Marketing, strategy and performance in the UK retail financial services industry

This item was submitted to Loughborough University’s Institutional Repository by the/an author.

Additional Information:

• A Doctoral Thesis. Submitted in partial fulfillment of the requirements for the award of Doctor of Philosophy of Loughborough University.

Metadata Record: [https://dspace.lboro.ac.uk/2134/7414](https://dspace.lboro.ac.uk/2134/7414)

Publisher: © Richard John Speed

Please cite the published version.
This item is held in Loughborough University’s Institutional Repository (https://dspace.lboro.ac.uk/) and was harvested from the British Library’s EThOS service (http://www.ethos.bl.uk/). It is made available under the following Creative Commons Licence conditions.

For the full text of this licence, please go to: http://creativecommons.org/licenses/by-nc-nd/2.5/
This thesis seeks to examine the marketing practices, strategies and organisational characteristics of companies in the UK retail financial services industry. The research utilises both quantitative and qualitative methods, seeking to determine what, if any, differences in approach exist between companies of different types or with different levels of performance. Three methods are used to evaluate performance; self assessment, peer assessment and expert assessment.

Data was gathered using a semi-structured questionnaire as the basis for interviews with managers. Quantitative analysis utilised contingency table analysis and discriminant analysis to test for differences between different groups of companies. Account was taken of problems due to small sample size. The Delphi technique, a form of anonymous polling of experts over several rounds with feedback between rounds, was used to construct the expert assessment based measure of performance.

Companies with better performance were found to have a different strategy from those with poor performance. Better performing companies were found to have products better at meeting customer needs than those of competitors, and to charge more for them. Better performing companies were found to be faster at new product development and to show a balance in their strategy between finance and market performance based factors. Companies of different types were also found to differ in their marketing approaches.

A high level of consistency was found between the various measures of performance used. The measures were highly correlated and the sets of variables found to be related to performance level measured by different means had considerable overlap.
Acknowledgements

This research was funded through the sponsorship of the Chair of Marketing at Loughborough by National Westminster Bank PLC. I am grateful to National Westminster Bank for their generosity and to John Saunders for investing in this project.

Having read what the University requires of Supervisors and Directors of Research, I am conscious of the immense debt I owe to Gareth Smith and John Saunders. Their support and commitment has been far in excess of what the University requires and what I had any right to expect when I began. Gareth Smith, my Supervisor, has been a constant source of good advice and encouragement throughout this project. Doctoral research is often likened to an apprenticeship and working with John Saunders, as Director of Research, has been a chance to learn from a true craftsman. I am deeply grateful to Gareth and John for their support and friendship.

Andrew Higson, who acted as Observer on the Research Panel, offered criticism that was always penetrating and constructive, and kept the project out of several blind alleys.

I am very grateful to Jim Saker, who has been a great sounding board and a good friend, Veronica Wong, who offered much practical advice, and David Coates, who has listened to painfully bad statistics and patiently offered guidance. One problem I had been wrestling with for weeks was solved by a chat with Chris Martin, and the loss of his abilities and sympathetic nature saddens me greatly. I also thank the many other members of staff in the Department of Management Studies and the Banking Centre who have taken the trouble to help me overcome problems and listen to my ideas.
The friendship and sympathy from Gary Pythian, Maxine Blumfield, Andy Geddes, Mohammed Kameshki and Jean-Louis Barsoux made the process of research easier, offering an opportunity to share the problems and successes with others in the same position.

Many of my friends have listened sympathetically to complaints and problems during my research. I particularly want to thank Helen Price who, despite her own difficulties, has encouraged me through the last two years. Working in the Holt prevented me becoming a research hermit, and I owe that opportunity to David Bunker. Finally my deepest debt is to my family, who have supported and encouraged me in everything I have done, even when their bank charges paid for it.
# TABLE OF CONTENTS

## Chapter One - INTRODUCTION

1.1 The Research Project ......................................................... 1
1.2 Explanation of Some Terms ................................................ 2
1.3 Hypotheses Under Test ..................................................... 2
1.4 Organisation of the Thesis ............................................... 4

## Chapter Two - LITERATURE REVIEW

2.1 Introduction ........................................................................... 6
2.2 Corporate Issues .................................................................... 8
2.2.1 A Historical Perspective .................................................. 8
2.2.2 Environmental Change ..................................................... 10
2.2.3 Marketing for Bankers .................................................... 12
2.2.4 Strategic Management in Financial Services ....................... 12
2.2.4.1 Introduction .............................................................. 12
2.2.4.2 Models for Strategy Development .............................. 13
2.2.4.3 The Relationship Banking Model - Leonard L. Berry .... 15
2.2.4.4 Strategy Development in Practice ............................. 16
2.2.4.5 Acceptance of Strategy Planning ............................... 17
2.2.4.6 Developing a Sales Culture ....................................... 18
2.2.4.7 Developing a Market Orientation ............................... 19
2.2.5 Europe and 1992 ............................................................... 20
2.2.6 Non-bank Institutions ....................................................... 21
2.2.6.1 Building Societies .................................................... 21
2.2.6.2 Insurance .................................................................. 23
2.2.6.3 Other Non-Bank Financial Institutions ...................... 24
2.2.7 Distribution ....................................................................... 25
2.2.7.1 Introduction .............................................................. 25
2.2.7.2 Branch Organisation ................................................ 25
2.2.7.3 Automation .............................................................. 28
2.2.7.4 Distribution in Insurance .......................................... 29
Chapter Three - RESEARCH HYPOTHESES

3.1 Introduction

3.2 The Concept of Hypothesis Testing

3.3 Differences in Corporate Strategy with Performance

   Hypothesis 1
   Hypothesis 1A
   Hypothesis 1B
   Hypothesis 1C
   Hypothesis 1D

3.4 Differences in Corporate Strategy Between Sectors of the Industry

   Hypothesis 2

3.5 Strategic Groups

   Hypothesis 3
   Hypothesis 3A
   Hypothesis 3B

3.6 Differences in Product Marketing with Product Type

   Hypothesis 4

3.7 Differences in Product Marketing Between Companies from Different Sectors

   Hypothesis 5

3.8 Differences in Product Marketing with Corporate Performance

   Hypothesis 6
3.9 Differences in Product Marketing with Market Share

Hypothesis 7

3.10 Industry Structure

Hypothesis 8

3.11 Operationalising The Hypotheses

3.12 Testing Corporate Hypotheses
   3.12.1 Competitive Advantage
   3.12.2 Strategy Pursued
   3.12.3 Positioning of Companies
      3.12.3.1 Positioning Through Use of Segmentation and Differentiation
      3.12.3.2 Positioning Through Branding Policy
      3.12.3.3 Positioning Through the Benefits Offered to Customers
   3.12.4 Customers Targeted
   3.12.5 Innovation and New Product Skills
   3.12.6 Organisational Culture
   3.12.7 Differences in Strategic Planning Methods

3.13 Testing Product Hypotheses
   3.13.1 The Marketing Mix
      3.13.1.1 Differences in the Product Element
      3.13.1.2 Differences in the Price Element
      3.13.1.3 Differences in the Place Element
      3.13.1.4 Differences in the Promotion Element
      3.13.1.5 Differences in the People Element
      3.13.1.6 Differences in the Physical Evidence Element
      3.13.1.7 Differences in the Process Element
      3.13.1.8 Importance of Mix Factors
   3.13.2 Cost Awareness

3.14 Conclusions
Chapter Four - METHODOLOGY

4.1 Introduction

4.2 Introduction to Data Gathering
   4.2.1 The Level of Investigation
   4.2.2 Selection of Product Areas
   4.2.3 Gathering Information
   4.2.4 Design of Research Instrument
   4.2.5 Questionnaire Design
   4.2.6 Selection of Companies
   4.2.7 Recruitment of Companies

4.3 Introduction To Data Analysis
   4.3.1 Choice of Technique for Univariate Analysis
   4.3.2 Notes on $\chi^2$ Tests
   4.3.3 Collapsing Contingency Tables

4.4 Introduction to Multivariate Analysis
   4.4.1 Notes on Discriminant Analysis
   4.4.2 Validation of Discriminant Analysis
   4.4.3 Variable Selection in Discriminant Analysis
   4.4.4 Use of Discriminant Analysis
   4.4.5 Other Multivariate Methods

4.5 Conclusions

Chapter Five - MEASURING CORPORATE PERFORMANCE

5.1 Introduction

5.2 The Concept of Performance

5.3 Examples of Recent Research Assessing Performance

5.4 Financial Measures of Performance
   5.4.1 Data Selection
   5.4.2 Data Availability
   5.4.3 A Possible Methodology
Chapter Six - CORPORATE LEVEL QUANTITATIVE RESULTS

6.1 Introduction

6.2 Perceived Competitors

6.3 Univariate Analysis
  6.3.1 Introduction
  6.3.2 Self Assessed Performance
  6.3.3 Admired Companies
  6.3.4 Companies Admired by Two or More Competitors
  6.3.5 Insurance Companies
  6.3.6 Banks
  6.3.7 Building Societies

6.4 Multivariate Analysis
  6.4.1 Introduction
  6.4.2 Self Assessment By Companies
  6.4.3 Admired Companies
  6.4.4 Insurance Companies
  6.4.5 Banks
  6.4.6 Building Societies

6.5 Conclusions

6.7 Tables
8.5 Measures of Performance 219
   8.5.1 Self Assessment of Corporate Performance 220
   8.5.2 Expert Assessment of Corporate Performance 220
   8.5.3 Peer Assessment of Corporate Performance 221
   8.5.4 Comparison of Findings Relating to Corporate Performance 222

8.6 Market Share 223
   8.6.1 Differences with Market Share 224

8.7 Conclusions 228

8.8 Tables 231

Chapter Nine - MANAGERIAL ASSESSMENTS AND COMMENT 246

9.1 Introduction 246
9.2 Strategy 247
9.3 Segmentation 252
9.4 Management and Cultural Change 257
9.5 Employment and Cultural Change 259
9.6 Mission Statements 263
9.7 Innovation and Product Development 269
9.8 Image and Positioning 272
9.9 Conclusions 276
## Chapter Ten - CONCLUSIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1 Introduction</td>
<td>278</td>
</tr>
<tr>
<td>10.2 Structure of the Research</td>
<td>278</td>
</tr>
<tr>
<td>10.3 Evaluation of the Research</td>
<td>280</td>
</tr>
<tr>
<td>10.4 Hypothesis Testing</td>
<td>281</td>
</tr>
<tr>
<td>10.5 Performance Measurement</td>
<td>285</td>
</tr>
<tr>
<td>10.6 Limitations of the Research</td>
<td>286</td>
</tr>
<tr>
<td>10.7 Extension of the Research</td>
<td>287</td>
</tr>
<tr>
<td>10.7.1 Segmentation</td>
<td>288</td>
</tr>
<tr>
<td>10.7.2 New Product Development</td>
<td>288</td>
</tr>
<tr>
<td>10.7.3 Employment and Culture</td>
<td>289</td>
</tr>
<tr>
<td>10.8 Problems for Future Research</td>
<td>290</td>
</tr>
</tbody>
</table>

## BIBLIOGRAPHY

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix One - QUESTIONNAIRE INVESTIGATING CORPORATE HYPOTHESES</td>
<td>315</td>
</tr>
<tr>
<td>Appendix Two - QUESTIONNAIRE INVESTIGATING PRODUCT HYPOTHESES</td>
<td>335</td>
</tr>
<tr>
<td>Appendix Three - THE $\chi^2$ TEST OF INDEPENDENCE</td>
<td>349</td>
</tr>
<tr>
<td>Appendix Four - LINEAR DISCRIMINANT ANALYSIS</td>
<td>352</td>
</tr>
</tbody>
</table>
TABLES

6.1 Building Societies - Competitors 158
6.2 Banks - Competitors 159
6.3 Mutuals - Competitors 160
6.4 Composites - Competitors 161
6.5 Insurers - Competitors 162
6.6 Perceived Competitors by Company's Sector of the Industry 163
6.7 Variables Captured on Likert Scales 164
6.8 Analysis of Responses by Companies Rating Themselves Above Average on Performance - Distinguishing Variables 166
6.9 Companies Rating Themselves "Much Better" in Terms of Performance - Distinguishing Variables 167
6.10 Admired and Non-admired Companies - Distinguishing Variables 168
6.11 Companies Admired by Two or More Competitors - Distinguishing Variables 169
6.12 Insurance Companies - Distinguishing Variables 170
6.13 Banks - Distinguishing Variables 171
6.14 Building Societies - Distinguishing Variables 172
6.15 Self Ranked Performance - Discriminant Analysis 173
6.16 Self Ranked Performance - Confusion Matrices 173
6.17 Admired Companies - Discriminant Function 174
6.18 Admired Companies - Confusion Matrices 174
6.19 Insurance Companies - Discriminant Function 175
6.20 Insurance Companies - Confusion Matrices 175
6.21 Banks - Discriminant Function 176
6.22 Banks - Confusion Matrices 176
6.23 Building Societies - Discriminant Function 177
6.24 Building Societies - Confusion Matrices 177
7.1 t Tests Against Scale Means on Expert Ratings of Companies 206
7.2 Spearman's Rank Correlation Coefficients for Alternative Indicators of Company Performance 207
7.3 Spearman Correlation Coefficients Between Mean Delphi Ratings and Descriptive Variables 208
7.4 Expert Assessment - Confusion Matrices 209
8.1 Variables Describing Aspects of Product Strategy and Marketing Captured on Interval Scales 231
8.2 t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Different Product Types 234
8.3 Spearman Rank Correlations Between Market Share and Product Marketing Strategy Variables 236
8.4 t Tests for Differences Between the Mean Scores for Companies with High and Low Self Ranked Corporate Performance on Product Marketing Strategy Variables 238
8.5 t Tests for Differences Between the Mean Scores for Companies Ranked as High and Low Performance by Experts on Product Marketing Strategy Variables 239
8.6 t Tests for Differences Between the Mean Scores for Companies Admired and Not Admired For their by Peers on Product Marketing Strategy Variables 240
8.7 t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Insurance Companies and Banks 242
8.8 t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Insurance Companies and Building Societies 244
8.9 t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Banks and Building Societies 245
<table>
<thead>
<tr>
<th>FIGURES</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Corporate Level Marketing Strategy and Methods - A Hierarchical Framework</td>
<td>55</td>
</tr>
<tr>
<td>3.2</td>
<td>Product Level Marketing Strategy and Methods - A Hierarchical Framework</td>
<td>67</td>
</tr>
<tr>
<td>4.1</td>
<td>Products Covered in the Research Project</td>
<td>80</td>
</tr>
<tr>
<td>8.1</td>
<td>Sources Used to Calculate Relative Market Share</td>
<td>224</td>
</tr>
</tbody>
</table>
Chapter 1 - INTRODUCTION

1.1 The Research Project

Like many other markets, the UK financial services industry has seen tremendous changes in recent years. In retail financial services, that is the provision of financial services to customers as private individuals, most researchers see regulatory change, increasing sophistication of customers and increasing technological sophistication as the driving forces behind increasing competition in the market. The exact nature of these changes and their effects will be discussed at greater length later.

Companies operating in the retail financial services market have responded differently to the changes they face. For instance, Abbey National converted from a building society to a public limited company, building societies and banks have chosen and changed their minds about the provision of investment products as tied agents or independent advisers, Midland Bank has introduced a entirely separate telephone banking service, mortgage and insurance providers have entered, and in some cases left, the estate agency market. The search for a competitive advantage in retail financial services has probably never been more intense.

This research project attempts to test certain hypotheses about the approach companies in the retail financial services market have taken to the changed environment. It is therefore an empirical research project, seeking to measure and characterise the strategies and approaches of companies in the market, and identify differences between them. The project also seeks to construct measures of company performance in the retail financial services market.
1.2 Explanation of Some Terms

Definitions of retail, wholesale, personal and corporate banking vary between writers and companies. In this research, the most familiar definition of retail financial services is adopted. **Retail financial services** is the provision of financial services to customers as private individuals.

The retail financial services market has traditionally been somewhat heterogeneous, with a variety of different types of company serving a variety of different financial service needs. The need for housing finance has traditionally been met by one type of company, the building society, the need for money transmission and lending products has been meet by banks. Even within the market served by insurance companies, mutually owned companies have tended to concentrate on the need for long term investment products and public insurance companies on the need for protection insurance. Thus differences have existed between companies both in terms of their ownership and structure and also in the area of the market covered. The pervasiveness of these traditional differences and their impact on strategy and performance is one of the matters this thesis seeks to investigate. These heterogeneous groupings based on ownership and structure plus traditional area of operations are referred to in this thesis as sectors of the retail financial services industry.

Unless it is specifically stated otherwise, these terms are used in the sense outlined here.

1.3 Hypotheses Under Test

The hypotheses under test in this research project are outlined below. The construction of these hypotheses is discussed in greater detail in chapter 3.
Hypotheses

H1 There is a set of strategies and characteristics associated with better performing companies

Sub-Hypotheses

H1A Better performing companies will show evidence of higher quality products and higher prices

H1B Better performing companies will show evidence of greater product innovation.

H1C Better performing companies will show a balance between market performance and financial performance factors, as suggested by Doyle.

H1D Better performing companies will follow one of the three competitive strategies suggested by Porter.

H2 Companies from different sectors of the financial services industry will show systematic differences in strategies and characteristics

H3 Strategic groups of companies exist in the retail financial services market on the basis of similarity of strategy and approaches to marketing.

Sub-Hypotheses

H3A Strategic groups of companies in the retail financial services market will be distinguished from each other on the basis of the sector of the industry to which companies belong.

H3B Strategic groups of companies in the retail financial services market will be distinguished from each other on the basis of a similar position within the sector of the industry

H4 The product marketing strategies and characteristics will vary according to the need the product seeks to meet.

H5 The product marketing strategy and methods will vary between companies from different sectors of the industry
The product marketing strategy and methods will vary between companies with different levels of performance

The product marketing strategy and methods will vary between companies with different levels of market share

The sector of the retail financial services industry from which companies perceived as competitors by companies in the sample are drawn will be independent of the sector of the retail financial services industry from which the sampled company is drawn.

1.4 Organisation of the Thesis

The thesis is divided into ten chapters. Chapter 2 reports the extensive review of literature on financial service marketing and management that underlies the research project. The literature on financial services marketing discusses a large number of areas where companies either have sought to create a competitive advantage or might do so in future.

Chapter 3 discusses the hypotheses about the retail financial service market that can be developed on the basis of the literature survey. Also covered in this chapter are the areas of financial service company activity that might be examined to test the hypotheses.

Chapter 4 discusses some of the practical problems of the research. The chapter outlines the techniques by which data on market strategies and approaches might be collected from companies. This chapter also contains discussion of the techniques by which this data might be analysed.

The problems of measuring corporate performance are discussed in Chapter 5. Alternative methods by which corporate performance measures might be constructed are outlined. Four potential methods for constructing performance measures are considered; use of financial
data, self assessment, peer assessment and expert assessment.

Chapter 6 presents the findings from quantitative analysis of data relating to corporate aspects of strategy and marketing. The findings and their implications with respect to the hypotheses under test are discussed.

Using expert assessment as a performance measure is examined in chapter 7. The method by which a performance measure based on expert opinion was constructed and the design of the experiment to capture the necessary data is discussed. The research findings based on using the performance measure constructed using expert opinion are presented and discussed in the light of the hypotheses under test. The relationship between these findings and those presented in the previous chapter are discussed.

In chapter 8, the findings from quantitative analysis of data relating to product management and strategy are presented and discussed. In chapter 9 more qualitative aspects of the findings are discussed, with data gathered through open ended questions used as the basis for the analysis.

Chapter 10 summarises the findings presented in the thesis in the light of the hypotheses under test. The limitations of the research are discussed and areas identified where further research could be profitable.
Chapter 2 - LITERATURE REVIEW

2.1 Introduction

The intention of this chapter is to use past research to illustrate some of the major themes in financial service marketing research. The volume of material produced discussing financial services is staggering. Every major newspaper devotes several pages of coverage each week to the activities of the UK financial services industry. The research discussed in this chapter has necessarily been selected from the vast amount available on financial services in the UK. This selection has been made on the basis of originality, depth and quality of discussion. For the sake of brevity any critique of findings or methodology must necessarily be limited.

The literature search was carried out using the standard methodology of cross-referencing and abstracts. Particularly important abstract sources were Anbar, the Research Index and the abstract service in the Journal of Marketing. Also used were the Social Science Citation Index, World Banking Abstracts and the abstract service in Long Range Planning. The various thesis and current research directories were consulted. An extensive literature search was carried out early in the project, and subsequently further searches were carried out at regular intervals.

The spur for this research interest appears to be the growth of and change in the financial services sector in the United Kingdom. The majority of the literature deals with banks, perhaps because the changes in this sector began in banking. Banks are the most international of the financial service organisations, in terms of their own organisation, the exposure to foreign competition and the similarity of the banking industry across international boundaries. A useful reference for the UK
banking industry has been the USA, where change was felt earlier. Marketing issues in banking especially reflect this. American banks moved to adopt marketing practices and marketing orientations before those in the UK. Much of the important research into banking issues has drawn upon American evidence. The transferability of this research is debatable for many reasons, for instance the American banking system is subject to a very different regulatory regime, and transferring the research makes an implicit assumption that the business culture and customer attitudes are the same.

Conventionally marketing and management research either deals with the issues associated with management of single products or with the problems associated with managing multiple products and corporate issues. For instance investigating the company's distribution method for a product or customer perceptions of a product is a product level issue, whereas determining the optimal distribution of advertising spending between various products or assessing the correct organisational design are corporate issues. In discussing marketing and management research it is therefore a useful approach to separate discussion of issues relating to corporate and product level issues. The discussion of the literature in this chapter attempts to follow this distinction, the first half of the chapter discussing research dealing with corporate issues, and the second half concentrating on product management research. Such an approach groups together discussion of issues where decisions are closely connected, for instance on different aspects of the marketing mix.

It should be noted that this conventional division is not without problems when applied to research into financial services management. The dominance of a single product type in many financial service companies has meant that the positioning of that product determined the positioning of the company and the distinction of
corporate and product issues has been blurred. However where the distinction becomes difficult, this will be pointed out.

The first half of the chapter deals with corporate issues and is divided into four sections addressing the historical development of marketing in financial services, issues arising from strategic management, issues specific to non-bank financial service companies and research on distribution of financial services. The second half of the chapter deals with research addressing product management issues. Again, this section has been subdivided to cover specific issues. These relate to customers' selection criteria, the characteristics and attitudes of customers, new product development, promotion and pricing policy.

This grouping does not follow any particular model and it is possible that an alternative might be equally valid. It has been developed as the best way to organise a diverse body of research into a set of consistent themes and to ensure that these themes have relevance to later discussions.

2.2 Corporate Issues

2.2.1 A Historical Perspective

The uncertainty with which bankers approached marketing has been commented on many times over a long period. Brien and Stafford (1967) felt the need to point out the divergence between rhetoric and reality. They pointed out forcefully that the banks, despite claiming to use marketing techniques, were ignoring concepts central to marketing, principally market research and product development. Instead they merely relied on advertising and called it marketing. Kotler (1973) suggested a reason for this lack of maturity in approaching marketing. He suggested that "many banks claiming to
practice the marketing concept are at best confusing it with one or another phase of what we might call pre-marketing". Kotler suggested that there are four stages of pre-marketing where the term "marketing" is used to refer to what is more accurately described as; promotion, customer orientation, innovation and marketing systems, before the mature marketing stage, which he terms "societal marketing". Dunn et al (1984), in a paper discussed at greater length below, and Berry (1982) also noted the tendency to treat marketing as a means of deposit collection, suggesting a persistent misunderstanding about marketing in US banks.

In the UK the development of the role of marketing in financial services has been very rapid and recent. Clarke et al (1987) review this development of marketing in British banks and describe the need to move from marketing orientation to marketing control, where marketing is the dominant and driving function of the bank. This is seen as requiring the development of better information and new attitudes within the bank.

There is clearly still considerable uncertainty about the role of marketing and its implications. Chaston (1987) argues that banking cannot merely copy the marketing techniques of fast moving consumer goods as he perceives to be the case, and that the resulting strategy is inappropriate. An approach based on more local control and greater use of the branch staff to assess and discover customer needs is advocated. Clark and Guscott (1986) also question the current role of marketing in the banks, comparing the interest in marketing with the interest in technology seen in the 1970s. The authors argue that technology failed to fulfil expectations in the 1970s and hence marketing has become the dominant function of the two. They argue for a renewed emphasis on technology in terms of its ability to support customer needs—meeting products by offering faster service, more information and greater convenience.
2.2.2 Environmental Change

The environment in which banks have had to operate has changed considerably in recent years. Grindley (1978) uses American evidence to discuss the importance of the retail market in banking and the problems faced in the market at the beginning of the 1980s. He discusses the impact of technological developments and regulatory changes on the environment faced by banks. Grindley outlines six key management tasks that must be carried out if these environmental changes are to be dealt with successfully. These are establishing a strategy for retail banking, establishing product-market strategies, reappraising the branch system, capitalising on automation, improving efficiency and restructuring the organisation. The list gives a clear indication of the state of retail banking at the time the research was carried out. Systematic planning of strategy for the products and for the business unit were not in place. Major changes and investment were necessary to be competitive, both in the delivery systems and in the organisation itself. Later research (Dunn et al, 1984) also looked at the competitive situation in U.S. banking. Their findings reinforce the findings of Grindley. The response of the banks in the past to greater competition tended to be solely in terms of interest rate changes and new products. Major problems prevented effective competition in the changed environment. These problems included a misunderstanding of the role of marketing, the authors suggesting that banks considered marketing to be a means of "purchasing deposits". Other findings were that banks blamed lack of success on regulation, had limited mechanisms for innovation and, echoing Grindley's point about organisational structure, too many "internal fiefdoms". To solve these problems the authors suggested the "renting" of marketing skills, development of technology and the use of product champions to increase creativity.
Evidence of more recent developments in the USA comes from Brooks (1987). This paper reports an Arthur Andersen survey into changes in financial services in the U.S.A. The survey discovered four common trends in strategy across the industry, greater consolidation, better segmentation, expanded product offering and changing delivery systems. These findings suggest that banks were addressing the problems outlined by the earlier research, improving product development, developing marketing techniques and addressing delivery issues. The research also addressed the issues attached to the development of an EFTPOS (Electronic Funds Transfer at Point of Sale) system.

The changes that have occurred in the environment of retail banking are described in a global survey by Frazer and Vittas (1982). The themes of increasing competition, increasing customer sophistication and the importance of new technology are reported to be common around the world. Research on the changes faced in retail banking in Europe is reported in Turner (1983). Examples of the scale of change include the breakdown of demarcation lines in financial service provision, diverging customer needs, increased competition, improving technology and increasing sophistication of international customers. To meet these changes a similar managerial policy to that suggested by Grindley is advocated. As in the American research it was felt necessary to call for the adoption of an explicit strategy for retail operations and restructuring accordingly. Andersen (1986) reports a considerable investigation into the change expected in banking across Europe. The report asks about threats of market entry, the relative importance of different areas of financial services and highlights many issues that are considered important in European banking, breaking the findings down by country.
2.2.3 Marketing for Bankers

The increased importance of marketing and strategic planning in the activities of financial service companies has led to the publication of a plethora of books, largely designed to introduce financial service employees to the basics of marketing. Included in this category are Berry and Capaldini (1974), Channon (1986), McIver and Naughton (1980), Meidan (1984, 1986) and Watkins and Wright (1986). Howcroft and Lavis (1986b) discuss many of the strategic issues and the problems that they present. Many of these books are targeted at bankers studying for the Marketing of Financial Services paper for the Institute of Bankers Associateship exams.

2.2.4 Strategic Management in Financial Services

2.2.4.1 Introduction

Academic research has covered a wide range of issues related to strategic planning. This research is discussed below, divided into six sections covering different issues. The first section covers the various models researchers have proposed to guide financial service companies in developing strategy. Particularly influential amongst these is Leonard Berry's model of relationship banking, discussed in the second section. The next three sections review the research discussing strategic planning methods in practice, the acceptance by staff of strategic planning and the problems associated with cultural aspects of the strategic management, primarily how to develop a more market orientated and proactive attitude amongst staff. This issue has been particularly relevant to the UK in recent years, with TSB and Abbey National altering their ownership structure and entering a far more commercial environment than that in which they traditionally operated. The final section of the discussion reports research addressing the

2.2.4.2 Models for Strategy Development

Various authors have attempted to use the more highly developed sphere of marketing retail goods as a model. Kelly and George (1982) provide an initial comparison between the fields, discussing the possibility of goods retailers expanding to offer services, including financial services. They discuss the similarities between the retailing operations and the potential problems, which they view as real but not insuperable. Friars (1985) sought lessons that banks could learn from retailers. These include differentiation, franchising, using environmental change, strategy and positioning. With respect to the latter, the Boston Consulting Group matrix was used to discuss the relative position of the American retail banks and the directions in which they were moving. The positioning of banks and bank products on the "Boston Box" has also been considered by Inglis (1983). Bennett and Cunningham (1985), because of the weakness of the association between market share and profit in the financial services industry e.g. with loss leader services such as free current account banking, added an explicit "profitability" dimension creating a cube. This allows for better positioning of products and hence more accurate analysis.

Growth strategies developed from the work of Ansoff (1965) have been applied to banks (Varadarajan and Berry 1983). The four possible strategies developed in the Ansoff product - market matrix are discussed and example offered of how the banks might apply them. The authors do admit that the strategies are not mutually exclusive and that parts may be selected from each. A similar approach is taken by Howley and Savage (1980) in considering the state of the banking industry in the UK. Referring to the possibilities of market growth or
penetration, they suggest three strategies, increasing market share, increasing penetration of existing customer base and increasing efficiency.

Meidan (1983) discusses some of the strategies developed by Kotler (1988) in relation to banking. Two types of strategy are identified in Kotler's approach, growth strategies and competitive strategies. Growth strategies are geographical expansion, market penetration, new markets and cost cutting. Competitive strategy Kotler defines in terms of market position, outlining strategies for the market leader, market challenger, market follower and market nicher. These strategies are all exemplified in terms of banking by Median and the selection mechanism outlined.

Thompson (1983) discusses the positioning of a bank in the market place. Although based on U.S. banking his ideas on positioning have relevance to the U.K.. Thompson suggests that there are seven different positioning decisions to be taken for any product. These positioning decisions must be taken with respect to:

1. The institutional aspects (which refers to the market chosen)
2. The depth, width and role in the product line
3. The distribution method
4. The price positioning
5. The people associated with the product (i.e. staff abilities and training)
6. The target customer group
7. The profitability objectives for the product

Thompson emphasises that with seven different positioning decisions to make, the planner must be consistent and make decisions simultaneously. Pollock (1985) discusses the possibility of unique positioning by breaking away from commodity services and offering a special competence through technical innovation.
Wright and Watkins (1985) discuss generic strategy, addressing the issue of how to market banks with respect to customer convenience and sophistication, which they regard as the key needs of different sections of the banking population. The two characteristics are not necessarily mutually exclusive, but to satisfy each need requires a different approach. Possible approaches, developing the financial supermarket, using Automatic Teller Machines (A.T.M.s) or home banking, are discussed.

Sontheimer and Thorn (1986) apply the analysis of generic competitive strategies developed by Porter (1980) to banks. Watkins (1986) provides an overview of marketing personal financial services, discussing types of strategy, models of consumer behaviour and strategy development for different types of institutions. Evidence is drawn from a survey of financial institutions. Ennew, Wright and Watkins (1989) discuss developments in the financial services market in the UK, drawing parallels with the American experience. Ennew and Wright (1990) reports a survey of retail banks and building societies in the UK examining their corporate strategy, planning procedures and responsibilities, use of IT and organisational changes. They suggest that the success or otherwise of product diversification is unclear.

2.2.4.3 The Relationship Banking Model - Leonard L. Berry

Leonard Berry of Texas A & M University has been an active researcher into bank marketing for a considerable time. He has developed, with a range of co-authors, a model of banking referred to as "relationship banking". A good exposition of this model is given in Berry and Thompson (1982) where an argument for the reappraisal of the strategy of banks is presented. The concept of "relationship banking" is defined in terms of attracting, maintaining and enhancing client relationships. These relationships are based around certain core products and
marketing should seek to service and sell to users of these services and enhance the relationships. The influence of relationship banking type theories on bank marketing policy has become very strong in the UK in recent years. They can be seen in the life stage segmentation practices of banks and building societies. The companies develop a range of products to maintain the customer relationship through the stages of the customer's life. The relationship banking model is also evidenced by the importance attached to cross selling from these core life stage products. Other examples of Berry's research in this area are included in the bibliography (Berry 1980, 1983).

2.2.4.4 Strategy Development in Practice

Dugdale (1978) considers Williams and Glyns Bank's approach to corporate planning. The method by which the corporate plan is developed is explained and the links between the corporate plan and the short term budget are outlined in some detail. Emphasis is also placed on the process of dissemination of the plan throughout the staff down to the level of branch manager. Marshall (1985) discusses the history of the Trustee Savings Banks, the reconstruction of the group in 1984 and issues TSB will face and the strategic planning approach to address them in the future. There is no discussion of the possibility of flotation. Barclays Bank's efforts to regain the position of Britain's largest bank are discussed by the Economist (1988). A review of Barclays move from five year budgeting to longer term strategic planning systems is provided by Turner (1985). Various aspects of the bank's strategy are reviewed. Adolfse and Vervoordeldonk (1979) describe the strategic plan development process as it is carried out in Dutch banks.

Kauffman and Yucelt (1989) discuss the implementation of marketing techniques into banks trust services (estate settlement, guardianship and acting as agents etc).
paper outlines a trust referral model which "could become the foundation of a full-scale marketing approach". The model contains five stages: objective setting, segmentation, employee education, development of marketing mix and incentives. The assertion is that correct use of the trust referral model will lead to a better marketing approach, but no testing of the model is reported.

Morgan and Piercy (1989) report an empirical study examining the links between corporate culture variables and the formalisation of marketing in financial service institutions. The model developed suggests that the most important variables affecting marketing effectiveness in financial service organisations are of two types; cultural variables reflecting "customer closeness" and "market leadership", plus formalisation variables reflecting the chief marketing officer's responsibilities, the availability of marketing information and explicit marketing strategy awareness. This research attempts to deal with both the easily defined aspects of management, e.g. formal processes and responsibilities, as well as "softer" cultural elements.

2.2.4.5 Acceptance of Strategy Planning

Watson (1982) surveyed English clearing banks to discover the degree to which they had adopted marketing. The survey concentrated on corporate variables such as objectives, style and approach, and on the distribution of responsibility. He discovered that senior managers of the banks accepted marketing and considered it delivered satisfactory results. In a later survey (Watson 1984) this work was extended to branch level and some significant differences were discovered. Branch managers believed that recruits into management now required a new type of skills and a different kind of recruit was therefore required. Branch managers were less satisfied with the results of introducing marketing than their
superiors but were less hostile to its introduction than was supposed by those above them.

2.2.4.6 Developing a Sales Culture

The need for major changes in the way financial services do business in the light of changes in their environment has been commented on by many authors, primarily American. An example of this is Landon and Donnelly (1983). Explaining the need for strategic planning within the banks it is argued that the environmental changes mean that the traditional approach no longer suffices and a new approach is necessary. Landon and Donnelly argue that such an approach must be based on a re-organised structure, increased selling skills, improved pricing analyses and a separated distribution system for certain products. The importance of developing selling skills arises from two factors noted earlier. The increased competitive pressure on the companies threatens the customer base, therefore competition for sales has risen generally, requiring greater skills. In addition the greater complexity of the product line means that the customer requires more guidance. Because of these factors selling must be more pro-active. Rankin (1987) discusses the process by which corporate plan and individual sales plans can be developed. Johnson (1983) reports an attempt to develop a sales planning system in a bank. The plan was developed bottom up, with branches developing sales plans to be agreed at a higher level and so on. This system was used to increase employee commitment. The actual system, based as it is on greater emphasis on selling skills, training, rewards and evaluation, is similar to a case study presented by Boothe and Kikta (1989). Another case study based on such a bank restructuring carried out in the USA is presented in Douglas (1973).

Berry, Futrell and Bowers (1984) provide empirical evidence as to the state of personal selling in US
banking. A survey was conducted of 2000 American Bank Marketing Association members and the analysis and findings are reported. Findings included the fact that practical implementation of selling programmes lags behind recognition of need to sell. A recent repeat of this research gives an indication of what has changed (Berry and Massey Kantak 1990). Surprisingly little change is evidenced in the five years between surveys. The authors report that the limited progress made is primarily in retail banking and that score on the "Sales Orientation Index" the authors used was heavily related to relative market position and to size. The authors feel that "the US banking industry is still struggling to get out of first gear when it comes to personal selling" (p. 18).

2.2.4.7 Developing a Market Orientation

A second group of publications which also discuss aspects of cultural change are mainly British and generally of later date than those in the previous section. In this research the emphasis is on market orientation, rather than basic pro-activity in selling. For instance, Wills and Day (1984) outline one approach used to improve the market orientation of a UK bank. They explain their system of distance teaching which was used by the National Westminster Bank in their "Waterfall" training programme. This was an attempt to change the corporate culture of National Westminster to a more market oriented one. Day (1987) explains and exemplifies the methods used in greater detail, including material from teaching manuals used, recommended reading for the students and recommended action for the bankers to pursue at each stage.

Terry Murphy, an Abbey National General Manager, has explained the process by which Abbey attempted to change its culture to deal with a more competitive environment (Murphy 1988). He discusses the traditional building
society culture that Abbey was trying to break away from and the environmental reasons for this change being required. The process outlined is based around a training programme, with staff being sent from the top down. Murphy reports that the progress down the organisation proved catalytic, with subordinates anxious to share and compare their experience of the programmes with the boss. Also discussed are Abbey's large number of early retirement offers for those managers who could not adapt and the introduction of performance related pay.

Leonard and Stephens (1989) surveyed the employment requirements of financial institutions (primarily commercial banks), and compared the findings to the self assessment of marketing students. The survey found that only a small proportion of the firms were interested in acquiring marketing graduates, rather than the traditional recruits from commercial background. The findings also indicated that students were mistaken in their assessment of the skills required compared to those they possessed.

2.2.5 Europe and 1992

Recently the movement towards a single European market in 1992 has produced further change and uncertainty in the financial services industry. Evans (1990) suggests that 1992 poses the threat of further competition, but that Northern Europe is heavily banked already and therefore the opportunities lie mainly in niche operations requiring little or no physical presence. However acquiring an extensive physical presence by take over is not ruled out. This view is supported by Colchester and Buchan (1990), who argue that, in general, the products that can be marketed across Europe with little or no adjustment for locality are high value-added products with either wealthy individual or corporate customers. They term these "Euro-homogeneous products". Low value-
added mass market products are considered "national-distinctive". In this analysis, investment banking is Euro-homogeneous, whereas retail banking is national-distinctive.

Diacon (1990) discusses the effects of the single European market on insurance. He points out that major regulatory changes have yet to be made, because of differences in tax treatments and social security etc. The threats and opportunities presented by 1992 are discussed, and the author concludes that success will go to those insurers who have worked out viable strategies to deal with these changes.

2.2.6 Non-bank Institutions

Several pieces of research reported already have discussed issues as they affect financial service companies other than banks. However there are several changes, particularly regulatory, that apply specifically to these institutions. Accordingly, the discussion is grouped into three sections, dealing with research addressing building societies, insurance and other non-bank financial institutions respectively.

2.2.6.1 Building Societies

The environmental changes faced by building societies have been just as great, and were accompanied by legislative changes, subsequently revised. Building Societies Association (1987) is a detailed description of the initial provisions of the 1986 Building Societies Act. Bachard (1988) covers the results of the review of the Act's provisions in January 1988 and the building societies reactions to it.

Hall (1987) discusses the legislative framework in which the building societies operate, compared both to past regulation and also to that experienced by their competitors, concluding that the degree of regulation is
too great. A measure of the changes that have been experienced is shown by the fact that Llewellyn (1979) discussed the competitive relationship between banks and building societies before the recent regulatory changes and concluded that the degree of competition was not that great. After the re-regulation Llewellyn (1987) reviewed the competitive situation and found that the regulatory framework favoured the banks. Foster (1987) reviews the competition between banks and building societies, pointing out the greater regulatory constraints on the building societies.

Gilchrist (1986) discusses the future of the building societies industry in the light of deregulatory trends. He concludes that extension of the product range will be cautiously carried out, that dangers of capital inadequacy arise if diversification is too rapid and that management must be strengthened if new activities are attempted or conversion occurs. A diversity of functions between societies is predicted, but with a continued emphasis on mortgages and personal savings. Wells (1989) discusses the strategic options for building societies, suggesting that building societies must choose between three strategies for growth: mergers, organic growth or conversion to PLC status. In terms of market coverage Wells argues they must choose between remaining specialists in their traditional area, developing investment services or becoming part of major European joint ventures for product developments.

Reviews of the position of building societies are given in Goacher et al (1987) and Drake (1990). These cover the historical development of the industry as well as examining performance, efficiency, cost structure and competition in savings and mortgage markets. The pace of change and legislative revision means that some of the material has been overtaken by events. Thwaites (1989) discusses the changes since 1980 in the environment faced by building societies, which he characterises as
"revolutionary", compared with the evolutionary change that has gone before.

Discussion of the competitive positions of banks and building societies has changed over recent years. Williams (1982) describes bank and building society services as "complimentary" and suggests that future competition will be limited to the personal savings and mortgage market. By contrast, Boleat (1987) emphasises the relative strengths and weaknesses of both institutions and argues that, although banks will remain the dominant domestic institutions in British financial markets, building societies are likely to dominate the retail financial markets, since this is the area where they have specialised.

The marketing of building society services is discussed by Barnes (1980). He suggests that three policies are open to the building societies, improving the branch system, offering better interest rates and competing for the marginal investor. These policies appear to correspond to strategies of increasing penetration, attracting existing customers from other societies and competition for the new investor. Barnes considers product differentiation to be the best method of competition.

Foster (1989) reviews the position of Abbey National prior to its floatation, examining the arguments put forward by the board and the changes that had already been made.

2.2.6.2 Insurance

Watkins (1988) examines the role of marketing in life insurance companies in the light of the recent legislative changes companies had experienced. A sample of marketing executives from insurance companies representing a diversity of marketing approaches was selected using prior knowledge of the industry. The
article reviews the companies' new product development methods (including branding), the use of market research, pricing policy, the use of information technology in support of selling, advertising policy and the delivery mechanisms utilised.

2.2.6.3 Other Non-Bank Financial Institutions

Middleton (1987) considered competition in the personal savings market, with particular reference to the response of the banks to the success of non-bank financial institutions (N.B.F.I.). He suggests that N.B.F.I.s have been in a better position to respond to increasing customer sophistication, deregulation and technological developments. He argues that redefining their business will allow the banks to respond more effectively, and that attention must be paid to segmenting, branding and using new technology as means of increasing customer loyalty.

A further source of competition in retail financial services is the retail stores. Michael Bliss, chief executive of a retailer's financial service operation, reviews the situation in the principal area of competition, consumer credit, and also examines some of the possibilities for future competition (Bliss 1988). He points out that the access to the customer via the credit card allows retailers to sell a range of non-store products and financial services, as well as build stronger relationships with the customer. He points out the advantages the retailers have in terms of customer contact, brand quality and distribution, and advises financial services companies to look at their strategies in this light. Kneen (1987) also outlines the challenge posed by retailers in financial services.
2.2.7 Distribution

2.2.7.1 Introduction

A considerable body of research has addressed the issue of distribution. This has become a crucial issue for all financial service companies. Banks have found that their branch network has become very expensive, less suitable in terms of design for their new needs and poorly sited. Building societies have faced the problem of improving their distribution whilst maintaining a lower level of costs than banks, and the insurance industry has faced major worries over distribution following the Financial Services Act and its implications for tied and independent agencies. Some building societies and insurance companies have attempted to improve their distribution by buying or creating estate agency chains. All types of institution have been affected by automation. The sections below discuss the research addressing the distribution issues facing banks and insurance companies.

2.2.7.2 Branch Organisation

The importance of delivery systems for the future of bank strategy has been addressed by many commentators. Banks have been very worried by the costs of the branch system, and other financial service companies have devised alternative distribution systems. The implications for distribution of the Financial Services Act have caused serious problems for insurance companies. Howcroft and Lavis (1986a) discuss the rise of the branch system to pre-eminence. They suggest that the success of the branch arises from the difficulties of marketing financial services, the branch having proved the best method of administering, collecting and delivering cash. They argue that the factors that led to this pre-eminence are being undermined, particularly by technological
developments, and banks must respond with a strategy
cased less centrally on the branch system.

Three practicing bankers have commented on the future of
delivery systems. Vander Weyer (1981) reviews the
development of the banking industry since 1966 and
considers areas of importance in future. Specifically,
he emphasises electronic banking, improving staff
training and industrial relations skills. Kitching
(1982) argues that the retail banks have reached a point
of maturity in their branches' life cycle, and a
reappraisal is occurring. He suggests three possible
responses to the problems of branch system maturity.
Firstly, "aggressiveness", going out and pursuing not
only others' customers but also those without bank
accounts, the "great unbanked", in the phrase of the
period. The other strategies are to "wait and see",
which Kitching regards as doing nothing, and the optimal
strategy of "responsiveness". To carry out such an
approach, he suggests that retail and corporate business
should be segregated and increases made in the use of
automation, until cheque truncation is achieved. Quinton
(1982) emphasises the control of costs and the increase
of margins as the banker's principal objective at the
time of writing. He casts doubt on ideas such as those
suggested by Kitching, stating that the centralization of
corporate business and the development of more extensive
retail outlets is a "strategy which is fine in concept
but costly to operate". It is somewhat ironic that
Barclays embarked on such a reorganisation in November
1987 under Quinton's chairmanship.

Pattison and Quelch (1979) addressed the issue of branch
centration and whether the UK banking system was over
branched by comparison with the USA and Canada. The
strategic issue was examined and it is concluded that the
correct branch concentration is not determined by costs
alone. Morison (1974) also addressed this issue,
discussing the possibility of rationalisation and to what
extent this might be required. The danger of customer loss due to branch closure is considered to be the paramount constraint. Morison and Frazer (1982), after discussing the state of the market for financial services, move on to discuss the future. They discuss the likely effects of extrinsic factors; government policy, the state of the economy and the availability of technology, and also factors more under the control of financial institutions, including savings, lending, payments and branch policies. They emphasise the need for each branch to develop a coherent plan, but argue that "it is virtually inconceivable that the big retail institutions (i.e. the London Clearing Banks, L.C.B.s) would cut back really substantially on their branch networks". They suggest that the major changes will be in the organisation and the type of business done. Brooks (1982) reviews the role of branches in money transmission, lending, deposit gathering and staffing policy, and argues that no branch is "standard". He suggests that branch business is founded on a triangle of customers, staff and owners, and a role exists for any branch that meets customer needs to the benefit of the staff and owners.

Gupta and Torkzadeh (1988) discuss the results of a survey of customers and its implications for strategy. The recommendations for marketing strategy are to increase differentiation and offer personal and package banking. The authors also stress the need to improve efficiency through systems development to improve processing and information, improving the amount and quality of customer contact, improving opening hours and branch design and changes to employment practices to improve flexibility. Howcroft and Lavis (1987a) address the issue of bank organisation and the need to develop a market orientation to remain competitive. They suggest that banks are already developing a hierarchy of branch types meeting successively more complex customer needs. They use the policy of Midland Bank to illustrate this.
In another article (Howcroft and Lavis 1987b) they discuss the development of payment systems by the L.C.B.s. They argue for the development of coherent strategies based on organisational strengths to deal with developments in delivery systems, such as EFTPOS and home banking. They emphasise the need for product strategies to remain subordinate to business objectives.

De Moubray (1986) discussed the importance of the branch network with respect to any attempt to "make marketing work", pointing out the need for clear communication of strategy and objectives throughout the network.

2.2.7.3 Automation

Management Today (1986) discusses the use of automation in banking. The effect of automation on entry barriers and profit margins is discussed as is the use of technology to develop new delivery systems such as Nottingham Building Society/Bank of Scotland Homebank and T.S.B.'s automated branch in Edinburgh. Kooiman (1984) provides a review of developments in banking automation in various European countries and also attempts to preview trends affecting bank automation.

Banking World (1987) solicited the views of representatives of each bank on the future of retail banking. The majority pointed out the likelihood of a change in the design of the branches and the structure of the network, as well as dealing with issues like automation, segmentation and staff training.

Knobel (1984) considers one of the banks' first attempts at creating a dedicated retail outlet. The innovative features of Barclays' Weston-Supermare Cashshop included a prefabricated shell for rapid design change, removal of screens, an average transaction time of thirty seconds and a cleaner, friendlier image. The problems pointed out the customers' perception that the Cashshop was like
"Next" the fashion retailer, and that elderly customers could not open the heavy glass doors.

Andrews (1985) suggests that banks have many lessons to learn from retailers, one of these being the division of the product range within the bank, to create separate sections to deal with different products. Cheese (1983) discussed the role of branches in selling a bank's products.

2.2.7.4 Distribution in Insurance

The problems for the life insurance industry in the wake of the Financial Services Act are discussed by the Economist (1989a). The article points out the effect of the Act on the traditional distribution mechanism, the independent advisers. The decline of the independent sector has had a major effect on their principal suppliers, the mutual life offices. The mutual offices have not traditionally used tied agents or direct sales forces, and so are in a poor competitive position as a result of the changes. These findings are echoed by Shelton (1990), discussing the options available to various types of institution.

John Perceval, Marketing Director of Save and Prosper, the unit trust and banking group, has discussed the issue of distribution in the personal investments industry, concluding that matching products to distribution channels and correct selection of distribution partners is important (Perceval 1989). Watkins (1989) reviews the use of information technology in the insurance industry. The findings of a survey are reported, suggesting that I.T. is not extensively used in sales and marketing, and where it is used it is in management of head office rather than as a communication tool. Also, usage was greatest in the life and pensions industries. The findings suggest there is considerable scope for using I.T. to improve the modelling and marketing information performance of insurance marketing.
departments, and that the industry as a whole has yet to take full advantage.

2.3 **Product Management**

As mentioned in the introduction to this chapter, there is no clear distinction between research which deals purely with product management issues and that which deals with corporate issues in financial services. Several papers referred to above in the discussion of research on corporate strategy formulation also deal with product positioning. For instance Inglis (1983) and Bennett and Cunningham (1985) use the Boston Consulting Group matrix to discuss portfolio management for banks, also discussing the positioning of individual products within that. Meidan (1983) and Thompson (1983) discuss positioning strategies for institutions which are equally applicable to products. As has been mentioned above, the difficulty of distinguishing between product and company arises from the nature of the financial services market. Most types of company have one or two products which are their core products, for instance banks have current accounts, building societies have mortgages. In positioning these core products, the company is essentially positioning the whole operation. Similarly in selecting a provider of these products the customer is selecting the company to whom they will, more than likely, turn to provide other financial services at a later date. Research addressing the question of why customers select a particular bank is an area where it is unclear whether we are dealing with the selection of the company as a whole or with selection of their core product. The next section discusses research addressing the question of selection criteria. Later sections discuss research that is less equivocally concerned with product management issues, the characteristics of customers and their new product needs, the promotional policies of financial service companies and their pricing policies.
2.3.1 Selection of Financial Service Providers

This section discusses one of the major areas of research into financial services, selection criteria. This is one of two areas of research into financial services where multivariate techniques are regularly employed. The other, discussed below, is in determining customer needs with a view to product development.

Considerable research effort has been devoted to determining the basis on which customers select their financial service providers. The development of this area of financial services research can be traced fairly easily. In the sixties and early seventies the perceived wisdom was that location was the primary factor in customers' bank choice decision. The development of multivariate data analysis techniques, such as factor analysis and cluster analysis, and their introduction to marketing, allowed this general wisdom to be tested. Seminal research, demonstrating that things were more complex than had been thought previously, included Anderson, Cox and Fulcher (1976) and Calatone and Sawyer (1978). Since this period researchers have gone on to test their findings for different groups and different countries. The level of empirical analysis in this research varies considerably.

Before discussing specific research it is important once again to point out that American research is not necessarily applicable directly to the UK. The vast majority of this research is American. The dispersal of the American banking system, where regulation encourages regional banks rather than national institutions, means that concentration is far lower than in the UK. The sheer size and diversity of the USA means that published research from one bank cannot be used by all the others, since they might have a very different customer base. In the UK this is not the case and the greater concentration of the UK financial services industry means that research investigating customer characteristics in this way is
likely to be more competitively sensitive. Research of this type from the UK is likely therefore to be proprietorial.

The methodology and benefits of a segmentation approach have been discussed by a variety of authors. Wills (1985) discusses why segmentation is useful to banks and how they might use it. He explains the basis of segmentation by geographic, demographic, psychographic and sociographic criteria and how each method can be used. Yorke (1982) applies Kotler's analysis of the techniques of segment selection. These include forming a definition of the bank's business in terms of customer needs. He discusses how the retail bank market may be segmented and how the correct level of financial support may be determined for a new product based on segmentation. Gwin and Lindgren (1982) discuss the methodology necessary for such research and point out the distinction between "a priori" and "post hoc" segmentation. These concepts are usefully defined as "choosing a segment of the customer population and, through research, evaluating the unique characteristics of that segment" and "a heterogeneous population is surveyed and segments are defined on the basis of homogeneous responses from within the population" respectively. The distinction they outline can be usefully applied to the methods and results of the various practical projects undertaken by banks. A priori research tends to be used in the investigation of new product development opportunities and is discussed in that context. O'Brien (1982) offers a guide to the design, practice and implementation of segmentation strategy. He recommends that segmentation be a priori, based on demographic characteristics. He goes on to discuss using the information gained in segmentation in product development, emphasising the need to use information about the target segment to ensure consistency.
Brown (1983) reviews the major demographic, geodemographic and psychographic segmentation procedures, Social Grade, Vals, ACORN and Sagacity, and suggests that the principal purposes of segmentation are; to group customers, to establish bridges with the customers and to describe those customers.

Evans and Beckman (1984) explain for bankers the purpose and methods of psychographic segmentation analysis of banking customers and suggest some advantages that arise from it. Arbeit and Sawyer (1974) report on the use of psychographic analysis to profile bank users and non-users in the U.S.A., and the increased usefulness of the data obtained when compared to the results of more traditional demographic analysis. Fitts and Mason (1977) address the methodology of segmentation. They report the results of a survey that considered the characteristics of users and non-users of eight bank services and pay considerable attention to explaining and justifying the methods used. Martenson (1985) has examined differences in the characteristics of customers of different banks in Sweden, suggesting that banks are appealing to segments of the market implicitly.

