

Making Sense of Customer Relationships in Change

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Abstract

The starting point for this study is that managers' mental models of markets, customers and customer relationships determine what they 'see' and what they subsequently do. We build on the idea substance layer introduced by Welch and Wilkinson (2002) and focus on individual-level schemas as fundamental building blocks in contrast to *IMP* studies that tend to start from the opposite network configuration position and study network-level ideas, actor activities, or resource topics. We specifically explore how the top management team in a retail bank understands their customer relationships and need for change in the current situation where earlier practices are at the risk to become obsolete. Thus, our interest lies in creating an understanding of how managers mentally construct the challenging situation and market transition facing them. The study is thus about market dynamics and how companies manage in it. We interviewed all (seven) board members of selected bank in Finland in August 2014. The analysis so far has inductively generated themes and the plan is to continue and make detailed interview-specific analysis. We have illustrated our findings in matrixes depicting the nature of mental models and distinguished contents of mental models for example with different categories of management scope (transaction, relationship, and system/network) and management focus (service provider, interaction, and customer). The mental model informs the overall transition situation which we capture with three fundamental elements i.e. *Doing*, *Observing*, and *Thinking*. These elements together form a new conceptualization i.e. the *DOT* triangle and its contents are currently being developed further towards capturing more dynamics. We aim to theoretically contribute by conceptually adding and exploring a new supplementary level, i.e. an individual level to the *ARA* model's current company, relationship, and network levels. We also contribute with new conceptual knowledge and empirical insights to current understanding of dynamic business environments and how companies manage in such settings.

Key words: mental models, sense making, banking, customer relationship change

INTRODUCTION

The financial industry has been rather static and stable creating a belief among managers that customers and customer relationships can be managed according to best practices developed in the past. Information technology, increased competition and empowered customers challenges this established view. Our paper focuses on market dynamics more specifically how the top management team in a bank conceptualizes and understands their customer relationships and needs for change in the current situation where earlier practices are at the risk to become obsolete. Managers' mental models of markets, customers and customer relationships determine what they see and what they decide to do. For the manager the mental map becomes the landscape (Normann 2001; Mattsson, Corsaro and Ramos, forthcoming). This leads to intriguing consequences when the real landscape changes enough and creates a misfit between the two.

The traditional banking business is centered on the old form of the exchange between the customer and the bank. At the end of 1950s digitization started and changed the situation. In the 1970s, the distribution channels started to become digitized, and finally along with internet in the 1990s all banking services, processes and channels were turned into digital form. Incumbent banks have based most of their value propositions on the exchange phase instead of considering the wider value experience potential of value-in-use (see Lähteenmäki & Nätti, 2013). Banking services are not valuable for the customer as such; they become valuable only if and when the bank is able to offer resources and join customers' value creation in their life or business (see Heinonen, Strandvik & Voima, 2013).

Purpose of the paper

The business environment has changed in the banking industry, and it is interesting to understand how practitioners in the industry understand and cope with such change. In the academic marketing and service literature new perspectives have been suggested to cope with such challenges. In practice, however, it is not possible to switch from one perspective to another very quickly even if that would be beneficial. The old perspective is embedded in everyone's mental models, in the setup of the organization, in business models and strategies, in operative processes and physical structures. A mental model is here defined as a cognitive belief system held by a key actor considered on an individual, team or company level. Mental models filter managers' attention and guide the company's sensemaking and subsequent decisions and behaviour. The transition from one way of conceptualizing fundamental business elements to another is a long and winding road.

The purpose of the paper is to increase understanding about market dynamics by developing an initial understanding of bank manager's mental models about customers and customer relationship and the need for change when the business environment changes.

Assuming that the mental models of individual managers as well as the mental model of the collective of managers are the driver of the bank's attempts to succeed in the future the study contributes in several ways. Firstly it sheds light on how practitioners perceive their business environment compared to highly theoretical and simplified descriptions in academic marketing logics. Secondly, it provides insight into how customers and customer relationships are viewed

by managers that have different responsibilities in the company. In the academic literature it is often considered self-evident that everyone should have a shared understanding and similar goals. Thirdly, the study gives a perspective on how change from one paradigm or mental model to another take place, both individually and collectively. The ultimate outcome of the study would be a framework to describe and analyze managers' perspective on customers and customers' relationships in order to be able to diagnose the underlying set of assumptions applied and thereby provide an instrument for self-reflection and management development.

