306.
Operational Excellence in Retail Banking
Course Code 306 - Operational Excellence in Retail Banking

Introduction

Previous modules on Operations I and II have considered managerial actions to achieve operational efficiency and evaluated their respective impact on measures such as cost income ratio and the ratio of expenses to total client balances. This approach is quite common in retail banks and is impacted by the constraining effects of new liquidity standards proposed in Basel III. The bias in Basel III towards more liquid assets as proposed, for example, by the liquidity coverage ratio (LCR) means that all else equal, banks are expected to earn lower net interest margins. Furthermore, Basel III requires more equity capital for the same level of risk weighted assets compared to its predecessors, Basel I and II. The consequence is that retail banks globally have sought to improve their respective return on equity (ROE) through various efficiency strategies.

This key conclusion is clearly illustrated in the following equation for return on equity (ROE)†:

\[
ROE = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Tier 1 Capital}}
= \left( \frac{\text{Net Interest Result} + \text{Other Income} - (\text{OPEX} + \text{PROV})}{\text{Total Assets}} \right) \times \text{Leverage Ratio}
\]

Comment

Minimum levels for LCR and the Net Stable Funding Ratio (NSFR) as well as a higher minimum level of the asset to Tier 1 equity multiple are limiting factors on ROE. The importance of operational excellence on reducing operational expenses and provisioning is highlighted in the equation for ROE.

The focus of this module is operational excellence, which is a concept that goes beyond just operational efficiency. In fact, by focusing only on cost reduction, bank management may not obtain meaningful positive effects on profit. An aggressive cost-cutting policy also has the potential to increase operational risk as bank employees are likely to be over-utilised, thereby

* Of course, the shape of the yield curve is an important determinant of the bank’s net interest income
† This equation is also discussed in module 207
increasing the incidence of errors and mistakes. Indeed, a study* based on a sample of eight commercial banks in South Africa shows that there is a weak relationship between cost reduction and profit.

We view operational excellence as comprising two dimensions – operational efficiency and positive customer brand experience. These two dimensions are likely to be correlated. For example, operational efficiency can lead to faster and more consistent delivery of bank services resulting in a higher level of positive customer brand experience. But as stated in the module on brand management, achieving positive brand experience is a strategic objective. Hence, it follows that the bank management must consider actions to enhance operational excellence within the context of its business strategy.

This advice is not necessarily always followed. Indeed over the recent past, retail banks have invested heavily in digital channels and banking applications, and modernised and re-purposed their branches; they have also entered into the world of customer analytics that would better predict customer needs. But haphazard investments driven by marketing and sales departments or IT specialists who see benefits in the latest banking software can lead to a lack of strategic alignment and worse, a higher degree of complexity in banking operations.

**Advice for Senior Management**

a) Investments to enhance operational excellence must be aligned with the bank’s strategy. Otherwise it is wasted investment.

b) Watch out for the cost of complexity and complexity-creep. Be wary of recommendations by IT professionals who are enamored by the latest version of a software product that will allegedly perform miracles for the bank. Require a business analysis from all promoters of new technology. Place little credence in Excel™ Spreadsheet calculations showing fantastic net present value calculations (NPV). There is no substitute for a business rationale for any investment!

The underlying theme in this module is the role of (unnecessary) complexity as the most important barrier to a retail bank’s success in achieving operational excellence†. Complexity in banking operations likely hides non valued-added activities – that is, those activities which do not provide revenues but incur cost and create risk for the bank. Apart from this direct bottom-line effect, complexity in retail banking tends to create substantial operational issues for management. Bank management becomes more difficult since there is a lack of clarity and an increase in ambiguity. This point is echoed by several experts in the theory of complexity and management.

Here are some interesting implications of complexity on management as proposed by Professor Rangan of INSEAD:

“When complexity increases, three things tend to happen. Firstly, interdependence becomes more widespread, but also harder to understand. Secondly, there is ‘causal ambiguity’: forecasting and planning become difficult because the relationship between variables is harder to decipher. Finally, time gets compressed: everything seems to be happening at once. ‘If it’s all happening at the same time, then I suddenly have to respond to multiple things simultaneously and I’m no longer able to separate what is important from what is urgent,’ says Mr. Rangan.”

*Source: Economics Intelligence Unit, The Complexity Challenge: How businesses are bearing up, 2011.*

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† Complexity will be defined in Chapter 1. We refer to ‘excessive’ or unnecessary complexity since some retail banking operations are naturally burdened by increasing levels of regulation and supervision as well as legislation. So in the remainder of this module any reference to complexity means ‘unnecessary levels of complexity’.
It is worth repeating a key lesson inferred from the comments by Professor Rangan:

**Lesson**

Complexity likely creates false relationships between banking metrics such as cost and profit. This makes bank strategy more difficult to implement and measure.

The remainder of this module is organised as follows:

Chapter 1 considers operational excellence as an enabler of the bank’s business strategy and discusses the important sources of unnecessary complexity – process, product and organisational structure complexities. Chapter 2 deals with data, IT and knowledge silos as key impediments for the successful implementation of a multi-channel strategy. Chapter 3 considers biases in customer behaviour that lead to dilemmas that have an impact on management actions to achieve operational excellence. This chapter also discusses the behavioural issues involved in a bank-initiated customer channel migration strategy and evaluate it in terms of its effects on operational efficiency and customer experience. The module concludes with a summary and multiple choice questions.
Chapter 1:
Bank Strategy and Operational Excellence

In module 302, it was advised that the development of business strategy be aligned with existing people skills and core competencies in the bank and that any potential skill gap is to be closed by appropriate hiring and/or training and development of bank staff. This is the main principle of the ‘outside-in’ approach embodied in the TOWS model and it is an important pre-condition for the successful implementation of the bank’s strategy.

The key link between operational excellence and implementation of the bank’s business strategy is illustrated in the diagram below. This diagram shows that the development of the bank’s business strategy leads to the formulation of a unique customer value proposition, which is an outcome of the PEST and TOWS approach that is expected to create long-term value creation; this is enabled by strategies for operational excellence. An example illustrating this role of operational excellence is found in a statement by Deutsche Bank which announced in 2012 that “the bank aims to secure its long-term competitiveness by achieving operational excellence with major reductions in costs, duplication and complexity in the years ahead”.

306.1: Operational excellence and implementation of bank strategy
Here is a question to emphasise the connection between strategy and operational excellence.

**Open Question #1**

When cost-cutting measures are enacted without a direction from the bank’s strategy, then a likely consequence is that the bank’s strategic objectives may conflict with business units’ immediate P&L objectives of meeting their budget plans.

