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CUSTOMER VALUE CREATION AND CORPORATE STRATEGY

IN FINANCIAL SERVICES

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ABSTRACT

Customer value creation is allegedly at the centre of relationships between service recipients and service providers (such as financial service organisations in general, and commercial banks in particular). This research considers the role of customer value creation in the strategic response of banks to external changes in their growth opportunities. The analysis established that there had been changes in the framework in which banks' pursued synergy since 1980 (or 1990 in Mexican and 1992 in Estonian interviews). As a response to external change banks have created new synergies in the pursuit of greater growth and interviewees expected that changes in synergy creation should be reflected in banks' diversification and market positioning moves. New synergies required new capabilities and participants from all countries agreed that the current wave of change in synergy creation had carried through greater emphasis on customer profitability. All countries recorded a shift from a supply-oriented strategic stance to the development of skills to retain customers and even becoming a one-stop financial service institution for their customers. However, greater emphasis on customer profitability was seldom followed by recognition of the key capabilities required for high customer value creation. This as most interviewees failed to provide an articulated account of how to achieve that profitability.

[Work in progress. Do not quote]

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1. Introduction

The case of repeated business and cross-selling opportunities is central to financial service organisations and allegedly, depends on consumer satisfaction with a company's service. Lewis (1997, p. 201) summarises this view and relates it to Gönroos' (1984) service quality gap framework, where service quality programmes and a customer care 'philosophy' permeate the financial service organisation from top management to staff at point of contact with customers. However, Baker (1997, p. 6) and Knights *et al.* (1997, p. 17-18 and 20-23) are among those challenging the view of the service quality framework. For this 'critical perspective' participants in the markets for financial services and commercial banks in particular, place greater emphasis on profit related goals (i.e. supplied oriented) than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach).

This paper offers fieldwork supporting the 'critical' view of the service quality framework and therefore, contributes to the discussion challenging a central tenant in the literature discussing marketing of financial services, relationship banking and total quality management (TQM) in financial firms. Empirical support emerged from an in-depth interview survey of 102 senior managers with direct and indirect responsibilities in bank markets, working within distinct competitive environments. The first set of interviews consisted of 55 participants (54%) and took place in Mexico, Spain and the UK in 1996. The second set consisted of 38 participants (37%) from Ireland, Germany and Mexico, and took place in 1999. The third part of the fieldwork consisted of 9 interviews (9%) with managers of banks within the Baltic Sea region in February 2001.

To ascertain the validity of the service quality framework in financial services, the research considered the role of customer value creation in the strategic response of banks to external changes in their growth opportunities. External change is primarily associated with (but not limited to) external innovations caused by changes in regulation, companies to borrowing directly from markets rather than through traditional intermediaries ('bank disintermediation') and technological change (ie applications of information and telecommunications technologies). At the same time, bank growth is associated with the intent to determine whether the bank must develop new capabilities or resources and

whether the bank as an organisation must change co-ordination and co-operation patterns between people, and between people and resources (Grant, 1991, p. 22). Strategic intent, therefore, establishes which resources and capabilities will be key for future profitability and these profit generating resources and capabilities are called ‘core capabilities’.

The research considers that high strategic and financial control of core capabilities provides the organisational flexibility that visionary strategies require to deliver high sustainability of competitive advantage. This follows the original proposition made by Penrose (1959, p. 110), which was successfully measured by Rumelt (1974) and more recently by Yip (1982), while later on applied to commercial bank markets by among others Keltner (1995), Keltner and Finegold (1996) and Bátiz-Lazo and Wood (1999). Participants in bank markets are thus defined as banks, non-banks and non-finance intermediaries willing (and able) to develop a set of core capabilities closely related to brokering the financial needs of low-volume surplus- and deficit-spending agents as well as maintaining a national payment system. This set of distinctive capabilities represents the basis for competition in core markets for commercial banks.

Financial service organisations can also be defined from a consumer perspective. According to McKechnie (1992, p. 65) and Lewis (1994, p. 270), there are two service quality expectations that distinguish financial services, namely fiduciary responsibilities and two-way information flows between bank and customer. Firstly, fiduciary responsibilities refer to the obligations that financial service organisations have regarding the management of their customers' funds and the nature of the financial advice supplied. Secondly, two-way information flows reflect individual customers repeatedly purchasing the same service from the same financial service organisation, often over extended periods of time. Financial transactions and particularly those in retail bank markets require a great deal of information that reflects the latest changes in customers' private and confidential financial status (*op. cit.*).