Examples of post hoc segmentation tend to concentrate on the selection criteria of undisclosed segments within a target market. Anderson, Cox and Fulcher (1976) used a post hoc technique to identify two clusters of bank customers, termed convenience and service oriented, consisting of 55% and 45% of the sample respectively. The two clusters differed significantly in terms of banking needs and demographic characteristics. Their work is significant in being one of the first suggesting that location is not the primary selection criterion.

Calantone and Sawyer (1978) used post hoc segmentation on two data sets taken two years apart from the same sample. They identified five clusters in both sets of data with considerable similarity over time amongst four of them.
The fifth cluster exhibited greater changes in the benefits sought. Relative cluster size changed between the samples. The study also tracked cluster membership revealing considerable movement between clusters. The change in the demographic characteristics of the clusters was greater than the change in benefits sought.


Other research into segmentation in financial services includes Doyle and Newbould (1975) who outline a method of market segmentation for building societies, dividing customers on the basis of the purpose for which they use the societies. These segments can be identified by the withdrawal-deposit ratio and the relative size of the maximum deposit.

In addition to selection criteria, the techniques of segmentation have been used to identify the groups likely to show the greatest loyalty. In a Canadian survey Fry et al (1973) investigated the loyalty of former student customers of certain banks. They found that loyalty varied with usage patterns and demographic characteristics. Jain, Pinson and Malhotra (1987) discovered that the characteristics of loyal bank customers; older, less educated, less affluent and blue collar, are the same as those found in previous work studying loyalty in retailing. A study by Laroche and Manning (1984) sought to examine how consumers actually make decisions about financial service providers, using segmentation techniques to test an information processing model for bank choice.

Shaw (1987) addresses the issue of segmentation from the banks' point of view and discusses the effect of segmentation on risk management. The development of
segmentation has in effect created a portfolio of products, the risk from which must be assessed both independently and collectively. Conventional risk management practices are felt to be inefficient in dealing with the risk associated with segments.

2.3.2 Customers

By way of introduction to the section of the chapter dealing with research into the needs of customer segments for new product purposes this section of the chapter examines research examining customers of financial service companies in general. This research provides evidence to support some of the environmental changes other researchers have suggested the industry faces. A small amount of research into the customers' perceptions of financial service companies has been carried out, and this is discussed towards the end of this section.

King (1981) aggregates the results of surveys into customer and non-customer opinions about banks. The methodology of opinion gathering is discussed before the details are reported. The surveys cover general views on banks and bank services and also the views of specific groups. Surveys are also reported into the attitude of non-customers to banks and banking and the reasons for their lack of use of bank services. Stafford and King (1983) expand on the discussion of non-customers, and discuss the banks' strategies in the savings and loan markets. They report on the nature and the success of the banks' promotional activities, as well as providing information on the success of each bank with different socio-economic groups. Levy (1973) discusses customers' attitude towards banks, particularly their perceptions of the bank's service, the different perceptions of segments, the subjectivity of perceptions and the use of symbols.
Cox and Lasley (1984) provide evidence of the increasing customer sophistication with regard to financial services. A survey of 1000 households in the USA found rising confidence with regard to financial services and their use and an expectation of a wider range of services and increased convenience at the same cost.

Howcroft and Lavis (1986c) consider the importance of image in retail banking and discuss customers' attitudes and awareness of bank services. The roles of corporate identity, public relations, advertising and promotion in image creation are explained, and the importance of image in differentiating the bank is stressed. It is argued that a successful image will be created by developing a coherent corporate identity, improving customer service and redesigning outlets.

Smith and Harbisher (1989) report a study analysing the image of building societies compared to the banks. They found that the generic image of the building societies was for "friendliness" and "personal service" across all age groups covered, whereas banks were seen as "professional" and "efficient". The survey found little evidence of strong images unique to individual societies or banks, although there was greater individual image strength amongst the banks. Robson (1988) has also conducted research investigating the image held of building societies. She found that customers associated a range of attributes with the size of a society, such as financial soundness, range of services, and efficiency. Smaller societies were considered to offer a more personal service. Morello (1988) reports a survey of the image of Dutch banks, who are seen as powerful and dependable, but not consumer-orientated or dynamic. A link between size and positive features seems to exist, as larger companies seem to have a better image. LeBlanc and Nguyen (1988) report on work examining customers' perceptions of service quality in Canada. They find five factors measuring service quality which are related to;
(1) customer satisfaction from the service offering, (2) the performance of the contact personnel, (3) the internal organisation of the company (i.e. efficiency in executing service), (4) the physical evidence of the product plus the corporate image and (5) customer interaction (i.e. business hours, queuing, privacy).

The Economist (1989b) reports on attempts by banks worldwide to deal with their poor image problems by improving service quality. This is seen by the banks as a means of gaining competitive advantage and in addition the article reports the opinion of Tom Frost, chief executive of National Westminster Bank, that employee mistakes account for 25-40% of costs in any service, hence poor service quality threatens profitability. Some of the systematic attempts to improve service quality by introducing Total Quality Management (TQM) practices are reported. The article concludes that the adoption of TQM by banks can only be a good thing for customers, and the consultants who advise them.

2.3.3 New Product Development

Research relating to new product development by banks and other financial service companies deals in the main with two issues: how are new products developed and what information can be discovered from the customer base to improve the ability of products to meet their needs. Both these areas have generated empirical work, either surveying the companies on their practices or investigating the needs of customer segments.

A good example of research addressing the first issue is Dubinsky and Clayton (1983). This produced empirical research into the role of new products in the US financial services market. Six newly available products were selected and banks plus savings and loans institutions were asked to assess the proportion of total funds they represent. They were also asked the
proportion of new funds the new products represent and their importance in attracting new customers, maintaining old customers and increasing profits. The level of funds represented was low, because of the short life of the product, but Savings and Loan institutions felt that the new products were more important in attracting new money and customers than did the banks. The banks saw the new product range as maintainers of customers.

Reidenbach and Moak (1986) report a study designed to profile new product development activity in the US retail banking industry and assess its relation to bank performance. A response of 121 was clustered on the basis of performance measures into five clusters, each cluster then being profiled on its new product development practices. The results suggested that top performing banks have more formalised and better structured new product development programmes. It was also suggested that banks found the concept development/evaluation stage of the new product development process to be the most important, and that better performing banks screened out more new products at this stage. Scheuing and Johnson (1989) surveyed American financial executives about their new product development practices. They found that new product development and evaluation structures are not sophisticated, with most ideas coming from competitors and few having a specialised new product function. Davison, Watkins and Wright (1989) report a similar survey conducted in the UK, finding that use of market research is limited and that competitors are again the major source of ideas. New product development appears to be limited to revamping products for existing markets.

The second area of research interest relating to new product development deals with determining the needs of customer segments. This area is perhaps the most common use of segmentation techniques in UK based research into financial services. Usually some segment is selected a
priori and an attempt is made to establish its banking needs. Joseph and Yorke (1989) discuss the various segmentation methods available for this purpose. A good example is given by Yorke and Hayes (1982) which looked at working women as a segment. They reported that significant differences in attitude existed across the segment and therefore recommended that any attempt to promote bank services for working women should be targeted at a specific segment within the working female market.

An area where the British banks have used segmentation to generate a tremendous amount of deposits is the children's market. Andrew (1985) reviews the development of the National Westminster marketing strategy and notes the importance of their entry into the children's market within this. National Westminster alone segmented the children's market into two age ranges, their research having indicated that younger children seek to save whereas teenagers seek to spend. Goudge and Green (1985) outline the Midland's approach to the children's market. They point out the specific problems that faced Midland because they were last into the market and offer a very clear explanation of the objectives and methods of research used. They emphasise the importance of the parents' attitude to product development and positioning research. The complete failure to accurately forecast demand is also discussed. Blois (1985) in an article on reactive product development characterises the Midland account as initiated by a change in competitor product mix. He emphasises the external forces which forced Midland to enter the market, such as irritation of parents holding Midland accounts. He also identifies some costly oversights which are not mentioned by Goudge and Green. An overall view of the children's market is provided by Oliver et al (1985).

Other such segmentation research includes Lewis (1982a) and Bannister, Brown and Dormand (1980), looking at the

Davison and Watkins (1989) and Davison, Watkins and Wright (1987) discuss new product development in the financial services market and give a case study of the new product development practices of a life assurance company. Although discussing the methods used, they reach few conclusions on the quality of the new product development process they describe, beyond pointing out that organisational and cultural aspects appear to have an equal impact as market research on success. They note that the absence of hard research data increases the commitment of the company to the project and have reservations about using sales people as proxies for consumers in test marketing.

Dover (1987) provides a case study of one of the first attempts at home banking, the Homelink system developed by Nottingham Building Society and Bank of Scotland. The process is discussed with reference to Nottingham Building Society, outlining the organisational factors behind the development, the evaluation of the project, management of the technology and planning for future developments. The study suggests that product championing and a dedicated project team were key to the development.
2.3.4 Promotion

The issue of how a bank should promote itself and its products has recently become a heated debate, with the move by some companies from corporate advertising to advertising independent product brands. Kevin Gavaghan, who as marketing manager of Midland Bank was responsible for their much discussed branded current accounts, has written about this issue (Gavaghan 1989, 1990). Gavaghan is noted for drawing on Ford as a model for the ideal promotional relationship between parent company (Ford Motor Company) and brands (Sierra, Fiesta). Buckroyd (1984) discusses the banks advertising strategies, with particular reference to the T.S.B.. The banks' move away from corporate/image advertising towards advertising of specific services is outlined, as is the increasing importance of T.V.. He explains and discusses the factors most likely to affect advertising awareness among the public and raises questions about the future direction of the T.S.B.'s advertising strategy. Lind (1983) discusses the lack of information about bank customers and its effect on advertising effectiveness. He explains the importance of information about consumer choices as competition increases and the usefulness of a permanent panel to supply such information.

Willott (1987) reviews a selection of financial service adverts and appraises their effectiveness. Fine (1975) is a similar piece from the USA. Harmer-Brown (1978) considered the advertising used by the banks to attract two groups, unbanked students and the cash-paid, and discussed the policies behind the campaigns. Firmin (1986) considered one of the earlier pieces of affinity group promotion, by Abbey National. Using direct mailing the society targeted the customer base of estate agents. Firmin discusses the basic criteria for successful use of affinity groups, the compatibility of organisations, in terms of image, product profile, customer profile,
marketing philosophy and stability, and also product affinity.

Brown, Smith and Zurowski (1977) investigates the extent and nature of image research carried out in banks and attempts to compare this between banks, with the idea and over time.

2.3.5 Pricing

Pricing policies is one area where there has been very little research in financial services. Two reasons can be advanced for this. Firstly, pricing in financial services is traditionally part of the credit assessment decision for lending or an actuarial decision for investment. It has traditionally been perceived as a distinct skill, divorced from marketing. Secondly the financial services industry is oligopolistic, and competition has primarily been by non-price mechanisms, for instance offering gifts to students and children opening new accounts.

One exception is Lawson and Watt (1983) who carried out research considering the customers' attitude to financial services, and investigated attitudes to changes in pricing policy. They use their research to estimate areas where demand for services is unlikely to be seriously affected by cost. They make a range of suggestions for changes in the charging regime of banks, some of which have since been introduced in some form. Howcroft and Lavis (1989) discuss the tendency of financial institutions to cross subsidise products and in some cases their failure to measure the true cost let alone pass it on to the consumer. They believe that the improvement in technology will force banks either to adopt explicit and rational charging policies or use pricing as a mechanism to reinforce customer loyalty. They recommend that banks employ policies of differential pricing for new services, and secondly attempt to reflect
specific costs in prices. Their third recommendation is to end cross subsidisation except where a relationship strategy is being followed. Finally they recommend recognition of the need to move towards fees to remove dependence on interest margins. The strategic issues attached to the move into ancillary, fee-based business are discussed by Howcroft and Lavis (1985).

2.4 Conclusions

The published research has addressed a wide range of issues related to the marketing of financial services. A wide range of models for strategy, strategic planning systems, cultural change, organisational structure and branch management have been put forward. Similarly the research has discussed a range of product management issues and techniques. This research provides a basis for the development of hypotheses about the marketing of financial services and the strategy of financial service companies. This will be further developed in chapter 3.

It is noticeable that research into financial services has concentrated largely on the areas outlined. Having said in the introduction to the chapter that the interest in financial services appeared to have been generated by the scope and speed of change in the market, it might also be hypothesized that the research has concentrated on areas where the change has been greatest or where there is greatest opportunity for research to be applied. For instance, the volume of work examining strategic management models and practices, reflects not only the change in the practices of companies, but also the potential for researchers' advice to be utilised by managers struggling to implement strategic management. Similarly research on the needs of customer segments and their selection criteria has developed almost in parallel with marketing departments in major companies, containing the type of managers who would be likely to respond to such research. Areas where there has been little change
in practice, or where research is likely to have little impact, have seen little research interest. The small amount of research examining pricing policy illustrates this.

A noticeable weakness in the research discussed here is that amidst all the advice about what should be done in financial service companies to improve performance, there is little research which attempts to measure the effect of practices on performance. A few authors (for instance Berry and Massey Kantak 1990, Morgan and Piercy 1989 and Reidenbach and Moak 1986) are exceptions and have carried out empirical research which attempts to match performance and practice, but the majority of research is prescriptive. The problem of assessing performance in financial service companies and the empirical examination of practices associated with superior performance therefore represents an area where original research can be carried out and a significant contribution made to the understanding of the UK financial service market.
CHAPTER 3 - RESEARCH HYPOTHESES

3.1 Introduction

This chapter seeks to outline the hypotheses that this research project sets out to test. These are divided into three sections; those dealing with corporate level activity, those dealing with product level activity and one dealing with industrial structure. The hypotheses are derived from the survey of literature and secondary sources.

The second part of the chapter seeks to outline the areas where investigation of the validity of the hypotheses might be attempted. This section draws on material covered in the literature survey, relating directly to financial services, and also from some of the more general management literature that suggests areas where the hypotheses might be tested. In the discussion of these areas the relevant hypotheses are pointed out and attention is drawn to the section of the questionnaires (presented in appendix 1 and 2) where the area is investigated.

3.2 The Concept of Hypothesis Testing

The mechanism by which empirical research in a context such as this is developed is by formulating mutually exclusive and exhaustive hypotheses in the form of assertions about the "state of nature" (Green, Tull and Albaum 1988 p.37) and then design the research in such a way as to test the truth of these assertions. The literature survey reported in chapter 2 provides evidence on which to base a number of assertions about the UK retail financial services market. It also suggests areas where these assertions might be tested.

The hypotheses under test in this thesis, with one exception, relate to differences in marketing strategies
and methods between different groups of companies in the financial service market. The remaining hypothesis relates to companies' from different sectors of the retail financial services industry perceptions of who are their competitors.

3.3 Differences in Corporate Strategy with Performance

The first hypothesis seeks to examine the relationship between marketing strategies and characteristics and the level of corporate performance.

Hypothesis 1

There is a set of strategies and characteristics associated with better performing companies.

As was discussed in the conclusion to the previous chapter, although many authors have pointed out differences in actual or potential approaches to problems in the retail financial services industry, few have sought to examine differences in approach in relation to performance. The exceptions include Morgan and Piercy (1989), Reidenbach and Moak (1986), Berry and Kassey Kantak (1990), who found differences in performance level with marketing organisation, approach to new product development and sales orientation respectively. Varadarajan and Ramanujam (1990) is a recent study analysing strategies and approaches associated with superior performance in a more general context.

On the basis of this evidence it is reasonable therefore to hypothesize that there will be differences between companies with different levels of performance in terms of strategy and approach.

Empirical research also provides a basis to suggest what form these differences in strategy and characteristics associated with different levels of performance might take. The multi-industry PIMS research has suggested...
that market leaders tend to obtain higher prices and produce higher quality products than do followers (Schoeffler, Buzzell and Heany 1974, Buzzell, Gale and Sultan 1975). In addition, the market leaders spend more on research and development than followers, suggesting that the higher quality and price is obtained by product innovation. Although there is methodological dispute over the value of the PIMS research (Anderson and Paine 1978), the following subsidiary hypotheses can be proposed on this basis.

Hypothesis 1A

Better performing companies will show evidence of higher quality products and higher prices

Hypothesis 1B

Better performing companies will show evidence of greater product innovation.

A further basis for examination of the differences between companies with different levels of performance is research of a more theoretical nature. Two contrasting models have been proposed by academics for the "correct" strategic orientation of a company. Peter Doyle has proposed a model which divides management activity into two elements, a left-hand set of policies affecting market performance and a right-hand set affecting financial performance (Doyle 1987). Doyle argues that these activities must be balanced for a company to be successful. On the basis of this model a further subsidiary hypothesis can be developed as to what differences might be expected between better performing companies and the rest.

Hypothesis 1C

Better performing companies will show a balance between market performance and financial performance factors, as suggested by Doyle.
An alternative set of strategies to bring better levels of performance has been proposed by Michael Porter (1980, 1985). He argues that a firm must chose to follow one of three generic strategies if success is to be achieved; differentiation, focus and cost leadership. Porter has argued that these strategies are mutually exclusive, although there is some dispute about this (see Speed 1989 for a discussion of this argument). A subsidiary hypothesis based on Porter's work can be tested.

Hypothesis 1D

Better performing companies will follow one of the three competitive strategies suggested by Porter.

3.4 Differences in Corporate Strategy Between Sectors of the Industry

The literature search has revealed that differences do exist between companies from different sectors of the retail financial services industry in the role of new products (Dubinsky and Clayton 1983), customer perception (Smith and Harbisher 1989, Robson 1988) and regulations faced (Thwaites 1989, Shelton 1990). The majority of research has however concentrated on one or other sector of the industry, with very little comparative research being undertaken between the sectors. A second hypothesis that can be proposed on this basis is that there are significant differences between different sectors of the financial services industry in their strategies and approach to marketing.

Hypothesis 2

Companies from different sectors of the financial services industry will show systematic differences in strategies and characteristics

The null hypothesis is that there are no significant differences in strategy or characteristics between companies from different sectors.
3.5 Strategic Groups

One concept of increasing popularity in strategic management is the "strategic group" (Porter 1979). A fairly extensive literature has built up on the basis of this concept (see McGee and Thomas 1986 for a review). The theory of strategic groups essentially proposes that within an industry there are groups of companies with similarities in terms of their strategic approach and differences with other groups in the industry. Movement between these groups is prevented and the distance between them maintained by mobility barriers, equivalent to entry barriers at the industry level. Essentially this model proposes that it is valid to talk about an industry at a level of aggregation between that of the industry overall and the individual firm, when the groupings of companies under consideration are based on similarity of strategic approach.

Such a model of industry structure provides the basis for investigating differences not based on predefined variables. It can be hypothesized that "natural" groupings of companies exist within the industry on the basis of similarity of strategy and approach to marketing.

Hypothesis 3

Strategic groups of companies exist in the retail financial services market on the basis of similarity of strategy and approaches to marketing.

Subsidiary hypotheses can be proposed about the nature of these groups. The first is that the similarity between companies in strategic terms will follow their similarity in terms of the sector of the industry from which the companies are drawn, e.g. companies from particular sectors will be heavily represented in each group. A second possibility, based on the differences between market leaders, followers and companies with small market share observed in the PIMS project, is that firms with a
similar position within their sector of the market will be similar in strategic terms, e.g. that the largest banks, building societies and insurance companies will be closer to each other in terms of strategy than they are to the smaller companies within their own sector.

Hypothesis 3A

Strategic groups of companies in the retail financial services market will be distinguished from each other on the basis of the sector of the industry to which companies belong.

Hypothesis 3B

Strategic groups of companies in the retail financial services market will be distinguished from each other on the basis of a similar position within the sector of the industry.

3.6 Differences in Product Marketing with Product Type

Hypotheses can also be established about differences in product marketing strategies and approach. Again the literature survey established that a wide variety of approaches to product management and marketing have been used or recommended as good practice, but there is no research on the relative performance of these alternative approaches.

Authors have argued that different products serve different purposes for financial service companies. The relationship model of banking (Berry 1983) suggests that banks should operate using core products to attract and maintain customers and cross-sell what Howcroft and Lavis (1985) termed "ancillary products" to existing customers through this relationship. In such a model the core products act as a loss leader and the profit forgone is recouped by cross selling higher profit products. The use of such strategies is reported by Howcroft and Lavis (1989). Core products therefore tend to be money transmission products, and ancillary products are lending and investment products. If such strategies are
commonplace it can be hypothesized that differences in product marketing strategies will exist with differences in product type. For instance, a different emphasis on short run profitability would be expected between core and ancillary products. Also, since core products are the mechanism through which relationships are established and maintained, the effective operation of these products is essential to establish the credibility of the company for cross selling more complex and costly services. As Berry (1982 p.26) points out:

"The ideal core service is one that attracts a new customers through its need-meeting character, cements the business through its quality, multiple parts and long-term nature, and provides a base for cross selling over time"

Hence one might expect a greater emphasis on service efficiency and quality in core product areas, as well as differences in pricing and profitability criteria.

Hypothesis 4

The product marketing strategies and practices will vary according to the need the product seeks to meet.

3.7 Differences in Product Marketing Between Companies from Different Sectors

The hypotheses suggested for differences in corporate strategy are equally applicable at a product level. Just as little comparative research has been carried out at a corporate level to examine differences in strategy between firms from different sectors of the retail financial services industry, little has been carried out to examine differences in product marketing and management between companies in different sectors of the market. Therefore the following hypothesis, equivalent to hypothesis 2 but at a product level, can be examined.
Hypothesis 5

The product marketing strategy and methods will vary between companies from different sectors of the industry.

3.8 Differences in Product Marketing with Corporate Performance

The argument above, that the hypotheses suggested for differences in corporate strategy are equally applicable at a product level, can also be applied to hypothesis 1, addressing corporate performance. It has been suggested that competitive advantage arises either from superior resources or from superior skills in utilising similar resources (Day and Wensley 1988). If a competitive advantage arises from superior skills these skills could be manifested through superior strategy at a corporate level, product level or both. It can therefore be hypothesized that differences in approach associated with superior performance will be manifested at a product marketing level.

Hypothesis 6

The product marketing strategy and methods will vary between companies with different levels of performance.

3.9 Differences in Product Marketing with Market Share

The concept of different marketing strategies being applied to products on the basis of position in terms of market share is well established (Schoeffler, Buzzell and Heany 1974, Buzzell, Gale and Sultan 1975, Hamermesh, Anderson and Harris 1978, and Woo and Cooper 1982). The concepts of different strategies for market leader and market followers gives a model for what might be expected in the industry. For instance penetration strategies, with lower prices being used to build market share, might be expected to be more common amongst low market share companies than high market share companies.
Hypothesis 7

The product marketing strategy and methods will vary between companies with different levels of market share.

3.10 Industry Structure

The literature search identified the removal of barriers between different kinds of financial institution as one of the trends in the UK retail financial service industry (Thwaites 1989, Llewellyn 1987, the Economist 1989a). One observable consequence of this trend is that direct competition between companies from different backgrounds should increase. A suitable hypothesis to test would be:

Hypothesis 8

The sector of the retail financial services industry from which companies perceived as competitors by companies in the sample are drawn will be independent of the sector of the retail financial services industry from which the sampled company is drawn.

The hypothesis suggests the sector of the industry from which a company is drawn and the sector of the industry from which the companies named as its competitors come should be independent. The null hypothesis would be that the sector of the industry from which a company comes and the sector from which its competitors are drawn is not independent.

3.11 Operationalising The Hypotheses

The remainder of this chapter seeks to discuss the testing of these hypotheses. In order to test these hypotheses it is necessary to design measures which can, by primary research, be investigated and used to determine the validity of hypotheses.

The measures by which hypotheses might be tested were developed using a hierarchical conceptual framework approach to identify progressively narrower variables.
through which hypothesis testing might be implemented. The hierarchical conceptual framework is a frequently used approach in management research. It allows a general concept to be systematically decomposed into a set of specific variables on which testing might occur. Day and Wensley (1988) provides a good example of this approach. Separate, but related, conceptual frameworks were constructed for corporate and product based hypotheses and these are discussed separately.

3.12 Testing Corporate Hypotheses

The research seeks to determine, at a corporate level, whether differences between companies on the dependent variables are associated with differences in marketing practices and strategy. It also seeks to group companies on the basis of strategy and so identify strategic groups. It is necessary therefore to determine what areas of marketing practices and strategy might be investigated to determine whether these differences occur and so test H1 to H3.

Figure 3.1 (page 55) presents a summary of the conceptual framework that was employed in investigating the differences in marketing strategy and methods at a corporate level. Seven dimensions of marketing strategy and marketing management were identified, on the basis of management and marketing literature, as potential sources of difference. The specific aspects of each of these dimensions that might be investigated and hence provide a basis for a research variable are discussed in separate sections below and justification given for their use.

Figure 3.1 also identifies the questions in the questionnaires presented in appendix 1 of the thesis where each aspect of marketing management was investigated.
Figure 3.1: Corporate Level Marketing Strategy and Methods: A Hierarchical Framework

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Nature</th>
<th>2.1-4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Awareness</td>
<td>2.1-4</td>
</tr>
<tr>
<td></td>
<td>Marketing Based</td>
<td>2.12-13</td>
</tr>
<tr>
<td>Distinctive Skills</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Strategy Pursued</td>
<td>Generic Approach</td>
<td>10.1</td>
</tr>
<tr>
<td></td>
<td>Explicit Strategy</td>
<td>2.7</td>
</tr>
<tr>
<td>Positioning</td>
<td>Segmentation</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>Effectiveness</td>
<td>3.3-5</td>
</tr>
<tr>
<td></td>
<td>Methods</td>
<td>3.3-5</td>
</tr>
<tr>
<td></td>
<td>Differentiation</td>
<td>3.6, 2.2-4</td>
</tr>
<tr>
<td></td>
<td>Effectiveness</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>Methods</td>
<td>2.2-4</td>
</tr>
<tr>
<td></td>
<td>Branding Policy</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>Customer Selection</td>
<td>2.5-6</td>
</tr>
<tr>
<td>Customers Targeted</td>
<td>Characteristics</td>
<td>3.1-2</td>
</tr>
<tr>
<td></td>
<td>Wealth</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>Social Class</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>Concentration</td>
<td>3.5</td>
</tr>
<tr>
<td>New Product Skills and Innovation</td>
<td>Originality of Product</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Speed into Market</td>
<td>5.1</td>
</tr>
<tr>
<td></td>
<td>Distinctive Skills</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>5.4-7</td>
</tr>
<tr>
<td>Organisational Culture</td>
<td>Training Policies</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>Employment Policies</td>
<td>7.4-7</td>
</tr>
<tr>
<td></td>
<td>Specialism of Staff</td>
<td>7.3, 8</td>
</tr>
<tr>
<td></td>
<td>Structure - Authority</td>
<td>8.1-5</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurship</td>
<td>8.7-8</td>
</tr>
<tr>
<td></td>
<td>Changing Culture</td>
<td>8.10-12</td>
</tr>
<tr>
<td>Planning Methods</td>
<td>Responsibilities</td>
<td>9.4-6</td>
</tr>
<tr>
<td></td>
<td>Methods</td>
<td>9.1-6</td>
</tr>
<tr>
<td></td>
<td>Formality</td>
<td>9.1-6</td>
</tr>
<tr>
<td></td>
<td>Objectives</td>
<td>4.1-8</td>
</tr>
</tbody>
</table>
3.12.1 Competitive Advantage

It has been pointed out by Porter (1980) that competitive success arises from exploitation of competitive advantage. One factor that might be expected to be associated with superior performance is therefore the existence of a competitive advantage. There has been much discussion about the nature and source of competitive advantage. Porter (1987) discusses the relationship between competitive advantage, the advantages held at S.B.U. level, and corporate strategy, the strategy pursued at the overall firm level. He points out that success at corporate level arises from competitive advantage and that successful corporate strategy aims to exploit this advantage. An awareness of competitive advantage might therefore be expected to be associated with superior performance.

The issue of how to identify competitive superiority has been addressed by Day and Wensley (1988). One key point in their discussion is that they identify two sources of competitive advantage. The first is superior resources, i.e. access to some capability or potential that is denied to competitors, for instance patents or raw materials. The second source is through superior skills, i.e. better exploitation of equivalent resources. In seeking to identify the competitive advantage of financial service companies this is a useful distinction. To determine the existence of a competitive advantage it is therefore necessary to examine both the resources and the skills a company possesses.

Research therefore suggests that many possible sources of competitive advantage exist. In terms of inputs, Day and Wensley's concept of competitive advantage through superior resources or superior skills can be investigated.
Authors have argued that a better understanding of marketing and application of marketing techniques present a method of improving the performance of a financial service company (Kotler 1973, Clarke et al 1987). These authors see excellence in marketing as a skill-based competitive advantage. This suggests that a specific competitive advantage that might be associated with better performance is excellence in marketing.

This research therefore suggests that a characteristic that might be found in successful firms is possession and awareness of competitive advantages, which are either resource or skills based. One such skill-based competitive advantage might be better marketing.

Buckley, Pass and Prescott (1989) provide a pair of output measures for competitive advantage. They identified two measures used by managers to measure competitiveness, one financial, one market based. These are profitability and market share. At a corporate level only profitability is a meaningful measure, but at a product level both can be used.

3.12.2 Strategy Pursued

As was discussed in sections 3.2-4, differences have been observed in the strategy of companies with different performance levels and from different sectors of the industry. In addition it is differences in strategy that define strategic groups. Examination of explicit, i.e. stated, strategy is therefore likely to be important in testing the hypotheses.

Many authors (e.g. Ansoff 1964, Porter 1980, Kotler 1988) have developed generic strategies for companies on the basis of theoretical analysis. Other authors have advocated the application of such generic strategies to financial services (e.g. Kelly and George 1982, Bennett and Cunningham 1985, Varadarajan and Berry 1983, Howley and Savage 1980). The strategies of companies can
therefore be examined to determine their similarity to some of these generic approaches.

3.12.3 Positioning of Companies

The positioning of a competitive offering, be it at a product or corporate level, is the mechanism by which a strategy is converted into an offering to customers (Aaker and Shansby 1982). The research discussed in chapter 2 identified three aspects of positioning that can be analysed to test the hypotheses under consideration; the use of segmentation and differentiation in positioning, the branding policies applied and the benefits offered to customers.

3.12.3.1 Positioning Through Use of Segmentation and Differentiation

Segmentation positions a product or company through its distinctive target market, differentiation through a distinctive product offering. The strategies of segmentation and differentiation provide a mechanism to increase returns from a market, and it can be hypothesized that the use and sophistication of such strategies will be related to performance. It is also possible that strategic groups within the industry will adopt similar approaches to segmentation and differentiation. Thus the use of these strategies provides a further mechanism to test the hypotheses.

The use of and distinction between segmentation and differentiation as strategies to improve performance dates from the work of Smith (1956). The basic difference that he outlined was that segmentation was a method of improving returns by positioning products to meet the needs of a specific group within the market and thus developing higher returns from a smaller group in the market. Differentiation is a method of easing competitive pressure by adjusting the characteristics of a product to position it away from the competing
offerings. Thus profitability is increased by decreasing the ease with which consumers can find substitutes for the product. Since originally developed a further distinction has arisen, between multi-segment approaches and single segment approaches (niching) (Kotler 1988 chapter 10). The distinction here is that niching involves addressing the needs of only a single segment and the whole business is dedicated to this segment. The multi-segment approach involves coverage of more than one segment with the same type of product, with the product being refined in different directions to better meet the needs of each separate segment.

As was discussed in section 2.3.1 segmentation is one area where the financial service companies have received a considerable amount of advice. It is also an area where a weakness has been noted. O'Brien (1982) pointed out that failure to segment their market was common amongst US banks.

The use of segmentation, its effectiveness and sophistication are factors which may serve to differentiate companies of different performance levels or from different strategic groups. Similarly the use of differentiation might have a similar impact.

3.12.3.2 Positioning Through Branding Policy

Branding policy is an area of considerable current interest in financial services, and is clearly an area where different approaches have been adopted. Section 2.3.4 discussed the promotion of financial service products and pointed out that the adoption of fast moving consumer goods (FMCG) style branding has caused some debate in the financial services market. It is clear that there is a dispute over the "correct" approach to branding policy. Alternative branding strategies serve either to position the company or the products it supplies, and there is some dispute about whether
Corporate level branding or product branding is the optimum positioning strategy utilising branding.

3.12.3.3 Positioning Through the Benefits Offered to Customers

The final aspect of the positioning of a company is by attributes, i.e. the benefits that are communicated to customers (Ries and Trout 1981). A method of analysing the positioning of the company in terms of customer benefits is to seek to determine what characteristics they perceive customers seek when they select the company for their financial services.

There is considerable evidence as to the criteria by which customers select financial services providers (Anderson, Cox and Fulcher 1976, Riggall 1978). The principal criteria are reported to be location and recommendation/existing relationships with family or friends. Other reasons that have been discovered include reputation, service quality and friendliness and cost. Two further criteria may also be significant. The implicit suggestion of all the segmentation research on selection criteria is that financial service companies can improve their positioning by specifically meeting the needs of the groups identified (e.g. Lewis 1982a, Burnett and Wilkes 1985). In addition the popular model of a financial service supermarket and the adoption of life stage segmentation suggests that the financial service companies are seeking to offer a full product range as a means of attracting customers.

The positioning of companies in the market can therefore be described in terms of the benefits sought by customers when selecting them as providers. The evidence cited from literature on financial services suggests a range of factors that might be important to customers in selecting providers. Existing relationships, reputation, perceived friendliness, charging level, location, the range of products offered and provision of specialised services
have all been identified as selection criteria, and hence provide a basis to analyse the positioning of companies.

3.12.4 Customers Targeted

Companies from different sectors, performance levels and strategic group can not only be distinguished by whether or not they use segmentation to position themselves, but which segments they seek to attract. It is possible, for instance, that companies could serve a distinctive market without using an explicit segmentation strategy. It is clear from considering other markets, for instance the car market, that strategic groups exist in terms of the customer group addressed. Such a situation might also exist in the financial services market.

Research in the literature survey has indicated the differences in potential between different market segments. In American research Stanley, Berry and Danko (1979) have investigated the selection criteria of high income customers. The authors stress the value of wealthy customers, in terms of higher balances and rates of usage, and argue that meeting the needs of wealthy customers is potentially very profitable. In addition Stafford and King (1983) have shown that the customers of different UK banks have different socio-economic characteristics.

One possible difference between different groups of companies in the market might lie in the segment they address in terms of wealth or social class. Such a difference might exist between companies with different performance levels, from different sectors or different strategic groups.

3.12.5 Innovation and New Product Skills

New product practices are specifically referred to in subsidiary hypothesis IB. As was discussed, PIMS research suggests that better performance is associated
with greater innovation. There is also evidence of the importance of innovation in financial services. In the survey of European banking carried out by Arthur Andersen & Co. (1986) innovation is considered by respondents to be a key factor for future success. The emphasis placed by researchers on exploiting new technology for competitive advantage implies that companies can use this technology to create innovation. The deregulation that has occurred in the industry has in part been a response to pressure from institutions to be allowed to expand product ranges and develop new products. There is American evidence that better performing companies have different new product practices (Reidenbach and Moak 1986).

There is also evidence that companies from different sectors of the industry have different attitudes towards new products (Dubinsky and Clayton 1983). Davidson, Watkins and Wright (1989) have reported from the UK that for the majority of financial service companies new products are developed in response to competitors.

Thus there is evidence that two related dimensions of retail financial service companies' innovation have been identified as important by literature; the originality of new products and the speed of market entry. Examining these aspects of innovation therefore provides a mechanism to examine not only difference between companies with different performance, but also those from different sectors of the industry.

3.12.6 Organisational Culture

The concept of organisational culture and its effect on the methods and performance of companies is a complex area, discussion of which in any detail would require considerable space. However, several points arise from the literature survey that appear to be relevant to hypothesis testing.
As was discussed in section 2.2.4.6-7, the need to change the culture of financial service companies, the way the companies do business and the staff perceptions of their role, has been widely commented on by researchers in financial services. Traditionally financial service companies have been bureaucratic organisations, with a process orientation. There is considerable evidence that financial service companies have experienced difficulty changing this orientation. Futrell, Berry and Bowers (1984) and Berry and Massey Kantak (1990) both examine the state of selling in US banking, finding that limited progress had been made. Watson (1982, 1984) indicates that in the UK problems have been experienced with the introduction of marketing into banks. Wills and Day (1984) and Murphy (1988) both explain attempts to re-orientate major UK financial service companies towards a more competitive orientation. Linked into the issue of culture is the attitude of the company to its staff. Peters and Waterman (1982) are, of course, the doyens of the bottom-up approach. They particularly emphasise the need to encourage staff, particularly junior staff, to act entrepreneurially.

In addition to the progress of any attempted cultural change, the existing culture might also impact on the performance of companies. The attitude of a company towards marketing staff as specialists or generalists, the attitude towards entrepreneurship or risk taking as a company or at junior management levels, the company's attitude towards its employees in terms of security and promotion and in its attitude to short term profitability provide an indication of the company's culture. A traditional financial services company, on the evidence presented by researchers, might be expected to treat marketing as a task for generalist staff, to frown on risk taking by staff, to expect to provide staff with jobs for life, although without offering proper promotion and development opportunities for all staff.
A further issue related to how business is done in financial service companies is profit consciousness. The problems of increased competition and the costs of distribution have been discussed in sections 2.2.2 and 2.2.7 respectively. It might be expected that better performing companies would have gone farther in increasing awareness of the need for efficiency and profitability and hence place a greater emphasis on short term profitability. By contrast, the historical situation of mutual companies has been one of non-profit making so short term profitability might be expected to be of lesser importance.

It can be seen from this discussion that there are a large number of areas related to the way financial services do business, the organisational culture, that might be expected to vary either with level of performance, sector of the industry or form the basis of strategic groups.

3.12.7 Differences in Strategic Planning Methods

Differences in the strategies adopted and their effectiveness will be affected by the method by which the strategies were developed. Several authors have suggested that developing strategic planning in financial services companies is essential to cope with the change they face (Landon and Donnelly 1983, Rankin 1987). The evidence of these authors is that there is limited use of standard strategic planning methods, of the type discussed by authors such as Johnson and Scholes (1988).

Outside financial service other authors have developed conventional planning techniques further. A good example is Ansoff (1984), who argues that not only should the strategy of a company be appropriate to its capabilities and environment, the method by which plans are developed should also be related to the environment. The ability to adjust strategy to cope with unexpected events in a
turbulent environment is, in Ansoff's view, more important for a company in such an environment than having a carefully developed five year plan since such a plan is bound to be overtaken by events.

The body of research and discussion on strategic planning techniques therefore provides a range of models of the strategic planning process that can be tested for companies with different performance levels. It might be expected that differences in strategic planning methods used by companies will be associated with performance, since the effectiveness of strategy might be affected. Differences in strategic planning methods might also be associated with sector of the industry, since the competitive environment might be perceived differently. In addition differences might occur between strategic groups, because of level of sophistication or competence.

3.13 Testing Product Hypotheses

Figure 3.2 (page 67) presents a summary of the hierarchical conceptual framework devised to investigate differences in product strategy and management methods. The differences identified serve to test hypotheses H4 to H7. The question numbers refer the questionnaire presented as appendix 2 of the thesis.

There is considerable overlap between the two frameworks. This is for two reasons. Firstly, many of the dimensions are general in nature and are equally applicable at a product or corporate level. Secondly, as was discussed in section 2.1, it is sometimes uncertain when dealing with an industry like financial services, where there are dominant products in each sector of the industry, whether dimensions of marketing and strategic management best apply at a product or corporate level. Dimensions such as competitive advantage, strategy pursued, planning methods and positioning are equally applicable at both levels and the discussion of these is not repeated.
Two dimensions specifically relating to product marketing and management, the marketing mix and cost awareness, are discussed below.
<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Nature Tested in Questions</th>
<th>4.1-2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Awareness</td>
<td>2.1-4</td>
</tr>
<tr>
<td></td>
<td>Marketing Based</td>
<td>2.9-10</td>
</tr>
<tr>
<td>Environmental Awareness</td>
<td></td>
<td>3.1-7</td>
</tr>
<tr>
<td>Strategy Pursued</td>
<td>Market Targets</td>
<td>4.0, 4.11</td>
</tr>
<tr>
<td></td>
<td>Generic Approach</td>
<td>4.12</td>
</tr>
<tr>
<td></td>
<td>Explicit Strategy</td>
<td>3.4</td>
</tr>
<tr>
<td>Planning Methods</td>
<td>Responsibilities</td>
<td>5.4-5</td>
</tr>
<tr>
<td></td>
<td>Product Objectives</td>
<td>5.1-11</td>
</tr>
<tr>
<td>Positioning</td>
<td>Segmentation</td>
<td>4.4-10</td>
</tr>
<tr>
<td></td>
<td>Differentiation</td>
<td>4.2-5</td>
</tr>
<tr>
<td></td>
<td>Branding Policy</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Customer Selection</td>
<td>2.5</td>
</tr>
<tr>
<td>Customers Targeted</td>
<td>Characteristics</td>
<td>4.1-12</td>
</tr>
<tr>
<td></td>
<td>Method</td>
<td>4.10</td>
</tr>
<tr>
<td>Marketing Strategy and Methods</td>
<td>Product Quality</td>
<td>7.1/1.3</td>
</tr>
<tr>
<td></td>
<td>Range</td>
<td>7.1/1.1</td>
</tr>
<tr>
<td></td>
<td>Innovation</td>
<td>7.1/1.2</td>
</tr>
<tr>
<td>Price Level</td>
<td></td>
<td>7.1/2.1-3</td>
</tr>
<tr>
<td>Place</td>
<td>Flexibility</td>
<td>7.1/2.4-5</td>
</tr>
<tr>
<td>Outlet Number</td>
<td></td>
<td>7.1/3.1-2</td>
</tr>
<tr>
<td>Location</td>
<td></td>
<td>7.1/3.3-4</td>
</tr>
<tr>
<td>Promotion</td>
<td>Advertising</td>
<td>7.1/4.1-2</td>
</tr>
<tr>
<td></td>
<td>Direct Mail</td>
<td>7.1/4.3</td>
</tr>
<tr>
<td></td>
<td>Information</td>
<td>7.1/4.4-5</td>
</tr>
<tr>
<td>People</td>
<td>Staff Quality</td>
<td>7.1/5.1, 4-6</td>
</tr>
<tr>
<td></td>
<td>Turnover &amp; Training</td>
<td>7.1/5.2-3</td>
</tr>
<tr>
<td>Physical Evidence</td>
<td>Tangible Factors</td>
<td>7.1/6.1-2, 4-5</td>
</tr>
<tr>
<td></td>
<td>ATMs</td>
<td>7.1/6.3</td>
</tr>
<tr>
<td>Process</td>
<td>Reponse</td>
<td>7.1/7.1-2</td>
</tr>
<tr>
<td></td>
<td>Facilities</td>
<td>7.1/3-6</td>
</tr>
<tr>
<td>Cost Awareness</td>
<td>Product Cost</td>
<td>6.2-4</td>
</tr>
<tr>
<td></td>
<td>Product Income</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>Customer Value</td>
<td>6.5-7</td>
</tr>
</tbody>
</table>
3.13.1 The Marketing Mix

The conventional marketing mix is considered to consist of four factors: product, price, place and promotion. The four Ps forms a useful mnemonic, enabling marketers to order and recall the areas from which a product advantage might spring. For service marketing the absence of a physical product makes matters more complex. A greater range of factors can impact on the performance of the service and its ability to meet customer needs. For service marketing therefore the four Ps are normally expanded to seven (Booms and Bitner 1981). The additional factors are: people, physical evidence and process. The way in which each of these seven marketing mix factors might serve as a differentiator between different types of product or the products of companies with different performance or market share is discussed in turn below.

3.13.1.1 Differences in the Product Element

Several factors relating to the product element of the marketing mix can be identified as possible differentiators between financial service companies. The first is in the nature of the product range. The various arguments about specialisation and generalism, and the concept of the financial supermarket, are based on the importance of the product range. It appears to be a commonly held belief in financial services that the width of a product range, e.g. the variety of different services offered, is important. The pressure the building societies applied to allow the expansion of their product range is a good indication of this. The societies felt that the inability to offer sufficient product range width weakened their relationship with consumers. Llewellyn (1987) argues to this effect.

The depth of the product range is also important. The development of segmentation suggests that financial
Service companies believe that they can increase profitability by offering different versions of a product to different groups (O'Brien 1982). It appears therefore that a differential advantage might arise from either the width or the depth of the product range of which the product is part.

The importance of product innovation has already been discussed. Product innovation is another possible source of differential advantage for a product. Similarly, emphasis has also been placed on the need for "quality" in financial service. Stanley et al (1979) have argued that quality products serve to attract "high net-worth individuals", wealthy customers who are a more secure and more profitable source of business. The need for product quality is linked to the financial sophistication of such customers, who are more likely to be either professionally advised or aware of alternative services through personal financial journalism.

3.13.1.2 Differences in the Price Element

As has been discussed in section 2.3.5, there is little research on the role of price in the marketing of financial services. However, from general marketing literature it is clear that the level of pricing is a potential differential advantage. There are two possible ways in which a pricing advantage might be achieved. Either through higher rates of interest on investment products and lower rates on lending products, or through lower levels of additional charges. The increasing customer sophistication noted in the USA by Cox and Lasley (1984) suggests that sensitivity to interest rates or charges will increase, and the rapid and general introduction of interest on current accounts indicates that in the UK there is a competitive disadvantage to being out of line on price. A further possible price based advantage would arise from a more flexible approach to fees and charges (Howcroft and Lavis 1985). Pricing
is one area where differences in the light of the different roles ascribed to products of different types under the relationship banking model might be observed.

3.13.1.3 Differences in the Place Element

The place element of the marketing mix deals with the delivery of the product. Traditionally this has been through a branch mechanism. Much of the literature on bank selection suggests that the convenience from the customer's viewpoint of the branch's location is one of the principal factors in bank selection and therefore in success. The number of outlets where a product can either be acquired or used (significant for credit cards, for instance) and the quality of location of these outlets are sources of competitive advantage. The use of agencies, either as tied agents for investment products or as additional outlets, could also serve as a differential advantage.

The distribution aspect of the marketing mix is likely to be of particular significance with respect to differences between high and low market share companies.

3.13.1.4 Differences in the Promotion Element

Several writers have commented on the types of advertising used by banks, particularly Buckroyd (1984) who stressed the move from generic advertising to specific product advertising. Quality and volume of advertising might serve as source of differential advantage. Lind (1983) stressed the importance of quality information about the target market for good advertising in financial services. Indeed, the quality of information about customers and potential customers underpins segmentation theory. Information is also particularly important in the use of direct mail, an area of financial service activity that has not met with unanimous approval. The Jack Report, which deals with the use of information on customers, and the comments of
the Chancellor of the Exchequer in his 1990 Budget speech, suggesting direct mail from financial service companies was indiscriminate and irresponsible, indicate a degree of official concern about database marketing as currently carried out by the financial service companies. The possession of high quality information to use in support of promotion or segmentation is a further possible source of differential advantage.

3.13.1.5 Differences in the People Element

The emphasis placed by authors on the importance of developing a marketing orientation amongst staff indicates an area where product advantage might arise (Wills and Day 1984, Murphy 1988). The quality of staff recruited, their training and their turnover or retention will all have an impact on the performance of the product as far as the customer is concerned. This will apply particularly to sales staff and agents, who represent the company to the public. Ability to recruit suitable staff at a higher level to manage products is another possible area where product performance might be improved. The influx of staff from FMCG marketing into financial services indicates that companies feel that these new staff have skills that are not available internally.

3.13.1.6 Differences in the Physical Evidence Element

Levitt (1981) argues that all products, not merely services, have some element of intangibility, and similarly that all products, no matter how intangible, have tangible factors associated with them. An example of such a situation is life insurance, which is a service and intangible, but is generally sold to a customer by a salesman who is definitely tangible, and the customer will value the product, in part, from the tangible factors. Levitt therefore suggests that firms can use tangibles to promote intangibles, since the customer's evaluation made of the associated tangible factors will affect the evaluation of the product as a whole.
Examples of such "tangibilisation" can be seen in the National and Provincial credit card, where four alternative designs are available, and in the redesign of branches and the introduction of corporate uniforms by Midland Bank. Knobel (1984) discusses such branch redesign. The quality and consistency of outlet design, the quality of automated delivery mechanisms and the quantity and quality of other tangible elements are therefore all possible sources of differential advantage.

3.13.1.7 Differences in the Process Element

The effectiveness of the processes in the financial service company can have a serious impact on the quality of the service and the effectiveness of the product. Much has been made of the introduction of new technology into banking, and its effects on performance of basic tasks could affect the success of the firm (Management Today 1986). Anderson et al (1976) and Riggall (1979), in their work on bank selection, have identified groups seeking convenience in financial service provision. Features which impact on the convenience of financial service products for customers will therefore be a source of advantage. The speed of response to enquiries and problems, the length of queues, the provision of specific facilities, and the ability to deal with changes in the level and nature of demand all will affect the convenience for customers.

3.13.1.8 Importance of Mix Factors

Although all the marketing mix factors discussed above might be sources of advantage, there is no reason why firms should perceive them as equally important. Marketers identify some characteristics of products as "hygiene factors", aspects of a product or service that must be adequate, but improvement beyond this level makes no significant difference to the customers' perceptions of the product. The concept arises from studies of attitudes to hospitals. Customer approval was withheld
if the hospital appeared to be dirty, regardless of the quality of other factors. If the hospital was perceived to be clean then other factors did have an impact.

The performance of a company's product therefore depends not only on being excellent in product marketing, but also on being excellent in the right areas of its product marketing. For instance, it is possible than a company has developed a marketing mix for its product that is superior to competitors' in all but one aspect. If that aspect were to be a true hygiene factor, then failure to meet the required standard in that aspect would lead to a relatively poor performance despite being better in all other aspects. Thus better performing companies might place a different emphasis on the balance of elements in the marketing mix.

3.13.2 Cost Awareness

One area where the aspects of process management internal to the company can impact on the performance of the company and its product is cost awareness. Howcroft and Lavis (1989) have pointed out that banks have a problem in identifying the costs of particular products, and therefore tend to cross subsidise products involuntarily and without control. It would appear therefore that firms that know accurately the costs and profitability of their products are in a better position to profit from their products. The importance attached to short run product profitability will also be important, particularly with respect to identifying products which fulfil a different role. Short run profitability is less important to core products than ancillary products, since the role of core products is to maintain the relationship with the customer rather than to generate large profits.

3.14 Conclusions

This chapter has sought to develop hypotheses about the differences between companies with different levels of
performance and from different sectors of the industry. It has also sought to identify areas where such hypotheses could be tested.

There are a wide range of hypotheses suggested by the literature search than can be tested. Hypotheses have been developed addressing corporate factors, the structure of the industry and product management factors. These hypotheses are general in nature, suggesting for instance, that differences arise in marketing practices and strategic orientation between companies from different sectors. In order to test these hypotheses it is necessary to design measures which can, by primary research, be investigated and used to determine the validity of hypotheses.

The identification of areas where the hypotheses might be effectively tested has been carried out using a hierarchical conceptual framework. The framework, based on marketing and general management literature, as well as the material reviewed in chapter 2, has identified various dimensions affecting the nature of corporate and product marketing strategies and methods. These dimensions have been further examined to outline issues where literature suggests the hypotheses might be tested.

The method by which these hypotheses were tested in field work is discussed in chapter 4.
CHAPTER 4 - METHODOLOGY

4.1 Introduction

This chapter discusses the methodology employed in the research project. The intention is to provide a systematic explanation of the decisions taken about data gathering and analysis. It is divided into two sections. The first section discusses the methodology by which data was gathered; the selection of the product areas, the design of research instruments, the sample selection and the administration of the research instruments. The second section discusses the methods to be used in data analysis. In particular it concentrates on the chi squared test of independence and discriminant analysis, the two principal techniques used.

4.2 Introduction to Data Gathering

The first section of this chapter is concerned with the decisions taken about how the data was gathered. The discussion of these decisions is divided into brief sections dealing with specific issues. At what level in the organisation was investigation of strategy and practices relevant and comparable? What product areas should the investigation cover? What research format was best suited to gathering the type of information required? What instrument was best suited to gathering this data? Which companies should be approached to participate and how could maximum participation be achieved?

4.2.1 The Level of Investigation

Given the hypotheses that have been proposed about the marketing practices and strategies of companies in the retail financial service industry, attention must be paid to the level at which strategies and marketing practices
are to be investigated. Researchers frequently point out that strategies exist at different levels of business, from an overall corporate strategy down to operational strategies for functional units (Johnson and Scholes 1988 p.9). To investigate the impact on performance of strategies at all levels of a business is an enormous task, and clearly beyond the scope of a study on this scale. This research therefore concentrates on two levels of strategy. In this it follows Porter (1987) who stated;

"A diversified company has two levels of strategy: business unit (or competitive) strategy and corporate (or companywide) strategy. Competitive strategy concerns how to create competitive advantage in each of the businesses in which a company competes. Corporate strategy concerns two different questions: what businesses the corporation should be in and how the corporate office should manage the array of business units." (Porter 1987 p.43)

Obviously the success of a financial service company, like any corporation, is dependent on the quality of both strategies identified by Porter. Thus in retail financial services a company's success overall depends not only on the strategies and marketing practices it adopts for particular products and markets, for instance its positioning of a credit card operation, but also on its organisational characteristics and corporate strategies, e.g. the consistency of the credit card business with its other financial service operations. In order to fully investigate these effects this research gathered data at two levels of the company; corporate and business unit.

Many of the companies in the industry are without doubt single market/product operations. Some of the smaller life insurance companies deal only in individual long term investment products. On the other hand, some of the companies are part of major diversified groups. National Westminster and Barclays Banks, for instance, are
financial service companies of global stature and operate in all areas of financial services. They offer a range of services to governments, organisations and individuals of staggering diversity. Other companies in the industry are subsidiaries of companies with their major interests outside the financial services industry. An example is Allied Dunbar, who are part of B.A.T., the tobacco based conglomerate. The corporate strategies devised at the ultimate level in these companies will therefore differ widely in terms of their impact on the performance of the company.

Similarly it is difficult to define the business units in the retail financial services market. One method of doing this is to define the business units on the basis of the service provided to customers. Doing this suggests that there are three basic business units. Financial service companies do three basic things for personal customers; take in money, give it out or move it around. Their business units are concerned with the transmission of money, preserving and increasing the value of wealth and providing funds for current spending. Within these broad areas there are a wide range of products all performing the same basic functions. Money transmission products include all payment systems, current accounts, credit and debit cards and money transfer mechanisms. Investment products include long term vehicles such as life insurance and pensions as well as savings accounts and share dealing facilities. Lending products would include mortgages and equity release products, personal lending and credit. Such a definition of the business units is not without faults however. Brief consideration reveals products meeting more than one of the needs service by each group, for instance credit cards serve as a payments mechanism, a lending service and even a saving vehicle in the case of some cards which pay interest on positive balances. In addition many of the strategic decisions for the products are linked by usage and operational factors. Mortgages
and life insurance are packaged, and deposit taking acts as a constraint on lending ability. A further point is that Canadian research (Laroche and Taylor 1988) has shown that the selection criteria for financial service companies varies with the product sought. This finding suggests that aggregation of products into product groups might involve gathering together products for which customer selection criteria and therefore strategies might vary considerably.