*Do you agree?*

What is meant by operational excellence in retail banking?

Operational excellence in banking is the simultaneous achievement of operational efficiency and customer brand experience where the latter is determined by positive customer service quality. As explained below, these two concepts are inter-related.

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**306.2: Concepts of operational excellence**

This diagram shows that operational excellence is derived from two main factors - operational efficiency and positive customer brand experience. Operational efficiency is manifested in lean operations with low variability in the delivery of customer service – revealing the value to consumers of speed and consistency. The key to improving speed in delivery is to identify and mitigate sources of complexity in bank processes while qualified staff is crucial for consistency. This is the promise of Little’s Law that is fully discussed in Operations II (module 206).

*The key to achieving operational efficiency is for bank management to focus and simplify.*

In the Berry model of services brand management (module 304), customer brand experience is determined by bank customer service quality. But as discussed in module (107), customer service quality is based on five dimensions – reliability, empathy, responsiveness, assurance and tangibles.

How can senior bank management achieve improvements in both operational efficiency and customer brand experience?

The answer to this question is presented in two parts. Firstly, we consider three sources of complexity in retail banking: process, product and organisational complexity. Simplifying these will increase operational efficiency and is the focus of this chapter. Secondly, we show how to design and create positive customer experience in all channels in a multi-channel strategy. This is considered in Chapter 2.

* Chapter 2 considers data, IT and knowledge complexities in relation to omni-channel management
a) Process complexity

We first provide a definition of ‘complex’ processes.

A process is deemed to be complex if a reconfiguration to make it simpler does not adversely affect customer satisfaction and/or does not increase compliance and operational risk.

Note that the simplification of a process must not be done at the expense of a positive customer experience and/or risk management. The sole criterion for process simplification is NOT cost reduction. In fact, cost reduction is a consequence of actions by bank management to simplify processes.

Lesson

Cutting costs will likely not lead to sustained cost reduction. Actions by bank management to increase process efficiency through simplification will likely achieve this objective.

As demonstrated in Operations I, principles of the lean methodology work best for fully automated processes that deliver bank transactions such as account opening, checking account balances and purchase of simple bank products – using straight-through processing (STP). However, bank processes which are knowledge-based or which require human interaction such as in risk evaluation of mortgage applications can be complex and aggressive actions toward simplification must be taken carefully. For example by shortening a loan evaluation process, bank staff may be able to provide a final decision to the customer in a relatively short time which may lead to higher customer satisfaction. But the risk evaluation process may have missed key steps in the phase of getting to ‘know your customer’ and thereby expose the bank to underwriting risk. This is why both conditions must be taken into consideration – customer satisfaction and risk exposures.

How to ensure that managerial actions to simplify bank processes are not at the expense of customer satisfaction and/or unnecessarily increase bank risk exposures?

• It is recommended that senior bank management appoint a senior bank professional as a dedicated customer advocate. This professional will evaluate all managerial actions that are intended to simplify banking operations from a customer perspective to ensure that customer service quality is not compromised.

  The key principle is: operational efficiency should increase customer brand experience and not impede it.

• In addition, a risk management professional must evaluate all managerial actions to increase process efficiency so as to ensure that the bank is not unduly exposed to higher operational risk or other sources of risk.

Advice for Senior Management

Ensure that a risk management professional and a customer (satisfaction) advocate are fully involved in bank management decisions to simplify bank processes.

This is to reduce the risk that the decision to simplify bank processes is not driven only by expense objectives.

We now consider another source of complexity in retail banking that arises from product redundancy in the product portfolio.
b) Product Portfolio Complexity*

It is conventional wisdom that retail bank product portfolios reflect the Pareto Principle – that is, 80 percent of the bank’s revenues come from 20 percent of bank’s products. In fact, normally fewer than 20 products generate 80 percent of revenue. Hence it is recommended that senior management implement a focused strategy of eliminating unprofitable/marginal products and so enhance operational excellence.

Here is advice on implementing a strategy to reduce product portfolio complexity.

**Advice for Senior Management**

A critical review now of all products generating less than three percent of revenue, from a customer and a profitability point of view, is essential to the future of every retail bank.

Here is the rationale for this advice as proposed by Dick Harryvan, former CEO of ING Direct.

**The Case for Radically Streamlining the Product Portfolio**

*Now is the time for fewer products done well, not more products for all*

The credit crisis has heavily damaged the image and trust placed in retail banks. In reaction, regulators passed more than 14,000 new rules and regulations during 2011, according to the *Financial Times*. The increased standards related to compliance, risk management, client orientation with due care, and higher capital requirements put major pressures on the operations of retail banks, including increased overheads. Radically streamlining the product portfolio can be a major contributor to addressing these issues. It can greatly increase client orientation with reduced mis-selling, improved compliance and risk management, and can result in significantly higher profitability.

Retail banks typically have 200 to 300 products that they still actively market. If you ask how many products generate 80 percent of the revenues, it is usually less than 20 products. Having so many products can put real pressure on proper execution in operations and IT, resulting in increased expenses. For sales and service staff, such a large number of products cannot really be fully understood. This increases the risk for poor service and mis-selling to customers, which damages the image and can result in ever-increasing regulatory sanctions. At one banking institution, it was found that profit was actually 160 percent of reported profit. Fully 60 percent was eliminated through value destruction by subscale or poorly priced loss-making products!

So, radically streamlining the product portfolio can have a major impact on retail banking profit. This is all the more important as profit is the key source for meeting increased regulatory capital levels at the moment, as it is not an opportune time to raise capital via the equity markets. The increased overheads because of new regulations and compliance standards likely make the number of subscale products that are loss-making even greater than before. This further increases the opportunity to improve results by radically streamlining the product portfolio.

Analysing which products have been successful in reaching scale is the starting point for radically streamlining the product portfolio. This process also gives additional insight into customer preferences and into ways to improve the attractiveness of other products. All products contributing less than three percent of revenues should be critically reviewed from the point of view of both the customers and profitability. The aim is to eliminate those that are unprofitable. By having fewer products, an institution can focus more on increasing the revenue of the remaining products, thereby achieving economies of scale and boosting efficiency and profitability. Fewer products with more scale also create more economical opportunities to further automate processing, which in turn will enhance operational efficiency and benefit customer service.

* We have discussed some elementary issues in product portfolio complexity in prior RBI and RBII modules
Being among the most efficient providers of retail banking will be paramount in the future to remain competitive, particularly in an environment that is becoming more and more automated and less personal. The increasing ability through the internet to compare bank offerings and the increased ease to switch, anonymously if desired, will make efficiency and competitiveness all the more important.

