

CHAPTER 1 - ORIENTATION

1.1 INTRODUCTION

In the growth markets of the 1970s, the marketers' challenge was to capture as much growth in demand as early as possible. A traditional approach of marketing was followed where the focus was placed on volume and market share. During the closing years of the twentieth century some of the basic tenets of marketing such as the marketing mix were increasingly being questioned. Cristopher, Payne and Ballantyne (2002:3) argue that the market place was vastly different from that of the 1950s. Many markets had matured due to low growth. Customers also had a wide variety to choose from as a result of globalisation of markets and increased competition. To compete successfully on the local and international front, South African companies cannot differentiate themselves only by way of the "4Ps" of marketing namely product, price, promotion and place; they need to become more relationship quality oriented. Cristopher et al. (2003:3) stated that as a result of matured markets and other pressures brand loyalty is weaker than it used to be and the 4Ps of marketing is unlikely to win or retain customers either in consumer and industrial markets. New waves of marketing thinking and leadership have become apparent to organisations in a competitive environment. Labels such as new economy leadership, customer relationship marketing and customer relationship management (CRM) have become descriptions of the revised framework.

Service quality is expected as given, but customers today require relationship-based business processes. Grönroos (2000:24) points out that value for customers is created throughout the relationship by the customer, partly in interactions between the customer and the service provider. This represents a fundamental shift in the logic of competition that is revolutionising corporate strategy (Roux, 2001:1). In the past, too much emphasis has been placed on the institutional environment and not enough on core capabilities. On the one hand, the challenge

is to get financial institutions to incorporate customer service in their marketing strategies, as this will differentiate the organisation and lead to a competitive edge. An understanding of customer service within the context of marketing management and the interactive role of customer service in formulating and implementing a marketing strategy, is required. On the other hand, in order to build effective relationships which will guarantee future success the organisation will have to learn how to satisfy customers` demands by understanding their likes and dislikes, needs and preferences, expectations, attitudes and behaviour.

The challenge lies in the fact that the benchmarks for good quality customer service and knowing your customer are changing dramatically and yesterday's standards will not enable a bank to win tomorrow (Sheshunoff, 1999:48). Future-thinking companies realise the importance of knowing customers and understanding their lifetime values. Goods and services alone are no longer sufficient to differentiate companies. Grönroos (2002:3) stated that customers buy offerings consisting of goods, services, information and personal attention and it is this customer-perceived service of an offering that creates value for them. Improving relationships with the most profitable customers will undoubtedly impact on a company's bottom line. Instead of focusing all their attention on attracting new customers and introducing new product lines, banks must concentrate on retaining and growing profitable customers. Irrespective of the business or industry, it is a generally accepted fact that the cost of acquiring a new customer is much higher than that of retaining an existing one.

According to Cartwright and Green (quoted by Cartwright, 2000: preface) one of the ten golden rules of customer care is that it costs far more to gain a new customer than it does to retain an existing one. Offensive marketing typically costs more than defensive marketing, as it requires substantial effort and cost to induce satisfied customers to switch away from their existing suppliers (Roux, 2001:2).

Many organisations are suffering from the effects of outdated leadership approaches, uncompetitive organisational designs and structures and organisational instability. ABSA Bank has started with a transformation process of

typical second Wave (Old Economy) leadership mindsets that need to be abandoned and typical third and fourth Wave (New Economy) leadership mindsets that need to be entrenched in ABSA Bank. ABSA management has realised that the organisation and its people need to adapt new mindsets in order to change from the traditional ways of doing things, to find new horizons for the process of value creation in the organisation. Nasser and Visser (1993:5) state that the toughest challenge for the leader of renewal and turnaround is to have the courage to step beyond the limits of predictability and the boundaries of conventional paradigms. Nasser and Visser (1993:5) state that in this domain, mindset is a crucial catalyst. Senge (1990:13) also argues that learning also involves a fundamental shift or movement of mind.

We are living in ever-changing times, a comment often heard but rarely believed. Everywhere in ABSA people are using words like “third wave” “chaos”, “change management”, “self-organising” and learning “to name but a few”. The true meaning of these words are seldom understood and even more seldom shared among two or more people. The third wave is not something that has yet to happen – it has already begun with the advances that have been made in the information and communication arenas. The Third Wave brings with it a genuinely new way of life based on diversified, renewable energy sources; on methods of production that make most factory assembly lines obsolete; on new, non-nuclear families; on a novel institution that might be called the ‘electronic cottage’; and on radically changed schools and corporations of the future (Toffler, 1980: 24). People are already sensitive to terms such as conservation, co-operation and the sanctity of life. The challenge to organisations is to be able to use information and knowledge to develop more customer-oriented and value-enhancing services for their customers (Grönroos, 2000:11).

