EMPLOYEE PERFORMANCE-REWARD AND THE CLIENT RETENTION IMPACTS OF TRANSFERRING BUSINESS CLIENTS BETWEEN DEPARTMENTS AT A CANADIAN FINANCIAL INSTITUTION

by

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Abstract

Client satisfaction and thus retention are key drivers of future financial performance in any service organization. This paper examines a specific case wherein the existing criteria and process for the transfer of business clients between two departments in a particular Canadian Financial Institution, and its associated employee pay-for-performance structure, puts at risk client satisfaction and impacts employee motivation. This situation arises because determining factors governing which department manages a given clients needs are based on profitability and an arbitrary dollar amount ($250,000) of borrowing. Through application of existing literature related to client satisfaction and pay-for performance structures to data on transfers which took place in 2009, and measures of performance for roles involved in the transfer, a linkage is drawn illustrating why the current process is flawed. This is mainly because direct client contact is largely absent and employee motivation is unbalanced. Since these flaws arise as a direct consequence of a new organizational structure within the institution, one simple solution is to return to the previous operational strategy of delivering service to business clients within a single department. Should the Financial Institution choose not to follow this recommendation, five remedial steps within the current process are proposed. By following these steps the Financial Institution will experience increased client satisfaction and retention, and employees negatively impacted by this process will experience increased job satisfaction.

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Executive Summary

Client satisfaction and thus retention are key drivers of future financial performance in any service organization. As such service organizations must structure processes and procedures in all activities to ensure that they will sustain satisfaction and thus retention of clients; however, ancillary factors such as employee's motivation can impact the results.

This paper examines a specific Canadian Financial Institution wherein the existing criteria and process for the transfer of business clients between two departments - and its associated employee pay-for-performance structure - puts at risk client satisfaction and impacts employee motivation. Here the following three questions are addressed: (1) Is there a problem with the way the current client transfer process measures revenue? (2) What are the implications of transfer to overall client satisfaction? (3) What are the motivational implications of transfer of clients to employee involved in the transfer process?

Fundamentally, the client-financial institution relationship is fragile, even when preceded by a long and satisfactory relationship; as such, this relationship can be terminated through poorly executed transfers. Previous research has shown that effectively managing client transfers between account manager's increases client satisfaction, and this means that understanding the essential activities within the process that drive a client's satisfaction are critical to client retention. Research also showed that a necessary activity for successful transfers between account managers is personal contact. As such, lack of personal contact will decrease satisfaction. Because pay-for-performance structures are effective tools for employee motivations, it is critical that they are structured to support the necessary activities which will drive client satisfaction.

In an attempt to answer the questions posed an analysis was completed. The following is a list of the areas of analysis: (1) a review of data arising from the transfer of clients who moved to Small Business from Commercial Financial Services in 2009; (2) analysis of the revenue impact of the transfers; (3) a review of the transfer process; and (4) a evaluation of the performance measures by roles involved in the transfer process. Of the clients that were transferred Small Business only a small percentage (32%) received proactive contact. As contact from the Financial Institution is an essential activity when transferring between account managers, client satisfaction will suffer. When the revenue impact of the transfers was computed it was possible to conclude that there was negative impact to a department's year-end financial results. The magnitude of this impact however was dependant on factors such as the dollar amount of the year-over-year revenue and the dollar amount of year-over-year growth in market contribution. The transfer process was analyzed in order to determine what processes the Financial Institution has in place to manage the transfers. A review of performance measures identified a lack of alignment to the transfer process; pay-for-performance is an effective motivator - and the transfer of clients from Commercial Financial Services to Small Business impacts performance results both positively and negatively depending on the role – as such, is little motivation to ensure the transfer of clients as defined by the guidelines.

Since these flaws arise as a direct consequence of a new organizational structure within the institution, one simple solution is to return to the previous operational strategy of delivering service to business clients within a single department. Should the Financial Institution choose not to follow this recommendation, five remedial steps within the current process are proposed.

1. Change the way that revenue is reported within the Financial Institution for clients that are transferred between divisions.
2. Prevent clients who should not be transferred between departments from being moved.
3. Increase Small Business lending thresholds to build in the flexibility required to meet client needs.
4. Implement automated notification to Small Business when clients are transferred to ensure that these clients receive contact.
5. Create a reporting system which tracks all movement of all clients between departments regardless of year-over-year revenue change.

By following these steps the Financial Institution will experience increased client satisfaction and retention, and employees negatively impacted by this process will experience increased job satisfaction.