However, being more efficient does not have to come at the expense of excellent service and the customer experience. Fewer and generally more automated products reduce mistakes, for which correction typically is 15 to 20 times more expensive than doing it right the first time. The sales and service staff’s greater knowledge of a lower number of remaining products will improve the customer service experience and reduce the risk of potentially expensive mis-selling. Importantly, staff engagement, critical to providing excellent service, can improve thanks to more focus and better product knowledge enabling representatives to provide better service.

In fact, less is more from a staff and customer point of view. Better customer experience leads to greater customer satisfaction, a better image and better customer retention, which greatly benefits bank profitability.

Overall, the average customer lapse rate at retail banks is approximately nine percent on an annual basis. But for example, at ING Direct, which excels in few products and excellent service, the lapse rate is only about five percent, or roughly half the industry average. In all of its markets, ING Direct customers rank it either first or second amongst all financial institutions based on the net promoter score. This clearly provides an indication of the improvement in the client lapse ratio with a simultaneous potential positive impact on customer appreciation. Just a one to two percent decrease in the annual customer lapse rate can have a major impact on results within a few years.

Acquisition costs for new customers to replace those leaving can be reduced while scale efficiency and profitability within a focused product portfolio will increase further.

In conclusion, streamlining the product portfolio can lead to major profitability improvements in the range of 30 to 50 percent. It leads to a staff with greater knowledge of the fewer remaining products. This, together with higher staff engagement, thanks to focus and better service, enables even further improvements in the customer service experience. Satisfied customers can reduce the customer lapse rate significantly.

This all supports the desire to increase scale and operational efficiency per product – a critically important step going forward in an increasingly impersonal internet age when offer-comparison and switching becomes increasingly easy. At the same time, the increased demands related to compliance and risk management are also supported by streamlining the product portfolio.

From this article, we can infer an important lesson for senior management.

Lesson

Legacy products (i.e., those that do not generate increased revenues) require that the bank maintains legacy IT systems for record-keeping. IT costs are likely to accelerate.

Coupled with actions to reduce product portfolio complexity, senior management must also tightly manage the addition of new products in relation to the bank’s strategy by having a sound product approval process. Indeed, BCBS (2010) provides some advice on this latter issue. It states that, ‘banks should have approval processes for new products. In this regard, the bank’s new product approval process should take into account the extent to which the bank’s
risk management, legal and regulatory compliance, information technology, business line, and internal control functions have adequate tools and the expertise necessary to manage related risks. If adequate risk management processes are not yet in place, a new product offering should be delayed until such time that systems and risk management are able to accommodate the relevant activity”. This provides another lesson for senior management.

**Lesson**

Senior management must consider new products not just in terms of its promised contribution to profit and to the bank’s risk exposure, but also in terms of its potential for creating complexity in the product portfolio. Incremental complexity may reverse the expected profit potential of the new product. Therefore only new products with a significant potential profit contribution should be considered to counter the increased cost of complexity. Module 202 considers a new product approval process for retail banks.

So far in this chapter, we considered two sources of complexity in retail banks that can adversely affect operational efficiency. These are process and product complexity. We also offer advice to senior management on actions to reduce these sources of complexity and enhance operational efficiency and customer experience.

We now consider the role of the complexity of the bank’s operational structure on operational excellence.

c) Operational Structure Complexity

In module 305, the relationship between the bank’s operational structure, risk management and ethics is discussed. There it is concluded that while strategy determines the direction the bank wants to take, the operational structure provides the location where decision-making power resides. Importantly, the free flow of information across business units is critical to create positive customer experience – the most important rationale for the bank’s operational structure. This last point is paramount since, if organisational complexity blocks the free flow of information across departments or business units, then customer experience – an important dimension of operational excellence will suffer.

It is interesting that BCBS (2010) in providing advice on effective corporate governance for banks places emphasis on **Opaque or Complex Corporate Structure**. Complexity in the bank’s organisation structure is reflected in at least two ways. The first is the number of layers of management – which we call bureaucratic complexity – and the second refers to the operational structure of the bank which we considered in detail in the last module (305).

The Economist Group in a report titled “The Complexity Challenge: How Businesses are Bearing Up” (19 April 2012) stated, ‘Of the executives who took part in the survey for this report, 57% say their organisation’s structure is adding to complexity. Many of the respondents (47%) say there is confusion over who is responsible for what at their firm, and there is considerable duplication of effort which suggests that most firms have an organisational structure that is poorly-suited for their needs.‘

What specific actions should the board and senior management take to reduce organisational complexity and thereby enhance operational excellence?
Advice for Senior Management

- De-layer the organisational structure at all layers (including the upper level) and remove duplication in layers of management.
- Adopt a decentralised operational structure to focus and simplify decision-making to serve the customer better.
- Aim to have businesses that are large enough to be self-supporting and can be held accountable. Otherwise aim to create departments that have end-to-end control of and responsibility for customer service processes.

We now consider the issues involved in the design and implementation of a multi-channel strategy.
Chapter 2:

Multi-Channel Management in Retail Banking

As discussed above operational excellence is a combination of operational efficiency and positive customer brand experience. However as noted, there are several sources of complexity in retail banking operations that create significant barriers to achieving operational excellence. In this chapter, we consider a multi-channel strategy that has the potential of delivering positive customer experience, which is the basis for customer acquisition and retention. The key for a successful multi-channel strategy is to focus on the entire customer journey and not only on the last part of the journey: sales.

We first describe the fundamentals of a multi-channel strategy for retail banking and then show how bank management can mitigate three common barriers: data, IT and knowledge silos.

What is multi-channel management?

There are several definitions in the academic and professional literature and some experts advocate another label: ‘omni-channel management’. One frequently cited academic article defines multi-channel management as “the design, deployment, and evaluation of channels to enhance customer value through effective customer acquisition, retention, and development”. (Neslin et al, 2006†). When this definition is considered in a retail banking context some key points arise. These are:

a) design, deployment and evaluation of channels: this refers to a seamless integration of bank channels;

b) enhance customer value through effective acquisition, retention and development: this refers to long-term value creation though positive customer experience which should lead to high customer retention and acquisition rates.

We see that this definition shows that multi-channel management is more than just channel experience. Of course customer channel experience is very important and bank channels must be easy for the customer to navigate. This requires a network of channels that is seamlessly integrated. But multi-channel management is much more than just channel experience; it is about customer experience.

* We do not make a distinction between multi-channel management and omni-channel management
experience that is based on a customer-centred model that delivers a seamless and consistent interaction with the bank irrespective of the contact point and method of communication.