The fourth Wave is expected to grow out of the Third Wave trend toward widening the purpose of doing business. Even strategic planning will focus on leaving a valuable legacy for the future, and business will be viewed as a means to gain personal fulfilment and serve others. It is viewed to make the shift from wanting to beat the competition to wanting to serve the world. An emerging issue in South

Africa is the need for a balance between a company's business growth objectives and the demand for environmentally actions. Visser and Vivier (1993:7-8) points out that these new economy organisations are recognised for their high degree of innovation, psychological stamina and levels of creative insight and that they are typified by their ability to create value despite environmental turbulence.

At ABSA, they have realized that our country and our society are presently in the midst of an array of crossroads. Major focus is placed on the change from 2nd Wave (Old Economy) leadership to 3rd and 4th Wave (new economy) leadership in ABSA Bank. Senge (1990:4) advises organisations to forget their old, tired ideas about leadership. The organisations that excel will be those that discover how to tap their people's commitment and capacity to learn at all levels in an organisation (Senge, 1990:4).The most successful corporation of the 1990s will be something called a learning organisation (Senge, 1990:4).

What will distinguish these companies from the traditional "controlling" organisations will be mastery of certain basic disciplines. Leading management thinker Senge (1990:7-12) identifies five new "competent technologies" which provide the vital dimensions in building organisations that can truly learn; systems thinking, personal mastery, mental models, building shared vision and team learning. Systems thinking make understandable the subtlest aspect of the learning organisation, the new way individuals perceive themselves and their world. Personal mastery fosters the personal motivation to continually learn how our actions affect our world. Mental models focus on the openness needed to unearth shortcomings in our present ways of seeing the world. Building shared vision fosters a commitment to the long term and team learning develops the skills of groups of people to look for the larger picture that lies beyond individual perspectives.

1.2 PROBLEM STATEMENT

ABSA Bank finds itself in the same position as all the other financial institutions in the Banking sector, in that it is unable to differentiate itself via the current marketing elements. A customer service strategy has indeed been implemented in the

personal financial division of the Bank. However, the problem is that the different strategies are not integrated and no provision has been made for the different segmentation levels of service.

Management ask the question, that if the level of customer service is an integrated part of customer relationship marketing and relationship management, can the level of customer service be increased if new economy leadership has been implemented.

ABSA Personal Financial Services (PFS) value proposition is dependent on practicing a genuine client relationship approach. The organisation is focusing to engage the customer interactively in the many ways of creating value and to unlock meaningful benefits for the customer. The role of managing the relationship includes the integrating of technologies, people, processes and the responsibility to listen and understand customers' needs. ABSA PFS has given this role to relationship managers. The word relationship manager is in many companies a new title.

Management has therefore decided to assess the impact and perception of new economy leadership amongst relationship managers before any other customer service strategies are implemented and measured.

1.3 THE PURPOSE AND IMPORTANCE OF THE STUDY

Banks have come to realize that they are service providers and customers now have a wide choice. Customers also expect access to their bank in ways and at times which are convenient to them. As mentioned in the introduction it is also more expensive to acquire a new client than to retain an existing client satisfied. Grönroos (2000:23) states that new customers are more and more difficult to find and it becoming increasingly important to keep a organisation's existing customers. Grönroos(2000:23) mentions that customers in many cases only become profitable after they have remained customers for some time. Zeithaml and Bitner (2003:514) extend their view that capturing customers from other companies is also an expensive proposition, as a greater degree of service improvement is necessary to make a customer switch from a competitor. Zeithaml et al. (2003:514) states that the selling costs for existing customers are on average twenty percent lower than selling

to new customers and it has been found that attracting a new customer is five times as costly as retaining an existing one.

