixed costs are attainable. However, CPA is based on full cost figures, including the central service costs allocated to SBUs. Appropriate cost drivers are used to determine that 25% of central IT costs and 15% of risk management costs are allocated to Alphabank:BB. for example, total IT costs associated with the bank's core platform, which holds all customer accounts, are allocated on the basis of number of customers. Some central service costs are direct costs in relation to SBUs, for example, marketing costs are direct costs because: "We know exactly what [proportion of] the marketing budget has been spent on business [banking]".

Alphabank:BB's central finance team are involved in the design. BBM says: "You can argue over these allocations, and indeed in going through them with finance I would argue some are a bit high, some are a bit low, the net position across the board's about right though". There are some

relatively crude allocations, for example, "for legal, we just take a percentage share" using segmental income as the allocation base (thus: an 'ability to bear' basis). However, staff surveys (or time and motion studies) of what front-line staff spend their time doing are used to estimate cost allocations, hence the costing system is designed using ABC methodology and is reasonably sophisticated.

The new ABC system is much more detailed than previous systems, particularly in relation to the extent of granularity it provides and hence its capability to support profitability analyses. Figure 5.7 is one of the slides used by system developers in training sessions to explain the design and capabilities of the ABC model. As the model is based on data at individual account and customer level it provides the flexibility to analyse profitability across any desired sector and provides attention directing information relevant to several management decision making areas. Its use in relation to CA practices is explained in the next section.

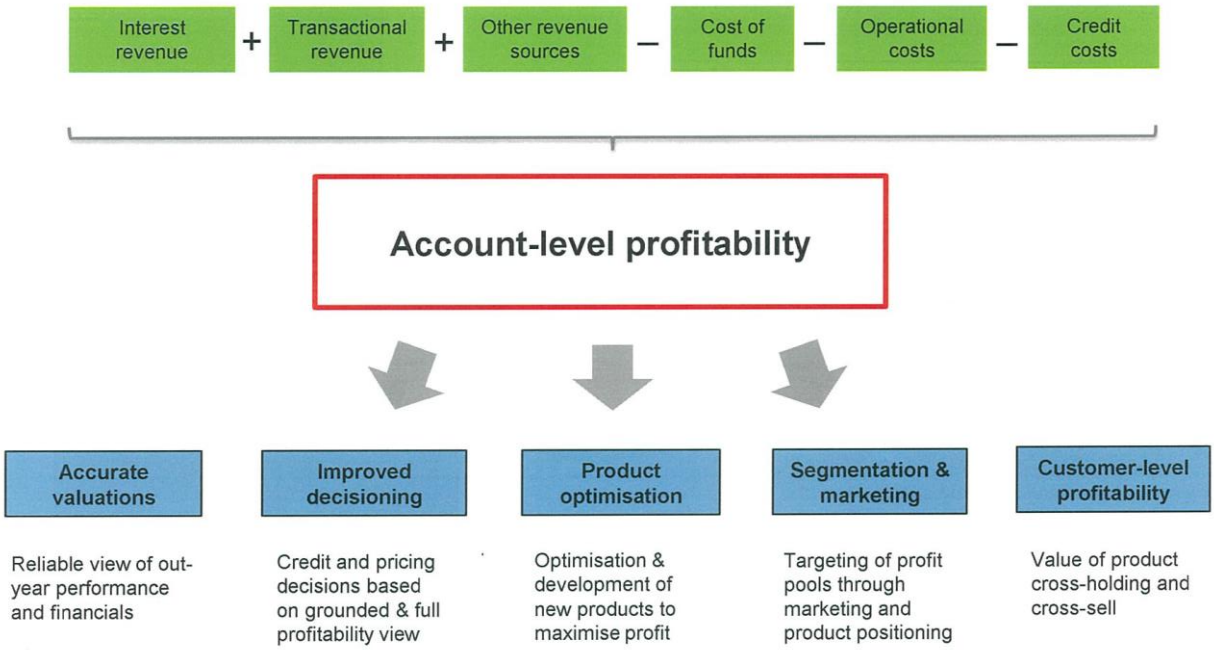

Figure 5.7: Alphabank:BB's costing system – account level profitability

5.4.4 The CA measures Used by Alphabank:BB

Both financial and non-financial CA measures are used within Alphabank:BB, as described in the next two sub-sections.

5.4.4.1 Financial CA Measures

a) Revenues

Sometimes the simplest of CA measures (namely revenues) can be extremely important. In some Alphabank:BB sectors the level of income is a key driver of profitability and a small number of customers contribute a large proportion of the total income. The strict 80/20 Pareto rule does not apply to Alphabank:BB, perhaps because, being a relatively new market entrant, they targeted SMEs and have acquired a large number of small businesses that 'the big banks' are not interested in because they are not high value. Hence the bottom 30% of customers by income contribute less than $100,000 income. However, Alphabank:BB has a few very large customers which skew the income distribution, so the top 10% of customers by income contribute 80% of total income, as depicted to figure 5.8 below.

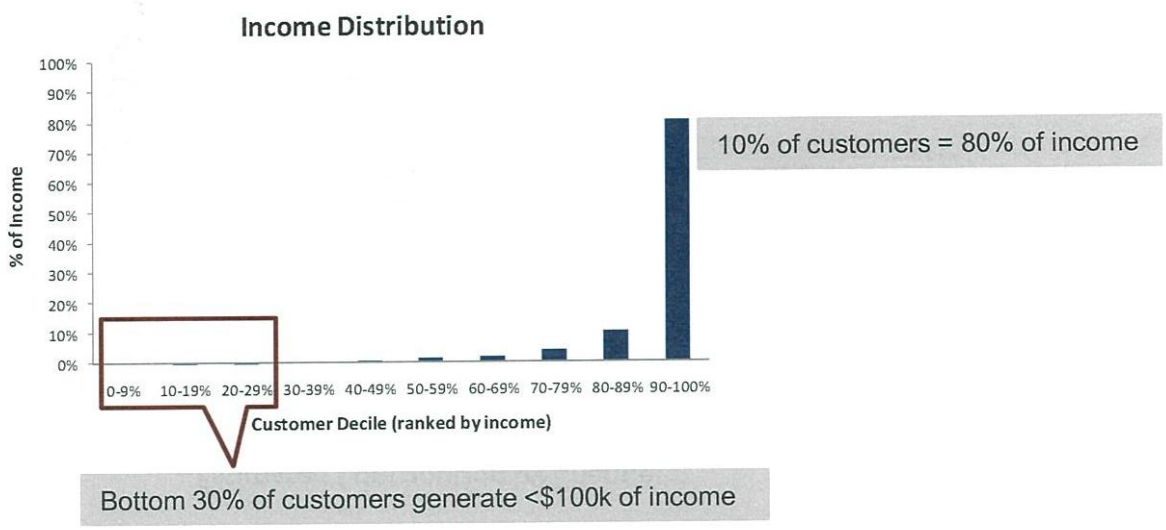

Figure 5.8: Alphabank:BB's costing system – income distribution

b) Historical CPA

To date Alphabank:BB only measure historical CP and have not yet developed a CLV model. CP is measured on a full basis, using ABC principles to determine unit costs and enable a flexible costing model to be built (see figure 5.7 above). As there is no bank-wide ABC system, the CPA has been designed locally, at SBU level, with only limited involvement of the central finance team to determine the allocation of shared service costs. The profitability model is still under development, but BBM says: "the income stuff is built, we're just working our way through the risk stuff". So the profitability model will include risk costs based on: "a whole bunch of data we

use for risk modelling…just go and pick the risk cost and whack [allocate] that against the customer." Moreover, BBM explains that the SBU holds the information at account level (customer level) and therefore:

> *"You can pretty much cut and dice the whole thing any way we want…I've got account level profitability, I've got channel profitability, I've got product profitability, but critically, I've got customer profitability and I can add that to any group of customers."*

Meaning BBM is able to see individual CP and also aggregate up to CP across various sectors (CSPA).

Examples of the model's capabilities were shown to the researcher. A typical analysis of channel profitability is shown in figure 5.9 below. In this example there was no allocation of shared service costs and hence the result is an analysis of contribution by alternative channels

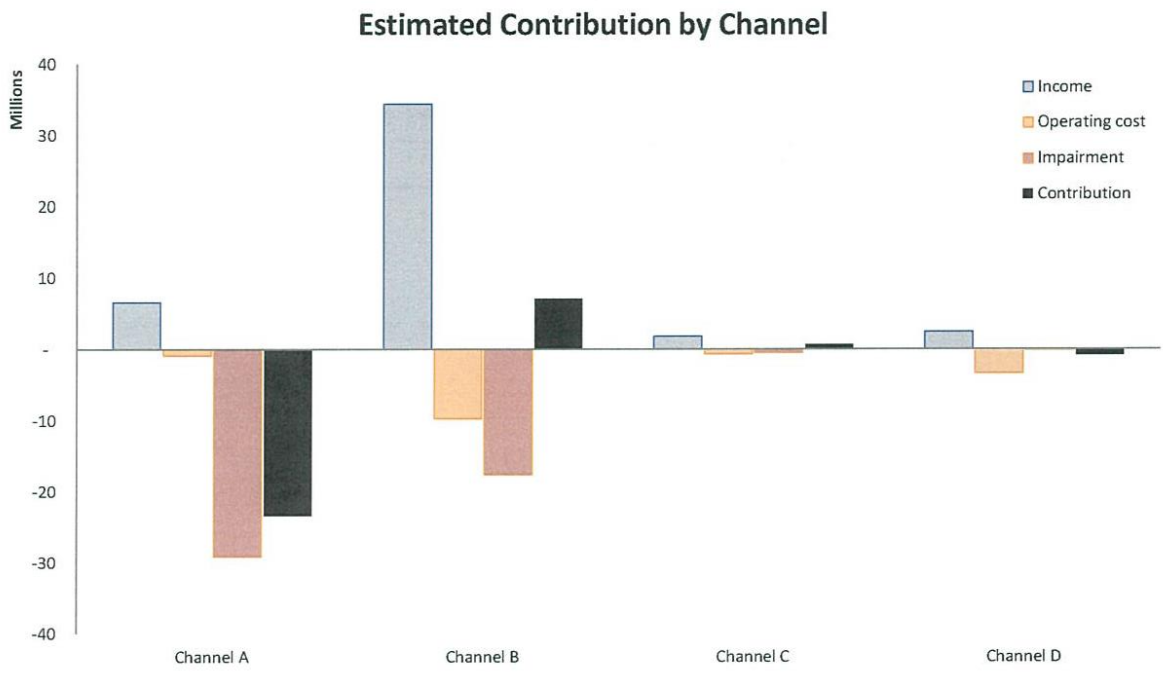

Figure 5.9: Alphabank:BB. Example output from ABC profitability model

Currently, CPA is only reported locally (at SBU level) or on an ad hoc basis to board level to support specific initiatives. In the future (within 18 months) BBM expects a fully developed costing system able to measure, for example, the incremental profit impact of customer acquisitions and defections.

c) Reconciliations of local CPA measures to general ledger

BBM says that Alphabank:BB's CPA measures are "more accurate than what finance are doing" and argues that his figures are based on actual net interest income (NII) on customer accounts, but because certain products are shared across the bank, finance use "an allocation methodology" to allocate net interest income on those products to business units. BBM makes a similar argument for fee income and says:

> *"So we know ours is actually technically more accurate than what's in the general ledger, because it's what customers got charged, whereas what's in the general ledger by business unit is based on an allocation methodology to allocate the product fee out to the different business units based on number of customers. So it's less accurate".*

When asked about 'reconciliations' BBM says:

> *"We've reconciled them. They don't match, but that's okay. We know where the differences are and why, that's reconciliation. And actually in some ways they're more accurate and others they're less accurate and so that's fine."*

BBM cautions that full cost CA measures have to be treated with caution, saying: "in the context of drilling it right down it becomes less accurate, and if you don't understand the size of the error bar you can make some really duff decisions." He is stressing that data is relative rather than absolute. ABC cost drivers are averages, so outputs for a single customer or a small cohort of customers may be inaccurate. This problem is inevitable with full cost systems, even with ABC methodology, and outputs should be treated as 'attention directing' (Drury 2009). However, in the present case, this issue also relates to Alphabank:BB's stage of development and an underdeveloped costing system, particularly with respect to shared services costs (such as finance and HR). Consequently, BBM takes pains to caution managers that CPA must be treated as "directional" as demonstrated by figure 5.10 below, which was used at Alphabank:BB to inform staff about the current capabilities of the new ABC system.

The ABC model is being further developed and will become more accurate. For example, each channel's operational costs are currently averaged across the number of customers using that channel, regardless of the specific level of usage of individual customers. Contrast this with Alphabank:PB, where costing includes the actual number of times individual customers contact

the call centre and hence costs are traced to individual customers much more accurately (not based on average activity levels).

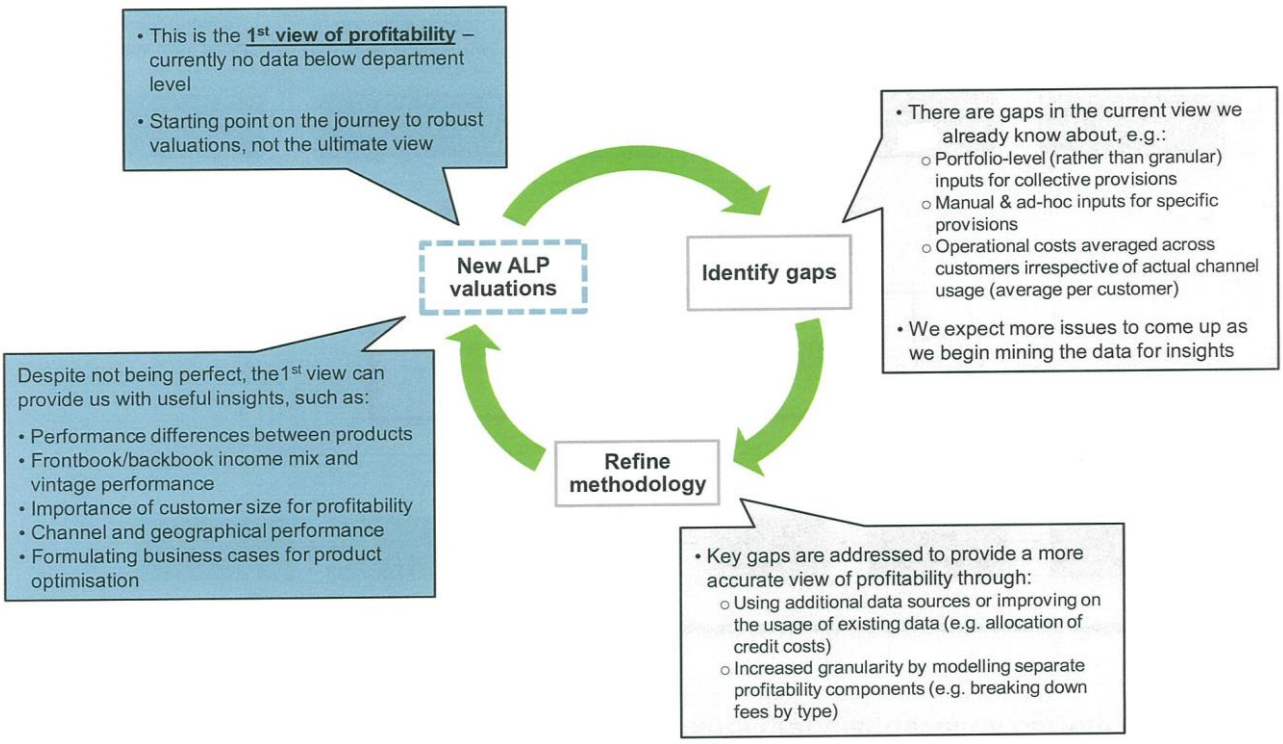

Figure 5.10: Alphabank:BB – Stage of development of ABC profitability model

d) Customer acquisition expenditure

Regarding customer acquisition expenditure, BBM explains that the unit costs of 'onboarding' a customer include "the wasted time of the ones we don't get", thus the figure does seem high. However, justification is no problem because Alphabank:BB is "in a growth mode" and "if once a customer is 'onboard' they are profitable, then that's actually ok from my perspective at this point in our lifecycle." He says: "if customer acquisition [cost] per unit became an astronomical number we'd obviously have to revisit that view", but at present most of the costs are channel costs, and currently considered sunk. BBM says that Alphabank:BB is still "sub-scale" and "at the moment I've got this channel sitting there…[and I need to] just keep filling it up." Further he argues: "I'm reducing the operating costs for every other customer I've got on the book for everyone I add. So I don't get too worried about that [acquisition costs]. I'll start to worry about that in three years' time". BBM cannot quote the rate, but knows that a high proportion of acquisitions are made through the branch network highlighting the importance of maintaining a branch network despite the availability of alternative channels.

e) Further development and future use of CPA

BBM believes that the fully developed CPA "will be really useful, over time. This will enable those shorter term conversations to have more customer detail in them and it'll enable empirical evidence to sit behind those longer term conversations." He says: "at the moment it tends to be about the leading indicators of profitability rather than the profitability itself." Alphabank:BB knows that customers with three 'needs met' are "more sticky" and therefore more profitable than customers with only one or two 'needs met'. Within Alphabank:BB they do not know the specific profitability numbers yet, only the general 'drivers'. Once CPA is fully developed it will provide specific empirical evidence to back up their suspicions. Many of those 'drivers' are non-financial measures; this is discussed below.

5.4.4.2 Non-Financial CA Measures

a) Customer retention

BBM says that the attrition rate (rate of customer defections or account closures) is about 7% (that is, the number of business account closures per annum is 7% of the total number of customers). Moreover, approximately one third of that figure is "unavoidable churn" (through changes in the business environment, for example, business sales) and "regretted loses" is only two thirds. BBM is "really comfortable with that run rate" and claims that although it is a very hard number to benchmark "we're probably best in the market" on that measure.

To improve retention Alphabank:BB solicits customer feedback soon after customers complete a "significant interaction" with the bank. BBM describes this initiative as "voice feedback, which is quite unique". Within 24 hours of any significant interactions (not just a balance enquiry, but a transaction or a change of address) customers receive a text request for feedback. If customers agree they hear a message recorded by the head of Alphabank:BB (BBM's boss) asking them to rate service on a five-point scale and record some verbal feedback. Customers are requested to receive a call to discuss the feedback. Such feedback is used in staff training and BBM claims that it is more reliable than online surveys where: "they'll just have a rant…it's words, it's impersonal". Conversely, with recorded feedback:

> *"You've got the customer there. The feedback is really constructive because it's verbal. They're talking, you can hear the emotion in the voice....People don't have a rant when*

they're talking to the voice mail…you get the tone from the voice, not from the words."

Such feedback enables Alphabank:BB to measure NPS and to raise a "detractor alert" (a score of 1 to 3) details of which go to the channel where the incident occurred and, if permission was given, the customer is called back. The system has been in place for a year and BBM claims that "I don't think we've lost one [customer] yet from a detractor alert. Every single time we've rung 'em we nail it". Given the number of potential defections avoided BBM considers such retention expenditure worthwhile, saying "we've been able to use it in coaching conversations. I consider that [money] incredibly well spent."

Moreover, BBM explains that customers' dissatisfaction often relates to some "misunderstanding or miscommunication" and "we can solve it really quickly". He is enthusiastic about the initiative and claims that the retention expenditure shows a return on investment of "hundreds and something percent". He says:

"We call it the 'voice of the customer'. And it's all about being customer intimate. First you have to understand the experience they're having with you. Second you need to measure it. And third you need to actually feed that back to your frontline and actually coach and train based on that".

Alphabank:BB's approach here is clearly in line with recommendations by Jones and Sasser (1995) in respect of implementing an appropriate system for dealing with customer problems and measuring the impact of successful problem resolution. Jones and Sasser (1995) advise that with timely problem resolution the "customer's faith in the company is not just restored, it is deepened; and they become apostles" (p.96). Similarly, Alphabank:BB recognises the importance of highly trained frontline staff that listen effectively to customers and make amends when things go wrong, another Jones and Sasser (1995) recommendation. Through training, Alphabank:BB are giving frontline staff the authority and ability to take corrective action when things go wrong, and thus avoid defections (Reichheld 1996).

b) Net promoter score

Like Alphabank:PB (5.3.3), Alphabank:BB measures NPS, and links it to customer retention and service recovery successes (see above). At this stage in the study this was not pursued further, except as a measure on Alphabank:BB's BSC (see below), presumably as the measure used to

answer the question: "Do our customers like us?"

c) 'Needs met' and average product holding per customer

These measures are reported at SBU level but not at executive level. However, BBM believes that in future these measures will be included on the executive level BSC. Note that number of new accounts and new products sold per FTE employee are already reported on the main BSC.

5.4.4.3 Alphabank:BB's BSC

BBM explains that Alphabank:BB has a BSC which is "not quite Kaplan and Norton. I've bastardised it, but that's my remit". The BSC has a separate category for strategy achievement and four other categories covering: financial (8 measures), customer (6), operations (6), and people (4), with metrics for performance and growth within each perspective. He says: "as a business we run to that scorecard and we actually sit down with the board [Alphabank:EL] each month and have a conversation on that scorecard for our business unit". Reporting to the main board consists of the BSC "with a bit of commentary, a couple of pages" and also "a finance pack separate to that". The separate section for strategy was introduced when the bank's overall strategy was revised two years ago (shifting from product to customer focused) and the board became absolutely focused on "show us that your execution is bearing fruit". So the strategy category includes measures linked to the SBU's strategic goals, which BBM describes as: "all very big picture stuff and it's about diversification and growth".

In the customer category there are measures that answer the questions: Do our customers like us? Are they joining us? Are they leaving us? Are they complaining about us? How engaged and enabled are staff? How quickly are they leaving? (Including just leaving the department or leaving Alphabank completely).

In the operations category there are measures of operational effectiveness and productivity: Revenue per customer; Number of new accounts/products per FTE staff; Number of operational errors and number of operational incidents, and the losses associated with those.

In the financial category there are measures "straight out of the general ledger" with current month, year to date and some trends in: EBIT; Revenue; Bad debt; Operating cost; Asset and liability growth; NIM.

BBM says: "the [financial] customer accounting stuff doesn't really make it into there [monthly reporting] in a big way, but it's quite useful". He claims that revenue per FTE staff is a good indicator of CP. Moreover, BBM claims that once the CA system is mature enough, he wants 'needs met' and average product holding per customer in Alphabank:BB's BSC passed on to executive level. BBM says that the SBU's local BSC "has about another twenty measures on it" and a supporting spreadsheet "with about a hundred measures" explaining the scorecard measures which are thought to be "the key value drivers". He singles out NPS and measures that drive NPS, such as call centre performance measures, saying: "We've got all of that for the different parts of the bank that serve our customers". BBM believes there are very clear relationships and says: "we could see [if] service performance in the call centre was rubbish last month, okay our NPS is probably going to take a beating. Those relationships are pretty clear."

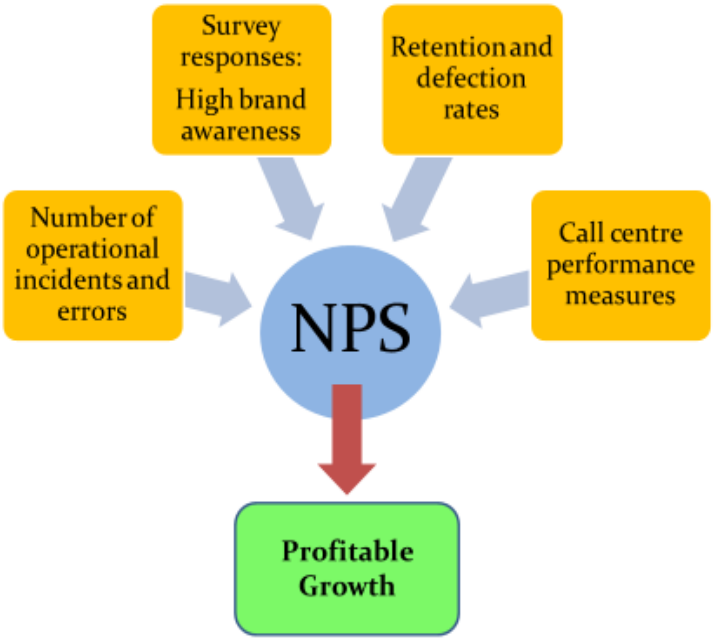

Figure 5.11: Alphabank:BB – Likely drivers of Net Promoter Score

In the absence of fully developed financial CA measures, Alphabank:BB relies on non-financial CA measures, some in the SBU-level BSC and supported by "a hundred" more. The focus is on non-financial measures, thought to be the "key value drivers", and a belief that improvement in these drives improved financial performance. There are some fairly clear relationships (for example, call centre performance will directly impact NPS), but given the large number of non-financial CA measures and limited development of financial CA measures, there remains a need to establish clearer cause-and-effect linkages. Some likely links between CS measures and NPS are shown in

figure 5.11 above. Clearly Alphabank:BB managers believe that improvement in NPS is the "path to sustainable profitable growth" (Reichheld, 2003, p.54).

5.4.5 Use of CA Measures to Drive the Customer-Focused Strategy

5.4.5.1 The Use of CPA and the Need for Caution

BBM explains that "profitability tends to be driven by [the] product mix that they [customers] use and that in turn has a whole bunch of attributes relating to it." For example, small businesses may have just a small overdraft and/or a credit card, have reasonable transaction volumes, but small deposits. BBM says:

> *"So they don't make you a lot of money, but if you can put them in a low touch channel and identify the ones that have growth potential, they're wonderful. They sit on your book, just like a retail customer, nice and sticky and you're making annuity income from them."*

Although not providing high revenue, they are little trouble, hence low costs-to-serve and highly profitable. In contrast, for institutional businesses, margins are low due to high CRM and hence costs-to-serve, making a large volume of business critical. BBM says:

> *"The products are commoditised, so they're low margin, you need to have a peer to peer relationship. Because of the scale you can make a reasonable return on them, but it's like being a large business-to-business supplier in any industry: you're in a competitive tender process, it's very, very competitive."*

These comments imply that such customers are high volume but low profitability due to competitive intensity.

Clearly, there are different needs, different costs-to-serve and different profitability by sector. Alphabank:BB can measure CP across different size segments and by distribution channel fairly accurately. However, the costing system is not developed enough to accurately measure profitability within the vertical sector segments in figure 5.6. BBM says:

> *"The beauty of the customer accounting…if you've got the granular view, if you're doing it bottom up rather than top down, you can take all those slices and play with them. So do we do that today? Only based on the stuff you've seen so far. It's to a limited degree and that's*

simply because we're still finalising the models and fine tuning the numbers and trying to get them right."

When discussing how CPA information is used to inform decisions, BBM stresses a need for caution:

"My big nervousness is people using them [the CPA] inappropriately, so it's about that granularity bit...you can use them really well to make relative profitability decisions about different segments, groups, channels. But in doing that you have to understand the holistic picture."

With respect to credit card customers who pay off their balance each month, BBM says:

"If you looked at that channel profitability graph and you didn't know anything else about the business you'd say, 'Close that channel because it doesn't make money.' Well you'll have just closed your general call centre for all your other customers and blown your business up completely."

5.4.5.2 Decision Making – Pricing

BBM expressed another general nervousness, applicable to the whole bank:

"If you think back to the brand and why Alphabank is here…it's here to give something for (the country's people), and we're very careful in things like our pricing policies to make sure they're accessible to everyone. So if we offer something to new customers, we offer it to existing [customers]. We don't do a lot of off rate card pricing for the simple reason that we don't believe that's the right thing."

His nervousness is the possibility that CPA:

"…could drive the business into becoming very different from that in terms of how it behaves...By getting off brand in terms of using it to make decisions that actually mean we segment, we segment, we segment, rather than saying: 'No actually we're here for everyone, we're going to give everyone a fair tap.' That's a risk…If I give the business these tools, is it going to shoot my beautiful brand in the foot?"

BBM is conscious of a need for fairness in Alphabank's pricing structures, not least because Alphabank was set up as a challenger bank to the big, overseas-owned, banks that had developed a reputation for poor treatment of customers in the interests of profit and SHV. The Alphabank

brand, based on a new bank specifically for the country's people, needs to be protected. Fair pricing and the same offers to all customers is an important part of the overall message to customers. It seems that Alphabank does not intend to take the use of analytics and CPA too far and risk the type of criticism made by Boyce (2000), who criticised the health insurance and banking industries for too much emphasis on the customer as an asset of the firm and for letting customer valuation become "a means to increase shareholder income and wealth, almost inevitably at the cost of (further) marginalising the poor and disadvantaged" (p.649).

5.4.5.3 Example of CPAs Direct Influence on SBU Strategy

Without specific numbers or product details (although presumably he was referring to a lending facility), BBM discusses how CPA is used to make mix decisions and influence strategy. A few years ago Alphabank:BB was loss-making overall because a particular distribution channel was: "making 18% of our income but it's contributing 70% of our loss". The channel contained complex customers who required commercial property lending. BBM disclosed CPA for four distribution channels which showed significant differences in profitability and one channel: "losing us money hand over fist." There was "cross subsidisation" as that channel provided 'general servicing' for all customers. BBM says: "so it's carrying an overhead for the rest of them. So you've got to know that business context." Hence, he stressed that CPA must be treated with caution and 'interpreted' by managers who knew the context. Therefore, the CPA was not considered precise, but treated as "directional", and accurate enough to identify the problem areas that needed management attention.

In this case 'directional' CPA was used to predict what could be achieved if the problems were solved. As BBM put it:

> *"From a business strategy perspective, what's the size of the prize? Based on industry benchmarking, what should the loss rate for the profile of customer you would target in that line of business be? And applying that, leaving all the other factors the same, what's the opportunity if we get that right?"*

Getting it right involved not "getting into business that you don't have the capacity to do" and instead exercising effective "risk management, targeting the right customers". What BBM described was an ad hoc CLV-type calculation, based on historical CPA, and built up "from a very

granular level, so we could be rock solid on that number [the prize]. That wasn't a 'we think it's about here' that was a 'you've got at least this much."

To achieve "the prize", drastic action was taken, including firing customers. This particular portfolio was closed for new business and staff that "weren't up to the job" were moved and "we ran about 50% of that portfolio off, so that involved some quite intensive management practice", meaning that Alphabank:BB had to go through recovery (liquidation) with respect to those customers that were in "a non-payment situation". It was only by applying "completely different sorts of risk policies and with a new team of people with different capability that we've reopened that for business." BBM concluded, "that's a strategy decision we took directly as a result of applying customer accounting practices." This situation is relatively unique to banking (but possibly also relevant to insurance), caused by inability to assess the risk of the loans or customers taken into this portfolio. Initially they would look profitable, but the risk of longer-term default was not accurately estimated. Historic CPA led to institutional learning and a change in strategy, justified by some ad hoc forward-looking profitability measures.

5.4.5.4 Decision Making – Keep/Fire Customers

Inevitably, some customers 'onboarded' through other products (not transactional banking) do not subsequently adopt Alphabank:BB as their 'main bank'. In such cases Alphabank:BB have to decide: "Is it worth the effort…is this a commercially viable thing for us to be doing as a standalone product?" The answer, based on historical CP, could be yes or no, but BBM says that because Alphabank:BB is still "in a growth phase" it "has not had a lot of those conversations yet". The possibility of 'firing' a customer due to low historical CP is real, but Alphabank:BB may offer to continue the customer relationship on the basis of 'normal commercial terms' (full price). If the customer was not willing to pay 'normal commercial terms' the parties would "cease to trade together" because there would be no point discounting a single product for a customer that did not fit with Alphabank:BB's strategy of being customer intimate and offering a relationship-led proposition, which includes becoming a 'main bank' customer.

With respect to 'firing' customers, BBM again stresses the need for caution when interpreting CPA, because it is based on full cost information. He discusses the example of a portfolio of credit card customers who "pay us in full every month, [so] we can't earn any interest. It's very difficult to make a profit on that." But firing such customers sends the market a message that this

segment is not welcome and profitable credit card customers (who do not pay off their balance in full every month) may defect. Moreover, credit card customers that are unprofitable when considered on a full cost basis, do share the costs of services, like call centres, which are sunk costs during Alphabank:BB's current growth phase and would therefore not reduce if unprofitable credit card customers were fired.

5.4.5.5 Stage of Development and Use of Analytics

BBM observes, "I've only ever seen analytics make a business smaller and more profitable, I've never seen it make it bigger". He is making the point that you can use analytics to trim away the loss making and less profitable aspects of the business and: "what you end up doing is whittling down to the very profitable core." As Alphabank:BB is still in a growth phase: "you take the good with the bad…and then worry about managing it afterwards". BBM is therefore ensuring the performance measurement infrastructure is in place, but he argues that you:

> *"Don't get too worried about the absolute profitability, because actually our measures aren't that accurate anyway. Start using the tools to drive some decisions and inform us, but don't die in a ditch over it. The most important thing is that we're serving a customer well and we're billing them a fair price for it and that we're doing a good job. And if you do those things well the rest will generally follow."*

5.5 Case One: Analysis

The Alphabank case has presented an opportunity to investigate the use of CA practices within three embedded units of analysis (Yin, 2014), and compare and contrast CA usage in the light of the contingency-based framework set up in chapter three. Each sub-unit will be reviewed in turn before drawing some general conclusions about case one overall.

5.5.1 Alphabank:EL

Considering Alphabank as a whole, and particularly at executive level, the overall bank does have a customer-focused strategy. Alphabank:EL was specifically set up as a challenger bank to 'the big banks', particularly the foreign owned banks, which had developed a reputation for their impersonal nature and generally poor customer service. Alphabank:EL adopted a differentiation strategy and claim (in their parent company's annual report) to be placing customer experience

and expectations at the centre of how they do business. Although hierarchical in structure, with centralised overall control (including weekly executive level BSC meetings) a considerable amount of autonomy is devolved to SBUs, although major strategic initiatives (for example, investment in the youth sector) do require executive level authorisation. The organisational structure is therefore observed to be neither entirely mechanistic nor organic (Burns & Stalker, 1961), and therefore is classified as 'mixed' in nature.

Alphabank:EL was able to 'fly under the radar' and not be noticed too much by 'the big banks' for a number of years, but now Alphabank:EL are a competitive threat and 'the big banks' have "upped their game", provide better customer service and are stealing back customers. Competitive intensity is therefore considered high, as evidenced by the generally high propensity of customers to switch. ICT is considered to be generally under-developed at the executive level. They do not have a firm wide ABC system, nor the capability to hold customer level information in their general ledger. Hence, they presently only report 'whole of company' information, and SBU and product profitability at executive level, and there are no CA measures currently reported at that level of the bank. Alphabank:EL has now been in operation for over 12 years and although this is very young compared to some of its competitors, the bank has been profitable for some years, has reached efficient economic scale (particularly in respect of its largest SBU, (Alphabank:PB) and is therefore considered 'middle aged' in the context of this study.

