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Barriers to customer-oriented management accounting in financial services

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Abstract *In the retail financial sector competitive pressure seems to challenge traditional management accounting systems, which often do not allow the identification of profitable customer relationships. Drawing on a stage model and data from management accountants, branch managers and frontline employees in Danish financial service companies, this article investigates barriers to the implementation of customer-oriented management accounting. The article documents how financial institutions are increasingly integrating management accounting systems with customer-related activities thus enabling customer profitability analyses. However, several barriers related to organization structure, resources and attitudes hamper further customer-oriented changes. Data gathered at the branch level strongly indicate problems of ownership and project sponsoring, and it is argued that new accounting systems may be less important to customer orientation than empowerment and goal-oriented participation of the frontline employees.*

Introduction

As in most European countries, the financial service sector in Denmark has been subject to substantial changes, which have challenged the structure of the sector and the stable earnings of most companies. Loyal and profitable customers can no longer be taken for granted and the gain from identifying and targeting profitable customer segments has increased. It has been suggested by both consultants and researchers that financial service companies should be more customer-focussed and that firms should develop customer-oriented management accounting systems. This seems, however, to be a difficult task and researchers within management accounting (Innes and Mitchell, 1997), marketing (Meadows and Dibb, 1998), and service management (Heskett *et al.*, 1997) have studied this.

Based on a comprehensive survey, this article provides evidence of the initiatives taken by Danish financial service companies to improve financial control and support a customer orientation. Further, the article shows how barriers to these changes were perceived by branch managers and front-line employees. The growing importance of this issue raises the interesting question of whether companies are improving their ability to relate customer-oriented

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initiatives to financial results. While only some of the largest Danish companies have introduced fundamental changes in their accounting systems, many companies are implementing changes that will enable them to identify profitable customer segments. However, the empirical results also show that more profound changes require the overcoming of several barriers related to organization structure, resources and attitudes.

The first part of the article discusses the idea of customer orientation and customer-oriented structure in financial services from the perspective of service management and marketing. Following recent research on the implementation of new accounting systems (e.g. Anderson, 1995) a stage model of barriers is introduced and is used to structure the empirical analysis. The second part of the article presents the empirical findings from the survey and related interviews. Finally, implications for practitioners and future research are suggested.

Customer orientation

The growing competition in the financial sector seems to call for a market orientation, but this is a broad concept providing no certain path to profitability. In this article the term "market orientation" is used to point to a corporate culture which includes not only customer orientation but also a focus on functional coordination and awareness of competitors' initiatives (Kohli and Jaworski, 1990; Narver and Slater, 1990). Increased profitability of the company's operations is the key motivator for adopting a market orientation, but this is not a guaranteed consequence as some organisational innovativeness may be needed as well in order to improve performance (Slater and Narver, 1995; Han *et al.,* 1998).

The fundamental customer orientation is typically reflected in the use of customer data in market responsive decisions (Kohli and Jaworski, 1990), for instance achieved through the alignment of organizational functions and control systems according to a segmentation of the customer base. However, very often registered data only allow segmentation based on simple demographic variables, and even when more sophisticated data are captured such data are rarely used effectively (Meadows and Dibb, 1998). Further, recent empirical evidence suggests that new management accounting principles such as activity-based costing (cf. Kaplan and Cooper, 1998) may facilitate the implementation of better customer profitability analysis in the financial sector (Storbacka, 1997; Innes and Mitchell, 1997) because these costing principles often provide a better allocation of indirect costs (IT-systems, marketing etc.) to the customer-related activities and further down to customer segments and distribution channels, thus enabling marketing departments to shift their focus from products to the integration of management initiatives such as service quality surveys and analyses of the services used by customers (cf. Hudson, 1994).

Both the service management theories of the 1980s and more recent literature have argued that quality at the service encounter pays (e.g. Grönroos, 1985, 1990; Heskett *et al.*, 1997), but there is a need to further analyse how

customer-perceived quality drives profit. Further more, these companies are challenged because they share the characteristic that they can achieve considerable economies of scale in their operations and at the same time they have to adapt to customer needs which traditionally has required branch offices to be located close to their customers. Customer orientation may relate to an empowerment approach, which focusses on employee participation by providing the frontline employees with knowledge, feedback, rewards and sufficient competence to provide high quality service to the customer (Bowen and Lawler, 1992). In the financial services sector there has also been moderate research evidence for the argument that empowerment and participation with appropriate supporting systems have a positive impact on performance measures such as service quality (Boshoff and Mels, 1995).