MENTAL MODELS IN BUSINESS

Within the Interaction and Network approach the research focus has been on the nature and role of interaction, relationships and networks in business markets. The ARA model (e.g. Håkansson and Snehota 1995: 45; Håkansson and Waluszewski 2002) considers Actors, Resources, and Activities as the fundamental dimensions of relations in networks. Mental models were, however, not explicitly in focus. Later, Welch and Wilkinson (2002) added Ideas as a representation for meanings, logics, norms, theories, recipes, knowledge systems, paradigms, cognitive maps, ideologies, schemas, scripts and mental models as a fourth dimension. Shared ideas and meanings are suggested to affect each ARA dimension, constituting a separate network process.

Strandvik and Holmlund (2015) further suggested that the ARA model's current company, relationship, and network levels needs to be augmented with a new supplementary level, i.e. an individual level. Individuals have mental models and individuals' schemas therefore need to be distinguished from the aggregated schema on the company level and further on schema couplings in relationships and schema configurations in networks. We focus in this paper on individual-level schemas as fundamental building blocks in contrast to IMP studies that tend to start from the opposite network configuration position in the table, studying network-level ideas, actor activities, or resource topics. It is easy to intuitively understand the significance of certain actors' individual schemas, for example, the CEO's and other members' of the top management team. The introduction of an additional and separate individual level dimension fits well with and deepens the current ARA and ARAI conceptualizations.

We will use this model to frame and explain how mental models influence and is influenced by other factors. The individual mental model is related to and materialized in the individual's position in the company (actor), personal competence (resource) and personal practices (activities). In companies certain key individuals (for example, the CEO and vice presidents for different functions) are commonly considered to be instrumental in setting the tone of a company and even changing the direction of a company in crisis. When hiring new persons to such positions it is often expected that they will bring new perspectives that would revitalize the company's business. Companies are essentially hiring new "mental models". As managers have to effectively co-operate the fit between different managers' mental models also become an issue. These individuals are, however, embedded in mental models embodied in other actors, in the resources used, and in activity patterns, both on the company, relationship, as well as network level. This means that even if key individuals would agree on a novel view on handling customers and customer relationships this might meet resistance from both other actors as well as from established practices and resource structures.

There are different kinds of transition; some are incremental and others may be more drastic. In any setting the typical situation is that the transition is slow. A company can aim to have a double-agenda i.e. a situation where it has two parallel mental models and is transferring in a step-wise manner into a new mental model and way of operation. This way can be beneficial since it enables positive feedback from the future new situation which is useful to spread, strengthen and develop the new mental model. Oftentimes a new mental model involves changing time perspective and accepting a longer time frame than the previous one which was about incremental change.

EMPIRICAL STUDY

The research team of this study consists of three persons of which two are academic researchers and one has a combination of extensive familiarity with the banking industry and a PhD degree in marketing. All three have previously done similar although not identical studies and share an interest in managerial sense making and value research themes that simultaneously can contribute to academic knowledge and company practice. Questioning the relevance of current ways of practicing marketing and conducting abductive action research that explores bank managers' theories-in-use was a natural research strategy for us. Our findings are validated as one team member constantly interprets them from the bank's perspective and is able to anchor them directly in his work in the banking context and give feedback based on the results.

Interviewing top management team members of retail bank

Empirical insights were gained by interviewing all current members of the top management team in a selected bank in Finland. Altogether seven interviews were conducted, recorded and transcribed. Each meeting at the bank head office in the room where the board meetings take place lasted 1.5 to 2 hours. The interviews were conducted during one week in August 2014, and each of them resulted in 18-25 pages transcribed raw data material. All three researchers were present during all of the interviews, and the analysis started during the interviewing in-between the meetings.

The managers are responsible for different functions in the bank; consequently their mental models have different "roots". As they are active in the same top management team differences in their views constitute in practice the underlying tension in envisioning and implementing changes. The interviews followed a semi-structured theme interview technique. The discussion were rather open in format and started with a short overview of the purpose of the study i.e. to explore how managers 'think' individually and in a management board group.

In this paper the focus is on the part of the empirical material that relates to issues and challenges concerning customers and customer relationships. These issues emerged in reflections on several different themes.

Analysis of data

In the literature there are some tools and procedures for analyzing manager cognitive maps focusing on counting and cross-analysing words and causal links in documentary data (e.g. Söderlund and Vilgon 1993). The procedure for analyzing the qualitative data at this preliminary

phase has however been to inductively search for themes in the interview material. The impressions have been illustrated in some matrixes showing core challenges related to customer relationships which emerged as a key issue in all interviews. These findings have further and based on the theoretical framework been separated into different categories with different management scope (transaction, relationship, and system/network) and management focus (service provider, interaction, customer).