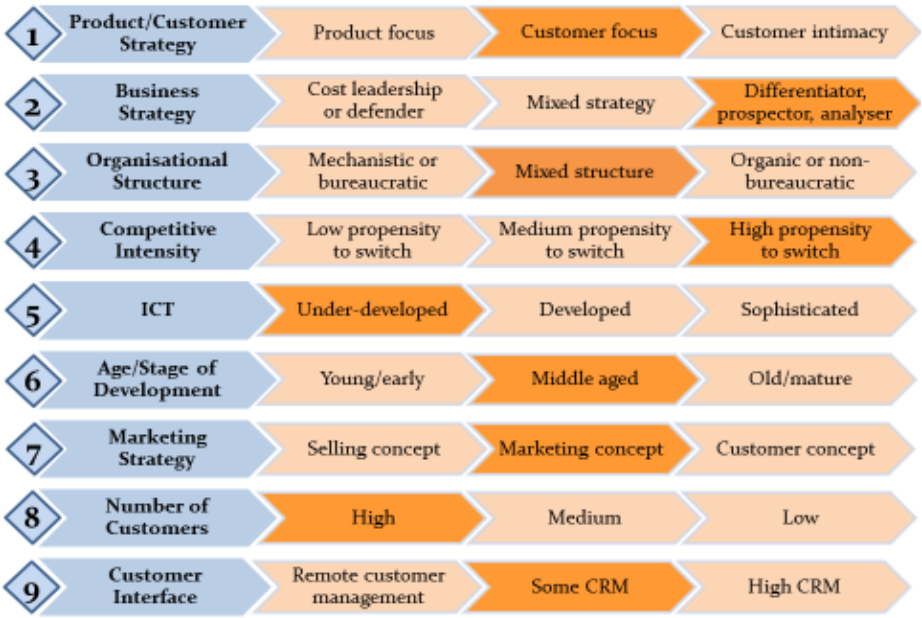

Figure 5.12: Alphabank – Executive level – Factors influencing CA highlighted

Overall, the marketing concept of marketing strategy predominates (focusing marketing

activities mainly on customer groups, rather than individual products or customers) and this is related to the high number of customers served (above 800,000). There are various segments in the customer base and for some customer segments CRM is used, but this is only in relation to high value personal customers and the larger business customers. Hence there is only 'some CRM' as the majority of personal banking customers and small business customers are largely managed remotely (through online, telephone and branch channels). These key characteristics are highlighted in figure 5.12.

Despite its differentiated and customer-focused strategy, Alphabank:EL does not currently use CA practices at executive level. Regular reporting is on the basis of whole of business, aggregated figures, plus segmental reporting based on SBUs and product groups. It might be expected that the high competitive intensity generally faced by the bank, as evidenced by a relatively high propensity of customers to switch supplier, would trigger the use of CA practices (Guilding & McManus 2002, 2009) and the use of the marketing concept (Kotler, 2003) would require the use of CSPA, but this is not the case at Alphabank:EL. CPAIC would not be expected because of the high number of customers and the absence of a high level of CRM. The CFO cited inadequacy of IT systems as a key reason for the lack of development of either an ABC or a CPA system, a finding consistent with McManus and Guilding (2009). However, other possible reasons might be that the accountants are nervous about placing reliance on the subjective, hard to verify measures produced by non-accountants (Andon et al., 2001) and that accountants' inbuilt conservatism make them reluctant to utilise these more creative and judgement-based, forward-looking measures (Gleaves et al., 2008). There is evidence for this at Alphabank:EL, with pressure from the strategy team to include financial CA measures in the executive level BSC and some discussion of the need for non-financial CA measures (such as NPS). The CFO appears uncertain about what such measures indicate and how they can be 'verified'. There is also concern that executives are only familiar with the monitoring of actual financial results against plan, and CFO describes "an education process" with "the strategy guys…trying to bring the executive team along". Perhaps linked to the under-developed ICT systems is the fact that Alphabank:EL is only just over 12 years old and barely 'middle aged' and certainly not mature in respect of its stage of development. The CFO did discuss plans for system replacement "and part of that will be around customer reporting, profitability". Hence stage of development of the firm and inadequate ICT seem to be the key barriers to more CA development at executive level.

5.5.2 Alphabank:PB

Alphabank:PB clearly shifted from a product-focus to a customer-focus, around two years ago, in order to offer appropriate service for customers who "wanted to have multiple products and services with us" (PBM). The whole of personal banking operations, including back-office functions, was rearranged with a clear customer focus. Such a change in focus would be expected to trigger a desire to switch from PPA to CPA (Kaplan and Cooper, 1998). Alphabank:PB has a customer-focused strategy and differentiates itself from 'the big banks' as being a national bank (not foreign owned), much smaller than the competition and able to offer superior customer service. Although Alphabank has a hierarchical structure, SBUs appear to have a fair amount of autonomy. For example, they are able to design their own costing and analytics systems. The organisational structure is therefore classified as mixed. The competitive intensity faced by Alphabank:PB has increased as they have grown (to a market share above 10%) and now 'the big banks' have recognised the threat and "are stepping up their game" because "they are sick of losing customers to us" (PBM). Thus, the intense competition faced is reflected in customer churn (defection rates) of nearly 9% per annum.

Alphabank:PB has developed a local costing system based on ABC full cost, which is relatively sophisticated and can calculate CP at the individual customer level. Alphabank:PB has existed since the bank's foundation and is therefore classed as middle aged, as it has reached an efficient scale but is not yet in a mature stage of development. Alphabank:PB has a high number of customers (over 600,000) and adopts the marketing concept of marketing strategy with a focus on customer groups. The large customer base means that the customer interface is generally one of remote customer management, with CRM only used for a few high value, personal banking customers. These key characteristics are highlighted in figure 5.13.

Within Alphabank:PB, the revenue derived from various customer groups is regularly reported. More sophisticated financial CA measures are reported on an ad hoc basis. CSPA may be reported every 6 months or annually, and is not considered to be needed more frequently as the trends disclosed do not change significantly in the short term. PBM explains that changes in market conditions (such as new restrictions on home loan borrowing) do trigger the need for a new CPA exercise, thus indicating that the external environment, and particularly intensity of competition, is a contingent factor driving the need for financial CA. Moreover, the Alphabank:PB case

demonstrates that a change in competitive intensity may drive the need for non-financial CA measures as the rise in propensity to defect has triggered more careful monitoring of CS measures and the need for preventative action to avoid defections (5.3.3.3). Thus an increase in the propensity to switch, and high competitive intensity, appears to be associated with use of financial CA practices (as predicted by Guilding & McManus 2002, 2009) and also the use of non-financial CA measures.

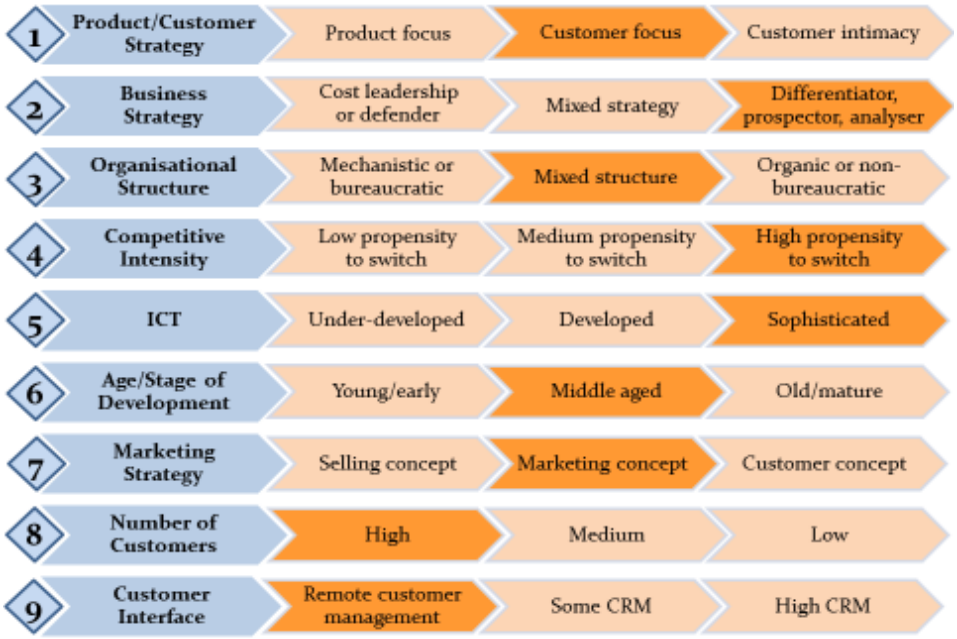

Figure 5.13: Alphabank:PB – Factors influencing CA highlighted

5.5.3 Alphabank:BB

Alphabank:BB is smaller and at an earlier stage of development than Alphabank:PB. Their target market is SME customers who will use them as their 'main bank', as "that is the gateway to everything else" and (like for personal banking) number of 'needs met' is a key driver of profitability. Having "a good sales conversation" is critical to successful 'onboarding' of customers. Thus, the strategy is described (by BBM) as one of customer intimacy (Treacy and Wiersema, 1993), and understanding and meeting customer needs is critical (Kotler, 2003). Alphabank:BB benefits from the Alphabank brand established by Alphabank:PB and has a similar customer-service based, differentiation strategy. Also similar is the mixed organisational structure, with considerable autonomy at SBU level as evidenced by a locally developed ABC system. Alphabank:BB faces fairly intense competition, but due to complexity, businesses face high switching costs and have an annual defection rate of only 7% which, when unavoidable losses are excluded, is "probably best in the market" (BBM). Hence, competitive intensity has

been classed as medium based on a medium propensity to switch. Alphabank:BB is young and clearly at an early stage of development. It has a low number of customers (around 30,000) and this enables it to adopt its customer intimacy strategy and apply the customer concept of marketing strategy, with one-to-one relationships with customers (Kotler, 2003) and the use of CRM for non-transactional services provided to larger customers. These key characteristics are highlighted in figure 5.14.

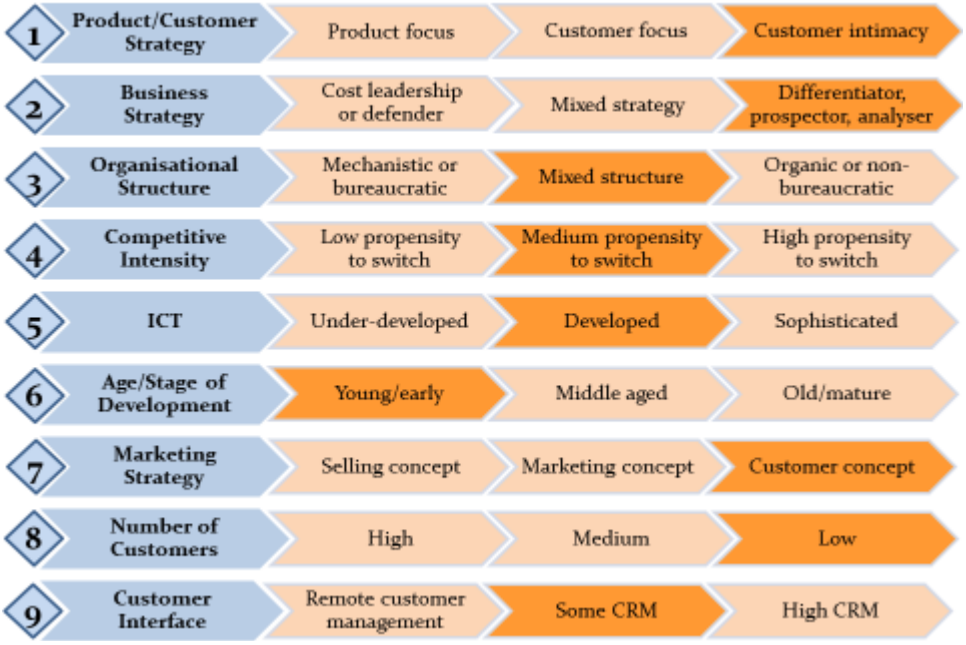

Figure 5.14: Alphabank:BB – Factors influencing CA highlighted

Although the adoption of a customer intimacy strategy would predict the need for CPAIC and also CLV (Treacy and Wiersema, 1993), as would application of the customer concept (Kotler, 2003) to a low number of customers, Alphabank:BB does not yet measure CLV. However, they do measure CPA and have a reasonably developed costing system, based on ABC methodology. CPA is currently based on average usage of services by customer groups and does not therefore incorporate 'actual' individual usage rates. The information produced is therefore treated as "directional", but accurate enough to identify problem areas that need management attention. On occasions, historical CPA has been used to identify problem segments and as a basis for forward-looking profitability predictions (a type of CLV), but no full CLV model has been developed. Perhaps regular CLV has not become essential because Alphabank:BB only faces a medium level of competitiveness and has only some use of CRM. Nonetheless, it is clear that there is a desire for more sophisticated CA measures and it is the lack of a sophisticated ICT that currently hinders more financial CA development, something that is being addressed at SBU level.

5.6 Summary of Case One: Alphabank

As evidenced above, both SBUs use ABC methodology to develop full cost CA information that allows them to measure CPA and, in the case of personal banking, CLV, which they use to measure and monitor the bank's customer-focused strategy. The financial CA measures related to SBUs have not yet appeared on the executive level BSC and at executive level only PPA and SBU profitability is reported (alongside whole of bank, aggregated financials). Lack of ICT development is cited by the CFO as a key reason for the lack of CPA at executive level.

As advocated by Hoekstra and Huizingh (1999), the adoption of a customer-focused strategy by the bank has meant that both SBUs found it necessary to develop CA measures to support their local strategy, even though the development was not supported by the finance function or the bank's central accounting system. Thus, as expected, strategy appears to be a key determinant of whether CA measures are used, where there is a will to overcome hindrances (like lack of ICT development). Another key factor influencing CA use is the intensive competitive environment the bank faces (McManus & Guilding, 2009). As Alphabank:PB customers now have a high propensity to switch, this drives the development of both financial and non-financial CA measures, the latter in order to identify customers "at risk" of defection and instigate corrective actions. Moreover, the more competitive environment drives a need to understand which of the bank's customer segments are profitable now and/or likely to be profitable in the future, in order to correctly allocate scarce resources whilst ensuring high value customers receive adequate service levels and remain loyal. For Alphabank:BB, sector is an important driver of profitability, because it is critical to understand sector specific needs and tailor customer service accordingly. Surprisingly, Alphabank:BB has not yet started measuring CLV, despite their strategy being in line with Treacy and Wiersema's (1993) strategy of customer intimacy.

Further, in support of the suggestion that the size of the customer base influences the type of CA measures used (McManus & Guilding, 2009; Tanima & Bates, 2015), Alphabank:PB, with over 600,000 customers, measures CSPA and CLV on a segmental basis (not based on individual customers). Because of its smaller customer base, Alphabank:BB might be expected to use CPAIC, but does not yet do so due to the lack of ICT sophistication.

Further, as suggested by Andon et al. (2001) and McManus (2007), a key barrier to

Alphabank:EL's use of CA measures is underdeveloped ICT, or more specifically the lack of a sophisticated costing system (such as ABC) at the executive level. An integrated ABC system would allow the bank to access CP down to an individual customer level, or to produce "reliable" CA profitability numbers from the general ledger accounting system. This is now being considered but is probably five years away. In addition, the lack of the integration between the information systems developed at the SBU level and the central accounting system under the control of the finance function (the general ledger) is a constraining factor leading the CFO to distrust financial CA measures produced by both SBUs (5.2.3.1). This 'distrust' does not go unrecognised, as both PBM and BBM describe considerable efforts to reconcile financial CA measures to general ledger figures. Both managers are convinced their CA figures are fully reconciled and fit for purpose, and are in any case treated 'with caution' as 'directional' (or 'attention directing', Drury, 2009) and although not accurate at individual account or customer level, accurate enough to identify segmental trends and sectors that need management attention.

A somewhat unexpected finding relating to case one is the importance of non-financial performance measures within Alphabank's SBUs. Whilst use of non-financial measures is not intrinsically unexpected, given their increase in importance in the literature on the BSC (Kaplan and Norton 1992, 1993, 1996a) and elsewhere SPMS (Chenhall 2005) and comprehensive marketing PMS (Homburg et al., 2012), their inclusion as a specific element of CA practices is not evident in the literature on CA. However, Alphabank:PB make considerable use of non-financial CA measures and in the absence of sophisticated financial CA measures in Alphabank:BB there is considerable reliance on non-financial CA measures. In particular, there is a belief in a strong link between CS measures and NPS and ultimately profitable growth (as advocated by Reichheld, 2003)

This finding led to amendments to the list of questions used in subsequent cases in order to investigate more thoroughly what non-financial CA measures are used by firms with a customer-focused strategy and how those measures are used to manage and monitor that strategy. Moreover, the factors that influence the choice of non-financial CA measures and the way they are used or hinder more widespread usage was also investigated.

6 CASE TWO: BETABANK

Chapter five presented and analysed the results of case one, Alphabank, an exploratory case within the banking sector. Alphabank is a challenger bank operating in a single country in Australasia. This chapter presents and analyses the results of case two, Betabank, a further exploratory case in the same industrial sector. Betabank is also a challenger bank and operates in a single European country. As explained in the method chapter (section 4.6.6), Betabank is included in this study to enable theoretical replication (Yin, 2009) and also because it is a unique case in itself. Despite Betabank being in the same industry and also customer-focused, it contrasts significantly with Alphabank regarding its CA, the way CA measures are used and factors influencing the choice of measures. This chapter describes Betabank's intensely customer-focused strategy, outlines its non-financial CA practices and describes the way those CA practices are used to manage and monitor the customer-focused strategy. Moreover, the contingent factors influencing the choice of CA measures, and in this unique case, explaining why financial CA measures are not used, are identified. Finally, conclusions are formed.

6.1 Description of Case and Staff Interviewed

For confidentiality reasons only limited information can be disclosed about the case. Betabank is a challenger bank founded less than six years ago and operating in a single European country. The bank has grown rapidly, now having more than 600,000 customers, but has total assets of less than €10 million and is therefore small compared to 'the big European banks'. Betabank provides personal and business banking services to its customers and clearly differentiates itself from the old established, 'big banks' by promising excellent customer service. At a time when other banks are closing branches and pushing telephone and internet banking, Betabank promotes branch banking, with branches open weekday evenings and at weekends. Betabank has an ongoing, aggressive expansion plan based on rapidly opening more branches in high footfall locations.

As explained in chapter four, after initial access discussions with the Head of Finance (by telephone and not recorded) four key Betabank staff, at different levels of the bank, were interviewed (all recorded). The relationships between the four interviewees and other key staff are outlined in Figure 6.1 and explained below.

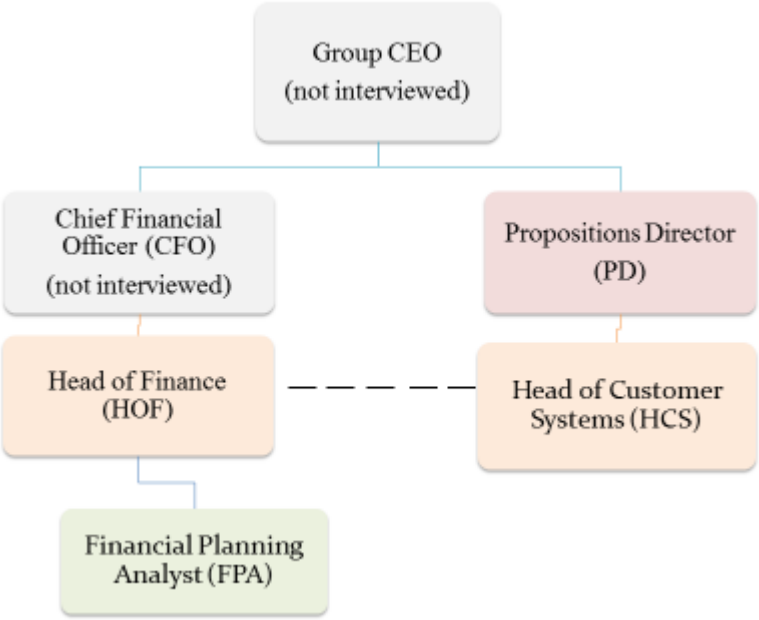

Figure 6.1: Betabank: Relationship of interviewees

The Head of Finance (HOF) manages a small finance team located at the bank's head office, and reports to the (CFO) who is part of the main board and executive team. The Propositions Director (PD) is part of the executive team and manages what he calls "propositions" for segments of the bank's operations such as business and SME banking, retail banking, partnerships (the intermediaries businesses, such as wealth management and pension customers) and the private banking arm of Betabank. PD says: "we call it 'propositions' rather than products to try to eradicate the name 'product' from the business". PD also manages the 'product fulfilment' team which is responsible for all processes related to opening new accounts. One of PD's key responsibilities is business planning, in particular to forecast future lending and deposits, and costs related to the anticipated rate of growth. PD is also responsible for customer complaints and the 'voice of the customer' programme (6.3.4).

The Head of Customer Systems (HCS) is responsible for business information and customer systems and reports directly to PD, but also provides information to HOF. His remit relates to the 'non-banking platform' and encompasses non-financial, customer related information. He describes the role as: "to be the business lead for CRM and to deploy that into the business, [and] maximise its use". He stresses: "CRM gives you a lot of rich customer information" and: "one of the briefs was to bring to life information about customers around head office", where 500 staff work.

The Financial Planning Analyst (FPA) is part of the small finance team. He reports to HOF (through another finance team member, who was not interviewed) and provides management information for the executive team. FPA says that because the bank: "is still reasonably in its infancy" there is no clear segregation between controllership and financial analysis and hence he is involved in financial accounting and "the analytic side". He produces monthly and quarterly financial statements and provides financial analysis on segments of the business (such as branches).

The lack of segregation is clearly related to Betabank's young age/early stage of development and this also explains a centralised structure with no split of the bank into SBUs as is the case at Alphabank. Moreover, FPA highlights that in respect of regularly reported management information: "everyone gets everything" and there is no separate SBU reporting (6.3.1.1). Consequently, Betabank is analysed as a holistic case (Yin, 2014) in contrast to the embedded cases identified within Alphabank.

6.2 Betabank's Customer-Focused Strategy

Betabank is undoubtedly customer focused. In Betabank's promotional materials the 'customer value proposition' (Kaplan & Norton, 2000) is clearly identified as delivering "unparalleled convenience and service" and "providing service, not product sales". Moreover, in these materials Betabank is specifically described as "customer-focused" and its "customer promise" includes "satisfaction guaranteed" and the promise to "surprise and delight every customer". But isn't this what every European bank promises its customers? The key question is: what do banks that offer great customer service actually deliver? Betabank's HOF says: "if you look at customer satisfaction for the other banks, X-bank (one of the big banks) are by far the best by a country mile. Our stats are now on par with X-bank". By "our stats" he refers to a range of 'voice of the customer' measures collected by Betabank (6.3.4), and this claim (made in June 2014) has been verified by independent surveys[13]. HOF confirms that Betabank does not follow a cost leadership strategy, but differentiates themselves on the basis of excellent customer service. He says: "We're not offering the best price points; we never say anything about that. So if you're a rational person who's looking for the best rate you wouldn't come here. It's all about creating that

[13] A 2015 survey of 'best bank accounts for customer service' was used to verify HOF's claims. The survey itself cannot be cited as it would reveal the bank's identity.

customer service." PD says that products have to work and yet not be noticed, claiming, "we are not about products…very few, if any, of our posters [that are] externally facing will be talking about products. It is just not what we do". HOF thinks the customer-focused strategy is clearly communicated to all staff and 'embedded' within the bank's culture, and says:

> *"…everyone [all frontline staff] has to go through a lot of training before they're even let loose on the frontline. Even when we [the accounting team] joined, we had to go on effectively a two day course: 'This is our strategy. This is our behaviour. This is how you treat customers.' It is instilled from day one."*

Similarly, HCS says: "the strategy is quite simple…we're here to acquire customers, and part of that is about delivering a different service or a…change in service level and experience for those customers." He continues:

> *"So we don't price customers in, and equally we don't penalise customers after a 12 month period...the interest rates are the interest rates, both for new and existing customers, and we pride ourselves on the fact that we can give a different service and we're a different environment to come and bank in".*

All four interviewees describe a clearly customer-focused strategy. Betabank differentiates itself from 'the big banks' by offering an excellent customer service. They do not attract 'rate tarts' because they do not 'tempt' customers with special interest rates which they will subsequently remove (thereby annoying customers). Betabank's strategy is clear to customers and staff alike, and key to realising the strategy is delivery of the 'customer promise', providing customers a consistently better service than other banks are able to do.

6.2.1 Delivering the Customer-Focused Strategy

A differentiation strategy based on excellent customer service is not unique and many of 'the big banks' offer something similar. However, the business model that supports Betabank's strategy is described by all interviewees as "quite simple" and distinct from the strategies of competitors, which raise funds in wholesale funding markets, whereas Betabank does not. PD says that we "need deposits in order to deliver our lending." Hence growth at Betabank depends on enough

deposits to fund increased lending[14]. PD says: "at this stage in the game we are very much about deposit and lending growth. Deposits are the…core material the bank works on." This may seem somewhat challenging when Betabank does not use similar tactics to other banks for acquiring customers, as they do not offer customers inducements to switch. PD explains that inducements would attract the wrong sort of customers, saying, "We have very un-spicy pricing…[because]…we don't want rate sensitive customers". He stresses that good "deposit momentum" is achieved "through service, recommendation or word of mouth, having the right kind of product that works in the right kind of way for people, just slightly more convenience, longer opening hours, et cetera, to drive deposit momentum." As service excellence is core to Betabank's strategy and, in the absence of inducements, key to growth, one might expect Betabank to need CA measures relating to the customers' perceptions of the levels of service delivered, the cost of delivering high customer service and the effect on CP.

Delivery of Betabank's strategy depends on deposit customers' acceptance of "second quartile pricing" and hence "very unexciting rates" as a trade-off for "excellent customer service". Consequently, Betabank's cost of deposits is low[15] and PD says: "therefore we can do plain vanilla lending". On the lending side the strategy is different to 'the big banks' because Betabank lead with commercial and mortgage lending (low risk, secured lending) and take a very cautious approach to unsecured lending, to avoid the problems other banks have had with conduct risk[16]. PD describes Alphabank's unique selling position (USP) as a willingness to: "take on more bespoke underwriting, so we'll look at things other banks won't look at…because they are too time consuming and don't fit into a square hole, so that is definitely our USP." Also, with respect to mortgages Betabank "have got a very rich vein of high net worth individuals, where again there are special services where they need a high touch service." Thus, the strategy being one of customer intimacy and Betabank can make "a decent margin, because…when you are doing more bespoke underwriting you can charge a bit more for it."

So PD stresses Betabank's model "is about building a low risk book to match the low cost of

[14] Betabank will not lend out more than 80% of their deposits, but to date they have been very successful in raising deposits and their lending/deposit ratio is about 57%.
[15] PD claims that Betabank's cost of deposits is about one third of what it costs other challenger banks as they offer high interest rates to entice customers to make deposits. The other challenger banks therefore "have to do riskier lending in order to make a net margin".
[16] Conduct risk relates to the mis-selling which has caused scandals for most of the big European banks, for example, selling mortgages which customers simply can't afford or mis-selling payment protection insurance.

deposits" and depends on "building a loyal fan base of customers" and providing services to ensure the bank becomes "a utility to people where they feel like they are not going to be screwed over". Betabank's key differentiator is providing: "one rate for all customers, for credit cards and for loans, and that is unheard of in the market." PD explains that although Betabank are credit checking potential customers for loans, they either accept or reject applications at the bank's single fixed interest rate. He says: "We feel slightly more ethical than saying: 'right, here is a loan, and by the way it will be at 21%'".

PD demonstrates how Betabank's intense focus on customer service is absorbed into the bank's culture, especially by frontline staff. A customer service representative happened to be serving a 'mystery shopper' who was auditing service quality. PD relates that she spilt tea over him, which is obviously "a bit of a disaster" but after apologising: "She got (the equivalent of $100) out and she said 'will that cover the dry-cleaning?' and he decided to invest there and then". PD stresses this could not have happened at X-Bank without lengthy authorisation procedures: "It was the fact that she is empowered at the front line to genuinely solve the customer issue that made him feel like he needed to invest, and this kind of thing is very hard to replicate." Although this sounds suspiciously like an apocryphal story, straight out of the training manual, it highlights the need for an appropriate culture and highly trained customer service representatives with the right mind-set, and sufficient delegated authority, to deliver truly excellent, customer-focused service. This is in line with literature discussed in chapter two, particularly Homburg et al. (2009) and Reichheld (1996).

PD further explains that for customer facing staff "it is a frame of mind thing, so it is very much the customer is right". Thus when a customer service representative asks things like: "what do you mean they [the customer] can't break their fixed term savings account?" PD argues that this sort of challenge: "is absolutely the right way for the business to be", but says that it can pose "an interesting challenge" for the staff at head office. When asked about the inevitable cost of this strategy, PD answers: "we could be paying everybody [depositors] 25, 30, 50 basis points more on their money, but…we are investing the [cost saving] in the store experience", by which he means, investing in high quality branches and customer service generally. Hence, savings from low borrowing costs are invested in 'the customer experience', including the branches, which are always on prime sites, on corners with two fascias, and this supports the strategy of promoting

branch banking and excellent customer service, and is effectively part of Betabank's marketing[17].

6.2.2 Competitive Intensity and Order Winning Criteria

The European banking sector is mature and highly competitive because achieving growth will largely depend on 'poaching' customers from other banks. This may be achieved by low pricing or some form of differentiation; and promising excellent customer service is a common example of the latter. However, Betabank does not compete on the basis of price and PD says that Betabank customers are: "not rate sensitive, because they are here because they want to be here". He argues that Betabank is "very much customer focused" and this provides a competitive advantage which is impossible for big banks to replicate. Because Betabank is still small and nimble, its unique offering in relation to customer service creates a niche for them, which counters the intensely competitive environment. PD says: "the key thing about this bank, which very few people really understand, is it is very hard to replicate great service, so our competitors are completely screwed". He gives the example of X-bank experimenting by offering some of the unique services Betabank offer, such as printing cheque books and cards at the branch for new customers, or opening on a Sunday. But this proved too expensive for X-bank to do in all branches and PD claims that the X-bank's experiment with Sunday opening failed because: "nobody turns up, because nobody thinks X-bank is open on a Sunday." PD places much emphasis on the quality of Betabank staff driving the strategy, saying: "if you have got people who are a bit fanatical about customer service then you don't need to be paying rates [high savings rates] because word of mouth will do the rest."

When asked about the order winning criteria for customers deciding whether to bank with Betabank, PD says that secondary purchases are heavily influenced by where the customer has their current account and for the current account itself it is about: "Are you local? Are you open? Can I see you?" So, proximity of the branch is very important. PD also highlights that some customers "don't really understand how a credit card works and…[have] always been ashamed of going in and asking somebody". Because Betabank are "service oriented" they are "tapping a bit of the market that hasn't really ever investigated those kinds of products… slightly younger

[17] Betabank spends very little on direct marketing – only 1.2% of non-interest expenses (6.3.1).

demographic and credit hungry".

PD further argues that "the location and availability of the store[18] is hugely important in any product selection choice. So too is fees, as to whether you [the customer] experience fees elsewhere and how sensitive you are to them[19]." PD says that online banking is only 'order qualifying' as an additional service and not a replacement for branch banking; first: "Bricks and mortar is still a lot more trust" and second: "[for] financial services products people like a conversation still." Moreover, PD explains that the brand is very important because: "we don't do online acquisition, people walk into our stores and are not really comparing [interest rates] bank to bank. They are here because they want to be here and they have decided they want to investigate the brand." PD claims that Betabank attracts the type of customers who "need a bit of help and advice and actually don't want to be patronised by 'X-bank' and don't want to enter a store where they know they are going to be sold to." PD stresses "one of the defining things about Betabank…is we have no frontline sales targets". The lack of any heavy sales pitch "just blows people away…they expect to be sold something and we just go 'right, is there anything else we can help you with? Right, great, see you tomorrow'."

Regarding the order winning criteria for business customers, PD explains that "the retail [customer] mind-set is entirely different to the business [customer] mind-set", with the latter "much more yield conscious…" and focused "much more around 'are we easy to work with, and can we fit with their processes'." PD stresses the importance of:

> *"the ability to really understand and buy into what the venture is trying to achieve…we do believe in 'partnership banking'...that tends to be our USP [unique sales proposition) and we will take on things other banks won't do, because it just doesn't fit into their pro-forma."*

Betabank are offering a more tailored service than 'the big banks' (not a set of off-the-shelf products) and therefore (certainly for business banking) their strategy is one of 'customer intimacy'. PD argues that having underwriters who really understand the customer's business is critical and "actually what swings it tends to be our relationship management of our customers". Thus, for business customers in particular, Betabank's strategy is one of customer intimacy. This

[18] Betabank calls their branches 'stores' because the bank is applying a 'retail model'.
[19] PD also refers to prospective retail customers: they "bring a lot of history, so fear of fees, fear about being sold to."

drives the need for significant customisation and a heavy reliance on CRM, which in turn implies a need for historical CPAIC and CLV (Kotler, 2003).

6.2.3 Lack of Formal Customer Segmentation

Betabank has no customer segmentation on the basis of the volume of business the customer transacts with the bank (revenues) or historical CP, or potential value (CLV) of customers or customer segments. There are obviously different banking services (for example, private banking, partnerships, commercial) each with a dedicated frontline sales team, focused on the specific customer needs, but within each service type there is no customer segmentation and no financial CA measures are used.

Betabank monitors trends in customer activity rates. Customers with low activity rates are presumed to be 'testing out' the bank, whilst significantly increased activity rates indicate that high CS is encouraging customers to switch more of their banking needs over to Betabank (6.3.5.1). Thus, CS drives increased activity levels, which in turn is believed to drive profitability.

6.3 The CA Measures Used at Betabank

This section outlines the management information and costing systems used by Betabank and the nature of reporting at executive level and below. Also described are recent and planned developments in relation to PPA (but not CPA) and other data enhancements. Interviewees' explanations for the current lack of financial CA measures are discussed, as are possible future developments. The nature of non-financial CA measures used at Betabank are then described.

6.3.1 MCS and Accounting System.

Betabank's accounting and management information system (MIS) contains the underlying information required to produce monthly and quarterly balance sheets and income statements for the executive team and external reporting. HOF and FPA both stress the MIS is fairly basic, and still under development. HOF says:

> *"Because of the desire to build the bank as quickly as possible, a lot of the finance functions, support functions, were left behind. We're only playing catch up now and part of…HCS's remit from the CEO is [to] 'give us data capability' and that wasn't there previously".*

HOF says that FPA is relatively new and is "beginning to revolutionise our data capability" and is making progress on "all the stuff that, as this bank is evolving, we haven't really got to at this point in time".

