Editorial

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This issue may appear, to some, to be breaking new ground. Because it is looking, in two quite different ways and in two very different spheres, at the pernicious effects that fraud and corrupt practice are likely to have on business as a whole.

At first sight, I would have to agree. Questions about business ethics and corrupt practices belong in journals about Business Ethics and possibly, security. Human Resources, even, as bad employee practice may be traced back to poor recruitment and a poor or corrupt business ethos within the workplace.

What has this to do with CRM? With database marketing? That was the question I asked myself when first I was presented with these papers – and the answer, at least partly provided by the second, is much the same as the answer to any issue that is focused on corporate culture: it matters.

It matters because the culture that prevails at the top of an organisation tends, always, to percolate downward and through. We recognise this when talking about change programmes: without senior management, and preferably Board buy-in, almost every change programme is destined for failure.

Worse, where the Chairman and Board of Directors promote values that are disrespectful of the customers they are meant to be serving, this too is noticed and has an effect in terms of customer experience. Many years back, I evaluated the customer experience provided by a major UK company with a ‘mixed’ network of technical support. That is,

it was mixed in the sense that one half of the support was provided by company employees, the other half by contractors.

The very first thing I was told, when talking to company management was how poor and how lacking in commitment to the job were the contractors. I then spoke with a number of contractors. They, in turn, told me how bad the employees were. Both ‘sides’ had tales to tell of how they had been called out to assist customers whose equipment had been poorly installed – and both sides, on arrival, tended instantly to blame the other.

If an employee, they would discuss the matter with the customer and suggest that ‘they must have had a contractor round, because the installation was not working’: if a contractor, the blame for any poor installation was laid on an employee.

That may have felt satisfactory for those tasked with doing the installation: it gave them instant kudos in the eyes of the customer, instant rapport. Against that, however, research of what customers thought of the company’s service record was highly revealing: in general, the company was regarded as poor and lacking in competence.

That view did not reflect the reality, as most of the engineers sent out to do installations and upgrade equipment were highly competent. However, every day, at hundreds of different customer touchpoints across the country, workers from that company were projecting to customers a simple self-destructive message: at least half the workforce are incompetent.

Worse, that attitude was actively fostered by workforce management, with those responsible for different groups (employees and contractors) maintaining hostilities and disrespect for one another at internal meetings as well.

Customer relationship management is absolutely about managing the relationship: about ensuring a match between product and customer; and making sure that that match is offered profitably and appropriately to the customer group concerned. At the same time, a central component of CRM must be the customer experience, which is delivered in dozens of different ways every day: how a company's call centres interact over the phone; how easy it is to complain; how complaints are dealt with; how service staff project the company values.

That experience is also projected by means of broadcast media. What senior managers say about their own company counts: in this context, a prime example is the gaffe made by Ratners Chief Executive Gerald Ratner, when he publically stated – as what he then thought was humorous comment – that his company was able to offer jewellery at low prices because it was 'total crap'. The effect of that comment on his company was disastrous, leading to a devaluation of the company's stock market value by almost half a billion pounds.

What companies do counts: BP has recently faced serious problems, both politically and in terms of public perception following the Gulf of Mexico disaster in 2010.

In addition, how company executives act also counts: it does not matter what a company's stated values are; it is essential that executives 'walk the walk', delivering on promises, as opposed to merely promising to deliver. Where executive action is wholly or publically at odds with those values – and where actions are so far removed from what is acceptable that they make news headlines, then that raises serious issues of trust and acceptance for the company as a whole.

Even if the executive's actions are not themselves disastrous, they create a public relations problem: an issue of trust and confidence in the company's underlying probity that will lead customers and potential customers to be unwilling to do business.

First off in this respect is a good basic examination of the issues of fraud and the way in which they interact with the media in a paper from Nousheen Bhutta. Ms Bhutta reviews the outcomes of four well-known cases of Bank fraud: Daiwa Bank in Japan, National Australia Bank (NAB), Barings Bank, based in the United Kingdom, though extensively trading in the Far East, and Allied Irish Bank (AIB)/AllFirst.

There are remarkable similarities between these cases. In each, a single rogue trader or group of traders began to make seriously flawed trading decisions. Rather than admit to their mistakes, they believed they could trade their way out of trouble: all they needed was time without senior management intervention and they would be able to make right the errors they had committed already.

As part of their 'solution', they began trading in ways that were ever more risky and, as these methods failed, ran up greater and greater debts for their employers. What may appear incomprehensible to many members of the public is just how much debt these individuals were able to run up before anyone noticed and put a stop to their activities.

At Daiwa, the total reported cost of rogue trading was US\$1.1 billion, with a fine levied later by the US Federal Reserve of \$340 million. NAB lost Aus\$360 million: Barings lost almost £1 billion and was forced into liquidation; AIB lost c.\$700 million.