Since this research is concerned with comparison between companies data had to be collected at an equivalent level in each organisation. An examination of secondary sources such as company reports and press articles revealed that differences existed in company structure and product groupings for management purposes. In some cases the retail financial service operation was part of UK operations, in other cases retail and corporate services were wholly separate. Similarly although most companies had some form of product management, differences in product grouping meant that at the next level managers may exist with responsibility for all lending products or for all housing related products.

The determination of the levels at which strategies are to be investigated therefore has to be made independently of corporate structure. The corporate level to be investigated was defined as the level of UK retail financial services, rather than any particular structure determined by the parent company. Similarly the lower level of strategy to be investigated was defined as the product level, rather than on the basis of market definitions or product groupings that could vary from company to company hence might not reflect differences in strategies. These two definitions have the advantage of being easily understood by companies when access is requested and also reflect the most common organisational structure found in the survey of secondary sources.
2.2 Selection of Product Areas

Having decided to investigate the companies' strategies at a product level, attention must be paid to which products to investigate. As mentioned above, financial service products fall into three groups: money transmission, lending and investment. These groupings provide a guide for which products to include. Also important is the role of the products in the various sectors of the financial services industry e.g. are they core products or what Howcroft and Lavis (1985) termed ancillary products and whether they are products offered by more than one type of financial service company. On this basis the list presented in figure 4.1 was determined. The products cover all three of the product groups identified, the core products of each type of company are included and all the products are offered by one or more type of company.
### Figure 4.1: Products Covered in the Research Project

<table>
<thead>
<tr>
<th>Product</th>
<th>Core Product&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Offered By</th>
<th>Product Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Accounts&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Bk</td>
<td>Bk, BS, In</td>
<td>MT</td>
</tr>
<tr>
<td>Credit Cards&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td>Bk, BS, In</td>
<td>MT, L</td>
</tr>
<tr>
<td>Savings Accounts</td>
<td>Bk, BS</td>
<td>Bk, BS</td>
<td>Iv</td>
</tr>
<tr>
<td>Life Insurance&lt;sup&gt;3&lt;/sup&gt;</td>
<td>In</td>
<td>Bk, In</td>
<td>Iv</td>
</tr>
<tr>
<td>Personal Pensions&lt;sup&gt;3&lt;/sup&gt;</td>
<td></td>
<td>Bk, In</td>
<td>Iv</td>
</tr>
<tr>
<td>Mortgages</td>
<td>BS</td>
<td>Bk, BS</td>
<td>L</td>
</tr>
<tr>
<td>Unsecured Lending</td>
<td>Bk</td>
<td>Bk, BS</td>
<td>L</td>
</tr>
</tbody>
</table>

**Key**

Bk - Banks  
BS - Building societies  
In - Insurance/investment companies  
MT - Money transmission product  
Iv - Investment product  
L - Lending product

**Notes**

1. Determination of what is and what is not a core product is on the basis of length of provision by that type of institution. For instance, banks have traditionally provided money transmission services, building societies were founded for housing finance and insurance companies have been providing life cover since the Napoleonic Wars.

2. Save and Prosper provide an example of an insurance/investment company that offer this product.

3. Companies are considered to offer these products only if they provide their own, rather than acting as agents for others e.g. TSB, Midland

The list of products outlined above gives a good mix of core and ancillary products for all type of companies, and all the products included are currently offered by
more than one type of company. They therefore offer the opportunity to compare marketing practices and product strategy between product groupings as well as between companies from different sectors of the retail financial services industry.

4.2.3 Gathering Information

Green, Tull and Albaum (1988) identify four principal research methods for gathering information in the social sciences:

1. Gathering from secondary sources
2. Gathering from respondents
3. Gathering from experiments
4. Gathering from simulation by modelling

In designing the data gathering mechanism for this research all these methods must be considered. The first possible method is secondary data gathering using either published data or buying access to proprietary data. An example of this type of research is Smith and Saunders (1990), where the British Social Attitudes database was used to investigate respondents' political opinions and characteristics. In the case of this research two problems arise with secondary data sources. Firstly, the data sought is from a select group of companies and must cover several areas in some detail. No public or proprietary data base could be identified containing this kind of data. Secondary data from separate sources is unsuitable given that a comparison is being made between companies and the questions asked must therefore be consistent.

Experimental research is normally used to investigate causality and requires a good deal of experimenter control e.g. altering dependent variables. Clearly in dealing with companies this is not a suitable method as no experimenter control is possible.
Simulation is usually carried out by "manipulating a model of some real-world process for the purpose of finding numerical solutions that are useful in the real process that is being modelled" (Green et al 1988 p. 121). Simulation is not applicable in this research project because the project is concerned with examining the real-world activities of companies and comparing them, rather than modelling some ideal. Indeed the research is investigating some of the real-world phenomena that must be understood before a model can be constructed.

The remaining method, gathering data from respondents is the most suitable method. Gathering data from companies using a suitable research instrument allows direct comparison and testing of the research hypotheses generated.

Gathering data from respondents can be carried out in two basic ways; observation and communication. Observation avoids problems due to poor communication, respondent bias and error but is only suitable if the concepts under investigation are simple to identify, such as preferences in buyer behaviour. For many concepts, including many of those investigated in this project, it is not suitable as the concept cannot be directly observed. Profit and marketing orientation cannot be directly observed, only inferred from behaviour or statements. Hence this research project must gather data by communication with respondents and face the problems associated with questioning people and organisations. To overcome these problems the design of the project and particularly the data gathering instrument is of great importance.

4.2.4 Design of Research Instrument

Mann (1985) terms the data gathering technique proposed for this research in the previous paragraph as "controlled participation". By controlled Mann means
that the data gathering is standardised in some way in the interest of scientific accuracy, by participation Mann means the degree to which the researcher is involved in the situation under research (p.96-98). Mann subdivides controlled participation data gathering into three extreme cases, the informal interview, the formal interview and the self administered questionnaire. The distinction between these cases are that in the first two the researcher is present, in the last he is not. In the first case the researcher allows the respondent to control the information flow (i.e. no standardised questions are asked) and in the last two the researcher controls the information given by asking only standardised questions. Considering the research project in the light of these extreme cases it can be seen that some form of standardisation is essential if data is to be comparable across organisations. Also the presence of the interviewer allows interaction to occur to gain greater detail if initial answers are incomplete or unclear. Given the complexity of the issues being investigated the most suitable form of data gathering instrument is an interview with some formal element to it.

The type of interview that best suits this research can be termed "semi-structured". In this type of interview the respondents are asked a set of standardised questions but the researcher has the freedom to temporarily take the interview away from the prepared schedule to deal with related issues the respondent might wish to discuss or to elicit further elaboration on a point of interest. Such a structure allows the respondent to provide all data they consider relevant whilst ensuring that the necessary standardised data for comparison is gathered.

4.2.5 Questionnaire Design

The content of the questionnaire is dependent on the hypotheses under examination, and the discussion in
Chapter 3 of the thesis has attempted to show the linkage between the hypotheses and specific issues about which questions could be formulated. This section therefore concentrates on the technical issues of questionnaire design and format.

The design of the questionnaire to be administered through a semi-structured interview is important for two reasons; it must gather information that allows the hypotheses to be tested and it must minimise the amount of error in the data.

Sudman and Bradburn (1982) say the following, only partly in jest, about questionnaire design.

"The best advice we can offer to those starting out to write attitude questions is to plagiarize. While plagiarism is regarded as a vice in most matters, it is a virtue in questionnaire writing - assuming, of course, that you plagiarize good quality questions. By using questions that have been used before you can spare yourself much agony over the formulation of the questions and extensive pretesting. If the questions have been used frequently before, most of the bugs will have been ironed out of them ... Replication is to be greatly encouraged, but beware! Make sure that the attitude question you borrow is about the attitude you want to study and not about something different." (Sudman and Bradburn 1982 p. 119)

Although the quote refers to attitude questioning it is applicable to all forms of questions. This research project followed their advice in so far as successful questionnaires were used as models for the questionnaire design. The majority of these models were those reproduced in social research text books. Another questionnaire used as a model for the questionnaire design was developed by Dr. Veronica Wong for research into differences in marketing objectives, strategies and organisation of a matched sample of thirty British, thirty American and thirty Japanese companies operating in the British market (see Doyle, Saunders and Wong 1986
This questionnaire offered a useful model because it had successful investigated similar issues, although in a different context, and hence provided some guidance in terms of direction as well as question content. Given that the quote mentions plagiarism this must be denied, and it must be noted that very few questions from even the most successful model questionnaire could ever be used without revision because of the different context in which the question was asked. However using successful questionnaires as models proved a useful source of ideas on question formulation and served as a way of reducing the revisions necessary after pre-testing.

The problems associated with questioning in research have been well documented (Mann 1985, Green et al 1988, Sudman and Bradburn 1982). Sudman and Bradburn identify four sources of response error in research of this type: memory, motivation, communication and knowledge. Memory error arises from the failure to recall correctly information requested. Motivation error arises because respondents either fear the consequences of telling the truth or wish to present themselves in a favourable light, communication error arises from failure to understand correctly what is being sought and knowledge error arises from respondents answering a question without having the necessary information. Many refinements on questionnaire and interview design exist to minimise these errors and were used in the design of the questionnaire to be used as the basis for the research interviews. Examples of techniques suggested by Sudman and Bradburn (chapters 2 and 3) to reduce these errors that were utilised in the design of the questionnaire are:

Motivation error can be reduced by removing reasons for giving false responses, for instance offering anonymity to firms and respondents.
Memory error can be reduced by considering the length of the time period to be considered and using specific rather than general questions.

Communication error can be reduced by avoiding double questions, i.e. those that actually address two separate issues in the same question, by careful consideration of wording and by defining concepts.

Knowledge error is reduced in company interviews by distinguishing between the individual and the company, by asking specific questions on this basis and including "don't know" in the answer category.

An important element in the error elimination process is pre-testing and piloting. These stages allow poor questions to be redrafted or removed before the questionnaire is used in earnest. Pre-testing questionnaires intended for managers at a specific level in a specific industry can be difficult as suitable subjects for pre-test are not accessible. Access to suitable subjects for pre-testing the questionnaire was gained through the university's post-experience teaching programme. Building society managers attending a training course at the university were interviewed using the questionnaire. The questionnaire was revised in the light of these interviews. Piloting was carried out by interviewing managers in local financial service companies. The piloting programme served as a final test of the questionnaire before interviews were arranged with the sample of companies identified.

The questionnaire utilised both open and closed questions, open questions being used to allow respondents to expand on answers and to allow the researcher to check there had been no communication error in their response to the closed questions. Closed questions took a variety of forms appropriate to the information sought including five point Likert-type scales with at least the extreme categories anchored by definition in words. Where possible all points on the scale were defined in such a way that equal intervals could be assumed and the resulting data treated as interval data. Other closed
questions used binary yes/no responses, category choice and ranking to elicit information in an appropriate form.

The questionnaires used in the research are presented as appendices 1 and 2 of this thesis. Appendix 1 contains the questionnaire used for interviews relating to corporate strategy and issues, appendix 2 contains the questionnaire relating to product management and strategy.

4.2.6 Selection of Companies

In selecting the sample for this research a set of a priori rules were devised to best enable the objectives of the research to be met. The sample selected was therefore purposive rather than representative of the whole industry.

Selection on the basis of recent performance, i.e. selecting companies with different changes in profitability or market share, would allow companies to be pre-divided on the basis of market share performance and a comparison made. The traditional measure of such performance used in marketing is market share. However because of the nature of financial services basic market share figures are not suitable.

Many financial services are analogous to consumer durables, in the sense that there is no reappraisal of the initial purchase decision for a long time. In the case of mortgages the choice of institution may be many years old. Taking this as an example, market share data based on mortgage debt outstanding will include debt arising from decisions taken twenty five years ago. The cheque account market will include people who have opened accounts early in life and remained loyal. Market share data of this sort will not indicate current success in marketing but rather some aggregate of average success in attracting business and ability to retain business, which
has no necessary relationship with current marketing practices or strategy. It is analogous to seeking the most successful car manufacturer in marketing terms by examining the share of cars in existence, which will be biased towards companies whose past performance was better than present. Indeed it is entirely possible that the most successful car manufacturer in the country by this measure is now under an entirely different management compared to a few years ago.

A suitable indicator of who to include in the sample might therefore be sought elsewhere. Share of new market figures, such as share of new mortgages or share of newly opened cheque accounts, would give an indication of relative current performance. However because of the history of separation between the various sectors of the retail financial service industry there is very little comprehensive comparative data publicly available. The federations and professional bodies tend to publish data referring only to their own member institutions. Although some exceptions exist and were sought out, for instance a Residential Property Index devised by James Adams & Associates examining the mortgage market, suitable data on share of new business was not available.

The aim of the research is to investigate the marketing practices and strategies adopted by retail financial service companies in the light of the current, changing environment and to examine these practices and strategies against corporate performance. Since relative performance could not be determined on an a priori basis, the most important aspect of the sample selection was therefore to capture in the sample the maximum range of practices and strategies being adopted by companies. It should be noted that this does not imply that the companies selected would be the best performing, since what was important in selection was the reported differences in approach rather than the results of the different approach.
Alternative approaches adopted by companies were identified by reference to companies' own statements about strategy, for instance through company reports, and by reference to secondary sources, for instance articles on companies and interviews with managers. They were also identified by outcomes, through the Adams Index discussed above and the annual reviews of investment performance produced by magazines such as "Money Management". Finally, where particular companies were identified, similar companies in terms of size were approached to ensure a range of coverage.

It might be argued that a similar range of alternative strategies and approaches could be captured using a representative sample, which would also mean that the findings could be more easily generalised to the industry as a whole.

However the financial service industry in the UK, particularly in the insurance and building society sectors, contains a very large number of companies compared with similar European countries and concentration is high. A representative sample would therefore have to include a very high proportion of small operations. Such a sample would present two problems. Firstly such small companies are normally traditional in their outlook and so a large group of companies with such an approach would dominate any statistical analysis. Secondly, in market terms, such small companies are of little relevance. For instance inclusion of the five major mortgage lenders will account for over half of the housing loans given each year. A representative sample would be dominated by companies whose impact on consumers is minimal.

The selection process resulted in forty companies being asked to participate. This included the majority of the top ten in each of the life industry and the building societies movement, along with all of the major and
intermediate U.K. banks and the major composite insurers. These major companies were supplemented by several smaller companies identified from secondary sources.

Companies were normally identified as potential participants on the basis of their overall approach or the approach they had adopted in one particular product area (e.g. a building society might have been selected on the basis of a large share of the new mortgage lending market). However in order to maximise the number of participants in each product area, and to provide a comparison between leading performers and the rest, each company was requested to participate in all the selected product areas in which they operated.

4.2.7 Recruitment of Companies

Companies identified as potential participants were initially contacted by telephone, and this was followed up by a letter. The telephone contact was used to identify the addressee. The letter outlined the purpose of the research and identified the product areas where participation was sought. Interviews were requested with the managers responsible for marketing each product identified and a further interview with a manager who could give information about the marketing and strategies of the company at a corporate level. As an incentive to participate the companies were promised anonymity, with quotations being non-attributable and data used only in aggregate, and a copy of the findings.

As was to be expected from the experiences of other researchers, obtaining access to managers for interviews was problematic. Many of the managers interviewed reported that they received many requests for assistance with research. This was particularly the case for the major banks and building societies. Because the research sought to examine the practices and strategies of a group of companies selected a priori access to these companies
was essential. Several companies refused to participate, saying they were too busy to participate or had a policy of not getting involved with research.

In order to minimise these problems with as many companies as possible, university staff with contacts with financial service companies were asked to assist the research project. They did this either by providing lists of suitable contacts who might provide more effective routes into the organisations than the basic cold calling method outlined above or by endorsing the project by sending the initial letter requesting assistance, drafted by the researcher. These techniques were used successfully to arrange access to a building society who used the Management Development Centre for staff training, a building society who employed a member of staff as a non-executive director, two banks who sponsored university chairs and a building society where the relevant marketing manager was a former colleague of a member of staff at the university. All these companies were major players in the industry (i.e. top five in their sector of the industry) the involvement of whom contributed greatly to the success of the project. Comparing the response of these organisations in comparison with that of their peers where such contacts were not available it is clear that these links significantly increased the positive response rate from this group and hence the relevance of the data gathered.

Another method used to increase the response rate was persistence. Companies who replied to letters declining to participate were recontacted with each of the objections raised in their letter answered in detail. This method succeeded in reversing two refusals from amongst the companies contacted. Again, one of these companies was a major player the participation of which raised the quality and relevance of the research.
A total of twenty six companies participated in the research out of the forty identified, giving a 65% success rate. In the light of published response rates to similar studies this was regarded as very satisfactory.

Interviews were conducted using a tape recorder. This was used to enable the researcher to concentrate fully on the responses given and increase both the effectiveness and the efficiency of the interviewing process, minimising the need for note taking and increasing eye contact. Respondents were shown a set of prompt cards for all closed questions, and their answers recorded by the researcher on the questionnaire. The resulting tapes were transcribed soon afterwards.

4.3 Introduction To Data Analysis

The aim of this section is to explain the reasons underlying the choice of statistical analysis technique in the research. In particular this section concentrates on the two principal techniques used, contingency table analysis and discriminant analysis. With respect to contingency table analysis, the limitations imposed by the small sample size in terms of expected cell frequency will be discussed, and the validity of collapsing the contingency table as a method to increase expected cell frequency is examined.

The latter part of the section discusses the use of discriminant analysis for multivariate analysis. The objectives of using discriminant analysis are explained and, because of the small sample size, particular attention is paid to the robustness of discriminant analysis in the face of the violation of assumptions about the underlying population distribution. The sample size also impacts on the choice of validation technique and the alternative methods are discussed. The potential
of other multivariate techniques which have been utilised in previous marketing research is also discussed.

4.3.1 Choice of Technique for Univariate Analysis

A wide range of techniques are available, in theory, to carry out statistical analysis of the data gathered. The assumptions underlying techniques can vary widely and therefore their applicability also varies. Because of this the choice of technique requires particular consideration. A potential constraint on the choice of statistical technique is the nature of the data gathered.

The principal method by which data was gathered for quantitative analysis used 1-5 Likert type scales, designed with intervals that might be assumed to be equal. In this case, the difference between the points on the scale is meaningful and this is interval, or metric data. The data gathering has been designed to capture the maximum amount of data as interval data, which minimises the constraints on the choice of analysis technique. The database gathered from companies also includes measures where respondents have ordered statements. This data therefore can only be used to make meaningful statements about the order of responses, and the distance between the position of responses on the scale has no meaning. This is ordinal data. A final group of variables are those where the responses are numbered, but the number serves only as a label and the order of the responses and the distance between them is meaningless. The numbering is therefore merely labelling, or naming, responses. This is nominal data. Of the dependent (categorising) variables used in this research measures of performance or market share, are interval data, whereas the sector of the industry from which companies are drawn is nominal data.

Despite the careful design of the research instrument to prevent measurement technique being a constraint on
statistical technique, a major constraint on the choice of statistical technique is the size of the sample. Many statistical techniques make assumptions about the distribution of the population being sampled (parametric techniques). The t, χ² and F distributions are calculated on the basis that the population distribution is normal. If this is not the case, e.g. asymmetry, separate peaks or heavy tails, then the critical values for significance will bear no relation to the "true" value. This problem is increased by small sample size, when the population becomes hard to assess in terms of distribution.

Parametric techniques are therefore unsuitable techniques with which to carry out data analysis in this section of the research. There are however a second set of techniques which have been developed to deal with these problems. The non-parametric methods generally test hypotheses using some simple feature of the sample data, such as differences between pairs, order relationships or categoric frequency, and no use is made of the assumed features of the population distribution.

A problem that limits the use made of non-parametric tests in this research is that techniques based on ranks have reduced validity when the data is not continuous. This is because continuous data minimises the number of ties which occur between scores and so allows a complete ranking to be established. Discrete data, unless the number of categories is large relative to the sample size, will produce a greater number of ties and so reduced validity. Because with sample of 24 and five point scales the potential for ties is very great, these techniques are less useful than at first appears. The problem of ties is significantly reduced if one of the scales used contains continuous metric data with few or no ties, for instance relative market share figures or mean performance rating awarded by experts. In this case it is possible to use non-parametric techniques, such as Spearman's rank correlation coefficient.
Given the problems that arise from firstly an inability to make assumptions about the underlying population because of the size of the sample and secondly from the fact that the data is discrete it is apparent that for analysis of univariate relationships within the data set, the choice of technique is heavily constrained. To overcome these problems the best technique appears to be contingency table analysis, which is based on counts, rather than ranks, so avoiding the problems due to discrete data causing ties. The theory of the \( \chi^2 \) test which can be applied to contingency tables is presented in appendix 3 of the thesis and the adjustments that have been made to the basic technique to avoid problems due to small sample size are discussed below.

4.3.2 Notes on \( \chi^2 \) Tests

Chi squared tests are approximate. Reynolds (1977) points out three assumptions.

1. Either the underlying distribution is "multinomial" (e.g. \( k \) discrete outcomes, where the probability of the \( i \)th result is denoted by \( P_i, i = 1, \ldots, k, \) with \( \sum P = 1 \). The cell probabilities remain constant for all trials, which are independent) or is "product multinomial" (if one set of margins are fixed).

2. Random sampling ensures that the observations are independent.

3. The categories are mutually exclusive and exhaustive.

These assumptions are usually implicit since it is reasonable to make them in most circumstances. The principal problems associated with \( \chi^2 \) arise from the sample size. The \( \chi^2 \) value calculated for a contingency table (the goodness of fit \( \chi^2 \)) is only approximate to the theoretical distribution and therefore the assumption must be reasonable. It becomes more difficult to accept the approximation as the sample size falls, and the
adequacy of the approximation is also affected by the number of cells, the significance level and the distribution of cells within the table. Reynolds (1977) suggests that, in general, it is considered acceptable if each cell has an expected frequency greater than 5 - so the sample size and distribution over columns are both important. In larger tables it is acceptable if most cells (90%) have an expected frequency greater than 5. Other comments on the validity of \( \chi^2 \) include Chatfield (1983) "if there are more than about ten categories, then the approximation is valid provided that less than 20% of the values of \( e_i \) (the expected value) are less than five, and provided that none is less than one" (p.150). Bartlett (1975, p.50) uses a \( \chi^2 \) test where all the expected values are equal to four. Lewontin and Felsenstein (1965) gave a rule for tables where \( r \), the number of rows, equals 2, and \( c \), the number of columns, varies;

"The 2Xc table can be tested by the conventional chi-square criterion if all the expectations are 1 or greater".

The authors actually suggest that this is conservative and in the majority of cases the chi-squared criterion can be used when the smallest cell has an expected frequency in excess of 0.5. There is therefore some dispute over the minimum expected frequency that is reasonable for a \( \chi^2 \) test to be valid. Given the small sample size the best way to avoid this problem appears to be collapsing the contingency table to a 2X2 format and calculating a Fisher Exact test. The validity of such action is discussed in section 4.3.3 below.

A final point that must be noted is that the conventional \( \chi^2 \) test is not directed at a specific alternative hypothesis and therefore it only measures departures from expected values. It provides no indication of any patterns that may be true if \( H_0 \) is false. In the context of a 2X2 table the interpretation of the test result is
simple, since it indicates whether or not the proportions of cases in each row (or column) in each half of the table are significantly different.

4.3.3 Collapsing Contingency Tables

Because of the small sample size, it is not possible to produce valid \( \chi^2 \) measurements from the research data if a full contingency table is used in all cases. With a sample of 24 companies reduction of a 5X5 table will increase the mean expected frequency from 0.96 to 2.67 in a 3X3 table and 6 in a 2X2 table. Using a 2X2 table also allows a Fisher Exact test to be calculated, although this is not usually considered necessary for samples greater than 20. Collapsing as many contingency tables as possible to 2X2 seems the best way to enable measurement of independence, if this is a legitimate exercise.

If we consider a five point scale, ranging from "very good" to "very poor", then there is an intuitive logic to combining the end pairs of variables, "very good" and "good" for instance into "above average", to produce a three point scale. Collapsing the scale could go further, into a two point scale, e.g. "average and above" and "below average" without losing meaning in terms of interpretation. For this reason pooling of categories, or collapsing variables as it is also known, is a popular technique and widely used (e.g. Doyle, Saunders and Wong 1986). Combining or eliminating categories keeps the expected cell frequency greater than five. The precise trade off between collapsing a table and using one with expected frequencies below 5 in some cells is unclear and is addressed below.

Everitt (1977) is critical of this technique. He points out that

"A considerable amount of information may be lost by combination of categories, and this may detract greatly from the interest and
usefulness of the study. Secondly, the randomness of the sample may be affected. The whole rationale for the chi-square tests rests on the randomness of the sample, and the categories into which the observations may have fallen are chosen in advance. Pooling categories after the data are seen may affect the random nature of the sample, with unknown consequences. Lastly, the manner in which categories are pooled can have an important effect on the inference one draws. The practice of combining classification categories should be avoided if at all possible". (Everitt (1977 p.40)

Various statisticians have addressed the problem of the inferences drawn from a contingency table being affected by the collapsing of tables (Goodman 1968, 1981, Feinburg 1980, Gilula 1986, Gilula and Krieger 1983, 1989). Goodman (1981) proposed "homogeneity" and "structure" as the criteria on which to judge the grouping of contingency tables. The homogeneity criterion is particularly important with respect to unordered contingency tables, but its relevance is actually quite general. The homogeneity criterion is explained in terms of the change in the chi-squared statistic when collapsing is carried out. Gilula and Krieger (1989, p.425) state

"the value of the chi-squared statistic for homogeneity (independence) for a continuity table is identical with the same statistic applied on the original table collapsed over particular rows or columns, if and only if, there is complete homogeneity of rows and complete homogeneity of columns over which the table is grouped. In such a case we say that there is "no reduction of chi-square" , hence, from an inferential aspect, a (sufficiently) small reduction in the chi-square value is evidence for homogeneity of particular rows and columns in a table."

The higher the level of homogeneity, the less the change in chi-square when the table is collapsed. Thus collapsing the table is less disruptive when the categories combined have a less heterogeneous distribution. Goodman (1981) demonstrates this criteria
by using two alternative groupings to turn a 8X8 table into a 7X7 table, pointing out that the grouping that was best under the homogeneity test was between the most intuitively similar categories. The structural criterion introduced by Goodman is based on measurements of association. Collapsing a table by combining variables reduces the information available about the association between rows and columns. The structural criterion says that it is better to combine categories with weaker associations, since this preserves the maximum amount of information. There is, of course, a possibility of conflict between these two criteria, and Goodman advocates looking at the overall effect on association between categories to determine which is the more appropriate grouping of variables.

In this research, in order to reach universally acceptable levels of expected frequency, then the categories in the contingency table must be combined to produce a 2x2 contingency table. This grouping can be carried out in many ways; "average and below" against "above average", "average and above" against "below average", "very much below average" against "the rest", "very much above average" against "the rest" or "average" against "non-average". In carrying out this grouping the criteria of homogeneity and structure must be applied, in line with the work discussed above, to ensure that the best grouping results with distortion minimised. In addition, the results must remain interpretable. In analysing contingency tables Everitt's principal criticism of this method can be deflected if no change in the original definitions of categories being made. The problem of spurious relationships arising from poor grouping rather than from relationships within the data itself can be minimised by carrying out alternative grouping of categories. The underlying guide in grouping categories of response has to be logical consistency. The issue becomes much more difficult when the categories do not represent intervals on a scale, but categories
(nominal data). For instance, if the five categories represent different types of finance company, e.g. clearing banks, building societies, mutual insurance companies, composite insurance companies and overseas banks. In this case the logical grouping of categories cannot be made in the way outlined above. It can be seen that collapsing a contingency table dealing with classifications consisting of nominal data rather than interval is a far more complex problem. Hence the quantitative analysis of the data from this research project concentrates on the data collected as interval data, where collapsing contingency tables to increase expected frequency is a more straightforward exercise.

4.4 Introduction to Multivariate Analysis

The value of multivariate techniques in data analysis has been outlined by Hooley (1980 p.381);

"The increasing complexity of most marketing situations has led to a need for techniques which can examine many factors at the same time. The tried and tested techniques of cross-tabulation and analysis of variance still have a major role to play in the analysis and presentation of marketing data. However, as many managers and analysts will recognise, when the number of variables concerned increases the possible combinations of two dimensional crosstabs increases even more rapidly. Multivariate techniques seek to examine all the variables of interest simultaneously and hence cut through the mass of output that can often be a barrier to the presentation of useful, incisive, management information"

However, Hooley also points out that in using multivariate techniques it is vital not to become "technique orientated", but rather to select techniques on the basis of the information they can deliver and the appropriateness of their use, rather than to demonstrate the skill of the researcher.

In this research, the principal multivariate technique used is discriminant analysis. In the majority of the
data analysis in this research the objective is to distinguish between two or more groups of companies, for instance, between better and worse performing companies. Discriminant analysis provides a means of identifying the variables that best distinguish between these groups and their power to discriminate between the groups. It is therefore a very appropriate technique for this research.

Appendix 4 of this thesis contains a discussion on the basic method of discriminant analysis. The modifications carried out to the basic discriminant analysis techniques to avoid problems due to small sample size in validation are discussed below. In the final section of this chapter the problems that prevented the use of other multivariate techniques in this analysis are discussed.

4.4.1 Notes on Discriminant Analysis

Discriminant analysis is a technique in which a linear combination of variables is used to distinguish between two or more categories of cases. The theory of the technique is explained in most multivariate statistical texts (see for instance Morrison 1976 pp.230-246), the discussion of its application to marketing can be found in Green et al (1988 chapter 13) and also in Lawson (1980). The objectives of discriminant analysis are firstly, to create a measure through which categories of cases can be separated by minimising among group variance c.f. inter-group variance, secondly, to establish procedures to allow new cases, whose profiles but not categories are known, to be assigned to a group, thirdly to test whether significant differences exist between the mean predictor-variable profiles of the groups and finally to determine which variables are the greatest contributors to inter group differences in the mean predictor-variable profile. Discriminant analysis therefore has two distinct purposes. The first is predictive analysis, the generation and optimisation of the discriminant functions to predict group membership.
The second is classification analysis, which uses the discriminant functions derived in predictive analysis to classify fresh data. This classification process also forms the standard verification technique for the predictive functions.

Having decided against using parametric techniques because of the assumptions demanded about the underlying population distribution, it should be pointed out that using discriminant analysis also involves assumptions about the underlying population distribution (i.e. that it is a multivariate normal distribution and that the groups under consideration have equal covariance matrices). Although research has been carried out on transformations to remove outliers and improve the distribution of data (Watson 1990), it has also been demonstrated that discriminant analysis is a relatively robust technique (Lachenbruch 1975), in that its performance is not particularly sensitive to minor violations of the underlying assumptions. To reduce problems in this research only the variables where the data was scaled on 1-5 Likert scales and the assumption of equal intervals could be made were used as inputs. In assessing the importance of the violation of assumptions in discriminant analysis Klecka remarks;

"For the researcher whose main interest is in a mathematical model which can predict well or serve as a reasonable description of the real world, the best guide (to the impact of violation of assumptions on discriminant analysis performance) is the percentage of correct classifications. If this percentage is high, the violation of assumptions was not very harmful. Efforts to improve the data or use alternative formulas can only give marginal improvements. When the percentage of correct classifications is low, however, we cannot tell whether this is due to violating the assumptions or using weak discriminating variables." (Klecka 1980 p.62)
Validation of Discriminant Analysis

Validation is an important aspect of discriminant analysis. There are two areas which require attention. One is the extent to which the classification is accurate (the estimation of error rates in classification), the other is assessment of the extent to which the discriminant coefficients are accurate measures of the relationship between variable value and class (evaluation of the stability of the coefficients). These factors affect the usefulness and reliability of the discriminant function when it is required to classify fresh data.

This problem is particularly important with regard to small sample sizes. Regardless of sample size, the classification of cases tends to be abnormally accurate (upwards bias) when the data used to generate the discriminant function is also used for its validation (Franks, Massy and Morrison 1965). The traditional solution to this problem is the "holdout method". In this method only part of the data is used to generate the discriminant function and then the function is used to classify the remaining, fresh cases. The holdout method is therefore useful in generating an estimation of error rate in classification without the upward bias caused by using the calibration sample for validation.

The weakness of the holdout method is its impracticality for small samples;

"Splitting an already small sample makes the derived coefficients even less reliable. The error rates in classification may not be representative of the function which could be derived with the total sample. Further more as typically applied this approach is useful only in considering classification and does not help in determining the validity of the profiles or underlying dimensions" Crask and Perreault (1977 p. 61)

An alternative validation method uses Monté Carlo simulation to create pseudo observations (Frank, Massy and Morrison 1965). The pseudo observations are formed
into a matrix of the same structure as the original matrix that was used to construct the discriminant function i.e. each pseudo observation contains as many random numbers as there are variables in each original observation, and the number of pseudo observations created is equal to the number of cases in the original sample. These pseudo observations are then randomly assigned to classes in the proportions observed in the original sample. Creating a discriminant function from the pseudo observations gives an estimate of the percentage of correct classifications that are spurious i.e. to be expected given the sample size, number of variables and number of observations. Repetition of the technique improves the estimate.

The limitations of this method are important. Firstly, it is rarely the case that the predictor variables are independent and the estimation of error is inappropriate if this is not the case. Secondly, the Monté Carlo method does not test the stability of the coefficients.

A similar method (Montgomery 1975) assigned actual observations to classes at random, and so avoided the problem of assuming independence. Again, the resulting discriminant analysis allows the error rate of classification for the original sample to be compared to that which one that might for a random classification, but like the Monté Carlo method there is no analysis of the stability of the discriminant function coefficients.

Two methods which together offer an analysis of the stability of the coefficients and the error rate in classification are "jack knife" and "U-method". These techniques utilise a similar approach, reusing the original sample, and are occasionally confused.

The jack knife method (Tukey 1958) is described as:

"A general method for reducing the bias in an estimator while providing a measure of the variance of the resulting estimator by sample
reuse. The result of the procedure is an unbiased, or nearly unbiased, estimator and its associated approximate confidence interval" (Crask and Perreault 1977 p. 61)

The method involves drawing a series of subsamples (one observation or more) from the full sample to create an estimator of the original sample bias and hence give an evaluation of the coefficient stability. The construction of the jackknife estimator is outlined below.

Taking a random sample of size N with an observed value X for each of the N sampling units. Let the sample be partitioned into k subsets of size N - M. The optimum value of M depends on the nature of the statistic under investigation (Shao and Wu 1989). In this case 1 is appropriate but in more general cases, e.g. investigation of the median, a larger value of M may be appropriate. Let E' be an estimator based on all the observations and E'_i be an estimator based on the resulting observations when a subgroup (i) is removed.

Pseudo values are computed for each of the resulting subgroups. These measure a weighted difference between the full sample estimator E' and each subgroup estimator E'_i.

\[ J_i = kE' - (k - 1)E'_i \quad i = 1, 2, \ldots, k \] (1)

The jackknife estimator is then:

\[ J = \frac{1}{k} \sum_{i=1}^{k} J_i \] (2)

The value of this statistic is two fold. Firstly the pseudo values can be treated as independent, identically distributed random variables and used to obtain a confidence interval for J, which can then be tested using Student's t test (k - 1 degrees of freedom). The confidence interval test gives an indication of the stability of the coefficients, e.g. to what extent their
calculated values change as the data set changes. In addition the bias of the jackknife estimator is less than the bias in the original estimate. Thus jackknife provides a valuable tool to analyse the stability of coefficients. It is discussed in more detail by Diaconis and Etron (1983) and Dillon (1979).

The U-method has a similar reuse approach (Lachenbruch and Mickey 1968). One observation is omitted from the analysis and a discriminant function derived using the remaining $N - 1$ cases. This function is used to classify the remaining observation that has been omitted. Repeating this analysis for all the $N$ cases gives an estimate of misclassification for each group (e.g. number of mis-classifications/total number of classifications). The proportion of cases classified correctly or erroneously is normally represented in a "confusion matrix". Hence a better estimate of classification accuracy can be calculated. The combination of jackknife, yielding a function where coefficient stability can be tested, and U method, giving a validating set of classifications, overcomes many of the problems associated with small sample size.

A more detailed discussion of the use of discriminant analysis in non-optimal situations can be found in Dillon (1979).

4.4.3 Variable Selection in Discriminant Analysis

When using the jackknife approach the optimum set of variables for use in the discriminant analysis can be defined as those resulting in the discriminant function with the maximum proportion of variables where there is significant confidence about the coefficient value and an acceptably low level of mis-classification. The conventional method of determining the optimum set of variables to include in a discriminant analysis is to use a stepwise procedure, selecting variables for inclusion
in the calculation in turn on the basis of some selection rule. A common rule is the minimisation of Wilk's Lambda, a measure of group differences over the discriminating variables (Green et al 1988 p.523).

When using jack knife for validation purposes it is not possible to use the stepwise method of variable selection. The jack knife method is based on using the same variables but many slightly different set of cases, and so testing the robustness of the coefficients generated. A stepwise procedure might result in a different set of variables being used to generate the discriminant function for each subset of cases. It is therefore necessary to pre-select the variables to use in generating the discriminant function and include all these variables in a single step calculation, the "direct method".

Pre-selecting variables is not straight forward. Several factors act on the data as the number and combination of variables change. Firstly, because reduction of the number of independent variables reduces the amount of information available for classification of cases the mis-classification rate is likely to rise as the number of variables decreases, despite the fact that the variables removed are of little statistical significance. Secondly, for similar reasons, reducing the number of independent variables utilised is also likely to decrease the stability of the coefficients. There is therefore likely to be a trade off between classification accuracy and the stability of coefficients on one hand and the proportion of independent variables that have stability on the other. A third problem should be set against this. Because the analysis is multivariate, relationships between variables will affect the results. For instance the significance of a variable may be reduced by inclusion of variables with a high level of multi-colinearity. Hence it is possible for reduction of the number of variables used to produce the opposite
effect to that outlined above. The problem is analogous to one found in astronomy. Increasing the amount of information collected should increase the accuracy of observation but increasing the amount of information gathered also increases the amount of "noise" that must be dealt with. Hence the accuracy of observation may suffer. Faced with this problem the selection of an optimum set of variables necessarily becomes a process of experimentation.

Two methods were utilised to determine which independent variables should be used. Univariate analysis using contingency tables and Fisher Exact tests provided a guide to variables that one might expect to be important in classification. All variables with two tailed Fisher Exact test scores of less than 0.2 when cross tabulated against peer estimation of success were included initially. This relatively high cut off score was considered necessary because, due to interactions between independent variables, there is no guarantee that significance in univariate analysis corresponds to significance in multivariate analysis. The results of the univariate analysis were therefore supported by carrying out stepwise discriminant analysis including all variables on both the full set of cases and the subsets of cases generated for jack knife analysis. The results of this process were examined to determine which variables were included in the analysis of many sets of cases at an early stage. Having used two methods to develop an initial set of variables for use in the discriminant analysis, the results can be examined and the variable set adjusted by inclusion or elimination of variables. By this method of experimentation, possible variable sets were examined against the criteria for the optimum variable set defined at the start of this section.
4.4.4 Use of Discriminant Analysis

Discriminant analysis is a common technique in social science investigation (some examples are given by Klecka 1980 p.12). However its use in examining banking issues is restricted to Pool (1974), who used discriminant analysis to identify the characteristics that distinguish users and non-users of cash-dispensing machines, and Awh and Waters (1974) who used discriminant analysis to examine the differences in characteristics between users and non-users of bank credit cards. The use of discriminant analysis is relatively rare for two reasons. Firstly because the majority of banking research is relatively unempirical, using only frequency data and univariate analysis at best. Secondly because the majority of empirical work of a type where discriminant analysis would be useful is on a priori segmentation, where the preferred technique seems to be determinant attribute analysis. This technique is based on sampling customer opinions and measuring the importance of choice determinants and the uniqueness or sameness of these among the institutions under consideration (see Laroche and Taylor 1988 for a discussion of the method.) Determinant attribute analysis is not suitable for use in this research because it is designed to examine customer preferences rather than descriptions of organisations.

4.4.5 Other Multivariate Methods

Two other multivariate methods were used to analyse the data, factor analysis and cluster analysis. Problems were encountered using both techniques due to small sample size. In the case of factor analysis it is a general rule that the data set should contain ten times as many cases as variables (Green et al 1988 p.576). In this case the number of variables exceeds the number of cases.

Cluster analysis is also problematic with small sample size. Problems arise in cluster analysis because of
"outliers", that is cases with low similarity to any others (Punj and Stewart 1983). In small samples the presence of outliers results in single case clusters. Cluster analysis was applied to the sample using the recommended technique for small sample validation given by Wishart (1987 p. 18-20). This validation method attempts to assess the stability of cluster membership by applying a range of hierarchical clustering algorithms (Ward's method, average linkage) reallocative algorithms (K-means from different starting cluster formations) and overlapping clustering techniques (see Blashfield 1978, Punj and Stewart 1983 for a discussion of the various algorithms). The variety of methods provide alternative clusterings and validity is indicated by the stability of cluster membership across techniques. Applying this technique to the sample did not produce the necessary cluster stability for the validation to be considered successful, and the results of the cluster analysis are not therefore reported.

The instability of the clusters identified therefore prevented examination of the hypotheses (H3, H3A, H3B) relating to strategic groups. It was not possible to establish satisfactorily the similarity of companies and therefore strategic group membership could not be determined.

4.5 Conclusions

This chapter has sought to provide an explanation of the methodology employed in the research project. The first part of the chapter has dealt with the choice of the level of the company to investigate, concluding that investigating strategy and practices at a product level and overall retail financial service market level was the most appropriate method. The choice of product areas in which to investigate strategy and practices has also been discussed, and the selection of a range of products covering the core products of the major financial
institutions as well as providing a degree of overlap explained. An explanation of the decision to use a semi-structured questionnaire in an interview situation has been given, and the method by which the questionnaire was designed and piloted has also been discussed. Attention was also given to the choice of companies to approach and the methods by which participation was maximised.

In the second part of the chapter the choice of the major techniques used for data analysis was explained. With respect to contingency table analysis, the limitations imposed by the low expected cell frequency have been discussed, as has the validity of collapsing the contingency table as a method to increase expected cell frequency. The objectives of using discriminant analysis for multivariate analysis have been explained. In the light of the difficulties of making assumptions about the underlying population distribution particular emphasis has been drawn to the robustness of discriminant analysis in the face of violation of assumptions. Also emphasised and justified are the alterations necessary to the standard validation technique to allow for the small sample size. The reasons for the limited use made of multivariate techniques in comparison with much current marketing research have been laid out.
5.1 Introduction

The techniques of marketing and strategic management have been presented to companies as methods which, if used correctly, will improve their performance in the marketplace, lead to greater success or make them more competitive. As Venkatraman and Ramanujam (1986) state:

"Performance improvement is at the heart of strategic management. More formally, the importance of business performance in strategic management can be argued along three dimensions - namely, theoretical, empirical and managerial. ... Empirically, most strategy research studies employ the construct of business performance to examine a variety of strategy content and process issues."

(Venkatraman and Ramanujam 1986 p.801-2)

This research follows such an empirical path. One of the hypotheses of this research seeks to determine whether or not there are differences in marketing practices or strategies between more and less successful companies in the UK retail financial services industry. One of the problems that has to be addressed therefore is how to measure success in companies.

This chapter discusses the problems associated with defining and measuring concepts such as performance, and draws on recent research to illustrate how this measurement has to be carried out in practice. The applicability of four possible methods of developing a measure of performance to this research project are discussed. These are financial measures, self assessment, peer assessment and expert assessment. How the methods which prove useful can be utilised and data captured is discussed. The possibility of using customer assessment to measure corporate performance is also discussed.
5.2 The Concept of Performance

The first stage of the process is one of definition. What is meant by "a more successful company"? This problem is often encountered in studies comparing companies (see for instance Peters and Waterman 1982, Goldsmith and Clutterbuck 1984 and Clifford and Cavanagh 1985). It would be equally meaningful to talk of marketing practices and strategy affecting the "competitiveness", or "competitive performance" of companies and attempt to group the firms on this basis. A further possible ranking would be according to "performance". At first glance, all these measures are synonyms. Often the Fortune 500 list is described as America's "most successful companies" or "best performing companies". It is clear that these words can describe much the same thing in this context.

The Oxford English Dictionary defines "success" as "accomplishment of end aimed at". This definition is in one sense flawed. If the end is limited to one which is easily accomplished, for instance, maintaining market share, rather than something more difficult, such as increasing market share by 100%, then the first company is successful if its market share does not fall, the second is not successful if its market share only increases by 80%. It is a situation similar to that of the stoic. A stoic achieves total fulfilment of desires by eliminating the desires that cannot be fulfilled. A company can be completely successful by eliminating all ends that are at all ambitious.

"Performance" is widely used to describe the results of a firm's actions. It is however a difficult concept to define. One only needs to listen to football managers claiming nil-nil draws as great performances or terming narrow victories as poor performances to know that definitions of performance vary. One method of avoiding the difficulty of concepts such "improving performance" has been demonstrated by classical economics. Classical
economists make the assumption that all firms have the same objectives in all cases, that is profit maximisation, and that better performance is achieved by maximisation of profit. This assumption removes the multidimensional aspects of performance, using profit as a surrogate. Classical economic theory can therefore be interpreted in two ways; either recognition that firms may have goals other than profit adds nothing to the validity of the model or it assumes that all a firm's other goals may be accurately subsumed under profits. The latter interpretation is neatly summed up in Milton Friedman's dictum "the social responsibility of business is to increase its profits". There has been considerable debate over the accuracy and appropriateness of the assumption of profit maximisation (see Koutsoyiannis (1979 p. 256-270) for a summary of this debate), but it is the simplicity that the assumption of profit maximisation lends to modelling the behaviour of firms that underpins many of the most exciting developments in microeconomics.

Management research does not share with economics the assumption that all firms maximise profits at all times. Much management research is devoted to seeking methods to improve profitability or identifying factors that lead to differences in profitability between companies. In economics there is a long tradition in model building that predictive ability rather than realism in assumptions is the criterion for judging models (Friedman 1953). However empirical research in management attempts to investigate reality. To assume that all firms seek to maximise their profits ignores considerable evidence that firms have alternative goals. Virtually any company mission statement will include not only a statement referring to share holders' returns, but also statements about attitudes to customers, staff and the community. In this research project the companies under investigation include two types of mutual companies, building societies and mutual insurance companies.
Mutual companies are not explicitly profit making institutions, so assuming that profit is a suitable surrogate for all other performance measures is not justifiable. Some performance measure reflecting these differences must be found.

Work has already been carried out in Britain to attempt to define and discover measures of competitiveness under the ESRC Competitiveness Initiative. Buckley, Pass and Prescott (1988 & 1989) suggest that profitability and market share provide the measures used by companies but do not offer any assessment of their validity. Littler (1988) is also examining this problem. So far the ESRC studies have yet to produce any definition of competitiveness, or more significantly, measures, that would be usable in this context. Elsewhere Day and Wensley (1988) discuss the absence of suitable measures of competitive position and suggest some of the characteristics that such a measure should account for. However the problem is not merely one of measuring concepts such as "competitiveness" it is also one of definition. In marketing "competitiveness" is used as a technical term, and used sufficiently for its meaning to be generally understood, if not frequently defined. Although these studies have highlighted many of the issues bound up with measurement of performance or competitiveness, none has been able to advance an acceptable definition of competitiveness.

It can be seen from this discussion that no universally acceptable definition of concepts such as performance, success and competitiveness exists. However, the problem of comparing companies on such a basis occurs repeatedly in management research. The next section reviews some recent publications making such a comparison between companies and examines how it was carried out.
5.3 Examples of Recent Research Assessing Performance

Other empirical studies have encountered this problem previously. Three recent publications serve to illustrate some of the approaches adopted by researchers. Norburn and Birley (1988) report a cross industry study where the set of common performance measures did not include profitability. They therefore based their performance assessment on the sales and employment data that was available using sales revenue, sales growth, employment growth and sales per employee as performance measures. Lyonski and Pecotich (1990) attempted to measure the impact of formalised strategic marketing planning on performance. They noted;

"The measurement of organisational performance presents both conceptual and methodological problems...In part this difficulty emanates from the many different indicators of performance which can be used. Each of these provides different kinds of information which may be applicable to different situations and more importantly which may lead to different results" (Lyonski and Pecotich 1990 p.1672)

Lyonski and Pecotich carried out regression analysis using a variety of measures of performance as the dependent variable. These were last year's sales revenue, last year's profit/loss and the manager's "indication of the performance of their company in relation to their perceptions of their major competitors" in terms of profit, sales volume, market share, brand awareness and return on investment (ROI) captured on a five point Likert scale. They found that the data based measures showed a stronger relationship between planning and performance than the perceptual measures. Hooley, Lynch and Jobber (1990) also attempted to measure performance in examining strategy in relation to the environment in which companies operated. The companies were formed into clusters on the basis of their assessment of the environment they faced. Hooley et al used data based measures (profit margin and return on investment, averaged for cluster members) and perceptual
measures. Managers were asked if their company's performance had improved, stayed the same or deteriorated relative to their position the year before and their competition in terms of profit, ROI, sales volume and market share. Only performance improvement on the previous year showed differences between the clusters of companies. A further approach was used by Covin and Slevin (1989). They asked firms to rate, according to the degree of importance they attached to them, a range of performance indicators (e.g. sales level, profit margin, return on investment etc) and then asked the firms to rate each of the variables again according to their satisfaction with their performance on that criteria. The satisfaction scores were multiplied by the importance scores to compute a weighted average performance index for firms.

These studies all deal with situations where suitable financial performance measures are either not available or not unique. They demonstrate the two basic methods that are available for measuring the performance of a retail financial services company. The first method is to use financial data published by the company. The second is to use opinions. The response of the researchers ranged from using alternative financial data to constructing entirely judgement based measures. The benefits and problems of these various approaches are discussed below.

5.4 Financial Measures of Performance

5.4.1 Data Selection

The ideal measure of performance would use publicly available data to produce an unequivocal, agreed data-based measure that would thus have some degree of objectivity and would produce results that would be repeatable by anyone who cared to try.
The PIMS project provides a good example of an attempt to use a single data based measure of performance. The PIMS project used Return on Investment (ROI) as the primary measure of performance. However, as critics of the PIMS project have pointed out, ROI may not be suitably global in its nature for this sort of measurement. The quotation below illustrates the dangers of using ROI as a measure of performance, by considering what might occur if a firm where solely pursuing a ROI target.

"ROI ... may inhibit long-term goal attainment, especially investment in plant and equipment and similar capital spending; there is an unwillingness to take growth related risks, since ROI is usually measured in the short-term. Strategic decisions which may result from the use of ROI include analysis of and possible elimination of marginal products or product groups, price adjustments for low return items, and decreasing inventories to improve returns. New investment is particularly neglected since these investments may not produce a significant return for several years ... Problems resulting from these decisions may include long-term unemployment, capacity shortages, and diminishing sales growth ... We feel that the criterion may be overly conservative and short-sighted."

(Anderson and Paine 1978 pp. 283)

Similar arguments can be made about any financial performance measure taken in isolation. It is possible to take a different approach and examine performance in terms of human resource management, in which case key measures are job creation and employee productivity (Taylor and Paul 1986), or in terms of corporate social responsibility (O'Toole 1985 and Tuleja 1985). It is clear from this that the measure chosen as best approximating to performance will depend on the definition of performance adopted and therefore on the background of the chooser. There is therefore no single accepted piece of data that can be reliable and used to provide a comparison without serious dispute and a considerable amount of justifying argument.
However this problem may not matter in the "real world". It might be argued that firms as well as researchers are faced with a range of measures that can be used to signal their performance when they report to their stockholders. Decisions on the value of a company after its report are made on a range of figures, such as profits, ROI, dividend and change in assets etc, and not on any one in particular. All these measures will be taken into account by city analysts when setting the share price at which they wish to trade and so it is important for the company, to avoid takeover and so on, to produce a set of measures that will ensure the maximum stock market valuation. The firms, by this argument, do not seek the maximisation of a single variable, but rather manipulate a range of measures to ensure the maximum share price. Since many of these variables are causally linked or not subject to trade off between them, it is likely that a firm which produces a high value for one particular measure of performance will produce high values for several of them. In this case one would merely have to select a representative single measure and it would be reasonable to assume all other measures indicated similar performance. It is, however, not difficult to think of counter examples to make the assumption that there is no trade off between performance indicators unreasonable e.g. market share and profitability, management expenses and sales etc.

Even if one could construct an agreed, single data based measure of performance, two further problems must be noted. Firstly, even if, in a simple case of comparison between two companies in the same market, it is possible to determine a data-based measure of performance, this measure is not necessarily valid for another pair of companies or even the same companies at a different time. A data based measure is only valid for that time and in that environment. A good example of this would be international banking. For a time in the 1970s a bank's performance was in part indicated by the size of its
loans made for development. Later, after the Lesser Developed Countries (LDC) debt crisis arose, these loans, previously considered indicators of future profits and current performance, became millstones around the banks' necks and indicators of exposure to bad risk. This difference in the validity of a measure over time occurred because the companies' goals change. This problem is discussed with respect to economists' assumption of profit maximisation above and has been noted with the use of ROI in the PIMS project. Unless one allows for what the company is trying to do, how is it possible to accurately measure their performance? In retail financial services this is a particular problem in that the mutual companies have avowedly different goals from the public ones.

A second problem with data-based measures is the difficulty of interpretation, even for a single, agreed measure. If for instance it was universally agreed that profit growth was the sole measure of performance in an industry, how can one determine which of the two following companies is the better performing. A multinational company with profits up from £100M. to £101M., a rise of £1M. or 1%, or a small market entrant which increases profits from £50,000 to £100,000, a rise of £50,000 or 100%. The problem is that financial measures cannot accurately account for the capabilities of the company under consideration.

Given the above arguments is there any point in attempting to create a data-based measure of performance? Because there is no single measure that is universally acceptable a choice of variable or combination of variables must be made and complete objectivity is lost (it is debatable of course if it was ever there in the first place). No data based measure, even if generally agreed to, would lead to consistent results because environment and therefore optimum performance will vary with time. However, even though data alone is not
sufficient, and some subjective input is required to determine what data and in what combination is to be used, the exercise will create a measure and because of the element of choice the decisions must be justifiable and defensible, and the understanding becomes more explicit. A second point is that although the measure to be created will not be relative to the goals of the company, in a similar environment and industry, companies' goals will be broadly similar.

