

HIGH ROAD TO WORK ORGANISATION

CASE STUDY

Föreningssparbanken



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Abstract

The present study explores what Föreningssparbanken, a Swedish bank, has systematically worked with to increase its understanding of the importance of intangibles as performance drivers. One interesting feature is how the Bank uses this work as a tool for learning. Hence, it does not strive to find a beginning or an end of a process instead it stresses the continuity of the process.

HI-RES Case Study: Föreningssparbanken

Sector

Banking

Key Words

Management control; Learning; Intangibles; Measuring; Human Capital; Market Capital.

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1. Background Information

This company is being studied within the MERITUM (Measuring Intangibles to Understand and Improve Innovation Management) project. The MERITUM project began in 1998 and was completed three years later. The aim of the project was to investigate the feasibility of measuring and reporting intangibles. Nine universities and research institutes in six European countries are currently participating in the project. The present project has been accomplished thanks to financial support from the European Commission, OECD, the Swedish Council for Work Life Research, NUTEK, the Swedish Ministry of Trade and Industry and the Swedish Public Relations Association.

The company is Föreningsparbanken, a Swedish bank that employs some 11,800 people. It has 4.3 million domestic customers and 230,000 firms. Its market share amounts to 30-40% and it turned a deficit of SEK 12 billion into a profit of SEK 2.4 billion in 1997. About two-thirds of its total turnover is generated by the bank itself and the remaining third by other bank partners.

Its products are traditional banking and financial services and its market could be described as a free market with quite extensive regulations.

The organisation consists of the board of directors and works over nine geographical areas with 139 local branches (2-3 business areas in every local branch) and 900 offices and support units such as Human Resources and Finance.

2. Drivers for Change

In the beginning of the 1990s, a number of banks underwent severe financial crises. As a result, the workforce was reduced by almost 25%. Some years later, Föreningsparbanken merged with another bank resulting in 139 local branches employing around 12,000 persons. Additionally, great emphasis was devoted to analysing the market as well as the notion of decentralization. In order to manage and control the decentralized organization, a new management control system was needed. The intention of the new system was to create a control system that reflected the present, the past and the future. Previous models had major communicative shortcomings. Action was promoted by increasing the learning aspects of the control system. The new control system was based on total quality management (TQM), which had already been used for several years. One fundamental component in the development of the new control system was the belief that good management and empowered workers would affect the entire human capital value, thus in turn generating high market capital and greater profitability.

3. Characteristics and Process of Change

The idea of developing an improved tool for management control was born and in 1992 a survey of employees and customers was made at a pilot branch. The measurements of customer and employee satisfaction were not new and had been made on an ad hoc basis. Gradually, they were developed from mere thermometers of satisfaction into regular instruments aimed at learning and strategic action. From being a personnel and marketing department issue, the responsibility was distributed throughout the company.

In the process of developing a management control model, which also included intangibles, an external firm of consultants played an important role. Since 1987 the firm of consultants had been seen to be the market leader in the field of management control methods in respect of intangibles. The firm of consultants offer a certain model that has a great degree of flexibility with regard to the specific needs of the customer. The model is based on an understanding of critical success factors. These tools succeed in mobilising learning and action throughout the organisation. The Bank's version of the management control model has been applied and developed and today it has its own model.

The measurement of employees, or the 'human capital', refers to the integrated capacity of a company to deliver high quality work. Human capital measures the notion of empowerment, i.e. what employees want to do, what they can do and what they actually do in relation to business; it does not measure how well employees get on in the organization. The degree to which people enjoy their work is no guarantee of success in business. The company selected four elementary factors to measure human capital: meeting with customers, skills, organization and leadership.

The customer measurements, or the 'market capital', constitute a concept consisting of the way in which customers gauge a company's appreciation of them, how satisfied customers were with the company and how loyal the customers feel toward the company. Does the customer actively search for alternatives or is there general loyalty toward the company and what the company offers in the way of goods and services?

In the spring of 1993, a total survey was made. Measurements were made of a random selection of 65,000 private customers and 20,000 business customers, as well as all employees at the Bank. The outcome consisted of two types of reports: an aggregated executive report setting the strategic agenda and local reports (about 130) outlining operative issues to be tackled.

In the autumn of 1995, a second measurement was made in the same way. In 1996/97 measurements were made each month of a statistically representative selection of branches covering 10% of the organisation. The board of directors was provided with one report each month and the local managers with one report each year. However, one disadvantage was that the material was not linked to the Bank's visions.

The board has clearly stated that work will continue and last year the model was more specifically linked to the visions and the goals of the Bank for 2003-2005.

The development of the management control system is the responsibility of a project group. The group consists of one controller, two members of the marketing staff and one member from the human resource department. This group works together with the firm of consultants mentioned above.

The goals of the work on the management control tool are to secure a focus on human capital, market capital and profitability to secure decentralisation, quality development and organisational learning and also to provide a basis for human resource development activities.

The threefold perspective: human capital, market capital and financial performance is referred to as the "success model". A balance between the three perspectives is important.

4. Obstacles to Change

In the earlier versions of the management control model, the linkages between the company's vision and goals and the model were not clearly defined. However this shortcoming has been taken into consideration in the later versions.