The balance between production line and empowerment approaches may depend on business type contingencies (Bowen and Lawler, 1992) and on the size of the company. As the Danish financial service sector shows a wide dispersion in the size of companies, it seems reasonable that customer orientation can be implemented and controlled in different ways. While the major companies do make an effort to shorten the distance between headquarters and the frontline employees in the branches and in the customer centres, e.g. by in-house training and customer surveys, the division of labour in financial companies remains characterized by differentiation between the staff at headquarters and the customer-oriented branches.

There may be good reasons for such a division of labour but it can cause problems when the customer contact is important for the marketing function (Chase and Tansik, 1983). The drawbacks may be a lack of knowledge-sharing between the employees in direct contact with customers and staff units' more remote relationship with the customers. This situation can be worsened because of professional rivalry between the banking and accounting professions (cf. Seal and Croft, 1997), for example. A more customer-oriented organization is likely to be supported by another organizational structure than the traditional functional division of labour in the headquarters. This may be done by dividing all the work primarily according to the activities' relation to customer types. The division between commercial and retail banking is often the first step, but in the future it may be supplemented by still finer divisions into customer segments (Kara and Kaynak, 1997). Thus, Meadows and Dibb (1998) argue that using better customer data will allow the banks to take initiatives directed at specific customer segments. Further, customer orientation will also be supported by empowerment at the branch level because frontline employees with appropriate decision-making authority are likely to provide better service quality (Flohr Nielsen and Høst, 1997).

Management accounting changes

Management accounting may be perceived both as a limitation and as a support for new customer-oriented initiatives (Berry, 1977; Storbacka, 1997; Meadows and Dibb, 1998). Generally, the success of new systems should preferably be evaluated in terms of their use in decision-making, though

researchers often rely on measures based on management evaluation of success (Foster and Swenson, 1997). In companies attempting to strengthen their customer orientation, the success of new management accounting systems should be measured according to their usefulness in decision-making both for the staff units involved in customer-related decisions and for the organizational units with direct customer contact.

A potential obstacle to the accounting support of customer orientation may be that accounting departments concentrate on budgetary control and cost allocation with other tasks being left to other departments. Typically, surveys of customer satisfaction are left to the marketing department, which on the other hand focusses less on the cost consequences of customer satisfaction. The same lack of functional integration is often found in business schools where researchers within areas such as service management, marketing and management accounting are often both physically and mentally separated. However, in recent years a number of researchers have done work in the interface between the disciplines. Storbacka (1997), for instance, has linked management accounting with marketing aspects in his work on profitability analysis and segmentation in large banks and other contributions include works by Foster *et al.* (1996) and Goebel *et al.*, (1998).

Another problem is that the same concepts tend to mean different things to management accountants, to the people in the sales and marketing departments and to the employees servicing the customers. For instance, Ratnatunga *et al.* (1988) describe how segmental analysis in marketing management may involve dividing the market on the basis of specific geographic, demographic and behavioural characteristics. Management accounting people, however, approach the same segmental analysis as an extension of a profitability analysis where the overall profit is built up segment by segment.

Within the marketing literature customer satisfaction is regarded as a key driver of financial performance because it increases the loyalty of existing customers, reduces price elasticities, lowers marketing costs, reduces transaction costs and enhances firm reputation (Reichheld and Sasser, 1990; Heskett *et al.,* 1997). However, the cost consequences of increasing customer satisfaction are very often not taken into account, although recent research (e.g. Foster and Gupta, 1997; Ittner and Larcher, 1998) has questioned the assumption that profitability will be maximized by maximizing customer satisfaction.

In the implementation of more market-oriented strategies it can be a serious obstacle for many financial institutions that the existing management accounting makes it difficult to determine the actual costs of serving specific customers or customer segments. Improving cost analyses will often require changes in the management accounting principles (Innes and Mitchell, 1997). Traditionally, management accounting in financial companies has been oriented towards products and departments with the financial performance of the branches as an important issue. However, a market orientation often requires analyses of customer profitability, which require cost estimates of the

company's activities across the traditional departmental boundaries, at least if activity-based costing is being applied. This in turn will often require more than just new accounting practices since organizational structures and managerial responsibilities will be at stake.