New entrants to the financial sector have undoubtedly been one of the biggest catalysts for change. They have introduced a major element of choice into the market. Porter (1985:9) states that the threat of entry determines the likelihood that new firms will enter an industry and compete away the value, either passing it on to buyers in the form of lower prices or dissipating it by raising the costs of competing. Products are based on an ethos of customer value and services and are offered to a loyal retail customer base. Cartwright (2000:23) states that it is not the product per se that the customer buys or uses but what they perceive that product to be and how they value it. It is this consumer choice and empowerment that has forced banks to compete on a far more competitive scale. Changing the way we think leads to a change in behaviour in the organisation. Management in ABSA Bank has therefore realized that old economy hierarchical power must be abandoned and that new economy democracy be entrenched. The organisation therefore needs to entrench new economy leadership in order to sustain a competitive advantage in the Banking industry. ABSA's Personal Financial Services (PFS) division is based on building genuine client relationships. Management therefore is interested to find out how new economy leadership impacts on relationship management.

The purpose of the study is to explore the impact of new economy leadership amongst ABSA PFS relationship managers. The literature study will be expanded by exploratory research to understand the impact of new economy leadership on relationship management and relationship marketing within the ABSA Personal Financial Services division.

1.4 Research Objectives

1.4.1 Primary objective

The primary objective is to determine how the implementation of new economy leadership impacts on customer relationship management (CRM) and to use the result as a method of differentiation.

1.4.2 Secondary objectives

The secondary objectives of this study are:

- (a) To **determine** the impact of customer relationship management (CRM) on customer retention within ABSA's Personal Financial Services division.
- (b) To **determine** if new economy leadership has an impact on the role of relationship managers within ABSA's Personal Financial Services division.
- (c) To **identify** which principles and behaviours of new economy leadership impacts on customer relationship management (CRM) within ABSA's Personal Financial Services division.
- (d) To **identify** which principles and behaviours of new economy leadership impacts on relationship marketing within ABSA'S Personal Financial Services division.

1.4.3 Research propositions

Zikmund (2003:43) states that a proposition is a statement concerned with the relationships among concepts; an assertion of a universal connection between events that have certain properties.

The following research propositions were formulated:

- **Proposition 1:**
New economy leadership has an impact on customer relationship management (CRM).
- **Proposition 2:**
New economy leadership has an impact on relationship marketing.

1.5 THE DEMARCATION AND SCOPE OF THE STUDY

The study is a literature based and expanded by exploratory research. The exploratory study is aimed at investigating the impact and influence of new economy leadership on relationship managers and relationship marketing within ABSA Personal Financial Services. The study covers the theory on new economy leadership, customer relationship management (CRM) and relationship marketing.

1.6 LITERATURE REVIEW

Description of the terminology

1.6.1 The concept of new economy leadership/New generation organisation.

According to Nasser and Visser (1993:7) new economy or new generation is a term describing those organisations, principles and methods which defy the traditional way of doing things in order to find new horizons or the process of value-creation in organisations in particular, and the nation in general.

Major focus has been placed on the shift from an authoritarian management style to a more participation leadership style. Employees are empowered to make their own decisions and are held accountable for their actions. Employees therefore are committed to the company's mission and vision. Customer service and strategies are of utmost importance for this new type of leadership in the company. Shared knowledge is a focus point by all employees. Knowledge of the individual experts is grouped in order to deliver and sustain excellent customer service and relationship management.

1.6.2 Customer relationship management (CRM)

Customer relationship management is a comprehensive approach for creating, maintaining and expanding customer relationships (Anderson & Kerr, 2002:2).

Any business starts with the acquisition of customers, and understanding and differentiating will be followed by the development of products and services. Customization has its place in this phase and interaction and value delivery will induce retention of valuable customers. The interaction phase is important to foster

relationships, and organisations need to ensure that all their areas have easy access to relevant, actionable customer information. Grönroos (2000:33) stated:” A relationship has developed when a customer perceives that a mutual way of thinking exists between customer and supplier or service provider.”

The relevant staff in the organisation should be trained how to use customer information to tailor interactions based on both customer needs and potential customer value. It is very important to retain existing customers and to grow the debt of the relationship with customers. Research by Reichhold and Sasser of the Harvard Business School (quoted by Anderson & Kerr: 2002:1) shows that most customers are only profitable in the second year that they do business with you. Customer relationship can be used as a strategy instrument to keep the organisation up to date with changes in the marketplace to provide better customer service. An organisation can have a competitive advantage if its relationship management strategy is in place. The service process leads to some form of co-operation between customer and service provider. Some form of relationship emerges. If the relationship is not satisfactory the customer will turn to another service provider. There are always relationships between the customer and the service provider which can be used as a foundation for marketing.



Grönroos (2000:22) furthermore stated that relationships between parties are considered the core phenomenon in marketing.