Making a contestable choice of a single data measure or constructing a composite data based measure will affect the objectivity of the measure. The effort must therefore be directed at minimizing the effects of subjective judgements, bias and error. Subjectivity will emerge in determining the goals and capabilities of companies and the importance of each data type in providing a measure of performance in this environment. Similarly, if, as argued above, there exists no single data type which can be used, and instead some composite measure must be used, then some subjectivity will emerge in deciding the data to be combined and the method of combination.

5.4.2 Data Availability

It must be noted that there are problems in constructing financial data based performance measures for the retail financial services industry. Comparable and accurate data is scarce. Comparability of data is a problem because of the different traditions and regulations of the various sectors of the industry, so reporting traditions are different. Accurate data is also a difficulty because retail financial service companies that are parts of groups operating elsewhere rarely publish disaggregated data for their retail business only. In fact this is a reflection of a more general problem. Published financial data is normally part of the company's accounts, and researchers have pointed out problems with accounting data. One problem is
consistency, arising because firms differ in their treatment of concepts such as depreciation, transfer pricing and the allocation of costs, so reported differences may in fact be spurious. Because of this problem Fisher and McGowan (1983) argued that all accounting data was fundamentally flawed and ought not be used for research. In addition there is the problem that because the company accounts serve a variety of conflicting purposes they are not necessarily free of bias i.e. information is not necessarily provided irrespective of the influence it may have on the decisions of any given user group (Higson 1989). A counter argument is that of Scherer et al (1987) who point out that these criticisms apply equally to the data used for managerial decision making and quantitative guidance for strategy.

5.4.3 A Possible Methodology

One ingenious approach to the problem of performance measurement has been taken by Reidenbach and Moak (1986) in attempting to measure the impact of US banks' new product development practices on their performance. They used cluster analysis to form the companies in their study into five groups on the basis of financial performance measures. Of course, there is subjectivity in the choice of data to use as inputs into the clustering process and there are implicit assumptions in the choice of clustering algorithm and distance measure, but the technique does allow replication. In addition it is likely to produce more valid combinations of companies than can be produced by eye.

Reidenbach and Moak's method does suggest a methodology for developing some form of data based measure of performance. Multivariate analysis enables a wide variety of data measures related to performance to be analysed simultaneously. A multivariate analysis of a selection of data measures is possible. For instance one
possible method would be to use principal components factor analysis to extract the underlying factors reflected in the various data measures, and rank the companies on their scores on these variables. Alternatively factor scores could be used as the basis for cluster analysis.

A potential methodological problem in using factor analysis in this way is that the data measures may have a misleading statistical relationship between them. The different data measures used may be calculated using the same accounting figures, for instance income or profits over mean assets, management costs over income or assets. The problems arise because the arithmetic operations on the data do not produce "new variables", merely combine those already included in the data set. Gorsuch (1983 p.300-302) discusses the use of derived data of this sort in factor analysis.

The possibility of using multivariate analysis to develop a composite data measure was investigated as part of this research project. Financial data for the past three years was gathered on a large number of financial service companies, including all those in the sample and also all their major competitors, using company reports, 20-F returns (financial data filed with the U.S. Securities and Exchange Commission by some UK banks, which are considerably more detailed than the equivalent company reports) and stock brokers' reports. Of course this data did not necessarily relate purely to retail financial services, since no companies disaggregate their company reports on a market basis. Data such as profits, assets, total income, interest income, new deposit income and management costs were extracted and appropriate ratios calculated. However the data available on companies was inconsistent. Mutual insurance companies do not report or even recognise profit, which is split between transfers to reserves and bonus payments, neither do they disaggregate interest payments from their bonus payments.
Many companies reported only consolidated data, giving net interest receivable or paid and reporting no explicit management costs beyond directors' salaries. Because of these reporting differences the data available on all companies was sparse and unsystematic. The resulting data set contained none of the performance measures normally used in assessing company performance, and instead was an eclectic mix of variables. Attempts to generate a financial data based measure of performance for the sample of companies were therefore unsuccessful.

It is a disappointment that despite the reservations reported above about the validity of a data based measure it proved impossible to test the subjective measures of performance discussed below with public data. Two reasons can be advanced for the difficulties in gathering data to create such a measure. Firstly reporting practices varied considerably between sectors of the financial services industry. Mutual insurance companies in particular had reporting practices that differed considerably from those of companies with quoted shares. However, considerable differences also arose between companies within the same sector. Companies who are wholly owned subsidiaries, for instance Co-operative Bank, Coutts, Save and Prosper, tended to produce highly consolidated figures. There were therefore difficulties in gathering data for comparison both between different sectors of the financial services industry but also between companies from the same sector of the industry.

5.5 Opinion Measures of Performance

Given the problems attached to a financial data performance measure, some subjectivity in choice or construction of the performance measure becomes inevitable. An alternative approach is to recognise the inevitability of subjectivity and use opinions in the construction of a performance measure.
Of course it is possible to combine opinions and financial data. For instance it might be possible to ask a city analyst to create an equation relating the key financial variables to performance. The companies could be ranked by applying appropriate data measures to the resulting equation. Alternatively, the same city analyst might rank the companies directly, without explicitly using data. In the first method an attempt is made to define the underlying relationship between data measures and performance. In the second method it is recognised that disaggregation of the underlying relationship between one or more data based measure and performance is difficult, because for those making the judgement the process is not explicit. Expert systems researchers would say that the analyst is using "compiled knowledge". The analyst's decisions about companies in the market is not based on a specific model of the market or reference to first principles, rather it is based on heuristics and observation of the industry over time. Opinion based performance measures recognise this difficulty presented by compiled knowledge, and no disaggregation is attempted.

In using opinion based measures there are a variety of sources where opinions on company performance can be obtained. Examination of past research reveals four alternatives forms of performance based measures; companies' self assessment, assessment by their peers, assessment by external experts and assessment by customers. The next section of this chapter discusses the advantages and disadvantages of each of these sources of opinions on company performance and gives examples of their use in research.

5.5.1 **Self Assessment**

The most obvious method, frequently utilised in marketing research, is to ask the companies how they rate their own performance. Usage of this method has already been

The advantages of this method are firstly cost, in that a performance measure can be constructed at the same time as other data is gathered since the sample is the same. A second advantage is that companies have the greatest knowledge of their own position. With self assessment as a measure of performance there is, of course, a danger of a reactive bias (Green, Tull and Albaum 1988 p. 211). The managers are aware that their firms are being measured in terms of performance and may not give a "true" response. It is possible that a company will put a favourable gloss on their position that others might deny them.

Previous work of this type with businesses has however revealed a surprising level of frankness and detachment among businessmen when discussing their position (Doyle, Saunders and Wong 1988). The popularity of this method of performance assessment has prompted research to investigate the possibility of bias. The research findings are mixed. Several authors have detected bias in managerial assessments (Barnes 1984, Hogarth and Makridakis 1981, Chakravarti, Mitchell and Staelin 1981). Others have found that managerial assessments are generally quite consistent with both the measures of performance used internally by a company (Dess and Robinson 1984) and those presented publicly (Venkatraman and Ramanujam 1986).

5.5.2 Peer Assessment

Peer assessment, with firms assessing each other, has been used by Barsoux and Saunders (1989) in a study of Britain's most admired companies. Firms were asked to score their competitors in terms of their performance in
various aspects of their management (e.g. skill at marketing, ability to innovate, financial soundness) and the resulting scores aggregated to give an overall score.

Peer assessment has similar advantages to self assessment, in that those in the market have the greatest knowledge of who is doing well or poorly. The costs of measurement are also low. It is not necessary to construct an entirely fresh sample to examine a group of companies, since each company is in a position to assess the performance of others. The research discussed above (Barnes 1984, Hogarth and Makridakis 1981, Chakravarti, Mitchell and Staelin 1981) suggests that all managerial assessments suffer from dangers of bias due to competitive sentiment, but one might expect greater objectivity about others' performance than about one's own company.

5.5.3 Expert Assessment

A final option for performance measurement using opinions is to collect opinions from people outside the competitive fray, external experts.

Varadarajan and Ramanujam (1990) provide a recent example of performance assessment by expert evaluation. They report a study evaluating the characteristics of companies selected by Business Month annually as the "U.S.'s Five Best-Managed Companies". The selection process used by Business Month is one of expert evaluation. The experts are the editors of the magazine, who make their decision on the basis of information provided by staff and after "holding a series of discussions with securities analysts, management consultants and academicians to gain additional insights" (Varadarajan and Ramanujam 1990 p.468).

Expert assessment has the advantage that the possibility of bias due to involvement in the market is reduced. The assessors of performance are impartial with respect to
the competitive situation. Drawbacks are that it is time consuming and costly. Expert assessment involves the collection of data from an entirely separate sample, so essentially a separate research effort is required. A sample of experts must be identified and their involvement secured, and a suitable instrument to capture their opinions must be designed.

There is a potential problem in selecting experts in that the number with equal expertise in all areas of the financial service market might be very small indeed so even coverage across company types might be difficult. Secondly experts' knowledge might be limited to specific areas, such as financial performance or product performance. Any mechanism for measuring expert assessment must account for such variations.

5.5.4 Customer Assessment

Customer assessment of corporate performance is, on the face of it, an ideal measurement basis. After all, meeting customer needs is what marketing is all about. However, the usefulness of customer assessment as a basis for performance measurement is undermined by the comparative nature of the performance assessment. What is required is a direct comparison on some basis, e.g. financial performance, competitive performance or product performance, between companies. An average customer is not in a position to do this, having accurate information on the performance of only one bank, one building society or one insurance company at any time. Customers' ignorance of financial service providers they do not use means that they are unable to make direct comparison between companies themselves, and secondly, concepts such as customer satisfaction are not comparable between companies (Churchill and Suprenant 1982). Customer assessment was therefore not used as a basis for performance measurement in this research.
5.6 Measurement

The previous section has sought to demonstrate that opinion based measures of performance, based on opinions from a variety of sources, have been used successfully in previous examinations of corporate performance. The next section of the chapter seeks to discuss how these measures might be constructed and the necessary data captured.

5.6.1 Self Assessment

The standard method for capturing companies' assessments of their own performance is to use some form of scaling. Firms can be asked to rate their performance either against expectations, against past performance or against competitors. In this case the study seeks to investigate competitive performance, so a rating relative to competitors is required. However, there is also a need to allow for potential. For instance although Barclays and National Westminster are by far and away the biggest banks in Britain, the bank with the highest profitability is the Yorkshire Bank.

To capture this assessment of corporate performance respondents were asked, as part of the interview discussing corporate issues, to rate their company on a five point Likert scale, ranging from "Very much worse performance" to "Very much better performance". They were asked to consider their performance in terms of their own goals as a company and relative to their competition. Similar ratings were constructed on a product basis also.

Perhaps because there is so much written about the problems and failings of financial service companies, the respondent's reported performances that were very much in line with published comments. There was also a high degree of frankness in discussing the reasons for the performance rating that had been given.
5.6.2 Peer Assessment

In assessing peer performance there are a wide variety of methods available. As has been explained Barsoux and Saunders (1989) asked firms to rate their competitors on the basis of a variety of management characteristics. Such an approach involves considerable data analysis. An alternative method might be to present firms with a list of companies and ask them to rate each one on their overall performance rather than on each aspect of their management individually.

There are two problems with presenting a respondent with a list of companies and asking for a rating. The first is a time problem. For the list to cover all potentially highly rated companies it will have to be fairly substantial and discussion will be time consuming. However the primary purpose of the interviews with managers is to gather information about their own company. Hence the amount of time available for gathering data on peer admiration is constrained. Secondly, there is a danger in presenting a list of implanting a form of instrumental bias (Green et al 1988 p.210). Managers might react to the contents of the list rather than present their true judgement. Managers may feel required to produce a statement about a company about whom they know very little in order not to appear ignorant. There is no guarantee that the quality of the assessment, in terms of the knowledge on which it is based, will be consistent for all companies listed.

An alternative method is to dispense with ratings and to ask respondents which other financial service companies they admired for their performance. Such a method is a considerable saving on time, with the respondent controlling the length and contents of the list under discussion. The weakness of this method of data collection is that there is no mechanism for individual respondents to distinguish between the firms listed. However across the sample it is possible to rank
companies in terms of the proportion of companies in the sample who expressed admiration.

Because of the time constraint the second method was adopted. Respondents discussing corporate issues were asked which other financial service companies they admired. Thirty three companies were named by their peers, and fourteen of these companies were participants in the research (42%). These fourteen companies including five of the top six companies in terms of the number of peers who said they admired them. A further ten companies amongst those admired by peers had been invited to participate but declined. Twelve companies that were amongst those interviewed about their marketing strategies and practices were not named as admired companies by respondents. Whether a company was admired or not was independent of the type of institution it was, i.e. proportions of banks, building societies and insurance companies amongst the admired and unadmired companies were not significantly different.

5.6.3 Expert Assessment

As mentioned above, expert assessment of companies requires a separate data gathering exercise. Experts must be identified and polled as to their perceptions of company performance. The research seeks to generate a comparative ranking of companies in terms of performance, so any experts identified must be in a position to compare between companies on present activities. Hence the experts in the retail financial service industry can be defined as those with a professional knowledge of the industry, people who earn their living making the sort of comparisons necessary in this research. Such experts would include investment analysts and stockbrokers, personal finance journalists, city journalists and academics researching in the area.
A potential problem is that an assessment by experts of the performance of companies might be constrained by uneven knowledge of the market on the part of experts, e.g. knowing only some of institutions involved. Alternatively there might be uneven expertise, e.g. knowing the performance of companies only in financial or market terms.

The ideal way to avoid such problems would be to gather experts together, allow them to discuss the companies on the basis of their own expertise, and create an agreement between experts with different perceptions based on expert knowledge. This is clearly impossible. Experts in financial services, on the basis of the definition given above, are professionals, often in the City. Their time is extremely highly priced by their employers and it is clearly impossible to bring a suitable group together.

A second problem with a face to face meeting is the effects of personality on meetings. For instance, there is a danger that a face to face meeting will produce a consensus judgement that over weights the opinions of the most vocal and under weights the opinions of the least.

A method to combat the problems of partial knowledge, the influence of personality and to overcome the costs of convening a face to face meeting is the Delphi method (Dankley and Helmer 1963). The Delphi method is essentially a system of anonymous polling with feedback. There are several advantages that may be briefly stated. The group of experts are required to give their opinions, justify them and, if necessary, revise them in the light of others' arguments. This process continues until a consensus is reached or is seen to be unachievable. The effect of errors due to misunderstanding and misinterpretation would be reduced by introducing the feedback. Anonymity among the experts ensures that the effects of reputation and extraneous opportunities for influence are minimized.
Using the Delphi method to investigate experts' perceptions of company performance involved separate field work and research. Accordingly the construction, administration and findings of the Delphi survey are discussed separately in chapter 7.

5.7 Conclusions

From the discussion of performance measurement, it can be seen that this is an area of management research where there is considerable debate. A variety of methods for measurement are available, yet no single method is without its critics. The four principal methods used in management research; financial measures, self assessment, peer assessment and expert assessment of performance, have been explained and exemplified. The reasons why consumer assessment was felt to be unsuitable have been discussed.

The difficulties attached to developing a measure of performance in this research based purely on reported financial data were substantial. What common data could be used to construct a measure was limited and unsystematic, amounting to an eclectic collection of unrelated ratios derived from the company reports and containing none of the traditional indicators of performance. It was therefore not possible to construct a useful financial data based measure of performance.

The opinion based measures of performance are all available for this research project. Given the debate that exists over measuring performance the use of a variety of measures with reference to a single sample of companies provides an opportunity to compare the findings based on each. The method by which the data necessary to construct each measure of performance might be collected and handled has been discussed.
Chapter 6 - CORPORATE LEVEL QUANTITATIVE RESULTS

6.1 Introduction

This chapter presents the analysis of quantitative data gathered on the practices of companies at a corporate level. The construction of the hypotheses under examination was discussed in chapter 3 and the method by which the data was gathered in chapter 4, as is the detail of the methodology used in the analysis.

The results are presented and discussed in three sections. The first (section 6.2) discusses the companies' perceptions of who are their competitors, testing hypothesis $H_8$. The second section (6.3) examines univariate relationships between dependent and independent variables, testing hypotheses $H_1$ and $H_2$. The third section (6.4) also tests these hypotheses, examining multivariate relationships between dependent and independent variables. In the latter two sections, the analysis is sub-divided on the basis of the dependent variable. The dependent variables utilised are the self assessed level of performance, the peer assessed level of performance and the company's sector of the retail financial services industry (i.e. banks, insurance companies and building societies).

6.2 Perceived Competitors

The literature search identified the removal of barriers between different kinds of financial institution as one of the trends in the UK retail financial service industry (e.g. Frazer and Vittas 1982, Turner 1983). One consequence of this trend is that direct competition between companies from different backgrounds should increase. In order to determine the extent to which this has taken place the perceived competitors of each group were identified. The hypothesis being tested was:
The sector of the retail financial services industry from which companies perceived as competitors by companies in the sample are drawn will be independent of the sector of the retail financial services industry from which the sampled company is drawn.

Companies were asked to list the other companies they saw as their principal competitors at a corporate level. The pilot study suggested that respondents found it difficult to rank competitors and therefore it was also difficult to produce a select list e.g. three greatest competitors. Therefore no limitation was placed on the length of the list and the companies on each list were not ranked.

The principal competitors for each group of companies are shown below (tables 6.1 to 6.5, pages 158 to 162). The percentages indicate the proportion of companies who saw the listed company as a rival. The percentages for each company and the percentages for each sector of the industry do not tally because the number of companies who could list sample members as rivals is one less than those who could list non-sample members.

Contingency table analysis suggests that the company's sector of the retail financial services industry and the sector of the industry from which companies that it perceives as its competitors are drawn are not independent (see table 6.6, page 163). From the analysis of the companies perceived as competitors by those in the sample there is little evidence that the removal of barriers between traditional areas of operation is having a great effect, particularly in insurance, where no competitors from outside the sector were identified. Hypothesis H8 must therefore be rejected. The most open sector of the financial services industry is the building society sector. 41.6% of the companies identified as competitors were not building societies. This reflects the competition in both the mortgage market, where UK
banks, overseas banks and specialist lenders have all taken market share from the societies, and also the savings market, where banks are competing for share of deposit savings and insurers are competing for longer term savings. The insurance sector is the most closed, with no firms from other sectors of the financial services industry perceived to be competitors. This reflects the fact that the majority of building societies are tied agents for insurance companies and the low market share of the in-house insurance operations of the banks.

6.3 Univariate Analysis

6.3.1 Introduction

The methodology for univariate analysis has been discussed at length in chapter 4, section 4.3. The key points of that discussion will be briefly restated here. The small sample size makes using analysis techniques where assumptions must be made about the nature of the underlying distribution unreasonable. However, the discrete nature of the measurement carried out with Likert scales means that the expected number of ties will be high, making analysis based on ranks difficult. It has therefore been suggested that the best method for analysing the relationship between pairs of variables is contingency table analysis. Because of the small sample size, these tables have been collapsed to a $2 \times 2$ format. This has been guided by the research outlined in chapter 4. With a $2 \times 2$ format it is possible to dispense with the chi-squared test, which is problematic with small samples, and use the two-tailed Fisher Exact test. Findings are reported up to a level of 15% significance, higher the conventional critical value. Such an adjustment is conventional with Fisher Exact tests (see Bhattacharyya and Johnson 1977, p.443).

The hypotheses under examination are $H_1$ and $H_2$:
H1 There is a set of strategies and characteristics associated with better performing companies.

H2 Companies from different sectors of the financial services industry will show systematic differences in strategies and characteristics.

Sub-hypotheses of H1 are:

H1A Better performing companies will show evidence of higher quality products and higher prices.

H1B Better performing companies will show evidence of greater product innovation.

H1C Better performing companies will show a balance between market performance and financial performance factors, as suggested by Doyle.

H1D Better performing companies will follow one of the three competitive strategies suggested by Porter.

The discussion of findings with respect to hypothesis H1 is presented in sections 6.3.2 to 6.3.4, and is divided into sections on the basis of the method used to assess the performance. The discussion of findings with respect to hypothesis H2 is presented in sections 6.3.5 to 6.3.7, with the findings relating to insurance companies, banks and building societies being discussed in the separate sections. A full listing of the descriptive variables captured on Likert type scales is given in table 6.7 (page 164).

6.3.2 Self Assessed Performance

Companies were asked to rate their performance on a 1-5 Likert scale running from "much better than competitors" to "much worse than competitors". Seven companies identified themselves as performing at an average level or below compared to their competitors, four companies
felt they were performing "much better than their competitors". The distinguishing variables for the group of companies rating their performance above average are given in table 6.8 (page 166).

Companies who rated their performance as above average felt that location was less important to them in attracting customers, also they felt that recommendation by family/friends was less important. Companies who rated themselves highly contained a lower proportion of the firms who felt themselves to be skilled at identifying and targeting new segments, suggesting perhaps that their better performance arises from superior exploitation of existing segments rather than identification of new ones. The superior cost control skills claimed by companies with above average performance supports this idea. Reassuringly, those companies who felt they performed better also felt that their profitability was better.

The distinguishing variables for companies who rated their performance as "much better than competitors" are shown in table 6.9. Those companies that rated themselves as performing much better than their competitors also rated themselves as "better than competitors at meeting customer needs" to a greater extent than other firms. They also to a greater extent felt they had better capabilities and offerings than their competitors, both of which suggest that their high self rated performance was based on some identified competitive advantage. The more highly rated companies are less inclined to regard their marketing staff as specialists.

6.3.3 Admired Companies

Table 6.10 (page 168) presents the descriptive variables that were found to be significantly related to performance when assessed by peer admiration.
Firms admired by at least one other firm in the sample believe they have a significantly different customer base. More of these firms have wealthy customers, compared to their competitors, with more Bs amongst them. There is a significant difference also in how these firms believe themselves to be selected by customers. Fewer admired firms feel recommendation of family/friends is important in attracting customers.

Looking at the admired firms' own assessment of their characteristics, differences occur again. More admired firms have high self rated profitability, suggesting a realistic outlook on the part of both admired companies and non-admired companies. More admired companies saw themselves as better than their competitors at meeting customer needs, a marketing oriented definition of superior performance. More admired companies saw themselves as having a more entrepreneurial outlook than their competitors, and as offering greater encouragement for junior level entrepreneurship ("junior level" was defined as the equivalent of branch level in each type of organisation.)

In terms of strategy, more admired companies considered themselves to be skilled at minimising the costs of providing their services. Fewer admired companies saw late entry into the market as an accurate description of their new product development strategy.

6.3.4 Companies Admired by Two or More Competitors

Examining the distinguishing characteristics of firms with two or more admirers amongst the sample reinforces some of the findings outlined above. (see table 6.11, page 169)

Amongst firms that were admired by two or more other companies in the sample more felt that describing them as seeking to minimise the cost of supplying products was accurate.
As with the more general sample of admired companies, more firms admired by two or more other companies felt that they were entrepreneurial in outlook and were more encouraging towards entrepreneurship at junior management levels.

6.3.5 Insurance Companies

A smaller proportion of insurance companies perceived location to be of above average importance in the customers' choice of them to supply their financial services. (see table 6.12, page 170) This reflects their traditional product, life insurance, which is sold, not bought, as the adage says. Historically insurance companies have few retail outlets, relying on either independent advisers (particularly mutuals) or direct sales forces, making location less important.

The lack of importance attributed to charges in the customer's choice of supplier can perhaps also be attributed to the traditional sales method of independent advisers, where broker recommendation was the key variable in the buying decision and thus price shopping was less important. The lack of importance attributed to family/friend introduction supports this.

The greater use of product branding can be attributed to the distance between the company and its products. The absence of a branch system reduces the association of company and product, creating a better situation for product branding to be used.

Insurance companies felt they performed better, were more profitable and had better capabilities and offerings than their competitors to a greater extent than was felt by other companies. This may be a reflection of the greater number of insurance companies in the market, many of whom are extremely small.
The fact staff transfer is less likely in insurance companies reflects their traditional concentration in the area of investments.

6.3.6 Banks

The banks responses on perceived customer selection criteria strongly reflect the literature (Smith and Harbisher 1989, Robson 1988). Banks felt location was more important to the customers' selection decision than did other companies and friendliness was felt to be of less importance (see table 6.13, page 171).

Fewer banks see themselves as more profitable than their competitors than is the case for other companies, which reflects the problems of costs that all banks share.

The banks also feel loyalty to the firm to be less important to them than do other organisations. This might be a reflection of the banks commercial outlook c.f. the mutual nature of their competitors.

6.3.7 Building Societies

The responses of building societies to the questions relating to their perceptions of why customers choose them as suppliers of financial services are consistent with the literature (see table 6.14, page 172). Building societies perceive their customers to be more sensitive to interest rates and charges in their selection decision, and see their perceived friendliness as important in the customer's decision. Also important are existing relationships as a source of introduction.

The responses of the building societies to the questions relating to use of branding and profit orientation support a traditional view of building societies. The strong and favourable image of building societies, particularly relative to banks, is an important aspect of their marketing that would not be supportive of product
branding. The lower importance attached to short term profitability reflects their mutual status and origins. The evidence on new products suggest that building societies tend to be followers, launching products that are already being offered by others, rather than innovators.

6.4 Multivariate Analysis

6.4.1 Introduction

The multivariate analysis has been carried out using discriminant analysis. The methodology used is discussed and justified in chapter 4, section 4.4. The key points are that the jack knife and U-method techniques were utilised to avoid the problems associated with discriminant analysis when the sample is small. Twenty three cases were suitable for use in this stage of the analysis. The discriminant analysis function and the resulting confusion matrices (a cross-tabulation of predicted and actual classes of cases) are shown in the relevant table.

6.4.2 Self Assessment By Companies

The resultant function (table 6.15, page 173) uses three variables as discriminators between companies who rated themselves as either average or below average in terms of performance or as above average. The stability of two of these variables, v8 (the importance attached by the company to recommendation by family and friends in customers' selection decision) and v34 (the applicability of "widely offered by others" as a description of the firm's new products), is significant at the 5% level, the third, the coefficient of v43 (skill at discovering new segments within existing markets), is not significant. The findings of the jack knife validation suggest that it is not possible to be sufficiently confident about the value of the coefficient of v43. It cannot therefore be
considered a significant discriminator between the two classes. It is however necessary to include the variable to achieve a satisfactory validation matrix (table 6.16).

The Fisher Exact test score on the confusion matrix resulting from classification of the validation cases is outside the 5% significance level, being 0.0657. One of the problems of the Fisher Exact test is that it is discrete, e.g. each possible classification has a distinct significance associated with it. To overcome this, it is standard practice with Fisher Exact tests to consider any result just outside the 5% level of significance to see whether, if one more case had been correctly classified, then the test would have had a significance below the 5% significance level (Kendell and Stuart 1973 pp. 572-3). If this is the case the test is considered significant at the 5% level. In this case the marginal improvement in classification accuracy would have meant a significance level of 0.00494, inside the 5% level. By this convention the classification of validation cases shown in table 6.16 is considered to be significant at the 5% level.

The signs of the coefficients in this function are such that companies who rated themselves in the higher class in terms of performance have low scores on the variables with positive coefficients.

In this analysis therefore the retail financial services companies who rated themselves in the higher class in terms of performance are distinguished from those who did not by the low importance attached to recommendation by family and friends in customers' selection decision and the poor applicability of "widely offered by others" as a description of the firm's new products.

The better performing companies' customers are less reliant on the recommendation of family and friends in choosing the company to supply financial services. Research has suggested that an existing family or
employer connection has been particularly important in recruiting customers for banks and protection insurance business. The companies rating themselves highly in terms of performance appear therefore to have broken this traditional link. In addition, the companies rating themselves as better performing also see their new products as less accurately described as "widely offered by others", suggesting that their new products are more innovative and less frequently me-too products than those of companies who rate their own performance less highly. Thus better performing companies are placing less reliance on existing relationships as a source of business, but rather they offer a more innovative product range than their poorer performing competitors.

6.4.3 Admired Companies

The resultant function (table 6.17, page 174) uses two variables, both of which are significant at a 1% level as discriminators between companies rated as admired or not successful by their peers. Its power to discriminate between companies rated as admired or not successful is illustrated by the validation matrix (table 6.18), which is also significant at a 1% level.

In this analysis therefore the retail financial services companies considered to be admired by their peers can be distinguished from those not considered to be successful by the wealth of their customers (v20) and by their skill at reducing the costs associated with providing their services (v42) compared with their competitors. These two variables reflect two of the recent issues in financial services and are supported by the qualitative data gathered.

The importance of attracting relatively wealthy customers is related to the development of cross-selling services. The majority of basic financial services, especially money transmission services, have relatively low
profitability. Their role is to attract customers who will then take up other, more profitable services offered by the company. Relatively wealthy customers are more likely to buy more of these higher profit products than the relatively poor. The wealth of the customer base is not only important in terms of the number of products used but also in the profitability of the business done on products. The major cost on all products, and particularly investment products, is administration. For insurance companies the cost of establishing an endowment policy or a personal pension varies very little with the value of the policy. However the return on the policy will increase with the size of the investment and therefore profitability will be greater. It is not surprising therefore that companies who have established a relatively wealthy customer base are considered to be admired by competitors.

It should be noted that wealthy customers are also the most sophisticated group in the customer base. They are the most likely to have advisers and have access to personal financial journalism. One implication of this sophistication is that wealthy customers are, in financial terms, promiscuous. Their selection of financial service providers is not based on the traditional family recommendation (table 6.10). They are more likely to take their business elsewhere if they are not receiving the quality of product or care they believe they can receive elsewhere. To maintain this customer group it is implicit that companies must maintain competitiveness in terms of product quality. This is indicated in table 6.10, where admired companies rated themselves higher in terms of meeting customer needs and more innovative (less late market entry).

Increased competition within the financial services industry in recent years has increased the importance of managing the costs of supplying products. The breakdown of traditional business areas and increased international
competition has increased the number of companies involved in the financial service companies core product areas and led to pressure on margins. Firms have responded by introducing new techniques to offer more accurate measurement of costs, attempting to rationalise product lines and control the costs of administration. It is therefore reasonable that companies that believe themselves to be better in this area of their operations are those rated as admired by their peers.

This discriminant analysis suggests that an extremely successful generic strategy, based around offering quality products to attract relatively wealthy customers and controlling costs, can also lead to success in retail financial services. It suggests that the strategies of quality products, to attract wealthier customers, and cost reduction, are pursued together and are not viewed as alternative routes to success by the admired companies. This finding is contrary to the work of Michael Porter (1980) who considered differentiation (quality products) and cost leadership (cost reduction) to be alternative generic strategies. Porter's later work on this subject (Porter 1985) was more equivocal, accepting that differentiation cannot be pursued regardless of cost and cost leadership cannot be pursued regardless of product appeal. These findings suggest therefore that Doyle's model of a combination of left and right hand management strategies is a better model of the approach adopted by better performing financial service firms (Doyle 1987). Doyle argues that a balance is required in strategy, between what he terms "left-handed" variables, relating to market performance, and "right-handed" variables, relating to financial performance. Doyle's model suggests that it is not sufficient for financial service companies to concentrate on cost control or increasing market share alone. Solely concentrating on increasing profitability by controlling costs will undermine the company's position in the market place. If one considers one of the major innovations in
the market in recent years one can see why this is the case. The introduction of interest bearing current accounts by the banks introduced a set of interest payments that severely increased the cost of funds. The speed with which all the banks introduced interest on current accounts indicates the danger they saw in becoming uncompetitive in the market. The companies best placed to benefit from this marketing innovation would have had the cost control to be able to bear the impact and the marketing skills to translate the higher costs into more customers. The lesson for financial service companies therefore is to balance their strategic approach between competition in the market for customers and managing the costs that their customers impose.

Strategies of this type, of quality products and control of costs, are not uncommon. The slogan "Good Food Costs Less at Sainsbury's" indicates one successful company following this strategy. The doyens of this approach are Marks and Spencers. Their "value for money" strategy has often been characterised as one of offering quality whilst maintaining control of costs (Goldsmith and Clutterbuck 1985). It is interesting that several managers interviewed compared their organisation to Marks and Spencers when attempting to explain the intended results of their strategies. Goldsmith and Clutterbuck have noted that companies "refer instinctively to Marks and Spencers as the company to copy in terms of customer satisfaction" (Goldsmith and Clutterbuck 1985 p. 92-3). Financial service companies are no exceptions. The irony of the analogy is that Marks and Spencers are now direct competitors, having recently entered the financial services market with a range of unit trusts.

6.4.4 Insurance Companies

Four variables, significant at a 5% or lower level, are identified as discriminators between insurance companies and other institutions (table 6.19, page 175). Of these
three have positive coefficients, indicating that insurance companies have a lower score on these variables. Only one, skill at differentiation of product offerings, has a negative coefficient, indicating that insurance companies score higher than other institutions on this variable. The resultant function classifies all validation cases correctly (table 6.19).

Insurance companies perceive both recommendation by friends and relatives and location as less important to customers selecting them to provide a financial service. This reflects differences in the distribution mechanisms employed by financial service institutions. Insurance is traditionally either sold direct to the customer or bought on the recommendation of an adviser. There is no branch network and hence location of outlets is less important to insurance companies than it is to banks and building societies. Insurance is also frequently bought as a professionally advised investment, so existing relationships are less important as a source of business introduction. Past research has identified parental/employer recommendation as a major factor in bank selection by customers. The findings here suggest that this is not the same for insurance companies.

Insurance companies also consider that their customer base contains fewer customers from social class B relative to their competitors than do other institutions. This is an unexpected finding, as one would expect the investment products of insurance companies to be more popular amongst the higher social groups. One explanation may be that insurance companies perceive there to be less difference between themselves and their rivals in terms of customer base than do other institutions, hence they are less likely to claim a higher proportion of customers from a particular social class. Banks and building societies may feel that the differences between their customer base and rivals' is greater.
Insurance companies also consider themselves to be more skilled at differentiating their product offerings than do other institutions. It may be that this reflects the different distribution system employed by insurance companies. Advisers use past performance as a differentiator between companies, and companies are also able to use their relationship with independent advisers to differentiate themselves in their eyes, e.g. by the type of support offered, attitude towards unusual policies etc. The use of the independent advisers as distributors means that insurance companies are one step removed from the public in comparison to banks and building societies. They therefore have an alternative route by which to differentiate themselves and suffer less from having a strong generic image with the public than do banks and building societies.

6.4.5 **Banks**

The discriminant function contains seven variables that are significant at the 2.5% level or less (table 6.21 page 176). The classification of the validation sample is also significant at the 5% level (table 6.22). The seven variables therefore effectively discriminate between banks and other financial institutions. Four variables, importance of location to customers selecting the company to provide their financial services, proportion of customer from social class C2 than their competitors, importance attached to job security by the company and accuracy of "new to the market" as a description of the company's new products, have negative coefficients which means that the banks have high scores on these variables. The positive coefficients of the remaining three variables, the importance perceived by the company of charges or returns to the customers' decision when selecting the company, skill at differentiation as a strategy and importance of friendliness to customers selecting the company to provide their financial services, mean that these
variables are those on which the banks have low scores relative to other institutions.

To interpret these findings it is convenient to separate out the three variables relating to the firm's perception of the importance of certain characteristics to their customers in their selection of the financial institution. Banks see location as more important to their customers in deciding to select them as a financial service provider than do other institutions. In contrast the banks see the level of charges or returns and also their perceived friendliness as less important to their customers than do other financial institutions. It appears therefore that banks believe that customers are attracted to them as financial service providers for different reasons than customers are attracted to insurance companies or building societies. This reflects much of the work on selection criteria, where location is frequently found to be extremely important in the selection of which bank to use (Anderson, Cox and Fulcher 1976, Calantone and Sawyer 1978). The importance of location to the customer's selection decision provides the justification for the extensive, and expensive, branch system. Perceived friendliness has been identified in previous research as one of the major differences customers perceive between banks and building societies, and this research supports this finding (Smith and Harbisher 1989). Banks consider that their perceived friendliness is of less importance in attracting customers than do other financial service companies. The importance of charges/returns reflects several issues in financial services. Firstly it reflects what banks term the "inertia" of customers generally, their willingness to trade better returns or lower costs for greater convenience and less effort. This forms the basis for cross selling, with customers accepting the service offered by their usual supplier rather than seeking the best return or lowest charges elsewhere. The difference between institutions in their perception of the
importance of returns/cost also reflects the differences in the nature of their principal products. Banks' principal products are money transmission services, whereas those of the insurance companies are investment products and the building societies' principal products are savings and lending products. Insurance companies' customers are often professionally advised, and hence expected returns are of greater importance. Some building societies also have significant numbers of professional introduced depositors. More importantly, building societies are the major supplier of the most important investment finance in most peoples' lives, the mortgage. The recent problems of rising mortgage rates indicate the importance of price to these borrowers.

One of the variables in the discriminant analysis related to customer characteristics. Banks perceive themselves as having a higher proportion of customers from social class C2, perhaps reflecting the fact that they are more mass market in nature. It also reflects the fact that in the early eighties the banks concentrated their promotional effort at the lower social classes, in pursuit of the "great unbanked". However demographic research has shown that building societies traditionally have more customers from the lower social classes. These findings are somewhat paradoxical, since it is apparently the case that banks have fewer C2 social class customers than the building societies in particular, yet their perception is that they have a higher proportion of C2 customers. This finding may be explained by differences in who the banks and building societies see as their competitors.

One variable relating to culture is amongst the seven included in the discriminant analysis. Banks also attach more importance to job security compared with other institutions. This reflects the traditional, "jobs for life" culture of the banks. There is of course pressure on this aspect of the banking culture. Overmanning is a
significant issue for all the major banks, and all are attempting to reduce staff levels to maintain costs. However no bank has yet announced compulsory redundancies, preferring to rely on natural wastage and voluntary departures.

Finally two variables relate to strategy. The banks see their new products as more often accurately described as "new to the market" than do other institutions. They therefore see themselves as more innovative than do building societies or insurance companies. However banks also see themselves as less skilled at differentiation than do other institutions. These two findings encapsulate the major problem faced by the banks in terms of marketing strategy. Although the banks see themselves as innovative, there is no differentiation in this. The problem is that innovation in banking is generally short lived, since competitors can copy product innovations very quickly. Thus the advantage gained in terms of differentiation by introducing innovative products is short lived. Numerous examples exist of the short lead time granted to innovation in banking, for instance the children's account market (Oliver et al 1985)

6.4.6 Building Societies

The discriminant function indicates that building societies can be distinguished from other financial institutions by their perception of the importance of charges/returns to customers selecting them and by their use of product branding both of which are significant at the 1% level (table 6.23, page 177). The Fisher Exact test score on the confusion matrix resulting from classification of the validation cases is outside the 5% significance level, being 0.0894 (table 6.24 page 177). However a marginal increase in classification accuracy would result in a Fisher Exact test score of 0.03931, inside the 5% level. As was discussed in section 6.4.2, by this convention the classification of validation cases
shown in table 6.24 is considered to be significant at the 5% level.

The importance of charges/returns also appears in the discriminant function found for banks. As was explained in section 6.4.5 banks attach low importance to this in the customer's selection decision. Banks attract most of their customers through money transmission products where rates of return have traditionally been of no importance and where charges have been an irritation rather than a major concern to customers. Building societies believe that their customers attach a greater importance to charges/returns in selecting them as financial service suppliers than other institutions do. This reflects the importance of interest rates for the building societies principal products, mortgages and savings accounts. It appears therefore that insurance companies occupy "the middle ground" on this selection criteria, being distinguished from building societies by attaching less importance to charges/returns, although attaching more importance to charges/returns than do banks.

Less use of product branding also serves to distinguish building societies from other institutions. Building societies have strong, favourable images compared to the banks, and therefore to exploit this advantage an emphasis is placed on the corporate identity. Building societies branding tends to be corporate brand - generic product name (Abbey National Current Account) or corporate brand - product sub-brand (Halifax Cardcash). There are, of course, a few exceptions to this generalisation, for instance Leeds Permanent's Liquid Gold accounts, which are heavily branded. Banks have less favourable corporate images and tend to use corporate brand - product sub-brand or product brand branding strategies (e.g. Lloyds Classic Account, Nat West Special Reserve or Access, Vector). Insurance companies have a weaker relationship with the customer and so few have strong corporate images. Those that have
a relatively strong corporate identity (Standard Life, Scottish Amicable, Scottish Widows, Legal and General, Prudential) tend to follow very similar branding strategies to building societies. However amongst those insurance companies with weaker corporate identity are companies who have been more willing than either banks or building societies to develop free standing product brands, principally as a means of differentiating products which, for regulatory reasons, are very similar. Examples of these brands are Guardian Royal Exchange's Choices and Freedom and GA Life's Stepping Stone.

Interestingly, among the mis-classified cases are several mutual insurance companies. In the previous paragraph it was suggested that there was considerable similarity between some insurance companies and building societies in terms of branding policy. The large mutual insurers (for example Standard Life, Scottish Widows, Scottish Amicable) are amongst those it was suggested in the previous paragraph have a favourable image when compared to composite insurers. They have invested in advertising to build on this image and their more familiar company name. As has been suggested, they therefore have similar branding policies to building societies, concentrating their efforts on using their favourable corporate image. The mis-classification of cases of this type supports this perceived similarity.

6.5 Conclusions

The chapter presents the analysis of data gathered from financial service companies by examining their practices at a corporate level. The principal findings are outlined below.

1. The different sectors of the retail financial services were found to be more parochial in their perception of who were their competitors than expected. This finding suggests that the
deregulation reported in the literature has had little impact in terms of perceived competition between different sectors of the industry. Hypothesis H8, that the sector of the retail financial services industry from which companies perceived as competitors by companies in the sample will be independent of the sector of the retail financial services industry from which the sampled company is drawn, is therefore rejected.

2. Companies rating themselves highly in terms of performance were found to be distinguished by placing less reliance on existing relationships as a source of customers and finding "widely offered by others" to be a less accurate description of their new products. Peer-admired companies were found to be distinguished from non-admired companies by their belief that they had a more wealthy customer base and greater skill at minimising the costs of supplying their products than their competitors. This is consistent with a generic strategy of offering quality products, to attract wealthy customers, whilst maintaining control of costs.

Hypothesis H1, that there is a set of strategies and characteristics associated with better performing companies, is therefore accepted. The findings relating to self rated performance support accepting sub-hypothesis H1B, that better performing companies will show evidence of greater product innovation.

3. Companies rated by peer assessment of performance to be better performers were more innovative than less admired companies. Sub-hypothesis H1B, that better performing companies will show evidence of greater product innovation, is therefore accepted.

The mix of market performance based factors and financial performance based factors in the variables found to be significant by contingency analysis of
differences between better and poorer performing companies supports Peter Doyle's model of strategy. Sub-hypothesis H1C, that better performing companies will show a balance between market performance and financial performance factors, is accepted. However, the absence of any clear evidence that the better performing companies are following one of the generic strategies outlined by Porter leads to the rejection of sub-hypothesis H1D.

4. Insurance companies were found to be distinguished from other financial institutions by a set of four variables. These were the lower importance they attached to outlet location and family/friends recommendation in their customers' decision to select them to supply financial services. Insurance companies were also distinguished from other institutions by their belief that their customer base contained a lower proportion of customers from social class B than their competitors and believing that they have greater skill at differentiating their services.

5. Banks were distinguished by seven variables. They considered location to be more important and charges paid/return paid, and friendliness to be less important than did other institutions in the customers' decision to select them to supply financial services. Banks considered themselves less skilled at differentiating their products than did other institutions. They considered themselves to have a higher proportion of C2 customers and attached greater importance to job security. They also felt that their new product development led to more innovative products.

6. Building societies were distinguished by the greater importance they believed customers attached to charges/returns when selecting them to supply
financial services and less use of product branding than other financial institutions. Taken in conjunction with the findings summarised in points 4 and 5, these findings support hypothesis H2, that companies from different sectors of the financial services industry will show systematic differences in strategies and characteristics.
Table 6.1: Building Societies - Competitors

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>%</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nationwide Anglia</td>
<td>75</td>
<td>National Society</td>
</tr>
<tr>
<td>2</td>
<td>Halifax</td>
<td>71.4</td>
<td>National Society</td>
</tr>
<tr>
<td>3=</td>
<td>NatWest</td>
<td>62.5</td>
<td>UK Bank</td>
</tr>
<tr>
<td></td>
<td>Barclays</td>
<td>62.5</td>
<td>UK Bank</td>
</tr>
<tr>
<td></td>
<td>Midland</td>
<td>62.5</td>
<td>UK Bank</td>
</tr>
<tr>
<td></td>
<td>Lloyds</td>
<td>62.5</td>
<td>UK Bank</td>
</tr>
<tr>
<td>7=</td>
<td>Abbey National</td>
<td>57.1</td>
<td>National Society</td>
</tr>
<tr>
<td></td>
<td>Alliance &amp; Leics</td>
<td>57.1</td>
<td>National Society</td>
</tr>
<tr>
<td>9</td>
<td>Woolwich</td>
<td>28.6</td>
<td>National Society</td>
</tr>
<tr>
<td>10=</td>
<td>Standard Life</td>
<td>25</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Scottish Widows</td>
<td>25</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Scottish Amic</td>
<td>25</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Prudential</td>
<td>25</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Mortgage Corp</td>
<td>25</td>
<td>New Lender</td>
</tr>
<tr>
<td></td>
<td>Nat Home Loans</td>
<td>25</td>
<td>New Lender</td>
</tr>
<tr>
<td>16=</td>
<td>Birmingham Mids</td>
<td>12.5</td>
<td>Local Society</td>
</tr>
<tr>
<td></td>
<td>Heart of Engl</td>
<td>12.5</td>
<td>Local Society</td>
</tr>
<tr>
<td></td>
<td>West Brom.</td>
<td>12.5</td>
<td>Local Society</td>
</tr>
<tr>
<td></td>
<td>Britannia</td>
<td>12.5</td>
<td>Local Society</td>
</tr>
<tr>
<td></td>
<td>C &amp; G</td>
<td>12.5</td>
<td>Local Society</td>
</tr>
<tr>
<td></td>
<td>Sumotomo</td>
<td>12.5</td>
<td>Overseas Bank</td>
</tr>
<tr>
<td></td>
<td>Deutscher</td>
<td>12.5</td>
<td>Overseas Bank</td>
</tr>
<tr>
<td></td>
<td>Credit Agric</td>
<td>12.5</td>
<td>Overseas Bank</td>
</tr>
</tbody>
</table>

By Category

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Building Society</td>
<td>45.9</td>
</tr>
<tr>
<td>UK Banks</td>
<td>32.5</td>
</tr>
<tr>
<td>Local Societies</td>
<td>12.5</td>
</tr>
<tr>
<td>Mutual Insurers</td>
<td>3.0</td>
</tr>
<tr>
<td>New Lenders</td>
<td>2.8</td>
</tr>
<tr>
<td>Overseas Banks</td>
<td>2.3</td>
</tr>
<tr>
<td>Composite Insurers</td>
<td>0.9</td>
</tr>
<tr>
<td>Rank</td>
<td>Company</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>1=</td>
<td>NatWest</td>
</tr>
<tr>
<td>1=</td>
<td>Barclays</td>
</tr>
<tr>
<td>3</td>
<td>Midland</td>
</tr>
<tr>
<td>4</td>
<td>Lloyds</td>
</tr>
<tr>
<td>5</td>
<td>Royal Bank</td>
</tr>
<tr>
<td>6=</td>
<td>Halifax</td>
</tr>
<tr>
<td>6=</td>
<td>Abbey National</td>
</tr>
<tr>
<td>8=</td>
<td>TSB</td>
</tr>
<tr>
<td>8=</td>
<td>Bank of Scotland</td>
</tr>
<tr>
<td>8=</td>
<td>Standard Life</td>
</tr>
<tr>
<td>8=</td>
<td>Scottish Amic</td>
</tr>
<tr>
<td>8=</td>
<td>Scottish Widows</td>
</tr>
<tr>
<td>8=</td>
<td>Nationwide Anglia</td>
</tr>
<tr>
<td>8=</td>
<td>Yorkshire Bank</td>
</tr>
</tbody>
</table>

By Category

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Banks</td>
<td>70.5</td>
</tr>
<tr>
<td>National Building Society</td>
<td>19.5</td>
</tr>
<tr>
<td>Mutual Insurers</td>
<td>10.0</td>
</tr>
</tbody>
</table>
Table 6.3: Mutuals - Competitors

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>%</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Scottish Amicable</td>
<td>100</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Norwich Union</td>
<td>100</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td>3</td>
<td>Legal &amp; General</td>
<td>80</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td>4=</td>
<td>Standard Life</td>
<td>75</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Scottish Widows</td>
<td>75</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td>6</td>
<td>NPI</td>
<td>40</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td>7</td>
<td>Scottish Equitable</td>
<td>25</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td>8=</td>
<td>Sun Life</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Prov Mutual</td>
<td>20</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Allied Dunbar</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Abbey Life</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Clerical Medical</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Equitable &amp; Law</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Prudential</td>
<td>20</td>
<td>Composite Insurer</td>
</tr>
</tbody>
</table>

By Category

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Insurers</td>
<td>51.1</td>
</tr>
<tr>
<td>Composite Insurers</td>
<td>48.9</td>
</tr>
</tbody>
</table>

160
Table 6.4: Composites - Competitors

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>%</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1=</td>
<td>Standard Life</td>
<td>100</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Legal &amp; General</td>
<td>100</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td>3</td>
<td>Prudential</td>
<td>75</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td>4</td>
<td>Norwich Union</td>
<td>50</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Scottish Widows</td>
<td>50</td>
<td>Mutual Insurer</td>
</tr>
<tr>
<td></td>
<td>Allied Dunbar</td>
<td>50</td>
<td>Composite Insurer</td>
</tr>
<tr>
<td></td>
<td>Abbey Life</td>
<td>50</td>
<td>Composite Insurer</td>
</tr>
</tbody>
</table>

By Category

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Insurers</td>
<td>64.2</td>
</tr>
<tr>
<td>Composite Insurers</td>
<td>35.8</td>
</tr>
<tr>
<td>Rank</td>
<td>Company</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>1=</td>
<td>Standard Life</td>
</tr>
<tr>
<td></td>
<td>Legal &amp; General</td>
</tr>
<tr>
<td>3</td>
<td>Norwich Union</td>
</tr>
<tr>
<td>4=</td>
<td>Standard Amicable</td>
</tr>
<tr>
<td></td>
<td>Scottish Widows</td>
</tr>
<tr>
<td>6</td>
<td>Prudential</td>
</tr>
<tr>
<td>7</td>
<td>Allied Dunbar</td>
</tr>
<tr>
<td></td>
<td>Abbey Life</td>
</tr>
<tr>
<td></td>
<td>NPI</td>
</tr>
<tr>
<td>10</td>
<td>Scottish Equitable</td>
</tr>
<tr>
<td></td>
<td>Sun Life</td>
</tr>
<tr>
<td></td>
<td>Prov Mutual</td>
</tr>
<tr>
<td></td>
<td>Clerical Medical</td>
</tr>
<tr>
<td></td>
<td>Equitable &amp; Law</td>
</tr>
</tbody>
</table>

By Category

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Insurers</td>
<td>56.9</td>
</tr>
<tr>
<td>Composite Insurers</td>
<td>43.1</td>
</tr>
</tbody>
</table>
Table 6.6: Perceived Competitors by Company's Sector of the Industry

<table>
<thead>
<tr>
<th>Perceived Competitors</th>
<th>Composite Insurers</th>
<th>Mutual Insurers</th>
<th>Building Society</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite Insurers</td>
<td>13</td>
<td>15</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Mutual Insurers</td>
<td>6</td>
<td>14</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Building Society</td>
<td>0</td>
<td>0</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Banks</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>19</td>
</tr>
</tbody>
</table>

\[ \chi^2 = 108.665 \]

\[ \chi^2 > 16.919 \ (\chi^2_{0.05}) \]
### Table 6.7 Variables Captured on Likert Scales

#### Competitive Advantage

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v4</td>
<td>Better Performance than Competitors</td>
</tr>
<tr>
<td>v5</td>
<td>Better Profitability than Competitors</td>
</tr>
<tr>
<td>v6</td>
<td>Company has Competitive Advantage in Terms of its Capabilities and Offerings</td>
</tr>
<tr>
<td>v7</td>
<td>Better at Meeting Customer Needs</td>
</tr>
<tr>
<td>v15</td>
<td>Level of skill at marketing compared to competitors</td>
</tr>
</tbody>
</table>

#### Strategy Pursued

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v42</td>
<td>&quot;Skilled at Minimising the Cost of Supplying our Products&quot; is an Accurate Description</td>
</tr>
<tr>
<td>v43</td>
<td>&quot;Skilled at Identifying The Needs Of New Market Segments&quot; is an Accurate Description</td>
</tr>
<tr>
<td>v44</td>
<td>&quot;Skilled at Creating Products To Meet the Needs Of New Market Segments&quot; is an Accurate Description</td>
</tr>
<tr>
<td>v45</td>
<td>&quot;Skilled at Increasing the Usage of Products By Existing Customers&quot; is an Accurate Description</td>
</tr>
<tr>
<td>v46</td>
<td>&quot;Skilled at Meeting the Needs of Specialised Groups of Customers&quot; is an Accurate Description</td>
</tr>
<tr>
<td>v47</td>
<td>&quot;Skilled at Differentiating Products from Competitors' Offerings&quot; is an Accurate Description</td>
</tr>
</tbody>
</table>

#### Positioning - Segmentation/Differentiation

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v16</td>
<td>Attempt to Target Segments in the Market</td>
</tr>
<tr>
<td>v17</td>
<td>Target a Single Homogeneous Segment</td>
</tr>
<tr>
<td>v18</td>
<td>Attempt to Differentiate Products</td>
</tr>
</tbody>
</table>

#### Positioning - Customer Selection

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v8</td>
<td>Recommendation of Family/Friends Important in Selection to Provide Financial Services</td>
</tr>
<tr>
<td>v9</td>
<td>Reputation Important in Selection to Provide Financial Services</td>
</tr>
<tr>
<td>v10</td>
<td>Friendliness is Important in the customer's decision to select our company to Supply Financial Services</td>
</tr>
<tr>
<td>v11</td>
<td>Charges Made/Return Paid are important in the customer's decision to select our company to Supply Financial Services</td>
</tr>
<tr>
<td>v12</td>
<td>Location Important in Selection to Provide Financial Services</td>
</tr>
<tr>
<td>v13</td>
<td>Range of Services Offered is Important in Selection to Provide Financial Services</td>
</tr>
<tr>
<td>v14</td>
<td>Offering Special Services for Certain Groups is Important in Selection to Provide Financial Services</td>
</tr>
</tbody>
</table>