The accounting system is the backbone of a company's IT infrastructure, and even in a technical sense it is difficult to induce changes. Furthermore, the effects of change can hardly be fully understood without considering the organizational context, power structures and involvement (Markus and Pfeffer, 1983). Overcoming resistance to change through education, sponsorship and involvement has become a general theme in prescriptive theories on implementation (Cummings and Worley, 1997), just as research results have shown the importance of related behavioural and organizational factors for successful implementation (Anderson, 1995; Shields, 1995).

According to Argyris and Kaplan (1994) it is a *sine qua non* for the success of an implementation process that an inherent feeling of commitment and ownership for the project is created in the people whose behaviour has to be affected by the system. This is a learning process which must be characterized by technical insight, sponsoring and the presentation of incentives from the outset, and reaching the later stages appears to be especially related to clarity and consensus about objectives, implementation training, and nonaccounting ownership, i.e. ownership among departments outside accounting (Krumwiede, 1998). Further, the involvement of the target group in the operational units may be crucial.

This paper is motivated by the fact that many financial service companies are facing changes and that friction will be a dominant feature of these processes of changing existing control routines. We believe that the seeds of barriers to change in financial service companies can be found in organizational structures characterized by central staff specialists in key positions. Therefore the introduction of changes requires support by the management, clear and unambiguous strategies and decentralized participation. Consequently, the views of both the accounting managers and the employees of the branches must be taken into consideration, and their perceptions of barriers to improvements and an analysis of the differences in these views constitute the central issue.

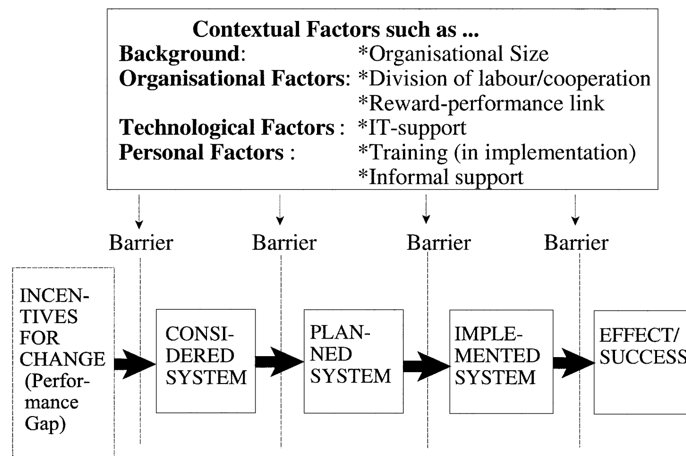
The analytical framework of the article, which is summarized in Figure 1, is an adaptation from Anderson's (1995) general factor stage model of implementation. The varying importance of the factors arising during implementation processes, from considerations about initiation to their actual outcome, is also supported in other recent research on the implementation of activity-based costing systems (Krumwiede, 1998). In our perspective there is a stronger focus on the use of customer-oriented aspects of the systems, whether they are based on acticity-based costing or other accounting principles. It is important to note that the actual barriers to improved management accounting are perceived differently from different organizational positions.

Generally, barriers to successful implementation are often related to organizational factors, such as lack of cross functional links, reward-

performance links, and performance measurement, and to personal factors, such as lack of implementation training and top management support (Anderson, 1995; Shields, 1995). In fact, recent marketing research points to similar barriers to market orientation (Slater and Narver, 1995; Harris and Piercy, 1999). In our approach we also examine other barriers of relevance to the sector's customer-oriented accounting (Figure 1).

When surveying the use of accounting information, respondents are often found in the accounting departments. In this article, however, respondents are both frontline employees, branch managers and accountants. This offers a more critical perspective of the need for sophisticated accounting systems. The accountants are typically staff professionals from the central offices and they may be biased towards a preference for top-down control, and when judging the success of customer profitability analyses, accountants may attach relatively more weight to technical criteria such as the proportion of costs allocated to specific customers, while branch managers may value the readable and up-to-date reports of relevance to their customer-related activities more.

Thus, the study involves three major research issues: are there important differences in the perceptions of barriers to improved management control between roles? And are there important differences between organizations, including different perceptions of barriers because the organizations are at different stages in the implementation process? The final research issue is more fundamental: does profit-oriented behaviour take place in the frontline without customer-oriented accounting? Instead of the positive term "determinants" of successful implementation (Foster and Swenson, 1997), we choose the negative term "barriers" in order to stress the explorative and diagnostic nature of our research. Basically, the study relies directly on the barrier perceptions of key persons as we use these words when confronting them with factors of potential relevance.



Source: Adapted from Anderson (1995).