6.3.1.1 Executive Level Reporting

Board level financial reporting is highly aggregated, with a balance sheet and a profit and loss account (P&L) for the whole bank. On the P&L, for each category of interest earning and interest bearing assets, the month's absolute figures and the percentage interest yield or cost are shown. Also disclosed are budget, variance between actual and budget and previous year actuals. The equivalent figures for year to date are stated. The return on the loan book is just under 4%, but as lending is currently only 59% of deposits the balance is invested (at about 1.6% currently) and the total interest income is at a yield of about 2.6%. Interest-bearing liabilities are at an interest cost of less than 1% and with non-interest-bearing liabilities (current accounts) the final net interest margin is 1.76% (1.77% year to date). The P&L also shows non-interest income, provisions, non-interest expenses, predominately salaries, at 42% of total non-interest expense, and of course net profit/(loss) before and after tax. Interestingly, very little (1.2% of total non-interest expense) is spent on marketing.

The month-on-month trend in lending and deposits, and number of accounts is reported by branch and in total. 'Branch profitability' is reported, but this is actually branch contribution, as no head office costs are allocated to branches. However, actual interest income related to accounts originally opened at a branch is not used to calculate branch contribution as branch income is 'derived' by multiplying total deposits generated at the branch by the average of the whole bank.

The net interest margin is explained in detail, with month-on-month and year-on-year comparisons. Quarterly trends in costs of deposits and net interest margins are also reported. Headcount and non-interest expense is included, but interestingly expenses are reported by expenditure heading (with no allocation to activities) with only large expenditure categories reviewed in detail (their variances to budget are explained). Capital adequacy measures are reported, as are various other ratios (including liquidity analysis) required by regulatory rules (for example, Basel III).

This information is widely available (to senior leadership, local directors and branch managers) and the only segmentation is by region and by branch. FPA explains that there is just one 'deck', because if "everyone gets everything, it's easier." This 'deck' is discussed in "weekly trading meetings" by the top management, who want to keep abreast of "what's happening and why it's happening" and particularly the bank's progress against plan. HCS explains that for branch reporting there are "three core numbers", the number of accounts, the amount held on deposit and the amount lent out. These core numbers are reported on a daily basis, so management can always see "what happened yesterday" at every branch. PD confirms the importance of these three core measures but says: "the numbers that we track in this business are deposits and lending, deposits and lending, deposits and lending, it's an absolute religion…We do look at account volumes fairly closely as well, so our account openings", but the latter is considered a "brand health measure".

The relatively simple and highly aggregated executive level reporting is perhaps not surprising as all interviewees described the Betabank business model as "quite simple" and dependent on funding from equity or from customers themselves (as they do not access wholesale funding markets, see 6.2.1). HCS explains, "Our aim effectively is to acquire customers, grow our deposits and use those deposits to lend money to people who want to grow their own businesses, and it's as simple as that."

6.3.1.2 The Costing System

Betabank does not have an absorption costing system, let alone an ABC model. HOF explains, "I said when I first arrived, 'Do you have an ABC model?' The answer was 'no'. So I said to someone, 'Could you tell me the cost of opening a bank account?' And they went, 'no idea', and no one does." He contrasts this with big European banks he has previously worked for by saying: "At X-bank they knew precisely by brand the cost of opening up a bank account, the cost of maintenance, every facet you could look at there was the information there, because they had 10 people employed to do that job". This implies that Betabank is not yet big enough to resource a sophisticated costing system.

6.3.1.3 Lack of CP Measurement and Some Focus on PPA

When asked about the ability to measure CP at Betabank, FPA says: "On the basis of the data I've

got, it's really easy to do…I can effectively create a P&L by customer". He then says he considered doing just that, but:

> *"I then very, very quickly went, but this is pointless because our customers are literally split into three segments, they either bank with us, deposit money with us or borrow from us, and you kind of go, 'well all those people who have given us deposits, they're all losing us money', so what's the point?"*

In order to measure CP:

> *"You'd have to create a kind of crazy profitability model… all the money we earned from lending money, we'd have to attribute to the customers who are depositing money, to work out effectively how profitable you were as a customer. Well you may as well just not bother."*

To measure CP, Betabank could use principles currently employed to measure branch profitability (6.3.1.1) and allocate imputed revenue earned by taking on new loans against any customer who deposits money with the bank. An appropriate proportion of branch costs could be allocated to customers (but this would be difficult to do accurately without an ABC system) in order to calculate a branch level customer contribution to all head office costs. FPA explains that measuring branch profitability (and therefore CP) is problematic because "most of our lending is done out of specialist teams, not through the stores", hence the income from lending appears to be generated by the specialist teams located at head office, but lending costs relate to the deposits which fund the lending, and these sit at the branches. Therefore, the only way to calculate profitability is to combine the two by some allocation method and Betabank choose to allocate the revenue back to the branches where the deposits originate.

Hence, although the capability is there, CP is not currently measured and no financial CA is planned. However, in respect of PPA there are some developments in train. HOF explains,

> *"The data has now all of a sudden become available to you. It's always [been] there, but it's extracting it…[Which is the problem]…once we get into the ritual of data [analysis], maybe the board don't want to see it, but actually the product guys, the commercial guys, will make more informed, smarter decisions about targeting certain customers, different price points, that type of thing".*

HOF clearly believes that even if executives do not want PPA or CPA, some staff below executive

level may need such measures to aid decision making. Presumably "targeting certain customers" would not involve 'pushing products' to them or using 'teaser rates', but instead ensuring Betabank's strategy and marketing is focused on attracting the right sort of customers – "those who want a conversation". HOF is anxious to get the accounting information to help 'fine tune' that targeting.

The researcher queried whether PPA is appropriate in a customer-focused bank and asked whether Betabank should focus on the profitability of each customer over their whole portfolio of products. HOF draws on past experience and claims that "the more products, the more profitable they [customers] are for the organisation." Suggesting that number of products drives CP. Moreover, HOF suggests (again based on past experience) that Betabank wants 'main bank' customers who take the whole product suite. HOF says: "The more customers they've got in the main banker parts it would equate to x [profit] on the bottom line". Interestingly, in the absence of PPA and CPA at Betabank staff are drawing on past experience with 'the big banks' and making assumptions about what drives Betabank's profitability. This allows them to concentrate on non-financial CA measures, such as the rate of change from customers being merely 'active' to being 'primary' or 'main bank' customers (as explained in 6.3.4.4) as experience from elsewhere predicts this will drive profitability.

In contrast to HOF, PD's focus is on a product portfolio to meet customer needs. Therefore, when asked if PPA and/or CPA is likely to be used at Betabank in future, PD says: "It is just not something which is of interest. Just the whole concept of 'farming' new customers just feels alien to what we are trying to do." PD believes CP might send the wrong messages and drive actions which would contradict Betabank's strategy of treating all customers the same, such as 'weeding out' (and firing) unprofitable customers. He rejects a product led strategy, one which will 'push' products to customers like 'the big banks', because: "it is just all about optimising commercials from a big book of customers, while ensuring they don't all bugger off." PD says: "The mind-set is just totally wrong." He argues that they are asking:

> *"How can we take money out of their pockets without them realising? Elsewhere it is about: 'That sell there is not particularly price sensitive so we can push it a bit, push it a bit, you can move the APR [annual xxx], but none of them are moving, keep pushing it, keep pushing it'…it is not customer focused at all."*

In contrast, HOF thinks PPA is useful and confirms, "now we've finally been able to extract the real hard data out of the system" it has been discovered: "They ["the product guys" who work for PD] think they're making a stuff load of money and actually they're not." HOF explains that the bank has "loads of products" and "we're certain of customer's needs" but they are less clear about whether individual products are making a positive or negative contribution and hence whether pricing is correct. Thus FPA has been asked to produce PPA, but this is at a very early stage of development (and not on a full cost basis) and it is unclear how such information will be used and in fact whether it is actually necessary. There is clearly some difference of opinion within the management team, below executive level, in relation to PPA. PD argues that individual PPA has limited use because Betabank has a 'portfolio' approach and will not 'push' products and will not have any sort of product led strategy. He obviously does not want to micro-manage product profitability in the same way 'the big banks' do, because this is not "customer-focused". In contrast, HOF wants to develop PPA for "the product guys" because he believes it will show some products to be unprofitable and lead to necessary price adjustments.

This contrast of opinions was explored further by the researcher. When asked to what extent Betabank actually do measure the profitability of individual products PD says: "We do not at the moment. We have very big pricing models [he pauses]. Here is the real answer - we know the answer, we just don't use it." PD confirms that individual product profitability is reported to him and he says: "I also calculate it myself …it is not a difficult thing to do. We tend to do it on the contribution basis." He says that you are into a mountain" if you try to allocate fixed costs down to individual products, "So we tend to look at the contribution or net present value. But yes we know them, we just don't choose to make them a decision-making variable." PD confirms that no PPA is reported to executive meetings. The executives concentrate on aggregated figures and do not want to see either PPA or CPA.

When asked how he manages without PPA he gives the example of the executive team asking if the overall cost of deposits can be reduced and says:

> *"I will look at the range and I will say 'well, where can I re-price', and I will talk to the Treasurer and we will look at…where the market is at and…I will know instinctively where my profit centres are and where my thinner yield products are, and then we will come up with a solution. So inputted into the decision is I know my relative costs and performance*

of each of those products."

So the incremental contribution (or in this example, incremental cost) of different products in the portfolio informs decisions about pricing adjustments (or in this instance how to reduce overall borrowing costs without halting the growth in deposits), but PD stresses: "what I am not doing is saying 'right, I am going to have a product led strategy here to get us out of trouble.' It is a portfolio one." The implication is the prices set across the whole product portfolio have to be appropriate to deliver the required growth in deposits at reasonable cost. Estimated product contribution figures are sufficient, with no need for a sophisticated PPA (one based on fully absorbed costs) as Betabank does not want to start constantly monitoring and adjusting individual product prices to maximise profitability on a product by product basis (like 'the big banks' do).

Similarly, with respect to growing income, PD says, "I would not line the relative contributions of my products up and go 'I need to sell more of that'…I wouldn't look to launch a programme…increasing the sale of those products. That is not where we go to." Instead he says, "I would first of all look at distribution and widening distribution, new partners…we need to grow our distribution strategy and rate in order to get our income challenges [meet revenue targets]". PD stresses Betabank have no "product led solution to income and profitability challenges…they are distribution led solutions at the moment." This means they will concentrate on widening the scope for selling the products already in their portfolio, by finding new channels, for example, having online applications[20] for current accounts, attracting new partners or opening more branches.

In summary, Betabank have not developed an absorption costing system and although they can theoretically calculate CP, on a contribution basis, FPA envisages significant allocation problems and it is unclear what value CP would bring. HOF sees a definite need for PPA, but PD argues that PPA would be of limited value as Betabank's product portfolio approach and customer-focused strategy renders PPA unnecessary and potentially damaging. PD stresses Betabank does not have product led solutions because of their emphasis on the customer-focused strategy and the related promise to not 'push' products to customers, but he adds: "I'm not saying we won't…in ten years' time this bank may be totally different." Thus, it has to be considered whether the lack

[20] Completely new customers currently have to visit a branch to open any type of account.

of financial CA measures at Betabank is a function of the Bank's early stage of development and small size, rather than their lack of utility. Such issues are explored in the next section.

6.3.2 Potential Financial CA Measurement

When asked about whether Betabank would like to know about CP, HOF says: "this is where we are now taking the steps". He explains that Betabank have a 'core banking system' which holds all transaction data, but says: "I think the difficulty is having the capability of dragging it out." At present, transaction data has to be "sanitised" before transfer into the general ledger, but Betabank are developing the ability to extract more detail. HOF explains that Betabank have moved from a backward looking analysis (last month's historical figures only) to a combination of backward and forward looking, as they now include a forward projection of the next month and six months ahead.

When asked about the likelihood of developing and using CA measures in the future, HOF stresses the different attitude to such information at the different levels of the bank:

> *"We're just starting the journey now, but it doesn't disguise the fact that actually the board do not want to see product profitability reported at the board level. However, the commercial guys, retail guys, they'll want to see it, that's what we're trying to build - the capability for them."*

FPA highlights that the information will be used for pricing decisions and product mix decisions, and stresses: "a dividing line between what they [the board] need to know, what they actually have asked to see, versus the product guys, commercial guys, actually are actively asking for". The reporting of different measures at different levels of the organisation and the need to resist pushing operational measures up to executive level is consistent with advice from the BSC literature to seek cause-and-effect links between operational measures and improved financial performance, rather than pushing operational measures higher up the organisation.

6.3.3 Historical Financial CA Measures

When considering if financial CA measures will become important for Betabank, a key question is whether the Betabank model of treating customers equally and offering excellent customer service will become increasingly difficult to operate over time. As they grow, will Betabank be

forced to segment customers based on their profitability, as 'the big banks' do, and have different service levels for different customer segments? HCS thinks not and argues that in the 1990s it was not possible for even a big bank to measure individual CP and perhaps it became 'a good idea' simply because technology made it possible. "Then people started making bad decisions around different customer segments which created bad blood." He says: "It always used to be about the balance sheet…and that's what we're trying to stick to here, so let's not over complicate things and let's take what we get and make the most of what we get effectively." Moreover, HCS argues that 'the big banks' are using analytics to predict what new products customers might need and then using heavy selling tactics. But this is less effective nowadays as: "customers are far too financially aware now… they'll do what they want." This implies that the changing market environment for banking, with customers becoming more savvy, and having information about competitor products and service levels 'at their fingertips' (through the internet) makes the competitive environment more intense and renders financial CA less useful.

When asked whether Betabank should measure CP to confirm that improving CS scores and rising NPS drives improved financial performance, PD answers:

> *"The overall financial model of the company does have a logic to it…if you attract customers who are not rate sensitive, therefore you have got a really great cost of deposits as an input price…you can do plain vanilla lending which is less risky so your losses are less."*

PD therefore suggests that "it is a macro level, low cost of deposit, plain vanilla lending, and great customer service [model]. Commercially it makes sense". Thus there is no advantage using micro-level measurement of individual products or customers or even product and customer segments, because this would not be in line with Betabank's business model and strategy. It appears, contrary to expectations, neither the intensity of competition, nor the customer-focused strategy are contingent factors driving the need for extensive use of financial CA measures to monitor and manage the strategy. However, this is because financial CA measures would not provide information of relevance to effective implementation of Betabank's strategic focus on excellent customer service for ***all*** customers. Focusing on profitability of individual customers or customer segments might drive the wrong behaviour. Therefore, the measures needed to manage and monitor Betabank's strategy are non-financial CA measures.

6.3.4 Non-Financial CA Measures and the 'Voice of the Customer' Programme

As interviews progressed, the initial perception that 'Betabank have no CA measures' was dispelled. The bank's strategy and culture renders financial CA measures inappropriate, and instead non-financial CA measures are necessary to support Betabank's intensely customer-focused strategy. Describing these non-financial measures as the 'voice of the customer' is a further demonstration of Betabank's intensity of customer focus.

HCS says: "The 'voice of the customer' is something which is really important…it's about understanding what our customers say". It consists of non-financial CA measures used to gauge performance in relation to delivering the 'customer promise' of excellent customer service. The 'voice of the customer' programme is therefore used to monitor the effective implementation of Betabank's customer-focused strategy. It includes five key areas of non-financial CA measurement:

1. Customer surveys of brand awareness and NPS.
2. Social media sentiment analysis.
3. Mystery shopper analysis.
4. Expressions of dissatisfaction and Amaze.
5. Activity analysis.

The importance of such non-financial CA measures is further demonstrated by the review of daily, weekly and monthly cumulative figures at a weekly 'voice of the customer' meeting chaired by PD, and their wide dissemination among Betabank staff using Yammer (an internal social media system) and Power BI (6.3.5.5).

6.3.4.1 Customer Surveys of Brand Awareness and NPS

HCS says: "We will email and ask an awful lot of customers every month just to go online and score us on a variety of things". He claims that Betabank get higher response rates on such surveys than other banks and explains this willingness thus: "I think it comes down to the culture [of the bank], so I think customers who bank with us understand we're trying to do something different in terms of service and therefore respond." PD reports that brand awareness (in the capital city in which most of Betabank's current branches are located) is measured by an

independent market research company and has risen to 75%. Betabank put considerable emphasis on NPS which PD calls the "old beast which has been around the market for a long time", because NPS is a well-known measure of customer loyalty (Reichheld, 2003) used by many companies (including both Alphabank SBUs and GCC). At Betabank, NPS is measured at two points, one on account opening and one six months later when a 'relationship survey' is conducted. Inevitably the second score is lower than the first (because there is more time to do something wrong). However, PD claims that Betabank is market leading in NPS scores at both points in time.

6.3.4.2 Social Media Sentiment Analysis

PD explains how Betabank conduct a 'social media sentiment analysis' as follows: "We look at tweets [Twitter] and other social media and effectively screen-scrape and analyse the sentiment…and [ask] is it positive, is it negative, is it neutral?" PD highlights that this is how customers describe Betabank in open, public forums and it is therefore "what customers are thinking" and potentially less biased than feedback in Betabank surveys. One discovery made through the social media sentiment analysis is the importance of immediately getting through to a real person (not a recorded message) when phoning Betabank's call centre (6.3.5.4).

6.3.4.3 Mystery Shopper Analysis

The mystery shopper programme is comprehensive and covers not only visits to branches but also phone queries and emails via internet banking. HCS says that branch visits are conducted by "an external company coming in and doing a particular sort of visit, transaction, open an account, whatever, and they'll score the individuals and the store" on the quality of the interaction, and provide feedback. Mystery shopper checks cover a different product or sample transaction type each month in every store. HCS says: "There are a number of things we are looking for in terms of staff behaviour, interaction, use of the right language, et cetera, so there are a variety of points which would be scored on a mystery shop."

6.3.4.4 Expressions of Dissatisfaction and Amaze

Customer complaints are named 'expressions of dissatisfaction' and considered highly important at Betabank. PD implies a tendency for 'the big banks' to dissuade staff from logging complaints, to avoid reporting them to the regulator. At Betabank however: "culturally we do the right thing

here, which is we actively want you [staff] to report complaints…to report as much dissatisfaction as you find." This relates to the critical nature of customer service and the need to "turn it around quickly" if there are service failures. Hence, "there is a huge programme on how you amaze off the back…of an EOD". This is called 'Amaze', and involves data collection and analysis, and dissemination of results via Yammer[21]. Fast and widespread dissemination ensures problems and solutions become institutional knowledge. The result is Betabank can see: "those customers over there have had this issue…[which]…showed up in their NPS score." Thus Betabank specifically identifies links between EODs and NPS.

The 'voice of the customer' measures in relation to EODs are extremely detailed. HCS says: "What this gives you is the ability to understand…[the] pain points." Comparison of customer banking behaviour before and after the complaint enables Betabank to understand which complaints are unimportant (no change in behaviour) and which were "followed by no transactions afterwards" and hence "they've gone somewhere else" and defected. From such analysis Betabank can tell that, for example, late bank statements do not cause customer defections but internet connection problems do. The Amaze programme directs attention to damaging failures in customer service and their effects on customer loyalty and potential defection, thus ensuring customer service is meeting customer needs. This resembles Alphabank's approach and is in line with advice from the literature (Jones & Sasser, 1995; Reichheld, 2003).

Moreover, as Betabank have only recently developed any PPA, PD says that annual product reviews are: "predominantly from a customer lens, how many complaints, how many early closures, et cetera." They review the number of customers using a proposition and their activity rates and they analyse customer reactions to new propositions or changes in the offerings, including price. So Betabank rely on non-financial CA measures relating to activity (usage) rates and CS with products, in preference to the product profitability measures used by 'the big banks', because: "we are trying to grow a franchise…and if we nickelled and dimed everyone [all customers] from the start…we would become just like all the other banks." FPA also stresses

[21] Yammer is explained by HCS as:

> *"A sort of corporate Facebook for want of a better phrase…having the latest 8.1 operating system gives us the ability to make sure that the coms* [communications] *are always in front of people and rolling…it saves somebody having to go into Yammer and actually trawl through stuff."*

that "customer satisfaction" is the key driver, saying: "It's finding the balance here between shareholder return and CS, and you don't forget the customer, the customer satisfaction". When asked if Betabank has established a link between improved CS and better financials, HOF says: "We are now on the journey, so we're not doing it, but…now we've got the capability to actually start unpicking all the numbers." However, presently the only link actually measured is between CS and NPS, and any link between NPS and profitability is currently an unproved assumption.

6.3.4.5 Activity Analysis

As well as closely monitoring 'deposits and lending' (6.3.1.1), HCS confirms PD's claim about other important CA measures, in particular "activity" measures. From past experience managers are aware 'main bank' customers and/or customers with multiple products are the most profitable customers. Conversely customers with only a current account must have all other banking 'needs met' elsewhere and may be loss-making for Betabank. Therefore, Betabank monitor trends using "traditional banking measures" such as: business mix, number and frequency of transactions, whether a customer pays their salary into their Betabank account, number of direct debits. Betabank appears to be quite innovative with respect to the use of non-financial CA measures and HCS is experimenting with the CA data available to try to establish what sorts of data can be turned into useful information. He says:

> *"I just sit with a cold towel around my head [and] analyse the living daylights out of the book. It's why I know the age brackets, it's why I know how many customers effectively have their salary paid into us, I know what the transaction volumes are. You know, I know there are 102 (a blue chip company) employees who bank with us, how about that? I know there are 242 customers who have an X-bank mortgage paid from their Betabank account."*

HCS explains that the regulations prevent banks using such information to market to customers. However, 242 customers who have a mortgage with X-bank have decided to move their current account to Betabank. Their mortgage is stuck with X-bank at present, but if Betabank provide good service they are likely to be first choice when the customer moves house and needs a new mortgage.

6.3.5 How Non-Financial CA Measures Drive the Customer-Focused Strategy

6.3.5.1 Activity Measures

HCS highlights that activity measures as highly important performance indicators for head office management, but they are restricted to the back office and not reported to branches. HCS explains that unlike at 'the big banks' "we don't push those down to the store [branch] level, which is very, very different in the (country) market." HCS stresses again:

> *"The strategy is absolutely: building product proposition which customers would want to use and they either are using it or they're not using it, and it's not really down to the store to influence that – it's down to the product, the proposition."*

Thus a key differentiation factor between Betabank and competitors is frontline staff at branches do not 'push products' to customers. They receive no financial incentives (commissions) to sell products and no measures (for example, product activity measures) which might encourage them to treat any customers differently. The products are designed to meet customers' needs and are advertised (on posters or the internet), but it is demand led with no 'hard sell' tactics employed. The contribution of the frontline staff is being available, approachable and offering exceptional service. HCS says that "it is down to the store because we want the great service, but it's also up to the product guys to make sure what they've designed is what customers want".

Activity measures identify customers with only a current account, who must bank elsewhere and may be loss-making for Betabank (6.3.4.5). When asked whether such customers are discouraged in any way, or offered a 'light touch service' to reduce costs-to-serve, HCS answers: "No, because if they get some money one day, they want to choose where to put it…if they end up with a better service from us, rather than the other bank, then they'll effectively move [to Betabank]." They do not necessarily move 'lock, stock and barrel' but they gradually increase their activity. HCS is monitoring the activity rates of different cohorts of customers to establish the trends. He explains,

> *"The 15,000 [accounts] opened 12 months ago are now transacting 20 times per month, if I look at the accounts…opened say two months ago, it's probably 10 times per month, and that's the bit about testing us out before they move to us, and what we find is...over time customers believe in us more and will move more of their banking to us, so more of their*

direct debits and then their salary."

So Betabank map transaction activity rates against time with the bank and this unusual type of CA measure highlights that customers receiving good customer service get confidence in the brand, do more banking with Betabank and presumably become more profitable. In the absence of financial CA measures at Betabank, HCS is developing non-financial CA measures which monitor the success of the customer-focused strategy in generating more business and, he believes, predict future profitability. This information is reported to "a very select few, but this is part of my role this year around bringing data to life around the organisation."

6.3.5.2 Customer Acquisition/Retention

Similarly, HCS admits some current account customers have free banking because they keep a positive balance, but a low average balance and frequent transactions make them loss-making for Betabank. However, when asked if Betabank use CA measures to target particular types of customers for acquisition or retention HCS says:

> *"Not at all. Not at all. One of the biggest aspects for us is about building the brand and if the customer is a fan of Betabank then it's worth every penny it costs us because they'll spread the word that they enjoy banking with Betabank…and using their Betabank Card and all the little goodies which we do…and they'll tell all their friends and their friends will tell their friends, and you get this sort of effect."*

Therefore, Betabank does not use CA information to segment customers and then differentiate the service available to different customer segments, and they do not target retention expenditure on high value customers or discourage currently unprofitable customers. All customers are treated the same and, in keeping with the highly customer-focused strategy, losses made on some customers are effectively treated as marketing expenses or investments for future growth and profitability of Betabank. Most likely, such customers will one day become profitable as Betabank is asked to meet more of their needs. Arguably, even loss-making customers would show positive CLVs if the financial effect of word of mouth recommendations is considered (as advocated in some CLV models, for example, Bauer & Hammerschmidt, 2005; Ramakrishnan, 2006).

HCS was questioned regarding the assumed value of word of mouth recommendations, and

whether Betabank may attract even more unprofitable customers. His response was:

> *"Could do, could do. But…we're operating in a market where you can't necessarily pick and choose, and we've got to build a portfolio and build a brand at the same time as acquiring what you would determine as the big ticket customers."*

He argues that Betabank only needs a few "big ticket" customers, and they have a private banking team which "manages some very wealthy individuals and those individuals just want somebody to be able to phone up." The brand recognition and the reputation for excellent service attracts "big ticket" customers and providing excellent service to all customers (even if some are loss-making for Betabank) creates and supports Betabank's reputation, as measured by a high NPS. Thus, Betabank's strategy is focused on creating an overall profitable customer portfolio. They initially target 'the right sort of customers' (ones who are not price sensitive and "want a conversation") and make no attempt to differentiate between customers based on profitability.

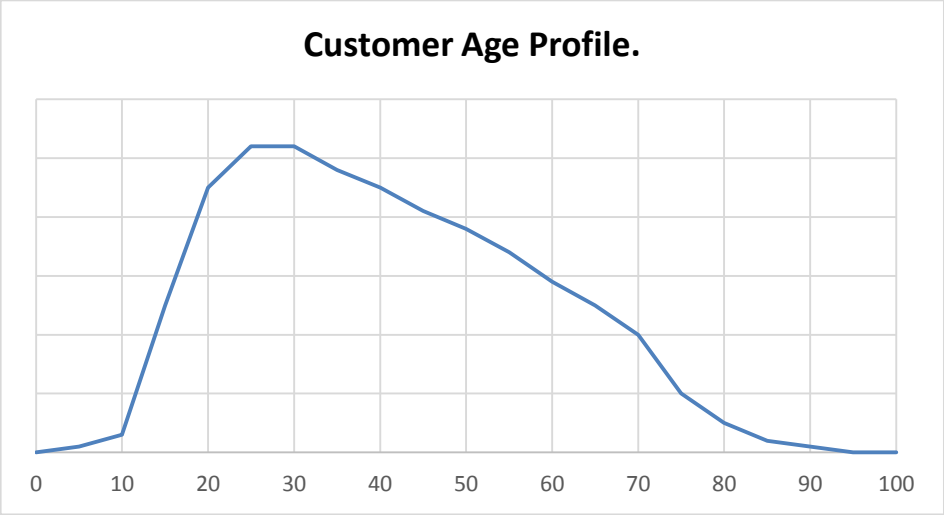

Figure 6.2: Betabank's approximate customer age profile

HCS also says that "the other thing is, we would also believe customers go through cycles, so a 20-30 year old customer might not have any money today, but they probably will by the time they're 40-50… so actually over time those customers will become more valuable to us". Therefore, (like Alphabank) they are investing in the youth sector. But Betabank's assumption about customers having a positive CLV is an 'act of faith' based on experience (at previous banks) and not based on financial CA figures, as they do not measure CLV. However, this 'act of faith' is backed up by Reichheld (1996) who specifically advises retail banks to "map out the whole lifecycle of a customer's interactions with the company and its products" (p.201) and provides an example of the mapping of a "customer corridor" for a retail bank (2.7.2).

HCS confirms they know the age profile of their customers and says, "We have got quite a nice split actually. Obviously there is a dominance at the 20 to 30 age range." Therefore, Betabank have their peak at a higher age than Alphabank (at 25 instead of 18) and they have a generally flatter distribution. This is approximated in figure 6.2.

However, unlike Alphabank, Betabank does not map the age profile of their customers against income in any way, nor against profitability. When asked if Betabank target particular age groups for acquisitions, HCS answers: "No, definitely not" and stresses there is no particular age group target and corrected the researcher's presumption with respect to the provision of money counting machines being a marketing ploy to attract the youth sector. HCS explains that these machines are very popular with sole trader businesses and the service is free to anyone who wants to use it. Consequently, Betabank "*have acquired quite a few customers as a result of it [money counting machines.] We're there when everybody else is shut, nobody else provides the service anymore. So they go: 'well actually, why don't I bank with you' and so they end up doing so."*

Betabank is in a growth phase and so customer acquisition is all important. Although the above section implies that unprofitable customers may be acquired along with profitable ones, this is not of concern to any of the managers interviewed for a number of reasons. First, Betabank's brand reputation will attract the right type of customers (who "want a conversation" and not "rate tarts"), who are potentially profitable customers even if not profitable initially (for example, the youth sector). Second, customers who remain unprofitable but enjoy the customer service become advocates (or apostles, Jones and Sasser, 1995) and create value for Betabank through their word of mouth recommendations.

Betabank's brand reputation is growing and attracting new customers who 'test' Betabank through one product, become 'hooked' because of excellent customer service and in time switch other products to Betabank. New customers may be loss-making initially, but should become high value customers in the future. Presumably some will not switch to Betabank, but is it worth the effort trying to discover which is which? Not at Betabank, because regardless of differences in potential CP there is no intention to offer different levels of service, because that would destroy the culture and damage the brand image. Individual or segmental CP measures are of no interest as there is no likelihood of firing an unprofitable customer or of offering a particular

customer segment a lower level of service to reduce costs-to-serve and make the segment more profitable.

6.3.5.3 CRM Used to Drive the Customer-Focused Strategy

When asked about what measures drive the strategy and whether there is evidence that improvement in non-financial CA measures does improve financial performance, HCS says: "I think the benefit we have right now is we are still very, very close to the customer", and he explains that the strategy and culture of being customer focused is reinforced by executive management behaviour, saying,

> *"Our CEO has attended every single store opening, regularly visits stores, regularly talks to the people who run those stores…that just doesn't happen in other banks…he very, very quickly picks up on things that might be working or might not be working…he has a nosey around CRM to have a look at activities older than 48 hours. So we have a rule within the bank, which is everything must be dealt with within a 48 hour window."*

HCS is referring to complaints or email inquiries, and says,

> *"…it can be just a general enquiry, but it's 24 hours and in its absolute worst 48…and he'll have a look sometimes…at the age of items that are sat in CRM and catch a few people out...a lot of people are on their toes all the time making sure they're living and breathing the values we talk about."*

Therefore, the strategy is well communicated throughout the bank and the requirement to deliver excellent customer service is reinforced by the CEO's actions.

6.3.5.4 Call Centre Performance Drives the Customer-Focused Strategy

The focus on customer service is further demonstrated by the rules around the call centre and the requirement to answer all calls quickly. Another big differentiation between Betabank and other European banks is that Betabank has no interactive voice recognition in general use. HCS explains that initially customers had the option to use an Interactive voice response system (for example, to get an account balance, transfer between accounts or pay a regular bill). However, it is now only used by customer choice, or occasionally when there are exceptionally high call volumes, for example, "an hour or two at the month end". HCS sees this as a big publicity boost

for Betabank, saying: "we monitor the Twitter feeds…and it's amazing how many customers will actually tweet: 'I just rang the Betabank call centre and I actually spoke to a human being'. This is true." (6.3.4.2). Moreover, call centre staff are trained to deal with everything, and HCS stresses: "we don't do any call routing" in order to differentiate the level of service on offer. The call centre passes all customers to appropriate experts.

When asked about measuring call centre activity and costs, and whether such costs are traced to customers HCS says that this is "not even on the agenda". He considered this when the annual number of calls hit 1.2 million. But despite "piling on the costs", he argues that the call centre is part of the customer service package and would never be rationed and there is no point spending time and money on cost measurement or allocation. This contrasts with Alphabank:PB where calls are traced to individual customers and trigger fees if above a monthly allowance.

6.3.5.5 Display of Non-Financial Customer Accounting Measures around Head Office

Reinforcing the importance of CS and other non-financial CA measures is the initiative to make these measures available to all head-office staff and highly visible throughout the office. HCS explains,

> *"One of the things going in very shortly is a whole bunch of TV screens…all around the back office walls...and we will look to display useful information about who our customers are, where do they live and work, how often do they transact with us, et cetera...just stuff to make people remember they work for a bank and it's for the customers."*

He explains they will use the 'mapping tools', available with Microsoft 'Power BI' to create "a really rich dashboard experience [and]…we're looking to deploy it across the business". A generic example of the sort of 'dashboard' Microsoft BI provides is pictured in figure 6.3 below.

In itself the display of measures around the office may not seem important, but HCS highlights the widespread availability of the latest Microsoft technology as an advantage Betabank has over bigger, more sluggish competitors. Moreover, using Yammer to share solutions to EODs and the timely display of important non-financial CA measures which drive the bank's strategy is "shaping the culture" of the bank. Kaplan and Norton (2004b) argue that firms with a customer-focused strategy must determine how "customer-centric" the firm's culture is, whether employees are "motivated to deliver excellent customer service" and "how well employees share with others

their knowledge about the company's customers" (p.60). Betabank have the right focus in these respects and appear to agree with Kaplan and Norton (2004b) that: "no asset has greater potential for an organization than the collective knowledge possessed by all its employees" (p.63).

Figure 6.3: A generic example of a Microsoft 'Power BI' dashboard

6.3.5.6 Relevance of the CA Measure: 'Number of Products per Customer'

When asked if Betabank measure 'number of products per customer' like many other banks do, because they believe it is correlated with CP, HCS says: "unless it's Y-Bank…[who say]…all our customers have got seven products each." But this is an overstatement based on the wide definition of 'a product' (for instance treating internet and telephone banking as two products). Betabank can easily establish the average number of products per customer, but HCS asks: "are we interested in it? No, not at all". Apparently the chairman requested this number once, but it is not reported because Betabank has a small product portfolio and one way to grow 'average products per customer' is to grow the product portfolio, but that may merely share more products around the same number of customers and increase the cost/income ratio. Betabank avoid driving this type of behaviour and will not push products on customers.

HCS confirms that he would not wish to treat a customer with three credit cards as having three products and says: "It's a bit of a stupid measure really." He explains that even a customer with three current accounts with you doesn't necessarily "bank with you" which requires a customer to pay their salary in, have a certain number of direct debits paid from the account and have a

certain level of transactions (including withdrawals from ATMs). PD confirms the importance of 'main bank' customers to Betabank, saying: "as propositions manager I look at a couple of things". One is the "activity segmentation" for personal banking.