#### Positioning - Branding

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v19</td>
<td>Our Company uses Product Branding, Rather Corporate Branding</td>
</tr>
</tbody>
</table>
Table 6.7 Cont: Variables Captured on Likert Scales

Customers Targeted

v20 Customers More Wealthy Than Those of Competitors  
v21 Higher Proportion of Customers from Social Class A  
v22 Higher Proportion of Customers from Social Class B  
v23 Higher Proportion of Customers from Social Class C1  
v24 Higher Proportion of Customers from Social Class C2  
v25 Higher Proportion of Customers from Social Class D  
v26 Higher Proportion of Customers from Social Class E

New Product Skills and Innovation

v28 "First into a New Market" Accurately Describes Normal Market Entry  
v29 "Early Entry to Market" Accurately Describes Normal Market Entry  
v30 "Entry into Established Market" Accurately Describes Normal Market Entry  
v31 "Late Entry to Market" Accurately Describes Normal Market Entry  
v32 "Products New to the World" is an Accurate Description of our Company's New Products  
v33 "Introduced by Others, but not Widely Offered" is an Accurate Description of our Company's New Products  
v34 "Widely Offered by Others" is an Accurate Description of our Company's New Products

Organisational Culture

v27 Profits Are Important in The Short Term  
v35 Likely that Staff Currently Working in Retail Financial Services will Work in Other Areas of the Firm's Operations  
v36 Employees Loyalty to the Firm is an Important Element in the Firm's Culture  
v37 Providing a Career Structure for All Staff is an Important Element in the Firm's Culture  
v38 Providing Job Security for All Staff is an Important Element in the Firm's Culture  
v39 Marketing Staff are Interchangeable With Other Staff Elsewhere In the Company  
v40 Positive Attitude Towards Entrepreneurship and Risk Taking  
v41 Positive Attitude Towards Entrepreneurship and Risk Taking at Junior level

Planning Methods

Not tested using Likert scaled data
Table 6.8: Analysis of Responses by Companies Rating Themselves Above Average on Performance - Distinguishing Variables

<table>
<thead>
<tr>
<th>Number of firms in category agreeing with description (total number of firms in category)</th>
<th>Own Performance Ranked or Below</th>
<th>Own Performance Ranked Above Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Performance Ranked Average or Below</td>
<td>Own Performance Ranked Above Average</td>
<td></td>
</tr>
<tr>
<td><strong>v12 Location</strong> Important in Selection to Provide Financial Services</td>
<td>5 (7)</td>
<td>5 (17)</td>
</tr>
<tr>
<td><strong>v6 Recommendation of Family/Friends Important in Selection to Provide Financial Services</strong></td>
<td>7 (7)</td>
<td>6 (17)</td>
</tr>
<tr>
<td><strong>v5 Better Profitability Than Competitors</strong></td>
<td>2 (7)</td>
<td>11 (17)</td>
</tr>
<tr>
<td><strong>v42 &quot;Skilled at Minimising the Cost of Supplying our Products&quot; is an Accurate Description</strong></td>
<td>0 (7)</td>
<td>7 (15)</td>
</tr>
<tr>
<td><strong>v43 &quot;Skilled at Identifying The Needs Of New Market Segments&quot; is an Accurate Description</strong></td>
<td>2 (7)</td>
<td>12 (15)</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
Table 6.9: Companies Rating Themselves "Much Better" in Terms of Performance - Distinguishing Variables

<table>
<thead>
<tr>
<th>Number of firms in category agreeing with description (total number of firms in category)</th>
<th>Own Performance Ranked Less Than Very Much Better Than Average</th>
<th>Own Performance Ranked Very Much Better Than Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>v7 Better at Meeting Customer Needs</td>
<td>11 (18)</td>
<td>4 (4)</td>
</tr>
<tr>
<td>v39 Marketing Staff are Interchangeable With Other Staff Elsewhere In the Company</td>
<td>6 (19)</td>
<td>3 (4)</td>
</tr>
<tr>
<td>v6 Company has Competitive Advantage in Terms of its Capabilities and Offerings</td>
<td>11 (20)</td>
<td>4 (4)</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
Table 6.10: Admired and Non-admired Companies - Distinguishing Variables

Number of firms in category agreeing with description (total number of firms in category)

<table>
<thead>
<tr>
<th>Description</th>
<th>Non-admired Companies</th>
<th>Admired Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>v20 Customers More Wealthy Than Those of Competitors</td>
<td>2 (10)</td>
<td>9 (13)</td>
</tr>
<tr>
<td>v8 Recommendation of Family/Friends Important in Selection to Provide Financial Services</td>
<td>8 (11)</td>
<td>5 (13)</td>
</tr>
<tr>
<td>v22 Higher Proportion of Customers from Social Class B</td>
<td>2 (10)</td>
<td>8 (13)</td>
</tr>
<tr>
<td>v4 Better Performance than Competitors</td>
<td>6 (11)</td>
<td>11 (13)</td>
</tr>
<tr>
<td>v5 Better Profitability Than Competitors</td>
<td>4 (11)</td>
<td>9 (13)</td>
</tr>
<tr>
<td>v7 Better Than Competitors at Meeting Customer Needs</td>
<td>5 (11)</td>
<td>10 (13)</td>
</tr>
<tr>
<td>v42 &quot;Skilled at Minimising the Costs of Supplying our Products&quot; is an Accurate Description</td>
<td>1 (10)</td>
<td>6 (12)</td>
</tr>
<tr>
<td>v31 &quot;Late Entry to Market&quot; Accurately Describes Normal Market Entry</td>
<td>4 (11)</td>
<td>1 (12)</td>
</tr>
<tr>
<td>v40 Positive Attitude Towards Entrepreneurship and Risk Taking</td>
<td>2 (10)</td>
<td>8 (13)</td>
</tr>
<tr>
<td>v41 Positive Attitude Towards Entrepreneurship and Risk Taking at Junior level</td>
<td>2 (10)</td>
<td>8 (13)</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
Table 6.11: Companies Admired by Two or More Competitors

- Distinguishing Variables

Number of firms in category agreeing with description (total number of firms in category)

<table>
<thead>
<tr>
<th>Description</th>
<th>None or One</th>
<th>Admired by Two or More</th>
</tr>
</thead>
<tbody>
<tr>
<td>v42 &quot;Skilled at Minimising the Costs of Supplying our Products&quot; is an Accurate Description</td>
<td>4 (18)</td>
<td>3 (4)†</td>
</tr>
<tr>
<td>v40 Positive Attitude Towards Entrepreneurship and Risk Taking</td>
<td>6 (18)</td>
<td>4 (5)†</td>
</tr>
<tr>
<td>v41 Positive Attitude Towards Entrepreneurship and Risk Taking at Junior Level</td>
<td>6 (18)</td>
<td>4 (5)†</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
<table>
<thead>
<tr>
<th>Variable Description</th>
<th>Other Companies</th>
<th>Insurance Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location is important in the customer's decision to select our company to supply financial services</td>
<td>9 (15)</td>
<td>1 (9)</td>
</tr>
<tr>
<td>Recommendation by family or friends is important in the customer's decision to select our company to supply financial services</td>
<td>12 (15)</td>
<td>1 (9)</td>
</tr>
<tr>
<td>Our company uses product branding, rather than corporate branding</td>
<td>1 (14)</td>
<td>5 (9)</td>
</tr>
<tr>
<td>Better performance than competitors</td>
<td>8 (15)</td>
<td>9 (9)</td>
</tr>
<tr>
<td>Better capabilities and offerings than competitors</td>
<td>8 (15)</td>
<td>8 (9)</td>
</tr>
<tr>
<td>Better profitability than competitors</td>
<td>6 (15)</td>
<td>7 (9)</td>
</tr>
<tr>
<td>Higher proportion of customers from social class C2</td>
<td>0 (14)</td>
<td>3 (9)</td>
</tr>
<tr>
<td>Higher proportion of customers from social class D</td>
<td>0 (14)</td>
<td>2 (9)</td>
</tr>
<tr>
<td>Likely that staff currently working in retail financial services will work in other areas of the firm's operations</td>
<td>0 (14)</td>
<td>2 (9)</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
### Table 6.13: Banks - Distinguishing Variables

Number of firms in category agreeing with description (total number of firms in category)

<table>
<thead>
<tr>
<th>Description</th>
<th>Other Companies</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>v12 Location is important in the customer's decision to select our company to Supply Financial Services</td>
<td>4 (18)</td>
<td>6 (6) a</td>
</tr>
<tr>
<td>v10 Friendliness is Important in the customer's decision to select our company to Supply Financial Services</td>
<td>12 (18)</td>
<td>1 (6) c</td>
</tr>
<tr>
<td>v5 Better Profitability Than Competitors</td>
<td>12 (18)</td>
<td>1 (6) c</td>
</tr>
<tr>
<td>v36 Employees Loyalty to the Firm is an Important Element in the Firm's Culture</td>
<td>17 (17)</td>
<td>4 (6) c</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
### Table 6.14: Building Societies - Distinguishing Variables

Number of firms in category agreeing with description (total number of firms in category)

<table>
<thead>
<tr>
<th>Description</th>
<th>Other Companies</th>
<th>Building Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>v11 Charges Made/Return Paid are important in the customer's decision to select our company to Supply Financial Services</td>
<td>2 (15)</td>
<td>6 (9) b</td>
</tr>
<tr>
<td>v10 Friendliness is important in the customer's decision to select our company to Supply Financial Services</td>
<td>6 (15)</td>
<td>7 (9) d</td>
</tr>
<tr>
<td>v8 Recommendation by Family/Friend is important in the customer's decision to select our company to Supply Financial Services</td>
<td>6 (15)</td>
<td>7 (9) d</td>
</tr>
<tr>
<td>v19 Our Company uses Product Branding, Rather Than Corporate Branding</td>
<td>6 (15)</td>
<td>0 (8) d</td>
</tr>
<tr>
<td>v27 Profits Are Important in The Short Term</td>
<td>15 (15)</td>
<td>6 (8) d</td>
</tr>
<tr>
<td>v33 &quot;Introduced by Others, but not Widely Offered&quot; is an Accurate Description of our Company's New Products</td>
<td>6 (15)</td>
<td>7 (9) d</td>
</tr>
</tbody>
</table>

a: 1% Significant  
b: 5% Significant  
c: 10% Significant  
d: 15% Significant
Table 6.15: Self Ranked Performance - Discriminant Analysis

\[ D_s = -7.054 + 0.747 v_8 + 0.714 v_{43} + 0.7940 v_{34} \]
\[ (1.678)^a + (0.169)^a + (0.680) + (0.411)^b \]

\[ a = t > 2.508 \ (t_{0.01}) \]
\[ b = t > 1.717 \ (t_{0.05}) \]

Table 6.16: Self Ranked Performance - Confusion Matrices

<table>
<thead>
<tr>
<th>Actual Group</th>
<th>Predicted Group</th>
<th>Validation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average or Below</td>
<td>Above Average</td>
</tr>
<tr>
<td>Average or Below</td>
<td>142</td>
<td>12</td>
</tr>
<tr>
<td>Above Average</td>
<td>70</td>
<td>282</td>
</tr>
</tbody>
</table>

Proportion Correctly Classified: 83.79% (with Yates Correction) \( \chi^2 = 227.217 \), Fisher Exact Test \( p = 0.0657^* \)

* Accepted as significant because of the non-continuous nature of the Fisher Exact test (Kendell and Stuart 1973). If one more case were to be classified correctly making a more extreme classification, the Fisher Exact test probability would be \( p = 0.00494 \).

v8 Importance - recommendation

v34 Widely Offered by Others

v43 Skilled at Identifying The Needs Of New Market Segments
Table 6.17: Admired Companies - Discriminant Function

\[
D_s = 1.328 \, v_{20} + 1.419 \, v_{42} - 9.484 \\
(0.387)^c + (0.349)^c - (1.866)^c
\]

c = t > 2.831 \, (t_{0.01})

Table 6.18: Admired Companies - Confusion Matrices

<table>
<thead>
<tr>
<th>Calibration</th>
<th>Predicted Group</th>
<th>Validation</th>
<th>Predicted Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Admired</td>
<td>Actual</td>
<td>Admired</td>
</tr>
<tr>
<td>Group</td>
<td>Not Admired</td>
<td>Group</td>
<td>Not Admired</td>
</tr>
<tr>
<td></td>
<td>176</td>
<td>44</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>80.00%</td>
<td>20.00%</td>
<td>80.00%</td>
</tr>
<tr>
<td>Admired</td>
<td>22</td>
<td>264</td>
<td>Admired</td>
</tr>
<tr>
<td></td>
<td>7.69%</td>
<td>92.31%</td>
<td>7.69%</td>
</tr>
</tbody>
</table>

Proportion Correctly Classified 86.96%  Proportion Correctly Classified 86.96%

Total 506 Total 23

\[\chi^2 = 269.928\] (with Yates Correction)  Fisher \[p=0.00073\] Exact Test

\[\chi^2 > 3.841 \, (\chi^2_{0.05})\]

\(v_{20}\) Wealth of Customers  
\(v_{42}\) Cost Minimisation
Table 6.19: Insurance Companies - Discriminant Function

\[ D_s = 0.891 v_8 + 1.366 v_{12} + 0.688 v_{22} - 1.078 v_{47} = \frac{6.129}{(0.343)^b (0.429)^c (0.289)^a} \]

\[ a = t > 2.074 (t_{0.05}) \]
\[ b = t > 2.508 (t_{0.025}) \]
\[ c = t > 2.819 (t_{0.01}) \]

Table 6.20: Insurance Companies - Confusion Matrices

<table>
<thead>
<tr>
<th></th>
<th>Calibration</th>
<th></th>
<th>Validation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual Group</td>
<td>Predicted Group</td>
<td>Actual Group</td>
<td>Predicted Group</td>
</tr>
<tr>
<td></td>
<td>Insurer</td>
<td>Other</td>
<td>Insurer</td>
<td>Other</td>
</tr>
<tr>
<td>Insurer</td>
<td>198</td>
<td>0</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>100.0%</td>
<td>0%</td>
<td>100.0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>308</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>100.0%</td>
<td>0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>506</td>
<td>23</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percentage Correctly Classified
- Calibration: 100.00%
- Validation: 100.00%

\[ \chi^2 = 501.81 \quad \text{(with Yates Correction)} \]
\[ \chi^2 > 3.841 (\chi^2_{0.05}) \]

Fisher = 0.00000

v8 Importance - recommendation
v12 Importance - location
v22 Social class B
v47 Differentiation
Table 6.21 Banks - Discriminant Function

\[ D_s = 10.717 v_{11} - 16.293 v_{12} + 9.446 v_{47} - 2.892 v_{24} \]
\[ (3.473)^b (4.699)^b (2.641)^b (0.780)^b \]
\[ + 11.453 v_{10} - 2.999 v_{38} - 10.588 v_{32} - 10.529 \]
\[ (3.550)^b (1.085)^a (2.958)^b (6.420) \]

\[ a = t > 2.508 \; (t_{0.025}) \]
\[ b = t > 2.819 \; (t_{0.01}) \]

Table 6.22 Banks - Confusion Matrices

<table>
<thead>
<tr>
<th>Actual Group</th>
<th>Predicted Group</th>
<th>Actual Group</th>
<th>Predicted Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Other</td>
<td>Bank</td>
<td>Other</td>
</tr>
<tr>
<td>131</td>
<td>0.76%</td>
<td>5</td>
<td>16.67%</td>
</tr>
<tr>
<td>99.24%</td>
<td></td>
<td>83.33%</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>353</td>
<td>1</td>
<td>15.88%</td>
</tr>
<tr>
<td>5.62%</td>
<td>94.59%</td>
<td>5.88%</td>
<td>94.12%</td>
</tr>
<tr>
<td>Total</td>
<td>506</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

Percentage Correctly Classified

\[ \chi^2 = 402.521 \]

(with Yates Correction)
\[ \chi^2 > 3.841 \; (\chi^2_{0.05}) \]

Fisher = .00102
Exact Test

\[ v_{10} - \text{Importance friendliness} \]
\[ v_{11} - \text{Importance charges} \]
\[ v_{12} - \text{Importance location} \]
\[ v_{24} - \text{Social class C2} \]
\[ v_{32} - \text{New to the market} \]
\[ v_{38} - \text{Job security} \]
\[ v_{47} - \text{Differentiation} \]
Table 6.23 Building Societies - Discriminant Function

\[ D_s = 1.356 \, v_{11} - 0.874 \, v_{19} - 1.805 \]
\[ (0.474)^c \quad (0.191)^c \quad (1.970) \]

\[ c = t > 2.819 \quad (t_{0.01}) \]

Table 6.24 Building Societies - Confusion Matrices

<table>
<thead>
<tr>
<th>Calibration</th>
<th>Validation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Group</td>
<td>Predicted Group</td>
</tr>
<tr>
<td>Build S</td>
<td>Other</td>
</tr>
<tr>
<td>Build S</td>
<td>172</td>
</tr>
<tr>
<td>Other</td>
<td>78</td>
</tr>
<tr>
<td>Total</td>
<td>506</td>
</tr>
</tbody>
</table>

Percentage Correctly Classified
- Calibration: 83.79%
- Validation: 69.57%

\( \chi = 249.118 \) (with Yates Correction)
\( \chi > 3.841 \) (\( \chi_{0.05} \))

Fisher Test
- Exact Test
- Accepted as significant because of the non-continuous nature of the Fisher Exact test (Kendall and Stuart 1973). If one more case were to be classified correctly making a more extreme classification, the Fisher Exact test probability would be \( p = 0.03931 \).

v_{11} - Importance of charges
v_{19} - Use of Branding
CHAPTER 7 - EXPERT ASSESSMENT OF PERFORMANCE

7.1 Introduction

As has been explained in the discussion of measurement of performance (chapter 5), expert opinion can be used to produce a rating of financial service companies in terms of their performance. The potential problems associated with using expert opinion, for instance the cost of experts' time and differing knowledge amongst experts, were also outlined. The Delphi method was suggested as a means of reducing some of the potential problems. This chapter seeks to present an explanation of why and how the Delphi method was applied to the problem of producing a measure of performance on the basis of expert opinions, and the findings when the resulting measure was used to examine the data set gathered from companies.

The chapter is divided into three sections. The first section discusses the Delphi method in some detail, concentrating on its methodological development and providing examples of its use. The second section is concerned with design of the research into expert opinions of financial service company performance. The problems of definition of performance, the method of collection and the identification and recruitment of experts are discussed. The administration of the study is explained.

The final section concentrates on the findings from the Delphi study. The methods used to identify and to analyse differences between companies rated differently by experts are explained. Particular attention is paid to the similarities between the various performance measures constructed and the findings when using them.
7.2 The Delphi Method

7.2.1 Background

The Delphi method started out as a technological forecasting technique, but subsequent use has expanded its application to any situation where a consensus of expert opinion is sought. The distinguishing features of the Delphi methodology are described in most books on forecasting e.g. Bright (1978), Bolt (1983) and Wheelwright and Makridakis (1985). The essential features are:

1. A panel selected on the basis of expertise.
2. No physical meeting of the panelists.
3. A feedback process to allow experts to adjust their estimates on the basis of others' comments.

Parker (1987) offers a brief introductory guide to the purpose and use of Delphi. He points out that Delphi gives

"equal opportunities to all participants, minimise(s) the effects of a dominant personality and enhance(s) the opportunities for the blushing violet. Hence the conclusions reached are as free from bias as possible, and represent a more genuine consensus view."

The Delphi technique was originally developed at the RAND Corporation in the 1950s, arising from Air Force sponsored research into the use of expert opinion which was code named "Project Delphi". This project attempted to "obtain the most reliable consensus of opinion from a group of experts ... by a series of intensive questionnaires interspersed with controlled opinion feedback" (Dalkey and Helmer 1963, further discussion of this original study can be found in Helmer 1983). This has been the basic methodology and objective ever since for all Delphi studies. The original Delphi examined expert opinions on the Soviet atomic weapons target.
system, attempting to discover the optimum targeting to reduce American munitions production by a specified amount. Not surprisingly the research was classified.

One difference between this original study and those that have followed is that Dalkey and Helmer's original study not only involved questionnaires but also the interviewing of experts. This aspect of the methodology of the original study was not carried forward into what became the methodology of the "Delphi Technique". The reason for this appears to be one of cost. The original study utilised RAND's own experts, presumably easy to contact and interview. Subsequent studies have used the Delphi as a means to overcome geographical dispersal amongst experts, and hence the costs and logistical problems of interviewing are much greater.

The first public discussion of Delphi was in 1964 when RAND published "Report on a Long-Range Forecasting Study" (Gordon and Helmer 1964). This sought to assess the long term (10-50 years) trends in society, "with special emphasis on science and technology" (Lindstone and Turoff, 1975 p.10). The study has proved to be in nearly all respects a model for those of the future, and also established Delphi as a forecasting technique, which was its principal application in the years following.

In 1970 a different form of Delphi was reported, the Policy Delphi (Turoff 1970). A Forecast Delphi can be considered to be an attempt to produce consensus among a heterogeneous group of experts on the timing of a specified event, the Policy Delphi is an application of the technique to less clear cut issues, where the definition of "expert" may be unclear, the range of expert opinion available is likely to be diverse and contradictory and the issue one that is unlikely to be resolved clearly. The Policy Delphi is designed to force experts to justify their opinions with supporting evidence and so aid the analysis of the likely outcome of
any decision. It is not therefore a decision making tool but rather a decision support tool. The Policy Delphi need not necessarily seek consensus, rather it seeks to discover opinions and evidence.

Since this time Delphi studies have basically fallen into either camp, Forecast or Policy. Although Delphi is still best known as a forecasting tool, the majority of studies reported are Policy Delphi. Indeed the Delphi method has been defined as "the process of seeking consensus among a panel of experts (not necessarily all present at the same time and same place) on questions that involve value judgements of relative worth" (Mumm 1979 - Glossary of Terms).

7.2.2 Methodology Development

Several papers have been published which have contributed to the development of the methodology of Delphi. The originators of the Delphi technique based their justification of the methodology on a paper written by Helmer and Rescher (1959). In this paper, "On the Epistemology of the Inexact Sciences", they argue from the recognition that in the inexact sciences, explanation and prediction do not share the same logical structure that they do in the exact sciences. Because of this prediction cannot be attempted in the same manner and therefore the authors suggest greater use might legitimately be made of techniques such as expert judgement and simulation. They suggest that, because explanation in the inexact sciences is in general in the form of a "quasi-law" and not a logical relationship, prediction and explanation are asymmetric. In these circumstances it is legitimate to consider techniques for their predictive power rather than any explanatory power they may possess. Hence techniques such as Delphi, which use expert opinion to produce a prediction without explanation, are "pragmatically acceptable". It can be seen that this argument is very similar to Friedman's
"black box" argument (Friedman 1953), that effectiveness rather than explanatory power should be used to judge economic models.

This then is the theoretical justification of using expert judgement as a predictive tool. Since the introduction of the Delphi method, several authors have investigated refinements to the method that might improve the effectiveness required.

A debate between Overbury (1969) and Rowlands (1969) to some extent anticipates the more normative approach of the Policy Delphi. Overbury's criticism of Delphi as a forecasting technique, because of its concentration on prediction rather than choice, was rejected by Rowlands, pointing out that Delphi is a technological forecasting method, rather than a long range planning method. Overbury foreshadowed the Policy Delphi by arguing that objectives and desirability are more important than suggested in the standard methodology for Delphi, and that the technique should not only be used to examine possible futures, but also assess their desirability.

Best (1974) reports on a piece of research testing hypotheses about variations in Policy Delphi methodology. The experiment supports the hypothesis that the use of self rated experts rather than self rated non-experts will yield more accurate results, but finds little improvement in accuracy when written explanations are required. Pill (1971), in a detailed discussion of Delphi, principally as a forecasting technique, addresses some of the problems associated with Delphi, the principal one being the problem of scaling expert, but subjective, opinions. Pill compares Delphi with the techniques used in econometrics to discover preference scales, and points out the major conceptual difference. Econometric techniques are concerned with behaviour whereas Delphi is concerned with opinions. Pill sees Delphi as a technique for dealing with problems "under
uncertainty with insufficient data, incomplete theory, and a high order of complexity" and he states that "it is in the questions of intuitive judgement, the marshalling of subconscious processes, dredging half formed ideas from the group memory, that Delphi is useful and as such, one cannot judge it on the same basis as a concrete measurement." Pill also recognises the problem of different levels of expertise and correctness amongst the experts, but offers no methodology for establishing the validity and accuracy of responses.

The problem of event definition in Forecast Delphi is discussed by Salancik, Wenger and Helfer (1971). It is pointed out that misunderstandings over what is being investigated can lead to problems achieving consensus. The description of the event may be too vague to permit a single interpretation or the description may be too specific to permit a single interpretation. By extrapolation this can be seen to be a problem in the Policy Delphi also. Too broad a definition of the problem under investigation may lead to a failure to discuss the same interpretation, too narrow a definition may limit the experts in using their judgement.

Two papers have investigated how the Delphi method has been used. Brockhaus and Michelsen (1977) report on a survey of researchers carried out to discover the areas of application of the Delphi technique and its success. They found that over half of those projects reported had focused upon applied research, a third on operational problems with pure research being the smallest area of application. Forecasting Delphi had proved most successful, with less success reported for Delphis dealing with policy and decision making or operational problems. Although all surveyed felt Delphi had enhanced the acceptability of findings, it was generally the case that Delphi was not the sole input used by decision makers because of "a lack of total confidence".

183
The survey also investigated the methodology applied and found that a majority surveyed believed Delphi should be used in conjunction with another formal method and 25% felt that it should never be used independently. Despite these opinions few of the Delphi studies covered had been carried out in conjunction with any other method of research.

Judd (1972) carried out a similar investigation, reviewing the use of Delphi in higher education and education research. He outlines three principal areas of application; educational goals and objectives, curriculum and campus planning and development of evaluation criteria. Education is one of the areas where Delphi has been used primarily to address issues of policy rather than forecasting. It is also an area where Delphi has been used in evaluation, the use proposed in this research. Judd reports three applications of Delphi in the context of evaluation. The first involves assignment of weights to factors to construct an evaluation formula for faculty staff. The second deals with ascertaining the teaching characteristics most highly valued by Delphi panels. The third evaluation study reported by Judd concerned the ingredients of effective college teaching. Judd also outlines the innovations in Delphi methodology originating from higher education studies.

7.2.3 Applications

Recent examples of Forecast Delphi studies have included research to investigate and attempt to predict the future of employee relations (Wigginton 1979), on the generation of electricity and its use in transportation (Garde and Patel 1985), to investigate future developments in the field of road transport information systems (Sviden 1988), to predict sales levels (Dunn and Hillson 1980), and to examine cross cultural counselling (Heath, Neimeyer and Pedersen 1988).
Policy Delphis have been used to investigate environmental standard setting (Benaire 1988), to investigate work times for different types of cases for social workers (McArthur and Stewart 1984) and to identify and measure social costs and benefits involved in decisions made in the U.S. rail industry (Fletcher and Verschoor 1984). In business related areas it has been used to analyse the activities of a personnel department (Tsui and Milkovich 1987), to look at the problem of loss of productive time amongst a firm's staff (Wedley, Jung and Marchant 1979), to examine the computer information problems of small businesses (Taylor and Meinhardt 1985), to generate guidelines for a quality control training programme (Weaver 1988), to offer strategies for initiating and maintaining an independent psychological practice (Walfish and Coover 1989) and to gather expert opinions on tourism issues, particularly in forecasting demand for new developments (Papadopoulos 1990).

The Delphi method was first applied to marketing by Jolison and Rossow (1971) as a forecasting technique. They used Delphi to form an assessment of demand for computer education services. A Policy Delphi in the area of marketing has been reported by Taylor (1984). In this example the Delphi is put forward as a tool for problem definition in marketing, to improve the accuracy and usefulness of market research material.

The Delphi method has also been used to investigate the changing environment in financial services. Elliot (1986) reports a Delphi investigating the future environment for Australian Banks. Arthur Andersen & Co. (1986) produced a report of a considerable investigation into the change expected in banking across Europe conducted using the Delphi method. It is a Forecast Delphi, asking about likelihood of market entry, the relative importance of different areas of financial services etc. The report highlights many issues that are considered important in European banking and separates
the analysis by country. Interestingly, it reveals strong support exists for statements suggesting that marketing will be of increasing importance within banking.

7.4 Experiment Design

From the discussion above it is clear that using Delphi to construct a rating by experts of financial service firms on the basis of their performance is a legitimate exercise. In developing the research the following questions must be addressed:

1. What is the problem we are asking the experts to apply their knowledge to?

2. What is the best form in which to gather this information from experts?

3. Who are the experts in this field?

4. How is the probability of their participation maximised?

7.4.1 Problem Definition

It is considered necessary in social science to define all variables measured.

"We cannot measure an "attitude", a "shelf facing", a "market share" or even sales, without first having defined what is meant by the terms. More generally, measurement can only proceed after defining the variable(s) to be studied. An investigator must know what must be measured before tackling the problem of how to measure it." (Green, Tull and Albaum 1988, p.241. Their italics)

Two comments must be made at this stage. Firstly, argument has been made in the literature for treating Delphi differently. Secondly, that although this Delphi concerned with one variable only, "performance", the
The purpose of a Delphi study is to ascertain experts' opinions. It is important therefore that the experts are not constrained by the form in which the questions are asked (As noted above, see discussion of Salancik, Wenger and Helfer 1971). As Linstone and Turoff have pointed out;

"The statements which comprise the elements of a Delphi exercise inevitably reflect the cultural attitudes, subjective bias, and knowledge of those who formulate them. This was recognized by Gordon and Helmer a decade ago and led them to commence the first round with "blank" questionnaires" (Linstone and Turoff, 1975, p.232)

The implication is clear. Any definition of "performance" that limits the expert's freedom to apply his knowledge will lead to false consensus. On the other hand, if the definition of "performance" is too vague then the experts could be talking about entirely different things and therefore aggregation of their opinions will not be valid. It can therefore be argued that performance is such a difficult concept to define accurately that the best policy is to allow some definition to emerge as the Delphi proceeds. This can be done by asking for, and circulating, the justifications given for the scores awarded.

Even if definition is difficult, understanding of the concept of performance is not. Delphi is an expert sampling procedure, and it is possible to assume that the experts have their own definition of performance which they use to evaluate the firms. Given that this is the case, Delphi allows us to ask for an evaluation, and to test the similarity of assessment procedures leading to the evaluation by examining the reasons given for the evaluation, which can be sought at the same time. It is likely that experts, using their own internal definition
of performance in the first round, will have different opinions of the time scale associated with performance and exactly how the measurement should be made. For instance, performance may be short term or long term, and relative to other firms in the industry, other firms in general or to the firm's own potential. These will be sources of bias and will be eliminated as the rounds progress and greater clarity emerges. However it is possible to remove these problems at the start. This study is concerned with the competitive performance of companies, which must reflect the position of the company for the future and not merely immediate past performance, so a caveat to this effect can be inserted in the instructions attached to the document. Similarly, the research compares practices between financial service companies so the performance assessment must be relative to each other. This too can be included in the instructions.

The experts are therefore being asked to assess the performance of financial service companies, relative to each other and with a view to their ability to compete in the future. It appears that attempting to impose a definition at the outset will be too limiting to the experts use of their judgement. It seems likely that experts will take differing views on, for instance, how a successful niche player compares to a successful mass marketer, and these differences should be addressed by the feedback mechanism. It is therefore proposed to include the following statement with the polling document.

"We would like you to score the companies listed in the questionnaire on their performance. We would prefer that you use your own definition of "performance" in the first round of the Delphi survey. This is because we do not want to limit your freedom to give your opinion as an expert by imposing a definition you may not agree with. However, we would like you to bear the following points in mind when you think about performance:
1. Performance is relative not only to other competitors but also to the firm's potential and goals.

2. We do not want you to comment merely on companies' immediate past performance. Please also consider how well the firms are placed for the future you think they face."

7.4.2 The Form of Collection

The Delphi method relies on the information elicited from experts being summarised as feedback for further rounds. In the second round it is usual for the experts to be presented with the results of the first, often expressed as mean, variance etc. This kind of statistical analysis can only be performed on interval variables, which permit meaningful statements to be made about the differences separating two objects. An interval scale possesses the properties of order and distance, but the zero point on the scale is arbitrary. (See Green et al 1988 chapter 7 and 8 for a discussion of the properties of different types of data and measurement techniques.)

It is therefore necessary to gather information in the form of an interval scale. Perhaps the most popular method for doing this is the Likert scale, where a pair of antonyms are placed at either end of a scale and the strength of the word is graded between them using appropriate adjectives in intervals that are assumed to be equal. An example is shown below;

```
extremely very slightly neither slightly very extremely
weak weak weak weak nor powerful powerful powerful

-3  -2  -1   0   1   2   3
```

Because the intervals on the bipolar scale are assumed to be equal and the difference in numerical value attached to each choice is equal and directional, statistical analysis can be performed. It is valid as long as the assumption of equal intervals is justified.
An apparent problem with the Likert scale is that it has a limited number of points on the scale. It is very difficult to think of more than, for instance, four adjectives that can be used to qualify a pair of antonyms and still maintain the assumption of equal intervals. The problem then becomes one of differentiating between elements being assessed. In the case of this research there are likely to be twenty or thirty financial institutions that experts are asked to assess, and only on the basis of their performance. Thus it might be that an expert perceives one company to be better than another in terms of performance, but does not feel the difference is sufficient to place either on a different level. With a sample of, for instance, 28 and a seven point Likert scale this gives an average of four firms with each score. If a less even distribution is assumed, with more firms around the average than to extremes, the congestion about points on the scale becomes greater and differentiation between them impossible.

One apparent solution to this problem is to use a larger scale, with certain points, usually the ends, defined semantically. The points in between are assumed to indicate equal intervals. It is necessary to provide some semantic definition so that all experts have the same reference point. This method, where the respondent is asked for a numerical rating for each stimulus with respect to some designated attribute, is known as a direct-judgement method, and using a scale of the type proposed is a subcase of this known as limited-response category.

A problem with long scales is that respondents become less able to distinguish between points and therefore their placement of themselves on a scale becomes inaccurate (Moser and Kalton, 1975 p.359). As the number of points on a scale increases the less well the assumption of equal intervals holds and therefore validity is lost. The difference between positions on
the scale may not correspond with the difference in attitude of the respondent.

Some assumptions in opinion based measurement approaches must be noted (see Green et al 1988 chapter 8). Firstly it is being assumed that a unit of measurement can be constructed directly from respondents' estimates about scale values associated with a set of stimuli. Three objections may arise:

1. Respondents' subjective scale units may differ across each other, across testing occasions or both.

2. Respondents' subjective origins (zero points) may differ across each other, across testing occasions or both.

3. Unit and origin may shift over stimulus items within a single occasion.

These problems are reduced by anchoring the scale, but not eliminated. We cannot tell how large the respondent considers each increment to be, nor where the respondent has positioned the origin. These problems are minimised by defining each point on the scale, and making the scale symmetrical.

A further problem with Likert or semantic scales, particularly where non-abstract concepts such as currency or years are used, has been reported by Ostrom and Upshaw (1968). They noted that the range of the scale provided has a marked effect on judgement. In their research people were asked to play the role of judges, and those who estimated themselves to be "relatively harsh" assigned average sentences to criminals of four years when presented with a one-to-five scale, and twenty one years when a 1 to 25 scale was used. There is a strong suspicion that the position on the scale, rather than the value attached to that position, is what is being used to decide sentences in this case.
If "performance" is used as the variable, qualified by suitable adjectives, the variable is abstract and this problem is reduced.

From this discussion it appears that the best approach is to use a Likert scale, of 1-7. Assuming that the intervals on the scale can be treated as equal allows statistical analysis and therefore effective use in the feedback process of Delphi.

7.4.3 **Identification of Suitable Experts**

The experts have previously been defined as "those with a professional knowledge of the retail financial services industry" (section 5.6.3). Such a definition of expertise would include;

1. Equities analysts/city researchers
2. Personal finance journalists
3. City journalists
4 Academics writing in the area

The number of experts required to participate is not great, studies with as few as five experts have been reported, with 15 to 20 being ample. A larger number might lead to logistical problems without leading to any great change in the consensus achieved. Wheelwright and Makridakis (1985 p. 290) point out that:

"An important aspect of such a group is that every expert need not be well qualified in exactly the same area. Rather, each can be qualified in only subparts of the area of concern, with at least one expert in every subpart."

Thus the relative proportions of experts from different backgrounds in this study is unimportant. The important thing is to have opinions from groups considering differing aspects of performance and to circulate their
comments. Thus financial analysts provide opinions centred on profitability of the business, whereas personal finance journalists have opinions based on product assessment.

7.4.4 Maximising Participation by Experts

The problem of ensuring adequate participation by experts is a real one. Experts, by definition, have valuable knowledge, and in a field such as this they are likely to be extremely busy people. It is unlikely therefore that responses to any unannounced mailed questionnaire of the type proposed would be particularly good. However, a higher response rate can be achieved if the experts are not recruited at random but are introduced to the research project. In this project, where possible, experts were recruited using introductions via contacts in the Department of Management Studies, Loughborough University of Technology. Use of introductions after experts have been selected improved participation without compromising the quality of the opinions gathered. To do this the areas from which experts were to be drawn and the parameters for selecting experts were defined in advance of selection of panelists.

One aspect of the original Delphi study that has often been overlooked by subsequent studies employing the Delphi method is the use of interviews (see Helmer 1983 for the original methodology). These interviews were conducted as an addition to two of the rounds of questionnaires. As has been suggested it is probably because of cost that subsequent uses of the methodology have tended to be based purely around mail questionnaires. The value of interviewing is that, if access can be achieved, there is no reliance on the respondent to take positive action e.g. once the interviewee has agreed to the interview they are only required to give verbal answers, they do not have to take positive action in terms of reading the questionnaire,
carrying out the correct response and returning it etc. In addition the resulting information is likely to be better in both quantity and quality. To improve participation rates in this research it was therefore decided to administer as many first round questionnaires through interviews as possible.

7.5 The Study

The list of areas from which experts might be drawn, and parameters for expert selection were defined prior to selection of individuals. A list of potential experts was created using Loughborough University Banking Centre's list of contacts with stock brokers and fund management companies, examination of newspapers and academic publication abstracts (e.g. Anbar and Research in Banking) and research registers (e.g ACCA Register). From this list a total of thirty one experts were selected on the basis of personal contact with members of staff, who endorsed the request for assistance, and the reputation of the company the experts worked for or the individual themselves. This group of thirty one was made up as follows:

- City / Banking Journalists: 5
- Personal Finance Journalists: 5
- Equity Analysts (Stockbrokers): 11
- Equity Analysts (Fund Managers): 2
- Academics: 8

Of these experts, all non-academic experts were asked for an interview with a view to increasing commitment to the study. A total of twenty one experts finally participated in the study. The breakdown and participation rates of this group is given below;
The overall participation rate was 70%. Only one journalist and two analysts among those participating did not give interviews prior to completing the round one questionnaire. The response from academics was disappointing, but those who declined to participate generally felt themselves to be too poorly acquainted with the performance of companies to comment, despite what was suggested by their research profiles or reputations.

In the first round the experts were asked to evaluate the performance of a list of companies on a seven point Likert scale ranging from "extremely poor performance" to "extremely good performance".

The list of companies shown to experts consisted of thirty companies, including all but three of the sample of companies who had been interviewed about their corporate and product management practices. The three companies omitted had been selected as representative of smaller companies in the industry and used as a second pilot of the questionnaire. The remaining companies included in the list shown to experts were selected from the list of companies admired by those in the sample but not participating in the research. In addition some prominent firms who had not been listed as admired by peers were also included. In addition experts were asked to list any company not included in the list of thirty that they considered to have above average performance. None of the three companies omitted from the sample were included in the list of omissions given by experts.
Although few of the experts felt able to judge all the companies, all companies were judged by at least five experts from different backgrounds.

In the second round the experts were sent a document listing the companies, showing their score for each company, the average score for each company and a selection of the comments made by experts on each company. The comments were selected to show the full range of reasons given for the scores awarded by experts. Experts were asked to change any scores and append any further comment they felt appropriate in the light of the attached comments.

A substantial group of experts revised at least one of their scores in the light of information sent to them in the second round.

The third round of the Delphi was carried out primarily for confirmation. Experts were sent a list of company scores in terms of the mean, median and mode scores for each company and their own second round score for each company. They were asked to confirm receipt and correct any errors they perceived in the information they were sent.

7.6 Analytical Methods

Three techniques were used to analyse the data gathered from the Delphi poll of experts. First t tests were used to determine whether the mean scores awarded to companies were significantly different from the scale mean of 4, indicating average performance. This classified firms into above average performers and average or below average performers.

The ratings of companies gathered from experts have been compared with other rating methods using Spearman's rank correlation coefficients. This is a non-parametric statistic, allowing ordinal data to be tested for
correlations. Although in most cases the data can be considered to be interval data, by the assumption of equal intervals, using the Spearman correlation coefficient means that such an assumption need not be made. Spearman correlation coefficients were also calculated between the mean score of companies in terms of expert rating and their scores on each individual descriptive variable.

The third technique used was discriminant analysis using the jack knife and U methods of validation. The details of this technique are discussed in chapter 4, section 4.4. The companies were classified into the two categories described above on the basis of the t tests carried out on the mean score from experts. Discriminant analysis was used to determine the descriptive variables best able to distinguish between the two categories.

For each element of this analysis, the findings are presented and discussed in a separate section below.

7.6.1 t Tests Versus the Scale Mean

The ratings of companies' performance gathered from the experts by the Delphi study were analysed using t tests to test the hypothesis that each company had an average level of performance (represented by a rating of 4). The findings are shown in table 7.1. Of the thirty companies experts were asked to rate, thirteen were shown by t test to have mean ratings significantly greater than 4 (average) and three were shown to have mean ratings significantly less than 4. The remaining fourteen companies did not have mean ratings significantly different from a rating of 4, representing average performance. There was no significant difference between the ratings of companies from different sectors of the industry, i.e. the proportion of banks, building societies and insurance companies rated as above average
compared to below average were not significantly different.

Of the 26 companies who provided interviews in the research, eight were rated as above average by experts, the remainder being average or below. Twenty three company interviews provided data suitable for use in this analysis.

7.6.2 Comparison with Alternative Performance Measures

One of the major factors in the decision to use more than one opinion based measure of performance was the opportunity to compare the rating of companies resulting from each method of measurement. The measures were compared directly using Spearman rank correlation coefficients. It can be seen from the analysis presented in table 7.2 that the Delphi measure of performance compares well with the other measures based on self assessment and peer assessment. The mean score awarded by experts correlates with all alternative measures at a level of at least 5%. Using the median and mode rating by experts does not produce such a good set of correlations. This is probably because there is a greater number of ties between companies (as only integers are used), which undermines the effectiveness of non-parametric techniques such as this.

The correlation between the self assessed measure of performance and the expert assessed measure confirms the perception of the researcher that managers were being realistic in their assessment of their own company's performance. It was pointed out in chapter 5 that bias due to competitive sentiment or experimental effects was a potential problem with peer assessment and self assessment respectively. The correlation observed between the various performance measures constructed by different means suggest that bias was not a problem. The findings suggest therefore that not only are managerial
assessments of own company performance consistent with peer assessments of competitor's performance, both are consistent with assessments made by external experts. In this respect the research supports and extends the findings of Dess and Robinson (1984) and Venkatraman and Ramanujam (1986) who reported managerial assessments to be consistent with the firm's internal performance measures and externally published data respectively.

In discussing the interchangeability of performance measures Venkatraman and Ramanujam (1986) argue that a positive correlation between two alternative performance measures is a necessary, but not sufficient, condition to indicate interchangeability. They suggest a second test that can be applied, namely "employing the two measures as alternate operationalizations with the same management model" (Venkatraman and Ramanujam 1986 p.812). Such a test is only really appropriate in research concerned with model building but it does draw attention to the importance of similarity between findings using different performance measures in this context.

This section goes on to discuss the findings from using the performance measure based on expert assessment to examine differences in marketing practices and strategies between companies. Attention is drawn to similarities with findings when different methods of performance assessment are used.

7.6.3 Correlation Analysis on Descriptive Variables

Correlation coefficients were also calculated for the mean score awarded by experts in the Delphi study and the descriptive variables collected by company interviews (table 7.3). The correlation coefficients indicate that in terms of their characteristics the companies with higher ratings from experts consider themselves to have better capabilities than their competitors, attach greater weight to current profitability, have more skill
at containing and reducing costs and are more likely to enter a market early when launching a new product. There are also differences in their customer base with recommendation by family and friends being less important to highly rated companies as a source of customers, their customer base is more wealthy than those with low ratings and contains a higher proportion of customers from the higher social classes and less from the lowest classes.

In chapter 3, dealing with research hypotheses, it was hypothesized that innovation was one area where a difference between companies with different performance levels might be expected, with more successful companies being more innovative. This hypothesis, sub-hypothesis 1B, was discussed in section 3.3. This hypothesis is supported by the findings based on expert ratings. In addition the more highly rated companies see themselves as having better capabilities than lower rated companies, an indicator of potential competitive advantage based on superior resources. The importance attached to profitability and the skill at maintaining costs suggest that the better performing companies are not basing their strategy solely on factors affecting market performance, such as innovation. They are also more concerned about controlling factors affecting their financial performance. This might be taken as evidence to support Doyle's view that the emphasis in strategy for a successful company should be balanced between market factors and financial factors, discussed at greater length in sections 3.3 and 6.4.3.

The correlation between wealth and social class of customers and company performance suggest that the better performing companies are targeting their efforts at customers at the top of the market. The importance of wealthy customers was previously discussed in section 6.4.3 and can be briefly restated here. Wealthier customers are likely to be more sophisticated about financial services. This has several implications.
Firstly, wealthy customers not only have more money to deal with, making transactions bigger, but because of this sophistication, they will also be more comfortable with financial matters and will make use of a greater range of financial services. They are therefore likely to be more profitable. Against this they are also likely to be more sensitive to poor performance in product terms by companies. They are less likely to select companies for traditional reasons and are more likely to be either professionally advised or be exposed to media advice on personal finance. Hence it is not surprising that recommendation by family and friends is less important in customer selection for better performing companies.

The variables where significant correlations were observed include several that were also significant in the contingency table analysis of differences between companies with better or worse performance judged by both self assessment and peer assessment, as discussed in sections 6.3.2 to 6.3.4. Better performing companies judged by any of the three methods, self, expert or peer assessment, attached less importance to recommendation by friends/family for customer selection and saw themselves as skilled at minimising costs of supplying services. However there was even greater similarity between companies judged as better performers by experts and by peers. Contingency table analysis highlighted the following variables where peer admired companies differed significantly from non-admired companies that were also significant in the correlation analysis based on expert ratings; wealth of customers, recommendation by family/friends, higher proportion of customers from social class B and skill at minimising the costs of supplying services. In addition, whereas the correlation analysis based on expert assessment suggested admired companies were more often early into a market with a new product, the contingency table analysis suggested peer admired companies were less often late into the market with new products.
The similarity in findings when using peer admiration and expert assessment to measure performance is considerable. Both methods characterise better performing companies as more skilled at controlling costs, more innovative, with wealthier customers from the higher social classes. The similarity between these sets of findings reinforces the findings of the correlation analysis between the measures of performance constructed by different methods. They suggest that expert and peer assessment in particular are very consistent.

7.6.4 Discriminant Analysis

The discriminant analysis carried out on the sample, which had been divided into "above average" and "average and below" performing companies, resulted in the discriminant function shown below:

\[ D_s = 0.813 + 0.725 v_8 - 0.879 v_{20} \]

\[ (2.207) \quad (0.229)^a \quad (0.470)^b \]

\[ a = t > 2.508 \quad (t_{0.01}) \]

\[ b = t > 1.717 \quad (t_{0.05}) \]

\( v_8 \) Importance of recommendation by family or friends to customers selecting the company as a financial service provider.

\( v_{20} \) Wealth of customers, compared to those of competitors

The two coefficients were both shown to be stable by t tests on the confidence interval which were significant at 5\% at least. The resulting function discriminates well between the two groups with the resulting validation confusion matrix being significant at a 5\% level (see table 7.4).

As reported above, the discriminant analysis resulted in companies classified as admired by experts having negative discriminant scores and those not admired positive. Hence the signs attached to the coefficients
suggest that the companies admired by experts had high scores on the variable reporting relative wealth of customers and low scores on the variable reporting the importance of family/friends recommendation as a means of recruiting customers. It appears therefore that the companies admired by experts are those attracting wealthy customers who do not select their financial service provider on the basis of an existing relationship with family or friends.

The implications of better performing companies' customers placing less reliance on the recommendation of family and friends in selecting a company to supply financial services have been discussed at length in section 6.4.2. An existing relationship has traditionally been an important source of customers for financial service companies, but the successful companies appear to have broken this link and recruit their customers by other means. They are also able to attract and retain more wealthy customers. The value of wealthy customers has been discussed previously (section 7.6.3).

The two variables therefore indicate two aspects of a particular strategy that admired companies pursue. The admired companies attract and retain a more wealthy customer base, and do not rely on recruitment through existing relationships with customers. The ability to attract and retain wealthy customers is likely to be heavily dependent on product quality and service standards. This is because, as been pointed out in section 7.6.3, wealthy customers are more likely to be advised or have access to information and hence will be more confident in their financial dealings.

As with the bivariate analysis, the similarity between the findings of the discriminant analysis reported here and that carried out using self rating and peer rating as the classification criteria should be noted (sections 6.4.2, 6.4.3). Discriminant functions constucted using
expert and peer assessment have in common as one of the
discriminating variables the wealth of the customer base,
whereas discriminant functions constructed using expert
and self assessment share importance of family/friends
recommendation.

7.7 Conclusions

This chapter has sought to explain why and how the Delphi
method was used to create a measure of financial service
company performance based on expert ratings. The method
has been outlined and research which has led to
developments from the basic methodology has been
reviewed. Recent examples of the way that the Delphi
method has been applied to research problems in the
social sciences have been given.

The chapter has also discussed how the research into
expert opinions using the Delphi method was carried out.
The problems of research instrument design have been
outlined, and particular attention paid to the problem of
defining "performance" so as not to limit the experts in
the use of their judgement. The selection and
recruitment of suitable experts has been discussed and
attention drawn to the methods used to increase
participation rates. These included using established
contacts with identified experts and administering the
first round of the Delphi study by interview.

The final section of the chapter has discussed the
findings of the Delphi research. It is pointed out that
the rating constructed using the Delphi method correlates
well with rating constructed by peer and self assessment.
Correlation coefficients were also calculated between
mean rating by experts and scores on descriptive
variables, and the findings were similar to those found
using peer assessment as a measure of performance. Using
t tests, thirteen companies were found to have been rated
as above average in terms of performance by the experts.
Discriminant analysis showed that this group of companies were best distinguished from the remainder by the lower importance they attached to recommendation by family and friends as a source of customers and by the greater relative wealth of their customers. The implications of this finding, that the more highly rated companies are attracting more discerning customers, have been discussed.