In summary, this research explores the intent behind diversification decisions of commercial banks and the role customer value creation played within those decisions. According to Keltner (1995), the effect of innovations over capabilities to compete in bank markets could have been two fold. One the one hand, bank growth could have associated with a shift away from relationship banking toward product strategies based on

high turnover. On the other, bank growth based on the creation of customer value would associate with investments in the human resources and the organisational capabilities that resulted in a stable market share. To explore this ideas the paper proceeds as follows. Section 2 offers the methodology for interview selection. Section 3 discusses the main empirical results while section 4 includes a summary and tentative conclusions.

2. Research Methodology

Until recently there was little systematic evidence that banks which engage in strategic planning outperform those that do not (Muda, 1993, p. 22, Kaplan, 1994, p. 56, Gardener, 1995, p. 1 or Newkirk Moore, 1995, p. 335), with the added result of having little empirical support to determine whether differences in planning approaches are responsible for distinct sets of capabilities to compete in bank markets. Yet Keltner (1995), Keltner and Finegold (1996), Bátiz-Lazo and Wood (1999) and Brouthers *et al.* (2000) represent a growing trend where researchers have gained access top managers of established participants in bank markets. This paper builds on results documented in Bátiz-Lazo and Wood (1999) where case studies and six separate interviews with top bank managers provided a basic agenda on the major areas of concern for commercial banks. This research documents results of top managers discussing criteria used for competitive positioning which included an assessment of how and when major changes in operation responded to external change (such as changes in regulation or information technology innovations).

The current research extends that of Bátiz-Lazo and Wood (1999) by increasing previous fieldwork to encompass a total of 102 in-depth interviews with senior managers with direct and indirect responsibilities in bank markets, working within distinct competitive environments. The first set of interviews consisted of 55 participants (54%) and took place in Mexico, Spain and the UK mainly between April and July 1996, but with some interviews taken place as early as March or as late as October. The second set consisted of 38 participants (37%) from Ireland, Germany and Mexico, and mainly took place between March and June 1999, but with some taking place as late as November and December. The third part of the fieldwork consisted of 9 interviews (8%) and took place

in February 2001. Interviews with managers of banks in Sweden and Estonia resulted in the discussion of activities throughout countries of the Baltic Sea region. For this reason contributions were assessed as if emerging from a longitudinal survey of four distinct competitive environments, namely Mexico (30% of respondents), UK and Ireland (28%), Spain (23%) and Baltic sea (19%).

The sector distribution interviewees included 59 managers of commercial banks (58%), 11 managers at savings banks, co-operative banks or building societies (11%). All these 70 participants belonged to the three top levels of management. At the same time, the requirement was that they had more than two years of direct involvement in the design of strategy at regional, national or international level.

The second sector group had direct experience with the banking sector but no current responsibilities. This sample included 20 sector specialists from investment banks (20%), 9 management consultants (9%) and 3 bank regulators (3%). Sector specialists were either in the sample country or at the London office of the investment bank. Management consultants were Partners or Project Managers (in all but one case, from a “Top 6” firm), with again a minimum of two years experience in servicing commercial banks. Regulators had experience in the central bank's research or external audit departments. The result of this careful screening was that all interviews were productive in that they produced credible and internally consistent responses that reflected a sound knowledge of bank strategic management.

Market participants in different countries were selected to illustrate the strategic response of established participants in four distinctive competitive environments. External innovations such as shifts in consumer demand patterns, regulatory changes, bank disintermediation and the adoption of information and communication technology (IT) applications were assumed to influence bank growth. For Keltner (1995, p. 46), one type of bank growth would emphasise profit related goals (i.e. supply oriented) and this approach to bank growth would associate with ‘price and convenience as [banks] major source of competitive appeal’; where high turn over, fee-based activities and low cost offerings predominate. This type of bank growth characterises with high diversification of customer groups, product markets and geographies (Bátiz-Lazo and Wood, 2001b). An opposing view would identify with ‘customer value creation’ and the satisfaction of

customer ‘needs’ (i.e. customer-oriented approach), that is, bank growth associated with geographic concentration, limited product diversity, customer group specialisation and intensive use of account executives (op. cit., p. 51). Similar patterns of bank growth have also been documented by Bátiz-Lazo and Wood (1999) and Bátiz-Lazo and Wood(2001b) and associated with a platform (i.e. broad based) perception of core capabilities and a specific (i.e. unique to the bank) perception of core capabilities, respectively.