Figure 1.
Stage model of implementation barriers

Methods and data

A nationwide Danish survey constitutes the main part of the empirical basis for the article. During the spring of 1998 questionnaires were sent to all banks, insurance companies and mortgage credit institutes with more than 30 employees. In the first part of the survey a pretested questionnaire was mailed to all the head offices of these 65 banks, 27 insurance companies and six mortgage credit institutes. In order to find well-informed and comparable respondents the accounting managers were identified in advance by phone calls to the companies. The second part of the survey included a randomly selected branch office of each of the 88 companies having branch offices. In each of these branch offices both the manager and a randomly selected employee performing retail-customer advisory tasks received a questionnaire.

A total of 62 per cent of the managers from the accounting departments, 59 per cent of the branch managers and 69 per cent of the front line employees answered the questionnaire, corresponding to an overall response rate of 62 per cent. Though response rates varied a little between available groupings according to job type, organization size and type, our non-response analysis only showed significant differences in the sense that smaller companies were slightly under-represented in the resulting sample.

Subsequently, a number of interviews were conducted. In the head offices of three of the largest financial firms that were at different stages of the implementation of activity-based costing, the chief financial officer and an employee responsible for the ABC-project were interviewed together. Further, interviews focussing more generally on the use of control were conducted at the regional and branch levels in one of the large banks as well as in two smaller banks. A total of 12 people at different levels in five different companies were interviewed.

The findings: actual changes

The survey (Table I) confirms that the financial service companies are changing their management accounting systems in order to trace resource consumption more accurately to final products and customers, or at least they are considering the improvement of conventional overhead costing practice. The leading Danish companies seem to be at a stage comparable to the leading UK companies in 1994 (Innes and Mitchell, 1997), while the smaller companies to a lesser degree find that they need more sophisticated management accounting systems. In our survey as well in the comparable UK survey, the improvement of customer profitability analysis was an important aspiration for most of the accounting respondents.

In the head offices the accounting systems are mostly used for budgeting and cost analysis (cf. Table II), with the ultimate purpose of controlling branches and departments. The majority of the accounting managers state that they are now able to determine revenues and costs of specific customer relationships (69 and 56 per cent respectively of the bank accounting managers). The survey results do not, however, indicate what kind of profitability calculations are being conducted by the financial firms, but from

Table I.
Systems in use and planned change

Stated by the accounting managers (N = 61)	Already in use (%)	In planned or considered systems (%)	Not considered currently (%)
Allocation of costs on specific customer relationships	10	47	43
Allocation of costs on specific activities	17	50	33
Decentralisation of decisions to the branch level	43	17	40
Better reporting to the branches on their costs	32	42	25
Better reporting on financial results	33	56	12
Better reporting on non-financial results	19	45	36
Quality management (setting service quality goals etc.)	18	44	39
Linking quality management and financial control	3	42	54
Customer profitability analyses	43	39	18
Use of Activity-based costing (ABC-accounting systems)	5	27	68

the interview with the accounting managers in the three large firms and from more informal contacts with other accounting managers, it seems that the percentages above reflect a very precise calculation of revenues and a much less "precise" calculation of costs because of arbitrariness in the cost allocation procedures. This suggestion is also consistent with the results in Table I, which show that improvements are considered in several respects, and with those in Table II which indicates that the companies' accounting systems do not seem to be helpful regarding cost reductions and customer profitability analyses, at least not compared to the activity-based cost systems of leading UK companies (Innes and Mitchell, 1997).

Though only 27 per cent consider the implementation of activity-based costing, 50 per cent are planning analyses which imply the attachment of costs to specific activities and 47 per cent the attachment to specific customers. In addition to the 43 per cent claiming that they have implemented customer profitability analyses, 39 per cent are considering doing so. The plans and considerations of quality management, non-financial reporting and even relating financial control to quality management may be the strongest indication of innovations in the near future. As expected there is a size effect in the sense that the managers of smaller companies are less likely to consider changes, probably because they do not perceive the same need for sophisticated formal systems.

A few Danish companies, though, find they have achieved good results in this respect. Thus, a senior financial officer of one of the largest banks described the use of customer profitability analyses as successful, but especially in the area of commercial customers. About 30 per cent of the costs which might be attached to the business customers are incorporated in the analyses in this bank. Profitability analyses concerning the retail customers lag behind and even in the big banks the analyses are described as simple with only a few costs being traced to individual customers.