1. Introduction

1.1. Problem Overview

There has been discussion and interest at a Canadian Financial Institution (Financial Institution) regarding the current system in place when transferring clients from their Commercial Financial Services (CFS) department to their Small Business Financial Services (Small Business) department and from Small Business to CFS. The Financial Institution has reported that Small Business employees involved in the transfer say that changes should be made because of the negative impact on their individual year-end performance results. There has been no analysis of data to prove that there is a significant impact to year-end results. If there is a primary problem with the transfer process, it is because of the way that revenue is reported; and this, in turn, impacts the department's year-end financial performance. This primary problem then leads to secondary problems which require analysis. Based on the current structure of the transfer process the following questions will be examined:

- Is there a problem with the way the current client transfer process measures revenue?
- What are the implications of transfer to overall client satisfaction?
- What are the implications of transfer of clients to employees; specifically to Account Managers and Sales Managers? If the transfer of clients leads to poor year-end performance results, what are the employee motivational impacts?

The transfer of business clients between two departments whose profit ultimately contributes to the results of Canadian Banking operations should be a straightforward process; however, due to technology issues, Financial Institution policies, and employee performance measures and existing reward systems, problems arise. The Financial

Institution has divided the delivery of services to business clients depending on the total amount of loan business that they have and the resulting revenue that is generated.

To determine the scope of this review the problem must broken out by who and what are impacted. Clients are impacted in the transfer process because of a change in account managers. Employees are impacted based on the reward system that is in place. Therefore literature will be reviewed relating to (1) account manager change and associated drivers of client satisfaction and (2) structures and characteristics of effective reward systems and pay-for-performance reward systems that affect employee motivation. To address these questions an overview of the Financial Institution will be presented. This will be followed with an overview of existing literature related to account manager turnover, client satisfaction, effective performance systems and pay-for- performance systems. Both quantitative and quantitative analysis will be carried out to identify where problems within the current structure of client transfers exist. Finally recommendations will be made to improve the current process.

1.2. Financial Institution Background

The Financial Institution being reviewed is divided into five distinct business units: Canadian Banking, Wealth Management, Insurance, International Banking and Capital Markets. The company's current structure of five operating units is the result of a recent company transformation. Previously, according to Bigsby and Ready (2007), the company "was a collection of autonomous business units." When the current CEO looked for growth opportunities a new strategy was adopted; namely, if the company "could strengthen cooperation among various units they could enhance customer loyalty and generate new revenues." (Bigsby and Ready Autum 2007) This led to the formation of their current vision:

Always earning the right to be our client's first choice. This vision drove a cross-enterprise collaboration that ultimately resulted in the current organizational structure.

As this organizational transformation continued, there was a desire to align its clients to what was determined to be the home of best fit. As a result changes occurred regarding which department would fulfil the need of business clients. Prior to the changes taking place, the Financial Institution served business clients though one department, CFS, while personal clients were serviced through Personal Financial Services (PFS) (figure 1).

Figure 1 – Organizational structure prior to change – business clients served by one department

Within CFS, business clients were served either by a relationship account manager or a responsive account manager. A responsive account manager can best be described as someone who is not proactive with client contact. In most cases the responsive account manager met client's needs as they arose. A client would determine that they needed a product or service and the responsive account manager would fulfill the request. As borrowing and deposit needs became more complex clients were moved to an account manager who would begin to manage the relationship.

After the organizational change Small Business clients began to be serviced through either PFS or Small Business Financial Services (SBFS) and all other businesses clients were served through CFS. All small business clients regardless of whether PFS or SBFS meets their needs, in this paper they are considered Small Business clients. Figure 2 illustrates the current organizational structure and shows which department now manages the client relationship. For those familiar with banking, it would appear that the new organizational structure would best meet the client's needs as many Small Business clients do not require complex solutions therefore may be better served by PFS or SBFS.