This is a segmentation of customers into four groups based on their activity levels, or extent of product usage. The four segments are described by PD and HCS, using slightly different terms, as follows:

- Primary or Main
- Active or Secondary
- Inactive or Sporadic
- Dormant.

For PD, this activity segmentation is important because:

> *"We know a lot about what that means for us; main bankers are three times more likely to take additional products...they are three times better in terms of their risk profiles, they stay with us up to 11 years longer than non-main bankers and they will recommend us up to four time more than other customers."*

PD quotes such statistics from past experience, but argues that they are proving true at Betabank. He says: "It's axiomatic in the market that where you have a main banker…you are their first port of call for additional products" and "by definition if they are paying their salary in they are a better risk profile…so we look at those kinds of things and measure those kinds of things quite carefully." HCS claims that a measure of success in relation to the customer's perception of the bank's customer service is a change from being merely 'active' (perhaps just testing out Betabank) to being 'primary' and hence becoming a Betabank 'main bank' customer. Also, HCS believes: "a primary customer will make us more money than an active, definitely." It is therefore important to use the customer data to establish the number of primary customers and more particularly the rate of change from active to primary customers. Betabank are currently trying to decide how to make 'the important measureable'. The importance of the conversion rate to primary customers is stressed by HCS as follows:

> *"It's a measure of success for us, and equally a customer who banks with us will ultimately*

be more of a fan, spread the word, build the brand and ultimately bring all of their banking needs to us, so when they've got money and deposits they'll bring that, when they want to borrow they'll come to us, that's what a primary customer does, and I truly believe in that.".

This is in line with Reichheld's (1996) 'customer corridor' in retail banking (2.7.2) and also consistent with Alphabank:BB's approach (5.4.1)

In PD's opinion, the second most important CA measure is transaction volumes. He highlights two key drivers of profitability in banking, the number of transactions and the balances held (whether lending or deposits) and says:

"So you can get inactive people [customers] who are highly lucrative because they hold big balances in either direction, but then you get transactional people, and we make money from transactions, so every time people use their money or their card we get interchange. So that is a key driver as well".

So, for credit card customers Betabank's key measures are the size of balances (split between those who always pay off the balance monthly and those who pay down over a long period), the amount of arrears and related collection rates. Inevitably Betabank has risk committees to score the risk of various segments of the book. From the measures mentioned above PD can "get a very quick understanding of how healthy the book is" (where healthy relates to the relative risks associated with categories of business).

PD stresses although they are monitoring this type of segmental data they are not using financial measures of profitability or net present value of products or customer segments. He says,

"We are not doing NPVs…which is partly because at this stage in the game it is probably overkill…the NPV of our current account is x and the NPV of our savings account is y. What that then leads you to go is 'well, why aren't we doing more of them?'."

He explains that such measures would only lead to a temptation to push the more profitable products. He says that "we don't want to product push, and the problem with [product or segment profitability measurement] is it does push you down the route to optimise, and optimising often leads to bad customer outcomes."

PD criticises 'the big banks' for pushing products, saying: "it just mucks up your whole

productivity, your whole return on capital." Because 'the big banks' focus on number of accounts instead of number of 'active' accounts, which is considerably lower and they therefore, overstate their actual yield figures. In contrast, Betabank's strategy of not actively 'pushing' products to customers means:

> *"customers who are opting for their second product are highly active, 99% active, because they have asked for it…The other guys [the big banks] are getting those customers too, but they are getting a load of other people [customers], they flog stuff to them and they are not going to use it."*

Betabank does not prove the validity of this argument by measuring the profitability of customers with secondary products, but they measure activity rates, and PD says: "They will be active and that generally is correlated with profitability." Therefore, an important non-financial CA measure at Betabank is activity rates, because they are believed to be strongly correlated with CP.

6.3.5.7 Customer Acquisition and Retention

Betabank has a clear 'customer value proposition' designed to entice a specific customer type, the sort of customers who 'wants a conversation' with a bank they can trust. The typical customer Betabank attracts requires the convenience of alternative distribution channels and so online banking facilities and phone apps are important, but not a substitute for a branch and the ability to get face to face advice. Moreover, customers remember the GFC and various mis-selling scandals and are fed up with 'hard sell tactics' and impersonal, generic services. Hence when new customers try out Betabank, the convenience of branches, long opening hours, a 'meet and greet' service and yet no pushing of products, "just blows people away" (PD). Moreover, by having no "sexy pricing" to entice customers, Betabank does not attract price sensitive customers (what Alphabank:PB call 'soloists') who would be unprofitable because they are unlikely to become loyal, main bank customers. Also, by not incentivising frontline staff to push products, activity statistics for new accounts opened and new products taken up are realistic, because customers have requested them and Betabank avoids generating a high proportion of new accounts which are inactive and quickly become dormant and unprofitable.

Betabank 'fine tune' their activity measures and do not just rely on measures like number of new products sold or number of new accounts opened; they go further and segment customers

according to activity rates. The conversion rate of active customers to primary (main bank) customers is believed to be a key measure of the success of Betabank's customer-focused strategy as it indicates the number of customers impressed enough with the levels of customer service to make Betabank their main bank and it is believed that profitability will follow. At Betabank there is no segmentation of customers based on CP to target retention expenditure to profitable segments. This is because the highly customer-focused strategy requires all customers to be treated the same and levels of service will not be altered based on CPA or even activity levels. Similarly, there is no intention to use CPA as a basis for discouraging or firing customers. In extreme cases, customers are fired on the basis of the normal banking risk assessment (significant default), but never just due to low profitability.

6.3.5.8 Pricing Decisions

Betabank use market based pricing, but do not compete on price. More specifically they do not use discounted prices (or 'teaser' savings rates) to attract new customers, and price is an order qualifying criteria as they use "second quartile pricing" (PD). This ensures they do not attract 'rate tarts, who are unlikely to become loyal, high value customers. FPA provided an example of how enhanced data analysis ability identified an under-priced product and allowed Betabank to monitor the effect of price adjustment on product level revenues and volumes and hence ensure the price increase would not choke off demand. Therefore, data analysis is starting to inform pricing decisions, but the approach is cautious. According to PD, although Betabank wants to set prices at the right level they will not copy the method of other banks of using data to enable them to keep inching up prices, bit by bit, until they optimise profitability for each individual product. This is not customer-focused and hence Betabank prefer to maintain a portfolio approach and meet customer needs at reasonable prices.

6.4 Summary: How Non-Financial CA Measures Drive Profitability

Betabank use numerous non-financial CA measures to manage and monitor their strategy. These measures are segregated into two types: first, CS measures, leading indicators which monitor perceptions of excellent customer service, and second, activity rates, lag indicators which monitor growth and report the outcomes from providing excellent customer service (for example, number of new accounts and rate of conversion from active to primary customers). It is believed by Betabank management that improvement in these non-financial CA measures

drives profitability. There are efforts to triangulate non-financial CA measures (for example to link EODs and their rectification to NPS) but no attempt to forge links through CPAIC or CLV (neither of which are measured) to overall bank profitability. However, there is clearly a belief, at all levels, that NPS drives profitability (through increased account openings, growth in deposits and lending, and through conversion from active to primary customers). These relationships are summarised in figure 6.4.

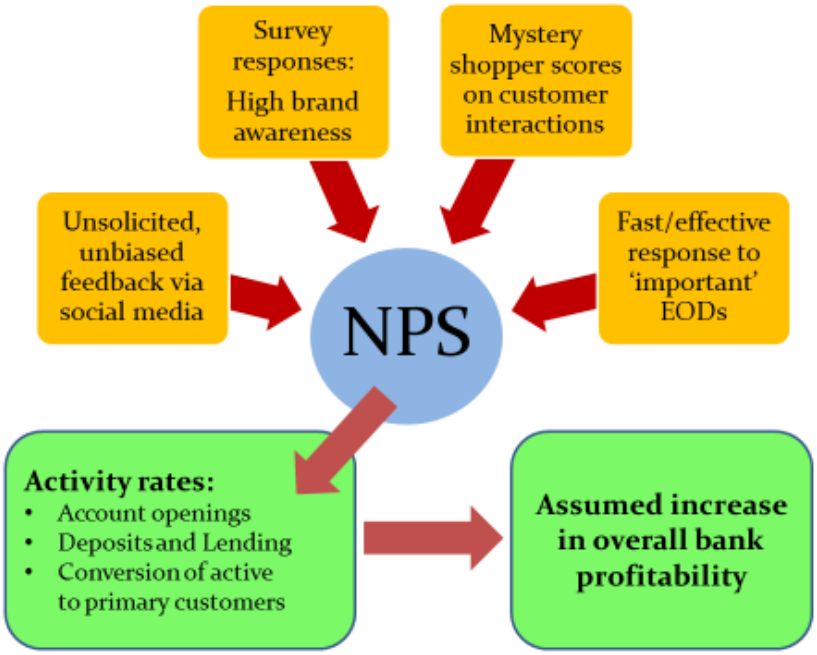

Figure 6.4: How CS measures drive NPS, activity rates and profitability

6.5 Case Two: Analysis

Betabank has a unique type of customer-focused strategy, based on strong differentiation from competitors, 'the big European banks', who have lost the trust of many customers. This differentiation is reflected internally in Betabank's PMS as there are no financial CA measures used and the CA focus is entirely on non-financial CA measures, which are believed to be drivers of profitability through enhanced NPS. There is a strong emphasis on the volume of customers in the 'main bank' segment and hence the rate of conversion from active to primary (main bank) customers. In addition, Betabank monitor the size of balances held by customers and the volume of transactions (or activity rates). The non-financial CA data from the 'voice of the customer' programme is primarily used to measure the successful implementation of the strategy to provide excellent customer service and hence high CS levels. The monitoring of activity levels enables aggregate profitability levels to be predicted with a high degree of accuracy. Financial CA

measures are not used because they may drive the wrong behaviour, encourage staff to push profitable products (regardless of customer needs), and lead to "bad customer outcomes". Therefore, the highly customer-focused strategy does not drive use of financial CA measures, quite the opposite, it drives a need for non-financial CA measures to be employed by Betabank to manage and monitor the intensely customer-focused strategy.

Although Betabank does not measure CSPA or CPAIC, managers have considerable past experience working with 'the big banks' and hence they know the type of customers who are likely to be profitable. It might be inaccurate to argue that Betabank has no use for CPA as staff are using previous experience to identify the characteristics of profitable customers, and such knowledge informs the nature of the customer-focused strategy, designed to attract an appropriate type of customer. Betabank staff agree a few unprofitable customers will be attracted as well, but they do not care because:

1. There is no intention of segmenting customers based on current or potential profitability levels anyway. It is a key part of the strategy that all customers are treated equally.
2. Initially unprofitable customers may become profitable if they migrate to more Betabank products (and become main bank customers), and if not, they add value through being advocates or apostles (what Betabank calls fans).

Given its early stage of evolution, Betabank has been mainly concerned with assessing customer needs and providing the right propositions (combinations of products) to meet these needs (as advised by Saxe & Weitz, 1982; Homburg et al., 2009 & Kotler, 2003). They believe they are achieving this quite effectively and various non-financial, 'voice of the customer' measures monitor progress towards this objective. There is concern about the cost of achieving this from some quarters and PPA informs pricing decisions, but only to bring prices in line with market expectations or confirm that Betabank's prices are different for good (strategic) reasons. Betabank know the profitability of individual products, but do not make this decision relevant, because they have a product and customer portfolio approach. They accept they carry some unprofitable products in the portfolio, but the primary emphasis is providing excellent customer service and meeting customer needs. They offer the same service to all customers, even currently unprofitable ones, in line with the intensely customer-focused strategy. Whilst in this growth

phase all customers will be of value if they stay with the bank, and become fans and advocates of the Betabank brand.

This brief summary and the preceding two sections have described Betabank's actual CA measures and how they are used. This will be analysed further in the cross-case analysis (chapter eight). This section will next use the contingency-based framework set up in chapter three to analyse the factors influencing the choice of CA measures and the way they are used to support Betabank's customer-focused strategy.

Betabank's strategy is somewhat unique as they are a very young, challenger bank, who have been building a significantly different brand image in contrast to 'the big banks'. HCS says: "We pride ourselves on the fact that we can give a different service and that we're a different environment to come and bank in". PD argues: "the location and availability of the store [branch] is hugely important", and in fact an order winning criteria. The long opening hours and everyday availability of stores is unique, stores are very impressive, always on corner sites, and there is a meet and greet policy for all customers. Getting through immediately to a "real person" in the call centre is another unique feature Betabank customers talk about.

Betabank's strategy is definitely not one of low cost as they have "second quartile pricing" and hence "very unexciting rates", but is one of differentiation based on excellent customer service and is classified for this study as one of 'customer intimacy'. This is mainly because it is more than generally 'customer-focused' as was the case for Alphabank. Particularly for business customers, Betabank can offer a tailored approach as they believe in 'partnership banking' and do not apply the 'pro-forma' approach 'the big banks' offer. Of most importance is there is no attempt to identify 'low value' customers and offered them a 'low touch' service – all customers are provided the same excellent service.

Betabank appears to be fairly hierarchical and is currently quite centralised, all managers at a certain level receiving the same financial 'deck' (monthly financial report), rather than just the figures related to their segment of the business. However, the executive team appears to set a very clear strategy and culture for the organisation and then authorise their managers to get on and implement the strategy and produce what information they believe they need. The organisational structure is therefore categorised as mixed. The European banking sector is

mature and, particularly since the GFC, is intensely competitive. Achieving growth depends on 'poaching' customers from other banks and there is mistrust of banks by customers since the GFC and subsequent scandals relating to LIBOR manipulation and inappropriate selling tactics. For personal customers it is relatively easy to switch banks and most of the banks offer a 'seven day switching service' and incentives. Consequently, there is a high propensity to switch, confirming the high competitive intensity.

Betabank, at less than 5 years old, is young and in an early stage of development, and this inevitably impacts on ICT. At the present time the MIS is fairly basic, and still under development and FPA is only now "beginning to revolutionise…data capability". There is no ABC system or conventional absorption costing system to support either product or CP based on full cost figures. The ICT is therefore classified as underdeveloped. The number of customers is high, at just above 600,000. Although there are some one-to-one relationships, and hence 'some CRM', particularly in respect of business banking and high value personal customers, the marketing strategy is based on offering excellent customer service to all customers, and hence the marketing concept, assessing customer needs on a group basis, is used.

These key characteristics are highlighted in figure 6.5 below.

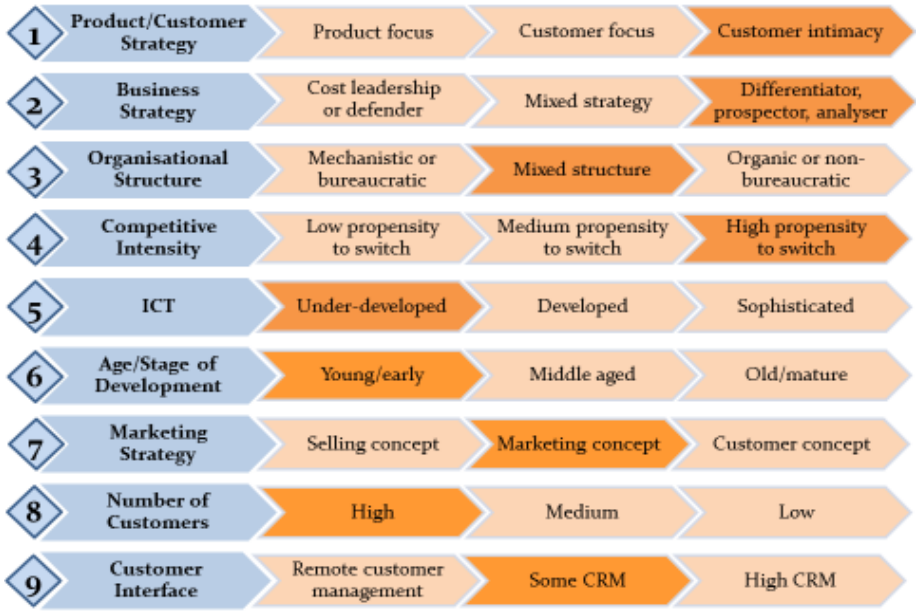

Figure 6.5: Betabank – Factors influencing CA highlighted

6.5.1 Contingent Factors Explaining Lack of Financial CA

One of the basic premises of this study was that the adoption of a customer-focused strategy would be a contingent factor driving the use of sophisticated CA practices (such as historical CSPA and CPAIC). Further, a company with the most intensive type of customer-focused strategy, such as customer intimacy (Treacy & Wiersema, 1993), and therefore the desire to tailor services to individual customers, would most likely make use of both historical CPAIC and forward-looking measures like CLV (Kotler 2003; Kaplan & Narayanan, 2000) to manage and monitor its chosen strategy. This reinforces the importance of strategy as an implicit contingent factor which determines the choice of the CA measures needed. However, one cannot simply assume a customer-focused firm inevitably chooses to support their strategy by extensive use of sophisticated, financial CA measures, because Betabank does not use financial CA practices at all. It seems possible this is because of Betabank's young age and early stage of development and/or their underdeveloped ICT. However, the lack of an ABC system is not considered a significant enough reason, as despite the general advice in the accounting literature for CA to be supported by ABC (Howell & Soucy, 1990; Smith, 1993; Kaplan & Norton, 2004a; Smith & Dikolli, 1995; Kaplan & Narayanan, 2001; Cokins, 2013) there are advocates of a marginal costing or contribution-based approach (Ward, 1992). Further, the majority of the marketing-based CA literature also assumes a contribution-based approach, particularly for measurement of CLV (Bates & Currie, 2014) which implies that CPA is also contribution based. We therefore have to ask whether in Betabank's case, the underdeveloped ICT is a significant barrier to use of financial, contribution-based CA measures.

There is some evidence suggesting that underdeveloped ICT is a barrier, as HOF explains that although Betabank's 'core banking system' holds all transaction data, "I think the difficulty is having the capability of dragging it out". However, they are already able to conduct PPA. Moreover, HOF claims that although PPA is providing information which can be used to change profitability, he also says that "whereas [given] this bank's ethos, it's not the driver". PD is more emphatic about the lack of any need for CPA: "yes we know them [the profitability of products], we just don't choose to make them a decision-making variable" (6.3.1.3). FPA confirms the ability to measure CP now (presumably on a contribution basis) as he says, "I can effectively create a P&L by customer", but he thinks it is "pointless" because "all those people who have given us deposits, they're all losing us money, so what's the point?" (6.3.1.3). Moreover, the executive

team do not want to see any CP measures, mainly because they do not want to drive the behaviours which caused customers to become disillusioned with 'the big banks', for example, heavy selling activity to increase profitability and providing cheaper, inferior service to low value customers.

Therefore, underdeveloped ICT at Betabank is not considered to be a relevant barrier to more widespread use of financial CA. In fact, financial CA is not desired, because it will drive the wrong behaviour and will be a hindrance to effective implementation of the intensely customer-focused strategy. Betabank's strategy is about meeting customer needs. They have both a product portfolio and a customer portfolio approach, with a primary emphasis on providing excellent customer service to all customers. Therefore, they may have unprofitable products and customers in those portfolios. However, management believe the Betabank brand clearly identifies the bank as different to other banks, not cheap (or paying premium savings rates) but offering excellent customer service. Thus, Betabank attracts a specific type of customers, ones who will be of value if they stay with the bank, if only because they will become fans and act as advocates of the Betabank brand (6.5). Therefore, a major conclusion here is that the implementation of an intensely customer-focused strategy 'applied to all customers equally' is not well served by the use of financial CA practices.

As mentioned above, Betabank's young age and early stage of development might explain the lack of financial CA practices, as the bank is still in a rapid growth phase and financial CA measures may become important when it reaches a steadier state. But that could be a long way off. Moreover, Betabank's stage of evolution, small size and lack of resources might prevent the implementation of a sophisticated ABC system. However, the researcher believes such a system would not currently pass the cost/benefit test, given the culture of the bank and its focus on meeting customer needs and offering excellent service to 'all customers'. There is no need for a sophisticated cost system when detailed, full cost CPA is not only considered unnecessary but potentially damaging, as it might drive behaviour inconsistent with Betabank's strategy and culture. Therefore, an underdeveloped ICT does not seem to be preventing use of financial CA: the capability is there, but a customer intimacy strategy, and a strong Betabank brand which differentiates the bank on the basis of its excellent customer service, does not drive the need for financial CA.

6.5.2 Contingent Factors Explaining Use of Non-Financial CA

As discussed above, one revelation provided by the Betabank case is the type of intensely customer-focused strategy adopted cannot be effectively managed using financial CA measures as these would drive inappropriate staff behaviour. How then is the effective implementation and success of the customer-focused strategy measured and monitored? The answer is that Betabank extensively use non-financial CA measures to drive their strategy, including numerous measure considered to articulate the 'voice of the customer'. Hence, Betabank's customer intimacy strategy, with differentiation on the basis of service excellence, drives the need for measurement of the various aspects of CS and their impact on NPS and subsequent activity rates, as summarised in figure 6.4 above. These are considered non-financial CA measures and are clearly presumed to drive growth, and enhance profitability at Betabank.

The European banking sector is intensely competitive, with banks' fighting each other for a limited number of customers driving a high propensity to switch. Betabank attracts new customers with a promise of excellent customer service, but new customers are only testing out Betabank and will be easily tempted to defect if Betabank provide poor service. Hence the competitive intensity faced and high propensity to switch drives the need for non-financial CA measures to monitor the successful implementation of strategy. The need for the 'voice of the customer' measures (6.3.4) and the service performance measures, like mystery shopper analysis (6.4.4.3) and expressions of dissatisfaction (6.3.4.4) are thus driven by the competitive intensity faced and Betabank's strategy (of customer excellence) for coping with it. Only if Betabank can deliver the excellent customer service they promise will customers convert from active to primary customers and ask for more products. Hence Betabank monitor driver measures of customer service and satisfaction and their effect on NPS, and ultimately the results measures in terms of activity rates, clearly believing enhanced profitability will follow.

Betabank's relatively small size and only medium number of customers makes them nimble and to some extent provides an ICT advantage as they are able to purchase and implement the latest communications software and pass information around the organisation quickly. This ensures staff are kept informed, facilitates effective on the job learning and training and helps keep all Betabank staff focused on delivery of the customer promise of excellent service. Microsoft BI provides dashboards on customer activity and Yammer promotes institutional learning of ways

to rectify service failures and enhance customer service (6.3.5.5). Thus, although ICT has been classified as underdeveloped, mainly due to the lack of a sophisticated costing system, available resources have been invested in ICT to produce the necessary non-financial CA measures to support the strategy. Moreover, the collection of information provided about EODs, their cause and likely impact, and suitable solutions to 'amaze' and hence retain customers is in line with advice in the literature about successful service recovery converting potential defectors into advocates (Kaplan & Norton, 2004b; Jones & Sasser, 1995) and similar to practices within Alphabank (5.4.4.2).

Betabank adopts the marketing concept of marketing strategy and focuses on customer groups. One might expect this to lead to the use of CSPA. Similarly, the high level of CRM used might herald use of CSPA and even CPAIC. However, these measures are not used at Betabank, because such profitability measures are replaced by non-financial CA measures as discussed above.

7 CASE THREE: THE GLOBAL COURIER COMPANY (GCC)

Chapter six presented and analysed the results of case two, Betabank, a second exploratory case within the banking sector. This chapter presents and analyses the results of a third exploratory case in an alternative industrial sector, included in this study as a literal replication (Yin, 2014). Despite being in an alternative industrial sector, case three is expected to provide further confirmation of the relationships between contingent factors and CA usage, as stated in the nine propositions developed in chapter three. Case three is a global company operating in the express courier sector. GCC has a customer-focused strategy with reliability and service quality as the main order winning criteria and competitive price as the key order qualifying criteria.

This chapter describes GCC's strategy, the nature of the CA practices it uses and how those CA practices are used to manage and monitor the firm's customer-focused strategy. The contingent factors that determine the choice of CA measures and their usage are identified, as are the issues that hinder more widespread use of CA practices within GCC. Finally, some conclusions are formed.

7.1 Description of Case and Staff Interviewed

For confidentiality reasons only limited information can be disclosed about the case. GCC aims to exceed its customer expectations relating to transfers of goods and documents around the world. They provide time-sensitive, national and international express delivery services and pride themselves on providing excellent customer value through the effective utilisation of their extensive delivery networks, by finding efficient solutions to customers' problems, and providing a highly reliable service. GCC's customers range from large multinational companies to SMEs, and GCC specialises in providing customised, industry-specific services to larger global customers and a fast and reliable standard service for SME customers. On average, GCC moves 4 million parcels, documents and pieces of freight each week, with most packages moved by road using the company's fleet of over 25,000 vehicles. GCC are not the biggest GCC, nor are they the cheapest. They operate a customer-focused strategy, mainly based on the quality and reliability of their overall service.

As explained in the method section (Chapter four) GCC staff at different levels of the company were interviewed. The relationship between the four interviewees is outlined in Figure 7.1 and explained below.

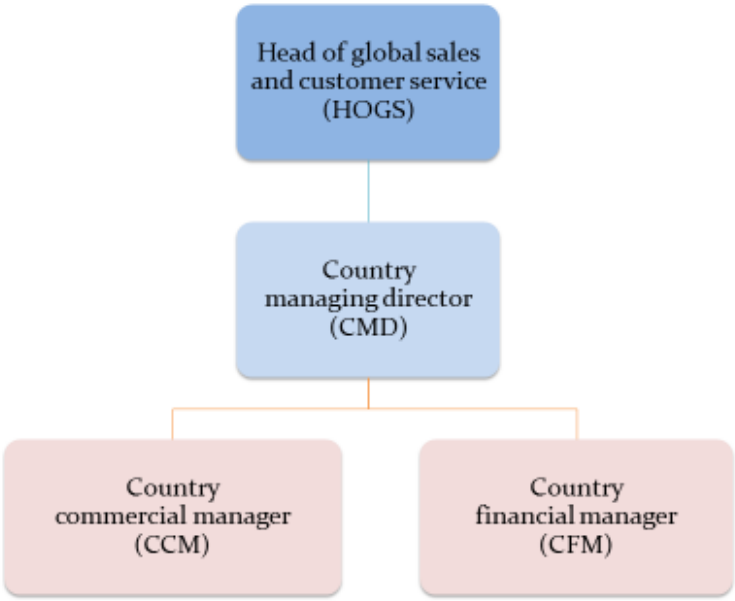

Figure 7.1: GCC – Relationship of interviewees

The HOGS was until recently in charge of GCC's sales and customer service across the whole world, and previously managed the business across Europe and North America. HOGS was not familiar with the term 'customer accounting'. When it was explained, he said thousands of GCC employees would definitely understand the term CP but probably not CA. The CMD heads GCC's domestic and international business in a region encompassing two European countries, the majority of GCC's business in this region comes from one of these countries and as CMD frequently refers to 'country' rather than 'region', the term country is used throughout the following discussion.

The two interviewees below executive level are the CCM and the CFM. CCM reports to CMD and heads the team which looks after pricing and monitors profitability for all customer segments. This responsibility covers existing and new customers and includes: "any price and activities taken on…to either grow those accounts, retain those accounts, gain an annual rate increases, change the balance of tariffs and things like that. Basically any pricing or tariff related activity sits here". He further explains that this involves setting terms of standard contracts relating to

smaller customers (territory sales (TSM[22]) and ad hoc) and also the bespoke contracts for "the larger opportunities that we get". The customers provided with bespoke contracts are categorised by GCC as either key customers (KAM), because of their large volume of business, or strategic customers (SAM), because of their size and industry sector. CFM heads a team within the finance function and provides financial support to CCM and CMD. The role includes budgeting and, pertinent to this study, "some of the more specialist areas of the business reporting" including historical CP of existing customers and the 'cost modelling exercise', a predictive tool for measuring short-term future CP of prospective customers and existing customers who need review. A description of GCC's MCS and the costing system and CP measures within are provided in section 7.3.

7.2 GCC's Customer-Focused Strategy

GCC's 2013 annual report highlights distinctive service propositions as key to overall strategy. CMD states:

> *"We have always prided ourselves on the quality of service we provide our customers, and with that it means giving us the ability to be able to probably charge more than our competitors would, based upon the reliability we can offer".*

GCC follows a differentiation strategy, based on service quality and reliability. The company offers customers more than the traditional services expected from an express carrier, as GCC have diversified into records management, facilities management, and information solutions. CMD says: "What we are trying to do is create solutions around the propositions that our clients offer." For example, facilities management includes in-company mailroom services and reprographics, services required by many SAM and KAM customers. To deliver these services GCC will place their own employees (implants) on customer premises (in the mailroom or reprographics department). Hence, a tailored service is provided to customers, drawing on a mix of products and services designed to meet the customer's needs.

When asked if GCC is product-focused or customer-focused, CMD answers: "We are definitely customer-focused. Our products have actually come from the requirements our customers

[22] The descriptors/abbreviations used here for customer segments (TSM, KAM, SAM, ad hoc) are those used by GCC staff. The nature of each customer segment is explained in detail in 7.2.1 below.

have…you've seen evolution in regards to our products based upon what our customers want." Regarding order winning criteria, CMD says: "…it's the relationship and quality of service we offer…If you ask our customers, they like doing business with us...they know what we stand for."

HOGS confirms that globally the company is customer-focused and says that for SAM and KAM accounts "it's difficult not to be" because the service is tailored to specific customer needs. He opines that reliability and service is GCC's order winning criteria: "we know we're not the cheapest, we can't compete on scale with X" (one of the biggest, global courier companies). He adds: "we'll give you good service. We will do stuff that is out of the ordinary. We'll go the extra mile…give you the value added stuff, but you know, you're going to pay for that." He suggests that effective CRM is key to SAM and KAM accounts:

> *If you take reliability as a given….and the price is more or less competitive, then you know where we tried to go in terms of keeping accounts, is in [the area of] relationship management…it really is about becoming a decision making strategic kind of team with our counterparts in our biggest customers.*

Therefore, for SAM and KAM customers, effective CRM is key to providing reliability and CS and the effectiveness of CRM will need to be balanced against the costs-to-serve customers and the revenues generated. It is therefore expected GCC will need CA measures to monitor the financial effect of adopting a customer-focused strategy. Moreover, the above descriptions of GCC's strategy, particularly relating to SAM and KAM customers, confirm a differentiation strategy based on customer intimacy, as described by Treacy and Wiersema (1993) and Kaplan and Norton (2004a), who recommend supporting such a strategy with historical and forward-looking CA metrics. Nonetheless, this high level of customer intimacy only applies to SAM and KAM customers and some large TSM customers. For SME customers (TSM) on standard rates, and ad hoc customers, the strategy is still customer-focused, (because reliability and quality service are order winning criteria) but not one of 'customer intimacy'. For these customer segments, GCC's focus is on meeting the needs of a homogenous group of customers with a standardised service, which is differentiated by reliability and quality service. Kotler (2003) describes this approach as the 'marketing concept', which "focuses on customer needs…and produces profits by satisfying customers" (p.20), and suggests that this focus on customer segments needs the support of CSPA.

When asked about GCC's emphasis on the marketing concept, a focus on customer groups,

compared to the customer concept, a focus on individual customers, CMD answers:

> *"I think traditionally…we've gone on just focusing on the customer and having a very broad brush approach. I think in the future we'd focus more towards groups of customers, so vertically driven rather than more generalist [approach]".*

He explains that GCC does target customer groups in particular industry sectors as this provides operational efficiencies and higher profitability. This is consistent with the strategy description in the Group's annual report which includes development of business in particular industries which provide a good match with company's operations.

7.2.1 Customer Segmentation

HOGS explains that the segmentation of customers into four main segments (as described below), is not merely based on business volume, but on the profitability of customer segments. The operational parameters and the way sales and marketing departments interface with customers helps determine the segmentation, including whether CRM is employed and whether customers are regularly visited, contacted by phone or merely trade online. Thus, although GCC has an overall customer-focused strategy, different strategic tactics are applied to different customer segments. Inevitably the segmentation is not an exact science and CFM explains that a 'parent' account will be viewed as a SAM account and it will have multiple 'children', or sub-accounts, which may be treated as TSM accounts for general sales and marketing purposes.

7.2.1.1 Strategic Accounts (SAM)

There are between 150 and 200 SAM customers who generate between 20% and 30% of total business volume (measured either by sales revenue or by number of consignments delivered). HOGS describes this as "Pareto plus plus", contrasting GCC's situation to the Pareto 'rule' of 20% of customers generating 80% of sales. SAM are "base load accounts" as they are large and support network infrastructure. They are strategically important because of the customer's physical location or industry type. CRM is important and the biggest SAM accounts have a dedicated relationship manager for each customer and for slightly smaller accounts, not more than two or three SAM customers per RM.

7.2.1.2 Key Accounts (KAM)

Key accounts may be national or multinational ones which are managed on a global or regional basis. There are 300 to 400 smaller, global accounts. These exceed a minimum annual trading volume, and so are large, but are not considered strategic. There are seven or eight KAM accounts per relationship manager so a fairly heavy CRM emphasis. National accounts are inevitably a little smaller and there are fifteen to twenty accounts per RM, but a CRM emphasis is still necessary as a customer specific service is offered.

7.2.1.3 Territory Sales (TSM)

The TSM segment consists of a large number of SME customers who are controlled at local depots by field sales executives making visits, and sales staff phoning according to a planned roster. TSM business is priced on the basis of standard contracts and tariffs, with field sales executives having some discretion to give discounts for high volume business.

7.2.1.4 Ad Hoc Sales

The biggest segment, by number of customers (81.3%), are the ad hoc customers. These customers may only do business with GCC once or twice a year and will have limited contact with GCC staff (normally conducting business entirely online). Ad hoc customers choose the product themselves and pay standard tariffs. Any ongoing marketing contact is by email.

7.2.2 Competitive Intensity and Order Winning Criteria

HOGS says that for SAM/KAM accounts, what is important to customers has not really changed over the years: “it’s normally reliability first and price second”. However, “for a few years, it was price first, price second and price third, but now it’s going back to something like normal, so reliability is…the hygiene factor, and then price follows…there isn’t much [price] elasticity”. Therefore, increased competitive intensity during the post GFC recession resulted in severe downward price pressure. However, there is now reversion to reliability as the order winning criteria. CMD similarly stresses intensified competition post GFC and observes that even after the recessionary pressures have eased, GCC are working harder for the same revenue, due to increased competitive intensity in the express delivery market place.

HOGS confirms the high competitive intensity. For SAM/KAM accounts, he says, “If you weren’t

customer-focused you'd be in big trouble". Therefore, the intensity of competition in the express delivery market is a contingent factor influencing GCC's continued commitment to a customer focused-strategy and it is expected that CA practices will be needed to support the strategy. Moreover, continued downward pressure on prices, and a need to offer a highly reliable service to win business, so upward pressure on costs-to-serve, increases the need for accurate CA measures.

In addition, HOGS says: "I think the thing called 'ease of doing business' becomes increasingly important" and he relates this to 'complaint resolution', highlighting that these as important order qualifying criteria (or hygiene factors). The importance of these order qualifying criteria is discussed later (7.4.5).