- 1) The transcribed interviews have been screened for issues concerning customers and customer relationships that informants have reflected on in the interviews. Informants have been influenced to reflect on certain themes but their responses reflect their mental model on these themes. Those issues that were most common in the top management team were selected for further analysis. The authors have participated in the selection by each reading interviews and agreeing on the selection. An open thematic interview contains a rich variety of issues touched upon but in this study it was decided to focus on the most commonly expressed issues. We assume that these issues and opinions also are present in running the business in the bank.
- 2) The selected issues were further analyzed in several rounds by searching for each informant's stance concerning the issue, selecting representative excerpts for each informant and comparing informants to detect similarities and differences. This analysis aimed at detecting the level of conformity in mental models in the top management team.
- 3) Another aim was to reveal each individual's characteristic mental model. A specific informant's reflections on different issues were used to pick out dominant reflections and arguments. Each informant has been profiled based on this interpretation and characterized with a summarizing statement. This is intended to give an overall understanding of what is on the top of their mind and represents the core of their thinking. Furthermore, each informant has been categorized according to our interpretation of their underlying marketing perspective.
- 4) A next phase would be to analyze how each individual would tackle the issues as well as what challenges and obstacles are perceived to be present. In this particular study we have, however, not completed that analysis.

The empirical material collected represents a starting point in studying the top management team members' mental models in this bank.

EMPIRICAL FINDINGS

Core challenges related to customers and customer relationships

The issues that the informants discussed cover a broad span of business issues. The aggregated mental model was dominated with bank-internal issues on how to sell more of the current services, develop new and more cost-effective replacements of current services preferably quicker than competitors, produce the services more profitably by for example by re-organizing and process redesign within the bank. Adjusting the services and especially contact channels to different customer segments differentiated by especially mobile bank preferences was considered key ways of operating, for individual banks as well overall in the banking sector. Everyone agreed that the banking sector is changing more and more rapidly and that so-called traditional banks are rather similar but that this will change in the future as the banking sector becomes

more heterogeneous. Taking customers, their lives or relationships over time, as the genuine starting point for developing the bank was not on the table.

The table 2 below shows a preliminary set of core challenges related to changes in customers and customer relationships and whether the informant views covered them as well as the extent to which the views overlapped and conformed to each other.

Changes in customer attitude and behaviour									
	Informant							Overlap	Conformity
	1	2	3	4	5	6	7		
	Recognition of issue								
Societal economic context								Strong	Strong
Digitalization and social media usage								Strong	Strong
Bank switching propensity								Strong	Strong
Bank interaction media/channel preferences								Strong	Strong
Customer life style								Strong	Some
New banking services/concepts								Strong	Some
Customer interest and knowledge								Strong	Some
Considered banks								Some	Some
Brand meaning								Some	Some
Customer feedback								Some	Some
Sources of trust								Some	Some
Changes in customer-bank interaction									
Customer need understanding								Strong	Strong
Online banking								Strong	Strong
Usability of technical solutions/mobile apps								Strong	Strong
Speed of serving								Strong	Strong
Face-to-face encounters								Strong	Strong
Presence in customer lives								Strong	Strong
Bank servant knowhow								Strong	Strong
Bank servant problem solving willingness								Strong	Strong
Organisational format								Strong	Some
Management guidelines								Some	Some
Revenue-generating opportunities								Some	Some

Table 2. Challenging changes in customers and customer relationships

The core challenges were inductively formed based on the data, by first extracting and coding data chunks and grouping them together into themes which are the challenges showed in the first column. The amount was not pre-determined but finally eleven challenges related to customer attitude and behavior changes as well as customer-bank interactions each were identified. The issues are ranked in the table according to how relevant they were to each informant. The cell in the table is colored if the informant recognized the challenge. The two final columns show the impression of the how overlapping and congruent the views are. These two aspects show two different aspects of mental models in a team context. We developed them to show that even if on the whole the group seems to have rather similar views there are some issues that informants do not have on top of their mind or that they disagree on. From a mental model perspective these

distinctions are significant and are particularly relevant to observe as underlying assumptions affecting decision making. Most of the challenges all informants recognize but there a quite a few on which they disagree.

The challenges cover very different aspects related to their business. For changes related to customers the informants talked about not only general consumer trends but also changes related specifically to how consumers view and use banks. Changes in banking are taking place with an increasing pace and many concerned the interactions between the bank and its customers, how to design and improve the prerequisites for handling encounters in different channels.