Participants in different markets were thus introduced to allow collecting comparable data on changes in growth opportunities internal to each market and to corroborate sector-wide phenomena common to all bank markets (as opposed to effects specific to a region or country). This selection allowed for a choice which emphasised *triangulation* to delete bias introduced by contextual features of individual participants as well as treats unique to a country or region. The use of *triangulation logic* as methodology resulted from Hakim (1987, p. 144) and Eisenhardt (1991, p. 624) which suggest that the selection of company histories should include the same process in organisations of diverse organisational structure or different processes in organisations of similar structure. As a result, the selection of participants in the survey was grounded in (but not limited by) established theory. In-depth interviews aimed to address different aspects of how external change modified the implementation of strategy and in this way, illustrate changes in the incentives to develop relationship marketing policies. The common theme among these interviews was, therefore, identifying any attempt to overcome a low-skill environment or the context of individual labour markets to invest the creation of skills, organisational capabilities and competencies that allowed banks to know customers personally as a source of competitive advantage.

Finally, it is worth noting that in all cases interviewees represented more than 60% of the total assets in each country. At the same time and as documented by Foddy (1993, p. 82) and Bowman and Ambrosini (1997), the risk of inferences into strategic behaviour based on single source responses of an organisation is avoided by introducing individuals of the same institution as interview sources. Hence, to achieve the proper level of social generality of responses in 40 cases (39%) respondents were members of the same institution although working at a different location or in a different line of business (i.e.

retail or investment banking). Again, triangulation with several sources helped to corroborate sector-wide phenomena common to all bank markets as opposed to effects specific to a region or country.

3. Customer Value Creation and Growth in Bank Markets

3.1. Pre-eminence of Supply Oriented Growth

As documented in Bátiz-Lazo and Wood (1999), interviewees believed themselves to be creating shareholder value. In particular, 76% of the sample considered creating shareholder value an overriding concern, while 22% thought otherwise because of their mutual status. Of those who considered shareholder value a concern, 87% said they deliver shareholder value as an increasing share price (through a combination of dividends and share value) and 13% said their organisation delivers shareholder value as a high share price.

Interviewees were then asked to elaborate about the relation between shareholder value and customer value creation. For Keltner (1995) and Keltner and Finegold (1996), policies regarding human resource management (including staff retention) are particularly important to identify a bank's commitment to customer value creation, be it through TQM or relationship banking programmes. Moreover, Keltner and Finegold (1996, p. 58) consider relationship banking is appropriate to create customer value and develop competitive advantage by attracting and retaining 'high-end retail customers and small- and medium-sized business enterprises'. Canals (1994, p. 197), however, takes a broader view. As a result, managers of banks were considered able to identify their organisation's core capabilities if managers recognised how a bank's value added rises or falls when the organisation provides a changing bundle of services to their customers. Managers' understanding of effectiveness of distribution, client capture and treasury activities together with drivers such as experience or scale effects, scope or service synergy effects, channel synergy, cost substitution with particular emphasis on IT and human resource management also demonstrate awareness of core capabilities (idem, p. 199). In all instances survey participants agreed there was a one to one relationship between shareholder value and customer value. Everyone agreed that banks exist only when

creating customer value but they could seldom elaborate further from a notion that described customers maintaining patronage of the bank. At the same time, as far as interviewees could recall, the emphasis in bank markets in their country and at their bank had been to grow the portfolio of business lines rather than increased focus on core capabilities.

Results also suggested that management of diversity does not seem to be time invariant. In 70% of the cases interviewees agreed there had been changes in the framework in which banks' pursued synergy since 1980 (or 1990 in Mexican interviews and 1992 in Estonian interviews). Agreement to changes in the way in which banks' business lines create synergy was highest in the UK and Ireland (86%), the Baltic sea (73%) and Spain (65%), while 29% of Mexican respondents agreed there had been change and 61% considered the way synergy is created had remain stable. When in agreement, managers told of how banks created new synergies in the pursuit of greater growth and interviewees expected that changes in synergy creation should be reflected in banks' diversification and market positioning moves. New synergies required new capabilities and participants from all four regions agreed that the current wave of change in synergy creation had carried through greater emphasis on customer profitability (this in spite of most interviewees failing to provide an articulated account of how to achieve that profitability).