Multi-channel experience for the customer must be seamless and consistent across all channels. Customer data travels with the customer as he/she navigates the network of channels.

Multi-channel management is not an IT problem – it is a strategy to earn competitive advantage through the enhancement of customer experience.

The following diagram illustrates the two components of multi-channel management:

![Diagram](image)

This view of multi-channel management emphasises the role of both distribution and service and the benefits from them that have been advocated by many retail banking experts. For example:

**So if you are excellent in distribution and service, you could have long-term profitability and it also provides excellent protection against competitors**

Olivier Chédeville, Directeur de la Stratégie de Distribution, Multicanal, Société Générale, France

While we emphasise the role of an integrated network of channels, the predominant importance of customer service should never be under-emphasised. It is probably worthwhile to echo the advice given by Aris Bogdaneris, Chief Operating Officer, Head of Retail Banking, Raiffeisen Bank International, Austria.

**Lesson**

“We have lost more customers through poor service than multi-channels. If you’re not doing the basics right, it’s not worth pursuing multi-channel: you have to get the core right first.”

As retail banks move to develop and implement a multi-channel strategy, the distribution landscape has been revolutionised with a focus on customer-centricity in all channels. Indeed, there is evidence of a dramatic (even quantum) leap towards digital channels and a decided move away from traditional branches to a more re-purposed version with an emphasis on being advisory centres. Here are some examples:

- “The new Bank of America is focused on increasing digital services while transforming its branches to be places where customers can come for advice and expertise, since they’ve almost stopped coming there for everything else. In the last four years, customers who come in to Bank of America branches for routine transactions, such as check deposits, have decreased by 10% each year as they turn to ATMs, their phones and computers instead, says Rob Aulebach, who heads planning and coordination of the bank’s network of branches.”
On the flip side, mobile traffic is booming. Bank of America has 50,000 customers a week downloading its mobile app. And the bank is seeing 250 million to 300 million customer log-ins to online banking each month. (Source: USA Today, 3 April 2013)

- A Wall Street Journal article (17 February 2013) reported that ING Group will cut another 2,400 jobs in its retail banking operations. Why? The Wall Street Journal article reported that, for ING Group: “customers in the Netherlands have embraced new technologies for their banking needs at a faster rate than expected, reducing the need for traditional branches.”

This is reflected in the following statistics reported by the bank: some 84 percent of retail transactions were done online; the figure was 57 percent in 2011. Traffic to mobile applications increased to 25 million visits per month in 2012, up almost 300 percent on 2011. Significantly, 60 percent of all sales on savings and loan products were made through the internet.

- This trend is not just in the US and Europe. There is evidence that at the end of 2013 internet banking has increased by 28 percent over the past five years in Asia and interestingly, the frequency of online banking in 2013 exceeded that of branch banking in 2012.

While it is conventional wisdom that digital channels are most cost effective – does this benefit come at the expense of customer brand experience and hence harm operational excellence? This is a key question.

For an answer, we quote Dick Harryvan, former CEO of ING Direct, who demonstrates that digital channels can foster customer intimacy, which is essential for overall customer brand experience.

**Customer Intimacy Pays Off in the Digital World**

While many people see the continued march toward social media, smartphones, and the overall use of more digital means of connection as disconnecting people from one another and from the companies with which they do business, Dick Harryvan sees quite the opposite.

Indeed, the former head of ING Direct and co-chairman of the Retail Banking Academy believes that, as the banking industry increasingly heads in the direction of online and mobile services and communication, there will be even greater opportunities to connect with customers in the most meaningful ways. Digital channels can facilitate better customer intimacy, which in turn makes for more satisfied customers, better retention, and a more efficient bank, he says.

"In the old world of banking, people would write a cheque or go to a branch and the real interaction with the cheque is zero and with a teller the interaction would be limited," Harryvan says, pointing out that, in the old style of banking, there was actually much less opportunity to join with customers.

In Scandinavia and the Netherlands, where digital channels are widely embraced, more than two-thirds of banking customers and more than 85 percent of financial interactions are online, Harryvan says. This behavior points the way for the future of banking, where the ease of doing business and convenience will require a real customer focus, and employee engagement will be a key to operational excellence. For bank customers, digital channels offer greater convenience, better ease of use and increased product access, transparency, and selection. For the banks themselves, electronic access gives them a much broader reach, reduced costs for customer acquisition and operations, and greater potential for customer relationship management, Harryvan adds.
“Customers are more likely to visit their bank more frequently online,” he says. “When people move to digital channels, they are in contact many more times than in the physical world. A relationship develops over time, and the more interactions the customer has, the more [a bank] is able to make them aware of the services it has and create more opportunities for a closer relationship.”

Harryvan points out that it is not just the frequency of a consumer’s online patronage, but the information that can be collected there that can contribute to a bank’s closeness to its customers. Having access to customers’ online behaviours and habits provides the data that better helps the bank “meet the expectations of that customer,” Harryvan points out. This allows the bank to engage more readily and effectively to, for example, point the customer to appropriate savings or loan products or offer financial planning when necessary. Data gleaned from electronic interactions can aid the bank in classifying its customers based on their financial standing and their future goals.

“If you want to really help customers, you have to help them to optimise their financial situation over their lifetime,” says Harryvan. “There are different goals that everyone has and the only way to achieve goals is by going through some basic planning.” Digital channels can help facilitate a better, more useful financial planning engagement too, Harryvan says, particularly with the growing number and calibre of online planning tools that provide a better experience in many ways than a sales representative pushing an ill-suited product.

“People are tired of sales talk: it’s detrimental to customer intimacy and a real relationship with the customer,” Harryvan says. “Digital channels afford banks more of an adult-to-adult relationship.”

Retail banks, by most accounts, are already doing a good job of fostering a sense of customer intimacy. According to the UK-based GI Insight Customer Intimacy Index 2013, banks rank in second place – just behind supermarkets – in terms of the level of how close consumers feel they are viewed. (The index, compiled from a survey of more than a thousand consumers in the United Kingdom, scores a variety of sectors according to the level of familiarity that companies in those industries demonstrate in their customer communications – ranking them from ‘knows me like a close friend’ to ‘treats me like a total stranger.’) The findings of the survey also revealed that industry sectors with frequent transactions and strong loyalty programmes are viewed in a ‘friendly light’ by their customers.