1.6.3 Relationship marketing

Grönroos (2000:39) posits:”Relationship marketing is a perspective of how the firm can relate to its customers and other parties, which has an impact on how the business is developed and customers are managed.”

Product offering alone is not sufficient to differentiate financial industry companies. Customers do not buy goods or services only they buy the benefits, goods and services provide them with. Value creation is the key differentiation factor for any organization to attain a competitive advantage. Customers do not only look for goods or services, they demand a much more holistic service offering. Marketing is seen as

the management of customer relationships. Relationship marketing requires activities and processes that support and facilitate the management of customer relationships.

1.7 RESEARCH DESIGN

Zikmund (2003:65) states: “A research design is a master plan specifying the methods and procedures for collecting and analysing the needed information.” Exploratory research will be conducted and the study is of a qualitative nature.

1.7.1. Exploratory research

Exploratory research is the initial research conducted to clarify and define the nature of a problem (Zikmund, 2003:110). According to Zikmund (2003:111) exploratory research provides greater understanding of a concept or problem, rather than providing quantification. Exploratory research will be used in this study to provide greater understanding of the impact of new economy leadership amongst relationship managers in ABSA Personal Financial Services.

1.7.2 Qualitative method

Qualitative research is less formally structured than quantitative research and it uses smaller samples. The data gathered using qualitative techniques is subjective and non-quantifiable (Shao, 1999:151). The qualitative method to be used in this study is in-depth interviews. The qualitative research is not very large, because the research is organisation specific. The interviews will be conducted face to face with pre-selected respondents on an individual basis, where the subject matter of the interview will be explored in detail. The selected respondents for the interviews are all specialists in a specific field and for this reason the researcher found this qualitative method appropriate.

1.7.3 Methods of collecting qualitative data

Depth interviews will be used in this study as a method to collect qualitative data. Zikmund (2003:130) states that a depth interview is a relatively unstructured, extensive interview used in the primary stages of the research process.

1.7.4 External secondary data analysis

According to Zikmund (2003:136) secondary data are data gathered and recorded by someone else prior to the current needs of the researcher. Zikmund (2003:115) further states that: “secondary data analysis is the preliminary review of data collected for another purpose to clarify issues in the early stages of a research effort.” An extensive literature search on the study will be done. External data are generated or recorded by an entity other than the researcher’s organisation (Zikmund, 2003:144). The literature on new economy leadership, customer relationship management and relationship marketing will be discussed in chapters two to four.

1.7.5 Internal secondary data

Zikmund (2003:143) defined internal data: “as data that originated in the organisation.” Internal records- Internal memorandums and strategic documents will be analysed. Analysing of the Beehive model and the 360° strategic strategies and action plans. These models will be used to implement new economy leadership and the monitor and feedback thereof.

1.7.6 Method of sample selection

Zikmund (2003:71) states: “If sample units are selected on the basis of personal judgment, the sample method is a non-probability sample.”

Non-probability sampling will be used to select the respondents who will be interviewed. Relationship managers in the Personal Financial Services division of Absa Bank have been selected to be interviewed.

1.7.7 Universe of the Sample size

Sample size will consist of the client segment of the Personal Financial Service division of ABSA Bank. In-dept interviews with eight relationship managers in the ABSA Personal Financial Services division will be conducted. The sampling units will be explained in Table1 below.

Table1: Sampling units in the ABSA relationship management unit:

| PERSON | SEGMENT |
|------------------------|--|
| Mr. Andre Smith | Medical Market - Doctors |
| Mrs. Estie Beetge | Medical Market- Doctors |
| Mr. Morne Van Greunen | >R750 000 Gross income per annum |
| Mr.Lawrence Padayachee | >R750 000 Gross income per annum |
| Mrs. Rashika Aungunu | ≥R500 000 <R750 000 Gross income per annum |
| Mrs. Ashie Inderpersad | Senior citizen clients, age 60 and older. |

1.7.8 Content analysis and interpretation

According to Zikmund (2003:248) content analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communication. Once the data has been gathered, the data must be analysed by turning the data into actionable sets of conditions and reports. The use of content analysis will enable to measure the extent of emphasis on any analytical category.

Zikmund (2003:491) states: “interpretation is the process of making inferences and drawing conclusions concerning the meaning and implications of a research investigation.” Interpretation of the data is an important aspect for this qualitative study and for managerial implications.