Table 1 shows how, when asked to chose the two most important objectives that would determine the speed and direction of banks' diversification patterns, interviewees were consistently preoccupied with ways to create greater shareholder value rather than enhancing customer loyalty (see individual country listing in Bátiz-Lazo and Wood, 2001, p. 20). By collecting comparable data on changes in growth opportunities and disregarding local regulatory constraint, the ranking offered the rationale behind bank diversification that was common to all four competitive environments. Greater income growth was the top concern (29%) followed in importance by risk control issues (17%) and improvements in the performance of distribution channels (17%), while improvements the performance of core capabilities (15%) ranked fourth. Of less concern were considerations about changing business focus (7%) and acquiring new technology

(5%), while managers unable to choose only two drivers represented 8% of all participants.

Table I: Drivers for Diversification Strategies (1996, 1999 and 2001)
(Importance of factors driving diversification strategies)

	Baltic sea	UK and Ireland	Spain	Mexico
Greater income growth	37%	38%	17%	27%
Risk control	3%	7%	30%	26%
Improving the performance of distribution channels	5%	5%	13%	5%
Improving the performance of core capabilities	26%	19%	4%	13%
Changing business focus	18%	19%	17%	15%
Acquiring new technology	5%	2%	4%	10%
Other	5%	10%	13%	5%

Source: Bátiz-Lazo and Wood (2001) and own estimates.

At the same time, improving the performance of core capabilities was the least important priority for Spanish respondents (4%) but the second in importance for participants from the Baltic sea (26%) and the UK and Ireland (19%). Given that Spain, Ireland and countries in the Baltic sea region are considered to have strong worker organisations and/or labour laws constraining managerial decision making, survey results would then to confirm Keltner's (1995, p. 52) suspicion that labour laws in themselves do not determine business strategies. Rather, the implementation of strategic intent by individual teams of bank executives will determine diversification patterns (see further Bátiz-Lazo and Wood, 2001, p. 8), including the pursuit of schemes to secure a stable and loyal customer base. Survey results would suggest that diversification has resulted in changing business focus as suggested by participants in the UK and Ireland (19%), Baltic sea (18%), Spain (17%) and Mexico (15%). Results documented in Keltner (1995, p. 51) and Keltner and Finegold (1996) would suggest that diversification in bank markets has emphasised shift away from financial relationships. Survey results concur with this view, which suggest a shift towards increased the importance of fee-income generation, reduction of overall cost levels, decomposition of financial products into their basic

elements (“unbundling”), and the separation of the management from the ownership of assets (“securitisation”).

Interestingly, although the most popular (i.e. modal) response in all regions was greater income growth, in 26% of the cases Spanish and Mexican managers were very concern with risk control. A specific instrument was designed based on Spanish interviews to enquire further into this and offered as part of meetings taking place after the Spanish survey had finalised. These results are summarised in table 2.

Table II: Drivers for Diversification Strategies (1999 and 2001)
(Greatest source of concern for managers of banks in the next 5 to 10 years)

	Baltic sea	UK and Ireland	Mexico
Changes in government or international regulation	0	5%	6%
Control of operating costs	18%	32%	24%
Cost control of distribution channels	13%	5%	6%
Exploring markets in other countries	8%	5%	3%
Finding new types of business (changing business focus)	13%	0%	6%
Finding or creating related business lines (synergy)	11%	9%	9%
Information technology	24%	18%	18%
Product/service innovation	3%	5%	15%
Trade unions	0	0	0
A combination of any of the above	8%	18%	12%
Other	3%	5%	3%

Concerns regarding the overall level of operating costs (25% on average) and information technology (20% on average) further suggested that external innovations and technological change in particular, associate with a shift away from relationship banking towards product strategies based on high turnover. This as interviewees told how financial intermediaries have invested heavily in information technology to develop standardised offerings and compensate for high turn over in the labour force. Through this process financial service organisations could have moved away from many of their traditional sources of competitive advantage and encouraged customers in both the retail and wholesale segments to turn to other financial providers and non-bank credit sources to meet their liquidity or investment needs.

In summary, survey result suggest diversification strategies of commercial banks characterise by the pre-eminence of greater income growth and cost containment as drivers of diversification decisions. Results also suggested that, on balance, managerial strategic intent in commercial bank markets builds upon 'supply oriented' growth rather than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach). Managers of banks were considered unable to identify or control their banks' drivers of profitability. This as conspicuously absent from in-depth discussions was an articulated approach to creation of customer value. Failing to identify how customer value is created reflected an inability to identify true drivers of performance at practical levels. Moreover, the inability to identify banks' current or future drivers of performance together with low strategic priority for customer value creation further suggested that any potential competitor whose strategy implements customer value concepts is likely to secure entry to bank markets. This finding further reinforced the perception that diversification strategies of non-finance intermediaries can easily contest bank markets because many non-finance intermediaries already possess and have mastered the customer retention capabilities that banks hope to develop.