Customer intimacy does not have to come at the expense of operational efficiency, Harryvan emphasises. In fact, the move to more digital platforms should facilitate not only greater operational efficiency, but a more simplified and easier-to-understand product offering. While most heavily branched banks maintain a basis point to client balances ratio of 100 to 120 – in some cases, as much as 150 – electronic-enabled ING Direct boasts a ratio of 35, and Vanguard just 17. At least some of the problem, Harryvan believes, comes from massive product overload in banking. Most retail banks offer more than 200 products on average, he points out, while 80 percent of their revenue typically derives from less than 20 of those products.

“Having too many products destroys value,” he says. “Moving to digital channels forces you to consolidate your product portfolio to a smaller, clearer number.”

While many banks overwhelm customers and frontline employees with as many as 30 different savings products, Harryvan says that most banks do not need more than two or three that staff can then clearly understand, memorise, and explain more easily to prospective customers. A more streamlined product lineup, Harryvan says, will help banks simplify their client communication, improve employee engagement, make digital channels more effective, and potentially increase profits by as much as 30 percent.
Not to mention, he adds, “if you’ve gone through the process of making the offering more simple, you will make it a much more pleasant and easier experience for the customer”.

As more customers migrate to digital channels, Harryvan cautions retail banks to not entirely focus on branches for their marketing and messaging. “Getting to real customer intimacy means putting yourself in the position of the prospect…and to always deal as directly as possible with the customer,” he says. When reaching out to their customers and prospects online and via mobile, retail banks must emphasise convenience, ease of use and navigation, transparent and clear messaging, and excellent execution and interactions. To this end, banks can bring to bear their customer data warehouse and contact history to develop a “meaningful relationship”, he adds.

Digitally minded banks can rightfully attest to having happier customers too. While the typical attrition rate at retail banks is between eight and nine percent, Harryvan’s ING Direct experienced less than five percent attrition. Also, more than one-third of the online bank’s customers came to ING Direct based on personal references. “And satisfied customers make for operational efficiencies, which creates a reinforcing cycle,” he says.

To support the cycle further, Harryvan says that banks must think carefully about developing a strong brand that will help sustain their competitive advantage. A strong brand requires values, focus, differentiation, trust and an investment in awareness, he says. “In a world of information overload, the brand becomes the driver of traffic….Banks need to be clear on what they stand for.”

Data bears this out. The Ernst & Young Global Consumer Banking Survey 2012, which surveyed more than 28,000 consumers across 35 countries, spotlighted the importance of a good reputation for banks. The survey found that 71 percent of consumers seek advice on banking products from friends, family or colleagues, and 65 percent use financial comparison sites to find the best deals. Forty-four percent of respondents to the survey say that social media affects how people view and interact with banks.

When a consumer knows and understands a company’s brand, what they stand for, it makes the proposition of connecting with them and engaging them that much easier – especially online. As an example from the automobile industry, Harryvan points out that BMW is known for driving performance, and Volvo has a reputation for safety: “Having a well-established brand makes the acquisition of that customer that much cheaper and easier.”

“It’s really important that banks need to understand that they are in the customer support profession,” Harryvan says. “If they aren’t highly engaged and customer focused, customer intimacy will remain a dream.”

Yet for all its promise, some banks are finding it difficult to implement an effective multi-channel strategy.

We examine the likely reasons below, starting with data definition and IT infrastructure.

**Data and IT Silos**

A pre-condition for the successful deployment of a multi-channel strategy is the integration of the bank’s IT infrastructure, including a central data warehouse to create a single platform. In fact, a recent EFMA* conference on innovation in banking provided evidence indicating that the most important barrier to innovation in banking are Data and IT silos. It is essential that all customer data be stored and updated on a real-time basis and made available in a timely manner across all channels to all customer-serving employees. As a rule, customers must not be asked for the same information more than once. The emphasis should be on error-free and relevant data. This is not an easy undertaking since customers’ journey across the network is dynamic and not confined to the traditional bank branch interactions.

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*Fifth Annual Conference on Innovation in Retail Banking, September 2013.*
For an effective multi-channel strategy, senior management must ensure that updated customer data ‘travels’ with the customer as he/she navigates the bank’s network of channels in a seamless journey.

But in practice, this could be a major hurdle for banks to overcome. What is required is investment in optimal data warehousing.

**Data warehousing**

A data warehouse is defined as a single, complete and accurate store of data that is compiled from all interactions and transactions between the customer and the bank and used for making business decisions. A key attribute of a data warehouse is that it is updated continuously, or is what some experts call ‘time-variant’. The characteristics of an effective data warehouse are as follows:

- Subject-oriented (in our case, bank customer-oriented)
- Integrated (all channel data is logically stored)
- Time-variant (continuously updated)
- Non-volatile (low variability and subject to random collection methods)

From this list of characteristics of an effective data warehouse, it is clear that a bank must get its data right before it makes investments in a multi-channel strategy. Data silos exist in violation of the ‘integration’ requirement of a warehouse and leads to a situation where consumer data is collected and stored at different touch-points but remains separate. Worse, it is likely that data in different silos are not always updated regularly and consistently, especially if there is frequent staff turnover. Data definition may become ambiguous as different IT professionals manage the data warehouse over different periods.

**Lesson**

IT and data silos create duplication and excessive complexity, putting at risk one of the fundamental tenets of operational excellence – get it right the first time (‘one and done’ principle). Recall from Operations I, if complexity increases by x%, then error rates increase exponentially faster than x%.

We provide some advice for senior management as follows:

**Advice for senior management on design of multi-channel management**

All bank channels must be integrated into a seamless network simultaneously: a step-wise process over time is not recommended. This could lead to myopic IT planning.

BUT,

it is imperative that a reliable integrated data warehouse (accompanied by a data dictionary) be developed first.

*Reliable and timely data must travel with the customer from touchpoint to touchpoint.*

We now consider another difficult barrier to achieving customer-centricity, a key driver of operational excellence.

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Knowledge silos

An article by Professor Ranjay Gulati, published in the *Harvard Business Review*, states that “knowledge and expertise often reside in silos, and many companies have trouble harnessing their resources across those boundaries in a way that customers value and are willing to pay for”.

As asserted in this chapter, customer centricity is reflected by a multi-channel strategy that provides for a seamless and consistent journey across all bank channels. But an obvious barrier to this strategic objective is the existence of knowledge silos in the front and back office of the bank. Employees in the front office typically view themselves as customer-facing and ultimately the source of bank revenues. The back office employees see themselves as network, hardware and software specialists and are employed to ensure that the IT infrastructure functions without interruption. While front office employees are likely to be graduates of business schools, back office employees are likely graduates of technical colleges. There is obviously a cultural separation based on knowledge silos.

Of course customers do not really care that back office operations are separated from those in the middle office and the front office. Customers want unimpeded access to the bank at any time and at any location. The lack of coordination and cooperation between knowledge silos in the bank that provides a barrier to customer service quality is a problem for bank management.