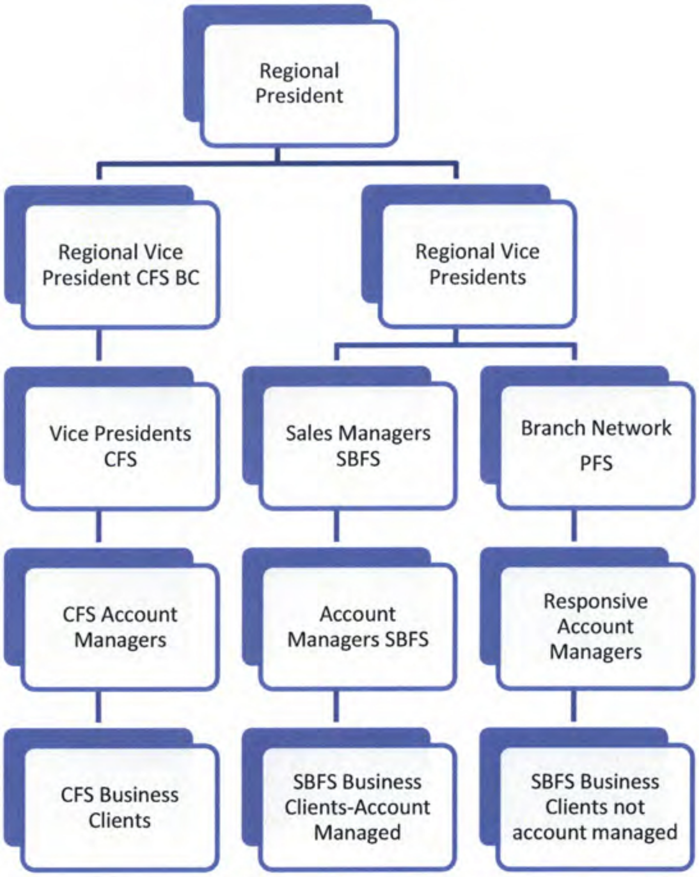

Figure 2 – Current organizational structure – business clients served by two departments

Figure 2 shows that, business clients may be served by Small Business or CFS; the following lending/borrowing limits determine this relationship between client and the Financial Institution. Typically, if a client has less than $100,000 in borrowing, then they are a Small Business client whose borrowing needs are fulfilled by a centralized group of responsive business lenders available by telephone. All other needs are met by responsive account managers within the branch network. If a client has more than $100,000 but less than $250,000 in borrowing, then they are an account managed Small Business client and their borrowing and investment needs are fulfilled by a Senior Account Manager Business and Personal (AMBP). Finally, if a client has more than $250,000 in borrowing, they then must deal with CFS. Figure 3 below shows the typical limits and types of clients serviced by each channel. These are Financial Institution defined criteria based on a client's borrowing level, which determines who will service a client's day-to-day needs. There are exceptions to these limits based on client type, complexity and product as these are only available within CFS. The exceptions are:

- Not for profit businesses with credit needs > $100,000
- Clients unwilling to provide a personal guarantee for borrowing
- Clients owned by an incorporated company
- Clients with commercial mortgages

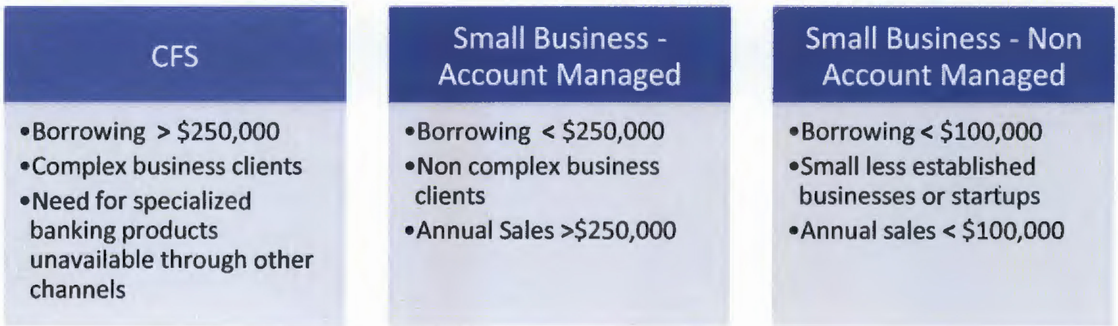

Figure 3 – Business client service channels – the figure shows how the delivery of service is determined

Due to this three tiered structure, clients are moved between platforms, depending on their business needs changing. It is this move where the perceived problems exist. The move of clients from Small Business to CFS and vice versa should be thought of as a linear move, based on need, rather than an upward progression within the Financial Institution.

1.3. Identification of Clients to be transferred

There are a different ways that clients can be indentified to move from the Small Business and CFS platforms. The most common way a client is identified for movement is that their borrowing needs change. As stated previously once a clients borrowing needs grow beyond the $250,000 threshold they must begin dealing with the CFS department. A client may or may not have been account managed prior to the move however moving to CFS requires that a client will be account managed. Another reason that a client will move between departments is that their specific banking need is not able to be met within SBFS as some products can only be offered through CFS. The final reason that a client will be moved to CFS is as a result of a report produced quarterly which identifies clients that might be better served within a different banking platform.