In spite of differences across organizations, changes normally seem incremental and limited by the organizational responsibilities and role

	Accounting managers (32 < N < 60)		Branch managers (39 < N < 47)	
	Importance rating	Success rating	Importance rating	Success rating
Cost reduction	3.9	3.5	4.0	3.5
Output decisions	3.7	3.2	4.0	3.3
Cost modelling	4.2	3.9	4.2	3.6
Budgeting	4.5	4.3	4.3	4.0
New service design	3.2	2.9	3.8	3.2
Output pricing	3.4	3.2	3.7	3.4
Customer profitability analysis	3.9	2.9	4.1	3.4
Performance measurement and improvement	3.6	3.0	3.8	3.2
Customer ranking[a]	3.4	2.7	3.8	3.3
Measuring customer satisfaction[b]	3.2	2.7	3.6	3.2
Measuring employee satisfaction[b]	3.3	2.8	3.8	3.1

Notes:
[a] 36 per cent of the accounting managers stating that this is not a goal of their departments' systems are excluded
[b] 54 per cent of the accounting managers stating that this is not a goal of their departments' systems are excluded
Average importance and success rating: these ratings are computed from five point scales ranging from very important/successful (5 points) to very unimportant/unsuccessful (1 point) as in Innes and Mitchell (1997)

Table II. Importance and success of systems in use

perceptions of the accounting departments. Accounting for customer-oriented activities is simply not important from the perspective of most of these departments. This is reflected in the fact that several accounting managers in the survey report that customer-oriented purposes are outside the scope of their departments, not merely market research on customer satisfaction but also customer profitability analysis (cf. Table II).

Still, conventional divisions of labour are challenged in several companies, both in the sense of increased cooperation between financial and marketing departments and in the sense of more internal service provided for the branches. A more radical crossing of traditional departmental boundaries would probably imply further decentralization to the divisions and branches, which could get their own information and control systems. As the branches typically have only one or two employees occupied with accounting, budgeting and similar reporting tasks, there are obvious limitations to such initiatives. Nevertheless, six of the branch managers report that their departments have taken independent initiatives towards analysing customer segmentation.

Perceived barriers to change

The focus of the study is on the reported difficulties of changing the management accounting and control systems. It takes time before an initiative on a new system results in profitable behaviour, and many conditions facilitating data ownership and learning will have to be fulfilled. First, the

necessary recordings have to be made in order to obtain sufficient data. Second, the data have to be analysed and transformed into actual and understandable reports. Thirdly, these reports have to be used in decision-making processes, including decisions on customer engagements. The ultimate test of success is that it will improve profits.

This chain of effects can easily be broken. Many hours of work, computer resources and skills have to be put into the process to achieve results. Frequent barriers stressed in empirical studies on the implementation of new technology and new accounting systems are the lack of top management support, lack of education, conflicts between affected departments and poor computer systems (Anderson, 1995; Shields, 1995).

Many of these problems are encountered by our respondents as well. As shown in Table III, the accounting managers mostly ascribe the problems to

On the conditions in your company ... "What actual barriers to further improvements in the financial control do you perceive"	Accounting managers (N = 61) (%)	Branch managers (N = 52) (%)	Frontline employees (N = 60) (%)
Outdated IT	41	36	–
Poor computer-support-functions	42	36	–
Lack of support from the top management	5	26	–
Lack of support from the central staff	5	24	–
Lack of support from branch managers	5	11	–
Lack of support from the customer serving employees	3	20	–
Poor management accounting skills in the branches	18	34	–
Poor management accounting skills in the head office staff	24	22	–
Poor system implementation skills	25	29	–
Too much paper work at the front line	37	57	57
Unjust measurement of branch results	32	24	36
Weak links between performance measurement and decision making in the branches	32	24	36
Weak links between performance and different forms of rewards in the branches	41	48	47
Poorly utilized marketing research	26	38	46
Cooperation problems between departments in the head offices	14	22	–
Cooperation problems between the head offices and branches	7	18	26
Lack of resources in our department	37	33	49
No one outside the central accounting department will feel ownership for new reporting systems	31	24	28
No one to take the responsibility for line crossing projects	17	13	–
Poor service from the head offices to the branches regarding readable and up-to-date reports	–	29	35
Too little decision-making authority in our department	–	–	42

Note: Percentage "totally" or "partly agreeing" to the statements

Table III.
Perceived barriers to improved control

the computer systems and the weak link between results and different forms of reward at the branch level. Unreliable or "unjust" measurement of branch results also seems to be a problem in many companies.