7.3 The MCS and the CA Measures Used at GCC

This section outlines the management information and costing systems used by GCC and describes the alternative financial and non-financial CA practices used to manage GCC's four customer segments.

7.3.1 GCC's Management Information and Costing System

GCC's MCS contains sufficient customer level information to produce an income statement, or P&L as it is called at GCC, for all customer segments and for individual customers within each segment if required. The CA information reported differs between customer segments. CSPA is initially used to determine the overall profitability of each segment and further CA measures are used, as appropriate for different segments or individual customers within them. The 'CP system' provides historical CP of existing customers at either segmental or individual customer level and there is also the 'cost modelling exercise', a predictive tool for measuring CP of potential international customers. At country level, the equivalent predictive model for domestic customers is the 'express pricing tool' (explained in 7.4.1). CFM explains that GCC's sophisticated ABC model measures the profitability of international customers and facilitates re-charges (transfer prices) for movements across GCC's airline and road networks. The model provides unit rates (ABC burden/activity rates) to calculate CP for domestic and international customers. CFM distinguishes the company wide global model from the locally maintained domestic model, but explains that they use common ABC principles and are integrated. All transfer prices are on a full

cost basis and each GCC country is entirely responsible for its own domestic business, for pick-up and cross-country transport of international business originating in the country, and for final delivery of international business which originates abroad but terminates in that country. The costing system is a full cost model, so all operating expenses (including staff costs and infrastructure overheads) are traced to individual consignments.

HOGS observes that overhead allocations and possible double counting when measuring CP are hotly debated at management level. One issue is customers with dedicated customer service staff (implants) have those costs directly traced to them and yet still receive an allocation of corporate overheads. This leads to 'customer specific adjustments' which HOGS says "introduce…an element of reality" or (more correctly) "iron out obvious anomalies". Thus, GCC uses a sophisticated costing system, based on ABC principles, which arguably provides a reliable estimate of the full costs of serving individual customers and also a contribution figure, before and after fixed costs which can be specifically allocated to a customer.

7.3.2 Historical, Financial CA Measures for SAM and KAM Segments

For the top two customer segments by customer size, SAM and KAM, CP margins are regularly reported and the CP measure used (first margin, direct margin or EBIT) will depend on the purpose of the analysis and/or the management decision to be supported. The MCS enables first margin, gross margin and EBIT to be reported on a customer by customer basis. First margin is revenue less pick-up and delivery and linehaul costs, gross margin is first margin less customer-specific fixed costs (if any) and EBIT is gross margin less all allocated corporate fixed costs.

The biggest SAM/KAM customers have a dedicated customer service desk, 'implant' employees and other types of non-standard, value added services. The costs of these are directly traced to the customer (they are identifiable as customer-specific, fixed costs) and deducted in gross margin calculations. ABC drivers trace company overheads to customer segments and individual customers, hence an appropriate share of corporate overhead is deducted from gross margin to arrive at an EBIT-based CP figure for each segment and each individual customer.

HOGS contrasts the courier business with "a factory producing ball bearings, where you can accurately predict what the cost ratio is going to be" and hence can easily predict the margin new business will generate (because all customers buy the same product). However, in the courier

business the margin will depend on the precise mix of services the customer needs and "it depends if the customers are using us for express, for economy, air, roads, short distance, long distance, cross border". He argues that all of these things must be considered when assessing CP. This highlights considerable heterogeneity of business for SAM/KAM customers, which means "if you want to get anywhere close to something that's going to be actionable" you need CPAIC. Therefore, to ensure a focus on CP and not just revenue growth, SAM/KAM sales staff are motivated with a bonus based on both revenues and margins.

In summary, GCC has developed a full cost ABC model to facilitate CPAIC at first margin, gross margin and EBIT for all SAM/KAM customers, at both international and domestic levels.

7.3.3 Historical, Financial CA Measures for TSM and Ad Hoc Customer Segments

For the majority of TSM and ad hoc customers, GCC management believe there is no need to measure individual CP. They have the capability to measure individual CP and HOGS says, "We could measure by traffic lane…by regional or any geography you want". But revenue is the key measure for these segments because the margin is a given. HOGS explains that "unless we did something stupid we would be pretty sure revenue growth would equal margin growth in pretty much a straight line". TSM and ad hoc sales are mostly conducted at standard rates, which vary with volume but come straight from a 'rate card'. They are therefore highly profitable because "when we set the rates on those tariffs we can pretty much guarantee a high level of profitability and we manage the margin fluctuation…by discounting". HOGS explains that a truly ad hoc customer will generally have an EBIT margin of 80% and says that if a TSM customer who brings in regular business "wants a five percent discount they can probably have one". As revenue growth directly drives profit growth, TSM/ad hoc sales staff incentives are based only on revenue targets. This contrasts with SAM/KAM sales staff whose incentives are based on a combination of revenue and margin targets (7.3.2).

CCM confirms that most TSM domestic customers and all ad hoc customers are on standard contracts with standard tariffs. Notwithstanding HOGS confidence that TSM/ad hoc customers are highly profitable, CCM says that the 'CP system' is used to review the profitability levels of standard contracts used for large groups of customers. Within the TSM/ad hoc customer segments there are alternative contracts used, each with different tariffs, and the 'CP system'

can produce CSPA at a finer level of detail, on a contract by contract basis.

7.3.4 Forward-Looking, Financial CA Measures

As mentioned in section 7.3.1, the MCS contains the 'cost modelling exercise', a predictive tool used to assess prospective international customers. The equivalent predictive model for domestic customers is the 'express pricing tool' (explained in 7.4.1). HOGS says that if the model predicts a negative margin the business will not normally be pursued, but highlights that these forward-looking measures need further development and currently GCC does not measure CLV. HOGS says that the key weakness of the forward-looking modelling is its use of historical cost drivers, despite there being initiatives in place to increase efficiency and hence reduce costs. Hence, the cost of prospective business may be over-stated and potentially profitable work may be lost through overpricing. CMD similarly highlights the lack of CLV measures and states: "I have an agenda around revenue management about becoming more dynamic in the way we actually look at the future as well as I look at the current". As explained in section 7.4.4, CMD is particularly interested in a sophisticated system which more accurately measures the costs of servicing customers in different locations and the costs of deliveries to different locations, in order to inform pricing decisions.

7.3.5 Non-Financial CA Measures

Across the whole of GCC, some key measures are used to gauge performance in relation to delivering on the 'customer promise'. These measures are NPS and the customer experience score[23] (CES). NPS is a well-known measure of customer loyalty (Reichheld, 2003) used by many companies (including Alphabank and Betabank). CES is an aggregate measure, specific to GCC, and is a composite of eight to ten measures relating to different aspects of the whole customer experience. HOGS describes CES as including:

> *"Everything from the time you were first contacted as a potential customer through to ease of making a booking, the appearance of the driver, friendliness of the salespeople, our credit control, timeliness and accuracy of invoicing, you know the whole lot."*

CMD indicates information systems aspects (for example the track and trace facility) and

[23] This composite measure has a name which is specific to the company, hence the name has been changed to disguise the company's identity.

complaint handling are included in CES and states: “net promoter and [customer] experience score are exceptionally important…[for] judging what your customer is experiencing within the service” and hence for measuring actual performance against the ‘customer promise’. CCM says that domestically, NPS is calculated quarterly, based on surveys of around 600 customers. The commercial team, who sit within the marketing function, acquire and present the NPS information. A further key non-financial CA measure used is the length of time customers have done business with GCC, and this provides an indication of customer loyalty.

7.3.6 Summary of MCS and CA Measures Used

GCC has a sophisticated ABC system which traces all costs, including the support services (like finance and HR management), to products and customers. GCC measures CSPA for its four main customer segments and is capable of measuring CPAIC for all customers, but choses to measure CPAIC only for customers in its more competitive, less profitable segments (SAM and KAM). CSPA and CPAIC can be measured at first margin, gross margin and EBIT level, depending on the information needs of staff. The development of forward-looking CA measures is ongoing and GCC staff have not yet developed a CLV measure. However, they use historical ABC cost drivers to model the short-term, future profitability of existing individual customers and prospective new customers in SAM/KAM segments. GCC also uses non-financial CA measures, including CES, NPS and business relationship length. The next section explains in detail how these various CA measures are used at GCC.

7.4 The Use of CA at GCC

This section examines how both financial and non-financial CA measures are used by GCC to manage and monitor its customer-focused strategy and also to monitor profitability and drive profitability improvement. The key uses of financial CA measures are to inform decisions about customer acquisitions and customer retention, for managing CP and pricing. The various steps taken before deciding to discourage or ‘fire’ a customer are described. The use of non-financial CA measures relating to CS and customer loyalty as drivers of future financial performance is also discussed.

7.4.1 Customer Acquisition

The 'cost modelling exercise' (7.3.1) provides a forward-looking CP measure for potential international customers. The equivalent model at domestic level is the 'express pricing tool'. CCM explains that a 'customer profile' (see below) and a set of possible tariffs is input into the 'express pricing tool' and the model estimates first, direct and EBIT margins. CCM says, "We get a fast indication on what the total spend is [revenue] and what those profitability levels are." This model therefore predicts the profitability of prospective customers. CCM describes an iterative process, with the sales team returning to check if lower prices can be offered. Also, the tool is used to estimate profitability of "partial profiles", allowing GCC to tender for a proportion of the potential customer's business. For example, the profitability of winning only the express business or the economy business, or international deliveries to a specific country.

CCM explains the importance of the 'customer profile' when predicting prospective customer profitability. GCC would ideally like a recent, detailed customer invoice from the incumbent supplier as this is evidence of likely volumes, weights of consignments, delivery points and times. Such information enables more accurate cost and hence CP estimation than if (say) only average weights and indicative quantities are provided. CCM says, "If the profile was very good we are mitigating our risk, if the profile is a little bit sketchy we're more likely to err on the side of caution". Therefore, a good quality 'customer profile' enables GCC to offer more competitive prices without incurring too much risk.

All potential new customers of significant size are vetted using the 'express pricing tool'. But, for smaller customers this is not always necessary, as there are three key measures which together predict inevitably high CP. The measures are 'revenue per consignment', 'revenue per kilo' and 'revenue per item'. If these all exceed a benchmark this virtually guarantees the prospective customer will be profitable. CCM says,

> *"If we had one [a prospective customer] who absolutely swept the board on all three areas [measures] and there were no issues at all, the chances are, unless it was significantly large, we wouldn't need to run it past finance, because we know it would come back [positive], because we know the fundamentals on which the domestic costing base is built."*

However, if any of the three measures are too low, "we pass the [customer] to finance."

CCM argues that this screening is required "because as a commercial function we haven't got full visibility of all the profitability data like we have internationally". For international business the equivalent of 'the express pricing tool' (the 'cost modelling exercise' described in 7.3.4 and 7.4.1) is readily available and they simply input the numbers and get an immediate answer. But for domestic business operations they have to:

> *"Ask finance to run the analysis for us and it's a bit more of a manual, slower process, so it's useful to filter out what we go to them for, because we think: 'well these are really good here and chances are this one's really good. Actually this is awful here, this definitely will need a look at'."*

The above discussion highlights a significant contrast between CA measures used to assess potential international customers and those used for potential domestic customers. The difference relates to a lack of ICT sophistication at domestic compared to international level. CFM argues: "the environment in which the international profitability tool ['cost modelling exercise'] is housed…is far more robust than the domestic one at this point in time...we've got a fantastic well used proof of concept; we need to now deliver it to a multi-user environment." Thus, CFM suggests the need for systems development at the domestic level to provide a more robust and more widely available model for vetting prospective customers using CPAIC.

HOGS suggests that GCC would probably not consider taking on: "any type of business where the first margin is below sixteen percent". This relates to SAM/KAM customers who have specific fixed costs and hence "you're probably looking at…between five and ten percent" direct margins and "you would like to have something that is ideally…EBIT positive". However, he adds "a five or ten percent EBIT negative account could well give you a healthy contribution, so you know, you have to kind of take each one on its merits". Thus, target margins for new business appear to depend on the economic environment and the impact it has on capacity utilisation within GCC. If competitive intensity leaves GCC with spare capacity (as occurred following the GFC), negative EBIT business may be accepted, as long as it provides a contribution to the fixed costs of the network. HOGS highlights that since the economic environment has improved, GCC makes more efficient use of capacity and CP is vetted more critically.

7.4.2 Managing Profitability

After customers are acquired there is a subsequent analysis based on the actual 'customer profile'. CCM explains that this analysis is performed using a different tool, called the 'CP system' (7.3.1), but they are both use the same ABC system which enables GCC to absorb all fixed costs, including facility sustaining costs, down to individual cost objectives (products and customers). CCM clarified measuring historical CP for existing customers is only required "on an individual customer level if we've created a bespoke rate, so for the personalised tariffs where it isn't a standard contract. Because we're specifically creating it for the customer." Thus, the need for CPAIC relates only to certain customer segments, SAM, KAM and those TSM on personalised tariffs. Where standard tariffs are used (the remainder of TSM and all ad hoc customers) CPAIC is superfluous as CSPA confirms overall segment profitability and all customers within the segment are believed to homogenous and highly profitable. There is no question GCC wishes to retain such customers and will offer small discounts to higher volume TSM customers in order to ensure their retention (7.3.3). Note also that the profitability of TSM customers is proved on a contract by contract basis as explained in section 7.4.3 below.

	SAM	KAM	TSM	Ad hoc
	%	%	%	%
Revenue	100	100	100	100
Pick-up and delivery and linehaul	55	50	30	20
First margin	45	50	70	80
Customer specific fixed costs	38	33	0	0
Direct margin	7	17	70	80
Corporate fixed costs	7	7	3	3
EBIT	0	10	67	77

Table 7.1: GCC- Common sized income statements for customer segments.
Source: Researcher's estimates based on interview data

Although the researcher was not shown any customer segment income statements, from

interview data it is possible to estimate the likely aggregate profitability of the four customer segments. These estimates are disclosed in the common sized income statements reproduced in table 7.1.

These estimates highlight the significant differences in CP between segments, particularly when using full cost data, as the EBIT margins quite possibly vary from 0% for the SAM segment to 77% for the Ad hoc segment. There will inevitably be some variation in profitability between customers within each segment and this variation is likely to be much larger for SAM and KAM customers where more customised services are provided and personalised tariffs are negotiated. It is clear from the interviews that some SAM and KAM customers can be EBIT negative.

Overall company profitability is managed through the analysis of CP, not PP, and there is variability of approach between different customer segments. In respect of SAM, KAM and large TSM customers on personalised tariffs, profitability is managed at the individual customer level using CPAIC, and this also informs pricing decisions. CCM confirms,

> *"We could look at any customer in isolation internationally and say, 'how profitable is the account?'…if we had an issue with a particular customer…we could drill down and it would be visible to us if we needed to do something and move them to a different tariff."*

Moreover, as mentioned in section 7.3.2, RMs for SAM/KAM are monitored (and rewarded) against both revenue and margin targets. Consequently, CPAIC (not just revenue) is used when reviewing customer account performance and the performance of RMs' customer portfolios. Thus, rewards to sales staff are aligned with GCC's individual CP targets. HOGS stresses: "with that business (SAM/KAM) we manage margin as much as we manage revenue". Interestingly, he says: "We can easily drown in unprofitable volume. It's very easy to bring on shed loads of cheap parcels, all been to sea, all desperately unprofitable and someone's going 'I'm doing a great job in growing the top line'," thus highlighting the need for CPAIC.

Similarly, GCC uses CPA in preference to any form of PPA when managing the overall profitability of TSM and ad hoc customer segments. However, TSM and ad hoc customers (except large TSMs on personalised tariffs) are monitored using CSPA. CCM explains, "For the standard contracts typically we may view [in the 'CP system'] the actual contract with all the customers which are on it, [and query] what is that giving us overall in terms of revenue and profitability?" CCM

highlights that "within each [product based] tariff you'll have some low areas of profitability and higher areas…we tend to see the overall picture for standard tariffs." This implies that some 'products' are more profitable than others, but this is acceptable as the focus is the profitability of the customer segment not individual products.

Although GCC does look at EBIT margins, HOGS stresses the need for caution and to look at different measures in different circumstances. One example is the post GFC period (2009/10) when there was overcapacity in the courier business and customers were seeking cost reductions and targeting their delivery costs. Intense competition pushed prices down and, despite GCC's service quality emphasis, price became the order winning criteria. GCC were forced to reduce prices significantly to secure enough business to support the network and preserve the firm's capability. HOGS explains that achieving positive EBIT margins on all customers during this period was impossible. With spare capacity and a high proportion of committed fixed costs (if the transport network was preserved), GCC had to accept any business making a positive contribution to fixed costs. The situation has not improved dramatically since. HOGS says that GCC has had no price increases for four years. Profitability improvements must come from volume increases and cost savings through efficiency, and by a strategic focus on certain business sectors where GCC has specific expertise and make savings through 'coincidence of delivery' (7.4.3.2).

CMD also advised caution, saying: "you can't just judge a customer on their [individual] P&L profitability, because you've got to look at contribution to the network". He argues that too much SAM/KAM activity reduces overall profitability, "I've got to make sure I've got a healthy balance coming in from TSM/ad hoc [customers]". HOGS confirms that GCC need a balance (about 50/50 based on revenue) between SAM/KAM business and TSM/ad hoc business. Interestingly, about 50% of GCC's revenue comes from TSM/ad hoc sales, but these customer segments are highly profitable, providing much more than 50% of overall profits. As mentioned, there is little profitability variation between customers in these segments, because standard products are sold at standard tariffs, with limited scope for discounting. The SAM/KAM customer segments combined provide the other 50% of revenue, but at much lower profit margins, hence providing much less than 50% of overall profitability. Moreover, there is significant variability in profitability between customers in these segments, making customer acquisition, retention and discontinuance decisions more difficult. This is discussed in the next section.

7.4.3 Customer Retention and Steps Taken Before 'Firing' a Customer

A key decision in a product-focused firm is whether to drop a less profitable or loss-making product from the portfolio. In a customer-focused firm the equivalent decision relates to dropping less profitable or loss-making customers. Kaplan and Norton (2004a) advise companies with significant but stable market shares to focus on avoiding unprofitable customers and provide examples of companies with an objective to "identify and upgrade or exit unprofitable accounts" (p.112). Cooper and Kaplan (1991a) caution against naïve use of CPA to justify dropping customers and instead advise using ABC information to re-price customer transactions or perform activities more efficiently. GCC's approach is consistent with the literature as there are various steps and additional analyses needed before actually 'firing' a customer.

7.4.3.1 Step 1 – Consider the P&L Effect

At the international level, HOGS explains why CP figures are treated with caution.

> *"When we have an account which on the face of it is not giving us the level of EBIT margin we want and then you say, well okay, let's get rid of that business, it's loss making…you get people who come along and say, yeah, but if we take it out, the P&L will be worse".*

He refers to GCC's large, fixed infrastructure costs (relating to the transport network), and asks: "If we take the business out, would we lose that overhead in the company? The answer is almost certainly - we would not." HOGS suggests that CP information would not immediately be used as justification to fire a customer, but to seek ways of improving the customer's profitability.

CCM and CFM describe a similarly cautious approach to using CP measures at national level, when deciding whether to fire a customer. CCM stresses it is dangerous to push out reports, to frontline sales and operations staff, which show negative margins for specific customers or segments of the business. He highlights that CP is measured on a full cost basis at EBIT level and hence firing a customer with a negative EBIT margin could lose a positive contribution to the fixed costs of the transport network. CFM says:

> *"When we're looking at profitability, we take care of the behaviours the information might create…you naturally want to see a positive margin in any customer, so we need to take care of how we behave when we see a negative margin".*

CFM is mindful managers might inappropriately say: "That's a negative margin. Get rid of them, remove the account". He explains that the starting point "is to facilitate a discussion" around why two accounts in the same market sector would generate wildly different CP and then sales and operations discuss what GCC themselves might change to improve the margin. If this does not solve the problem, GCC needs to "facilitate a discussion with the customer" to identify any mutually beneficial alternative ways to meet customer needs. CFM explains that negative margins may relate to the specific way the customer does business.

Further, CFM stresses: "additional information is required before any management action is taken in relation to negative CP margins". The first additional measure is the P&L impact of losing the customer. This measure adjusts for unavoidable fixed costs of the delivery network, which appear like variable costs when using ABC burden rates, and recognises firing a customer may not save some of these costs. Second, the incremental costs of one customer's business depends on an estimation of the 'coincidence of deliveries' (explained below) and requires consideration of the 'revenue per drop' resulting from the combined business of several customers. For this type of courier business, the measurement of CPAIC alone may not be sufficient to inform 'drop a customer' type decisions.

7.4.3.2 Step 2 – Consider 'Coincidence of Delivery'

As explained in section 7.2, GCC has in part shifted strategic focus from a generalist approach to a focus on vertical customer groups in particular industries which provide a good match with the company's operations. This approach is consistent with applying the marketing concept and should be supported by measurement of CSPA (Kotler 2003). CMD argues that this focus on industry sectors enhances profitability by capitalising on 'coincidence of delivery'. He says: "If you think about the automotive industry, if we collect from 10 different companies, you could actually be delivering the freight into less number of locations…So you get coincidence of delivery". CMD refers to an opportunity to reduce the number of delivery points whilst increasing the amount of freight delivered to each separate delivery point at any one time, thus decreasing costs per delivery and enhancing profitability. CMD claims, "The more you can drive in your verticals onto coincidence of delivery, the better return you can actually have". The financial impact of this might seem difficult to calculate, but CMD describes "a coincidence delivery piece we put across some of our accounting tools, which gives us the ability…to see where you've got

commonality coming in. This can be the difference between deciding to take on an account or not." Similarly, 'coincidence of delivery' is an important factor to consider before deciding to drop an unprofitable customer according to CPAIC, or whether to discount prices to retain a customer who might defect, or when appraising new customers for acquisition.

7.4.3.3 Step 3 – Discourage or 'Fire' the Customer

HOGS is asked whether the predictive models were used on existing customers to support decisions about retention and profitability improvement, and whether the analysis would ever lead GCC to discourage a customer, for example with a significant price increase. HOGS says that "we do exactly that" and explains that a few years ago they had a big purge and said:

> *"we don't give a bugger how much they're shipping or what the circumstances are, if there are accounts trading…[at] a negative first margin, so in other words we are not even recovering the job cost, we need to either upgrade them or get rid of them."*

He was questioned about how such customers were ever acquired, answering: "quite easily." He explains that such customers "will give us a right load of cock and bull" when describing the nature of their business, but reality is "something completely different" (See 7.4.1 regarding quality of 'customer profiles'). HOGS cites a company who estimated weights and volumes so inaccurately that GCC required four times more capacity than expected. They were making huge losses on this business (a "negative first margin of 70%") and GCC asked the customer to pay three times more than originally agreed or find an alternative supplier (after a suitable notice period).

7.4.4 Pricing Decisions

As explained (7.4.1.and 7.4.2), bespoke prices, for potential SAM/KAM and TSM customers on personalised tariffs, are established using the 'express pricing tool'. After acquisition CP is reviewed using the 'CP system' which measures CPAIC. Moreover, the remainder of TSM customers and all ad hoc customers are on standard contracts with standard tariffs. CCM explains that the 'CP system' is used to review the profitability of the standard contracts applied to large groups of customers (a type of CSPA).

For 80 to 90% of TSM, and for all ad hoc customers there is one price rate for the whole country.

Hence, regardless of the customer's location and the delivery point there is a single rate for overnight delivery. CMD argues that such standardised rates take no account of significant delivery cost differences and asks whether: "the pricing we're actually giving to our clients is right for them, or for that matter, even right for us." CMD sees a need for 'fine tuning" prices, for all customer segments, by using regional zoning. A key driver for this is the intensity of competition in the industry (7.4.3) as CMD indicates: "The recession has made all my customers smarter than they were before they went into it." One reason customers are 'smarter' is the influx of web resellers into the market. These comparison sites enable customers to easily compare prices and service provision and therefore increase their propensity to switch. CMD says that none of GCC's competitors in domestic markets have moved to regional pricing, but GCC tries to lead not follow and CMD says: "The analysis has been done to actually tell us whether or not it's going to be more appropriate for us to go that way".

7.4.5 Use of Non-Financial CA Measures

As mentioned in section 7.3.5, GCC regularly survey a sample of their customers and measure CES and NPS. Interviewees were not aware of any statistical analysis at GCC to link CES with NPS and either measure with revenue growth or profitability. CMD says: "I wouldn't say we marry them [CES and NPS] up with profitability measures, they are an indicative sign to say whether or not you're offering the right experience to your customer and actually driving the right type of value." CMD believes CES and NPS are indicators of CS and this in turn drives customer loyalty. Customer loyalty is measured as the length of time a customer has continually conducted business with GCC, and CMD believes customer retention drives CP. According to HOGS: "the belief is it [CES] drives behaviour, and…if it's the right behaviour it will drive increased customer loyalty, which will drive increased profitability." CMD argues that it is easiest to influence CES and NPS in relation to SAM/KAM customers, because those customer segments receive a dedicated service and there are regular discussions between RMs and customers about tailoring the service to meet needs. However, it is more difficult to influence CES and NPS in relation to TSM/ad hoc customers who receive standard service: "because this is vanilla, you've got to make sure your vanilla tastes the way they want it to taste." The problem is that all TSM/ad hoc customers receive the same standard service and yet different customers may have different expectations regarding service quality. Despite no statistical analysis to prove cause-and-effect relationships between these two non-financial CA measures and financial performance, HOGS confirms that

"net promoter score…is something that all senior managers, irrespective of their specific responsibility, are measured on as part of their bonus."

Therefore, GCC executives believe NPS is a driver of profitability, and this belief is filtered down to the operational level. Multiple aspects of the customer experience are captured and consolidated within CES, and improving CES is expected to result in improved NPS when next measured. Including NPS as a component in the senior managers' bonus calculation ensures it is closely monitored and this helps drive the right behaviours at executive management level and below. In turn, behaviour improving the customer experience, and hence CS, reduces customer churn (defections) and increases retention rates, a measure of customer loyalty. Retention of loyal customers drives revenue growth and increases overall profitability (Reichheld 2003).

CMD explains, "I see the headline score, but I also hear the individual score against each of those individual elements" and management by exception is applied as CMD highlights that an adverse change in overall CES will require explanation and a need to drill down into its underlying measures, to establish the problem. Throughout GCC it is clear non-financial CA measures are important, even at executive level. HOGS emphasises the importance of complaint resolution and opines that neither GCC nor its main competitors have got it right and "the company who cracks that [complaint resolution] will wipe the floor with the rest of the market, so we are all trying, but not succeeding very well." He suggests that good complaint resolution may be an integral part of 'ease of doing business', which he identifies as an order winning criteria (7.2.2).

HOGS says that the general claim[24] that it is much cheaper to keep existing customers than win new ones is very true for GCC. He argues that by improving CES and NPS "you reduce your churn, or increase your retention", and although GCC have no detailed evidence to confirm the relationship he says that: "you can see countries occasionally where they have a very low net promoter's score and a big increase in their EBIT, and you think 'oh, that's funny'." However, he opines that there is normally a relationship between CES and NPS and company profitability, as was demonstrated when GCC faced severe weather which isolated their single European air hub one winter. HOGS argues that "what you can't predict is the [time] lag" and explains that the

[24] For example, Pfeifer (2005, p.179) states "An often repeated maxim of interactive marketing goes something like this: 'its costs five times more to acquire a new customer than to retain an existing one'. Although there is disagreement about the exact numerical ratio of costs to acquire to costs to retain…there is general agreement about the implication of the maxim: firms should devote more attention and money to customer retention."

disruption caused by the bad weather was reflected in lower CES, and NPS fell about 6 months later, with a negative P&L impact soon afterwards.

HOGS says that the order qualifying criteria 'ease of doing business' (7.2.2) has become increasingly important to customers in recent years. He reflects: "ten years ago you never heard of that", but now 'ease of doing business' often appears in customer survey responses. He translates this as meaning: "we want a single point of contact, we want everything to be on the plate in front of us, we don't want to have to do anything…you do it all, and we want it to be as simple as possible". Perhaps customers now expect 'ease of doing business' to be a critical part of CRM.

CCM is not sure there is a clearly observable link between NPS and subsequent financial measures (like revenues or profits), but he argues: "if your promoter score was falling significantly and your revenues were falling significantly you would without a doubt link the two together". However, he adds:

> *"You can be quite successful in the revenues you are acquiring and it doesn't mean all of your customers are happy, it just means your churn is higher and you're constantly bringing on new ones [customers] to offset it. So I think it's dangerous to tie them together too literally, but also they don't necessarily work in isolation."*

There are two messages here. First there may be multiple drivers operating at any one time, and identification of a specific cause-and-effect relationship is difficult. Second, CCM's example highlights how a service quality problem resulting in falling NPS will likely increase customer churn and the expectation would be falling revenue. However, there may be initiatives in place to acquire new customers, and these increase revenues, obfuscating the likely association between reduced NPS and falling revenues. Reichheld (2003) warns against too heavy a focus on acquisition when customer churn is high. PBM at Alphabank:PB highlighted the need to monitor NPS and fix "the leaky bucket".

Further, CCM highlights that the incidence of customer complaints and the way GCC deal with them will impact NPS. GCC report customer complaints and CCM explains that "there's an understanding that complaints cost money". They cost money related to the time it takes to resolve them but CCM suggests that "they can equally be used to turn around net promoter

scores. If you handle the complaint properly you can get a promoter rather than a detractor." He stresses the potential positive impact of effective service recovery[25], but stresses the costs associated with complaints is huge in terms of "lost opportunities and lost customers". However, he prefers customers who complain, saying: "at least you have a chance to do something about it and retain [the customer]", whereas the ones who don't complain and just walk away are more problematic. CCM discusses similar considerations regarding CES, a more international measure which relates to 'the customer promise' and is compiled from bigger, global surveys:

> *"There is an acceptance…that to be more profitable, it's about keeping customers happy, particularly in the key areas we've already identified, such as ad hoc...we're choosing to focus on those key areas to grow the profitability. So there is a link there, [but] directly relating it to net promoter score is probably slightly more tenuous."*

Non-financial CA measures are considered important at both executive and operational levels within GCC. CFM describes a monthly report sent to group, containing financial and non-financial measures, as "a balanced scorecard-ish view." This report is an executive summary of a country level report containing additional measures specific to the four functions: operations, sales, accounting, and HR, with about six measures per function. GCC clearly have a BSC type PMS, with a mix of measures reviewed each month at executive level, but such reports were considered too commercially sensitive to be made available to the researcher.

However, the information disclosed corresponds with advice in the literature (Kaplan & Norton 1992, 1993, 1996a), to implement a balanced PMS and supplement financial performance measures with non-financial measures, has been heeded at GCC. In fact, CFM believes GCC has gone too far and stresses "I would not like to see another measure in GCC. I think we have more than enough. I think we're probably typical of a lot of organisations and I can't think of any additional [measures we need]." He highlights the excess of measures by saying: "I hear so many people say 'key KPIs'." Further, he argues that the problem is how to decide which measures are important to which managers, saying: "It's improved a great deal, so at least there's now only half a dozen measures in each of those categories. Bring them together, or some of them

[25] Hart et al. (1990, p.148) claim that "A good recovery can turn angry, frustrated customers into loyal ones. It can in fact create more goodwill than if things had gone smoothly in the first place." Smith et al. (1999, p356p.356) argue that "when a service failure occurs, the organisation's response has the potential either to restore customer satisfaction and reinforce loyalty or to exacerbate the situation and drive the customer to a competing firm.".

together, to create the overall balanced view."

7.4.6 Summary of How CA Measures Are Used at GCC

GCC use CSPA to establish the profitability of customer segments and this proves TSM and ad hoc segments to be highly profitable. This is because standard prices are charged for standard service, customers are homogenous and there is no benefit to be derived from measuring CPAIC. Conversely, SAM/KAM customer segments are intensely competitive and less profitable with considerable variability in individual CP. Therefore, GCC does benefit from measuring CPAIC in these segments. The CPAIC measures (at first margin, gross margin and EBIT margin) are used to inform decisions about the pricing of customised services and about customer retention, but GCC managers all stress the need to treat CPAIC measures with caution, particularly with respect to EBIT margin, which is measured on a full cost basis. Therefore, before negative margin customers are 'fired', the P&L effect is estimated. Some costs which appear variable in the ABC system are considered unavoidable. There may also be consultation with a negative margin customer to seek changes in behaviour (GCC's and/or the customer's) to reduce costs-to-serve. There is a further step for customers in the same industry to establish if there is significant 'coincidence of delivery' which will make group CP greater than the sum of their individual CPs. Customers who remain unprofitable after all these steps are discouraged with a significant price increase, and hence effectively 'fired' unless they accept revised prices.

Non-financial CA measures are used at GCC as leading indicators of the direction in which CP, and hence overall company profitability, is moving in the near future. It is believed that CES improvement drives improved NPS, which measures customer loyalty and the likelihood of customer retention, and in turn this drives revenue growth and profitability. There is no statistical proof of such relationships, but the belief is strong enough at executive level for NPS improvement to be included as a component in the senior managers' bonus scheme.

7.5 Case Three: Analysis

The literature review (chapter two) predicts the adoption of a customer-focused strategy is a contingent factor driving the use of CA practices. Further, a company with a customer-focused strategy is likely to use historical CPA and forward-looking measures like CLV, to manage and monitor its strategy. However, at GCC the adoption of an overall customer-focused strategy did

not in itself coincide with extensive use of such CA measures across the whole customer base, at least not at an individual customer level. Therefore, for the identification of the contingent factors driving CA measures within GCC, individual customer segments have to be considered separately. Table 7.2 shows the general pattern of CA usage related to the various customer segments and the following section will discuss these in the light of the contingency-based framework developed in chapter three.

Customer segment		CLV	Forward CPAIC	Historical CPAIC	CSPA	Revenue	Non-financial CA measures
SAM		No	Yes	Yes	Yes	Yes	Yes
KAM	Global	No	Yes	Yes	Yes	Yes	Yes
	National	No	Yes	Yes	Yes	Yes	Yes
TSM	Large	No	Yes	Yes	Yes	Yes	Yes
	SME	No	No	No	Yes	Yes	Yes
Ad hoc		No	No	No	Yes	Yes	Yes

Table 7.2: Incidence of CA practices at GCC by customer segment

There are nine key contingent factors which might drive the need for CA practices included in the contingency-based framework developed in chapter three. The characteristics for five of these are consistent across the whole of GCC's business, both international and domestic and all customer segments. The overall business strategy is one of differentiation on the basis of customer service and the group is quite centralised for international business, but regions and countries have a fair amount of autonomy for domestic business and GCC is considered to have a mixed organisational structure overall. The international courier business is intensely

competitive, with GCC fourth in size behind three global competitors, and the propensity for customers to switch is extremely high. The domestic business is even more competitive, especially at the business-to-customer end, as barriers to entry are extremely low. GCC is an old/mature business with a sophisticated MCS containing ABC systems for international and domestic business, but with more functionality for international business.