So how to bridge the knowledge silos?

An interesting example of successfully bridging silos in banking is presented by an innovation in a large European financial services firm in 2011 with immediate positive results in customer satisfaction as measured by net promoter scores and in cost reduction. Curiously it was called ‘Operation Brug’, which translates literally to ‘Operation Bridge’. Bank management identified that, unlike the front office, a culture of customer service was weak in the back office and that this fact impeded its strategy to create a culture of customer care. Hence a small team of customer service bank professionals was tasked to create a service-oriented back office. After a short time, they observed the following issue that is described in the box below.

**Service-oriented back office at a large European bank**

The initiative is based on the observation that a significant percentage of application forms for bank products and services were not completely filled out. They were at times missing just one piece of data. Without exception, the back office employee would send back the application form for completion by the customer. The application form would go through the front office in making its way to the customer.

This process created a significant amount of customer dissatisfaction, even though it was the customer who failed to complete the application form correctly. Theory in behavioural economics and finance states that people experience greater regret when they are subject to a process that takes more than one step to complete compared to a straight-through process – the one and done principle. In the case of a partially filled application form that was resent, the back office employee is sending an implicit message to the customer: unless you get it right, we cannot help.

How to bridge the silos?

The team of bank professionals required that senior front and back office managers meet regularly to suggest and implement actions to improve customer experience. While the front and back offices were organisationally separated, this was not viewed as a problem. The team wanted back office employees to see themselves as enablers of customer experience and that errors and mistakes are not just statistical problems but can increase the chance of customers exiting the bank.

For the problem above, it was decided that back office employees should be proactive and seek the missing information directly from the customer through contact via their preferred channel.

The results were dramatic. The bank experienced a significant increase in customer satisfaction; a reduction in human delay in the application process, less work in process (WIP) and hence faster completion time.

What are some general managerial guidelines to bridge knowledge silos in retail banks?

An answer is provided by Professor Gulati, who developed an oft-cited 4C model. The components of this model that are more appropriate for bridging silos in retail banks are as follows:

- **Coordination**, which refers to the simplification of organisational structure that will enable the free flow of information and knowledge silos to be bridged. This issue is already considered in this chapter. In order for all employees to focus on creating a very positive customer experience, coordination across business departments is required as a starting point.

  **Advice for senior management**

  Ensure that the retail bank structure is simplified and permits a free flow of information and employees between silos. This is the starting point of the process.

The second component of the 4C model proposed by Gulati is cooperation.

- **Cooperation** refers to the orchestration of all silos in focusing on customer needs. It transcends the mere simplification of organisational structure and requires a bank culture that values internal employee collaboration to serve customer interests. In other words, the departments need to view the functioning of processes end to end from a customer perspective in order to make real improvements in service experience.

  **Advice for senior management**

  Create a culture that is based on the collective and not on the individual – a philosophy that is consistent with Hofstede's theory of culture.

The third component suggested by Gulati is **capability**. This is a requirement that all employees be adequately trained in a rigorous retail banking programme so that they can have the skills and core competencies to be ‘able to work together’ (coordination) and be ‘willing to work together’ (cooperation). Note that employee capability refers not only to the ability to understand the bank’s product portfolio and pricing methods but also to span the internal boundaries of the bank and contribute in other business departments.

  **Advice for senior management**

  Rotate employees in various roles in the front, middle and back office so as to reinforce the value of collaboration. This will increase the likelihood of success in the bank's strategy of customer centricity.

We remind senior management of the main advice given by Gulati:

* This model is based on Coordination, Cooperation, Capability and Connection. The first three are more appropriate to bridge silos in the bank.
Advice for senior management

Gulati advises that rather than taking actions to bust silos, management should seek to bridge silos. Why?

a) Busting silos will likely create employee resistance to protect ‘their interests’.

b) Bridging silos is consistent with a culture of collaboration – necessary for a strategy of customer centricity.

Another impediment to effective implementation of a multi-channel strategy is product complexity that gives rise to information ambiguity for customers

Information ambiguity

In Chapter 1, we dealt with complexity arising from having too many products, especially those that contribute marginally to portfolio revenue and even negatively to value creation. Information ambiguity arises from language that the customer finds difficult to understand (e.g., legalistic or bank jargon) or contract forms and promotion brochures that are overly long and full of exceptions or alternative offers that are differentiated only slightly. The media richness theory proposed by Daft and Lengel* (1984) states that when customers are faced with information ambiguity (or doubt) they seek clarification – hence they demand face-to-face contact.

This is not consistent with bank management seeking to have customers voluntarily migrate to its digital channels.

Lesson

Product simplicity is required for customer-initiated migration to the bank’s virtual channels and for overall effective multi-channel management.

We conclude this chapter by observing that multi-channel strategies of banks worldwide are in different stages of their evolution. Indeed, there is evidence that banks are investing heavily to integrate their physical and digital channels, which mutually enrich one another: the so-called convergence strategy. Banks realise that positive customer experience is the key and they are investing heavily to make the convergence rich in content. Here are a few examples:

- At Toronto Dominion Bank in Canada, call centre employees are supported by state of the art technology so that they become problem solvers for customers. With the emphasis on customer satisfaction rather than the number of telephone calls completed per unit of time, the bank introduced KPIs based on first call resolution and favourable customer feedback.

- Banks have created branches that are more inviting and flip the traditional 80/20 rule: where previously 80 per cent of the branch space was occupied by branch staff and 20 per cent allotted for customer traffic. Most modern designs have reversed this space allocation. Furthermore, these new designs are fully amenable for the integration of virtual and other physical channels.

In closing this chapter, we combine the main conclusions of Chapters 1 and 2 and illustrate the key relationship in a model of operational excellence in the diagram below:

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Operational excellence comprises two inter-related dimensions: operational efficiency and customer brand experience. The former is a more technical condition that depends on statistical and other objective techniques. The latter is more subjective and depends on the five dimensions of customer service quality – reliability, assurance, responsiveness, empathy and tangibles – that are fully discussed in Retail Banking I and II. Operational efficiency depends on the degree of impediments arising from process, product and organisational complexities.

Customer brand experience is determined by a seamless integration of bank physical and virtual channels – called multi-channel management. But customer experience on this integrated network depends on the mitigation of data, IT and knowledge silos.
Chapter 3: Behavioural Dilemmas in Operational Excellence

Chapter 1 of this module considers the role of various sources of complexity as barriers to achieving operational efficiency, while chapter 2 deals with the design and deployment of a multi-channel strategy to enhance customer experience. Both operational efficiency and customer experience are inter-related and comprise the two dimensions of operational excellence. This chapter continues this discussion but in a different direction – the role of behavioral biases in affecting the way consumers make their retail banking decisions.