Many of the answers get sharper when branch managers are asked. Thus, 38 per cent of the branch managers find that market research is poorly utilized and they more often perceive poor top management support and problems of cooperation. In these respects the frontline employees agree more strongly with the statements of Table III. Several of the barrier items correlated negatively with several of the success indicators mentioned in Table II, such as the use of customer profitability analysis reported by the branch managers.

In our bottom-up perspective on control issues we were especially interested in indications of poor information services to the branches. The branch managers were confronted with a statement of potential problems of poor reporting from the head office to the branches. As shown at the bottom of Table III, 29 per cent of the branch managers and 35 per cent of the frontline employees agreed that reports were not up-to-date and easily readable. This finding may not only reflect the lack of information systems which support the self-control of the branches in some companies, but in these companies it probably reflects problems with the use of control systems in general. Possible solutions are not necessarily more sophisticated centralized control but rather more self-containment. For example, major branch offices may do their own marketing research or make their own short term measures on sales performance.

Differences in the process of change

As accounting managers seem to be biased in their perceptions of implementation, as also noted by Krumwiede (1998), we relied on branch managers in an explorative analysis of differences in perceptions of barriers. This analysis showed only minor differences between banks and insurance companies and few significant differences due to the size of the organizations. But the change processes varied and characteristics of these processes were analysed in order to trace the possible causes of successful initiatives – and barriers to change. The main results of the quantitative analysis are shown in Table IV, which, in line with Table III, indicates the necessity of supplementing factors like management support, skills and performance-reward links – the three important factors in the study by Shields (1995). Further, there are additional barriers and moderators such as poor computer support functions, lack of resources and poor reporting service from the head office.

In a quantitative analysis the effect of participation can only be tested with caution, but correlations do indicate that participation has a moderating effect on more of the barriers mentioned. For example, the more branch managers are involved in the changing of the division of work, the less they perceive problems in the cooperation between branches and the head office. Similarly, fewer of those involved in the implementation processes perceive problems in feeling ownership of the reporting systems.

The participation and involvement of frontline employees may affect their customer-oriented behaviour, as indicated in recent empirical work on service quality in the financial sector (Boshoff and Mels, 1995; Flohr Nielsen and Høst, 1997). The effect on sales and profitability is undocumented, and a more visible effect in this respect would probably require other forms of participation than those traditionally used.

In some companies a more goal-oriented and comprehensive participation seems necessary in order to diagnose the company's specific barriers to improvements.

The companies were at different stages of the implementation of relevant systems and the perceived barriers varied accordingly. This was demonstrated in an analysis focussing on the implementation of customer profitability analysis (Table IV – last columns).

Comparing the perceptions of branch managers showed that in the early stages, when customer profitability analysis was merely being considered, the managers perceived a greater lack of top management support, branch management support and cross functional project support than did branch

Branch manager perceptions of barriers (cf. Table III) ($43 < N < 53$)	Organizational size	Participation in organizational change[a]	Customer profitability analysis		
			Not planned	Not implemented	Not successful[b]
Lack of top management support	–0.04	–0.20	0.20	0.29*	0.27*
Poor system implementation skills	–0.05	–0.18	0.14	0.17	–0.1
Weak performance-rewards links in branches	0.06	–0.34*	0.13	0.17	0.03
Poor computer support functions	0.12	0.26*	0.09	0.20	0.30*
Lack of branch management support	–0.07	–0.36*	0.39*	0.47*	0.27
Cooperation problems *in* the head office	–0.27*	–0.38*	–0.04	–0.01	0.16
Cooperation problems *with* the head office	–0.03	–0.36*	0.09	0.16	0.26
Lack of resources in our department	–0.19	–0.12	0.30*	0.35*	0.38*
No nonaccounting ownership of new systems	–0.02	–0.44*	0.12	0.16	0.11
No responsibility of line crossing projects	–0.22	–0.44*	0.11	0.20	0.14
Poor reporting service from the head office	–0.01	–0.33*	0.25	0.23	0.29*

Notes:
* $p < 0.05$
[a] The branch manager's involvement in recent organizational or technological or educational initiatives
[b] "Not successful": branch managers reporting "unsuccessful" or "very unsuccessful" or "both-and" (not "successful" or "very successful")

Table IV. Correlates of branch manager perceived barriers (Kendall tau b-correlations)

managers in companies actually implementing such applications. This result seems to stress the importance of "sponsoring" and "transformation" during the innovation process.