In each of these cases, problems were both systematic and values-driven. Systematic failures were identified after the event in terms of the degree of independence granted

to individual traders, their ability to monitor their own trades, and failures of accounting and auditing processes. However, behind these lay another more inconvenient truth: these traders were allowed to continue because those at the top of the organisations liked the revenues that were supposedly being generated – and preferred to risk some degree of impropriety in dealing rather than paying too close attention and risking the loss of these revenues.

Over-strict controls can cramp the style of creative business people and entrepreneurs: but a balance needs to be struck between freedom to prosper and necessary controls; and in each of these cases, greed from the very top was the downfall of these organisations.

As antidote, the paper suggests that some steps – such as more formal auditing and Corporate Social Reporting might help reduce the possibility of such occurrences in future. However, the fundamental issue remains: where the corporate focus is on profit or revenue at ‘any’ price, some individuals will always interpret that as license to take ‘any’ steps to deliver.

The second paper, from Professor Merlin Stone and Michael Starkey explores a different aspect of corruption. In this case, the corruption they are concerned with is academic fraud – particularly in the business sector within universities, which is where the managers and leaders of the future may be expected to emerge from.

The argument contained within their paper is subtle and picks up on several strands, as well as illustrating issues by reference to cases. The difficulty, as they see it, is that although Universities publically reject the idea of students ‘cheating’ or defrauding the degree system, behind the scenes there is collusion, to a greater or lesser degree with tacit University encouragement of approaches by students to ‘conform to process’ or take whatever action meets the bottom line requirement, which is to obtain a degree.

Although the domain is very different from the financial services sphere, the underlying problem is not dissimilar to that faced by banks. Universities need more than ever before to be meeting stringent financial targets in order to survive. These are represented in the real world by means of reputation (research and numbers of students) and continuing income streams.

There is a trade-off between these two: lower standards too far and it becomes impossible to recruit students. However, make it too difficult for students to progress and a parallel problem results: fewer students will apply to a ‘difficult’ university for a ‘difficult’ course, because they fear being failed; and some courses may, in turn, have to be cancelled because of insufficient student numbers.

Therefore, in the course of research around this issue, of which only a proportion is published in this paper, Stone and Starkey have looked at the process as well as the underpinning values, both stated and implicit. They conclude that increasingly there is pressure to achieve course milestones (up to and including the degree) as opposed to receiving a high-class education.

Universities are imposing a tick-box mentality on their customers/students, which leads and encourages individuals to view the world as a series of discrete, disconnected achievements, as opposed to a unified body of knowledge.

The authors then go on, as academics with a long track record in researching and writing about issues of CRM, to analyse the effect such an approach has or is likely to have on the student customers. What behaviours does such a culture encourage? What reactions does it bring forth? Most importantly, what implicit values does it communicate to future managers?

As the authors observe: ‘If students face increasingly poor quality in higher education, and duplicity in the discourse about the reasons for this poor quality, what will they expect of the large

organisations that many of them will work for later in life. How will they behave as customers or employees of these organisations, whether in the commercial or public sectors? How should they cope with this when they are students? Will the coping behaviour they learn be transferred to their lives as employees or customers?’

From the other side of the equation, the authors suggest that it is important for managers, particularly those working in industries and markets where trust is important to understand the experience their customers or employees might have gone through as students, and how this may have socialised them in respect of the world of achievement, appraisal and the relevant ethics.

The bottom line here is: if students learn that there is a disjunction between the evaluation process and the real outcome on a task, then they are likely to transfer that into the world of work. This transfer is likely to happen in a number of ways.

They will be focused on achieving targets set, even where those targets do not necessarily contribute to real business success or customer satisfaction: and they will, as managers, tend to pass on such an approach to their own staff and junior managers.

This is a recipe for failure – and reflects a reality that many consultants and auditors have observed over the last couple of decades, of businesses taking great pride in their ability to conform to government-led or academic standards, and failing to

understand why they are not prospering commercially, even though they are scoring highly on balanced scorecard and similar approaches to business monitoring.

Business culture is, thus, very much an issue of concern to CRM: business probity even more so.

Those businesses that espouse high values are far more likely to see those values recognised by customers and reflected back to them through positive customer experience and a degree of trust that means they are able to put propositions before their customer base that less trusted organisations might find difficult to promote. There is a trust premium that high-class businesses can exploit.

In the same way, there is a cost associated with lack of trust.

Low values, values based on a narrow focus on revenue and values based on disrespect for customers will be reflected in how a business trades: customers will understand that, and therefore be that much less likely to trust – or do business with – companies and organisations in such a position.

As Stone and Starkey demonstrate, this is not some temporary phenomenon: it starts at the very beginning, with managers learning to be managers, and managers developing attitudes in an increasingly fraudulent academic system.

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