3.2. Growth and Differentiation

The possibility of different perceptions between in-market and out-of-market participants regarding the potential profitability of growth opportunities in bank markets

was also explored in the course of in-depth discussions. Table 3 summarises the possibilities that strategic decisions would develop into entry barriers to bank markets. This as strategic investment decisions that affect market boundaries and market structure are hypothesised to discourage competition when potential entrants perceive entry barriers as being both relatively fixed and even exogenous to the strategies of established and new participants (such as regulation or technological change). The persistence of barriers to entry ensures market outcomes such as profit distribution and market concentration will also tend to continue over time (Geroski, 1991, p. 157). External innovations that modify the potential of out-of-market participants to contest local markets therefore reflects a combination of changes in competition and the effectiveness of established participants implementing strategic intent.

Table III: Potential Contestants of Bank Markets (1999 and 2001)
(Greatest challenge to established commercial banks)

	Baltic sea		UK and Ireland		Mexico		Avg
	Rank		rank		rank		rank
Established banks or building societies	13%	1	18%	1	0	9	4
Foreign banks	13%	1	9%	5	29%	1	2
Government owned finan. org.	0	12	0	10	0	9	10
Insurance companies	11%	5	14%	2	6%	6	4
Investment banks (local or foreign)	11%	5	0	10	0	9	8
Multimedia groups	5%	7	0	10	0	9	9
Mutual funds	5%	7	0	10	21%	2	6
New banks (established with local capital)	0	12	0	10	0	9	10
Off-springs of MNCs	0	12	9%	5	6%	6	8
Retailers	13%	1	5%	9	9%	4	5
Single purpose financial institutions	13%	1	14%	2	15%	3	2
Software companies	5%	7	9%	5	0	9	7
Supra-national organisations	0	12	0%	10	0	9	10
A combination of the above	5%	7	14%	2	3%	8	6
Other	5%	7	9%	5	9%	4	5

Results suggest that organisations with the capabilities to compete (such as savings banks, single purpose financial organisations or foreign commercial banks) or those able to develop capabilities and diversify into bank markets (such as insurance companies offering credit cards) are the most likely to mount a challenge. Survey results give an average ranking of 10 to the establishment of new banks confirm other empirical evidence. As expected by Geroski (1995, p. 426), this evidence suggests that the capture of growth opportunities is likely to be observed as diversification strategies of established participants rather than as new firms, because capital building from scratch to effective competitive threats is not, on average, very successful or even likely.

Survey results also suggested that managers of banks believe that, in spite of banks having little skills for customer value creation, there are few possibilities for out-of-market participants to contest bank markets. However, there are signs that external innovations have increased competitive intensity across all bank markets. This as possibilities that strategic intent will develop an advantage by impeding the free flow of resources or forcing potential entrants to face greater costs than incumbents were considered to be low. The high average ranking of single purpose financial institutions (rank 2) and retailers (rank 5) further suggested organisations with high customer value creation skills could overcome banks' strategic investments to develop "sunk" (irrecoverable) costs, economies of scale, increase the breath of business (i.e. economies of scope), or develop financial power.

The possibility that out-of-market participant could pre-empt strategic investments that define banks' product portfolio diversity, customer groups, or geographich scope was further investigated and results presented in table 4 below. The table summarises the generic possibilities upon which managers of banks considered key to create sustainable competitive advantage. Results suggest how managers of banks expect to maintain their market position by creating a perception of customer value creation but just enough to assure customers maintaining patronage of the bank. In other words, survey results suggest that, on balance, short-term and transaction-oriented relations predominate in bank markets.

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

	Baltic sea		UK and Ireland		Mexico		Avg
		<i>rank</i>		<i>rank</i>		<i>rank</i>	<i>rank</i>
Ability to create great perceived value added by customers	32%	1	14%	4	24%	1	2
Customer group diversification	5%	7	0	6	0	13	9
Financial resources to withstand price war	0	12	0	6	3%	7	8
Focused differentiation (serving niche markets)	0	12	0	6	9%	4	7
Geographic diversification	0	12	0	6	3%	7	8
Greater scope of products and services(diversification)	5%	7	0	6	9%	4	6
Information technology (at point of contact with customer)	11%	2	9%	5	15%	3	3
Information technology (inside the bank)	8%	4	23%	3	3%	7	5
Low price / cost leader strategies	5%	7	0	6	3%	7	7
Mergers, acquisitions or take-overs	3%	10	0	6	9%	4	7
Price competition	0%	12	0	6	0	13	10
Product and service innovation	8%	4	27%	1	3%	7	4
Product or service differentiation (with price premium)	8%	4	0	6	18%	2	4
Product or service differentiation (without price premium)	3%	10	0	6	0	13	10
Other	11%	2	27%	1	3%	7	3