In continuing the stage analysis, we compared the branch managers who characterised the use of profitability analysis as successful with those who did not. The branch managers in "unsuccessful" companies were characterised by their frequent agreement on several statements on barriers: lack of management support, poor computer support functions, lack of resources in the branch offices, poor reporting from the head offices and in general problems connected with the cooperation between head office and branches.

All in all, these explorative analyses reflect the vulnerable nature of these changes. The appropriate use of a customer-oriented calculus is not achieved just because more information is available.

In the interviews with the accounting managers it was demonstrated that barriers did not necessarily stop the change process. Often the barriers merely restricted the use of new systems. The three companies engaged in the implementation of activity-based costing at different levels seemed to face different barriers, indicating that the importance of barriers varied through the process. The further the process had come, the more visible the attitude-related barriers became.

In the company which is still at an early "analytic phase", the lack of resources seems to restrict the progress of ABC-implementation. As the company lacks integrated computer systems, time and man power in the financial office, it is difficult to map the fundamental relationships which may lead to an appropriate ABC-model for the company.

In the second company the process has proceeded to a point where action plans are being made and they have begun to make actual ABC-calculations. In this case there seems to be a sufficient understanding of the relationships. A lack of resources is no longer considered as the main problem. Senior financial officers see the attitudes towards the ABC-model and its results as crucial to the continuation. They expect the link between performance measurement and the reward system to be a main factor in the creation of pro-ABC-attitudes of key persons. To prevent self-interest driven opposition and to create ownership of the system, a pilot project has been planned in which employees in selected target groups will participate. Either a pilot project is placed with "opponents" to coopt critical elements, or it is placed with "friendly" departments to better demonstrate the value of the system to other parts of the organization. In any case, political considerations may determine how the process will develop.

A similar pattern is found in the company with the most advanced ABC-applications. They have already provided the top management with *ad hoc* ABC-analysis, and senior financial officers in this company also stress the importance of the relationship to the performance and reward systems, the necessity of gaining sponsors, and the fostering of ownership by internal customers. At the late stage they have strongly experienced the barrier of common values rooted in this bank's tradition, and if the ABC-analysis

suggests decisions which are inconsistent with the value of being "a bank for all", the unpleasant decisions *vis-à-vis* unprofitable customers will not be carried out.

Both the survey and the interviews offer a clear picture of the attitudes and role perceptions of the senior financial officers. It is no surprise that they want more proactive roles towards the customer-encountering departments, for example as a "sparring-partner" or a "service provider". More surprisingly, they often see attitudes in their own departments as hampering such adaptations.

Changes in management accounting are mostly incremental, but the accounting departments have the latitude to test new techniques. As long as it is not necessary to hire external consultants or to draw on the service or time of other departments, it is possible to go far in the efforts to change control systems without the explicit approval of company management. Once they have got the right data, such as the time spent on different activities, it will be easier to go on to more advanced applications.

During interviews at the branch level the challenge and importance of empowerment (cf. Bowen and Lawler, 1995) became quite clear. For some years widespread decentralization has been accompanied by initiatives which have encouraged the development of more customer-oriented attitudes at the frontline in Danish banks (Flohr Nielsen, 1995). Now such attitudes seem to have developed further towards a more profit-oriented behaviour. At least some of the branch managers and frontline employees had great confidence in their own ability to make profitable decisions on customer relationships.

The balance between control and self-containment differs, but an example from a successful small savings bank following a service strategy focussing on personal customer relationships may be illustrative of the present control system challenges. In this bank the IT-systems' applications may support the frontline employees in analysing the individual customer's relationships and in deciding on conditions and interest rates, but the information system is not used for systematic customer segmentation and related profitability analysis. Considerable latitude is given to the branch managers, who are engaged in strong mutual competition. A branch manager expressed his opinion of the head office this way:

> . . . I am responsible for the bottom line result, but they are not going to meddle with the way I achieve it . . .

> [On segmentation of the customers:] We have discussed it in relation to [the new computer system], because it gives us even better opportunities, but we have chosen not to do so. But my claim is that in our daily lives we do it . . . we have made a harsh grading of our customers . . . I do not want us to spend time on [the unprofitable group of customers] . . . But none of this takes place very systematically.

In fact, it is hard to find any boundaries for empowerment in this organization. Both the manager and his front line employees often go outside the bounds of their formal authority. The control is mostly on output, and employees at the head office have to demonstrate their value before their support is requested.