7.5.1 CA Usage for the SAM and KAM Customer Segments

The other four characteristics differ between customer segments. Based on CSPA measurement, GCC has determined some customer segments are much more profitable than others. Fifty percent of revenues come from SAM/KAM customers, which are high volume but low profitability, because of severe price competition and yet high costs-to-serve due to significant customisation. GCC's strategy for this segment is intensively customer-focused, with differentiation on the basis of customer intimacy and, as expected, GCC measures CPAIC for all customers in these segments, at both domestic and international levels. There are relatively few SAM/KAM customers and in line with the customer intimacy strategy, they receive high levels of CRM and the customer concept of marketing strategy is applied. Large TSM customers are quite similar in nature to SAM/KAM as they receive customised service (and CRM) and are on personalised tariffs, they are therefore also managed using CPAIC. They will therefore be considered part of the SAM/KAM customer segment for the remainder of this analysis.

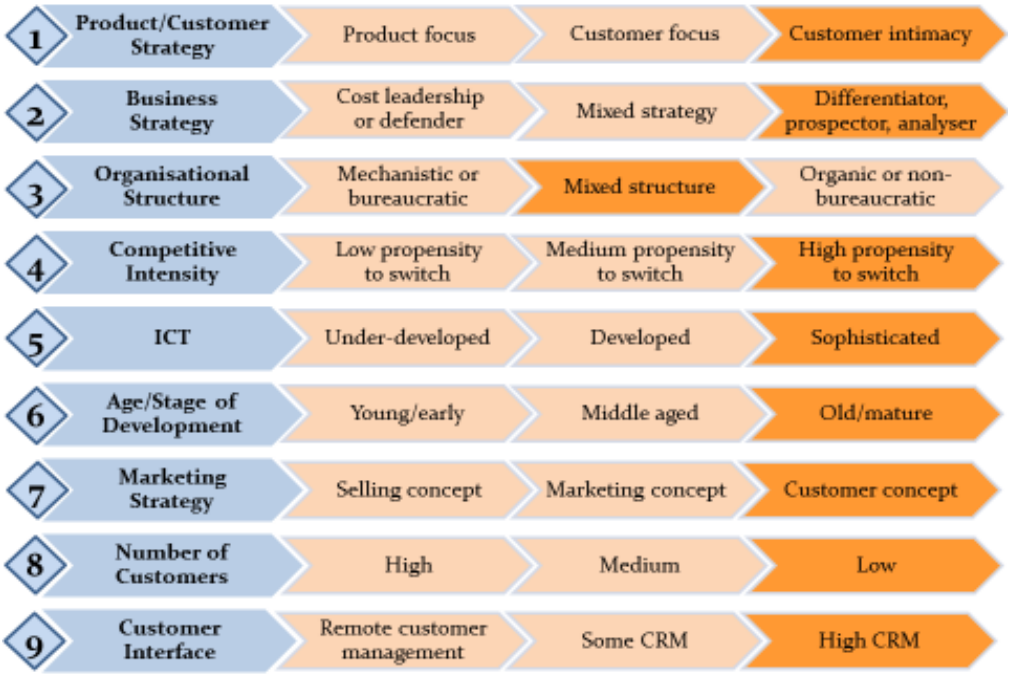

Figure 7.2: GCC – SAM/ KAM customer segment – Factors influencing CA highlighted

These key characteristics are highlighted in figure 7.2.

The SAM/KAM customer sector is consistent with expectations as its differentiation strategy on the basis of reliability and service, coupled with customer intimacy, drives the need for CPAIC. The market place for the high volume SAM/KAM sector is intensely competitive and this is also consistent with a need for CA measures. The customer intimacy strategy, with the use of CRM and tailored services, enables GCC to cope with the competitive intensity and reduce the propensity to switch by 'locking customers in' (it is harder to switch when GCC operate your post room). There is clearly an interaction between strategy and competitive intensity, and this drives the need for CPAIC. The mixed organisational structure of GCC is not inconsistent with CA usage, but not considered a particularly strong driver either. The relatively low number of customers, use of CRM and adoption of the customer concept of marketing strategy for KAM/SAM would also predict the beneficial use of CA practices and GCC's use of CPAIC is consistent with this expectation. The old age and mature stage of development of GCC, and sophisticated ICT system provide the resources and capability (respectively) for use of CA practices to monitor the SAM/KAM segments.

However, many of these contingent factors would predict the use of CLV as well as CPAIC, particularly the customer intimacy strategy and CRM usage, combined with low customer numbers and sophisticated ICT, and yet GCC does not yet have a CLV model. However, the potential value of CLV is recognised and GCC has developed a forward-looking CP measure, similar to CLV, to predict the next year's profitability of existing and prospective SAM/KAM customers (7.3.4). This model is based on historical cost drivers, which are known to be inaccurate predictors of future costs, and therefore a more sophisticated ICT system needs to be developed to support more accurate and longer-term, forward-looking CP measures (such as CLV). This need is recognised by HOGS and CMD. The factor hindering the development of a CLV model therefore appears to be some lack of sophistication in their ICT (only historical ABC burden rates being available).

7.5.2 CA Usage for the TSM and Ad Hoc Customer Segments

The remaining 50% of revenues are generated by a large number of low volume customers in the TSM/ad hoc customer segments, who yield high EBIT margins and collectively provide much more

than 50% of overall company profits. As explained above (7.5.1), five of the contingent characteristics are consistent with the SAM/KAM segment, namely: differentiation strategy, mixed organisational structure, high propensity to switch, sophisticated ICT and old/mature age/stage of development. However, TSM/ad hoc segments contain a large number of customers (over 800,000) and consequently are managed remotely (through the internet or by phone) and the marketing concept of marketing strategy is applied. Therefore, all TSM/ad hoc customers receive the same standard service at a standard tariff. CMD describes the service as vanilla, but argues that "you've got to make sure your vanilla tastes the way they want it to taste", so a customer-focused strategy, differentiated on service quality and reliability is applied to all TSM/ad hoc customers (but not a customer intimacy strategy as with SAM/KAM).

These key characteristics are highlighted in figure 7.3.

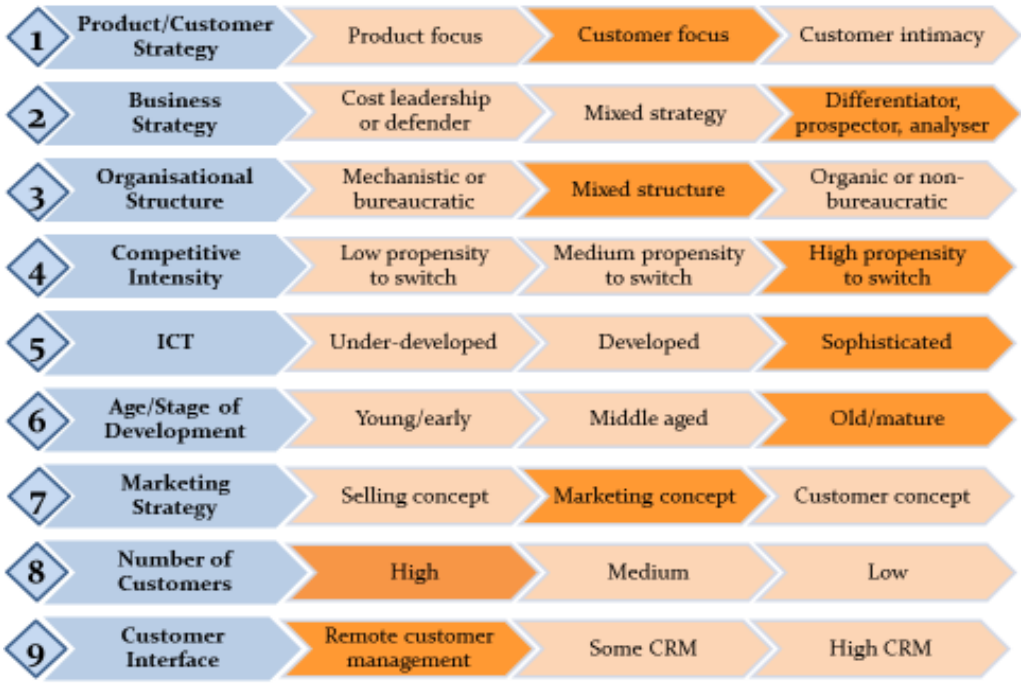

Figure 7.3: GCC – TSM/Adhoc customer segments – Factors influencing CA highlighted

Although GCC's ICT is sophisticated enough, particularly at the international level, CPAIC is not measured for customers within the TSM/ad hoc customer segments, despite the overall customer-focused strategy. The high number of customers would make this impractical, but more importantly it is unnecessary given the lack of customer intimacy in the strategy, the use of the marketing concept focused on customer groups (not individual customers) and the lack of any CRM. Individually, TSM and ad hoc customers can be managed using simple CA, based on

volume of business and sales revenue. The homogeneity within segments means customers each have similar costs-to-serve and generate similar margins, hence CSPA is sufficient to determine overall profitability of the customer segment and sales revenue is used to manage individual customer performance. There will inevitably be some difference in profitability between individual customers, based on volumes, mix of products, and destinations, but such differences are not significant enough to warrant measurement, given the highly profitability of these segments (EBIT margins above 60%, 7.4.2). However, there is some additional CSPA, by way of a finer customer segmentation, performed at domestic level. This is performed at the contract level in order to calculate the aggregate profitability of each customer group on a contract by contract basis (7.4.4). This is still CSPA, but applied to smaller customer segments within the overall TSM and ad hoc segments.

7.5.3 Conclusions from Comparison of GCC's Customer Segments

The above analysis reinforces the importance of strategy as an implicit contingent factor which determines the choice of the CA measures needed. However, it is not as simple as assuming a customer-focused business inevitably needs to be supported by extensive use of sophisticated CA measures. Moreover, it is important to recognise that outputs from the company's MCS (in this case CA measures) will also drive strategy. The group's strategy, as stated in their annual report, included a focus on SMEs as a targeted customer segment and the development of business in those industries which provide a good match with GCC's operations. The continued focus on SMEs is justified by the CSPA, which discloses a highly profitable TSM segment (largely SME customers). The development of business in particular industries relates to the recognition that 'coincidence of delivery' is an important driver of profitability in relation to the high volume, but potentially less profitable SAM/ KAM customer segments (7.4.6).

As shown in table 7.2 the use of CSPA to monitor the profitability of customer segments and revenue to monitor individual customers was consistent across the whole of GCC and seems to be driven by the differentiation type, customer-focused strategy (whether intimate or not) and the existence of a high competitive intensity. The other common characteristics, age/stage of development and sophisticated ICT, are probably less relevant. Also interesting is the consistent use of non-financial CA measures across the whole company, again presumably driven by the differentiation type, customer-focused strategy and the existence of high competitive intensity.

If GCC obtains its competitive advantage by customer focus and differentiation on the basis of reliability and service, it must measure the success of strategy implementation at the level of non-financial drivers (not just using financial, results measures). Financial CA measures will only measure results achieved, after a lag, if the customer-focused strategy is successfully implemented. Appropriate non-financial CA measures, specifically focused on the efficient delivery of the service and resultant CS, will monitor how successful the strategy implementation has been and provide predictors of future financial performance.

This is an area of CA which has not been considered by the prior survey-based CA research, but clearly GCC supports their customer-focused strategy by closely monitoring non-financial CA measures (7.3.5). Figure 7.4 depicts the presumed relationship between two key non-financial CA measures (CES and NPS) and between these measures and financial performance.

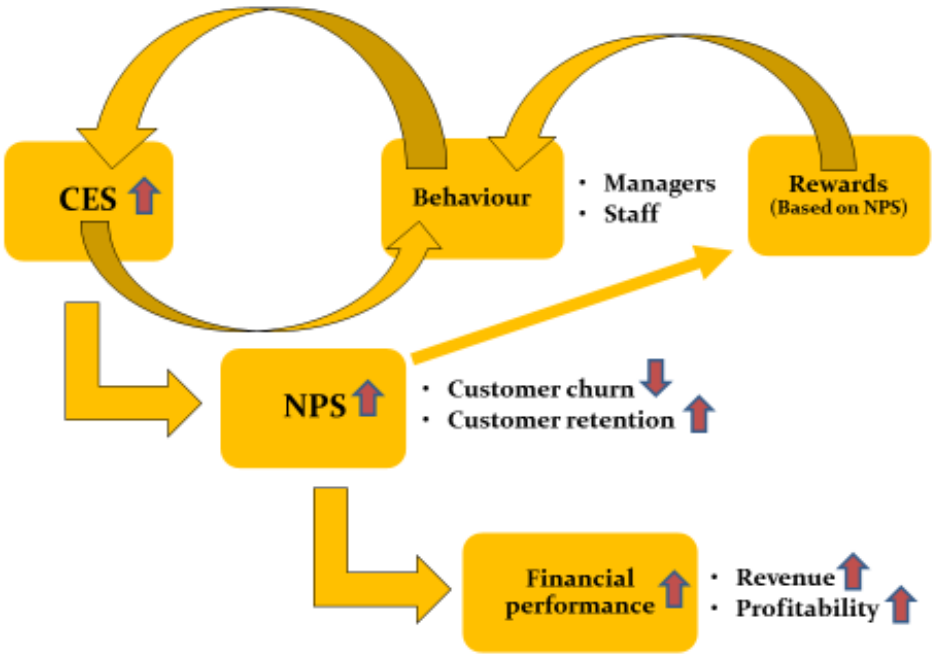

Figure 7.4: Expected links between non-financial CA measures and profitability

A closely monitored CES drives the behaviour of staff at both management and operational levels of GCC. Improved CES is believed to enhance customer loyalty which in turn improves NPS. The importance of CES and its presumed impact on NPS, and of driving the right behaviour, is reinforced by NPS featuring in the executive compensation scheme. Although a reduced CES score will normally lead to a subsequent fall in NPS, this is averted if staff quickly rectify problems and thus impress customers. Prompt service recovery may lead to a subsequent improvement in NPS. It is strongly believed within GCC that improved NPS will reduce costly customer churn and

hence improve customer retention and subsequently (with a time lag) improve CP and hence financial performance. These beliefs and practices are in line with those of Alphabank (5.4.4.3) and also Betabank (6.5.2) and advice in the literature about successful service recovery converting potential defectors into advocates (Kaplan and Norton, 2004b; Jones and Sasser, 1995).

Nonetheless, there appears to be too many performance measures in use at GCC and hence a lack of agreement on which measures are most important and questions about which are the key KPIs. Identification of the most important issues and measures, and removal of superfluous measures, would better focus management attention and also potentially free up ICT resources, perhaps for the development of a more accurate and more sophisticated forward-looking CA measure like CLV (see below). However, to some extent Alphabank:PB suffers from a similar problem of difficulty identifying the appropriate non-financial CA measures, particularly with respect to an appropriate CS measure that really does drive customer behaviour (5.3.3.3).

Further, despite recommendations in the literature for firms operating a customer intimacy strategy to measure CLV (Treacy and Wiersema, 1993), GCC does not yet use any long term, forward-looking CA measure like CLV, even for SAM/KAM customer segments. As discussed in 7.4.1, GCC does measure future potential profitability of existing and potential customers, but this is over a relatively short timescale (one year or less) and hence is not CLV. GCC managers do consider the lack of sophistication in modelling future CP (of both existing and potential customers) as a weakness that needs addressing, especially considering the continuing intensity of competition in these customer segments.

8 CROSS-CASE ANALYSIS, CONTRIBUTIONS AND CONCLUSIONS

Chapter seven presented, analysed and discussed the results of a third exploratory case, GCC, operating in an alternative industrial sector to cases one (Alphabank) and case two (Betabank). This chapter begins with a cross-case analysis that compares and contrasts each case with respect to research questions one and two concerning what CA measures are used and how they are used to manage and monitor a customer-focused strategy. Additionally, this chapter compares and contrasts the contingent factors related to each case, or embedded unit of analysis, and their effect on CA practices, and produces a contingency-based framework which addresses research question three and describes what combination of factors influence the choice of CA measures and the way they are used, or hinder more widespread usage, in firms with a customer-focused strategy. It then identifies the study's contributions and discusses its limitations and opportunities for future research. Finally, the conclusions of the study are discussed.

8.2 Cross-Case Analysis

The cross-case analysis starts with a discussion of how each contingent factor influences the choice of and use of CA practices within each case or unit of analysis. This allows conclusions to be formed on the applicability of the propositions developed in chapter three (and restated in Appendix 1) in relation to the impact of contingent factors on the chosen CA measures and the way they are used in each organisation. As explained in chapter four (section 4.6.3), the data was disassembled and reassembled several times (Yin 2016) and after due reflection patterns that would help formulate the contingency-based model (figure 8.1) were recognised. During this process, matrices were used to visually compare the contingent factor characteristics and their relationship with CA measures used (table 8.1), with the different uses of Financial CA measures (table 8.2) and with the different uses of non-financial CA measures (table 8.3).

8.2.1 The Units of Analysis

The first exploratory case, Alphabank, is split into segments for analysis purposes because it contains three embedded cases. These are the executive level (Alphabank:EL), the personal banking SBU (Alphabank:PB), and the business banking SBU (Alphabank:BB). There are different contingent factors acting on these three segments of Alphabank, driving usage of different CA

practices. Betabank was quite different because there is no segmentation into SBUs for reporting purposes and consequently the case was analysed holistically as a single unit. Within GCC there is some segmentation on a regional basis for domestic business, but international business cuts across geographical boundaries, with largely common accounting and reporting systems used throughout the group. However, GCC splits its customer base into four main customer segments, based on operational parameters and the way sales and marketing departments interface with customers (7.2.1). Within the overall customer-focused strategy there are different strategic tactics applied to each customer segment. For data analysis it proved to be appropriate to consider SAM and KAM segments together as one embedded unit (SAM/KAM[26]), and to consider TSM and ad hoc segments together as another embedded unit (TSM/Adhoc). This is because the contingent factors that act on SAM/KAM differ from the contingent factors that act on TSM/Adhoc segments, and these differences drive the need for alternative CA practices. There are therefore six units in the cross-case analysis, as identified in tables 8.1, 8.2 and 8.3.

The order in which the units of analysis are displayed in tables 8.1, 8.2 and 8.3 was chosen to facilitate comparison of the units with similar contingent factor characteristics and/or similar usage of CA practices. Hence, GCC:SAM/KAM is adjacent to Alphabank:BB because they have three contingent factor characteristics and five CA practices in common. Alphabank:PB is adjacent to GCC:TSM/Adhoc because they have seven contingent factor characteristics and five CA practices in common. Alphabank:EL is adjacent to Betabank because they have six contingent factor characteristics and four CA practices in common and are both exceptions when compared to the propositions being investigated.

8.2.2 Business Strategy Type and Extent of Customer Focus

All six units of analysis (hereafter: units) follow a differentiation-type, customer-focused strategy. Hence all are expected to be using some form of CA. This is the case for all except the executive level of Alphabank, where regular reporting consists of whole of bank, aggregated information supplemented by segmental reporting by SBU and product, but not by customer or customer segment (at either revenue or profitability level). The executive level BSC does not contain

[26] See section 7.5, TSM customers on personalised tariffs are operationally similar to SAM and KAM customers and also managed using CPAIC. They are therefore considered part of SAM/KAM for the purposes of analysis.

customer-related performance measures, either financial or non-financial. The high number of customers makes reporting at individual customer level problematic, but such detail would not be expected at executive level. Hence, the underdeveloped central ICT system appears to be the main contingent factor hindering the use of CA at executive level within Alphabank. The fact that Alphabank is only middle aged may explain its underdeveloped ICT, but there is now pressure from the strategy team to include both financial and non-financial CA measures in executive level reporting. The lack of ICT sophistication and the consequent need for 'verification' of the CP figures produced by SBUs is a major hindrance to progress, together with a possible lack of understanding by the Alphabank executive team of the relevance of non-financial CA measures.

Betabank does use CA, but is inconsistent with expectations because it uses no financial CA measures and instead relies entirely on non-financial CA measures to drive its customer-focused strategy. Again, the high number of customers could explain a lack of financial CA at individual customer level, but not at a segmental level. Betabank is young and at an early stage of development, and thus has an underdeveloped ICT system. Does underdeveloped ICT explain their lack of financial CA measures, as was the case at Alphabank:EL? The case evidence contradicts this suggestion. In contrast to Alphabank, who intend to develop an ABC system that will enable them to produce accurate financial CA measures, Betabank currently have no desire to implement ABC and are developing their ICT in a different direction. They are concentrating on analysis of data about CS, and the dissemination of non-financial CA information to facilitate the delivery of excellent customer service by Betabank staff. In addition to the underdeveloped ICT system, the use of the marketing concept and some CRM, and the high propensity of customers to switch are consistent to both units. Hence, the distinguishing factor is Betabank's strategy of customer intensity, based on provision of excellent customer service to all customers. This drives the use of non-financial CA measures (to manage and monitor the strategy) and excludes the use of financial CA measures as these might drive the wrong behaviour.

Proposition 1 states that: *Firms that have adopted a customer-focused, differentiation strategy will extensively use CA measures, such as CSPA.* Four units (Alphabank:PB, Alphabank:BB, GCC:SAM/KAM and GCC:TSM/Adhoc) use both financial and non-financial CA measures and hence support proposition 1. Betabank executives consider non-financial, customer-related measures to be essential to driving their intensely customer-focused strategy, based on customer intimacy and the provision of excellent customer service. They consider that strategy

implementation would be hindered by the use of financial CA measures and instead extensively use non-financial CA measures to drive profitability. These customer-related non-financial measures are considered by executives to be an integral part of CA and hence the Betabank case unit does support proposition 1. Alphabank:EL does not support proposition 1 but is considered an explainable exception. Alphabank:EL uses no CA practices because of its underdeveloped ICT system, at that level of the bank, and because financial CA measures produced by SBUs do not use general ledger figures and hence are not considered 'verifiable' by CFO.

Proposition 2 states that: *Firms that have adopted a differentiation strategy based on customer intimacy for any customer segment will use CA measures, such as CPAIC for customers in that segment.* As stated above, Betabank does not use any financial CA measures and hence does not use CPAIC. However, Betabank does use non-financial CA measures in preference to financial CA measures. This is by choice, and is contingent on the intense nature of the customer intimacy strategy applied equally to all customers, and supported by the marketing concept (instead of differentiating between customers using the customer concept).

All six units have a customer-focused strategy, but only three follow a strategy of customer-intimacy, GCC:SAM/KAM, Alphabank:BB and Betabank. The main types of CA measures used by each of the case units are shown in the bottom section of table 8.1. There are four financial measures: Revenue, CSPA, CPAIC and CLV; and two non-financial CA measures: CS and NPS. 'Revenues' relates to the capability to report historic revenues (for a month or year to date) at the individual customer level, or may be aggregated into segments or disclosed in total for the whole SBU. CSPA is also a historic measure reported at aggregate level for a specific customer segment. In table 8.1. CPAIC means reported historic customer profitability at the individual customer level. Only Alphabank:PB uses the forward-looking CA measure CLV, but only on an ad hoc basis for specific segments (hence it is an aggregated measure). Note, however, that GCC estimates a forward-looking CPAIC, for one year only, for SAM, KAM and large TSM customers, and if deemed necessary this forward looking CPAIC is aggregated into a forward-looking CSPA for a group of customers in the same industry, in order to take the profit enhancing effect of 'coincidence of delivery' into account (7.4.6). The two non-financial CA measures (CS and NPS) are reported in aggregate for main customer segments (if segmentation is used). They are both historical in the sense that they relate to customer opinions on past service performance. However, they are both believed to drive future CP.

		Case or segment embedded within a case					
		GCC SAM and KAM	Alphabank Business Banking	Alphabank Personal Banking	GCC TSM and Ad hoc	Betabank	Alphabank Executive level
Contingent factors	Business strategy	Differentiation	Differentiation	Differentiation	Differentiation	Differentiation	Differentiation
	Extent of customer focus	Customer intimacy	Customer intimacy	Customer focused	Customer focused	Customer intimacy	Customer focused
	Competitive intensity	High propensity to switch	Medium propensity to switch	High propensity to switch	High propensity to switch	High propensity to switch	High propensity to switch
	Number of customers	Low	Medium	High	High	High	High
	Marketing strategy	Customer concept	Customer concept	Marketing concept	Marketing concept	Marketing concept	Marketing concept
	Customer interface	High CRM	Some CRM	Remote customer management	Remote customer management	Some CRM	Some CRM
	Firm age/stage of development	Old/mature	Young/early	Middle aged	Old/mature	Young/early	Middle aged
	ICT	Sophisticated	Developed	Sophisticated	Sophisticated	Underdeveloped	Underdeveloped
CA measures	Revenue	Yes	Yes	Yes	Yes	No	No
	CSPA	Yes	Yes	Yes	Yes	No	No
	CPAIC	Yes	No	No	No**	No	No
	CLV	No*	No	Yes	No**	No	No
	CS	Yes	Yes	Yes	Yes	Yes	No
	NPS	Yes	Yes	Yes	Yes	Yes	No
		* No full CLV has been developed, but a forward-looking CPAIC is used to forecast the next year's profitability of SAM and KAM ** For large TSM only, historical CPAIC is used and a forward-looking CPAIC is used to forecast the next year's profitability.					

Table 8.1: Contingent factors and CA measures analysed by case or embedded unit

GCC:SAM/KAM uses a mix of both financial and non-financial CA measures. This is consistent with proposition 2. They do not yet use CLV, but have developed a forward-looking CPAIC which predicts the next year's profitability of customers in these segments. Alphabank:BB also does not yet use CLV and despite consistency with GCC:SAM/KAM in respect of a differentiated strategy, based on customer intimacy and use of the customer concept, they have not yet developed CPAIC as anticipated

There is no single factor that explains this difference, and five contingent factors provide probable reasons for the difference. In contrast to GCC:SAM/KAM, Alphabank:BB has a bigger customer base, (classed as medium) making CPAIC more difficult and their youth and early stage of development means their ICT system is developed (not sophisticated), so they are now progressing with an ABC implementation that will bring the desired capability for CPAIC. Their customers have only medium propensity to switch (it is harder to switch your business bank than your courier company). They apply CRM to only part of their customer base, so they face a generally lower incentive to use CPAIC, and most of their financial CA needs are met by CSPA and revenue based CA, as within each customer business sector profitability is closely aligned with revenues. Their use of non-financial CA is similar in nature to GCC:SAM/KAM, with measures of CS and NPS being considered important drivers of overall SBU profitability.

8.2.3 Organisational Structure

Proposition 3 states that: *Firms or SBUs that have an organic or non-bureaucratic organisational structure will use broad scope, future oriented measures, like CLV, supported by an ABC system.* None of the units of analysis investigated clearly exhibited the characteristics of an organic or non-bureaucratic organisational structure and all were classified as having mixed organisational structures. As proposition 3 only relates to an organic or non-bureaucratic organisational structure this study provides no data of relevance to the proposition which is therefore omitted from any further analysis. It is however noted that despite only having a mixed organisational structure Alphabank:PB did use CLV supported by a locally developed ABC system, but the CLV was only used periodically on specific customer segments. As implied by proposition 3, no other units used full CLV.

8.2.4 Competitive Intensity and Propensity to Switch

Proposition 4 states that: *The more competitive the market in which a firm operates, the higher the propensity of customers to switch suppliers and the more likely the firm will use CA measures.* Five of the six units face high competitive intensity as indicated by customer's high propensity to switch and three of these (GCC:SAM/KAM, Alphabank:PB and GCC:TSM/Adhoc) support the proposition as they extensively use both financial and non-financial CA measures. Alphabank:EL provides no support for proposition 4 as it does not yet use CA practices at all, but as discussed above Alphabank:EL may be an exception because it is not itself customer-facing and has an underdeveloped ICT system, at that level of the bank. Moreover, Alphabank:EL's lack of use of CA is partly because the executives at that level do not yet understand the importance of either financial or non-financial CA measures to a bank that has adopted a customer-focused strategy. Although Betabank uses no financial CA measures it does support Proposition 4 because it extensively uses non-financial CA measures to support its strategy of providing excellent customer service.

Alphabank:BB does extensively use both financial and non-financial CA measures even though it is considered to face only medium propensity to switch. Does this indicate a lack of support for proposition 4? It was suggested above that Alphabank:BB's lower competitive intensity might be one of several contingent factors explaining their lack of CPAIC usage. However, there is little evidence for an association between medium propensity to switch and a lack CPAIC usage, because the four units with high propensity to switch also do not use CPAIC. It is likely that Alphabank:BB's medium competitive intensity is partly because of the technical difficulties associated with switching business bank accounts and partly based on their low customer defection rates, but it is also possible that Alphabank:BB does face a high competitive intensity, as is common in business banking, and that their low defection rates, and hence apparent medium propensity to switch, indicate the success in fighting intensive competition with a differentiation strategy based on customer intimacy. Note also that five of the six units measure both CS and NPS, and this may indicate that it is the use of non-financial CA measures that are driven by high competitive intensity, because of the need to satisfy customer needs and monitor that success with these non-financial CA measures. The exception is Alphabank:EL, which is not itself a customer-facing unit and is hindered by underdeveloped ICT.

8.2.5 ICT Sophistication

Proposition 5 states that: *The more sophisticated the firm's ICT system the more likely the firm has the capacity to use CA measures.* This proposition is supported by the case evidence, as the three units that have sophisticated ICT systems (Alphabank:PB and both GCC units) also have the highest CA usage. None use all four types of CA measures as GCC:SAM/KAM does not measure CLV (but do measure forward-looking CPAIC) and Alphabank:PB does not measure CPAIC (because they have a high number of customers). GCC:TSM/Adhoc measures neither CLV nor CPAIC, but can measure forward-looking CPAIC for its largest TSM customers (effectively treating them the same as SAM/KAM customers) and finds no need to use either CLV or CPAIC for smaller customers. This is because CSPA shows that these segments are highly profitable, customers within the segments being largely homogenous and able to be monitored using sales revenue. Although Alphabank:BB has only a 'developed' ICT system, it also measures all but CPAIC and CLV. Moreover, Alphabank:BB does see the potential benefit of these measures and is implementing more sophisticated ICT (an ABC system) that will provide CPAIC and CLV. Therefore, sophistication of ICT does seem to be a relevant factor consistent with CA usage. As mentioned above, Betabank have no use for financial CA measures and hence no desire for ABC. The currently unsophisticated ICT is therefore focused on data analysis capabilities to support the 'voice of the customer' programme and provide the CS measures which monitor and facilitate the delivery of excellent customer service by Betabank staff.

8.2.6 The Company's Age and Stage of Development

Proposition 6 states that*: Young firms or SBUs at a relatively early stage of development are more likely to use narrow scope financial measures like CSPA and CPAIC. Mature firms or SBUs are more likely to also use broad scope measures, like CLV and CE, and non-financial, performance measures.* This proposition is not confirmed by the case evidence. Both Alphabank:BB and Betabank are young and at a relatively early stage of development, yet they have significantly different patterns of CA usage, and both extensively use non-financial CA measures. Hence maturity is not a pre-requisite for use of non-financial CA measures. At Betabank, youth and early stage of development might be a factor consistent with the lack of financial CA usage, as interviewees say they do not know what Betabank might do in the future, but no financial CA is considered beneficial at present. Alphabank:EL is middle aged and thus not covered by the

proposition. Further, it is somewhat of an exception due to underdeveloped ICT. Only Alphabank:PB uses full CLV, and they are middle aged not mature. Both segments of GCC are mature and yet have significantly different CA usage, with CPAIC and a forward-looking CP measure (but not quite CLV) used by GCC:SAM/KAM (because of its low number of customers) and only CSPA used by GCC:TSM/Adhoc (because of its high number of customers). Clearly age doesn't appear to matter and hence there is no support found for proposition 6.

8.2.7 Marketing Strategy: Customer or Marketing Concept

Proposition 7 states that: *Firms that adopt the marketing concept of marketing strategy will be more likely to use CSPA and firms that adopt the customer concept of marketing strategy will be more likely to use both CPAIC and CLV.* Inevitably this factor has similar influences to the factor 'number of customers', as the customer concept requires one-to-one relationships with customers and this is only possible with relatively small numbers. Alphabank:EL and Betabank are exceptions because they have a high number of customers and both follow the marketing concept, but do not use CSPA for the reasons stated above (the former is not customer-facing unit and the latter by choice). Alphabank:PB and GCC:TSM/Adhoc, have high customer numbers and apply the marketing concept, and act consistently with proposition 7 as they both measure CSPA, but not CPAIC. Also partially consistent is GCC:SAM/KAM, with low customer numbers, use of the customer concept and use of both CSPA and CPAIC. They do not use CLV, but do use a forward-looking CPAIC measure to inform acquisition and retention decisions. Alphabank:BB does use the customer concept, but to date only uses CSPA, because it faces a medium number of customers and its ICT system is not yet sophisticated enough. No proposition linking the use of the marketing concept or the customer concept with the use of non-financial CA measures was included in this study, but an association has become apparent, as will be discussed below (8.2.12.3).

8.2.8 Firm Size, Measured by Number of Customers

Proposition 8 states that: *Firms or SBUs with a small number of customers are more likely to use CPAIC and firms or SBUs with a large number of customers are more likely to use CSPA.* Only GCC:SAM/KAM measures CPAIC and it is the only unit with a small number of customers (below 6,000). This lends support to the proposition. All other units have a medium (30,000) or high

(above 500,000) number of customers and would be expected to measure CSPA, but not CPAIC. This is true for three out of the five units, and the exceptions are explicable, Alphabank:EL because it is not a customer-facing unit and Betabank because it consciously chooses not to use any financial CA measures.

8.2.9 Customer Interface and the Use of CRM

Proposition 9 states that: *The greater the extent of usage of CRM the higher the level of intimacy of the customer relationship and the greater the use of CA practices, particularly CPAIC and CLV.* This proposition relates high CRM to a customer intimacy strategy. The only unit with a high customer intimacy and high CRM is GCC:SAM/KAM, which does follow proposition 9 as far as CPAIC is concerned, but does not use full CLV. However, GCC:SAM/KAM does use a forward-looking CP measure resembling CLV and recognises the potential benefits of improving the accuracy of this measure and moving towards full CLV. Both Alphabank:BB and Betabank follow a customer intimacy strategy and have 'some CRM', but neither measure either CPAIC or CLV, Alphabank:BB because it is still at an early stage of development and does not yet have a sophisticated ICT system. Moreover, Alphabank:BB has a medium number of customers (compared to GCC:SAM/KAM's low number) and this explains having only 'some CLV' as customers mainly needing transactional banking are serviced without CRM. The medium number of customers, combined with developed (not sophisticated) ICT and only 'some CLV' explains the lack of CPAIC and CLV to date. Medium customer numbers and developed ICT thus act as hindrances to CA practice development. As explained above, it is by choice that Betabank does not use any financial CA measures and hence the level of CRM is irrelevant to proposition 9 in their case. No proposition linking the use of CRM with the use of non-financial CA measures was included in this study, but an association has become apparent and this is discussed below (8.2.12.3).