Individual informant mental models

As shown in Table 2 in the informant-specific columns, the informants, although all of them long-term bankers and board members, were indeed different in how they viewed their business. The differences are shown in Table 3. The third column shows the core emphasis of each mental model and lists a few more concrete indications of it. The role of each informant is also shown in the table and it showed in what each informant emphasized in the interviews.

Informant number	role	Mental model characterisation
1	CEO	Customer value & Banking innovation <ul style="list-style-type: none"> - Digital banking - Demystifying banks - Disruptive banking - Learning customer-based business development
2	Retail banking	Communication & Customer service <ul style="list-style-type: none"> - Customer encounter quality - Branch office assistance - Bank servant knowledge and support - Banking at the core and about cash - Data follow up and analysis followed internally by discussions
3	Change implementation	Customer acquisition & Interaction quality <ul style="list-style-type: none"> - Cost efficiency especially internal process streamlining - Active extensive selling - Branding - Digital banking - Face to face or digital meeting quality through optimizing and coordinating processes and tools
4	Contact center	Customer encounters & Current operation adjusting <ul style="list-style-type: none"> - Human encounters - Customer information and feedback - Incremental improvement - Follow-up
5	New customer acquisition	Online responding & Early presence <ul style="list-style-type: none"> - Digital banking - Scanning customers in social media - Responding to customer initiatives especially online to become considered - Customer satisfaction information
6	Credit banking	Portfolio analysis & Regulatory compliance <ul style="list-style-type: none"> - Process streamlining

		<ul style="list-style-type: none"> - Customer understanding and risk management in portfolio analysis - Credit portfolio management - Long-term profit focus - Customer security
7	Business development	Customer closeness & Service concept clarifying <ul style="list-style-type: none"> - Customer understanding - Strategizing - Third parties - Technology

Table 3. Key characteristics of each top management team member mental model

In general the informants emphasized issues related to their own bank such as how they have made organizational changes and streamlined processes as well as strive to develop more efficient ways to handle customer encounters and develop new services. Comparatively less focus was on switching focus to the customers and taking them as the starting point for business development and renewal. Figure 1 shows how the informants are positioned in terms of marketing perspective in their mental model. Analysis was made to reveal whether it emphasized an internal, interaction, or customer perspective combined with whether the scope was transactions, relationships, or networks simultaneously reflected in whether components i.e. services or solutions i.e. value were in focus.

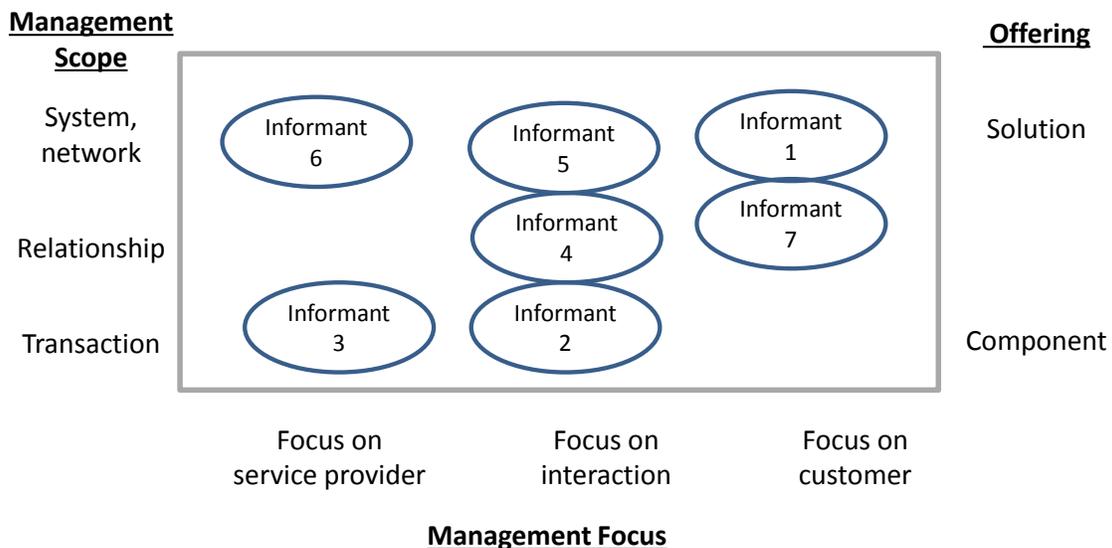


Figure 1. Positioning each top management team member's underlying marketing perspective

Interestingly and similar to previous mental model characterization, the informant role had an impact. The CEO seemed to have the broadest scope and informants with specific areas of responsibilities had related issues that they emphasized.