Some dilemmas arise. Here are some examples that have a bearing on the bank’s strategic objective of achieving operational excellence.

- How to implement a bank-initiated channel migration strategy if certain consumer segments prefer the bank branch?
- Are mistakes and failures hidden from senior management because employees believe management rewards success and punishes failures?
- If consumers choose a bank on the basis of actual past experience, how should a bank’s strategy to acquire new customers be evaluated?

This chapter considers common behavioural (i.e., subjective) dilemmas in customer behaviour that can have substantial impact on the likelihood of success of the bank’s multi-channel strategy. In particular, we provide an analysis and solution to each of these dilemmas.

Status quo bias and implication for channel migration strategy

Some banks have experienced hurdles in the implementation of multi-channel management in some societies, probably for institutional and cultural reasons. For example, a customer who has traditionally used a bank branch may consider this to be the channel in his/her ‘possession’. An alternative channel is subjectively viewed as new and risky. He/she would likely prefer to stay with the branch and, as indicated by van Dorn et al (2010), any action by the bank to migrate this customer due to lower channel costs may have detrimental effects as it creates strong negative

emotions among customers, leading to dissatisfaction and possibly disloyalty. Moreover, these negative emotions may easily translate to negative consequences resulting from adverse customer engagement behaviours through for example, social media.

A behavioural explanation for this customer preference for the familiar is called the ‘status quo bias’: It states that when individuals are faced with multiple options, they stay with what is familiar to them: the status quo. Recent studies have validated this behaviour in banking and have suggested ways for management to combat this bias. For example, Konus, Trampe and Verhoef (2013)* show that for bank-initiated channel migration, bank management should not coerce customers to other channels just because the bank will earn lower average cost. Rather, bank management should demonstrate to the customer the net benefit in migrating to a digital channel. They suggest that the bank should emphasise the convenience benefit the customer will enjoy of being able to transact with the bank wherever (any location) and whenever (at any time). The customer will of course compare the subjective value of this benefit with the regret he/she suffers in having to leave a familiar bank channel such as the branch. This is a key point and bank staff must be aware of the implications of ‘prospect theory’ when comparing the expected benefits with the perceived costs for customers to migrate to virtual channels.

Here is an explanation of Prospect Theory.

**Prospect Theory**

Prospect theory is a descriptive theory of decision making that was proposed by Kahneman and Tversky (1979). The term ‘descriptive’ refers to how people *actually* make decisions and not how they *should* make decisions. The latter case is called ‘prescriptive’ theory. The main conclusion of prospect theory is that people, when making decisions in the face of risk, evaluate gains or losses with respect to some neutral or status quo point. This is a reference point which may vary from situation to situation.

This is an interesting point for retail bankers to pay attention to. The conclusion that people look at gains and losses relative to a reference point means that customers get satisfaction from returns rather than asset values. Bank managers must understand that people care more about the changes in the level of their mutual funds (for example) rather than the level itself.

The other main conclusion is as follows: people value gains differently from the way they value losses. In simple words, losses produce more pain than an equal amount of gains give pleasure (see graph below). The loss of $500 produces more pain to a consumer than the pleasure from a gain of $500. Interestingly, many studies show that losses produce twice the pain as compared to the pleasure that comes from similar amounts of gains. This is called *loss aversion*. This observation is very important in a bank-initiated migration strategy.

The popular S-graph of prospect theory illustrates the main points stated above.

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* Umut Konuş (University of Amsterdam Business School), Debra Trampe and Peter C. Verhoef (University of Groningen), “Customer Responses to Channel Migration Strategies toward the E-Channel”.
The ‘S’ shaped graph has an important implication for channel migration strategy. Customers do not value gains equally as losses. The customer will value the perceived value of channel convenience, independent of time and location, with the regret suffered by moving from familiarity and status quo. Prospect theory states that bank staff must convince the customer that expected customer value of migrating to virtual channels will be greater than the customer regret of leaving current and familiar touch-points. This is the key to successful bank-initiated channel migration strategy.

Sunk cost bias and bank culture* 

Sunk costs are costs that cannot be recovered. The sunk cost bias states that when a person has invested a lot of time, money and effort in a project, then he/she becomes (irrationally) attached to it. It assumes that people are averse to loss. This is in spite of evidence that the project should be abandoned because there is convincing evidence that it cannot meet its intended objective. Sufficiently large amounts of sunk costs can actually escalate the person’s commitment to the project and is a reflection of the proposition in economics that states:

*High sunk costs are a barrier to exit.*

What is the relationship between sunk cost bias and operational excellence?

First, bank managers who have become unduly loyal to their failing projects may seek to ‘throw good money after bad’ in the hope that positive news may arrive in the near future. Simply put, the manager will likely commit more resources to justify previous decisions. For example, if bank management invested substantially to exploit profitable growth opportunities in new markets, a lack of cultural affinity may undermine expected profitability. But the large investment amount or even managerial ego may postpone a decision to exit the market. In addition, there is a subjective expectation that future prospect justifies this additional investment of monies. Hence operational costs are likely to accelerate. Further, operational transparency is likely to suffer as sunk cost bias conceals the true facts about the failed investment. Informational risk is increased.

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*Sunk cost bias and its implication for call centre management is discussed in module 207.*
Advice for Senior Management

Do not create a culture that does not tolerate mistakes or failures. Otherwise, they will be concealed by decision-makers and the very harmful operational effects of high sunk costs will emerge.

We also propose another piece of advice for senior management. Research has shown that when individual managers are responsible for making the initial business decision, they are more likely to be affected by the sunk cost bias and make later decisions to justify their earlier decision, for example, by maintaining that the conditions for the initial decision are still valid (see e.g., Schoorman [1988]).

Advice for Senior Management

Ensure that key business decisions are made on a group basis. There is a less chance of a sunk cost bias.

The bias of past experience in customer decision-making

We showed in Chapter 2 that operational excellence is determined in part by positive customer brand meaning, which itself depends on consistent and high customer service quality. To fully delineate this link we appeal to important research in behavioural economics that has a direct application to the issue at hand. We consider the principal issues in 'experience-based decision making'.

The key question in experience-based decision making is as follows: does past customer experience affect his/her future choices?

Research in the theory of decision-making provides some insight. The much-admired Scottish philosopher, David Hume, stated: “Custom then is the great guide of human life.” The implication of this statement is that the past guides the future, and custom and consistency will be a reliable guide to the future.