The correlation between the expert assessment based measure of performance and those measures constructed by self and peer assessment indicates that there was little bias due either to competitive sentiment or to experimental effect in the latter two measurement methods, potential weaknesses pointed out in the discussion of performance measurement. The similarity between the findings using measures of performance constructed by different means reinforces this finding. The consistency between managers' assessment of their own firm's performance and the assessment of the firm's performance by peers and experts adds to the work of other authors on the subject of consistency of managerial performance assessments with alternative performance measures.
<table>
<thead>
<tr>
<th>Company Number</th>
<th>Average Score</th>
<th>Standard Deviation</th>
<th>n</th>
<th>Standard Error</th>
<th>t&lt;sub&gt;CRIT&lt;/sub&gt; (5% level)</th>
<th>t value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.27</td>
<td>1.00</td>
<td>15</td>
<td>0.258</td>
<td>1.761</td>
<td>1.035</td>
</tr>
<tr>
<td>2</td>
<td>5.32</td>
<td>1.03</td>
<td>19</td>
<td>0.236</td>
<td>1.734</td>
<td>5.576&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>3</td>
<td>4.23</td>
<td>0.58</td>
<td>13</td>
<td>0.160</td>
<td>1.782</td>
<td>1.445</td>
</tr>
<tr>
<td>4</td>
<td>4.23</td>
<td>1.05</td>
<td>13</td>
<td>0.291</td>
<td>1.782</td>
<td>0.793</td>
</tr>
<tr>
<td>5</td>
<td>5.06</td>
<td>0.90</td>
<td>16</td>
<td>0.225</td>
<td>1.753</td>
<td>4.726&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>6</td>
<td>4.65</td>
<td>1.28</td>
<td>17</td>
<td>0.311</td>
<td>1.746</td>
<td>2.083&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>7</td>
<td>3.80</td>
<td>0.87</td>
<td>10</td>
<td>0.276</td>
<td>1.833</td>
<td>-0.725</td>
</tr>
<tr>
<td>8</td>
<td>3.57</td>
<td>0.98</td>
<td>14</td>
<td>0.262</td>
<td>1.771</td>
<td>-1.637</td>
</tr>
<tr>
<td>9</td>
<td>4.38</td>
<td>0.84</td>
<td>13</td>
<td>0.232</td>
<td>1.782</td>
<td>1.660</td>
</tr>
<tr>
<td>10</td>
<td>4.33</td>
<td>0.75</td>
<td>6</td>
<td>0.304</td>
<td>2.015</td>
<td>1.095</td>
</tr>
<tr>
<td>11</td>
<td>4.00</td>
<td>0.82</td>
<td>6</td>
<td>0.333</td>
<td>2.015</td>
<td>0.000</td>
</tr>
<tr>
<td>12</td>
<td>4.50</td>
<td>1.41</td>
<td>16</td>
<td>0.354</td>
<td>1.753</td>
<td>1.414</td>
</tr>
<tr>
<td>13</td>
<td>4.63</td>
<td>0.70</td>
<td>8</td>
<td>0.246</td>
<td>1.895</td>
<td>2.540&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>14</td>
<td>5.00</td>
<td>1.37</td>
<td>17</td>
<td>0.333</td>
<td>1.746</td>
<td>3.005&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>15</td>
<td>3.47</td>
<td>0.70</td>
<td>17</td>
<td>0.169</td>
<td>1.746</td>
<td>-3.136&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>16</td>
<td>3.62</td>
<td>0.74</td>
<td>13</td>
<td>0.205</td>
<td>1.782</td>
<td>-1.880&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>17</td>
<td>4.29</td>
<td>0.82</td>
<td>17</td>
<td>0.200</td>
<td>1.746</td>
<td>1.473</td>
</tr>
<tr>
<td>18</td>
<td>4.38</td>
<td>0.92</td>
<td>13</td>
<td>0.256</td>
<td>1.782</td>
<td>1.502</td>
</tr>
<tr>
<td>19</td>
<td>5.57</td>
<td>0.49</td>
<td>7</td>
<td>0.187</td>
<td>1.943</td>
<td>8.401&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>20</td>
<td>5.56</td>
<td>0.50</td>
<td>9</td>
<td>0.166</td>
<td>1.86</td>
<td>9.391&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>21</td>
<td>4.93</td>
<td>0.7</td>
<td>14</td>
<td>0.188</td>
<td>1.771</td>
<td>4.939&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>22</td>
<td>4.75</td>
<td>0.9</td>
<td>12</td>
<td>0.267</td>
<td>1.796</td>
<td>2.811&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>23</td>
<td>4.71</td>
<td>0.7</td>
<td>7</td>
<td>0.265</td>
<td>1.943</td>
<td>2.700&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>24</td>
<td>4.80</td>
<td>1.17</td>
<td>5</td>
<td>0.522</td>
<td>2.132</td>
<td>1.534</td>
</tr>
<tr>
<td>25</td>
<td>3.60</td>
<td>0.49</td>
<td>5</td>
<td>0.219</td>
<td>2.132</td>
<td>-1.826</td>
</tr>
<tr>
<td>26</td>
<td>5.43</td>
<td>0.49</td>
<td>7</td>
<td>0.187</td>
<td>1.943</td>
<td>7.638&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>27</td>
<td>6.00</td>
<td>0.76</td>
<td>7</td>
<td>0.286</td>
<td>1.943</td>
<td>7.000&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>28</td>
<td>3.59</td>
<td>0.91</td>
<td>17</td>
<td>0.221</td>
<td>1.746</td>
<td>-1.863&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>29</td>
<td>4.67</td>
<td>0.62</td>
<td>12</td>
<td>0.180</td>
<td>1.796</td>
<td>3.703&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>30</td>
<td>4.75</td>
<td>1.09</td>
<td>5</td>
<td>0.487</td>
<td>2.132</td>
<td>1.539</td>
</tr>
</tbody>
</table>

a: Significantly greater than scale mean (4) at 5% level
b: Significantly less than scale mean (4) at 5% level
Table 7.2: Spearman's Rank Correlation Coefficients for Alternative Indicators of Company Performance

<table>
<thead>
<tr>
<th></th>
<th>v162</th>
<th>v161</th>
<th>v160</th>
<th>v155</th>
<th>v5</th>
</tr>
</thead>
<tbody>
<tr>
<td>v4</td>
<td>.2773&lt;sup&gt;c&lt;/sup&gt;</td>
<td>.3545&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.3762&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.5085&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.4622&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v5</td>
<td>.3701&lt;sup&gt;b&lt;/sup&gt;</td>
<td>.3001&lt;sup&gt;c&lt;/sup&gt;</td>
<td>.4601&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.3940&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>v155</td>
<td>.2338</td>
<td>.2338</td>
<td>.4532&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v160</td>
<td>.8781&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.8586&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v161</td>
<td></td>
<td>.9298&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- <sup>a</sup> Significance level 1%
- <sup>b</sup> Significance level 5%
- <sup>c</sup> Significance level 10%

v4 Companies' own assessment of their performance relative to their competitors.
v5 Companies' own assessment of their profitability relative to their competitors.
v155 Assessment of companies' performance by peers.
v160 Mean score awarded by experts rating companies' performance.
v161 Median score awarded by experts rating companies' performance.
v162 Mode score awarded by experts rating companies' performance.
Table 7.3: Spearman Correlation Coefficients Between Mean Delphi Ratings and Descriptive Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>v6</td>
<td>0.3714&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v8</td>
<td>-0.6646&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v20</td>
<td>0.4458&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v21</td>
<td>0.4914&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v22</td>
<td>0.4810&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v23</td>
<td>0.4306&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v25</td>
<td>-0.3695&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v26</td>
<td>-0.5728&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v27</td>
<td>0.4269&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v29</td>
<td>0.3475&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v42</td>
<td>0.4747&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a</sup> Significance level 1%

<sup>b</sup> Significance level 5%

v6 Capabilities and offerings of the company.

v8 Importance of recommendation by family or friends to customers selecting the company as a financial service provider.

v20 Wealth of customers, compared to those of competitors.

v21 Proportion of customers from social class A, compared with competitors.

v22 Proportion of customers from social class B, compared with competitors.

v23 Proportion of customers from social class C1, compared with competitors.

v25 Proportion of customers from social class D, compared with competitors.

v26 Proportion of customers from social class E, compared with competitors.

v27 Importance of a good current profit performance to company.

v29 Accuracy of "early to enter the market with a new product" as a description of the company.

v42 Skill at reducing the costs associated with supplying existing services, compared to competitors.
Table 7.4: Expert Assessment - Confusion Matrices

Calibration

Predicted Group

<table>
<thead>
<tr>
<th>Actual Group Performance</th>
<th>Average or Below</th>
<th>Average or Above</th>
<th>Performance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average or Below</td>
<td>256</td>
<td>74</td>
<td>77.58% 22.42%</td>
</tr>
<tr>
<td>Above Average Performance</td>
<td>22</td>
<td>154</td>
<td>12.50% 87.50%</td>
</tr>
</tbody>
</table>

Total = 506

Proportion Correctly Classified 81.03%

$\chi^2 = 193.732$ (with Yates Correction)

$\chi^2 >> 3.841 (\chi^2_{0.05})$

Validation

Predicted Group

<table>
<thead>
<tr>
<th>Actual Group Performance</th>
<th>Average or Below</th>
<th>Average or Above</th>
<th>Performance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average or Below</td>
<td>10</td>
<td>5</td>
<td>66.67% 33.33%</td>
</tr>
<tr>
<td>Above Average Performance</td>
<td>1</td>
<td>7</td>
<td>12.50% 87.50%</td>
</tr>
</tbody>
</table>

Total = 23

Proportion Correctly Classified 72.72%

Fisher Exact Test $p=0.027$
Chapter 8 - PRODUCT LEVEL QUANTITATIVE FINDINGS

8.1 Introduction

This chapter outlines and discusses the analysis of quantitative data gathered on the marketing practices and strategies of companies at a product level. It is therefore concerned with hypotheses H4 to H7. The construction of the hypotheses and the method by which they were to be tested has been discussed in chapter 3, and the methodology of the data gathering and analysis in chapter 4.

The presentation and discussion of the results is divided into four sections, based on the dependent variable used and hence the hypotheses under examination. The first (section 8.3) discusses the analysis of responses by product type, testing H4 (the product marketing strategies and characteristics will vary according to the need the product seeks to meet). The second (8.4) deals with the analysis of product marketing strategies and practices of companies from different sectors of the financial services market, testing H5 (the product marketing strategy and methods will vary between companies drawn from different sectors of the retail financial services industry). Differences between companies in product marketing strategy and practices on the basis of performance are presented in section 8.5, testing H6 (the product marketing strategy and methods will vary between companies with different levels of performance) and differences with market share are presented in section 8.6, testing H7 (the product marketing strategy and methods will vary between companies with different levels of market share).
8.2 **Data and Methodology**

Forty seven usable product marketing interviews were conducted. The variables to investigate in product level interviews were determined by using a hierarchical conceptual framework, discussed in section 3.13. The resulting questionnaire is presented in appendix 2. A total of forty five variables were captured using Likert scales and this data was used in the analysis presented in this chapter. These variables have been labelled v4 to v49. A further group of fifteen variables (v50 to v64) were captured on a ten point scale, to allow respondents a greater range of expression.

All variables captured on scales suitable for quantitative analysis are listed in table 8.1 (page 231). The data captured in more qualitative forms is discussed in the next chapter.

Because the sample size is larger than that for corporate interviews greater flexibility was possible in the choice of technique and the conventional Student's t test has been used to analyse differences between group means (see Bhattacharyya and Johnson 1977, chapter 9). Multivariate techniques could not be used in the analysis of product data. Not all the questions applied to all products, and there were therefore a lot of missing cases. Listwise deletion therefore resulted in a very small number of usable cases.

8.3 **Analysis of Responses by Product Type**

This analysis sought to test hypothesis H4.

**H4** The product marketing strategies and characteristics will vary according to the need the product seeks to meet.

As was discussed in section 3.6, under the relationship banking model, financial service companies assign different roles to products. Core products serve to
establish and maintain a relationship with customers. Ancillary products are cross sold to customers to generate profit from the relationship. The sample of forty seven financial service products were subdivided into three product categories according to the primary customer need met. The determination of product categories has been discussed in section 4.2.2. These were:

1. Lending products - mortgages, personal loans.
2. Savings Products - life assurance, personal pensions, and savings accounts.

The data measuring the marketing practices and strategies for each product category was compared with that for the other two categories of product by examining differences in the mean score of each category of product on each variable. This was tested using Student's t test on the assumption that the mean scores were equal. The findings are presented in table 8.2.

8.3.1 Discussion of Differences Between Types of Product

In testing hypothesis H4 (the product marketing strategies and characteristics will vary according to the need the product seeks to meet), particular attention is being paid to the implications of the relationship banking model. In the discussion of this model (section 3.6), it was pointed out that in using this model financial service companies use money transmission products as core products and savings and lending products as ancillary products. The performance criteria for these products is therefore not the same. Core products serve to attract and maintain customers, rather than as a source of profit per se. To cement the relationship with customers criteria such as quality of service, convenience and value are likely to be important, and the emphasis on profitability is therefore
secondary. Ancillary products are cross sold to the customer base already using core products and serve to recoup some of the profit forgone on the core products. The relationship banking model therefore has specific implications for the role of the product, which will affect the objectives set and the positioning sought.

The differences in the mean score on variables with differences in product type are reported in table 8.2. Only two differences were found between money transmission products, a core type product, and lending products, an ancillary product type but these differences correspond to the predictions of the relationship banking model. Companies attach less importance to short run profit for money transmission products than for lending products, reflecting their different roles in the relationship banking model. Similarly, quality of products is higher in money transmission, something that is important for core products in establishing and maintaining a relationship.

The influence of the retailing banking model can also be seen, although to a lesser extent in the difference found between savings and lending products in terms of their product strategy and marketing. These differences suggest that savings product have a more pronounced core product role than lending products. Product quality is higher for savings products, charges are more favourable for the customer, the training of staff and the quality of product support staff, sales staff and agents are all rated more highly for savings products than for lending. The role of product quality for core products has been discussed previously, but it is also evident that offering more favourable prices and providing a better and more highly trained staff in support of a product are actions one would associate with a core product rather than an ancillary product. By offering a more favourable price, profits are foregone and by improving staff quality and training, costs are increased. It appears
therefore that savings products operate as core products to a greater extent than do lending products. Lending products carry fewer features that detract from profitability.

The higher profitability of lending products is evidenced by the final distinction found between product types. Entry into the lending market is considered more likely than entry into the savings market. This finding is supported by observation of events. There has been some entry by overseas lenders into the UK mortgage market and into the personal loans market and domestic retailers have expanded their consumer credit operations to now offer unsecured lending in addition to purchase credit.

The greater attractiveness of the lending product market to new entrants identifies the lending products as higher profit, ancillary products, cross sold to core product customers. The new entrants into the market are taking an alternative route and either selling lending products as free standing products (e.g. the Mortgage Corporation) or cross selling not from core banking products but from retailing activities.

There is therefore firm evidence to support acceptance of H4, the product marketing strategies and characteristics will vary according to the need the product seeks to meet. The pattern of differences between product types in terms of strategy and marketing practices suggests that the relationship banking model offers an accurate model of the way UK financial service companies market their product portfolio. The findings indicate that money transmission and savings products are core products, responsible for creating and maintaining customer relationships, whereas lending products are higher profit, ancillary products, to be cross sold to core product users.
This analysis examined hypothesis H5, that the product marketing strategy and methods will vary between companies drawn from different sectors of the retail financial services industry. This hypothesis is based on the research discussed in sections 3.4 and 3.7.

Student's t test was used to test the assumption that companies from different sectors of the industry had the same mean score on product marketing variables. The differences between companies was tested pairwise. The differences between insurance companies and banks are presented in table 8.7. Responses for building societies and insurance companies are compared in table 8.8 and the differences found between banks and building societies are identified in table 8.9.

8.4.1 Banks and Insurance Companies

The greatest number of differences in product marketing, eight in all, were found between banks and insurance companies (table 8.7). Three of these differences relate to distribution, insurance companies having better designed outlets for products, banks attaching more importance to both the location and the design of outlets. A further three relate to staff issues. Insurance companies feel their products are supported by staff of superior ability, who are better trained and have lower turnover levels than is the case for banks. The final two variables relate to the level of charges paid by customers, insurance companies claiming to be more favourable to the customer than do banks, and the quality of tangible clues supporting the product, where banks claim an advantage.

Given the differences in the distribution systems used by banks and insurance companies it is not surprising that three of the eight differences observed relate to this area. The better design quality of branches claimed by
insurance companies and building societies over banks can be compared with the findings in the literature that bank branches, being older and greater in number, are generally less appropriate to today's needs in terms of design than the smaller systems of building societies (Knobel 1984). It appears that the same is true when compared with the direct sales outlets of insurance companies. Despite the insurance companies perceived merits in terms of branch design, the banks attach greater importance to this, and to location, for product success. These findings demonstrate the considerable problems presented by the issue of distribution channels in the financial services industry which was discussed in section 2.2.7. The banks see the distribution of products as a critical factor in their success, but at the same time the crucially important branch system is frequently antiquated, dowdy and poorly located, handing an advantage to more recently established customers.

Insurance companies clearly perceive they have better staff in terms of ability, training and stability than the banks. There is no evidence from secondary research to explain these differences, but it can be suggested that the advised nature of much insurance company business, and hence the involvement of expert intermediaries requires higher levels of knowledge and skill amongst sales staff. The more complex product range might also affect this, since in some cases actuarial skills may be required to understand the product.

The banks claim an advantage in terms of the quality of the tangible clues associated with the product. The concept of which was discussed in section 3.13.1.6. The banks clearly attach more importance to the tangible clues associated with products, and seek to use these to an advantage. Many products supplied by the banks have tangible elements associated with them, cheque books, pass books and plastic cards, and most firms now appear
to put considerable effort into their design. The pack supplied to Vector users by Midland is perhaps the best example of tangible elements being used as a marketing tool. Similarly, the concern of the banks with the design quality of their branches also reflects this interest in using tangible elements as clues to product quality. Insurance companies do not seem to share this attitude.

8.4.2 Banks and Building Societies

Six differences were identified between banks and building societies (table 8.9) and several of these are similar to those found between banks and insurance companies. The building societies claim better quality outlet design than banks and the banks claimed better quality tangible clues and attached more importance to these differences which reflect the discussion in the previous section.

Two findings relate to staff training. Banks see the training of staff as more important to product success than building societies, however building societies see themselves as more flexible in recruiting staff. In many areas, because of the extension of opportunities open to building societies they have had to be more flexible in their recruitment to attract staff with the necessary skills for new areas. Banks, on the other hand, have been more able to develop skills internally.

A final difference relates to queue lengths. Banks see the length of queues as a greater constraint on success than do building societies. In this area banks are a victim of their success in money transmission, an area where research has shown that convenience is extremely important (Anderson, Cox and Fulcher 1976). It will be interesting to see if the increased presence of building societies in the money transmission market leads to the development of similar process problems and whether these are dealt with more successfully.
8.4.3 Insurance Companies and Building Societies

Only four differences between insurance companies and building societies were identified (table 8.8). These findings relate to staff factors and product quality.

The insurance companies felt they had a greater advantage in terms of staff ability and training. These differences may reflect the points made in section 8.3.1 above. Insurance companies deal with expert advisers and they offer complex products, both of which demand higher levels of staff ability and training.

The remaining differences relate to product quality. Insurance companies claim an advantage in, and attach greater importance to, the quality of their product range. The regulatory framework with which insurance companies are faced, demands "best advice" from intermediaries, and the role of the intermediary as an expert, places a premium on product quality and performance in the fight for recommendation.

8.4.4 Summary of Differences Between Sectors of the Industry

Distinct differences have been found in product marketing strategies and practices between companies from different sectors of the industry. Some of these, such as those relating to distribution, reflect the findings from the literature search. Others, for instance, differences in emphasis on tangible clues and staff variables were not foreshadowed in the literature search and appear to merit further, more direct investigation. In the light of these findings H5, that the product marketing strategy and methods will vary between companies drawn from different sectors of the retail financial services industry, is accepted.
8.5 Measures of Performance

As a result of the discussion in sections 3.3 and 3.8 hypothesis H6 was proposed, that the product marketing strategy and methods will vary between companies with different levels of performance. Four related sub-hypotheses about the nature of the strategy pursued by more successful companies, sub-hypotheses H1A to H1D, were also proposed. These were:

H1A Better performing companies will show evidence of higher quality products and higher prices

H1B Better performing companies will show evidence of greater product innovation.

H1C Better performing companies will show a balance between market performance and financial performance factors

H1D Better performing companies will follow one of the three competitive strategies suggested by Porter.

Differences in product marketing strategy and practices between companies with different levels of performance judged by self, peer and expert assessment were examined to test these hypotheses. To do this, companies were grouped into classes on the basis of their performance and the mean ratings of each class of companies on each of the variables listed in table 8.1 were compared. The differences between the mean ratings were tested using Student's t test. Differences between companies classed as "average or below" or "above average" by self assessment of performance are shown in table 8.4. Companies classed as "average or below" or "above average" by expert assessment of performance were found to show the differences outlined in table 8.5. Differences between companies classes as "admired by peers" and "not admired by peers" are shown in table 8.6.
8.5.1 Self Assessment of Corporate Performance

As shown in table 8.4, three variables show significant differences between the mean scores of companies with different levels of self assessed corporate performance. Companies whose self assessed performance is average or below see their products as being more innovative than is the case for companies with above average self assessed performance and the companies with lower self assessed performance also considered themselves to have higher design quality in the tangible clues associated with their products. Companies with better self ranked performance see themselves as having more highly trained staff dealing with their products than their competitors.

The low innovative content of better performing companies' products appears to contradict the evidence reported about fast product development and earlier market entry reported in chapters 6 and 7. However, the products under discussion here are all established products. In the financial services industry it is widely considered to be the case that late entrants into a market have an advantage in being able to improve on what has gone before. It might be expected therefore that firms that are later into the market will have added more innovative features to a product in order to overcome the disadvantage of late entry. Hence there is no reason why late market entry should not be associated with more innovation in the eventual product. The literature discussing the children's market gives evidence of this phenomenon (Goudge and Green 1985).

8.5.2 Expert Assessment of Corporate Performance

The differences found between companies ranked by experts as "above average" and "average and below" performers in their product marketing are listed in table 8.5. Two variables, the abilities of products to meet customer needs and the skill at marketing products, can be classed as "left-hand", i.e. market based, inputs into superior
performance. The significance of these variables provides evidence that experts, in evaluation performance, were not purely considering financial factors.

Three variables relating to staffing show significant differences between companies classified on the basis of expert assessment. Companies with an "above average" level of performance rated their staff stability as poorer than did companies with a low level of performance. Staff ability and training were considered less important to the success of their products by companies with above average performance.

These findings suggest that the companies with higher levels of expert assessed performance do not achieve this performance through superior staff and training, but by other means that compensate for this weakness. For instance, if the better performing companies operate superior systems in support of a product, then a lower level of staff ability or training is needed for staff to provide a competent service to customers.

Companies with "above average" performance had a greater consistency in the design of their outlets for products, but at the same time consider tangible clues to be less important to the success of their products. The lower level of importance attached to tangible clues suggests that the better performing companies gain competitive advantage by other means. Tangible clues therefore seem to be the "icing on the cake" rather than a key element in creating competitive advantage for the products of better performing companies.

8.5.3 Peer Assessment of Corporate Performance

The analysis of differences between companies admired and non-admired by their peers is presented in table 8.6. Using peer admiration as a measure of performance identified eleven variables where significant differences
exist between companies with different levels of performance.

Four of the eleven variables identified relate to the distribution of products. Peer admired companies have more outlets for their products, they have better located outlets, they make less use of agents and the quality of agents they do have is lower. Peer admired companies therefore have greater control over their distribution, using their own networks rather than agencies. They have more extensive and better located distribution networks. The peer admired companies therefore appear to have more substantial and more direct channels of distribution.

Peer admired companies place less emphasis on staff training in support of their product, with non-admired firms claiming an advantage in training. Also to be noted is that the peer admired companies have a lower score on the variable relating to charges paid by customers. This variable was formulated so that a high score indicated a favourable charging level from the customers viewpoint, so peer admired companies can be seen to be less generous in terms of charges to their customers. Hence the lower score should be read as indicating higher charges, which supports subsidiary hypothesis H1A, which suggests that successful companies will have higher prices.

8.5.4 Comparison of Findings Relating to Corporate Performance

It is certainly the case that differences were found between companies with different levels of corporate performance, so hypothesis H6 (the product marketing strategy and methods will vary between companies with different levels of performance) is accepted. The similarity between the sets of product marketing descriptive variables found to be significantly related to corporate performance assessed by the three different methods is not as clear as that found for corporate
Spearman rank correlation coefficients were used to test the relationship between market share and marketing strategy variables (table 8.3).

8.6.1 Differences with Market Share

A total of nineteen of the variables in table 8.1 were correlated at a significant level with relative market share. Twelve of these are positive correlations. five relate to staff stability and training, three variables relate to the distribution of products and three more to
the sales support for products. A further group of four variables relate to pricing, returns and profit orientation of products.

One variable that is strongly and positively correlated is the firms' own estimates of their relative market share. This correlation suggests that despite the problems experienced gathering and calculating the relevant market share data, the relative market share values calculated are not widely out of line.

Examining the relationship between market share and the descriptive variables relating to distribution, these indicate that high share companies have more extensive and better located outlet networks, and these are supported by better quality ATMs. Despite these findings, it cannot be assumed that high market share is synonymous with size. Several other variables, notably the importance attached to distribution and the quality of outlet design, are not correlated with market share. Thus high market share companies appear to have invested in sites rather than in branch design, although the acquisition of these sites is no higher priority for high share companies than it is for low share companies.

One area where the negative correlations with market share were found is on variables relating to staffing. Larger market share companies rated themselves significantly worse at training and retaining staff dealing with their products. They also concede the importance of staff ability, training and retention to the success of their products, rating these three variables more highly in terms of performance than did low share companies. The staffing element of the product marketing practices of high market share companies appears therefore to be a weakness.

One factor that might lie behind this weakness is that the more extensive distribution networks of the larger share companies demand more staff, despite the higher
level of automation. The greater numbers involved make staff training more difficult, and it also becomes more difficult when recruiting very large numbers to ensure quality of staff.

Several variables seem to be related to support for the selling operation, for instance more advertising, a wider product range, greater use of direct mail and better information about customers. It seems therefore that not only have high share companies got a more widespread and accessible distribution network, they also have more support for that network in terms of aids to selling.

In terms of pricing and profitability objectives, the larger market share companies are clearly more concerned about the return on their products in the short run. Both the importance attached to short run profits and the level of charges (the formulation of this variable is discussed in section 8.5.3) suggest that a higher priority is attached to return by high share companies. The high share companies not only charged more for their products, they attached less importance to the level of charges, suggesting they perceived their customers to be less sensitive to charging levels that did the low share companies.

The conventional analysis of business strategy, e.g. Porter (1980), associates high market share with low costs and, by implication, price based competition. The advantage of high share is the benefits of moving along the experience curve faster than the competition and therefore enjoying lower costs. These lower costs can then be passed on to the customer as lower prices, attracting new customers and increasing market share. The key point about such competition, based on experience curve effects and therefore cumulative output, is that high market share creates lower costs and allows lower prices.
In the retail financial services industry this form of competition does not appear to be occurring. Higher market share companies are not competing on the basis of price, rather they appear to be offering customers a more accessible service, with more and better located outlets for their products, but charging a higher price for these services. The high share companies therefore appear to be competing on the basis of convenience, rather than price. This convenience positioning is supported by the higher quality ATMs and the wider product range offered.

Considering the literature discussing distribution of financial services reviewed in section 2.2.7 this apparent paradox can be interpreted. The experience curve is essentially a manufacturing, rather than a service, concept (Day and Montgomery 1985). Jacobson and Aaker (1985, p. 11) noted that;

"Experience effects tend to be found in industries with high levels of value added, continuous process manufacturing and high capital intensity. In other contexts, most notably service and extractive industries, experience effect strategies are rarely applied successfully."

In financial services costs do not arise through manufacturing but through distribution and support for the distribution network. The research on distribution reviewed in section 2.2.7 clearly indicates the costly nature of the standard, branch based distribution system in financial services. The branch system is the mechanism by which convenience is delivered to customers but it is also a major burden in terms of costs. It can be seen therefore that high market share companies are recovering these additional costs of convenience by charging higher prices.

The findings are, on the face of things, similar to those from PIMS research on the subject (Buzzell, Gale and Sultan 1975), which also noted that high market share companies did not show the lower prices that experience
curve approaches suggest are appropriate. However in the PIMS research there was evidence that high market share companies had higher prices and higher quality products compared to low share companies. In this research there is no evidence of higher product quality beyond greater convenience. For instance, market share was not correlated with variables measuring product quality or ability to meet customer needs. It would appear therefore that the primary distinction between the products of high and low share companies is convenience and it is unclear whether the higher prices and profit orientation is driven by the resulting higher costs or greater demand from customers.

There is therefore a difference in product marketing strategy based on different levels of market share. In particular, there is evidence to suggest that high market share companies are pursuing a strategy of greater convenience in distribution. The costs of distribution in the financial services industry are such that, rather than benefiting from the effects of experience curves as might be expected, high share companies are likely to be faced with higher costs. Such an interpretation is supported by the emphasis high share companies place on higher prices and product profitability.

8.7 Conclusions

The chapter has presented the analysis of data gathered from financial service companies examining their product marketing strategies and practices. It has therefore sought to examine hypotheses H4 to H7. The main findings are summarised below.

1. Some of the differences in the marketing practices and strategies utilised for different types of product predicted by the relationship banking model were found, i.e. the different roles played by money transmission, savings and lending products in terms of being sources of profit. H4, that the product
marketing strategies and characteristics will vary according to the need the product seeks to meet, can therefore be accepted.

2. Analysis of differences between different types of company in the marketing of their products concentrated in three areas. Firstly differences related to the well documented differences in the distribution systems used. Further differences arose in staff quality and training and also in the use of tangible clues, neither of which had been predicted on the basis of the literature survey. H5, that the product marketing strategy and methods will vary between companies drawn from different sectors of the retail financial services industry, is therefore accepted.

3. Considerable differences were observed between companies with different performance levels, judged by self, expert and peer assessment, in terms of product marketing strategies and characteristics, and H6, that the product marketing strategy and methods will vary between companies with different levels of performance, is therefore accepted. However these findings were difficult to interpret as there was little similarity between the sets of variables identified using different performance measures. Self assessment appeared to indicate less innovation in the products of better performing companies. Companies assessed by experts to be better performers had products which better met customer needs and greater ability at marketing their products. Evidence was found for more extensive distribution and better advertising in companies admired by their peers. The support available for selling also appeared to be better in companies admired by their peers. The interpretation of these findings has been discussed.
Evidence was also found that companies with better performance (judged by experts) had better quality products in terms of meeting customer needs, and (judged by peers) also had higher charges. This suggests sub-hypothesis H1A, that better performing companies will show evidence of higher quality products and higher prices, may be correct, but in the light of the wide divergence in findings it is not possible to consider H1A conclusively accepted.

4. Evidence was found that high market share companies in the financial services market follow a different strategy from those with low market share. Higher market share was associated with more extensive distribution networks and more substantial promotional effort in terms of advertising and direct mail. Evidence was also found of a greater interest in short run profitability and lower generosity to consumers in terms of charges. Higher market share companies also thought both return paid and charges made were of lesser importance to the success of their product. It appears therefore that high market share companies are competing on the basis of greater convenience through more extensive distribution. Attention has be drawn to previous research indicating that the costs of distribution in the financial services industry are such that, rather than benefiting from the effects of experience curves as might be expected, high share companies are likely to be faced with higher costs. Such an interpretation is supported by the emphasis high share companies place on higher prices and product profitability. H7, that the product marketing strategy and methods will vary between companies with different levels of market share, is therefore accepted.
Table 8.1: Variables Describing Aspects of Product Strategy and Marketing Captured on Interval Scales

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v4</td>
<td>Company's own estimate of relative performance of product</td>
</tr>
<tr>
<td>v5</td>
<td>Company's own estimate of relative market share</td>
</tr>
<tr>
<td>v6</td>
<td>Relative ability of products to meet customer needs</td>
</tr>
<tr>
<td>v7</td>
<td>Relative profitability of product (return on assets)</td>
</tr>
<tr>
<td>v8</td>
<td>Relative ability of company at marketing the product</td>
</tr>
<tr>
<td>v12</td>
<td>Existence of distinct competitive advantage for product</td>
</tr>
<tr>
<td>v9</td>
<td>Likelihood of new entrants to market</td>
</tr>
<tr>
<td>v10</td>
<td>Growth of market for product in terms of volume</td>
</tr>
<tr>
<td>v11</td>
<td>Growth of market for product in terms of value</td>
</tr>
<tr>
<td>v14</td>
<td>Importance of short run profitability for the product</td>
</tr>
<tr>
<td>v13</td>
<td>Homogeneity of customers for product</td>
</tr>
<tr>
<td>v15</td>
<td>Product range width compared with nearest competitor</td>
</tr>
<tr>
<td>v16</td>
<td>Product range depth compared with nearest competitor</td>
</tr>
<tr>
<td>v17</td>
<td>The amount of innovation involved in the product is above average</td>
</tr>
<tr>
<td>v18</td>
<td>Quality of product compared with nearest competitor</td>
</tr>
<tr>
<td>v19</td>
<td>Charges paid by customers compared with nearest competitor</td>
</tr>
<tr>
<td>v20</td>
<td>Rate of return paid to customers compared with nearest competitor</td>
</tr>
<tr>
<td>v21</td>
<td>Extra charges made to customers using the product</td>
</tr>
<tr>
<td>v22</td>
<td>Linking charges to specific items</td>
</tr>
<tr>
<td>v23</td>
<td>Discretion over charges to customers using product</td>
</tr>
<tr>
<td>v24</td>
<td>Number of outlets where the product can be acquired compared with nearest competitor</td>
</tr>
<tr>
<td>v25</td>
<td>Number of outlets where the product can be used compared with nearest competitor</td>
</tr>
<tr>
<td>v26</td>
<td>Location of outlets for product compared with nearest competitor</td>
</tr>
<tr>
<td>v27</td>
<td>Use of agents as outlet for product</td>
</tr>
<tr>
<td>Table 8.1 Cont: Variables Describing Aspects of Product Strategy and Marketing Captured on Interval Scales</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td></td>
</tr>
<tr>
<td>v28 Advertising expenditure on product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v29 Quality of advertising in support for product</td>
<td></td>
</tr>
<tr>
<td>v30 Use of direct mail to support product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v31 Information known about customers compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v32 Information known about potential customers compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td><strong>People</strong></td>
<td></td>
</tr>
<tr>
<td>v33 Ability of staff associated with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v34 Amount of training given to staff dealing with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v35 Turnover of staff dealing with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v36 Flexibility of recruitment of staff associated with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v37 Quality of sales staff associated with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v38 Quality of agents used in distributing the product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td><strong>Physical Evidence</strong></td>
<td></td>
</tr>
<tr>
<td>v39 Design quality of outlets where the products are available</td>
<td></td>
</tr>
<tr>
<td>v40 Consistency of design of outlets where products are available</td>
<td></td>
</tr>
<tr>
<td>v41 Quality of automatic delivery systems for product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v42 Quantity of tangible clues associated with the product</td>
<td></td>
</tr>
<tr>
<td>v43 Design quality of tangible clues associated with the product</td>
<td></td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td></td>
</tr>
<tr>
<td>v44 Response time between a product being confirmed and being operational</td>
<td></td>
</tr>
<tr>
<td>v45 Response time between an enquiry and a response</td>
<td></td>
</tr>
<tr>
<td>v46 Length of queues associated with product compared with nearest competitor</td>
<td></td>
</tr>
<tr>
<td>v47 Provision of separate facilities for users of the products</td>
<td></td>
</tr>
<tr>
<td>v48 Efficiency in dealing with fluctuations in level of demand for product</td>
<td></td>
</tr>
<tr>
<td>v49 Efficiency in dealing with changing structure of demand for product</td>
<td></td>
</tr>
</tbody>
</table>

232
<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>v50</td>
<td>Importance of size of product range to the success of the product</td>
</tr>
<tr>
<td>v51</td>
<td>Importance of the quality of the product range to the success of the product</td>
</tr>
<tr>
<td>v52</td>
<td>Importance of charges made to success of the product</td>
</tr>
<tr>
<td>v53</td>
<td>Importance of return paid to success of the product</td>
</tr>
<tr>
<td>v54</td>
<td>Importance of location of outlets to the success of the product</td>
</tr>
<tr>
<td>v55</td>
<td>Importance of advertising to the success of the product</td>
</tr>
<tr>
<td>v56</td>
<td>Importance of staff ability to success of the product</td>
</tr>
<tr>
<td>v57</td>
<td>Importance of staff training to success of the product</td>
</tr>
<tr>
<td>v58</td>
<td>Importance of staff turnover to success of the product</td>
</tr>
<tr>
<td>v59</td>
<td>Importance of outlet design to the success of the product</td>
</tr>
<tr>
<td>v60</td>
<td>Importance of ATM quality to the success of the product</td>
</tr>
<tr>
<td>v61</td>
<td>Importance of tangible clues to the success of the product</td>
</tr>
<tr>
<td>v62</td>
<td>Importance of response times to the success of the product</td>
</tr>
<tr>
<td>v63</td>
<td>Importance of information system sophistication to the success of the product</td>
</tr>
<tr>
<td>v64</td>
<td>Importance of queue lengths to success of the product</td>
</tr>
</tbody>
</table>

* Captured on ten point scales
Table 8.2: t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Different Product Types

<table>
<thead>
<tr>
<th>Variable</th>
<th>Savings product</th>
<th>Lending product</th>
<th>t test score</th>
</tr>
</thead>
<tbody>
<tr>
<td>v9 Likelihood of new entrants to market</td>
<td>3.1667</td>
<td>4.2143</td>
<td>-2.38b</td>
</tr>
<tr>
<td>v18 Quality of product compared with nearest competitor</td>
<td>3.8750</td>
<td>3.3889</td>
<td>-2.82a</td>
</tr>
<tr>
<td>v19 Charges paid by customers compared with nearest competitor</td>
<td>3.5000</td>
<td>2.8889</td>
<td>-2.43b</td>
</tr>
<tr>
<td>v33 Ability of staff associated with product compared with nearest competitor</td>
<td>3.4000</td>
<td>2.7647</td>
<td>2.76a</td>
</tr>
<tr>
<td>v34 Amount of training associated with product compared with nearest competitor</td>
<td>3.4000</td>
<td>2.7059</td>
<td>2.06b</td>
</tr>
</tbody>
</table>
Table 8.2 Cont.: t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Different Product Types

v37 Quality of sales staff associated with product compared with nearest competitor

<table>
<thead>
<tr>
<th></th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings product</td>
<td>3.5333</td>
</tr>
<tr>
<td>Lending product</td>
<td>3.0000</td>
</tr>
</tbody>
</table>

| t test score             | 2.41<sup>b</sup> |

v38 Quality of agents used in distributing the product compared with nearest competitor

<table>
<thead>
<tr>
<th></th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings product</td>
<td>3.4000</td>
</tr>
<tr>
<td>Lending product</td>
<td>2.6429</td>
</tr>
</tbody>
</table>

| t test score             | 2.77<sup>b</sup> |

v14 Importance of short run profitability for the product

<table>
<thead>
<tr>
<th></th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending product</td>
<td>4.4118</td>
</tr>
<tr>
<td>Money transmission product</td>
<td>3.4167</td>
</tr>
</tbody>
</table>

| t test score             | 2.99<sup>a</sup> |

v18 Quality of product compared with nearest competitor

<table>
<thead>
<tr>
<th></th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending product</td>
<td>3.3889</td>
</tr>
<tr>
<td>Money transmission product</td>
<td>4.0000</td>
</tr>
</tbody>
</table>

| t test score             | -3.02<sup>a</sup> |

<sup>a</sup> Significant at 1% level

<sup>b</sup> Significant at 5% level
### Table 8.3: Spearman Rank Correlations Between Market Share and Product Marketing Strategy Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>v5 Company’s own estimate of relative market share</td>
<td>0.6117a</td>
</tr>
<tr>
<td>v14 Importance of short run profitability for the product</td>
<td>0.3850a</td>
</tr>
<tr>
<td>v15 Product range width compared with nearest competitor</td>
<td>0.4417a</td>
</tr>
<tr>
<td>v19 Charges paid by customers compared with nearest competitor</td>
<td>-0.3600a</td>
</tr>
<tr>
<td>v24 Number of outlets where the product can be acquired compared with nearest competitor</td>
<td>0.6087a</td>
</tr>
<tr>
<td>v26 Location of outlets for product compared with nearest competitor</td>
<td>0.3144b</td>
</tr>
<tr>
<td>v28 Advertising expenditure on product compared with nearest competitor</td>
<td>0.3243b</td>
</tr>
<tr>
<td>v30 Use of direct mail to support product compared with nearest competitor</td>
<td>0.3188b</td>
</tr>
<tr>
<td>v31 Information known about customers compared with nearest competitor</td>
<td>0.2538b</td>
</tr>
<tr>
<td>v34 Amount of training given to staff dealing with product compared with nearest competitor</td>
<td>-0.3088b</td>
</tr>
<tr>
<td>v35 Turnover of staff dealing with product compared with nearest competitor</td>
<td>-0.2954b</td>
</tr>
<tr>
<td>v41 Quality of automatic delivery systems for product compared with nearest competitor</td>
<td>0.4272b</td>
</tr>
<tr>
<td>v46 Length of queues associated with product compared with nearest competitor</td>
<td>-0.357b</td>
</tr>
</tbody>
</table>

a Significant at 1% level
b Significant at 5% level
Table 8.3 Cont.: Spearman Rank Correlations Between Market Share and Product Marketing Strategy Variables

| Importance of charges made to success of the product | -0.2806<sup>b</sup> |
| Importance of return paid to success of the product | -0.3553<sup>b</sup> |
| Importance of staff ability to success of the product | 0.3163<sup>b</sup> |
| Importance of staff training to success of the product | 0.3033<sup>b</sup> |
| Importance of staff turnover to success of the product | 0.3367<sup>b</sup> |
| Importance of queue lengths to success of the product | 0.4002<sup>b</sup> |

<sup>a</sup> Significant at 1% level
<sup>b</sup> Significant at 5% level
<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>v17</td>
<td>The amount of innovation involved in the product is above average</td>
<td>3.207</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.857</td>
</tr>
<tr>
<td>t test score</td>
<td></td>
<td>2.25</td>
</tr>
<tr>
<td>v34</td>
<td>Amount of training associated with product compared with nearest competitor</td>
<td>3.241</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.583</td>
</tr>
<tr>
<td>t test score</td>
<td></td>
<td>-2.18</td>
</tr>
<tr>
<td>v43</td>
<td>Design quality of tangible clues associated with the product above average</td>
<td>3.857</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.285</td>
</tr>
<tr>
<td>t test score</td>
<td></td>
<td>2.19</td>
</tr>
</tbody>
</table>

All t test significant at 5% level (two tail)
Table 8.5: t Tests for Differences Between the Mean Scores for Companies Ranked as High and Low Performance by Experts on Product Marketing Strategy Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Mean Score</th>
<th>Companies Ranked as Above Average</th>
<th>Companies Ranked as Average or Below</th>
<th>t test score</th>
</tr>
</thead>
<tbody>
<tr>
<td>v6</td>
<td>Relative ability of products to meet customer needs</td>
<td></td>
<td></td>
<td></td>
<td>2.04</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>3.929</td>
<td>3.438</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v8</td>
<td>Relative ability of company at marketing the product</td>
<td></td>
<td></td>
<td></td>
<td>2.97</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>4.083</td>
<td>3.464</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v35</td>
<td>Turnover of staff dealing with product compared with nearest competitor</td>
<td></td>
<td></td>
<td></td>
<td>-2.19</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>2.833</td>
<td>3.276</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v40</td>
<td>Consistency of design of outlets where products are available</td>
<td></td>
<td></td>
<td></td>
<td>2.72</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>3.800</td>
<td>2.852</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v56</td>
<td>Importance of staff ability to success of the product</td>
<td></td>
<td></td>
<td></td>
<td>-2.05</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>7.174</td>
<td>8.138</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v57</td>
<td>Importance of staff training to success of the product</td>
<td></td>
<td></td>
<td></td>
<td>-2.80</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>6.929</td>
<td>8.138</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v61</td>
<td>Importance of tangible clues to the success of the product</td>
<td></td>
<td></td>
<td></td>
<td>-2.17</td>
</tr>
<tr>
<td></td>
<td>Mean Score</td>
<td>5.077</td>
<td>6.400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All t tests significant at 5% level (two tail)
Table 8.6: t Tests for Differences Between the Mean Scores for Companies Admired and Not Admired For their by Peers on Product Marketing Strategy Variables

<table>
<thead>
<tr>
<th>Variable Description</th>
<th>Companies Admired by Peers</th>
<th>Companies Not Admired by Peers</th>
<th>t test score</th>
</tr>
</thead>
<tbody>
<tr>
<td>v15 Product range width compared with nearest competitor</td>
<td></td>
<td></td>
<td>2.39</td>
</tr>
<tr>
<td>v19 Charges paid by customers compared with nearest competitor</td>
<td></td>
<td></td>
<td>-2.05</td>
</tr>
<tr>
<td>v24 Number of outlets where the product can be acquired compared with nearest competitor</td>
<td></td>
<td></td>
<td>3.02</td>
</tr>
<tr>
<td>v26 Location of outlets for product compared with nearest competitor</td>
<td></td>
<td></td>
<td>2.09</td>
</tr>
<tr>
<td>v27 Use of agents as outlet for product</td>
<td></td>
<td></td>
<td>-2.62</td>
</tr>
<tr>
<td>v29 Quality of advertising in support for product</td>
<td></td>
<td></td>
<td>2.26</td>
</tr>
</tbody>
</table>

All t test significant at 5% level (two tail)
Table 8.6 Cont.: t Tests for Differences Between the Mean Scores for Companies Admired and Not Admired For their by Peers on Product Marketing Strategy Variables

<table>
<thead>
<tr>
<th>v31 Information known about customers compared with nearest competitor</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Admired by Peers</td>
<td>3.077</td>
</tr>
<tr>
<td>Companies Not Admired by Peers</td>
<td>2.444</td>
</tr>
<tr>
<td>t test score</td>
<td>2.43</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v34 Amount of training given to staff dealing with product compared with nearest competitor</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Admired by Peers</td>
<td>2.692</td>
</tr>
<tr>
<td>Companies Not Admired by Peers</td>
<td>3.389</td>
</tr>
<tr>
<td>t test score</td>
<td>-2.61</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v38 Quality of agents used in distributing the product compared with nearest competitor</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Admired by Peers</td>
<td>2.625</td>
</tr>
<tr>
<td>Companies Not Admired by Peers</td>
<td>3.231</td>
</tr>
<tr>
<td>t test score</td>
<td>-2.25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v47 Provision of separate facilities for users of the products</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Admired by Peers</td>
<td>2.647</td>
</tr>
<tr>
<td>Companies Not Admired by Peers</td>
<td>3.375</td>
</tr>
<tr>
<td>t test score</td>
<td>-2.37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v64 Importance of queue lengths to success of the product</th>
<th>Mean Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Admired by Peers</td>
<td>7.500</td>
</tr>
<tr>
<td>Companies Not Admired by Peers</td>
<td>4.833</td>
</tr>
<tr>
<td>t test score</td>
<td>2.65</td>
</tr>
</tbody>
</table>

All t test significant at 5% level (two tail)
<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Insurance Companies</th>
<th>Banks</th>
<th>t test score</th>
</tr>
</thead>
<tbody>
<tr>
<td>v19</td>
<td>Charges paid by customers compared with nearest competitor</td>
<td>3.800</td>
<td>2.875</td>
<td>3.34&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v33</td>
<td>Ability of staff associated with product compared with nearest competitor</td>
<td>3.700</td>
<td>2.941</td>
<td>3.59&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>v34</td>
<td>Amount of training given to staff dealing with product compared with nearest competitor</td>
<td>3.600</td>
<td>2.765</td>
<td>2.16&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>v35</td>
<td>Turnover of staff dealing with product compared with nearest competitor</td>
<td>3.300</td>
<td>3.000</td>
<td>2.52&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a</sup> Significant at 1% level  
<sup>b</sup> Significant at 5% level
### Table 8.7 Cont.: t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Insurance Companies and Banks

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Mean Score</th>
<th>t test score</th>
<th>Significance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>v39</td>
<td>Design quality of outlets where the products are available</td>
<td></td>
<td>3.52&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3.800</td>
<td>Banks</td>
<td>2.471</td>
<td></td>
</tr>
<tr>
<td>v43</td>
<td>Design quality of tangible clues associated with the product</td>
<td></td>
<td>-2.09&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3.200</td>
<td>Banks</td>
<td>3.875</td>
<td></td>
</tr>
<tr>
<td>v54</td>
<td>Importance of location of outlets to the success of the product</td>
<td></td>
<td>-2.54&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3.400</td>
<td>Banks</td>
<td>6.133</td>
<td></td>
</tr>
<tr>
<td>v59</td>
<td>Importance of outlet design to the success of the product</td>
<td></td>
<td>-2.31&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>3.250</td>
<td>Banks</td>
<td>6.267</td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Significant at 1% level  
<sup>b</sup> Significant at 5% level
### Table 8.8: t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Insurance Companies and Building Societies

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean Score</th>
<th>t test score</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>v18 Quality of product compared with nearest competitor</td>
<td>Insurance Companies: 4.100  Building Societies: 3.474</td>
<td>3.01&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>v33 Ability of staff associated with product compared with nearest competitor</td>
<td>Insurance Companies: 3.700  Building Societies: 2.824</td>
<td>3.38&lt;sup&gt;a&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>v34 Amount of training given to staff dealing with product compared with nearest competitor</td>
<td>Insurance Companies: 3.600  Building Societies: 2.824</td>
<td>2.24&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>v51 Importance of the quality of the product range to the success of the product</td>
<td>Insurance Companies: 8.600  Building Societies: 7.188</td>
<td>2.41&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

*<sup>a</sup> Significant at 1% level  
<sup>b</sup> Significant at 5% level*
Table 8.9: t Tests for Differences Between the Mean Scores on Product Marketing Strategy Variables Between Banks and Building Societies

<table>
<thead>
<tr>
<th>v36 Flexibility of recruitment of staff associated with product compared with nearest competitor</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>2.625</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>3.177</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>-2.52b</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v39 Design quality of outlets where the products are available</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>2.471</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>3.263</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>-3.10a</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v43 Design quality of tangible clues associated with the product</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>3.875</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>3.316</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>-2.24b</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v57 Importance of staff training to success of the product</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>8.294</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>7.188</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>2.21b</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v61 Importance of tangible clues to the success of the product</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>6.600</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>5.000</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>2.35b</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>v64 Importance of queue lengths to success of the product</th>
<th>Mean Score</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>7.909</td>
<td></td>
</tr>
<tr>
<td>Building Societies</td>
<td>5.222</td>
<td></td>
</tr>
<tr>
<td>t test score</td>
<td>3.02a</td>
<td></td>
</tr>
</tbody>
</table>

a Significant at 1% level
b Significant at 5% level
9.1 Introduction

In addition to providing data for use in quantitative analysis, managers also discussed a range of issues affecting the marketing of retail financial services. This chapter seeks to summarise these discussions, emphasising the differences in approach and the evolving themes in retail financial service marketing.

The discussion is broken up into seven sections dealing with specific issues where differences in approach between companies were observed or where the approach adopted by companies in the industry differed from expectations based on the literature survey.

The first section discusses strategies and provides considerable qualitative evidence to support the findings of the quantitative analysis looking at differences between companies in terms of performance. The next section discusses differences in approach to segmentation reported by companies. Companies were found to differ not only in the extent to which they used segmentation but also in the techniques they used to segment the market. These differences are discussed.

The next two sections discuss matters relating to corporate culture. The first considers the attempts by management to revise the culture of their organisation through programmes. The second section considers both sides of the relationship between culture and employment i.e. the impact of changing corporate culture on employment and of changing employment patterns on culture.

The penultimate section examines the differences found in the mission statements used by different types of
companies, and offers some thoughts on why these differences occur.

Innovation and new product development are discussed in the next section. This was an area where differences emerged between what literature had suggested might be expected and what was observed. Possible reasons for these differences are discussed.

The final section deals with two issues, closely related; image and positioning. Discussion of the purpose of advertising, particularly with respect to insurance companies, and the branding policies of financial service companies produced some different opinions between different respondents. These various opinions are summarised and discussed.

The qualitative data presented in this section is not addressed to any hypothesis in particular, but rather is used to support and expand upon the findings presented in other chapters. In order to provide an additional perspective on managers' comments, whether the company was admired or not by peers is indicated for all quotations.

9.2 Strategy

There is substantial evidence from the comments of managers to support the findings from the quantitative analysis. Discriminant analysis identified the wealth of the customers and control over costs as the best variables to distinguish between peer admired and non-admired companies. The attraction of wealthy customers has advantages in terms of product usage rate and profitability and also the ability to cross sell products, as has been discussed during the examination of quantitative findings in chapters 6 and 7. The distinction between admired and non-admired companies in terms of the wealth of their customers is illustrated by the comments below;
"We're not trying to attract all sorts with the same degree of effort, we're skewed towards the young up-market." Marketing Manager, Bank (Admired)

"Our client base is predominantly forty plus because we are primarily a protection office and we have tended to go for older ages because there are the best possibilities in that range. That has not left us in a very good strategic position so we want to segment out the people who have funds to invest and younger people and get them on board for life." Marketing Manager, Composite Insurance Company (Non-admired)

"Our strategy is to get more of our customers to use us for more of their financial services in an environment that they find attractive and through which we can be highly profitable. .... we aim to concentrate on quality and customer care. The quality is needed to get us in with the group of customers we want to attract." Marketing Manager, Bank (Admired)

The relative skill of admired companies at controlling their costs is also illustrated by the comments of managers in admired and non-admired companies;

"I saw some recent figures looking at things like profitability and management expenses amongst the top fifteen societies and we didn't come out that well." Marketing Manager, Building Society (Non-admired)

"We offer a full range of established products. We do not offer newer products such as unit trust linked mortgage guarantees. We concentrate on offering mass market products with low expenses." Marketing Manager, Mutual Insurance Company (Admired)

The findings suggest that this approach is two pronged, with attracting wealthy customers and controlling costs being complementary, rather than alternative approaches for admired companies. Again, the comments of managers illustrate this. One manager in an admired mutual insurance company, with impressive past performance in investment and hence highly rated by investment advisers, defined the firm's mission as follows;
"Our mission is to minimise the amount of the premiums taken for expenses and apply the balance to the best of our ability for consistent and best returns." Sales Division Manager, Mutual Insurance Company (Admired)

The ability of the firm in terms of investment performance is such that it has a large number of advised clients, who are likely to be more wealthy. A second manager, this time in an admired building society, discussed his principal target market and the strategy used in attracting them. The product mentioned, an interest bearing current account based on superior processing ability, was not hypothetical, as the language might suggest, but had been in place for over a year at the time of the discussion;

"(In terms of our target market) I'm not too interested in the under 10s, because they're so promiscuous in their financial habits they basically take financial institutions for a ride. They hike their money around the market, take all the goodies and there's no relationship. I'm not keen on high net worth individuals who have £40 - 50,000 to invest because they tend to be interested only in the return and are "hot" with respect to interest rates. Our key target market is 16 - 35 year olds, who are relatively well off, where there is the greatest profit and cross selling potential and the key product I would offer them is a high profit, low interest transaction account where our information technology allows us to maintain low costs and hence high profitability." Manager - Marketing, Building Society (Admired).

The last quote illustrates the link between quality products and wealthy customers that seems to be the basis of the performance of admired companies. The comments made by managers suggest that the admired firms seek to attract wealthier customers through a product quality strategy. The need for product quality is based on the superior information available to wealthy customers. With wealthy customers there is increased likelihood of professional advice, and there is increased exposure to investment advice through quality newspapers.
The findings of the discriminant analysis based on the Delphi poll were very similar. The distinguishing variables included wealth of customers, and also the importance of recommendation by family or friends to customers selecting the company to provide financial services. The companies rated highly by experts rely less on an established relationship as a source of new business than do other companies. Recommendation by family or friends has been shown in selection criteria research to be an important element in bank selection. Companies admired by experts are less reliant on this method of recruitment and the customers they recruit are more wealthy. A manager in a bank not rated highly by experts (or admired by peers) gave a traditional interpretation of customer recruitment and retention. Having explained that his customers were primarily recruited through either an existing relationship with parents or employer or through convenient location, he went on to say;

"Banks live behind apathy. People only move for negative reasons, not positive. I think that when there was all the hooha about interest on current accounts people weren't necessarily reneging on their banks, they still had a current account but they were opening a second account and moving between them."
Marketing Manager, Bank (Non-Admired)

A manager in a similar bank in terms of size and geographical coverage which was both ranked highly by experts and admired by competitors had a very different interpretation of the issue of customer recruitment and retention;

"Offers are becoming increasingly important in the customer's decision where to bank. When we went into free banking ahead of the big four for the basic current account we won people who realised that they didn't have to pay £80 per year, in other words the financially astute people. These people were young, up market customers - our problem is that the guys you win like that you can loose just as easily."
Marketing Manager, Bank (Admired)
The difference between the two managers' perceptions provides a basis on which to discuss the implications of the findings of the discriminant analysis carried using the Delphi poll of experts opinions. It is probably correct to assert, as the first manager does, that banks have traditionally profited from customer apathy. There is, however, evidence that attempts by banks to exploit this loyalty by recruiting children as customers in the expectation that they will remain loyal into adult life failed (Oliver et al 1985). Two factors appear to be undermining this traditional loyalty. The first is the encroachment of different types of financial service companies into each others' traditional area of operations, illustrated best by building societies entry into current accounts and banks entry into the mortgage market, leading to an increase in the level of competition. The second factor is the rising sophistication of customers (Cox and Lasley 1984). These two factors are the driving force behind the rising importance of the deal noted by the second manager. The increased competition between companies has lead to a greater variety of deals being on offer, and rising customer sophistication leads to a greater willingness on the part of customers to risk a change. Several managers echoed the comments of the first manager quoted that customers were not necessarily closing accounts. Managers dealing with the building societies' current accounts suggested that customers were not transferring directly to them, rather they were opening a second account with a building society and testing it by usage, essentially running it in. The issue is therefore not one of account openings and closures, but rather one of usage. It appears that the more financially astute, more affluent, customers are more willing to select a financial service provider on the basis of the deal offered or the product quality, rather than more traditional reasons.
A related point is that research on customer loyalty in the USA (Jain, Pinson and Malhotra 1987) suggests that the most loyal customers are older, less educated, less affluent and blue collar. These customers are therefore those concentrated in the companies rated less highly by experts. Companies highly rated by experts appear to be more successful at attracting more astute, more deal sensitive, customers, who are likely to be more wealthy. However, as the second manager quoted said, customers you attract that way you can lose just as easily.