Over the years a shift has taken place in how marketing is considered in academic research concerning the role of the customer (management focus) and the scope of the interface with the customer that needs to be seen and managed (management scope). The development has largely moved, from a provider focus towards a customer focus on one hand and from a transaction scope towards a system scope on the other hand. A change in focus and in scope means entering

significantly different mental models of how business should be conducted. The change has in the academic discussion been driven by an interest to adapt the marketing perspective to changing business conditions. Among practitioners such a change in mental models is not easy to achieve because of mental and organizational inertia and the need to be convinced that a different mental model really is needed. For example, already a change in scope from considering sales in terms of transactions to consider customer relationships has proven to be a significant step in practice. A change from a provider focus, where the fundamental belief is that the provider creates the value for the customer to an interactive focus where the customer most often is invited to participate in the providers process creates many practical challenges. These changes have however already been discussed for many years also from a change and implementation point of view. The more radical step is to refocus on the customer, which indicates that the key question is not anymore how the customer can be involved in the service provider's processes but how the service provider can get a role in the customer's processes. Such a shift in view, suggested by the Customer Dominant Logic (Heinonen et al. 2010, 2013) leads to fundamental re-evaluations of the company's business model, offerings and operations.

DISCUSSION AND CONTRIBUTION

This study set out to explore how the top management team in a bank understands their customer relationships and need for change in the current situation where earlier practices are at the risk to become obsolete. Thus, our interest was to create an understanding of how managers mentally construct the challenging situation and market transition facing them. By interviewing all members of the top management team of a selected bank in Finland we gained insight into their mental models. Our strategy was to let their mental models emerge through their responses to fairly general discussion themes. The disadvantage of this approach compared to a more structured cognitive mapping approach lies in the challenges in the analysis phase. The advantage on the other hand is the possibility to capture the nature of the mental model unobtrusively. In our case it was more interesting to reveal possible differences in mental models on a more fundamental level characterizing different logics, rather than differences in details. Keeping in mind the exploratory emphasis and preliminary analysis we believe that have been successful in revealing and highlighting the significance of mental models in business in general and in change situations in particular.

Our findings indicate that it is possible to capture mental models and different logics by collecting and analyzing managers' narratives. This is encouraging from a practical perspective because it might enable practitioners to detect differences in mental models by careful listening and continuous analysis on the spot. Managers' mental models are important. They direct what is considered important, what is monitored and what is done. The mental model is the representation of the business landscape. Differences in mental models among the top management team may cause difficulties but may also represent a fruitful ground for renewal and innovation if recognized as such. The most challenging situation emerges when the "real world" changes and mental models need to adapt. In our study we have studied this type of situation.

Our analysis showed that collectively the top management team members identified to a large extent the same challenging issues. However, more importantly their interpretation of the meaning and implications of the challenging issues were different. The interpretation is guided

by each actor's mental model which again is related to the role each actor plays in the organization. Some actors are more restricted by organizational design some are given more degrees of freedom. It is therefore quite natural that those responsible for a certain function have to optimize that function given the organizational restrictions resulting in a mental model that is more focused than the mental model of those who have a development task. Hence, this becomes a challenge in practice, when a manager needs to optimize the current and simultaneously create a new understanding and mental model.

Although our empirical material did not completely match the requirements of the DOT-model we feel confident that the model represents a fruitful framework for studying challenges of change. The DOT-model simply proposes that the underlying mental model of an actor materializes in three different forms: in terms of thinking where concepts used and chains of reasoning are significant elements, in terms of doing, i.e. activities employed in different situations, and, in terms of observing, i.e. what is paid attention to and what is measured and monitored. By study design our empirical material mostly covered the thinking element. It would, however, be possible in further data collection to interview actors also based on how they gather the information they rely on in their business decisions and what kind of activities are seen as important and less important.

Contribution

Assuming that the mental models of individual managers as well as the mental model of the collective of managers are the drivers of the bank's attempts to succeed in the future the study contributes in several ways. Firstly it sheds light on how practitioners perceive their business environment compared to highly theoretical and simplified descriptions in academic marketing logics. Secondly, it provides insight into how customers and customer relationships are viewed by managers that have different responsibilities in the company. In the academic literature it is often considered self-evident that everyone should have a shared understanding and similar goals. Thirdly, the study gives a perspective on how change from one paradigm or mental model to another take place, both individually and collectively. The ultimate outcome of the study would be a framework to describe and analyze managers' perspective on customers and customers' relationships in order to be able to diagnose the underlying set of assumptions applied and thereby provide an instrument for self-reflection and management development.

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