8.2.10 Alternative Segments Need Alternative CA Measures

Close inspection of the GCC case indicates that the length of time GCC has been in business (nearly 70 years), and hence its mature stage of development combined with large size and financial success, means that it has the resources to develop a sophisticated MCS, even at the country level. This facilitates the use of relatively sophisticated CA practices like CPAIC. The

differentiation-type strategy and high propensity for customers to switch explain the need for CA measures. But CPAIC is only used where necessary, and that is for the SAM/KAM customer segment, with a low number of customers and the use of both CRM and the customer concept to support a customer intimacy strategy. The large number of customers in the GCC:TSM/Adhoc segments mitigate against measuring CPAIC, as it would be too expensive (in terms of monitoring time) in relation to the likely benefit, and because CSPA and revenue based measures are adequate.

However, it is evident that if GCC had been treated as a single unit of analysis, it would have been impossible to accurately explain the influence if the contingent factor investigated. Only by splitting GCC into its two main customer segments was the contingency-based model able to be applied effectively to analyse the relationship between contingent factor characteristics and CA practices. It is likely that such considerations also apply to Alphabank:BB, as very small business banking customers are quite different in nature to large institutional businesses. The small customers are profitable if put into a “low touch” channel in order to keep costs-to-serve down (5.4.5.1) and as a segment these customers have very similar characteristics to the GCC:TSM/Adhoc segment. Conversely, large institutional customers are high volume but low profitability and therefore resemble the GCC:SAM/KAM segment. Alphabank:BB has been treated as a single unit for analysis and yet within it there are very different customer segments, and consequently the analysis of contingent characteristics has potentially been an ‘average of extremes’ and this could possibly distort case comparison. Segments within GCC have been shown to be similar to segments within Alphabank:BB, and it is also likely that Alphabank BB has strong similarities to GCC as a whole. The conclusion here is that the chosen unit of analysis may be critical to the interpretation of cross-case analysis. Similar arguments could be applied to Alphabank:PB. The fact that they use CSPA and segment customers reinforces these arguments.

8.2.11 Analysis of the Effect of Contingent Factor Groups on Use of CA

Notwithstanding the above discussion, the use of the contingency-based model to analyse the six units (as shown in table 8.1) has identified three groups of contingent-factor characteristics that appear to act together quite consistently. The three groups have been named type of competitive advantage, level of customer heterogeneity and stage of organisational

development as indicated in figure 8.1 below.

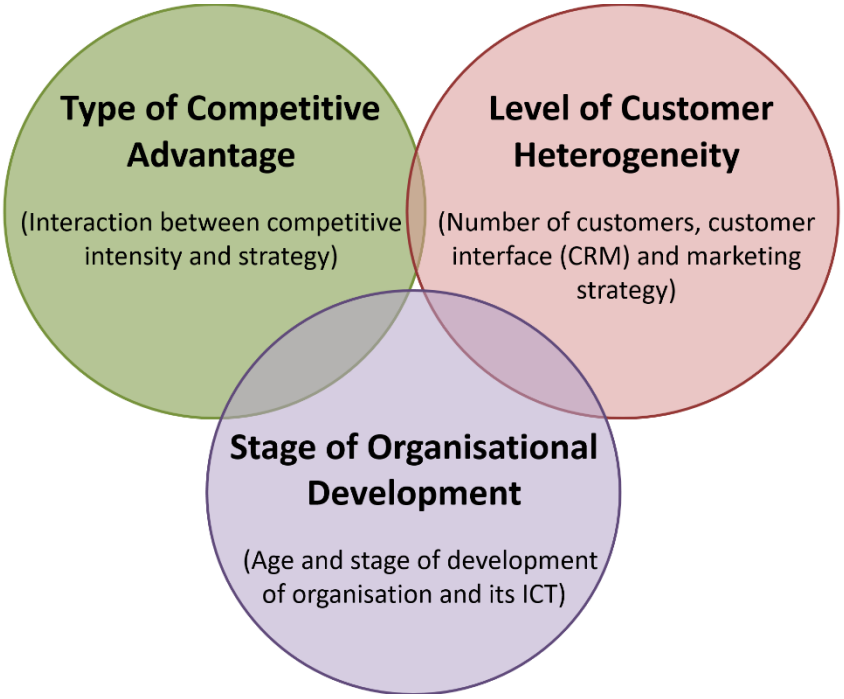

Figure 8.1: Groups of contingent factor that influence CA usage

The first group of closely interacting contingent factors (green circle in figure 8.1) is business strategy, extent of customer focus and competitive intensity. A differentiation-type strategy with a customer focus appears to drive the need for CA usage, and the more intense the customer-focused strategy, the more sophisticated the CA measures that may be needed. The nature of the strategy will be affected by the competitive intensity faced, as indicated by customer propensity to switch. All units in this study have a differentiation-type, customer-focused strategy (three at the strongest level of customer intimacy). All units face a high propensity to switch, except Alphabank:BB with medium propensity to switch partly because of the success of its customer-focused strategy. Excepting Alphabank:EL (which is not customer facing and has underdeveloped ICT), all five remaining units use the non-financial CA measures CS and NPS. Betabank did not use any financial CA measures by choice, but the remaining four units use at least two financial CA measures (revenue and CSPA). Two units use an additional financial CA measure (GCC:SAM/KAM and Alphabank:PB use CPAIC and CLV respectively). Therefore, a combination of contingent factors, which together determine the firm's 'type of competitive advantage' (here defined as a strongly differentiated and customer-focused strategy designed to counter the intensely competitive environment and high propensity of customers to switch) can be seen to have an influence on the need for financial and non-financial CA practices, with

Betabank an explainable exception, because it chooses to focus entirely on non-financial CA measures. The case evidence relating to the influence of the type of competitive advantage on the use of CA practices is summarised in figure 8.2.

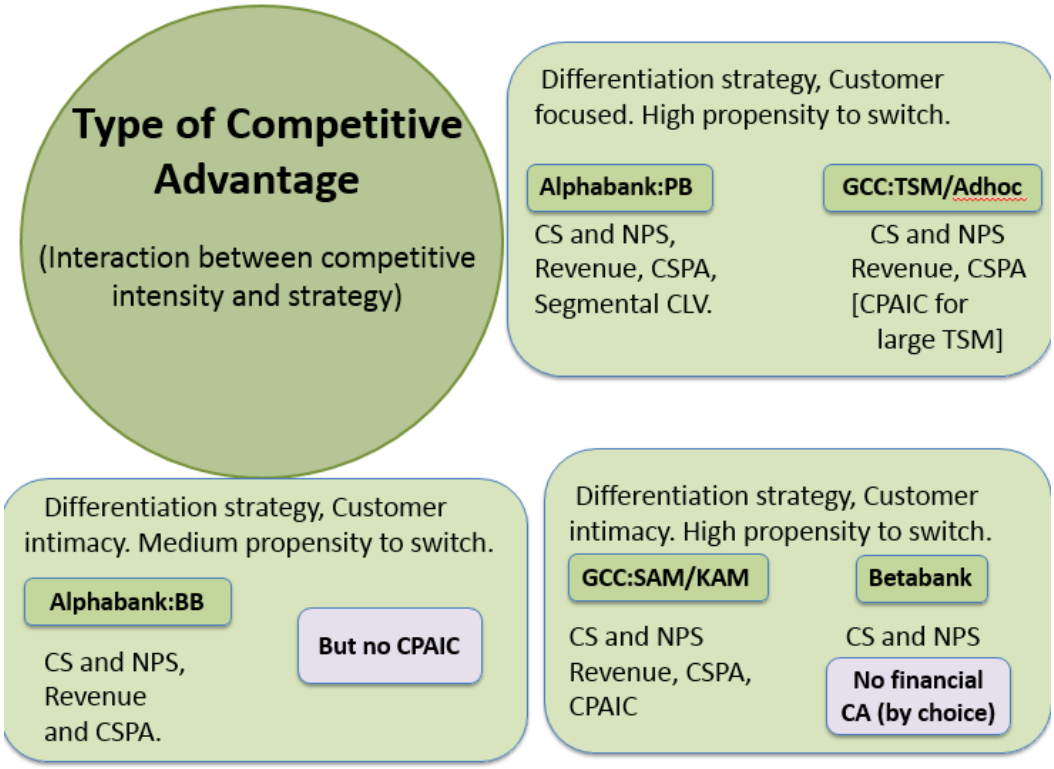

Figure 8.2: Effect of type of competitive advantage on use of CA

A second group of closely interacting contingent factors (pink circle in figure 8.1) consists of the number of customers, type of marketing strategy and customer interface. These three factors interact in relation to the level of customer heterogeneity. Only GCC:SAM/KAM has a low number of customers, applies the customer concept and uses high CRM. This combination is consistent with a high level of customer heterogeneity, with propositions 7, 8 and 9 (Appendix 1) predicting the use of CPAIC and propositions 7 and 9 predicting the use of CLV also. The GCC:SAM/KAM case unit supports expectations for the use of CPAIC and partially for use of CLV (because GCC:SAM/KAM uses a forward-looking CP measure with similarities to CLV).

Alphabank:BB also supports expectations, despite only exhibiting 'some CRM', because CRM and a tailored service are only received by those customers with a high level of customer heterogeneity and CLV is used for these customers specifically. Alphabank:BB does not support proposition 9 because it uses neither CPAIC or CLV. Perhaps its young age and only 'developed' ICT may be a strong hindrance. Alphabank:BB does use CSPA, which makes some sense when

'averaging' to predict the combined effect of the three contingent factors and considering that a medium number of customers is likely to contain a large group of homogenous customers. Both Alphabank:PB and GCC:TSM/Adhoc have a high number of customers, apply the marketing concept (a segmental focus) and use remote customer management. This combination implies large groups of homogenous customers and a need for CSPA and no obvious need for CPAIC or CLV. The propositions are therefore supported because both Alphabank:PB and GCC:TSM/Adhoc units do use CSPA. It seems slightly anomalous that Alphabank:PB uses CLV but the usage is on an ad hoc basis and a form of segmental CLV based on averages (not estimates specific to individual customers). Betabank experiences a low level of customer heterogeneity so CSPA might be expected if executives did not choose to use no financial-CA measures and instead focus entirely on non-financial CA measures including CS and NPS. The case evidence relating to the influence of the level of customer heterogeneity on the use of CA practices is summarised in figure 8.3. (Alphabank:EL is ignored because it is an explainable exception as discussed above).

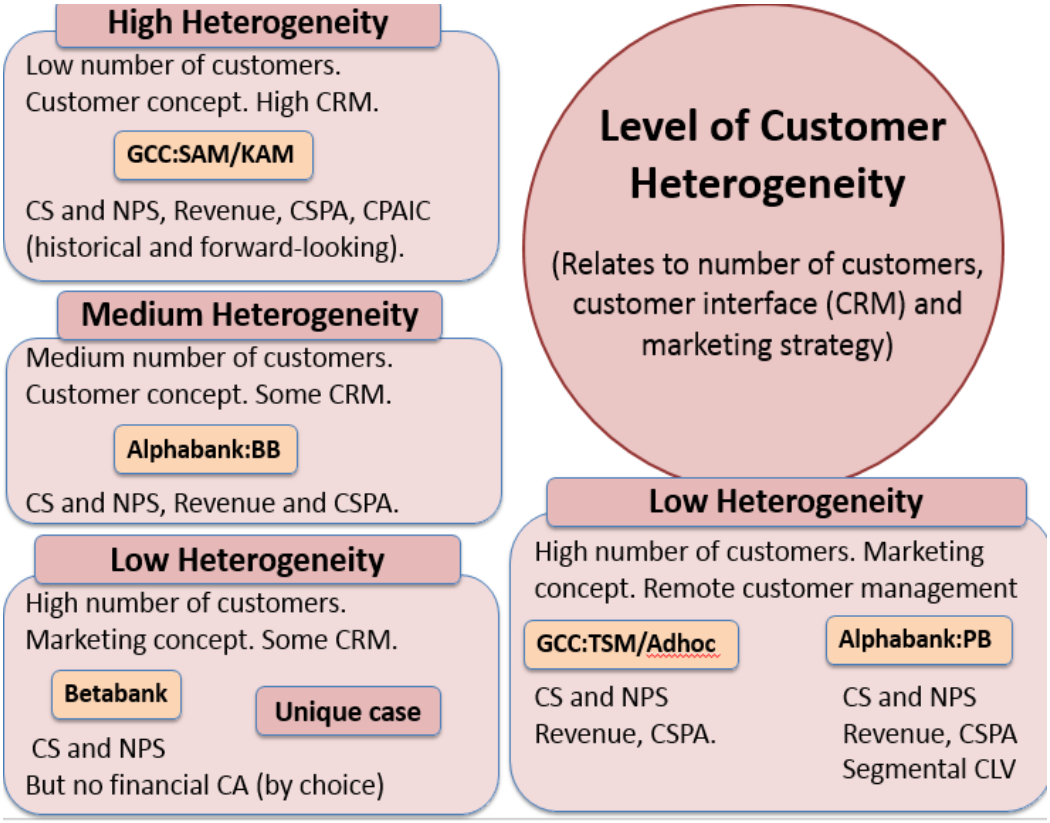

Figure 8.3: Effect of level of heterogeneity on use of CA

The third group of closely interacting contingent factors (purple circle in figure 8.1) consists of firm age/stage of development and sophistication level of ICT, as the more mature the firm the more likely it will have had the time and resources to develop sophisticated ICT systems. These

factors interact to determine stage of organisational development. Propositions 5 and 6 predict mature firms with sophisticated ICT will use more sophisticated CA measures and vice versa. Both units of GCC are old/mature and have sophisticated ICT and so are expected to use CLV and CE. This is partially the case, as both units do use a forward-looking CP measure somewhat similar to CLV. Alphabank:PB is middle aged and has sophisticated ICT, so has the capacity for use of CA measures (proposition 5), but proposition 6 does not predict what type of CA measures they might use. They do use all CA measures except CPAIC. Alphabank:BB is young and at an early stage of organisational development and has developed (not sophisticated) ICT. They use CSPA, as predicted by proposition 6, but not CPAIC, also as predicted. The case evidence relating to the influence of the stage of organisational development on the use of CA practices is summarised in figure 8.4.

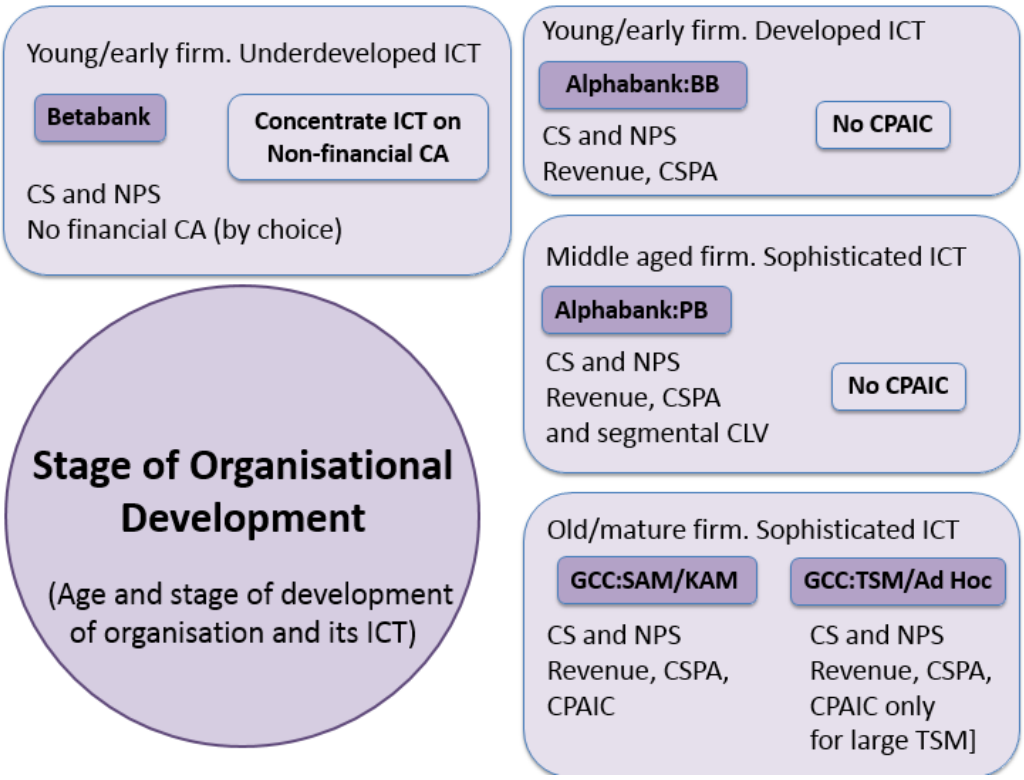

Figure 8.4: Effect of stage of organisational development on use of CA

The analysis above, and the analysis in 8.1.3 to 8.1.9, clearly demonstrate that the independent predictive ability of each propositions is questionable, because no contingent factor works in isolation and other contingent factors may act with greater strength. Combining related contingent factors is likely to have more powerful predictive ability. Specific propositions related to the combinations of factors discussed above, and highlighted in figure 8.1, could be developed and applied in future research studies.

8.2.12 Use of CA Measures

A detailed comparison of the type of CA measures used by units has been conducted above in relation to the factors that influence their choice or hinder their more widespread usage. The next section compares and contrasts how CA measures are actually used within the six units to manage and monitor the firm's customer-focused strategy, and relates CA usage to the contingent factors. This will be done in two separate parts, first in relation to financial CA measures and second in relation to non-financial CA measures.

8.2.12.1 Use of Financial CA Measures

The individual case analyses (chapters five to seven) have explained in detail the way CA measures are used in each of the six units and the main uses are listed in table 8.2 below. As has already been seen, neither Alphabank:EL nor Betabank make any use of financial CA measures, but the other four units all make considerable use of financial CA measures to help manage and monitor their customer-focused strategy. The main usages are in respect of key decisions relating to customer acquisition; monitoring and managing the profitability of customers once acquired; decisions relating to customer retention or if appropriate, discouraging customers; and the related decisions about pricing. An additional issue that has emerged from the case analysis, relating to the use of CA measures, is the need to treat financial CA measures with caution when making business decisions (8.2.12.2). Inevitably there is considerable overlap in relation to these various uses of financial-CA measures and clear lines cannot be drawn between them. For example, CA measures used for monitoring the profitability of existing customers are equally beneficial when assessing the merit of acquiring new customers, with the main difference being consideration of the costs of acquisition. Similarly, decisions about customer retention, and expenditure thereon, are 'the other side of the coin' to decisions about discouraging customers, and hence related and informed by the same CA measures. For the purposes of this analysis customer acquisition and the management of CP have been combined, as have customer retention and decisions about discouraging customers.

		Case or unit of analysis embedded within a case					
		GCC SAM and KAM	Alphabank Business Banking	Alphabank Personal Banking	GCC TSM and Ad hoc	Betabank	Alphabank Executive level
Use of financial CA measures	Customer acquisition	Cost modelling exercise and express pricing tool. Target both revenues and margins.	Need growth in customers. CSPA informs target segments - SMEs.	CSPA & CLV informs target segments – Want 'delegators' not 'soloists'.	CSPA plus revenue measures, but refer exceptions to finance.	N/A	N/A
	Managing profitability					N/A	N/A
	Customer retention	CRM/tailored service to lock in. Notice of price increase if negative contribution.	Low attrition. Put on 'normal commercial terms' if low value.	Quality service if high value. Low touch service if 'not loyal' and hence low value	CSPA shows high profitability, so may offer discount to retain volume.	N/A	N/A
	Discouraging customers					N/A	N/A
	Pricing decisions	Accuracy and competitiveness depends on quality 'customer profile'	"Here for everyone". Accessible prices, not optimisation.	"Here for everyone". Standard/accessible prices, not optimisation, but trim service and cost.	Standard rates informed by CSPA applied to alternative contracts/tariffs	N/A	N/A
	Treat CA measures with caution	Not just CPAIC. Also review 'contribution to the network'. Several checks before deciding to fire a customer	Full cost CA is 'directional', loss making segments may contribute to shared services	Not just CP. Need 'main bank' customers with several 'needs met'. Deposits are a cost, but fund loans	Not just CPAIC. Also need CSPA to consider 'coincidence of delivery' and 'revenue per drop'.	N/A	N/A

Table 8.2: The use of financial CA measures analysed by case or embedded unit

As has been seen, GCC uses CSPA to identify customer segments and their differences in profitability. On the basis of this information the need for further CA measures is determined. The GCC:SAM/KAM unit extensively uses CPAIC for all customer-related decisions. GCC:SAM/KAM's differentiation-type customer intimacy strategy, used as a counter to the intense competition it faces, with a high propensity for customers to switch, explains the need for CPAIC (both historical and forward-looking). The low number of customers enables a high level of CRM and the customer concept to be applied, and similarly drives the need for CPAIC usage across all decision types. GCC being old/mature has enabled it to develop sophisticated ICT and hence provide the sophisticated CA measures required (albeit more development is needed to produce a full CLV model).

Alphabank:BB also has a differentiation-type customer intimacy strategy, but faces slightly less competitive intensity due to only medium propensity for customers to switch. This is partially due to industry factors (complexity of business banking), but also the success of Alphabank:BB's customer intimacy strategy and ability to understand the customer and offer 'partnership banking'. There are strong similarities here with GCC:SAM/KAM which also 'lock customers in' (and reduce propensity to switch for some customers) with tailored service (interns) and high CRM, thus to some extent countering the intense competition it faces by creating a strong competitive advantage.

This similarity flows through to the use of CA measures for all purposes by Alphabank:BB, but although recognised as desirable, Alphabank:BB has not yet developed its CA capabilities beyond CSPA. This appears to be contingent on its young age/stage of development and hence only 'developed' (not sophisticated) ICT. Compared to GCC:SAM/KAM, which has a small number of customers, Alphabank:BB's medium number of customers makes CPAIC more problematic and potentially less beneficial, due to the existence of large groups of homogenous customers (8.2.10). Perhaps treating Alphabank:BB as one unit is contorting the analysis somewhat and it should be considering whether, in the future, it should use CSPA to identify the differences in profitability of separate customer segments, each containing a homogeneous set of business customers. However, it may benefit from using CPAIC for those customer segments containing heterogeneous customers, as they receive a tailored service through high CRM (just like GCC:SAM/KAM).

There are also some similarities between GCC:SAM/KAM and Alphabank:BB with respect to pricing and decisions about customer acquisitions generally. The former relies on the quality of the 'customer profile' (preferably a recent invoice from the incumbent supplier, (7.4.1) when vetting acquisitions and the latter depends on "a good sales conversation" (5.5.3). Therefore, understanding customer needs is important when customers are heterogeneous and having the ability to calculate the cost of meeting those needs is an important role for financial CA.

Alphabank:PB has less similarities with GCC:SAM/KAM in relation to contingent characteristics that influence CA use. Alphabank:PB only has the differentiation-type strategy, the high propensity of customers to switch and sophisticated ICT in common with GCC:SAM/KAM. However, it still has a customer-focused strategy (but not customer intimacy) and it similarly makes considerable use of financial CA measures. The only differences are that Alphabank:PB does not use CPAIC, although it does periodically use CLV to analyse the value of specific customer segments (and hence manage their long-term profitability). Alphabank:PB's high number of customers explains the use of CSPA, rather than CPAIC, and this is also consistent with the use of the marketing concept and remote customer management. Alphabank:PB therefore uses CSPA, and periodically CLV, to identify the relative profitability of different customer segments. This enables them to manage profitability and focus marketing messages and acquisition expenditure on the more profitable customer segments. This is therefore more similar to GCC:TSM/Adhoc. In fact all contingent characteristics are the same between Alphabank:PB and GCC:TSM/Adhoc except for firm age/stage of development, which is probably of little relevance once middle aged is reached.

However, one key difference between Alphabank:PB and GCC:TSM/Adhoc is that the latter is a segment of homogenous customers who all receive the same high quality/reliable service and no further segmentation is required except in respect of different volumes of business and hence different contract types. In contrast, Alphabank:PB has much more heterogeneity of customers within the overall SBU and find it beneficial to further segment customer groups on the basis of profitability and to adjust service offering as appropriate, thus offering 'high quality' service to high value customers (delegators) and 'a light touch', cheaper service to low value customers (soloists). Hence, Alphabank:PB as a unit of analysis is probably more comparable to GCC as a whole (containing various heterogeneous customer segments) and hence Alphabank:PB benefits from CSPA in order to break its large heterogeneous customer base down into smaller

homogenous segments, just a GCC does.

One operational similarity between Alphabank:PB and GCC:TSM/Adhoc is that pricing is generally the same for all customers. However, the reasoning for this differs. Alphabank:PB has decided to be a national bank for the country's people ("to be here for everyone"), so differential pricing is avoided to protect the brand image. Nevertheless, CSPA enables service levels to be adjusted in relation to customer value (as discussed above), in order to reduce costs-to-serve and improve profitability. This does not happen for GCC:TSM/Adhoc, partly because of the nature of the business, with all customers in this sector using the same standard service, and partly because the sector is highly profitable anyway and adjusting service levels and costs-to-serve is not necessary. This generally high profitability segment can be managed by relatively simple, revenue-based CA measures. Most customer acquisitions can be assessed against standard benchmarks for revenue per consignment, revenue per kilo and revenue per item (7.4.1). If all three measures exceed their benchmark the customer will be highly profitable and therefore accepted. If any of the measures are too low, then the express pricing tool is used to more accurately predict CP. Therefore, more complex CA measures are used on an exception basis to deal with less homogenous customers.

8.2.12.2 The Need for Caution when Using Financial CA Measures

A key message emerging from the Alphabank and GCC cases is the need for caution when using financial CA measures. One reason for this, consistent to both cases, is the use of full cost information to calculate CSPA and CPAIC. For GCC:SAM/KAM, this need for caution is in recognition that CPAIC produces EBIT margins based on full cost data and yet dropping a customer will not remove the unavoidable fixed costs included in the CPAIC calculation (7.4.6). Hence when negative EBIT margins are reported and cannot be eliminated by a change in GCC or customer procedures, the next step is to estimate the P&L account effect of losing the customer. For customers making a negative contribution the GCC policy is "to either upgrade them or get rid of them" (HOGS, 7.4.3.3) This is in line with the BSC literature as Kaplan and Norton (2004a, p.112) provide an example of a bank using CP measures to drive the objective: "identify and then upgrade or exit unprofitable customers".

However, there appears to be an industry specific contingent factor, 'coincidence of delivery' that may be unique to the express delivery business, which renders the use of CPAIC in isolation

inappropriate for decisions about retention versus firing customers. CPAIC may identify a customer with a negative direct margin, who seemingly should be fired. But the customer may have (say) 40% 'coincidence of delivery' with other customers in the same vertical industry group, and a CSPA for that group of customers shows the segment to be highly profitable. GCC has recognised the need to move beyond CPAIC and also measure CSPA for such specific groups when 'coincidence of delivery' exists. This process is shown in the decision tree in figure 8.5 below.

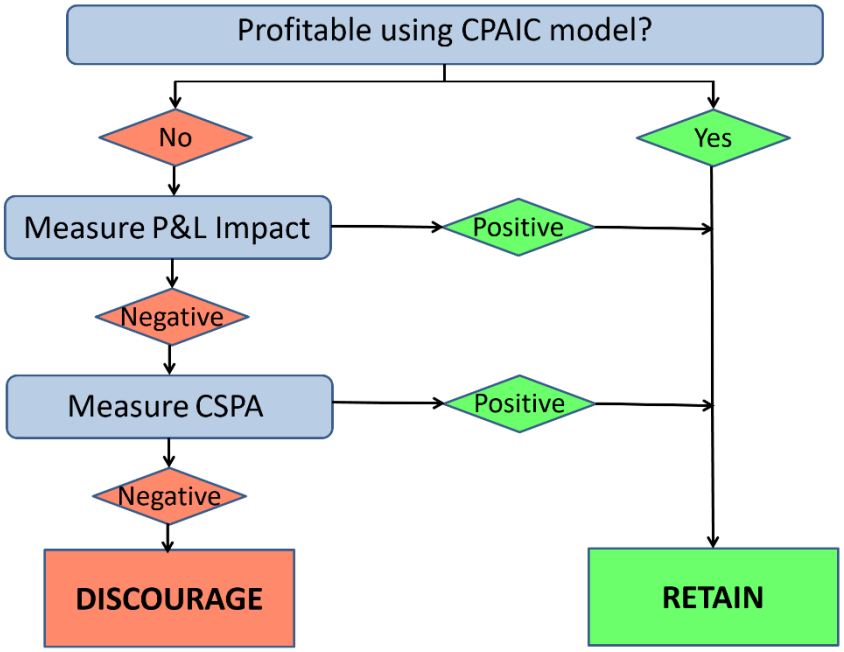

Figure 8.5: Caution and need for additional CA measures before firing a customer

However, is this need to supplement CPAIC with an additional CPSA measure actually unique to GCC or at least industry specific? The Alphabank:BB unit identifies a similar need for caution when using financial CA measures for decisions about retaining or dropping a customer because of their full cost nature. Examples relate to closing an unprofitable business banking channel (5.4.5.1) or discouraging credit card customers who pay off their full balance each month and are therefore unprofitable (5.4.5.4). Such a decision would ignore 'coincidence of delivery' at Alphabank:BB, concerning the 'delivery' of the call centre service to all customers. CSPA may show a specific group of credit card customers to be unprofitable on a full cost basis, but they do make a positive contribution to shared services (including the call centre) and the service costs are committed and unlikely to be reduced if a small group of unprofitable customers are fired. Hence, Alphabank:BB might wish to conduct a similar analysis to GCC:SAMK/KAM (figure 8.5 above) and supplement CPAIC for individual credit card holders with CSPA for the whole group of customers that share any particular service, just to ensure that as a group they make an adequate

'contribution' to cover the shared service costs.

Similarly, within Alphabank:PB it is clear that historical CP is a complex measure and regardless of the accuracy of the costing system a single, financial CA measure will not capture all the issues that determine a 'valuable customer', even a forward-looking financial measure. Moreover, financial CA measures need to be supplemented by non-financial CA measures and some financial CA measures (like CLV) have non-financial information as critical components. For example, in personal banking, non-financial factors, such as whether the customer is a 'main bank' customer, or the number of 'needs met', are key drivers of customer value.

8.2.12.3 Use of Non-Financial CA Measures

Alphabank:EL does not use any non-financial CA measures (table 8.3 below). However, the strategy team is encouraging a change of policy, and it is likely that some of the non-financial CA measures used at SBU level will soon be included in the executive level BSC. One possible explanation is that Alphabank:EL is not customer facing, but this seems an inadequate in the light of the bank's overall customer-focused strategy, its extensive use of non-financial CA measures at SBU level, and the encouragement from the strategy team to include these on the executive level BSC. The hindrance to use of non-financial CA at executive level is explained by CFO as related to historical reporting practices based purely on monitoring financial results against plan, and the fact that executives (including CFO) are not familiar with these non-financial measures and find them difficult to interpret. Having addressed the reasons for Alphabank:EL's lack of use of non-financial CA measures, this unit will be excluded from further analysis in this section, leaving five units to discuss (GCC:SAM/KAM; Alphabank:BB; Alphabank:PB; GCC:TSM/Adhoc; and Betabank).

		Case or segment embedded within a case					
		GCC SAM and KAM	Alphabank Business Banking	Alphabank Personal Banking	GCC TSM and Ad hoc	Betabank	Alphabank Executive level
Use of non-financial CA measures	CS	Numerous measures and high emphasis	Numerous measures and high emphasis	Numerous measures and high emphasis	Numerous measures and high emphasis	N/A	Numerous measures and high emphasis
	NPS	High emphasis	High emphasis	High emphasis	High emphasis	N/A	High emphasis
	Loyalty	High emphasis	High emphasis	High emphasis	High emphasis	N/A	High emphasis
	Complaint resolution /service recovery	Needs more work	High emphasis	High emphasis	Needs more work	N/A	High emphasis
	Defections	Responsive	Responsive and highly effective	Predict and prevent	Responsive	N/A	Fast response/Amaze
	Activity measures	Number of items Number of cons Weights	Needs met (number of products)	Needs met (number of products)	Number of items Number of cons Weights	N/A	Comprehensive measurement

Table 8.3: The use of non-financial CA measures analysed by case or embedded unit

Betabank executives do not have problems with the use of non-financial CA measures. In fact, they rebel against the use of financial CA measures, on the grounds that they will not support the bank's intensely customer-focused strategy and may drive the wrong behaviour in Betabank's staff. Therefore, Betabank appears to contradict several of the nine propositions, or all of them if CA practices remain narrowly defined to include only the use of financial CA measures. However, once it is accepted that CA practices include the use of non-financial CA measures, the findings at Betabank start to make more sense in relation to its extensive and exclusive use non-financial CA measures to manage and monitor its intensively customer-focused strategy. The distinguishing factor that drives such use is Betabank's strategy of providing excellent customer service to all its customers.

The five customer facing units extensively use non-financial CA measures to monitor the effective implementation of their customer-focused strategy and measure that strategy's level of success. Although they use different, industry specific measures, they all place high emphasis on CS. They all also measure NPS, using the standard measure (as per Reichheld, 2003). Even at domestic level, GCC measure NPS quarterly, based on a survey of around 600 customers. Both banks measure NPS. Alphabank:PB finds it to be a key driver of growth and more informative than their CS measures in relation to how customers are feeling about the bank. There are strong similarities between the approaches of Betabank and Alphabank:BB, which both compare NPS at 'onboarding' and a few months later, and relate NPS to brand strength/awareness. All five units also monitor customer retention rates and treat them as a measure of loyalty. As has been said elsewhere, Alphabank:PB pays particular attention to retention rates (and their relationship to 'needs met') and include them as a key variable in their CLV model.

Consequently, the evidence from all five customer-facing units is that a differentiation-type customer-focused strategy is associated with a high emphasis on non-financial CA measures, including CS and customer loyalty and the related NPS measure of brand strength/awareness. The distinction between a customer-focused strategy and a customer intimacy strategy did not seem to make a significant difference to the extent of usage of non-financial performance measures. However, it appeared to be easier to manage and monitor CS for GCC:SAM/KAM, due to the low number of customers and high CRM, and hence direct interaction with customers. Conversely, for GCC:TMS/Adhoc, the large number of customers, and use of remote customer

management, made the delivery and management of a highly reliable, standard service quite a challenge, not least because of the lack of direct interaction with customers, and therefore the inability to assess individual customer needs.

There appears to be an industry specific difference when considering complaint resolution and service recovery. Both banks recognise the need to closely monitor service failure, particularly Alphabank:BB and Betabank given their customer intimacy strategies. Both units have procedures in place to pick up problems and rectify them quickly to preserve loyalty and avoid defections. Betabank encourages the recording of EODs and expect rectification within 48 hours, a requirement monitored by the CEO. It also analyses past failures, to learn what problems led to defections, and use this knowledge to implement preventative measures. Alphabank:BB is similarly responsive to service failures and asks customers to give verbal feedback (called 'the 'voice of the customer') which is then acted on. BBM claims that this monitoring has been highly effective at preventing defections. Despite not having a customer intimacy strategy, Alphabank:PB goes one step further and is not reactive but 'proactive'. Analytics are used to establish the types of customer behaviour that precede a defection and when such behaviour is observed the staff will phone the customers to check if there is anything they need.