Leonard Berry's definition of services marketing in terms of building and maintaining a relationship with customers is particularly apt therefore for companies admired by experts (Berry and Thompson 1982). It appears that they have established a relationship with customers not on a static factor, the prior existence of a relationship with the family or friends, but on something more dynamic, the quality of products and the deal offered. The need to maintain this quality is therefore crucial to maintaining the relationship they have with the type of customers they seek to attract, the more wealthy who are a better source of profit. Failure to maintain product quality will weaken this relationship leaving them with a higher proportion of less affluent, less sophisticated customers who are likely to hold lower balance and make less use of high profitability products.

9.3 Segmentation

The developing interest in, and sophistication of, market segmentation techniques in retail financial services was clearly shown in the interviews with managers. Virtually all companies in the sample were attempting to develop products for segments of the markets they dealt with. Very few companies were dealing with single segments in any product line and managers clearly accepted the standard justification for multiple segments i.e. separate products for each group enables customer needs
to be met more accurately, hence increasing penetration into the market as a whole. For instance, a manager in a major building society gave the following, almost textbook, reasoning for developing segmentation techniques:

"We are very much learning to use segmentation techniques to a much greater extent than we have done before. But because we have got a mass market doesn't mean that we get mass single products and throw them out there and they will work. So we are looking to take a basic product, say a mortgage, and say "well, the first time buyer needs this, larger borrowers need this", and develop from it specific products for these groups" Marketing Director, Building Society (Admired)

Companies fell into three groups on the basis of their approach to segmentation; those who wished to segment but were unsure of the segmentation base to use, those seeking to segment on the basis of customer's life-stage and those seeking to segment using another basis.

The first group consisted mainly of insurance companies. Generally speaking managers in this group saw the benefits to be had from segmentation, but were unsure how their company ought to proceed. Their problems arose from two areas; firstly, they were generally less highly developed in terms of marketing approach than the larger building societies and banks, and secondly, their traditional distribution method had been through intermediaries rather than direct to the customer. This method of distribution therefore made them less sure of the benefits of conventional customer segments. For instance, one manager in a mutual insurer said;

"(In the past) We've targeted at the medium sized broker who dealt in personal lines of business, protection and mortgage business where we were particularly strong. Segmentation is now moving along traditional lines to target the customers. Our client base has been high age, low social class and we're trying to move to a different shaped base. I think that typifies many companies in the
The second group of companies are further advanced in terms of their approach to segmentation, and have adopted what might be termed "the conventional approach" to market segmentation in the retail financial service industry. These companies segment their market on the basis of life-stage, exemplified well in the quote from a building society manager below;

"What we are trying to do, bearing in mind we have to cover the whole of the mortgage market, is to try and segment it down. I know other societies are doing that but we actively try and do it based on key moments in the mortgage process for instance - 1st time buyers, 2nd time/climbers, elderly, traders down or equity release. We are beginning to segment the market and we are doing that on the basis of life stage." Marketing Manager, Building Society (Non-admired)

The life stage approach is particularly common in the building societies movement, probably because their core product market, mortgage lending, can easily be segmented on this basis. One building society manager justified using life stage as follows;

"Building societies are still in an embryonic stage with marketing. I came in seven years ago from a FMCG company and there was no marketing department or marketing - cultural obstacles existed. The life stage approach is more appropriate in our market than many others firstly because financial service requirements are life stage based e.g. basic transaction accounts, mortgages, packaging of products for groups in each life stage. A second reason is because I believe that the life stage approach is very easy to understand for staff. We are thinking of doing some bulletins for staff and its then easier to implement marketing through those staff." Marketing Manager, Building Society (Non-admired)

The popularity of the life stage approach is therefore based primarily on the obvious relationship between financial needs and stage in life.
A small third group had developed a more sophisticated form of segmentation. These companies made some use of psychographics in their segmentation, rather than the socio-demographics used in the life stage approach. For instance, one bank explained their segmentation as based on three variables, two socio-demographic, wealth and class, and one psychographic, attitude to finance.

"The core product of a bank is the current account with the salary in it. We believe that with 4.5 million customers it's hard to believe that the same current account will suit all those people. If you start at that premise and tease out how they might differ you very quickly understand that there are differences - we've done a lot of research into peoples' attitude towards finance, usage versus class and versus life stage - and we've found very real, very statistically significant differences.

Our segmentation model has three dimensions - social class, wealth, and attitude. Our research was quantified and we believe we've discovered how the three or four key groups differ. Our approach now is to deliver products via those groups in a way that separates their different needs." Marketing Research Manager, Bank (Admired)

Another manager commented on the relatively limited use made of psychographics in financial services. One of the standard ways in which psychographics are used is in standard population profiles such as VALS (Townsend 1985). These profiles present companies with a breakdown of the population in terms of attitude and lifestyle, which can then be used to develop products. One manager, discussing the relative merits of psychographics and other segmentation variables, suggested that appropriate psychographic population profiles were not available in the UK. In fact, several such profiles have been developed for the financial services industry specifically. One example is Consumer Financial Market Segmentation, an attitudinal segmentation of the market into five groups carried out by Consensus Research and Campbell Keegan in 1986. What has been disputed is the
value of a psychographic population profiles not relating specifically to the product under consideration. The manager's comments do however show an understanding of the relative advantages of life stage and psychographic segmentation;

"We use demographic and psychographic segmentation - unfortunately there isn't a total psychographic pattern in the UK, that's something you have to build for yourself. So one's got geo-demographics and what we've done is segment the market. We produce products for each segment on the basis that we can, with our present product line, produce a lifecycle approach to any individual customer. So you start with a share account for 0-16s, an A.T.M. based account, a current account, a current account and high interest savings account, a mortgage and high interest savings account. The degree of involvement in previous products will depend on income. However, we have used psychographics much more in the last two years than I think any other financial institution. I think that is much more encouraging because you do start talking about attitudes to finance and rather than where they live. There is a cross over - like older people tend to be more traditional but its very much more focussed in terms of size of population, how to get them and how to motivate them" Marketing Manager, Building Society (Admired)

It appears clear that segmentation is increasing in importance and sophistication in financial services. The widespread use of life stage based segmentation is apparently being supplemented with psychographics in some of the more sophisticated companies. It is apparent that the simplicity of life stage segmentation, in terms of customer identification, explanation to staff and implementation, appeals to financial services companies. Psychographics, in contrast, requires considerable market research and analysis, and the identification of segment members more difficult for staff. However, the historical pattern by which marketing techniques and ideas have diffused through the industry does suggest that psychographics will become much more common.
9.4 Management and Cultural Change

Changing the culture of financial service companies was one of the areas where literature suggested difference might arise between companies. One building society manager clearly explained the motivation for attempting to change the culture, and could be taken as a spokesman for the industry, rather than just his organisation, so widespread were similar sentiments;

"I am not particularly happy about the standard of sales performance in our retail outlets. We don't have a mental sales orientation - we are very much to do with administration and processing. We either have not trained our people, or our people cannot find a sales opportunity when it's fairly glaring. Our attitude is rather one of "it could be better without the customer" - I'm not saying the banks are any better, they're not. I take us as premium retailer whose commodity is money. I would like us to be seen as the primary high street brand for financial services. We are about recruiting customers, satisfying customers and building relationships with individuals. Relationships are our platform for the future." Marketing Manager, Building Society (Admired)

Companies were asked about the processes they were employing and the extent of progress, and also the intended results. The responses of financial service companies were very consistent. Virtually all companies were well into some programme of attempted cultural change. There was very little difference between companies in terms of the objectives of this change or the method by which it was being carried out. Virtually all companies are seeking to create a greater market orientation amongst staff, a more responsive attitude to customer needs and better upwards communication from sales staff. The comments below come from a range of companies and are given to illustrate the near universality of this approach;

"We have tried to develop an approach that is more progressive, more modern, more attuned to the market place. We seek a greater awareness
among staff of customer needs, both Independent Financial Advisers and the public. It's all very Tom Peters" Marketing Manager, Mutual Insurance Company (Admired)

"Our new culture is based on customer orientation, a quality/service thing to add value. Also proactivity in offering and alerting customers to our services, selling in branches." Marketing Manager, Bank (Admired)

"We're trying to launch core values, which are accountability, customer care, enterprise and success." Marketing Manager, Building Society (Non-admired)

"I think the most important thing, which was greeted with some cynicism was the campaign 'striving for excellence'. I think that did have an effect and we measured an improvement in customer service before and after. Its less formal, more emphasis on customer care and marketing orientation." Product Manager, Building Society (Non-admired)

"There has been a conscious effort to change the culture. We are trying to market products, to become market orientated, to put the customer first in real, not lip service way. We have a quality service competition down to a very low branch level. Our young people, late teens, have been encouraged to think in that way. We are encouraging people to think, not being dismissive because of lack of maturity. It's about profit, customer care, innovation, establishing constant change as norm." Marketing Director, Building Society (Admired)

"Our culture has changed, no question. We are trying to be responsive to individual needs in the personal financial services sector, based on a commercial business environment. We are not a philanthropic society, we are commercial enterprise that needs to make a profit, but in so doing we have to develop a relationship over time that provides for long term profit growth of the organisation. Being profitable, having relationship and being customer needs orientated, but having regard for profit." Marketing Manager, Building Society (Admired)

These six comments are selected from amongst many expressing similar sentiments. Firms appear to be seeking to introduce market orientation and an understanding of customer needs as a means to raise
service quality. The methods being used to create this change are also very similar, a process of training and communication of objectives;

"We have a new senior guy very much into communication at all levels and he is honest in his desire for that, rather than paying lip service. He is setting up things to make that happen, meetings, structures, team briefings, videos etc. Its glasnost, although we're getting into the perestroka phase now"
Marketing Manager, Bank (Non-admired)

Several managers reported barriers to this process, particularly with regard to selling. This problem was anticipated by Watson (1974), who pointed out that branch managers in financial service companies did not perceive themselves to be salesmen, and attempting to convert them into salesmen would have a significant impact on their self esteem. One building society manager pointed out;

"Sales orientation is a problem because we have a middle class group among our managers who do not want to sell." Marketing Director, Building Society (Non-admired)

More managers, discussing the process of attempted cultural change, reported greater success amongst younger staff than older. This is perhaps to be expected. Older staff will be more entrenched in the existing culture of the institution, having survived successfully under the previous ways of doing business and hence they find change more threatening. The problem of what to do with managers unwilling or unable to change is discussed in the next section of this chapter.

9.5 Employment and Cultural Change

Tied into the cultural change that is going on in the financial service companies surveyed is a reassessment of employment practices. Financial service companies, particularly banks and building societies, have moved away from their conventional pattern of recruitment at sixteen as a cashier with promotion through the ranks as
a lender. One manager, discussing the attempts by his bank to change its culture illustrates this impact on how managers must behave;

"We are trying to shift from processing/control culture to sales culture. The way you got on in the bank in years gone by is you lent money and made no mistakes. You therefore took no risks, it was all about control of lending with rewards for no bad debts. Now that is not enough. We want proactivity and managers must develop the business of their branch."
Marketing Manager, Bank (Admired)

What companies do if managers are unable to change is problematic. There may have been attempts to change the culture of the companies but financial service companies are still heavily committed to the concept of "jobs for life". One of the quantitative questions asked managers to scale their perception of the firm's commitment to the concept of job security and career structure for all staff. Responses were very consistent, with all firms ranking themselves highly in terms of commitment to these concepts. Few managers, when pressed, could explain how security or career progression were guaranteed in their company. One manager gave a very frank response to this follow up enquiry;

"We have the philosophy of providing a career for all, but we do not have the mechanism. We offered early retirement to the over fifties partly to do with the changes we are going through now and the realisation that there would have been a lot of people who would have been killed. We're supposed to be an equal opportunities employer but there are only three senior managers who are women. The people we employ are not high flyers, which is a function of recruitment and time. I've got a lot of high flyers here (in the Marketing Department), but they won't stay more than two years because I can't meet there personal needs, so they leave us before they reach their full potential." Marketing Manager, Building Society (Admired)

The second half of the response reflects the increase in "bought-in" talent in financial services. Many of the
marketers interviewed had originally worked in consumer goods. The increase in bought-in talent has been one of the major changes in financial services in recent years. The increasing need for functional skills in financial services has led to a decline in importance of the traditional skills. This trend appears to be greater in banks and building societies than in insurance, perhaps because some actuarial skills are needed to fully understand many of the products. The impact of this external recruiting is two fold; firstly cultures developed over many years and instilled in employees by the traditional recruitment and promotion methods are being changed by the influx of "outsiders" into positions of influence. Managers in two insurance companies both felt that external recruitment was having a major influence on the culture of their firm:

"The culture of (the company) has undoubtedly been diluted by our expansion bringing in a large number of new people." Marketing Manager, Mutual Insurance Company (Admired)

"There is increased compartmentalism and specialism, but knowledge of the (the company)'s business has become very thinly spread." Marketing Manager, Mutual Insurance Company (Admired)

The second consequence of this development has been to reduce the influence of the traditional manager, i.e. the lending banker or the actuary. The realisation by financial service companies that management techniques pioneered in other industries have benefits to offer them have meant that the traditional financial services manager no longer has the full range of skills required to manage a financial service company, and the people with such skills are now only one group within the company. This marginalisation process looks destined to continue, as exemplified by this comment from a marketing manager in a Scottish Bank;

"We do have a strategy unit but as far as I am concerned it does not fulfil a strategic planning function. It's inward looking, at the
operational side, looking at cost control and things like that. One of the problems is from having bankers at the head, not businessmen. Bankers are non-risk takers by definition and I'm not terribly sure that's what you should have to run a business. Look at Royal Bank, they don't have a banker in charge of their strategic unit." Marketing Manager, Bank (Non-admired)

One building society manager, bought-in from a bank, gave a very lucid account of the effect of importing skills on the culture of the society;

"In effect you have two cultures, there's the new school people like myself who have been brought in and are therefore more profit, banking orientated. Then you've got the traditional building society people. To say that as a society we're marketing orientated would be optimism on my part because of financial concern. A lot of people have a finance mentality. They're what we call left hand side of the brain people, the creative side is few and far between.

The culture is still changing, our younger staff are taking it on board. Of our district managers, 15% are very good, an equal number very bad and in betweens form a blockage. In other words if we change them we'll win." Marketing Manager, Building Society (Non-admired)

This reduction in value of traditional financial service skills can also be seen in the senior management of financial service companies. Abbey National started the trend, recruiting Clive Thornton from industry to be chief executive. Three clearing banks have chairmen who are not clearing bankers by training, but non-clearing bankers are also to be seen in senior managerial positions. Two major figures in the recent history of Midland Bank, Kit McMahon and Gene Lockhart, are not clearing bankers. The introduction of non-financial service skills into management have introduced a reappraisal of the type outlined in the last comment, which is what distinguishes the running of a financial service company from any industrial company? The apparent realisation that traditional skills are not
sufficient means that a major financial service company not run by traditional financial service managers should be expected sooner rather than later.

Overall, it is clear that financial service companies see a pressing need to change the culture of their organisations to increase market orientation, to encourage better service for customers, to increase the effectiveness of selling and to encourage staff to identify new product opportunities. The methods used to bring about this change are also very similar across the industry.

However things are clearly not straight forward. It is clear that few firms have really grasped the nettle and dealt with staff unable to change their approach. Also the influx of new skills and staff trained in a very different business environment is something of a wild card. The outsiders will not only influence the methods of doing business, they will affect the traditional staff they work with. It can be seen from this discussion that the entry of outsiders is occurring at all levels of the financial service companies. It seems clear that this influx of new thinking and new skills will have a profound influence on the culture of the organisations, perhaps more profound than the attempts of companies to engineer cultural change.

9.6 Mission Statements

Johnson and Scholes, in discussing mission statements, talk about describing "the attitudes and expectations about scope and posture of an organisation. ... In this sense mission is a "visionary" view of overall strategic posture of an organisation and is likely to be a persistent and resistant influence on strategic decisions" (Johnson and Scholes 1988 p.7-8). In the light of this definition it is instructive to examine
some of the mission statements respondents put forward on behalf of their company.

The vast majority of financial service companies in the survey had a mission statement that managers were able to recall or summarise without reference to a document. Given the centrality of the mission to the firm's strategy and direction this is to be expected. However there were a few companies where asking for a mission statement caused problems;

"We have hundreds of mission statements, and I can't tell you what any of them say!"
Marketing Manager, Mutual Insurance Company (Non-admired)

"In terms of our mission - there is a vacuum. I believe that some of this has been addressed, we had an away day for Assistant General Managers and hopefully a mission statement might come out of that." Marketing Manager, Bank (Non-admired)

Neither of these companies were amongst the admired companies listed by peers or experts, and neither ranked themselves highly on performance. Together they illustrate two points about the use of mission statements. Firstly, a mission statement can be thought of as the raison d'être of a company, an overall statement of strategic direction. Not having a mission statement is to risk staff and owners being unclear of the purpose of a company. As Kotler says "A well-worked-out mission statement provides company personnel with a shared sense of opportunity" (Kotler 1988 p.37). However, the second quote illustrates a further danger that arises from mission statements. A constantly changing mission statement indicates uncertainty over the companies purpose and is just as likely to create problems of uncertainty (Kotler 1988 p.38).

In general most of the companies interviewed avoided these two problems. They had statements and they appeared to be clearly defined and consistent over time.
Since most companies put a definition of the company's mission into their annual report it was possible to check both the accuracy of the definition given by managers and the consistency of the statement over time. In nearly all cases managers were accurate and consistency was good.

There did however appear to be considerable differences in emphasis in the contents of mission statements given by respondents. The mission statements given appeared to fall into three types. Some were definitions of the company's performance objectives in more general terms, concentrating on how the company would pursue its business (these can be termed general-objective mission statements). Others were more inspirational, defining the characteristics companies aspired to have (these can be termed aspired-characteristics mission statements). A final group were market based, defining the company's purpose in terms of the areas of the market in which it sought to do business (termed market-coverage mission statements). The very general definitions given of missions in strategic planning research have nothing to say on the relative value of different types of statements, so it is interesting to examine where this different approaches occur.

The first sort of mission, termed general-objective, were particularly common amongst mutual insurance companies. The following examples are typical.

"Mission - to provide first class returns for present and future policy holders and a good quality of service." Sales Division Manager, Mutual Insurance Company (Admired)

"Mission statement - 1. to pay competitive bonuses, 2. retaining company strength, 3. selling as much new business as possible and 4. expanding assets under management" Marketing Manager, Mutual Insurance Company (Non-admired)

The second type of mission was prevalent amongst the larger companies. They tended to have aspired-
characteristics mission statements, defining not so much how they would do business but what they hoped to become as a company.

"Our mission is to be a dominant player in financial services." Marketing Manager, Mutual Insurance Company (Admired)

"To be Britain's most recommended bank"
Marketing Research Manager, Bank (Admired)

"To provide excellence and value in personal financial services - as we grow this may not be appropriate." Marketing Manager, Building Society (Admired)

The final group of mission statements, termed market-coverage mission statement were most common in the building society sector of the market, but not exclusive to them. The following are examples of this type of mission statement.

"Our mission is to be an investment house selling investment services to UK individuals and small companies. Three relationships are outlined in our mission statement, staff customers and shareholders. Note that we are not a financial services firm, we feel that is too unspecific and includes things like mortgages" Marketing Director, Composite Insurance Company (Non-admired)

"To be a safe and mutually rewarding financial services centred on its core business of housing finance." Product Manager, Building Society (Non-admired)

"To provide a broadening range of consumer financial services, ultimately all financial services, so that our customer base has no need to go elsewhere." Marketing Director, Building Society (Non-admired)

"To become a broad based financial services group and to remain the largest provider of home loans. We see the need to become broader based because that's the way the world's going and if you can't offer the majority of services the ability to maintain position in the mortgage market may suffer. Defined core products and money transmission is one of them. In the long run, on our scale less than the full range makes us vulnerable" Marketing Director, Building Society (Admired)
These mission statements illustrate the market-coverage type of statement quite well. It can be seen that all four companies have defined themselves in terms of the products they are going to offer and the customers they are going to serve. There were, of course, mission statements that did not fall neatly into any category, but included elements of more than one type. For instance both the following mission statements contain aspects that are of the general-objective type, but also they both have an aspect of the aspired-characteristic type statement.

"To become the largest UK insurer across the board, together with satisfying shareholders on profitability and satisfying policy holders on return and service." Marketing Manager, Composite Insurance Company (Non-admired)

"Our mission statement is a mix of earnings performance, maintain independence, quality and sub-mission statements. There is no two line summary of the mission - if there were I would say it would be to achieve quality of service in products and services that cause us to be seen as eligible provider in all financial areas." Director of UK Banking, Bank (Admired)

These different types of mission statement seem to be more common amongst some types of company than others. Three out of four mutual insurance companies who provided a clear mission statement had a general-objectives type statement, all the building societies with clear mission statements gave statements with some of the characteristics of a market-coverage type statement.

It is possible to speculate why this is the case. Building societies have had their potential areas of operations increased considerably by the Building Societies Act 1986. Societies were given the opportunity to enter, at least in a limited way, the market for money transmission products, unsecured lending and corporate business. They were also given the power to invest in subsidiary companies, for instance estate agents and house builders. This expansion of opportunities for the
societies has therefore required them to review their options and consider the direction they are taking. It seems clear that the need for societies to examine which new powers should be exercised and which left alone has led to the preponderance of market-coverage type mission statements.

Some of the smaller banks and general insurance companies also had mission statements that were market-coverage type statements. In their case it might be that lack of capital constrains their ability to operate in all the markets open to them and hence their is a need to concentrate on particular areas of their potential market, and define these through the mission statement.

A reverse argument might be put for other companies, particularly the largest financial service companies and mutual insurance companies. The largest companies already have extensive coverage in terms of markets, and they are less concerned about the need to circumscribe their areas of operations. Mutual insurance companies, whether large or small, have areas of operations which are essentially defined by their ownership. They are investment vehicles for policy holders. Hence neither type of company has a need for market-coverage type mission statements, one group because its operations are general, the second because its area of operations is understood without the need for definition. Hence their mission statements are of a different type.

The reasons why companies adopt the other types of mission statement can also be speculated upon. The general-objective mission statements of the mutual insurance companies essentially describe the performance required to earn best returns for investors in investment products and so get recommended by independent advisers. The very narrow nature of their business in terms of products means that such a mission is suitable for the whole company. The larger companies on the other hand,
involved in a wide range of markets where the factors necessary for success are not necessarily identical.

4 the lower popularity of general-objectives type statements. Rather the larger companies seek to identify some overall factor that will summarise better performance in all areas, such as "excellence" or will fit from it, such as "performance". The use of core-characteristics mission statements by the major financial service companies arises from the need to have one mission statement relevant to all products and markets.

I Innovation and Product Development

Attitudes to product innovation were somewhat equivocal in the financial service companies surveyed. The survey by Arthur Andersen and Co. (1986) suggested that innovation would be one of the keys to competitive success in the industry. However no firms could be identified as consistently innovative from the surveys, rather the firms appeared to lead on some innovations and follow on others. For instance a bank might have been first into free banking or longer opening hours and late into interest on current accounts, a building society might have been quickly into fixed rate mortgages but slowly into unit trust mortgages.

Some of the smaller companies in the sample did claim to be faster at developing and implementing products than their larger rivals. For instance a manager in a bank outside the big four said:

"We are generally fast on our feet, as a small organisation its easier to drive through innovation." Marketing Manager, Bank (Non-admired)

A manager in one of the regional building societies made a similar observation:

"The Halifax and Abbey are so large that they haven't got this corporate fleetness of foot. We have much shorter lines of command, so there are less people to get ideas through and
manager quoted immediately above sought to achieve, using
the prior announcement of packages by the three principal
competitors to achieve a competitive advantage. A
building society manager had an analogy for this type of
product development;

"We're like the Japanese. They find out about
the motorcycle industry and then do it better
over time. Most people who study marketing say
you musn't do me-too products but actually its
to look at the market and see if you can do
deeper, which is generally how we try to
position ourselves. This is partly because
there are parts of the market I can't control.
If we were the Halifax of the Abbey I'd
probably be more adventurous." Marketing
Director, Building Society (Non-admired)

9.8 Image and Positioning

Two issues associated with the positioning and the
customers' perception of a company were emphasised in the
interviews carried out with managers. When discussing
distribution of their products by independent advisers
insurance companies placed considerable stress on the
image of the company. At first sight this is surprising,
since the independent financial adviser is governed by
the Financial Service Act and the "best advice" rules.
However several companies stressed that the intermediary
was likely to select a group of products all meeting the
best advice criteria and offer the choice to the
customer, then as one manager put it;

"The IFA will say "Scottish Widows or London
and Marine?" and the customer will say "Oh,
Scottish Widows, of course!"" Marketing
Manager, Mutual Insurance Company (Non-admired)

The companies stressed the importance of customer
familiarity in this final selection stage. Another
manager expanded on this line of argument, saying;

"If someone is taking out a long term
commitment with something like a pensions
product they want to go for a company they
think is solid, well established, that they are
familiar with and is not likely to go bust. We
are initially striving to get our name across. With financial products you are more inclined to play safe and go for the company you know."
Marketing Director, Composite Insurance Company (Non-admired)

Curiously, several managers stressed that their advertising, ostensibly aimed at creating name awareness amongst the ultimate customers, was also designed to affect the intermediaries decision.

"An adviser selects a range of companies to offer client - if they are offered that range of companies name awareness and image enter into the selection. The adviser when deciding to recommend has to decide which will be acceptable, which will get the positive response from the customer. A lot of our adverts are directed not just at the end user but also at the intermediary, to convince him that if he recommends us the reaction from the client will be favourable. We advertise in the trade press to tell IFAs that we are advertising to customers." Marketing Manager, Mutual Insurance Company (Admired)

One company took a somewhat different view of this problem, saying;

"We have an advantage in that we have not got very high name awareness, we don't advertise direct to the public, so we take the view that hopefully we haven't offended anyone." Marketing Manager, Mutual Insurance Company (Non-admired)

Another major issue in terms of image and positioning is the use of branding in financial services. One insurance company felt that using branding was a way of "short cutting" their low customer awareness as a company, improving their position in the customer selection choice outlined above.

However the move by certain companies towards marketing product based brands, e.g. Midland Bank with Vector, Orchard and Meridian and GRE with Choices and Freedom, has been strongly at odds with the conventional philosophy that the primary brand is the financial service company. There has been considerable public
debate on the effectiveness of both of these strategies (see for instance Gavaghan 1989, 1990, and Gofton 1987) and the issue was one that much concerned managers interviewed in the research.

The underlying basis for the adoption of product branding is the difficulty of differentiation. As one bank marketing manager commented;

"At the end of the day there is no differentiation to be achieved through the product route because we could all replicate what each other does within a fairly short space of time. It is only a computer capability, that is all our products are, and therefore to think you will get differentiation through products you'd be kidding yourself. You saw it with interest bearing current accounts, as soon as one announced it, so did all the others. However advertising you can own, it can be your property. The beer people do it, the benefit they offer is in the advertising, rather than in the product, for lagers particularly." Marketing Manager, Bank (Non-admired)

Another manager echoed this idea, discussing the use of advertising to establish an image for a company as a whole;

"A society needs an image. If someone said to me you should use Giro, its just down the road, and it's so convenient, I'd say no way, it's so down market. That's their image to me and I'm not into that. I smoke Marlboro cigarettes, wear Levis jeans and drink Coca Cola. It's all about lifestyle. That's so important to young people, "am I driving the right bank account?" TSB who did well in the youth market in the early 80s are suddenly finding that that's moving away as the banks wise up. The image is important but it can't just be puffery. None of our corporate advertising is about smiling or 'have a nice day', more of it is on products we're trying to build a younger brand image around it." Marketing Director, Building Society (Non-admired)

This logic of using advertising to create an image for a company and its products has been applied a little differently by some companies. These companies have been
seeking different images for products, attempting to establish them as brands in the same way as the products mentioned in the previous quote. Managers involved in the development of branded products stressed that they saw the introduction of branding as a means of differentiating not only the product, but the company as a whole. As one such manager explained:

"The branding situation is all part of our communication strategy. It is an attempt at differentiation and a way of targeting the product range by focussing the product offering and labelling groups of products uniquely to add some differentiation. It is an attempt to carve a unique profile for products rather than one based on the parent but not to distract from (the company). Our business is multifaceted, appealing to many people at the same time and a poor balance implies a lack of appeal to different groups. It is possible to create an umbrella personality for the company, into which you can slot different brand targeted differently provided umbrella character is generally relevant, e.g. professionalism, security."

Marketing Research Director, Bank (Admired)

Generally speaking, managers who used a more traditional approach to branding, treating the corporate brand as the principle brand, were more sceptical about this approach. Their opposition was best expressed in the phrase "confusing people". Several managers felt that the use of product branding tended to "fragment the message" being given to the customers. One manager, discussing Midland Bank, a high profile example of financial service branding, commented:

"They (Midland Bank) have attempted to build brands for different sorts of people, a classic segmentation approach. But at the end of the day these things only last if you get that identity of the brand across. If you ask people what does that brand stand for, there is no way that Vector and Credo stand for one understood thing, so they don't exist as brands. What they've got is a plethora of very confusing, seemingly Mickey Mouse products"

Marketing Manager, Bank (Non-admired)
The introduction of FMCG style product branding has undoubtedly highlighted one area where there is disagreement amongst financial service marketers about the best strategy. It may be that in this difference lies a possibility of the differentiation that financial service companies search for, with companies diverging into product branders and corporate branders. However such a scenario is unlikely. One manager in a major company pointed out;

"We watch each other so closely that we are not going to let someone do something that is very different for a very long time. We're all doing our marketing differently but I do not think any of us has found a better way to solve the problems. If they had we would just say "that's the way we want to go too" and follow them. Competition does tend to produce similarity" Director of UK Banking, Bank (Admired)

9.9 Conclusions

This chapter has attempted to highlight and discuss some of the issues raised in the research that were not drawn out by quantitative analysis. It has therefore been something of a miscellany. Many of the aspects of the financial services market discussed in this chapter have not been previously reported and are therefore areas of considerable research potential.

There are however two themes that can be traced through all the discussion in this chapter. The first is that financial service companies generally are becoming more sophisticated in terms of the marketing techniques used. The introduction of psychographic segmentation and product branding illustrate the process of "borrowing" from consumer goods marketing that is occurring. The second is that the changes developed by one company will, if successful, spread through the industry. The difficulty of innovation and differentiation in either products or methods remains.

276
Some of the changes outlined in this chapter may however effect a permanent change in the market. If the companies currently successful maintain their ability to attract the more profitable customers they will be in a position to invest further and maintain their superior performance. The difficulty of genuine product innovation suggests it will be hard for followers to catch up. In addition the influx of new staff with skills developed outside the industry will undoubtedly affect the way financial service companies do business. Skills developed in consumer goods marketing and retailing may change the financial services companies into retailers who deal in money. The evidence from the research is that change will be more, not less, rapid in future.
Chapter 10 - CONCLUSIONS

10.1 Introduction

This chapter briefly reviews the material covered in previous chapters of the thesis and summarises the findings reported throughout the research. In addition some thoughts are offered on the limitations of the research and the possible directions in which future research might be pursued.

10.2 Structure of the Research

The foundations of the research arises from the extensive review of literature on financial service marketing and management reported in chapter 2. The regulatory and environmental changes in the financial services industry have produced considerable comment from researchers. There has also been considerable advice given by researchers to financial service companies on how they might perform better than their competitors. This literature suggests that there are differences between financial services companies in terms of their marketing and strategy, and in terms of their organisational characteristics. A noticeable weakness in the research discussed here is that amidst all the advice about what should be done in financial service companies to improve performance, there is little research which attempts to measure the effect of practices on performance.

Based on the literature survey the hypotheses listed below were developed. How to test these hypotheses was determined on the basis of the literature survey, by examining areas through which researchers suggested superior performance might be attained. The discussion of the hypotheses and how they might be tested is presented in chapter 3. Chapter 4 discusses the methodology by which this testing might be carried out, concentrating on how data might be collected from companies and the techniques by which this data might be
analysed. The design of the data gathering experiment and the research instrument to be used are discussed at length, and the decision to use two semi-structured questionnaires, administered by interviews, one dealing with corporate level strategy and marketing issues, the other with product management and strategy issues, is defended. The techniques for analysing the quantitative data, are discussed and the amendments necessary in dealing with small samples discussed.

Chapter 5 extends the discussion of methodology to discuss techniques by which corporate performance measures might be constructed. The potential use of financial data based measures of performance is discussed and the problems explained. Three methods of performance measurement are proposed; self assessment, peer assessment and expert assessment. The way in which performance measures based on the first two methods of assessment might be constructed is discussed.

Chapter 6 presents the findings from quantitative analysis of data relating to corporate aspects of strategy and marketing. The findings are discussed in relation to the hypotheses being tested.

Discussion of using expert assessment as a performance measure is presented in chapter 7. The Delphi technique, a form of anonymous polling of experts over several rounds with feedback between rounds, is proposed as a methodology for constructing the expert assessment based measure of performance. The design and implementation of the Delphi poll of expert opinion is discussed, together with the research findings analysed using the performance measure constructed using expert opinion.

In chapter 8 the findings from quantitative analysis of data relating to product management and strategy are presented and discussed. In chapter 9 more qualitative aspects of the findings are discussed, with the data
gathered through open ended questions used as the basis for the analysis.

10.3 Evaluation of the Research

The methodology used in this research has proved to be successful in identifying differences between companies with different levels of performance and different backgrounds.

In gathering data on the various financial service companies the use of semi-structured interviews has proved particularly appropriate. The mixture of closed and open ended questions provided a means of gathering both quantitative and qualitative data simultaneously, and administering the questionnaire through interviews improved the quality of the data by allowing managers to qualify their responses.

In analysing the data several techniques have been used. With a small sample size considerable care has had to be paid to the choice of technique for data analysis. The choice of technique and the adaptations that have to made within it to allow for small sample size has therefore been examined extensively. Collapsing contingency tables, a common solution to the problem of small sample size, has been subjected to considerable scrutiny in this research. Considerable attention was also paid to the importance of validation, robustness and variable selection in discriminant analysis. The research undertaken into the choice of data analysis techniques has ensured that a data analysis methodology has been constructed that is valid for small sample sizes, not merely in terms of prior use but also in terms of statistical theory.

The methods used to measure performance in financial service companies have proved consistent and meaningful, as discussed below. The findings have proved generally to be interpretable in terms of both their internal
consistency and their relationship to the evidence amassed on the financial services industry by literature survey.

10.4 Hypothesis Testing

This thesis set out to test the following nine hypotheses and four sub-hypotheses about the UK retail financial services industry.

Hypotheses

H1 There is a set of strategies and characteristics associated with better performing companies

Sub-Hypotheses

H1A Better performing companies will show evidence of higher quality products and higher prices

H1B Better performing companies will show evidence of greater product innovation.

H1C Better performing companies will show a balance between market performance and financial performance factors

H1D Better performing companies will follow one of the three competitive strategies suggested by Porter.

H2 Companies from different sectors of the financial services industry will show systematic differences in strategies and characteristics

H3 Strategic groups of companies exist in the retail financial services market on the basis of similarity of strategy and approaches to marketing.

H3A Strategic groups of companies in the retail financial services market will be distinguished
from each other on the basis of the sector of the industry to which companies belong.

**H3B** Strategic groups of companies in the retail financial services market will be distinguished from each other on the basis of a similar position within the sector of the industry

**H4** The product marketing strategies and characteristics will vary according to the need the product seeks to meet.

**H5** The product marketing strategy and methods will vary between companies from different sectors of the industry

**H6** The product marketing strategy and methods will vary between companies with different levels of performance

**H7** The product marketing strategy and methods will vary between companies with different levels of market share

**H8** The sector of the retail financial services industry from which companies perceived as competitors by companies in the sample are drawn will be independent of the sector of the retail financial services industry from which the sampled company is drawn.

With respect to these hypotheses the findings are as follows;

1. Hypothesis H1 is accepted. The findings of comparisons between companies with different levels of performance, judged by self assessment and peer assessment are reported in chapter 6. The comparison based on performance measurement using expert assessment discriminant are reported in chapter 7. Both sets of findings suggest that there
is a difference in marketing strategy and characteristics between companies with different levels of performance.

2. Hypothesis H2 is accepted. The analysis of findings presented and discussed in chapter 6 indicates that differences exist between companies of different types in the financial service sector in terms of their marketing strategies and their characteristics.

3. Hypothesis H3 must be rejected. The failure to verify multivariate techniques such as cluster analysis meant that neither hypothesis H3 nor sub-hypotheses H3A and H3B could be quantitatively tested. Testing these hypotheses could only be done on the basis of qualitative data from the interviews with managers. Although there is evidence from the discussion in chapter 9 that suggests some differences in marketing sophistication and approach cut across the types of company in the industry, for instance sophistication of segmentation techniques, it is not sufficient to reject the null hypothesis.

5. Hypothesis H4 is accepted. Evidence is presented and discussed in chapter 8 that there are variations in the marketing strategies employed for products of a different type. It appears however that the differences that are to be expected applying the relationship banking model are relatively unimportant compared with those that arise from the relative difficulty of differentiating different product types.

6. Hypothesis H5 is accepted. The differences between the product marketing strategies employed by different types of firm are discussed in chapter 8. These differences related to both documented differences, for instance in distribution, but also
to areas previously unresearched, for instance staff skills and training and the use of tangible clues.

7. Hypothesis H6 is accepted. Using self assessment, expert ranking and peer assessment as the basis for performance measurement differences were found in the product marketing strategies employed by companies. This is discussed in chapter 8.

8. Hypothesis H7 is accepted. Market share relative to the market leader was found to have be associated with differences in marketing strategy. This is discussed in chapter 8.

9. Hypothesis H8 is rejected. Companies were found to be parochial in their perception of who their competitors were. The companies perceptions of who were their competitors is discussed in chapter 6.

With respect to the sub-hypotheses H1A to H1D the findings are as follows;

1. Sub-hypothesis H1A is rejected. Although the evidence presented in chapter 8 does suggest that better performing companies charge more for their products and have products better able to meet customer needs, however the wide divergence between findings when different performance measures were used undermines confidence in the findings. Support for this hypothesis can also be found in the comments made by managers and reported in chapter 9.

2. Sub-hypothesis H1B is accepted. Speed of market entry was identified as associated with better performance when measured by self assessment (chapter 6) and by expert assessment (chapter 7).

3. Sub-hypothesis H1C is accepted. The discriminant analysis to distinguish between companies admired by their peers and those not admired used a market performance based variable (wealth of customers) and
a financial performance based variable (skill at cost control). This is discussed in chapter 6. Analysis of factors associated with better performance, using self assessment, expert ranking or peer assessment as the basis for performance measurement, revealed mixtures of market performance based factors and financial performance based factors.

4. Sub-hypothesis H1D is rejected. As reported in chapter 6 sufficient evidence was not found to classify the strategies followed by better performing companies accurately as one of those suggested by Porter.

10.5 Performance Measurement

Three methods were used to measure the performance of companies. These were measurement by self assessment, measurement by peer assessment and measurement by expert assessment. In chapter 7 the relationship between these measurement methods was assessed.

The rankings constructed by each of these methods were all found to be correlated at a significant level. This correlation indicated a high level of consistency between the different measures of performance. Analysis of the relationship between descriptive variables and the measures of performance constructed by different methods supported these findings. The sets of variables found to be related to performance level measured by different means had considerable overlap.

These findings supported and extended the findings of other authors, suggesting that there is consistency between the self assessed measures of performance and performance measures constructed by peer and expert assessment.
10.6 Limitations of the Research

The small sample size used in this research hampered effective testing of hypothesis 3 and sub-hypotheses 3A and 3B. The existence of strategic groups in the industry could not be effectively demonstrated because of the problems of validating cluster analysis with such a small sample.

The major limitation in any research project such as this is that it essentially presents a snap shot of an industry at a point in time. No directly comparable research carried out previously was discovered in surveying the literature and therefore it cannot be clear whether the patterns of differences revealed in this research are static or changing over time.

This is particularly significant with respect to the differences between types of companies. The examination of differences between types of companies in their strategy and marketing was undertaken because the literature survey suggested that such differences declining. Significant differences between types of companies were discovered by quantitative examination on both a corporate and product basis. It is not possible to determine whether these differences are constant or are fewer than those that might have been found five years ago. However, the comments by managers suggest that there is a decline in the difference between types of company, for instance, with insurance companies adopting similar approaches to banks and building societies. This is particularly noticeable on segmentation, where insurance companies are beginning to use customer life stage based segmentation, and on strategy, where those insurance companies who previously specialised in protection are now beginning to pursue wealthier customers in the same way as banks and building societies. To meaningfully test the extent of this convergence of approach the research must be repeated after an interval, to see whether the differences have
decreased, remained the same or the pattern of difference has changed.

Repeating the examination would also allow the stability of performance to be examined. There is considerable evidence that performance is not static. Recently the business pages of papers have been reporting spectacular reversals for the star companies of the 1980s; Coloroll, British and Commonwealth, Next, Burton and Polly Peck for instance. Identifying companies as "excellent" is therefore something of a risk. Peters and Waterman found this out when Business Week re-examined the performance of the companies they had selected and highlighted performance deterioration (Business Week 1984). A repeat of the research after a suitable interval would allow the consistency of financial service company performance to be examined and also the consistency of approach adopted by the better performing companies to be assessed.

This research has provided a methodological framework for such a repeat study, as well as providing a set of empirical findings which can be tested in such a repeat study.

10.7 Extension of the Research

Whilst repeating the research project, either whole or in part, would yield important findings about the stability of performance and the differences between companies found in this research, there are other aspects of the findings of this research project that merit further research. The research has outlined several areas where change in financial services marketing appears to be progressing which were not clearly identified in the literature survey. Further examination of these changes would therefore be an original contribution to understanding the industry. Some examples of these areas are discussed below.
10.7.1 Segmentation

From the findings presented in chapter 9 it is clear that there is a difference in approach to segmentation between companies. Some are only just beginning to use segmentation, others are using life stage based segmentation and a few are using psychographic variables in the segmentation base. Very little research has been carried out into the relative effectiveness of different segmentation bases in the financial services industry (an American example is Clancey and Roberts (1983), Joseph and Yorke (1990) are developing research of this sort in the UK).

Although most financial service companies have full market coverage, the research findings suggest that the more successful companies have a higher proportion of wealthier customers. The comments by managers suggest that this group of customers are more profitable. However, it also appears that there is a trade off between wealth and selectivity in customers, the wealthier customers are the more likely they are to be professionally advised and rate sensitive in their financial dealing. It appears from managers comments that they do not regard wealthy customers as entirely homogeneous. Segmentation research examining wealthy customers has, to date, only examined their financial service needs, not their buying habits or usage patterns. It appears from the comments made by managers in this research that although wealth increases the profitability of customers, it also decreases loyalty. A study to investigate customers in these terms would therefore be a valuable piece of research.

10.7.2 New Product Development

A second area where further research might be carried out is on new product development. The conventional wisdom on product development is that profitability is related to speed of entry into the market. This research
suggests that companies with better performance do tend to be earlier entrants into a market that less successful competitors. However, it was also clear from the research that some financial service companies appear to believe that there is value in being last and "topping" all previous offers.

This contradiction between theory and perception on new product development is an interesting research opportunity. Introducing a genuinely new product involves some element of education of potential customers, so for later market entrants the potential market may be greater and the awareness of the new product amongst customers may be greater. There is also evidence that in financial services only a small proportion of customers are prepared to switch suppliers, and the more adventurous customers may switch earlier rather than later.

Research could be carried out to examine the performance of new products introduced by financial services at different times. Examining the impact of the new products characteristics on its performance might identify what needs to be done to overcome the problems associated with late market entry. An additional aspect of this phenomenon that might be investigated is whether the criteria for a successful new product, launched early or late, are the same for all product types.

10.7.3 Employment and Culture

The research has also highlighted the impact of the changing environment of financial services on the culture of organisations. The influx of new skills and staff with different backgrounds will obviously have an impact on the culture of organisations. Also noted was the difficulty of dealing with staff unable to cope with the required change. The research suggests that not only will the culture of financial services companies change, and perhaps not in the ways the management hope, but that
the employment practices and policies of financial service companies will have to change to deal with those unable to cope with change.

Research potential exists no only in trying to isolate the effect of incoming skills and staff on the culture of the organisations, but also in investigating how companies sought to deal with existing staff, unfamiliar with the new culture. The latter research would require analysis of the training and staff appraisal techniques employed, the remedial training and counselling available, and the policy with regard to those who ultimately fail to make the change.

Related to this is the difference reported between types of financial service company on the basis of staff skill and training in support of products. Further research on the level of such training and the impact of company and customer type on the level of knowledge required would therefore be valuable.

10.8 Problems for Future Research

As a caveat to the discussion of further research, it should be noted that the financial service market has become heavily researched. An examination of the bibliography will reveal a considerable volume of research from the UK published in the last few years. Proceedings of academic conferences, where publication is generally far quicker, show a substantial increase in the volume of research on financial services. The problems of access reported in this research can therefore only become more acute, and the impact on research findings will be severe.

The concentration of the industry is such that failure to gather data from the top five building societies, the top four banks or the top five insurance companies means that the suppliers of the majority of financial service
products used in the UK are not included in the survey. The structure of the industry is such that access to particular companies is essential for relevance, and the volume of research being carried out at present can only have a detrimental impact on the willingness of the key companies to participate.

It is likely that the senior managers of the major banks in particular receive many mail surveys and requests for interviews each year. As the number of research projects increases, along with projects for undergraduate and post-graduate courses, the problems of access are therefore likely to increase substantially. Conventional data gathering methods are therefore likely to become less and less suitable. Innovation in research methods is therefore becoming more necessary. All research institutions, to a greater or lesser extent, have links with financial service companies. These sort of links have been used to increase response rates in this research, but they also provide an opportunity for detailed single company research. As the ability to carry out primary research is likely to become more restricted in future, secondary data will become more important as basis for research.
BIBLIOGRAPHY


Adolfse, J. and Vervoordeldonk, F. 1979 "Strategic Planning and Policy Making in Banks" Long Range Planning 12/3 June pp. 73 - 81


Andrew, K. 1985 "Bank Marketing: This Little Piggy Went to Market" International Journal of Bank Marketing 3/1 pp. 3 - 21

Andrew, K. 1985 "Banks and Retailing" International Journal of Bank Marketing 3/4


Banking World 1987 "Views of the Future" December

Barnes, J.H., 1984 "Cognitive Biases and Their Impact on Strategic Planning" Strategic Management Journal 5 pp. 139-51


Benarie, M.M. 1988 "Delphi and Delphi-like Approaches with Special Regard to Environmental Standard Setting" Technological Forecasting and Social Change vol.33 pp. 149 - 158

Bennett and Cunningham 1985 "Determining Profitable Products/Market Segments: An Expanded Portfolio Approach" Journal of Retail Banking 7 No.3 Fall


Berry, L.L. 1980 "Services Marketing is Different" Business May - June pp. 24 - 29

Berry, L.L. 1982 "Bank Marketing Priorities in the U.S.A." European Journal of Marketing 16/3 pp. 5 - 16


Berry, L.L. and Thompson, T.W. 1982 "Relationship Banking-the Art of Turning customers into Clients" Journal of Retail Banking Vol.4 June pp. 64 - 73


Bliss, M. 1988 "The Impact of Retailers on Financial Services" Long Range Planning 21/1 pp. 55 - 58


Brooks, J.A. 1982 "Retail Banking and the Future of Large Branch Banks" The Magazine of Bank Administration November


Buckroyd, K. 1984 "Bank Advertising; The Switch to Services" T.S.B. Review April-June pp. 9 - 12


Business Week 1984 "Who's Excellent Now?" 5 November pp. 76-88


Chaston, I. 1987 "Marketing Consumer Financial Services: A Need to Reconsider?" Banking World October pp. 52


Cheese, J. 1983 "Developing the Sales Function in Banking" International Journal of Bank Marketing 1/2 pp. 18 - 26


Clark, R.T. and Guscott, P.F. 1986 "Technology or Marketing—Which is Master?" The Banker April pp. 91 - 95

Clarke, P., Gardner, E., Feeney, P. and Molyneux, P. 1987 "Strategic Marketing" Banking World October pp. 16 - 20


Dalkey, N. and Helmer, O. 1963 "An Experimental Application of Delphi to the Use of Experts" Management Science Vol. 9 No. 3


296


De Moubray, G. 1986 "Can Marketing be Made to Work?" The Banker May pp. 32 - 36


Doyle, P. and Newbould, G. 1975 "New Marketing Strategies for Building Societies" Admap February


Dunn, D.T., Thomas, C.A. and Young, F.A. 1984 "Marketing Banking" Business January/March pp. 3 - 12


Economist 1989a "Whose Life is it Anyway?" February 18th pp. 92 - 94

Economist 1989b "Bankers Learn a Smile on Their Face Puts a Buck in Their Pocket" July 15th pp. 87 - 88


Ennew, C.T. and Wright, D.M. 1990 "Retail Banks and Organisational Change: Evidence from the UK" International Journal of Bank Marketing 8/1 pp. 4 - 9


Evans, R.H. and Beckman, M.D. 1984 "Psychographic Analysis; An Aid for Bank Management" Magazine of Bank Administration Vol.50 January pp. 32 - 35


Firmin, B.C. 1986 "Examine Your Affinity Groups" Direct Response 7/10 October pp. 18 - 22


Fitts, R.L. and Mason, J.B. 1977 "Market Segmentation Research - An Application to Bank Services" Omega 5/2 pp. 207 - 214


Foster, A. 1987 "Bank to the Future" Management Today August pp. 42 - 48

Foster, A. 1989 "New Abbey Rationale" Management Today February pp. 42 - 43

Franks, R.E., Massy, W.F. and Morrison, D.G. 1965 "Bias in Multiple Discriminant Analysis" Journal of Marketing Research II pp. 250 - 8


Friars, E. 1985 "Applying Retailing Principles in Retail Banking" Journal of Retail Banking VII No.3 Fall

Friedman, M. 1953 "The Methodology of Positive Economics" in Essays in Positive Economics University of Chicago Press, USA


Garde, V.D. and Patel, R.R. 1985 "Technology Forecasting for Power Generation - A Study Using the Delphi Technique" Long Range Planning Vol.18 No.4 pp. 73 - 9

Gavaghan, K. 1989 "Banking on Choice" Meridian Magazine 1 Midland Bank Publication

299
Gavaghan, K. 1990 "To Market, To Market..." Banking World March pp. 16 - 18

Gee, N. 1975 "Banks Tap the Women's Market" Public Relations Journal 31 August pp. 14, 16, 30


Goudge, P. and Green, F. 1985 "Developing a Savings Account for Kids" Marketing Intelligence and Planning 3/2 pp. 13 - 24

Green, P.E., Carmone, F.J. and Smith, S.M. 1989 Multidimensional Scaling: Concepts and Applications Allyn and Bacon, Boston


Harmer-Brown, F. 1978 "Do the Banks Make Good Use of Advertising?" The Bankers Magazine 1607 February pp. 13-7


Helmer, O. and Rescher N. 1959 "On the Epistemology of the Inexact Sciences" Management Science


Hood, J. and Walters, C.G. 1985 "Banking on Established Customers" Journal of Retail Banking VII/1 Spring pp. 35 - 40


Howcroft, J.B. and Lavis, J. 1987a "Retail Banking in the U.K.: A Change in Organisational Form" Journal of Retail Banking IX/3 pp. 35 - 42


Inglis, A. 1983 "Models of Product Development in Marketing Financial Services" Marketing Education Group Proceedings of 16th Annual Conference Cranfield School of Management July pp. 582 - 591


Johnson, E.M. 1983 "Planning and Organising a Bank Sales Management System: A Case Study" International Journal of Bank Marketing 1,2 pp. 41 - 52


King, S. 1981 "How the Public see Banks" Institute of Bankers Cambridge Seminar, 1981 pp. 47 - 89
Kinnaird, D., Shaughnessy, K., Struman, K.D. and Swinyard, W.R. 1984 "Market Segmentation of Retail Bank Services; A Model for Management" Journal of Retail Banking Fall pp. 53 - 63

Kitching, D.W.C. 1982 "Rationalising Branch Banking" Long Range Planning 15/1


Kneen, J.G. 1987 "The Retailer in Financial Services" Retail Control April/May pp. 20 - 27

Knobel, L. 1984 "Bank and Office Design Trends" Designers Journal September

Kooiman, C. 1984 "Banking Automation-Review and Preview" Savings Bank International March pp. 7 - 10

Kotler, P. 1973 "How to Anticipate Consumerism's Coming Threat to Banking" Banking 65 January


Lachenbruch, P.A. 1975 Discriminant Analysis Hafner, New York


Lawson, R. 1980 "Discriminant Analysis - An Aid to Market Segment Description" European Journal of Marketing 14,7 pp. 387 - 396


Lewis, B. 1982a "Student Accounts" European Journal of Marketing 16/3 pp. 63 - 72

Lewis, B. 1982b "Weekly Cash Paid Workers" European Journal of Marketing 16/3 pp. 92 - 101


Lind, H. 1983 "Consumer Information in the Financial Sector" Marketing 17 November


Littler, D. 1988 "Perspectives on Competitiveness" Marketing Education Group Proceedings of the 21st Annual Conference Vol.3 pp. 54 - 72

Llewellyn, D.T. 1979 "Do Building Societies Take Deposits Away From Banks?" Lloyds Bank Review 131 January pp. 21 - 34

Llewellyn, D.T. 1987 "When Some are More Equal than Others..." Banking World October pp. 32, 35
Luchs, R. 1986. "Successful Businesses Compete on Quality - Not Costs" Long Range Planning 19/1. 12-17


Management Today, 1986 "Bankers Play Computer Games" (Supplement) March


Mason, J.B. and Mayer, M.L. 1974a "Differences Between High and Low Income Savings and Chequing Account Customers" Bank Administration Vol.50 June pp. 48 - 64


Meidan, A. 1983 "Bank Marketing Strategies" International Journal of Bank Marketing 1 No.2

Meidan, A. 1986 Building Society Marketing and Development The Chartered Building Societies Institute, Ware, Herts.