Source: Bowman (1998) and own estimates

Although constructs in table 4 are very broad generalisations, important implications which represent generic strategic intent to create sustainable competitive advantage flow from them. As applied to bank markets, these constructs emerged from Bowman's (1998) 'strategic clock', a framework that helps to ascertain the creation of sustainable competitive advantage through the ways that organisations create customer value and which (actual or potential) competition will find difficult to imitate. Participants considered that differentiation strategies that created greater perceived added value by customers (23%) would be key for sustainable competitive advantage in bank markets, to the extent that IT applications (11%) enabled product and service innovation (13%). However, as previously discussed, during the course of the interviews managers of banks failed to provide an articulated view identifying their bank's core competencies. At the same time, rather than demonstrating how product or services better meet consumer 'needs', participants felt inclined to build differentiation as the banks core competence further suggesting that building diversification as a strategy will be a challenging task.

Survey results also suggest that differentiation in bank markets will seldom associate with enhanced financial margins by pricing higher than competitors. Having rank third in importance, IT applications at point of contact with consumer suggests managers expect differentiation to develop into higher market share through standardised service, that can be responsive to some consumer characteristics and is susceptible to lower cost structures (through scale rather than scope of business). But implementing a 'hybrid' strategy that simultaneously achieves differentiation and a price lower than competitors depends on the ability to both understand and deliver customer value creation, while also having a cost base that permits lower cost structures. This strategy can be even more challenging as its harder to generate the income flow that assures reinvestment to maintain and develop the resources and organisational capabilities needed for differentiation.

Interestingly, there seem to be greater consensus on the future sources to sustain competitive advantage in the UK and Ireland, than in the Baltic sea or in Mexico. This as British and Irish interviewees provided more uniform responses.

The top concern for 27% of British and Irish respondents was product and service innovation. This concern further suggested a shift towards a transaction-based growth,

where the bank-customer relation becomes a mean to attract steady streams of new business. However, the emphasis on diversification of the product portfolio and customer acquisition in the UK and Ireland may well risk lower direct involvement with customers and a more volatile customer base. This as customers attracted to a financial service organisation by promises of discounts or other one-time offers can be expected to be less loyal and thus, constantly in search of a better offer (Keltner, 1995, p. 52). Simultaneously, product and service diversification will require high level of expenditure to develop product and service innovations. Indeed, 23% of British and Irish respondents identified the need to make strategic investments on IT applications (that lower cost structures and enhance internal working of the organisation).

On the other hand, respondents from the Baltic sea (32%) and Mexico (24%) were much more concerned than British and Irish participants (14%) regarding the creation of customer value. However, in-depth discussion was unable to unequivocally determine that these responses reflect the goal of customer cultivation. Distinction was rather made on the way managers told of their core capabilities. Specifically by managers in banking organisations that saw current activities or resources as providing a set of core capabilities unique to the bank and who were able to provide an articulated version of how these capabilities create customer value (see further Batiz-Lazo and Wood, 1999). These accounts were not unique to a country or region and did in fact tell of internal information-sharing schemes used to support the build-up of a detailed information base that told of customers' life events or particular situation.

4. Discussion and Conclusions

This paper offered fieldwork supporting the 'critical' view of the service quality framework and therefore, contributing to the discussion challenging a central tenant in the literature discussing marketing of financial services, relationship banking and TQM programmes in financial organisations. In particular, research documented evidence to support the view that financial service organisations and banks in particular, place greater emphasis on profit related goals (i.e. supplied oriented) than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach). The discussion also included competitive and corporate strategy implications of survey results.

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

Survey results would also suggest that diversification has resulted in changing business focus. This as, on balance, diversification in bank markets has emphasised shift away from customer cultivation and emphasised fee-income generation. Survey result suggest diversification strategies of commercial banks characterise by the pre-eminence of greater income growth and cost containment as drivers of diversification decisions. Results also suggested that, on balance, managerial strategic intent in commercial bank markets builds upon 'supply oriented' growth rather than growth driven by the satisfaction of customer 'needs' (i.e. customer-oriented approach).

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

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