GCC also recognise the importance of effective complaint resolution. CMD stresses that complaints cost money and lead to lost customers. HOGS goes further and considers good complaint resolution as integral to "ease of doing business", which has become an important order qualifying criteria. HOGS argues that GCC is not yet good enough at complaint resolution and clearly sees it as a source of competitive advantage, as he predicts that the courier firm that cracks complaint resolution will wipe the floor with the rest of them. Complaint resolution is therefore a factor included in the CES score, which in turn is believed to influence NPS. CCM is concerned about unhappy customers who do not complain, because GCC is not made aware of the problem and the customer may just "walk away". However, GCC has not yet implemented anything similar to the proactive approach employed by Alphabank:PB.

The industry specific difference here is due to the nature of the express deliver business, which makes some level of service failure inevitable. Banks can identify operational problems and find solutions to prevent them happening again. Courier services will inevitably suffer delays due to road accidents or adverse weather conditions, and these cannot be avoided, as demonstrated in

7.4.5. Severe weather blocked GCC's single European air hub, CES scores fell, followed later by a fall in NPS and a subsequent a negative effect on the P&L.

In addition to the non-financial CA measures discussed above, all five units use activity measures of some sort. Both Alphabank SBU's measure number of products sold, but 'needs met' is considered a more accurate indicator of potential growth and profitability. Betabank does not measure number of products sold as executives believe this measure encourages product proliferation or the practice of pushing products on customers, and that leads to inflated yield measures and the extra cost of servicing inactive accounts. Betabank has a comprehensive set of activity measures, including the rate of conversion of accounts from being merely active to becoming primary (or main bank customers). Despite Betabank's customer intimacy strategy and focus on excellent service to all customers it does not use financial-CA measures. Instead it employs many more non-financial measures than the other units, including a whole raft of 'voice of the customer' measures and several activity measures. GCC also has activity measures which are specific to the courier business, such as number of items, number of consignments and weights carried. Thus the use of activity measures is common across all five units, but the activity measures themselves are industry specific. Furthermore, Betabank uses more activity measures than other case units because of their importance as a preferred alternative to financial CA measures.

It may seem surprising that Betabank has so many non-financial CA measures, when it has an underdeveloped ICT system. This may be partly due to its young age, but there is also an element of choice, at least in respect of the decision not to implement ABC or any other type of full cost analysis. It is likely that this decision has freed up ICT resources that have been made available to investigate the type of non-financial CA measures that are needed to drive the service excellence strategy. Some of the non-financial measures Betabank currently uses are clearly experimental, as HCS says: "I just sit with a cold towel around my head [and] analyse the living daylights out of the book" (6.3.4.5). Betabank already has a large number of non-financial CA measures and yet they are experimenting with more. Presumably they are testing out the effectiveness of the measures used, and in the future will concentrate on the set of measures that most effectively drives the effective implementation and operation of their highly customer-focused strategy.

By using non-financial CA measures, Betabank is following advice from the literature, particularly on the BSC. Similarly, there is literature supporting the use of NPS by companies seeking growth, the importance of monitoring service quality and the provision of a good system for service recovery (Reichheld, 2003; Jones & Sasser, 1995; Kaplan & Norton, 2004b). Also, many of Betabank's measures and practices are similar to those employed by both Alphabank SBUs and, with respect to CS measures, there are many similarities to GCC. The remarkable difference, between Betabank's approach, the literature and the other customer-focused firms in this study, is the complete absence of financial CA measures and the exclusive use of non-financial CA measures.

8.3 Contributions of the Research

An analysis of the literature (chapter two) highlighted a potential information gap in relation to firms following a customer-focused strategy. Although prior CA research has identified some of the factors that may influence the use of CA, the research evidence is contradictory and somewhat incomplete in relation to precisely what type of CA measures are used by firms adopting a customer-focused strategy. Moreover, the existing few surveys of practice there have been indicate higher usage rates than was anticipated after reviewing the literature, and statistically significantly higher perceived managerial merit scores for all CA practices than reported usage rates. This highlights the potential for the development and more widespread usage of CA practices. However, despite a growing literature on CA practices, particularly in the marketing journals with respect to forward-looking measures, no comprehensive explanations of the use of CA practices has emerged. There remains a knowledge gap in respect of what specific CA metrics are used in practice, and how they are used. Nor has there been any comprehensive development of theory on how appropriate CA measures may be identified and effectively employed within a firm's MCS to manage and monitor a customer-focused strategy.

The overall aim of this study was therefore to examine the use of CA practices in firms that have adopted a customer-focused strategy. To achieve this aim, an exploratory, multi-case study research project was designed and used to investigate CA as it operates in three firms that have a clear customer-focused strategy. A semi-structured interview design was used to collect case study data that would help answer the following research questions:

1. ***What customer accounting measures are used in organisations with a customer-focused strategy?***

2. ***How are customer accounting measures used to manage and monitor the customer-focused strategy?***

3. ***What are the factors that influence the choice of customer accounting measures and the way they are used, or hinder more widespread usage, within organisations with a customer-focused strategy?***

From a detailed analysis of the interview data collected, an analysis of how CA practices are utilised to manage and monitor strategy in customer-focused companies has been produced. The results of this analysis contribute to our knowledge of CA practices and also have implications for practice.

8.2.1 Contribution 1: Actual practice of CA at different levels within the firm

In relation to each of the three firms investigated, a detailed and rich description of what CA measures are chosen, and how these CA measures are used to manage and monitor the customer-focused strategy, has been provided. Moreover, by design, interviews were conducted at different levels within the firms studied, which is particularly important as the firms were large and diverse. Two of the three provided embedded units of analysis. The result of this was a detailed analysis of each of these individual units, in relation to the CA measures used and the way they are used to manager and monitor the firm's customer-focused strategy. This makes a significant contribution towards filling the gap in the literature, and hence our knowledge, of the actual practice of CA in firms. The analysis of just three firms, each with a customer-focused strategy, and two of them in the banking sector, has disclosed significant commonalities in the type of CA measures used at different levels, but also significant differences. These differences were unexpected given the focus of this study on firms with a customer-focused strategy.

A significant part of the explanation for differences observed in the choice of CA practices and their uses relates to the potentially significantly different benefits managers at different levels of a large firm may reap from the use of CA measures. At the executive level of Alphabank, the focus of the executive management team has to date been on 'whole of bank' financial performance,

and the only segmental information deemed to be beneficial at that level relates to SBUs and product groups. As Alphabank continues to grow, increased competitive intensity and the development of a more customer-focused strategy has led to the recommendation (by the strategy team) that CSPA related to the bank's main SBUs and non-financial CA measures (such as NPS) should be considered for inclusion on the executive level BSC. However, such a change will take time, the hindrances being the underdeveloped ICT system at executive level, and in respect of the non-financial CA measures, the need to verify and understand the unfamiliar type of measures.

8.3.2 Contribution 2: The identification of two significant groups of CA practices

Another key contribution of this study is the identification of two significant groups of CA practices, financial and non-financial in nature. Although the last decade has seen an increase in the number of studies investigating the use of financial CA, there remains relatively few (McManus, 2013) and they focus almost entirely on the use of financial CA practices. The prior case research (Roslender & Hart, 2002, 2003; Andon et al. 2001; Lind & Strömsten, 2006; McManus, 2007; McManus & Guilding, 2009), the surveys of CA usage and perceived merit (Guilding & McManus, 2002; Lord et al., 2007; Tanima & Bates, 2015), and the normative studies (Holm et al. 2012), have all concentrated on the investigation of financial CA measures. A notable exception is a survey of the use of both "CA measures" and "marketing practices" simultaneously (McManus, 2013). The only CA measures referred to in this paper are financial measures, with the author indicating that in contrast "marketing measures incorporate metrics such as market share, customer loyalty, customer retention, and customer satisfaction" (p.140), thus preserving the notion that marketing measures relating to customers are distinct from CA practices. Moreover, the oft cited definition of CA is: "all accounting practices directed towards appraising profit, sales, or present value of earnings relating to a customer or group of customers" (Guilding & McManus, 2002, p.48). As this definition does not specifically include non-financial CA measures the inference from the prior literature is that CA practices only relate to financial CA measures.

However, the need to include non-financial performance measures (including customer related measures) on a BSC to help drive a firm's strategy, and improve financial performance, has been extensively discussed in the literature (for example, Kaplan & Norton, 1992, 1993, 1996a), as has

the need for marketing performance measures (for example, Homburg et al., 2012). Further, it has been argued that the definition of MCS has evolved to include non-financial performance measures (Langfield-Smith, 1997; Chenhall, 2003). Despite this, the inclusion of non-financial CA measures as a specific element of CA practices has not yet been addressed in the accounting literature specifically on CA. Nevertheless, this study suggests that out in practice, non-financial CA measures may be treated as an integral component of CA practices and a mix of financial and non-financial CA measures will most likely be used to drive a firm's customer-focused strategy.

It is concluded from this research that Customer accounting (CA) should be re-defined as:

> *"all accounting practices, based on financial and/or non-financial customer-related measures, directed towards appraising the value of customers or customer groups to the firm, and their historical or future contribution to profitability or shareholder value".*

To include non-financial customer-related measures in the definition of CA is in line with numerous definitions of accounting which describe accounting as measuring and communicating 'economic' information, and more specifically is consistent with Drury (2008, p.5) who argues that "accounting is concerned with providing both financial and non-financial information that will help decision-makers to make good decisions". Moreover, CA is a management accounting practice and many definitions of management accounting specifically include non-financial information, for example, Ellenburg et al. (2017) and Atkinson et al. (2012).

8.3.3 Contribution 3: Despite having a customer-focused strategy, firms or business units may utilise only non-financial CA practices

This study has disclosed comprehensive usage of financial CA measures in four of the six units studied and has provided reasons for the use of different measures in different circumstances. Of particular relevance is the discovery of two units that did not use financial CA measures at all, despite their clearly customer-focused strategies. Alphabank:EL does not at present use financial CA measures because of its underdeveloped ICT system. The CA measures produced by SBUs were not considered 'verifiable' by the CFO because they were not directly extracted from the general ledger which does not carry data at customer level. This is recognised as a problem by SBU managers who therefore take pains to reconcile their CPA to general ledger figures (5.3.2 and 5.4.4.1 section c). Clearly the common assumption made in MCS research that observed

associations between context and MCS reflect "equilibrium conditions or optimal solutions" (Chenhall , 2003, p.134) do not apply here, and the MCS is recognised by CFO as less than optimum and in need of development to facilitate CPA within the general ledger (5.2.3.1) and hence fully reconciled with executive level financials.

More interestingly, the Betabank case provides a unique example of the exclusive use of non-financial CA practices by a firm that has adopted a customer-focused strategy. Executives argue that the use of financial CA measures would drive behaviour inconsistent with the firm's culture and strategy. Executives therefore chose not to use financial CA measures and prefer to rely on extensive use of non-financial CA measures. This specific choice is driven by Betabank's more intense form of customer-focused strategy, based on customer intimacy and the provision of excellent service to all customers. Executives believe such a strategy is best facilitated by non-financial CA measures only, and would likely be hindered by the use of financial CA measures. Interviewees argued that the Betabank business model makes sense because it ensures that only customers who want great customer service and are not price sensitive are attracted, and over time these will become profitable customers. Thus it is believed that monitoring non-financial customer related measures (including activity and retention rates and the 'voice of the customer' measures) and improving CS and NPS will drive overall bank profitability.

8.3.4 Contribution 4: Contingent factor groups that influence CA usage

In the past, the contingency-based research on MCS has been criticised for its over-simplification, and its focus on the effect of only a limited number of contingent factors and/or for ignoring the interrelated nature of such factors. Researchers have therefore been advised to study likely contingent variables simultaneously (Chenhall, 2003; Otley, 1980) and to recognise the inclusion of non-financial information in contemporary MCS (Langfield-Smith, 1997; Davila, 2000; Chenhall, 2003). A major contribution of this study are the insights gained in relation to the impacts of the nine contingent factors investigated on the choice of CA practices and the way they are used to manage and monitor a firm's customer-focused strategy. This includes the production of a contingency-based theoretical model, (figure 8.1), induced from the case-based data, which has the potential to be used to predict the likely impact of groups of contingent factors on the choice of CA measures and their use. Although still in an early stage of development, such a model may be of benefit to researchers investigating the incidence and usage of CA practices and may be

used in the teaching of CA. Moreover, the model may provide useful insights to practitioners considering the use of CA practices and their likely benefits.

Perhaps not surprisingly, given the comments from the literature mentioned above, the nine individual propositions regarding the likely impact of contingent factors on the choice of CA measures and their usage has received mixed levels of support from the case data. A more promising result is that analysis of case data has identified three groups of contingent factors that appear to act together fairly consistently and are therefore potentially more useful for predicting when particular CA practices are likely to be of most benefit to a firm. It was found that the contingent factors business strategy type, product/customer strategy and competitive intensity combined to from a 'type of competitive advantage' group. Number of customers, customer interface (extent of CRM usage) and marketing strategy combined to form a 'level of heterogeneity' group. Age and stage of firm development and sophistication of ICT combined to form a 'stage of organisational development' group. The model representing these three groups of contingent factors is shown in figure 8.1 and described in section 8.2.11.

This is only a first attempt to develop a framework that may be used to explain a company's choice of CA practices and the way they are used. Therefore, the framework model is in an early stage of development and will need further empirical data to enable it to be developed and strengthened. This is discussed in the next section.

8.4 Limitations of this Study and Future Research Opportunities

Alongside its numerous contributions, and as with any research, this study has a number of limitations. However, many of these limitations correspond to opportunities for future research, related to the important, developing topic of customer accounting. Although the research has included cases on opposite sides of the globe and a large global firm, it was conducted in countries with developed economies, which are predominantly populated by Europeans or people of European descent. There are therefore likely to be strong similarities in relation to business practices and the views and attitudes of interviewees and to a large extent their national culture. The results and conclusions therefore need to be interpreted in the light of this and may not be considered generalisable to firms operating in the same industries but in different countries, particularly developing countries. However, this presents the opportunity for future

research conducting a similarly designed study to investigate customer accounting in customer-focused firms operating in different countries, and to compare and contrast the results. Moreover, such studies could specifically investigate national culture as a contingent factor likely to affect the choice and usage of CA practices.

This study was conducted on firms operating in either the banking sector or the express courier sector and consequently many of the results and conclusions may be sector specific and therefore not generalisable to other industrial sectors. There were many similarities noted between results emanating from two the banking sector cases and the global courier company case despite the fact that these two sectors are significantly different in terms of the nature of the service offered and their operational parameters. However, there is no reason to believe that consistent results would be found if this study was replicated in alternative industry sectors and the contingency-based model may be developed further by conducting theoretical replications in alternative industrial sectors.

As there are a number of similarities between the nature of banking and the nature of insurance, and as previous case study research (for example, Andon et al. 2001) has found examples of similar CA practices, one fruitful research opportunity would be to replicate this study in firms operating in the insurance sector and to compare and contrast results. However, there were also significant differences found relating to the choice of CA measures and their usage between the two bank cases and the two embedded units within the courier company. Therefore, replication of this study in other banks and/or other courier firms, perhaps a smaller, national courier company, may provide interesting results that could be compared and contrasted with this study's results.

Although banking and courier services sectors were specifically targeted as likely to supply suitable cases for this study of CA practices, gaining access proved difficult (as discussed in chapter four) and the final case sites were not the targeted first choices. However, access was eventually arranged at suitable alternative case sites and the research method was adjusted accordingly. This resulted in the Betabank case becoming a theoretical replication instead of the literal replication originally planned. However, it is felt that this change has significantly improved the overall value of the study given that Betabank proved to be a unique case (Yin, 2014), significantly contrasting to the Alphabank case to produce interesting and revelatory results.

Further cases of firms following a customer-focused strategy but not using financial CA measures could be sought in order to investigate more deeply the likely relationship between the intensity of customer focus or customer intimacy within the firm's strategy on the nature of CA practices used.

Inevitably the presence of a researcher asking questions introduces an element of bias and the answers provided may to some extent be what the interviewee thinks the researcher wants to hear. Moreover, researchers' analyses of interview data and interpretation of results is inevitably subjective and informed by their own belief systems. The influence of bias has been limited in this study in the following ways. All but the initial access negotiation interviews were recorded and fully transcribed to ensure the information provided by interviewees was fully available for the data analysis phase. The interview recordings were used to check the accuracy of transcriptions and to review the recording as necessary to hear the tone of voice or inflexion. There was a minimum of four interviewees at each case site and similar questions were used for all interviews, so data could be triangulated as a way of verifying consistency of information (or picking up on differences of opinion). Interviewees at different levels of the firms (at executive or SBU management level and below), were purposely chosen in order to provide triangulation of different viewpoints and to obtain insights into the use of CA measures within different levels (units of analysis) of the Alphabank and GCC cases. When available, documentary evidence was used to verify claims made by interviewees, for example the annual reports of case firms, market reports and internal documents made available to the researcher. Good preparation by the researcher before interviews using the literature and published background information on the companies also helped the researcher to avoid misinterpretation of interviewees' answers and bias in data analysis. Knowledge of the literature was sometimes instrumental in getting more out of interviewees, as occurred when PBA was reluctant to disclose any information about the variability of profitability across a customer segment, but was forthcoming when the examples of the typical wide variety in CP was cited from the literature. In the Alphabank case, there were two interviews with each SBU manager and this provided the opportunity to check the researcher's understanding and interpretation of key issues discussed in the previous interview (for example figures 5.3, 5.5 and 5.6). Finally, communication channels with interviewees were kept open after the interviews were completed, so that if queries arose during data analysis, interviewees could be contacted by phone or email to obtain clarification.

As outlined in chapter three, nine contingent factors were identified, and the case studies were used to investigate how these factors influence the choice of CA measures and their usage, or hinder the more widespread use of CA practices. It was anticipated that *firms or SBUs that have an organic or non-bureaucratic organisational structure will use broad scope, future oriented measures, like CLV, supported by an ABC system.* It is a limitation of this study that none of the units of analysis chosen clearly exhibited the characteristics of an organic or non-bureaucratic organisational structure and all were classified as having mixed structures. Consequently, no conclusions could be drawn relating to this proposition. Future research could focus on firms with a customer-focused strategy that also have an organic or non-bureaucratic organisational structure in order to investigate this proposition.

The list of contingent factors investigated in this study was by no means exhaustive and although the literature review was used to identify the contingent factors most likely to influence CA usage, others could have been investigated and some further possibilities have emerged from the data analysis. As mentioned above, national culture is one possibility, particularly as Chenhall (2003) highlights that prior research on the relationship between MCS design and culture has provided mixed results and little consensus. A potential contingent factor that did emerge from the case is the level of top management support for innovative accounting practices. In a sense the only proposition Alphabank:EL did lend support to was proposition 5 which suggests that firms with a more sophisticated ICT system were more likely to use CA practices, and hence conversely an underdeveloped ICT system would hinder CA developments. It appeared that the lack of ICT development (no ABC system) and hence use of CA at executive level might also be due to lack of top management support (from the CFO himself) for use, at executive level, of the innovative CA measures pioneered by Alphabank SBU managers. Interestingly, McManus and Guilding (2009) identify specific barriers to CA adoption as: IT constraints, other organisational priorities, aversion to change and inadequate skills, but not specifically lack of top management support. However, Cooper (1990) does suggest that a champion and top management support is essential for successful ABC implementation. There seemed to be no lack of top management support for CA developments at GCC, although there were no executive level finance interviewees available for this study. The level of top management support for innovative accounting practices seems to be a contingent factor that warrants further investigation in future research.

8.5 Conclusions on CA in Customer-Focused Organisations

The Betabank case is unique and somewhat revelatory because it contradicts many expectations formed from the literature review. The opinion of Betabank executives is that the highly customer-focused strategy cannot be effectively managed using financial CA measures, as these would drive the wrong staff behaviour. Thus Betabank extensively uses non-financial CA measures encourages the right staff behaviour to drive the bank's strategy based on providing excellent customer service to all customers. This case provides supporting evidence for the conclusion that non-financial CA measures are in practice considered to be an integral element of CA. Moreover, at Betabank executive level, financial CA measures were considered alien to what Betabank are trying to do. In line with their customer-focused strategy even unprofitable customers are considered valuable as they enjoy the excellent customer service and become 'advocates' for the bank. Betabank appears to have no intention of offering a different level of service to different customers, as that would destroy the bank's culture and damage the brand. Boyce (2000) feared that banks will invariably use CA measures to marginalise "low-income, low-wealth groups" of customers by offering them differential product or service levels (p.679). Perhaps Betabank is the exception.

In relation to the use of CA measures, there are considerable parallels to be drawn between the two banking cases. Both are challenger banks with a customer-focused strategy and both are relatively young and of small size compared 'to the big banks' they compete with. Consequently, they are still in a growth phase and although Alphabank:PB has reached an efficient economic scale, it has a high cost/income ratio compared to its big competitors. Interviews reveal a consistent belief that 'main bank' customers are the most profitable and average number of products is a measure that needs to be treated with some caution. At both Alphabank SBUs, number of products is measured, but the main focus is on 'needs met' as the more reliable non-financial driver of CP. Therefore Alphabank:PB has included this measure in their relatively complex CLV model. 'Needs met' indicates loyalty and Alphabank:PB uses historical evidence to establish that customers with only one or two 'needs met' are much more likely to defect than customers with three or four 'needs met' (5.3.3.2). This use of a loyalty measure as a key measure in Alphabank:PB's CLV model provides useful confirmatory evidence, as it is consistent with some of the more sophisticated CLV models in the literature (Gupta et al., 2004, Blattberg & Deighton,

1996; Andon et al*.,* 2001). In addition, the use of the 'needs met' as an integral variable in a CLV model is a discovery that extends our knowledge relating to CA practices.

Both Alphabank SBU's provide largely confirmatory evidence that a customer-focused strategy drives the use of financial CA measures (Hoekstra & Huizingh, 1999) as does medium and high intensity of competition (McManus & Guilding, 2009). Treating the two SBUs as separate embedded case units (Yin, 2014) provided further insights in relation to the differences in financial CA usage, with Alphabank:PB using CSPA (and surprisingly CLV), supported by its ICT sophistication, but not CPAIC because of its large number of customers. Alphabank:BB does not yet measure CPAIC because it is hindered by its less sophisticated ICT, but consistent with its medium customer numbers and use of 'some CRM' it sees the need for CPAIC and is developing the capability. A somewhat unexpected finding relating to the Alphabank case, and therefore a key discovery that contributes to our knowledge of CA practices, is the importance of non-financial CA measures within Alphabank's SBUs. Whilst use of non-financial measures is not intrinsically unexpected, given their increase in importance in the literature on the BSC (Kaplan & Norton 1992, 1993, 1996a) and elsewhere SPMS (Chenhall, 2005) and comprehensive marketing PMS (Homburg et al., 2012), their inclusion as a specific element of CA practices is not evident in the literature on CA. However, Alphabank:PB makes considerable use of non-financial CA measures and in the absence of sophisticated financial CA measures (like CPAIC and CLV) in Alphabank:BB, there is considerable reliance on non-financial CA measures. In particular, there is a belief in a strong link between CS measures and NPS and profitable growth (as advocated by Reichheld, 2003).

Betabank interviewees opine that the number of products per customer is measured incorrectly at some banks with 'products' being poorly defined (alternative channels treated as different products) and they argue that a customer with three current accounts may still not be a 'main bank' customer and will certainly be less profitable than a customer with three 'needs met'. Both banks recognise that loyalty is an important characteristic and hence measure it using NPS. There is consistent use of NPS at Betabank and both Alphabank SBUs and strong similarities between Betabank and Alphabank:BB relating to the comparison of NPS at 'onboarding' and a few months later. Both banks recognise the importance of measuring CS with Alphabank:PB recognising that they do not yet have entirely suitable measures.

Both banks also recognise the need to monitor service failure and put procedures in place to pick up problems and rectify them quickly to preserve loyalty and avoid defections. GCC also recognise this issue, and CMD stresses that complaints cost money and lead to lost customers, but HOGS goes further and considers good complaint resolution as an integral factor within "ease of doing business" which he explains has become an important order qualifying criteria. He argues that GCC are not yet good enough at complaint resolution and must see it as a source of competitive advantage, as he says that the courier firm that "cracks it will wipe the floor with the rest of them". Complaint resolution is therefore a factor included in the CES score, which in turn is believed to influence NPS. CCM is concerned about the customers that do not complain as GCC may not be aware of a problem and the unhappy customer may just "walk away". Both banks have similar concerns, but they are proactive, as they use analytics to predict when customers may be on the verge of defecting.

The GCC case confirms the value of the use of a multi-case methodology, with embedded units of analysis, and interviews conducted at different levels within the target firm. Significant similarities were discovered in relation to the CA practices used at international and domestic levels of the firm, but also some differences related to the lower sophistication of ICT in the domestic business. In response to this, alternative, simpler CA measures were developed to avoid the unnecessary use of limited ICT resources to measure CPAIC. Moreover, if the study had comprised of a survey, respondents from GCC might have indicated that GCC had all standard CA measures except CLV. However, interviews have revealed a significant contrast in usage of financial CA measures revealed between the two customer segments. GCC's differentiation type customer-focused strategy and the existence of high competitive intensity is consistent across the whole firm and therefore the use of CSPA to monitor the profitability of customer segments and revenue to monitor individual customers was also consistent across the whole firm. However, the GCC:TSM/Adhoc segment has a large number of customers, all using a standard service and paying standard tariffs and being managed remotely, so there is no benefit from using CPAIC in this highly profitable segment. Conversely, the GCC:SAM/KAM segment has a small number of high volume customers, each requiring tailored services and CRM, and yet able to negotiate low prices. Therefore, CPAIC is essential in this sector and informs acquisition and retention decisions, and also pricing and profitability management decisions. Despite their mature age and sophisticated ICT, GCC:SAM/KAM does not yet measure CLV but they do use a

forward-looking CP measure that estimates profitability over the next year. However, these financial CA measures only measure results achieved, after a lag. This study discovered a considerable reliance on non-financial CA measures across the whole of GCC. GCC realise that the firm must measure the success of strategy implementation at the level of non-financial drivers. Measures specifically focused on the efficient delivery of the service and resultant CS are used to monitor strategy implementation and provide predictors of future financial performance. NPS is seen as a valuable measure and is a key component of the executive bonus scheme.

The results relating to the Alphabank:EL. unit further demonstrate the need to investigate different levels in a large organisation in order to get detailed and accurate insights relating to CA usage. Alphabank:EL does not use either financial or non-financial CA measures and cite lack of sophistication of ICT (specifically the lack of a full cost ABC system and hence the lack of customer level information in the general ledger) as the main reason for not reporting CP at executive level. The need is recognised and the strategy team are even pushing for inclusion of non-financial CA measures in the executive level BSC, although executives are nervousness about how to interpret these measures. In sharp contrast, Betabank executives specifically exclude the use of financial CA measure (or PPA) because they are considered inconsistent with the intensely customer-focused strategy and promise of excellent customer service for all customers. Executives fear that CPA would almost inevitably lead to customer segmentation, as it has at the big banks they have previously worked for, and the temptation to deliver a different level of service to low value customers. Such a fear, based on the executives' past experience, is borne out by the observed practices at Alphabank:PB, for example the use of CA measures to segment customers and then to deliver a different service to customers perceived to be of low value. This also resonates with findings in the literature. For example, Andon et al. (2001) observed that a customer segmentation analysis led to changes in pricing structures and more focus on value and listed as one of the perceived benefits of CA, "the provision of a more "personal service" for valued customers (p.69), something that Betabank executives were striving to avoid.

In survey-based research, McManus (2013) could find no relationship between the use of accounting and marketing customer-focused performance measures and either financial hotel performance or non-financial hotel performance, except CS. It was suggested that one reason for this 'non-finding' could be that CA and marketing performance measures did not drive hotel

performance because they were not used in firm decision making and McManus (2013) recommends that future studies should check how CA information is being used in decision making across the firm. This study goes beyond this McManus (2013) recommendation by providing rich evidence of the actual usage of CA practices in the three case firms (six units of analysis). Moreover, in contrast to the suggestion in McManus (2013) that financial CA measures are not used in firm decision making, this study finds that both financial and non-financial CA measures are extensively used in decision making within five of the six units. Also, it is interesting that the exception was Alphabank:EL, highlighting a significant difference in the usage of CA measures for decision making between the executive level of the bank and its SBU level. This difference suggests that if CA research focuses only on the executive levels of firms the possibility of extensive use of CA measures for decision making at SBU level (as found in this study) may not be discovered.

A finding of this study that contrasts with prior literature (for example, Andon et. al., 2001), is that there appears to be no 'ownership' of CA measures. In sharp contrast to McManus (2013), who distinguishes customer-focused accounting measures from marketing measures, this study found that both financial and non-financial customer related measures were used by the SBU management team and were considered as 'CA measures'. Furthermore, Gleaves et al. (2008), suggest that marketing "can gain financial discipline and credibility from accountants" and at the same time can help accountants to "gain a deeper understanding of the nature of the assets they are describing and a richer view of how the firm is performing" (p.684). This study provides evidence of the benefits of such collaboration and deeper understanding within management teams with a strong customer focus and in particular highlight the strong conviction within those teams that close monitoring of both financial and non-financial CA measures (or in the Betabank case, non-financial CA measures only) will lead to improved financial performance.

Finally, the use of contingency theory to provide a theoretical lens through which to investigate and explain the reasons different firms choose different CA measures has been found to be highly appropriate. Moreover, it was correct to assume that there may be complex relationships between various contingent factors and CA practices. This study has certainly discovered considerable complexity and diversity relating to factors affecting the choice of CA measures and their usage in firms with customer-focused strategies. One key contribution is the progress made

towards finding order in chaos through the development of a contingency-based framework using the insights provided by the individual case and cross-case analysis, viewed in the light of previous literature, as advised by Otley (1980). The model sorts eight individual contingent factors into three groups based on the perceived relative strength of interactions between the factors in relation to their influence on the choice of CA measures, their usage to drive a customer-focused strategy and the hindrances with respect to more widespread CA usage.

The analysis of six cases units and the cross-case analysis has clearly demonstrated that the predictive ability of any single proposition related to contingent factors and their influence on the use of CA measures is questionable and a number of contingent factors, of different strengths, are likely to interact. The use of combinations of related contingent factors is likely to have more powerful predictive ability. Specific propositions relating to the combinations of factors discussed above, and highlighted in figure 8.1, could be developed and applied in future research studies. Despite a few inconsistencies, the case data has shown that the combination of a strong differentiation-type customer-focused strategy, used to counter an intensely competitive environment, will create a 'type of competitive advantage' that will need to be managed and monitored using a suitable mix of financial and non-financial CA measures. The age and stage of organisational development will influence its ICT capabilities such that more 'developed' firms will be more likely to have the capability to develop and use sophisticated CA practices (both financial and non-financial) and disseminate the institutional learning they facilitate. In respect to number of customers, type of marketing strategy and extent of CRM usage, firms (or more likely segments within firms) with a small number of customers, using the customer concept of marketing strategy and a high level of CRM, will have a heterogeneous customer base (or customer segment) and will be more likely to use sophisticated CA measures, like CPAIC and CLV, and NPS and sector specific CS measures. Conversely, firms (or segments within firms) with a large number of customers, that use the marketing concept and remote customer management will be facing a homogeneous customer base (or a number of homogeneous customer segments) and will likely be best served by the use of CSPA to monitor segment profitability, and revenue to manage individual customers within segments, supported by NPS and sector-specific CS measures. This contingency-based framework needs further development, but offers valuable insights into the way various contingent factors interact and combine to influence a firm's choice of CA measures, both financial and non-financial.

The results of this study, and when more fully developed, the contingency-based framework, provide an enhanced understanding of how firms may choose and use appropriate CA measures to monitor and manage their customer-focused strategy, and are useful for marketing, management and accounting practitioners, managers and academics alike.

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10 APPENDICES

10.2 Appendix 1: Research Question Three and Related Propositions

What are the factors that influence the choice of CA measures and the way they are used, or hinder more widespread usage, within an organisation with a customer-focused strategy?

Proposition 1: Firms that have adopted a customer-focused, differentiation strategy will extensively use CA measures, such as CSPA.

Proposition 2: Firms that have adopted a differentiation strategy based on customer intimacy for any customer segment will use CA measures, such as CPAIC for customers in that segment.

Proposition 3: Firms or SBUs that have an organic or non-bureaucratic organisational structure will use broad scope, future oriented measures, like CLV, supported by an ABC system.

Proposition 4: The more competitive the market in which a firm operates, the higher the propensity of customers to switch suppliers and the more likely the firm will use CA measures.

Proposition 5: The more sophisticated the firm's ICT system the more likely the firm has the capacity to use CA measures.

Proposition 6: Young firms or SBUs at a relatively early stage of development are more likely to use narrow scope financial measures like CSPA and CPAIC. Mature firms or SBUs are more likely to also use broad scope measures, like CLV and CE, and non-financial, performance measures.

Proposition 7: Firms that adopt the marketing concept of marketing strategy will be more likely to use CSPA and firms that adopt the customer concept of marketing strategy will be more likely to use both CPAIC and CLV.

Proposition 8: Firms or SBUs with a small number of customers are more likely to use CPAIC and firms or SBUs with a large number of customers are more likely to use CSPA.

Proposition 9: The greater the extent of usage of CRM the higher the level of intimacy of the customer relationship and the greater the use of CA practices, particularly CPAIC and CLV.

10.3 Appendix 2: Sample Interview Questions

1. What is your job title and your key job functions?
2. How would you describe the strategy of the SBU?
3. To what extent is the SBU:
    a) Product focused?
    b) Customer focused?
4. What are the main products/services offered to customers?
5. What type of marketing strategy is adopted?
    a) Marketing concept (focus on customer groups)
    b) Customer concept (focus on individual customers)
6. How does the SBU attempt to grow the business/customer base?
    a) What are the key order winning criteria?
    b) What are the order qualifying criteria?
    c) What are the least important criteria?
7. Do the above criteria vary between key products or customers or customer groups?
8. How is customer acquisition expenditure justified?
9. How does the SBU attempt to retain existing business/customers?
10. How is customer retention expenditure justified?
11. How is the performance of the SBU measured?
12. What Customer Accounting (CA) measures are used?
13. How important are CA measures to overall performance management of the SBU?
14. How do the CA measures help drive strategy?
15. What are the links between CA measures and financial goals?
16. What drives improvement in CA measures?
17. Which of these drivers are separately measured?
18. If not all, should other drivers be measured?
19. If yes, why other drivers not already measured?
20. Are there any other issues in relation to CA practices or measures that you think might be relevant to this research?