1.8 CLARIFICATION OF KEY CONCEPTS

Before the outline of the different chapters can be discussed it is necessary to clarify the following key concepts that will be used as an integral part of the literature.

- **New economy leadership**

According to Nasser and Visser (1993:7) new economy or new generation is a term describing those organisations, principles and methods which defy the traditional way of doing things in order to find new horizons or the process of value-creation in organisations in particular, and the nation in general.

- **Customer relationship management (CRM)**

Kotler and Keller (2003:52) stated: “That CRM is the process of managing detailed information about individual customers and carefully managing all customer ‘touch points’ to maximise customer loyalty.” A customer touch point is any occasion on which a customer encounters the brand and product, from actual experience to personal communication (Kotler & Keller, 2003:152).

- **Relationship marketing**

Grönroos (2000:39) posits: “Relationship marketing is a perspective of how the firm can relate to its customers and other parties, which has an impact on how the business is developed and customers are managed.”

- **Products**

Cartwright (2000:1) comments that traditionally goods were seen as tangible products for an example ones that you could hold in your hand or at least touch. According to Kotler (quoted by Herbst, 2001:22) five categories of product offers can be distinguished:

- a) A pure tangible product with no service accompanying it.
- b) A tangible product with accompanying services where the offer consists of a tangible good accompanied by one or more services to enhance its consumer appeal.
- c) A hybrid product where the offering consist of equal parts of services and goods.
- d) A major service with accompanying minor products and services.
- e) A pure service where the offering consists primarily of service.

- **Services**

According to Cartwright (2000:1) services were considered as intangible products, ones that could be experienced but not seen or touched directly, such as financial services. In the context of this study services and goods are products and service is what surrounds them.

- **Customer service**

Zikmund and Amico (2001:331) describe customer service as activities of an organisation that are designed to increase the value of a purchased good or service and thereby strengthen customer satisfaction. Brink and Berndt (2004:48) describes customer service as the totality of what the organisation does to add value to its products and services in the eyes of the customer.

- **Service Quality**

Zikmund et al. (2001:329) defines service quality as the degree to which the performance of a service matches customer expectations; the essential characteristic of a service that indicates its degree of excellence.

Zeithaml and Bitner (2003:93) identified five specific dimensions of service quality that apply across a variety of service contexts.

- Reliability: ability to perform the promised service dependably and accurately
- Responsiveness: willingness to help customers and provide prompt service.
- Assurance: employees' knowledge and courtesy and their ability to inspire trust and confidence.
- Empathy: caring, individualised given to customers.
- Tangibles: appearance of physical facilities, equipment, personnel, and written materials.

1.9 CHAPTER OUTLINE

CHAPTER 2: New economy leadership and the integration with ABSA Bank

In this chapter the content of new economy leadership will be discussed and how ABSA Bank has entrenched strategies and action plans to enhance change leadership in the new economy era.

CHAPTER 3: Customer relationship management (CRM)

This chapter focuses on the literature of relationship management. Emphasis will be placed on the influence of new economy leadership on relationship management in

ABSA's Personal Financial Services division and how it integrates with the value proposition and vision.

CHAPTER 4: Relationship marketing

This chapter will focus on the literature of relationship marketing. Emphasis will be placed on the integration of customer relationship management (CRM) and relationship marketing.

CHAPTER 5: ABSA Bank environment

This chapter will provide an in-depth explanation of the company (ABSA) and the division (PFS) in which this study will be executed.

CHAPTER 6: Research design and methodology

This chapter will provide the research design and research methodology. This chapter discusses in detail the research design selected, the sampling frame used, the data collection and analysis. A discussion guide will be used for one-to-one personal interviews with six relationship managers of the ABSA Personal Financial Services division (PFS).



CHAPTER 7: Research results

Report on a question -by- question basis according to the discussion guide.

This chapter presents the research results and interpretation thereof.

The chapter concludes with a discussion on the propositions presented in Chapter one.

CHAPTER 8: Conclusions and recommendations for future research

The final chapter will present all the findings. The chapter will be concluded by a discussion on the limitations of the study and will be enhanced by recommendations for future research.

1.10 CONCLUSION

The focus of the chapter was on introducing the research study. The need for the research as stated in the problem statement is to assess the impact of new economy leadership amongst ABSA Personal Financial Services relationship managers. Key concepts throughout the study that will form part of the literature would be new economy leadership, customer relationship management (CRM) and customer relationship marketing. The literature on new economy leadership and the impact on relationship management will be discussed in chapter two.