This is a revealing statement. It implies that when customers obtain high service quality in a consistent manner over time, they believe that this level of service quality will continue in the future. In other words, experience (or as Hume calls it, ‘custom’) is the basis for decision making!

Indeed, some research has provided support for Hume’s dictum. For example, Juliiisson, Karlsson, and Garling (2005)[†] show that past experience impacts future decisions. It seems intuitive that if we consistently have a positive experience with a retail bank, then we expect this same positive experience to occur in the future. By the same token, people tend to avoid repeating past mistakes, as reported in Sagi and Friedland, 2007[‡]. In a similar vein, Zeelenberg and Pieters (2004)[¶] showed that, if customers experienced regret arising from poor service, they are likely to switch to a competitor product. This has important implications for retail banking. Past negative experience with a bank’s services may lead to the consumer exiting the bank.

We conclude this chapter with a summary of the role of past customer experience on customer retention and acquisition – the source of long-term value creation as included in the definition of

† David Hume, Inquiry concerning human understanding, 5.1
multi-channel management presented in Chapter 2.

**Key point**

*Customer brand experience for existing customers is paramount and this will then impact the choice of new customers who rely on testimonials of existing customers.*

Here is the reasoning behind this conclusion:

- Experience provides factual outcomes and other people's opinions may not be reliable. This is important since research in behavioural economics shows that people prefer certain outcomes over uncertain ones. So one's own experience is very important in decision-making.

- Existing bank customers rely on their own experience with bank staff to make decisions in relation to purchasing additional products.

- Prospects have no previous experience with the bank and so rely on testimonials from existing customers.

- **Hence for both existing customers and prospects, experience-driven decision making by existing customers play the most crucial role.**

**Summary**

This module considered operational excellence in retail banking as an enabler of management's strategic objective of value creation through customer centricity. Sources of complexity in banking operations arise from process, product and organisational structure and they represent potential barriers to achieving operational efficiency. Various lessons and pieces of advice were presented to management to identify and mitigate these potential impediments.

The design and deployment of a multi-channel strategy was also considered. The objective of this strategy is to provide a seamless and consistent customer journey across an integrated network of bank channels. It is demonstrated that data and IT silos are key impediments for the successful implementation of a multi-channel strategy and practical recommendations were made for their mitigation. In addition, we discuss the operational barriers presented by knowledge silos and suggest how management can bridge, rather than break down, these silos to mitigate knowledge silos.

Finally, we considered common biases in customer behaviour that can lead to dilemmas that have an impact on management actions to achieve operational excellence. Importantly, we show how status quo bias can affect actions of management to implement an effective customer migration strategy.
Multiple Choice Questions

1. Which of the following is a major impediment to effective multi-channel management?
   a) Process complexity
   b) Product portfolio complexity
   c) Organisational complexity
   d) Data and IT silos

2. The status quo bias is a barrier to effective bank-initiated channel migration strategy. To overcome this bias, it is recommended that bank staff:
   a) Coerce customers to non-branch channels.
   b) Charge a higher price for transactions at the bank branch.
   c) Convince the customer that the convenience of migrating to virtual channels is greater than the customer regret of leaving current and familiar touch-points.
   d) Convince the customer that the bank is a dedicated channel for advisory services only.

3. Bank managers may be affected by a sunk cost bias. Which of the following recommendations are intended to reduce the risk from the sunk cost bias?
   a) Senior management should have a group approach to decision making.
   b) Senior management should create a culture that tolerates failures.
   c) Senior management should implement actions to recover sunk cost as quickly as possible.
   d) Senior management should make only small investments so as to limit sunk costs.

Choose the option which lists all the correct statements only.
I: a) and c) only
II: a) and b) only
III: b) and c) only
IV: a), b) and d) only

4. Which one of the following statements is incorrect?
   a) Customers trust factual outcomes over testimonials from others.
   b) Customers prefer certainty over uncertainty.
   c) Customers who experience regret from poor service are likely to exit the bank.
   d) Customers rely mainly on word of mouth (WOM) to choose a bank.

5. Experts assert that complexity creates significant difficulties for executives to effectively manage the bank. Consider the following statements in relation to complexity.
   a) Complexity creates more widespread interdependence in business operations – some of which may be false.
   b) Complexity makes it more difficult to forecast and plan since the degree of ambiguity has increased.
   c) Complexity makes it difficult to conduct normal management function.
   d) Complexity hides non value-added but costly activities in the bank.

Which option lists all the correct statements only?
I: a), b) and c) only
II: a) and b) only
III: a), b), c) and d)
IV: a), c) and d) only
6. Which one of the following statements is incorrect?

a) Senior management should appoint a dedicated customer advocate to ensure that process efficiency is not achieved at the expense of customer service quality.

b) Senior management should include a risk professional in the decision-making process so that actions to increase process efficiency do not increase operational risk or other risks.

c) A relentless pursuit of cost reduction by the bank will lead to long-run value creation.

d) Operational excellence comprises two dimensions: process efficiency and consistently positive customer experience.

7. Which of the following statements is incorrect with respect to product portfolio management?

a) Legacy products require that the bank maintains legacy IT systems for record-keeping. IT costs are likely to accelerate.

b) New products must generate sufficient profit contribution to the product portfolio to counteract the increased cost of complexity.

c) The Pareto principle states that more than 20 per cent of bank products generate 80 percent of total revenue.

d) Senior management should implement a focused strategy of eliminating unprofitable/marginal products.

8. Which one of the following statements is incorrect?

a) A multi-channel customer experience requires a seamless and consistent customer journey across all channels.

b) Multi-channel management is an IT problem.

c) In a successful multi-channel strategy, customer data travels with the customer as he/she navigates the network of channels.

d) Multi-channel management is a strategy to earn competitive advantage for the bank through the enhancement of customer experience.

9. In bridging knowledge silos, it is recommended that senior management create a culture that is based on the collective and not on the individual – a philosophy that is consistent with Hofstede’s theory of culture. This recommendation is based on which one of the factors of the 4C model of Gulati’s?

a) Cooperation

b) Coordination

c) Capability

d) Connection

10. In dealing with knowledge silos, Gulati advises that senior management should not implement which one of the following?

a) Bridge knowledge silos since this is consistent with a culture of collaboration – necessary for a strategy of customer centricity.

b) Bridge silos since busting silos will lead to employee resistance in protection of their self-interests.

c) Bridge silos by increasing the capability of employees to span the internal boundaries of the bank and contribute in other business departments.

d) Bridge silos by use of education programmes to create more functional specialists.

Answers:

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