For example, the central marketing department is not used in the marketing of home banking. The branch manager relies totally on marketing through frontline employees and word-of-mouth communication between customers.

Conditions are different in the large bank in our study, though a considerable degree of empowerment is found here as well. A frontline employee characterizes the computer system as both sophisticated and supportive. Furthermore, customers are graded according to their need for service, and from the central offices instructions are sent out in order to secure unified customer service nationwide. Many marketing initiatives are initiated by the central marketing department, for example direct marketing in the form of personalised letters to the customers.

The initiatives towards improvement in the accounting and marketing interface in this bank are supported by structural changes in the head office, where the organization is now more structured according to product and customer characteristics. Further, the bank has recently taken initiatives in order to develop management systems in accordance with a stronger orientation towards the creation of shareholder value. The gradual implementation of activity-based costing and a segment profitability model, making the control of profitability more visible, may be seen in this light. But, still, it can be a long way from central shareholder-value-based initiatives to decision-making consequences at central, regional and local levels.

Discussion and concluding remarks

This study provides evidence of several barriers which have to be overcome before more customer-oriented management systems can be successfully implemented in financial service companies. It also indicates some differences and even some ways of making improvements.

The development of ownership and sponsoring seems to be crucial if comprehensive changes are intended (Argyris and Kaplan, 1994). In our study this is reflected in changes in control and organization in general and in the use of activity-based costing in particular. Though it is not until the later phases of the implementation that the importance of ownership and sponsoring becomes visible, the foundation is laid at an early stage.

The study paid special attention to activity-based costing because these systems are considered a viable way to obtain a more relevant allocation of costs, thus helping companies to trace profitable activities and customer relationships. In the few companies actually using ABC-systems, the first steps of implementation seem to be easily made by the accounting departments, but involving other parts of the organization in system use is the difficult part. This finding is in line with other studies (Shields, 1995; Friedman and Lyne, 1995). To link these systems to performance evaluation, including customer-perceived quality, is a future challenge to practitioners in financial companies, but our study indicates that the issues are now being taken into consideration.

Practitioners' decisions on these issues have to balance the benefits of incremental change of accounting systems with the power of change including other educational, technological and structural initiatives. If customer

profitability analyses, for instance, are to play a more vital role, only small adjustments are likely to be needed as regards data. Generally, though, the way in which the employees at the branches participate has to be developed in order to improve customer-oriented decisions. The use of diagnostic surveys allowing the comparisons of relevant barriers to improvements may be one way.

The findings of our study are in line with other studies of the implementation of new accounting systems, as well as a market orientation, but introducing a branch perspective provides further insights into the difficult process of achieving performance at the service encounters in financial service companies. The path to performance through integration of customer-oriented activities in accounting systems demands the overcoming of barriers such as lack of top management support and lack of participation at the branch level. Our branch data stress the importance of considering the scarce branch resources in this respect. If the path mainly goes through empowerment, our study suggests that an important research question is how to provide branches with sufficient information to control themselves. Our data point to better use of customer surveys and better information services provided from central offices.

Our study introduced some methodological rigour in the selection of respondents who represent three levels in the organizations, but within their respective levels they can be considered as very homogenous and comparable units. The findings, then, are of particular relevance to the financial service sector and other sectors characterised by semi-standardised tasks and dispersed customer-related offices. As the study is limited to organizations within a single country, the findings may also to some extent be specific to this particular context with an extensive branch network and a Scandinavian tradition for participation. However, it should be noted that the companies' new accounting applications are shown to be at an implementation stage and to follow an implementation pattern comparable to UK companies. Similarly, recent studies have shown that market orientation in US and Scandinavian companies may be explained by the same framework, despite lower scores on market-based reward systems and on interdepartmental conflicts in the Scandinavian companies (Selnes *et al.,* 1996).

Still, future theoretical developments are needed. Customer orientation is a complex topic, involving several behavioural and structural aspects (e.g. Grönroos, 1990; Kohli and Jaworski, 1990; Han *et al.,* 1998), but a customer focus may be achieved by devoting special attention to the service encounter. We took a first step in making an empirical examination of organizational barriers without bias towards top-down control. But how can empowerment at the frontline be consistent with central initiatives on control and technology? What if high-performance branches obtain their results without the support of the head office's information systems? To answer such questions we suggest a more thorough treatment of organizational issues which is not restricted by

attention to specific tools. Relevant perspectives on management accounting and customer relationships have to take into consideration the new enabling technologies and the new organizational context in general.

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