Middleton, P. 1987 "Are Non-Banks Winning in Retail Financial Services?" International Journal of Bank Marketing 5/1 pp. 3 - 18


Morison, I. 1974 "What Future the Branch Bank?" Bankers Magazine CCXVII pp. 18 - 19

Morison, I. and Frazer, P. 1982 "Shaping the Future of Retail Banking" Long Range Planning 15/4


Murphy, T. 1988 "Changing the Corporate Culture" Industrial Participation Summer pp. 3 - 8

Norkett, P. 1985 "Building Societies: Are They Equal to the Coming Battle?" Accountancy Age 96/1104 August pp. 86 - 90


O'Brien, J.D. 1982 "Developing a Market Segmentation Programme" Journal of Retail Banking Fall pp. 1 -12

O'Toole, J. 1985 Vanguard Management Doubleday, New York

Oliver, B. et al, 1985 "Competition for Children's Accounts" Marketing, Special Supplement, 25th April 1985


Overbury, R.E. 1969 "Technological Forecasting - A Criticism of the Delphi Technique" Long Range Planning June


Pattison, J. and Quelch, J. 1979 "Branch Banking Strategies" Bankers Magazine CCXXIII January pp. 21 - 24


Pollock, A.J. 1985 "Banking: Time to Unbundle the Services?" Long Range Planning 18/1 pp. 36 - 41


Quinton, J. 1982 "Banking in the 1980s - the Strategic Issues" Journal of the Institute of Bankers October

Rankin, M.J. 1987 "Market-Driven Banks Translate Strategic Goals into Sales Plans" Bank Marketing April pp. 26 - 29

Reese, R.M. and Stanton, W.W. 1984 "Further Segmenting a Minority Banks Customer Set" Journal of Retail Banking VI/4 Winter pp. 297 - 301


Riggall, J. 1979 "What Counts with Bank Customers" A.B.A. Bankings Journal May pp. 117 - 118


Rowlands, C.J. 1969 "Technological Forecasting and the Delphi Technique - A Reply" Long Range Planning December


Shaw, E.P. 1987 "Banking Risk and Market Segmentation - Crucial Strategies for the Future" Institute of European Finance, University College of North Wales Research Paper 87/5


Smith, W.R. 1956 "Product Differentiation and Market Segmentation as Alternative Strategies" Journal of Marketing, July

Sontheimer, K.C. and Thorn, R.S. 1986 "Competitive Strategy in U.S. Banking" Long Range Planning 19/1 pp. 113 - 120

Speed, R.J. 1989 "Oh Mr. Porter! A Re-appraisal of Competitive Strategy" Marketing Intelligence and Planning Vol.7 Issue 5/6 pp.8-11.


Stanley, T.J., Berry, L.L. and Danko W.D., 1979, "Personal Service Versus Convenience; Perceptions of High Income Customers" Journal of Retail Banking June 1979 pp. 54 - 61


Sviden, O. 1988 "Future Information Systems for Road Transport" Technological Forecasting and Social Change vol.33 pp. 159 - 178


Taylor, R.D. and Bergiel, B.J. 1984 "Financial Services - Implications for Market Segmentation" Mississippi Business Review XLVI No.5 November pp. 3 - 7


Thompson, T.W. 1983 "Marketplace Positioning in a Deregulated Environment" International Journal of Bank Marketing 1 No.3


Tsui, A.S. and Milkovich, G.T. 1987 "Personnel Department Activities: Constituency Perspectives and Preferences" Personnel Psychology Vol.40 pp. 519 - 537


Tuleja, T. 1985 Beyond the Bottom Line Penguin, New York


Varadarajan, P. and Berry, L. 1983 "Strategies for Growth in Banking: An Exposition" International Journal of Bank Marketing 1 No.1


Watkins, T. and Wright, B. 1986 Marketing Financial Services Butterworths


Watson, I. 1974 "What Future for the Branch Manager?" Bankers Magazine CCXVII pp. 22 - 24

Watson, I.J. 1982 "The Adoption of Marketing by English Clearing Banks" European Journal of Marketing 16 No.3 pp. 23 - 30


Weaver, M.O. 1988 "Using Delphi for Curriculum Development" Training and Development Journal February pp. 18 - 20


Wigginton, G.S.S. 1979 "Application of Delphi Techniques to Employee Relations Futures" Personnel Review Vol.8 No.4 pp. 45 - 51


313
Willott 1987 "The Forgotten Fundamentals" Campaign 9th October pp. 77 - 81

Wills, G 1985 "Dividing and Conquering; Strategies for Segmentation" International Journal of Bank Marketing 3/4


Appendix One

QUESTIONNAIRE INVESTIGATING CORPORATE HYPOTHESES
1. INTRODUCTION

COMPANY NAME: ASSETS: 
PROFITS: 
STAFF: 

INTERVIEWEE: 
POSITION: DATE: 
PLACE: 

Card 1

RELATIVE SUCCESS MUCH BETTER 5 4 3 2 1 MUCH WORSE THAN COMPETITORS MUCH BETTER THAN COMPETITORS

RELATIVE RETURN ON INVESTMENT MUCH BETTER 5 4 3 2 1 MUCH WORSE THAN COMPETITORS MUCH BETTER THAN COMPETITORS
2. COMPETITIVE POSITION

The section deals with the competitive position of (company name). Competitive position is determined by the set of advantages which distinguish a firm and also how those advantages were gained. This section also deals with strategies. Strategies are sets rules for decision-making providing guidance for the organisation.

2.1 HOW DO (COMPANY NAME)'S CAPABILITIES AND OFFERINGS COMPARE WITH THOSE OF ITS COMPETITORS?

<table>
<thead>
<tr>
<th>Card 2</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
</table>

2.2 WHAT DIFFERENCES EXIST BETWEEN (COMPANY NAME) AND ITS NEAREST COMPETITORS?

1. __________________________________________
2. __________________________________________
3. __________________________________________
4. __________________________________________
5. __________________________________________

2.3 HOW DOES (COMPANY NAME) COMPARE WITH ITS COMPETITORS IN TERMS OF MEETING CUSTOMER NEEDS?

<table>
<thead>
<tr>
<th>Card 2</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
</table>

2.4 WHAT ADVANTAGES IS (COMPANY NAME) ABLE TO OFFER ITS CUSTOMERS?

_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
2.5 HOW IMPORTANT DO YOU CONSIDER THE FOLLOWING FACTORS ARE FOR CUSTOMERS CHOOSING (COMPANY NAME) TO SUPPLY THEIR FINANCIAL SERVICES?

Card 3/SHEET 2

<table>
<thead>
<tr>
<th>NOT AT ALL</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>VERY IMPORTANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECOMMENDATION BY FRIENDS</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPUTATION</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRIENDLINESS</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHARGES PAID</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOCATION</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RANGE OF SERVICES OFFERED</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPECIAL SERVICES FOR CERTAIN GROUPS</td>
<td>[ ]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.6 IN YOUR OPINION, WHY DO CUSTOMERS CHOOSE (COMPANY NAME) TO SUPPLY THEIR FINANCIAL SERVICES?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

2.7 HOW WOULD YOU DESCRIBE THE STRATEGY THAT (COMPANY NAME) Follows AT CORPORATE LEVEL?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
2.8 CONSIDERING THE MARKET FOR FINANCIAL SERVICES AS A WHOLE, WHICH FIVE FINANCIAL SERVICE COMPANIES DO YOU CONSIDER TO BE THE BEST PERFORMING?

By 'performance' I do not just mean short term profitability. A company is not performing well if it risks long run profitability for short run gains. Please also bear in mind that performance is relative, not only to other competitors but also to the firm's potential and goals.

1. ____________________________  
2. ____________________________  
3. ____________________________  
4. ____________________________  
5. ____________________________  

2.9 WHICH FIVE FIRMS ARE THE GREATEST RIVALS TO (COMPANY NAME)?

1. ____________________________  
2. ____________________________  
3. ____________________________  
4. ____________________________  
5. ____________________________  

2.10 FOR EACH OF THESE COMPANIES IN TURN CAN YOU TELL ME WHAT YOU CONSIDER TO BE THEIR GREATEST COMPETITIVE ADVANTAGE?

1. ____________________________  
2. ____________________________  
3. ____________________________  
4. ____________________________  
5. ____________________________  

2.11 FOR EACH OF THESE COMPANIES, CAN YOU TELL ME WHAT YOU CONSIDER TO BE THE MAIN ELEMENT OF THEIR APPEAL TO THE CUSTOMERS?

1. ____________________________  
2. ____________________________  
3. ____________________________  
4. ____________________________  
5. ____________________________  

2.12 HOW GOOD DO YOU CONSIDER (COMPANY NAME) TO BE AT MARKETING?

<table>
<thead>
<tr>
<th>VERY POOR</th>
<th>POOR</th>
<th>AVERAGE</th>
<th>GOOD</th>
<th>VERY GOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
2.13 ARE THERE ANY FINANCIAL SERVICE COMPANIES YOU BELIEVE TO BE BETTER AT MARKETING THAN (COMPANY NAME)?
YES/NO
WHO?

3. SEGMENTATION AND DIFFERENTIATION

This section deals with (Company name)’s attitude to segmentation and differentiation. Segmentation is targeting a company's products at a group of individuals, groups or organisations who share one or more similar characteristics that cause them to have relatively similar product needs. An example of segmentation is Rolls-Royce Cars, who concentrate their products on those seeking luxury. Differentiation is altering the product so that it differs from its competitors and so becomes less easily substituted. An example of such differentiation is Subaru cars, who make only four wheel drives.

3.1 WHICH OF THE FOLLOWING BEST DESCRIBES THE RANGE OF (COMPANY NAME)’S RETAIL FINANCIAL SERVICE ACTIVITIES?

INTERNATIONAL

NATIONAL

REGIONAL (SEVERAL COUNTIES COVERED)

COUNTYWIDE

LOCAL

3.2 HOW WOULD YOU DEFINE THE MARKET SERVED BY (COMPANY NAME)?

3.3 IS THIS THE SAME FOR ALL PRODUCTS? YES/NO

3.4 IN YOUR ESTIMATION, TO WHAT EXTENT DOES (COMPANY NAME) ACTIVELY SEEK TO MAKE ITS PRODUCTS ATTRACTIVE TO PARTICULAR MARKET SEGMENTS?

Card 5

NOT AT ALL 2 3 4 5 VERY MUCH SO

320
3.5 TO WHAT EXTENT DOES (COMPANY NAME) ACTIVELY SEEK TO MAKE ALL ITS PRODUCTS ATTRACTIVE TO THE SAME MARKET SEGMENT?

Card 5

<table>
<thead>
<tr>
<th>NOT AT ALL</th>
<th></th>
<th>VERY MUCH SO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

3.6 TO WHAT EXTENT DOES (COMPANY NAME) ACTIVELY SEEK TO CREATE DIFFERENCES BETWEEN ITS PRODUCTS AND THOSE OF ITS COMPETITORS?

Card 5

<table>
<thead>
<tr>
<th>NOT AT ALL</th>
<th></th>
<th>VERY MUCH SO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

3.7 DOES (COMPANY NAME) ATTEMPT TO BRAND ITS PRODUCTS?

Card 5

<table>
<thead>
<tr>
<th>NOT AT ALL</th>
<th></th>
<th>VERY MUCH SO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

3.8 WOULD YOU DESCRIBE (COMPANY NAME)'S CUSTOMERS AS ECONOMICALLY, RELATIVE TO THOSE OF COMPETITORS?

Card 6

<table>
<thead>
<tr>
<th>LESS WEALTHY</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>MORE WEALTHY</th>
</tr>
</thead>
</table>

3.9 CONSIDERING THE PROPORTION OF (COMPANY NAME)'S CUSTOMERS FROM EACH SOCIAL CLASS, HOW DOES THIS COMPARE WITH (COMPANY NAME)'S COMPETITORS?

Prompt Card

<table>
<thead>
<tr>
<th>Card 7</th>
<th>MUCH HIGHER</th>
<th>HIGHER PROPORTION</th>
<th>SAME</th>
<th>LOWER PROPORTION</th>
<th>MUCH LOWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>C1</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>C2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>E</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
4. CORPORATE OBJECTIVES

This section deals with the mission and objectives of (company name). Many different names exist for these parts of a company’s plans, and you many know them as something different. In this questionnaire, what I mean by ‘mission’ is the company’s purpose, and what I mean by ‘objectives’ is the practical and quantifiable actions that are to be attempted to bring completion of the mission closer.

4.1 HAS (COMPANY NAME) ANY MISSION STATEMENT, THAT IS A STATEMENT OF ITS PURPOSE? YES/NO

4.2 WHAT IS IT?

________________________________________________________________________

________________________________________________________________________

4.3 HAS (COMPANY NAME) OVERALL OBJECTIVES, THAT IS A SET OF DESIRED ACTIONS TO HELP ACHIEVE ITS MISSION, THAT YOU KNOW ABOUT? YES/NO

4.4 ARE THESE CORPORATE OBJECTIVES EXPLICITLY STATED?
   YES / NO
   IF SO, WHAT ARE THEY?

________________________________________________________________________

________________________________________________________________________

4.5 TO WHAT LEVEL ARE THESE CORPORATE OBJECTIVES COMMUNICATED?
   HEAD OFFICE ONLY
   AREA MANAGEMENT
   BRANCH MANAGEMENT
   JUNIOR BRANCH STAFF

4.6 DO YOU HAVE SEPARATE PRODUCT OBJECTIVES? YES/NO
4.7 WHICH OF THE FOLLOWING BEST DESCRIBES THE COMPANY'S MARKETING STRATEGY?

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Sheet 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevents Decline</td>
<td>_____</td>
</tr>
<tr>
<td>Defensive</td>
<td>_____</td>
</tr>
<tr>
<td>Maintain Position</td>
<td>_____</td>
</tr>
<tr>
<td>Increase Market Share</td>
<td>_____</td>
</tr>
<tr>
<td>Dominate Market</td>
<td>_____</td>
</tr>
<tr>
<td>Other</td>
<td>_____</td>
</tr>
</tbody>
</table>

4.8 HOW IMPORTANT IS A GOOD CURRENT PROFIT PERFORMANCE TO (COMPANY NAME)?

<table>
<thead>
<tr>
<th>Importance Level</th>
<th>Card 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at All</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Very Important</td>
<td></td>
</tr>
</tbody>
</table>

5. ENTRY DECISIONS

This section deals with (company name)'s new product launch procedures.

HOW WELL DO THE FOLLOWING DESCRIBE (COMPANY NAME)?

5.1 WHEN (COMPANY NAME) ENTERS A MARKET WITH A NEW PRODUCT HOW OFTEN ARE THE FOLLOWING THE CASE?

<table>
<thead>
<tr>
<th>Event</th>
<th>Card 8/Sheet 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>First to Enter Market</td>
<td>Never</td>
</tr>
<tr>
<td>Early Entry Into Market</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Entering Established Markets</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>Late Entry Into Market</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>
5.2 How often do the following descriptions apply to (Company Name)'s new products?

<table>
<thead>
<tr>
<th></th>
<th>NEVER</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>ALWAYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>New to the market</td>
<td>1 2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Introduced by others</td>
<td>1 2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Widely offered by others</td>
<td>1 2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

5.3 Please rank the following in the order you consider they describe (Company Name)'s new product capability?

1. Good at inventing new services
2. Quick at developing new services
3. Good at implementing new services
4. Good at reducing the cost of new services

5.4 Which of the following is the best description of how information is disseminated internally when a new product is launched?

1. Courses for all managers involved
2. Courses for all staff involved
3. Briefings for all managers involved
4. Briefings for all staff involved
5. Written/video information for all managers involved
6. Written/video information for all staff involved
7. Staff provided with material for distribution to customers
5.5 WHEN A NEW PRODUCT IS LAUNCHED, WHO IS IN CHARGE OF THE LAUNCH?

5.6 AFTER A PRODUCT HAS BEEN LAUNCHED, IS THERE ANYONE WITH SOLE RESPONSIBILITY FOR THAT PRODUCT? YES / NO

WHO?

5.7 [IF THIS IS A DIFFERENT PERSON TO 5.7] WHEN IS RESPONSIBILITY FOR THE PRODUCT TRANSFERRED FROM (ans 5.7) TO (ans 5.8)

"STAFF"

This section is concerned with the way (company name) trains and deploys its staff
### 7.1 How well do the following describe the nature of training provided for these staff groups?

**Card 9/Sheet 11**

**EARLY, ON THE JOB**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. BRANCH MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. SENIOR MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. MARKETING STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. JUNIOR BRANCH STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

**TRAINING IN SELECTED JOBS SPECIFIC TO ONE FUNCTION OR TASK**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. BRANCH MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. SENIOR MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. MARKETING STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. JUNIOR BRANCH STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

**BROAD, ALL ROUND TRAINING**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. BRANCH MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. SENIOR MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. MARKETING STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. JUNIOR BRANCH STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

**TRAINING IN SELLING TECHNIQUES**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. BRANCH MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. SENIOR MANAGEMENT</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. MARKETING STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. JUNIOR BRANCH STAFF</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### 7.3 Can the staff currently working on retail financial services expect to be transferred to other areas of (Company Name)'s operations at any stage of their careers?

**Card 10**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VERY UNLIKELY</td>
<td>VERY LIKELY</td>
</tr>
<tr>
<td></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### 7.4 How important is the idea of loyalty to the firm in (Company Name)?

**Card 3**

<table>
<thead>
<tr>
<th></th>
<th>NOT AT ALL</th>
<th>BEST OF ALL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VERY IMPORTANT</td>
<td>IMPORTANT</td>
</tr>
</tbody>
</table>
7.5 DOES (COMPANY NAME) CONSIDER IT HAS A RESPONSIBILITY TO PROVIDE A CAREER STRUCTURE FOR ALL STAFF?

Card 5

NOT AT ALL 1 2 3 4 5 VERY MUCH SO

7.6 DOES (COMPANY NAME) CONSIDER IT HAS A COMMITMENT TO PROVIDE LONG TERM JOB SECURITY FOR ALL STAFF?

NOT AT ALL 1 2 3 4 5 VERY MUCH SO

7.7 WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES (COMPANY NAME)'S MANAGEMENT RECRUITING POLICY?

Sheet 12

RECRUIT ONLY AT JUNIOR GRADES

RECRUIT AT MIDDLE GRADES ALSO

RECRUIT AT SENIOR GRADES ALSO

ABOVE JUNIOR GRADES,
EXPERIENCE IN RETAIL FINANCIAL SERVICES ESSENTIAL

ABOVE JUNIOR GRADES,
ANY KIND OF WORK EXPERIENCE CONSIDERED

SPECIALISTS ONLY RECRUITED ABOVE JUNIOR GRADES

7.8 HOW INTERCHANGEABLE ARE YOUR STAFF WITH SOMEONE ELSEWHERE IN (COMPANY NAME) AT THE SAME LEVEL?

Card 11

NOT AT ALL 1 2 3 4 5 VERY EASILY

8.ORGANISATION

This section examines cultural and structural aspects of (company name) that may have a bearing on its marketing practices and its performance.

8.1 HOW MANY LEVELS OF AUTHORITY ARE THERE IN THE LINE MANAGEMENT OF (COMPANY NAME)?
8.2 AT WHAT LEVEL OF THE ORGANISATION DOES A MANAGER BECOME RESPONSIBLE FOR APPOINTING HIS OWN STAFF?

8.3 WHAT LEVEL OF MANAGEMENT HAVE INITIAL RESPONSIBILITY FOR DEALING WITH CUSTOMER REQUESTS REGARDING SERVICES?

8.4 WHAT PROPORTION OF DECISIONS ABOUT CUSTOMER REQUESTS THAT ARE NOT COVERED BY EXISTING RULES OR PRACTICES FOR OPERATING A SERVICE ARE LEFT IN THE HANDS OF THAT MANAGEMENT LEVEL?

Card 14

NONE AT ALL   1   2   3   4   5 MOST OF THEM

9.5 IN FINANCIAL TERMS, WHAT ON AVERAGE IS THE MAXIMUM VALUE OF A DECISION THAT A (ANSWER TO 8.3) LEVEL MANAGER CAN TAKE WITHOUT ANY REFERENCE TO HIS SENIORS?

8.6 IN (COMPANY NAME) WHICH OF THE FOLLOWING BEST DESCRIBES WHO MAKES DECISIONS?

Sheet 13

DECISIONS ARE MADE BY THE PERSON WITH THE HIGHER POWER AND AUTHORITY

DECISIONS ARE MADE BY THE PERSON WHOSE JOB DESCRIPTION CARRIES THE RESPONSIBILITY

DECISIONS ARE MADE BY THE PERSONS WITH MOST KNOWLEDGE AND EXPERTISE ABOUT THE PROBLEM

8.7 DOES (COMPANY NAME) BELIEVE IN ENTREPRENEURSHIP AND RISK TAKING?

Card 5

NOT AT ALL   1   2   3   4   5 VERY MUCH

8.8 HOW IS ENTREPRENEURIAL OR RISK TAKING AT (ANSWER TO 8.3) LEVEL VIEWED?

Card 12

TO BE   1   2   3   4   5 TO BE PREVENTED

TO BE ENCOURAGED
8.10 IS ANY ATTEMPT BEING MADE TO CHANGE THE CULTURE, THE SHARED VALUES AND ATTITUDES OF (COMPANY NAME)?

YES/NO

8.11 WHAT FORM HAS THIS TAKEN?

Sheet 15

<table>
<thead>
<tr>
<th>Statements about the need for change made by top executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circulation of information in house about the need for change to managers</td>
</tr>
<tr>
<td>Circulation of information in house about the need for change to all staff</td>
</tr>
<tr>
<td>Training for management in new approaches to (company name)’s business</td>
</tr>
<tr>
<td>Advertising of new approaches externally</td>
</tr>
<tr>
<td>Rewards for outstanding contributions to new approach</td>
</tr>
</tbody>
</table>

3.12 HOW WOULD YOU DESCRIBE THE INTENDED NEW CULTURE OF YOUR ORGANISATION?
9. SYSTEMS

This section is concerned with how (company name) develops, uses and implements its long term management plans.

9.1 WHICH OF THE FOLLOWING BEST DESCRIBES THE STRATEGIC PLANNING METHODS USED BY (COMPANY NAME)?

<table>
<thead>
<tr>
<th>Card 9/Sheet 16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FORMAL LONG-TERM PLANS (5 YRS)</strong></td>
</tr>
<tr>
<td><strong>FORMAL MEDIUM TO SHORT TERM PLANS</strong></td>
</tr>
<tr>
<td><strong>EXPLICIT BUT INFORMAL STATEMENT OF GOALS</strong></td>
</tr>
<tr>
<td><strong>LITTLE OR NO PLANNING AT ALL</strong></td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
</tr>
</tbody>
</table>

9.2 DOES (COMPANY NAME) HAVE FORMAL PROCEDURES FOR DEALING WITH THE FOLLOWING SITUATIONS?

<table>
<thead>
<tr>
<th>Sheet 17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENVIRONMENTAL CHANGES</strong></td>
</tr>
<tr>
<td>CURRENTLY FORESEEABLE (E.G. SINGLE EUROPEAN MARKET 1992)</td>
</tr>
<tr>
<td>ENVIRONMENTAL CHANGES THAT MAY OCCUR IN FUTURE (E.G. MAJOR OVERSEAS ENTRY INTO THE MARKET)</td>
</tr>
<tr>
<td>STRATEGIC SURPRISES UNFORESEEN UNTIL OCCURRENCE (E.G. STOCK MARKET CRASH, INNOVATIVE NEW PRODUCT LAUNCHED BY RIVALS,)</td>
</tr>
</tbody>
</table>
9.3 AT WHAT STAGE OF DEVELOPMENT ARE THE FORMAL PROCEDURES FOR DEALING WITH EACH OF THE SITUATIONS OUTLINED ABOVE?

Card 13

ENVIRONMENTAL CHANGES CURRENTLY FORESEEABLE (E.G. SINGLE EUROPEAN MARKET 1992)  
1 PLANNING STAGE  
2 EVALUATION OF PLANS  
3 IMPLEMENTATION OF PLANS  
4 PROCEDURE ESTABLISHED AND TESTED

ENVIRONMENTAL CHANGES THAT MAY OCCUR IN FUTURE (E.G. MAJOR OVERSEAS ENTRY INTO THE MARKET)  
1 PLANNING STAGE  
2 EVALUATION OF PLANS  
3 IMPLEMENTATION OF PLANS  
4 PROCEDURE ESTABLISHED AND TESTED

STRATEGIC SURPRISES UNFORESEEN UNTIL OCCURRENCE (E.G. STOCK MARKET CRASH, INNOVATIVE NEW PRODUCT LAUNCHED BY RIVALS,)  
1 PLANNING STAGE  
2 EVALUATION OF PLANS  
3 IMPLEMENTATION OF PLANS  
4 PROCEDURE ESTABLISHED AND TESTED

9.4 HOW WELL DO THE FOLLOWING DESCRIBE YOUR IMPLEMENTATION PROCEDURES FOR STRATEGIC PLANS:

Card 9/SHEET 18

SENIOR MANAGEMENT BRIEFED ON PLAN FOR THEM TO ORGANISE IMPLEMENTATION

MIDDLE MANAGEMENT BRIEFED ON PLAN FOR THEM TO ORGANISE IMPLEMENTATION

ALL LEVELS OF MANAGEMENT BRIEFED ON PLAN FOR THEM TO ORGANISE IMPLEMENTATION

ALL STAFF BRIEFED ON PLAN FOR THEM TO ALTER THEIR OWN BEHAVIOUR TO ACCORD WITH IT

STAFF AT VARIOUS LEVELS GIVEN RESPONSIBILITY TO ORGANISE IMPLEMENTATION
9.5 How well do the following describe the process by which strategic planning is carried out in (Company Name):

<table>
<thead>
<tr>
<th>Strатегический план разрабатывается</th>
<th>__________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>менеджментом без участия маркетинга</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>Старшим руководством без участия</td>
<td>__________</td>
</tr>
<tr>
<td>маркетингового департамента</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>Старшим руководством с формальным</td>
<td>__________</td>
</tr>
<tr>
<td>вкладом от маркетингового департамента</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>Старшим руководством с формальным</td>
<td>__________</td>
</tr>
<tr>
<td>вкладом от всех отделов</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>менеджерами назначаемыми Советом</td>
<td></td>
</tr>
<tr>
<td>директоров</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>после неофициального консультационного</td>
<td>__________</td>
</tr>
<tr>
<td>процесса среди менеджмента</td>
<td></td>
</tr>
<tr>
<td>Стратегический план разрабатывается</td>
<td>__________</td>
</tr>
<tr>
<td>после неофициального консультационного</td>
<td>__________</td>
</tr>
<tr>
<td>процесса среди всего персонала</td>
<td></td>
</tr>
<tr>
<td>Ни одного из перечисленных</td>
<td></td>
</tr>
</tbody>
</table>

3.6 Is implementation of strategic plans monitored or assessed in any way? Yes / No

How is this carried out?

________________________
________________________
________________________
10. PRODUCT/MARKET STRATEGY

This final section deals with the strategy that (company name) follows.

10.1 HOW WELL DO THE FOLLOWING DESCRIBE THE STRATEGY (COMPANY NAME) FOLLOWS:

**Card 9/SHEET 20**

<table>
<thead>
<tr>
<th>Strategy Description</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the use of existing products by existing customers</td>
<td></td>
</tr>
<tr>
<td>Providing existing products in new geographical areas</td>
<td></td>
</tr>
<tr>
<td>Increasing use of existing products in new market segments</td>
<td></td>
</tr>
<tr>
<td>Increasing use of existing products in new markets</td>
<td></td>
</tr>
<tr>
<td>Creating new products for existing markets already served</td>
<td></td>
</tr>
<tr>
<td>Creating new products to appeal to new, unserved segments of existing markets</td>
<td></td>
</tr>
<tr>
<td>Creating new products to appeal to new geographical areas</td>
<td></td>
</tr>
<tr>
<td>Creating new products to appeal to new markets</td>
<td></td>
</tr>
</tbody>
</table>
10.2 WHICH OF THE FOLLOWING TO YOU CONSIDER (COMPANY NAME) TO BE GOOD AT, COMPARED TO ITS COMPETITORS:

Card 1/SHEET 21

<table>
<thead>
<tr>
<th></th>
<th>MUCH BETTER THAN COMPETITORS</th>
<th>MUCH WORSE THAN COMPETITORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>REDUCING THE COSTS ASSOCIATED WITH EXISTING SERVICES</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2</td>
<td>DISCOVERING NEW SEGMENTS WITHIN EXISTING MARKETS</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3</td>
<td>TAILORING PRODUCTS TO APPEAL TO SPECIFIC SEGMENTS</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4</td>
<td>INCREASING THE AMOUNT EXISTING CUSTOMERS USE SERVICES PROVIDED</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>5</td>
<td>SERVING THE PARTICULAR NEEDS OF SMALL GROUPS OF CUSTOMERS</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>6</td>
<td>CREATING PRODUCTS WITH UNIQUE APPEAL</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>
Appendix Two

QUESTIONNAIRE INVESTIGATING PRODUCT HYPOTHESES
1. INTRODUCTION

COMPANY NAME:  ASSETS:  PROFITS:  STAFF:

PRODUCT AREA:

INTERVIEWEE:  DATE:  PLACE:

POSITION:

Card 1

RELATIVE SUCCESS  MUCH BETTER  5 4 3 2 1  MUCH WORSE
   THAN
   COMPETITORS

RELATIVE MARKET
SHARE  MUCH BETTER  5 4 3 2 1  MUCH WORSE
   THAN
   COMPETITORS
2. COMPETITIVE POSITION

The section deals with the competitive position of (company name). Competitive position is determined by the set of advantages which distinguish a firm and also how those advantages were gained. This section also deals with strategies. Strategies are sets rules for decision-making providing guidance for the organisation.

2.1 HOW DOES (PRODUCT NAME) COMPARE WITH THOSE OF COMPETITORS IN TERMS OF MEETING CUSTOMER NEEDS?

Card 2

<table>
<thead>
<tr>
<th></th>
<th>VERY MUCH</th>
<th>WORSE</th>
<th>VERY MUCH</th>
<th>BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>

2.2 CONSIDERING (PRODUCT NAME) ONLY, WHAT FACTORS ENABLE (PRODUCT NAME) TO MEET CUSTOMERS’ NEEDS MORE EFFECTIVELY THAN THOSE OF COMPETITORS?

1. __________________________
2. __________________________
3. __________________________
4. __________________________
5. __________________________

2.3 HOW DOES (PRODUCT NAME) COMPARE WITH THOSE OF COMPETITORS IN TERMS OF THE RETURNS MADE ON ASSETS EMPLOYED?

Card 3

<table>
<thead>
<tr>
<th></th>
<th>VERY MUCH</th>
<th>WORSE</th>
<th>VERY MUCH</th>
<th>BETTER</th>
<th>DO NOT HAVE THIS INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 2 3 4 5 0</td>
<td></td>
</tr>
</tbody>
</table>

2.4 CONSIDERING (PRODUCT NAME) ONLY, WHAT FACTORS ENABLE (PRODUCT NAME) TO MAKE GREATER RETURNS FOR (COMPANY NAME) THAN EQUIVALENT PRODUCTS DO FOR COMPETITORS?

________________________________________________________________________
________________________________________________________________________

2.5 WHY DO CUSTOMERS SELECT (COMPANY NAME)’S (GENERIC PRODUCT)?

1. __________________________
2. __________________________
3. __________________________
4. __________________________
5. __________________________
2.6 WHO ARE YOUR PRINCIPAL COMPETITORS IN (PRODUCT NAME) AREA?

1. _______________________
2. _______________________
3. _______________________
4. _______________________
5. _______________________

2.7 FOR EACH OF THESE COMPANIES IN TURN CAN YOU TELL ME WHAT YOU CONSIDER TO BE THEIR GREATEST COMPETITIVE ADVANTAGE IN (PRODUCT NAME) AREA ONLY?

1. _______________________
2. _______________________
3. _______________________
4. _______________________
5. _______________________

2.8 FOR EACH OF THESE COMPANIES, CAN YOU TELL ME WHY YOU BELIEVE THAT CUSTOMERS SELECT THEIR PRODUCT?

1. _______________________
2. _______________________
3. _______________________
4. _______________________
5. _______________________

2.9 HOW GOOD DO YOU CONSIDER (COMPANY NAME) TO BE AT MARKETING (PRODUCT NAME)?

<table>
<thead>
<tr>
<th>VERY GOOD</th>
<th>GOOD</th>
<th>AVERAGE</th>
<th>POOR</th>
<th>VERY POOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

2.10 ARE THERE ANY FINANCIAL SERVICE COMPANIES YOU BELIEVE TO BE BETTER AT MARKETING (PRODUCT NAME) THAN (COMPANY NAME)?

YES/NO

WHO?

________________________________________

________________________________________

________________________________________
3. THE MARKET

This section is concerned with the nature of the market for (generic product name).

3.1 CONSIDERING THE MARKET FOR (GENERIC PRODUCT NAME), WHICH STAGE OF THE PRODUCT LIFE CYCLE DO YOU BELIEVE IT HAS REACHED? (SEE DIAGRAM OF PLC FOR VISUAL PROMPT)
Card 4

1. EMERGENT
2. GROWING
3. MATURE
4. DECLINING

3.2 DO YOU CONSIDER THAT NEW ENTRANTS CAN BE EXPECTED IN THIS MARKET IN FUTURE?

Card 5

<table>
<thead>
<tr>
<th>NEW ENTRANTS</th>
<th>NEW ENTRANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>VERY</td>
<td>VERY</td>
</tr>
<tr>
<td>LIKELY</td>
<td>LIKELY</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>NEUTRAL</td>
<td>UNLIKELY</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>UNLIKELY</td>
<td>UNLIKELY</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

3.3 WHO DO YOU EXPECT TO ENTER THIS MARKET?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________

3.4 WHY DID (COMPANY NAME) ENTER THIS MARKET?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________

3.5 DO YOU EXPECT TO SEE CHANGES IN THIS MARKET IN THE FUTURE? IF SO, WHAT FORM WILL THEY TAKE?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________

3.6 WHAT DO YOU FEEL WILL CAUSE THESE CHANGES?

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
3.7 IN THE NEXT FIVE YEARS DO YOU EXPECT THE MARKET TO GROW MORE QUICKLY OR MORE SLOWLY:

Card 6

IN TERMS OF VOLUME MUCH 1 2 3 4 5 MUCH MORE SLOWLY MORE QUICKLY

IN TERMS OF VALUE MUCH 1 2 3 4 5 MUCH MORE SLOWLY MORE QUICKLY

4. SEGMENTATION AND DIFFERENTIATION

This section discusses segmentation and differentiation. Segmentation is targeting a company's products at a group of individuals, groups or organisations who share one or more similar characteristics that cause them to have relatively similar product needs. An example of segmentation is Rolls-Royce Cars, who concentrate their products on those seeking luxury.

Differentiation is altering the product so that it differs from its competitors and so becomes less easily substituted. An example of such differentiation is Subaru cars, who make only four wheel drives.

4.0 WHAT MARKET DOES (COMPANY NAME) SEEK TO SERVE WITH ITS (PRODUCT GROUP) PRODUCT?

____________________________________________________________________________________

4.1 DOES (PRODUCT NAME) HAVE A DISTINCT COMPETITIVE ADVANTAGE?

Card 7

NOT AT ALL 1 2 3 4 5 VERY MUCH SO

4.2 CONSIDERING THE CLOSEST COMPETITOR FROM ANOTHER COMPANY TO (PRODUCT NAME), WHAT DIFFERENCES ARE THERE BETWEEN THEM?

____________________________________________________________________________________

4.3 IS THIS DIFFERENCE INTENTIONAL OR ACCIDENTAL? I / A
4.4 DO THESE DIFFERENCES MAKE THE PRODUCT MORE ATTRACTIVE TO PARTICULAR GROUPS IN THE MARKET THAN ITS NEAREST RIVAL? YES/NO

4.5 WHICH GROUPS ARE ATTRACTED?

4.6 CONSIDERING THE PEOPLE WHO MAY BE ATTRACTED TO (PRODUCT NAME), HOW HOMOGENEOUS A GROUP DO THESE CUSTOMERS FORM?

Card 8

<table>
<thead>
<tr>
<th>VERY HOMOGENEOUS</th>
<th>VERY HETEROGENEOUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

4.7A DOES (COMPANY NAME) LIMIT THE MARKET IT SEEKS TO SERVE WITH THIS PRODUCT IN ANY WAY? YES/NO

4.7 WITHIN THE MARKET FOR (PRODUCT NAME), DOES (COMPANY NAME) IDENTIFY ANY MARKET SEGMENTS?

PROMPT: A market segment is a group of individuals, groups or organisations who share one or more similar characteristics that cause them to have relatively similar product needs. YES/NO

4.8 WHAT ARE THESE SEGMENTS?

1. ____________________________
2. ____________________________
3. ____________________________
4. ____________________________
5. ____________________________

4.9 HOW ARE THESE SEGMENTS IDENTIFIED?

1. ____________________________
2. ____________________________
3. ____________________________
4. ____________________________
5. ____________________________
4.10 DOES (PRODUCT NAME) APPEAL TO ANY OF THESE SEGMENTS IN PARTICULAR?

Card 9

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>VERY STRONG APPEAL</th>
<th>VERY WEAK APPEAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

4.11 WHAT IS THE TARGET MARKET FOR (PRODUCT NAME)?

4.12 WHO DOES (PRODUCT NAME) APPEAL TO?

Card 10/SHEET 1

TO THOSE SEEKING THE CHEAPEST PRODUCT

TO ALL IN THE MARKET EQUALLY

TO THOSE SEEKING A SLIGHTLY DIFFERENT PRODUCT

TO A SPECIFIC GROUP WITH SPECIAL NEEDS

5.OBJECTIVES

This section discusses the role and objectives set for the product. The goals of the product refer to its purpose in company name’s portfolio, the objectives to practical and quantifiable actions that are be attempted to fulfil the role.

5.1 WHAT DO YOU BELIEVE IS (PRODUCT NAME)’S ROLE IN (COMPANY NAME)’S PORTFOLIO?
5.2 DOES (COMPANY NAME) HAVE ANY OBJECTIVES FOR (PRODUCT NAME) THAT YOU HAVE BEEN INFORMED OF? YES / NO

5.3 IF SO WHAT ARE THEY?

5.4 TO WHAT LEVEL OF THE COMPANY ARE THESE OBJECTIVES COMMUNICATED?

Card 11

HEAD OFFICE ONLY
AREA MANAGEMENT
BRANCH MANAGEMENT
JUNIOR BRANCH STAFF

5.5 WHO DETERMINED THE OBJECTIVES FOR (PRODUCT NAME)?

5.11 HOW IMPORTANT IS A GOOD CURRENT PROFIT PERFORMANCE BY (PRODUCT NAME)?

Card 17

UNIMPORTANT 1 2 3 4 5 VERY IMPORTANT

6. INFORMATION

These questions deal with the amount and quality of information available to managers dealing with (product name)

6.1 DOES (COMPANY NAME) KNOW THE INCOME GENERATED BY (PRODUCT NAME)?

Card 12

YES, EXACTLY: YES, APPROXIMATELY: NO.

6.2 DOES (COMPANY NAME) KNOW THE ASSETS EMPLOYED BY (PRODUCT NAME)?

YES, EXACTLY: YES, APPROXIMATELY: NO.

6.3 DOES (COMPANY NAME) KNOW THE COSTS ASSOCIATED WITH (PRODUCT NAME)?

YES, EXACTLY: YES, APPROXIMATELY: NO.

6.4 HOW ACCURATELY CAN THE PROFITABILITY OF (PRODUCT NAME) BE CALCULATED?
Card 13

<table>
<thead>
<tr>
<th>EXACTLY</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCURATELY</td>
<td>4</td>
</tr>
<tr>
<td>APPROXIMATELY</td>
<td>3</td>
</tr>
<tr>
<td>VAGUELY</td>
<td>2</td>
</tr>
<tr>
<td>NOT AT ALL</td>
<td>1</td>
</tr>
</tbody>
</table>

6.5 DOES (COMPANY NAME) KNOW WHICH OTHER (COMPANY NAME) SERVICES INDIVIDUAL USERS OF (PRODUCT NAME) ALSO USE?

YES/NO

6.6 HOW MUCH KNOWLEDGE DO STAFF RESPONSIBLE FOR (PRODUCT NAME) HAVE OF OTHER (COMPANY NAME) SERVICES INDIVIDUAL USERS OF (PRODUCT NAME) ALSO USE?

Card 14

<table>
<thead>
<tr>
<th>COMPLETE KNOWLEDGE</th>
<th>_____</th>
</tr>
</thead>
<tbody>
<tr>
<td>KNOWLEDGE OF MOST SERVICES USED</td>
<td>_____</td>
</tr>
<tr>
<td>KNOWLEDGE OF SOME SERVICES USED</td>
<td>_____</td>
</tr>
<tr>
<td>NO KNOWLEDGE</td>
<td></td>
</tr>
</tbody>
</table>

6.7 DOES (COMPANY NAME) KNOW THE OVERALL PROFITABILITY OF INDIVIDUAL CUSTOMERS USING (PRODUCT NAME)?

YES, EXACTLY: YES, APPROXIMATELY: NO.
7. MARKETING MIX

This section deals with elements of the marketing mix. The marketing mix is a set of variables, which can be, to different extents, controlled by managers to match the needs of customers. When dealing with services, seven variables are considered to make up the marketing mix; product, price, place, promotion, people, physical evidence and process.

7.1 THE FOLLOWING IS A LIST OF FACTORS WHICH FORM THE MARKETING MIX FOR A PRODUCT. CAN YOU PLEASE TELL ME HOW (COMPANY NAME)'S (PRODUCT NAME/TYPE) COMPARES WITH ITS PRINCIPAL RIVALS FOR EACH FACTOR LISTED?

<table>
<thead>
<tr>
<th>PRODUCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Card 15</td>
</tr>
</tbody>
</table>

1. SIZE OF THE PRODUCT
   - Range of which (PRODUCT NAME) is part
   - MUCH WORSE: 1 2 3 4 5

2. THE AMOUNT OF INNOVATION
   - Involved in (PRODUCT NAME)
   - MUCH WORSE: 1 2 3 4 5

3. THE QUALITY OF THE
   - Products in the range
   - Of which (PRODUCT NAME) is part
   - MUCH WORSE: 1 2 3 4 5

4. IN ANSWERING THE PREVIOUS QUESTION, HOW DID YOU DEFINE QUALITY?

| PRICE |

1. CHARGES PAID BY CUSTOMERS TO USE (P.N.)
   - MUCH WORSE: 1 2 3 4 5

2. RATES OF RETURN PAID TO CUSTOMERS USING (P.N.)
   - MUCH WORSE: 1 2 3 4 5

3. EXTRA CHARGES MADE TO CUSTOMERS USING (P.N.)
   - MUCH WORSE: 1 2 3 4 5

4. LINKING CHARGES TO SPECIFIC ITEMS
   - MUCH WORSE: 1 2 3 4 5

5. DISCRETION TO WAIVE CHARGES
   - MUCH WORSE: 1 2 3 4 5

<p>| PLACE |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>MUCH WORSE</th>
<th>MUCH BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NUMBER OF OUTLETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WHERE (P.N.) CAN BE ACQUIRED</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>NUMBER OF OUTLETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WHERE (P.N.) CAN BE USED</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>ACCESSIBILITY OF OUTLETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>USE OF AGENTS</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PROMOTION**

<table>
<thead>
<tr>
<th>MUCH WORSE</th>
<th>MUCH BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.ADVERTISING EXPENDITURE ON P.N.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2.QUALITY OF ADVERTISING FOR (PRODUCT NAME)</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3.USE OF DIRECT MAIL TO PROMOTED (P.N.)</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4.QUALITY OF INFORMATION AVAILABLE ABOUT CUSTOMERS USING (P.N.)</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>5.QUALITY OF INFORMATION AVAILABLE ABOUT CUSTOMERS SEEKING (P.N.)</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>

**PEOPLE**

<table>
<thead>
<tr>
<th>MUCH WORSE</th>
<th>MUCH BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.ABILITY OF STAFF RECRUITED</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2.AMOUNT OF TRAINING GIVEN</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>3.STAFF TURNOVER LEVEL</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>4.RECRUITMENT INTO HIGHER LEVELS OF MANAGEMENT</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>5.QUALITY OF SALES STAFF</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>6.QUALITY OF AGENTS</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>
### PHYSICAL EVIDENCE

<table>
<thead>
<tr>
<th></th>
<th>MUCH WORSE</th>
<th>MUCH BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. QUALITY OF DESIGN OF OUTLETS WHERE P.N. IS USED OR AVAILABLE</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>2. CONSISTENCY OF OUTLET DESIGN</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>3. QUALITY OF AUTOMATIC DELIVERY SYSTEMS FOR P.N. (IF APPLICABLE)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>4. AMOUNT OF TANGIBLE ELEMENTS ASSOCIATED WITH (PRODUCT NAME)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>5. DESIGN QUALITY OF TANGIBLE ELEMENTS OF (PRODUCT NAME)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### PROCESS

<table>
<thead>
<tr>
<th></th>
<th>MUCH WORSE</th>
<th>MUCH BETTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. RESPONSE TIME BETWEEN (PRODUCT NAME) BEING CONFIRMED AND OPERATIONAL</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>2. RESPONSE TIME BETWEEN AN ENQUIRY CONCERNING (PRODUCT NAME) AND THE ANSWER</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>3. LENGTH OF QUEUES ASSOCIATED WITH (PRODUCT NAME)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>4. SEPARATE FACILITIES FOR USERS OF (PRODUCT NAME)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>5. EFFICIENCY IN DEALING WITH FLUCTUATIONS IN LEVELS OF DEMAND</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>6. FLEXIBILITY TO DEAL WITH CHANGES IN CUSTOMER DEMAND PATTERNS</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
7.2 WILL YOU PLEASE SCORE THE FOLLOWING ELEMENTS OF THE
MARKETING MIX OUT OF TEN ACCORDING TO THEIR IMPORTANCE AS
CONTRIBUTORS OR LIMITATIONS TO SUCCESS OF (GENERIC PRODUCT)

Card 16

PRODUCT

SIZE OF PRODUCT RANGE
QUALITY OF PRODUCTS

PRICE

CHARGES MADE
RETURN PAID

PLACE

LOCATION OF OUTLETS

PROMOTION

ADVERTISING

PEOPLE

ABILITY OF STAFF
TRAINING OF STAFF
TURNOVER OF STAFF

PHYSICAL EVIDENCE

OUTLET DESIGN
ATM QUALITY
TANGIBLE ELEMENT DESIGN

PROCESS

RESPONSE TIMES
COMPUTER SOPHISTICATION
QUEUE LENGTHS
Appendix Three

THE $\chi^2$ TEST OF INDEPENDENCE
THE $\chi^2$ TEST OF INDEPENDENCE

The theory of the $\chi^2$ test of independence can be found in most statistical texts (e.g. Bhattacharyya and Johnson (1977), Berenson and Levine (1986)). The $\chi^2$ test is the principal test of independence between pairs of variables used in this research. It tests for independence by comparing the expected frequency of any given pair of values with the actual frequency of that pair. It therefore assumes nothing about the nature of the population distribution nor requires continuity in the sample distributions being compared.

If a contingency table is drawn up for two variables under examination $A$ & $B$, where there are $r$ categories of $A$, $A_1, \ldots, A_r$, and $c$ categories of $B$, $B_1, \ldots, B_c$, with $A$ rows and $B$ columns, the contingency table will contain cells representing the intersection of an $A$ category and a $B$ category. Let the intersection of the $i$th category of $A$ and the $j$th category of $B$ be $A_iB_j$. Given a random sample of $n$ elements, let:

- $n_{ij} = \text{frequency of } A_iB_j$
- $n_{i.} = \text{frequency total for the } i\text{th row, or frequency of } A_i$
- $n_{.j} = \text{frequency total for the } j\text{th column, or frequency of } B_j$

Imaging a classification of the entire population, the unknown population proportions (cell entries) would have probabilities:

- $P_{ij} = P (A_iB_j)$, probability of joint occurrence of $A_i$ and $B_j$.
- $P_{i.} = P (A_i)$, total probability of $i$th row.
- $P_{.j} = P (B_j)$, total probability of $j$th row.

If $A$ and $B$ are independent then:
\[ P(A_iB_j) = P(A_i) P(B_j) \]  \hfill (1)

For all \( i = 1, \ldots, r \)

For all \( j = 1, \ldots, c \)

The null hypothesis, \( A \) and \( B \) are independent becomes;

\[ H_0 : P_{ij} = P_{i0} P_{0j} \quad \text{For all cells } (i, j) \]  \hfill (2)

To estimate \( P_{i0} = P(A_i) \) it is natural to use relative sample frequency of \( A_i \).

\[ P_{i0} = \frac{n_{i0}}{n} \]  \hfill (3)

And similarly for \( B_j \)

\[ P_{0j} = \frac{n_{0j}}{n} \]  \hfill (4)

Therefore we can estimate the likelihood of the \( i \)th cell as:

\[ P_{i,j} = P_{i0} P_{0j} = \frac{(n_{i0} n_{0j})}{n} \]  \hfill (5)

Expected frequency \((i, j)\) under assumed independence is:

\[ E_{i,j} = n P_{i,j} = \frac{(n_{i0} n_{0j})}{n} \]  \hfill (6)

The test statistic is then;

The Goodness of Fit \( \chi^2 \): Statistic

\[ G\chi^2 = \sum_{i,j} \frac{(n_{i,j} - E_{i,j})^2}{E_{i,j}} \]  \hfill (7)

Where \( E_{i,j} = \frac{(n_{i0} n_{0j})}{n} \) \hfill (8)

This has an approximate \( \chi^2 \) distribution for large \( n \). The \( \chi^2 \) distribution is sensitive to the number of degrees of freedom of the distribution, which is \((r - 1)(c - 1)\).

For smaller \( n \) the Yates adjustment is used or the Fisher exact test can be applied if the table is \( 2 \times 2 \).
Appendix Four

LINEAR DISCRIMINANT ANALYSIS
LINEAR DISCRIMINANT ANALYSIS

Since most classification is binary e.g. cured / not cured, successful / not successful, discriminant analysis is most common in cases where there are only two classifications. This is commonly referred to as two-group discriminant analysis. The particular problems arising from using discriminant analysis with multiple classifications are discussed in the multiple discriminant analysis section below.

A4.1 Assumptions

"The linear discriminant function minimizes the probability of misclassification if in each group the variables are from multivariate normal distributions and the covariance matrices for all groups are equal" Norusis (1988 p.108). It is possible to test for both the conditions, but there is no fool proof method. Norusis points out that "where the variables are all binary or a mixture of continuous and discrete variables the linear discriminant function is not optimal. ... In the case of dichotomous variables, most evidence suggests that the linear discriminant function often performs reasonably well." Norusis (1988 p. 109). This verdict on the robustness of discriminant analysis if the underlying assumptions are violated is echoed by Klecka (1980 p.61) "Several authors have shown that discriminant analysis is a rather robust technique which can tolerate some deviation from these assumptions".

A4.2 Construction of the Discriminant Function

The basis objective of discriminant analysis is to create a linear mapping function that maps the groups into one dimension such that the centroids of the groups are maximally separated in the single dimension. The function is therefore of the form:
\[ Z = k_1X_1 + \ldots + k_nX_n \]  

(1)

Where

\( X_n \) = Score on variable n

\( k_n \) = Weight attached to variable n in constructing the discriminant function. The "discriminant weight" or "unstandardised discriminant function coefficient".

\( Z \) = The value of each observation after application of the discriminant function. The "discriminant score".

The calculation of this function seeks to maximise between group variability (deviation of group means from the grand (sample) mean on the discriminant function) relative to the within group variability (deviation of observations from group means on the discriminant function).

**A4.3 Assignment of New Individuals**

To assign new cases it is usual for the discriminant function to be recalculated using the group centroid scores as inputs and the new cases assigned to the group with the closest centroid by calculating the value of \( Z \) that is the mid point between groups on the discriminant function. This technique therefore assumes that there is an equal probability of cases being in any given group e.g. the new sample of cases is random (the assumption of equal prior probabilities). If this is not the case then \( Z_{\text{CRIT}} \) can be recalculated accordingly. It is observed that the classification of the initial sample used to generate the discriminant function tends to be better than expected, and the function is therefore bias due to this higher proportion of correct assignments. It is therefore necessary to validate the discriminant function.

**A4.4 Statistical Significance**

A variety of methods can be used to calculate whether the group centroids differ significantly. An F ratio can be
calculated on the basis of a variability measure of squared distance between the centroids known as Mahalanobis Squared Distance (this measure can also be used to calculate a squared distance between each observation and the centroid). An alternative measure is the canonical correlation coefficient, which measures the relation between the discriminant function and the group. A further method based on the ability of variables to discriminate between groups beyond the information that has been extracted in the computation of previous functions is Wilks' Lambda (also called the U statistic).

All the above measures determine whether there is significant overall discrimination between groups and which discriminant functions are significant. They are therefore the basis of binary, yes/no tests. For measures of relationship strength, degree of difference or extent of contribution to difference a further set of measures are used.

A4.5 Practical Significance

Standardisation of discriminant weights produces weights independent of the units and differing standard deviation carried over into the unstandardised weights from the original variables. Several methods exist and the results are different, but the importance of standardisation lies in the ranking of the weights in terms of the absolute (i.e. free from sign) value of the standardised coefficient. Hence a ranking of variable importance can be constructed.

An assessment of power to discriminate rather than a ranking can be created by examining the difference in the discriminant score for different groups attributable to each variable. The measure is:

\[ I_j = |k_j (\bar{X}_{j1} - \bar{X}_{j2})| \]  

(2)
Where:

$I_j = \text{Importance of jth variable}$

$k_j = \text{Unstandardised discriminant co-efficient for the jth variable.}$

$\bar{X}_{jk} = \text{Mean of the jth variable for the kth group}$

Relative importance can be assessed as the portion of the discriminant score for each group contributed by a given variable. This is calculated by examination of the importance values relative to the sum over all variables.

$$R_j = \frac{I_j}{\sum_{\text{over all } j} I_j}$$

This type of calculation becomes more difficult when there are more than two groups for classification purposes, e.g. multiple discriminant analysis is being carried out.

A4.6 Multiple Discriminant Analysis

The preceding discussion of objectives and assumptions applies to multiple discriminant analysis (MDA) as well as to two-group discriminant analysis. However MDA is more complex because it is possible to generate more than one discriminant function (Green et al 1988 p.526-7). With G groups and m predictors, up to the lesser of G-1 or m discriminant functions can be generated. These functions will vary in the proportion of among-group to within-group variability and so can be distinguished in terms of usefulness relatively simply. Interpretation is more difficult, as different functions may have large differences of significance between groups of variables.