In traditional management control models, the focus has been on financial data i.e. historical data. In the model that is being developed, measurements of the current situation are also included through personnel and customer surveys for example. To make the model complete and an adequate tool for change, more measurements regarding the future must be added "There is a lot of information in the material and you can always improve its use."

The present challenge is to make the model work in the support units also. The latter are also important for the group as a whole. The problem with respect to support functions is

to measure market capital. However attitudes among internal customers i.e. local branches, will now be subject to measurement. Much remains to be done in this area.

The model is used both for internal and external information purposes. The way the model is used internally differs between local branch managers, as well as controllers, due to differences in the understanding of the model. Another group, the financial analysts outside the Bank, have basically reacted in two different ways 50% do not understand the model at all, whereas the remaining 50% are very interested. This creates problems for the model as a tool for change. However, the longer the model is used, the more it will be understood.

5. Risk Analysis

One risk with the model is that, during recessions, the personnel could get the impression that the model is not a driver for change but rather a model for selecting the "less efficient people" for downsizing purposes. If the personnel do not trust the model, its legitimacy may be harmed and the possibilities of using it as a tool for change will be blocked.

6. Benefits of Change

Measuring attitudes among personnel and customers is not new. It has been done for a long time. The problem with the measurements made earlier was that the measurements were made separately and on an ad hoc basis. This made the analytical work difficult and fragmented, which could lead to problems of sub-optimisation among the different branch offices. The later versions of the model have solved these problems by using the data in a holistic way, connecting the work to the company vision, and making measurements more regularly.

It is hoped that performance drivers will be revealed with the aid of statistical analyses of the data collected. As a result of the statistical work, some issues have been classified as hygiene factors, for example customer access. If customer access is unsatisfactory, everything else is also unsatisfactory but when it is satisfactory, other factors, for example contact persons become more important.

"We learn when we work with it. For example we have recognised hygiene factors with respect to market capital. The main advantage is that we can identify risks at an early stage (for example poor leadership, low employee satisfaction or poor internet access) and thereby avoid mistakes. Poor leadership can be identified with 80% certainty, and differences between geographical units are revealed. Often there is a big gap between the perceptions of our customers and our employees where our professional skills are concerned."

In the surveys made prior to 1998, no significant correlation between human capital and profitability could be identified. However, there was a correlation between leadership and human capital, and between human capital and market capital. A strong correlation between empowerment and profitability was found in the database from 1995.

Furthermore the measurements support business development. Customers who have been given private counselling have positive attitudes toward employees as well as to the local branch.

In the 1998 survey the following correlations were found:

1. Financial performance

The p/p ratio (sales divided by personnel costs) is higher when

- The empowerment index is high
- The "businessman-ship" in the human capital index is high and

- The number of customers per employee is high.

The result after credit losses is higher when

- The "businessman-ship" in the human capital index is high and
- Bigger customers are handled.

The contribution margin is higher when

- The customer satisfaction index is high.

2. Market capital index

The market capital index is higher when

- The proportion of salary accounts is high.
- The proportion of elderly customers is high.
- The proportion of customers who value security and tradition is high. This is also to say that market capital is always lower in big cities.
- The customers have their own contact person.

3. Human capital index

The human capital index is higher when

- The leadership index is high. The better the leadership is, the more employees can do, want to do and dare to do (empowerment).

Banks without a good leadership also perform poorly financially.

The conclusions drawn from the 1998 survey:

- a) Leadership is correlated to empowerment, which is correlated to the financial measurement (p/p-ratio).
- b) Leadership is correlated to the human capital index, of which "businessman-ship" is correlated to the two financial measurements, p/p-ratio and results after credit losses.

"This is a big issue now. Lots of things have happened. It is the way in which management control is obtained in this firm. It is integrated. Top management is preaching all the time that, for sustainable success, it's important to continuously consider human and market capital indicators also. Even quality and environmental issues are important in the long run. Earlier it was much more easy for a manager to survive with high levels of profitability and low human capital values than it is today. Things have happened and of course there are also managers who totally ignore the figures."

"The President is totally supportive - completely committed to the work. The President often refers to the measurements, for example making comments such as 'Your market capital figures were really good...' Top management is extremely interested in the latest figures, although not everyone at the board level really understands what it is all about. There is no one in the board of directors or in local branch managerial teams that does not know how to handle the material. Even the boards of the local branches often get a report on "soft issues". The system is costly but, even if the Bank had to cut costs, the board would never decide to stop using the system. It has come to stay."

The work on the tool has had consequences for both executive training programmes and recruitment of personnel.

Conclusions

This is a management control system that captures the totality of critical success factors. It is forward-looking rather than backward-looking and future weaknesses are revealed, for example the Bank no longer looks at historical personnel turnover figures, instead employees are being asked whether they are considering leaving the bank.

What is truly interesting is that the Bank views the model as a tool for learning. By using the learning concept, the Bank is not striving to find a beginning or an end of the process; instead it stresses the importance of continuing the never-ending learning process.

“The work with the management control model has increased the knowledge of what are truly the critical factors for sustainable profitability and business success.”

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