This report is called the Client Relationship Alignment Tool (CRAT). The CRAT identifies clients who may be better served under a different banking platform. The data that the CRAT analyzes to identify clients who could move from SBFS to CFS is: the revenue the client generates the client's average deposits and finally the estimated sales of the company. If the revenue is greater than $9,000 and/or the average deposits exceed $100,000 and/or the company has sales of greater than $1 million it is identified to move. When the CRAT identifies a potential client to be moved from CFS to Small Business all of the following criteria must be met: revenue is less than $5,000, borrowing is less than $250,000, average bank deposit balance is less than $100,000 and estimated sales are less than $1,000,000. The CRAT is programmed to exclude clients who have any products that any products that are not eligible outside of CFS.

When clients are identified to move from CFS to Small Business it is typically because the client's total business with the Financial Institution, both deposits and borrowing, has decreased. As their needs become less complex clients the Financial Institution has determined that the clients do not require or justify the specialized services offered through CFS.

There are substantial differences between CFS and Small Business the most significant being cost and specialized advice. CFS account managers offer a very specialized service, many are specialists or experts in various industries and as a result can offer significant value added advice. With this value added advice however comes cost therefore the cost for a client to deal with CFS is significantly greater than it is with Small Business. Another significant difference is that if a Small Business client has a relationship account manager this manager will also deal with the business clients personal banking needs.

As a result of the difference between CFS and Small Business the Financial Institution created guidelines to manage the change of platforms as it occurs. When a client in CFS has been identified to move to Small Business there is supposed to be an agreement between the departments that the transfer should occur. Upon reaching an agreement that the client should be moved there are role specific guidelines to ensure that the process happens smoothly in order to retain the client relationship. Consistent with all roles is the requirement that all clients be contacted by their existing account manager to discuss upcoming change of account management. The most important issue outlined by the Financial Institution is that the client has to agree to the transfer. Without the client's concurrence, the transfer will not take place. Situations have arisen whereby clients were transferred from CFS to Small Business without such an agreement, and then immediately transferred back when the report was produced. In these situations Small Business would not have an opportunity to make contact with the client because at no time would anyone from Small Business have knowledge that the client was transferred to them until the report was produced. These situations will be removed from the analysis. A discussion of why these situations exist will be discussed in section 4.4.

1.4. Revenue Recognition

Revenue is the root cause of the perceived problem. Because the Financial Institution is a goal oriented organization each role has specific goals that are measured to determine overall performance. Therefore what are the implications of the transfer of clients between platforms in terms of revenue? When a client transfers from one department to another, because of how the Financial Institutions accounting systems work all of the information related to revenue generated by the client both in the current year and in the previous year transfers with them.

1.5 Client Transfer from Small Business to CFS

When there is movement to CFS it is because there is an increase in business needs and as such an increase in revenue. Overall for the Financial Institution this is a desirable situation however from the Small Business perspective problems arise. The client transfer creates a situation in which the revenue generated by the client which contributes to Small Businesses results drops of the financial performance reports. Any revenue growth that had accumulated year-over-year essentially disappears from Small Business. This revenue growth would have contributed to a favourable performance rating for certain roles in Small Business.

Once the transfer between the departments occurs and the client is attached to CFS the financial history of the client is transferred. Due to revenue following the client, the immediate impact to CFS is that with the year-over-year revenue growth there is an immediately benefit. Thus the transfer has no negative consequences for CFS rather a client is only going to be moved to their platform and the revenue that they generate increases.

1.6 Client Transfer from CFS to Small Business

When a client transfers to Small Business there are again issues arise relating to the recognition of revenue. Typically when a client is transferred to Small Business from CFS it is because there is a reduction in the total business needs and as a result the revenue the client generates. The impact is as follows CFS is able to restate the revenue. Restating revenue means that CFS is recording the appropriate amount of revenue in order to properly reflect year-over-year revenue figures. By ensuring that revenue is reported correctly restatement attempts to make sure that performance ratings are accurate for the account manager at the end of the year. This is done so that the account manager still is accountable for the decrease in revenue up to the point that they ceased their relationship with the client.

When Small Business receives the client that was transferred from CFS all of the revenue that the client is generating follows that client. Therefore in most cases the year-over-year revenue will be negative. There is unfortunately no ability to restate the revenue of the client when it transfers. This leads to the problem that small business is being penalized for the decrease in revenue year-over-year.

2. Literature Review

The following literature review will examine existing research to address the following questions: what are the implications of transition from one account manager to another to overall client satisfaction? Conversely, what are the implications of such transition for employees?

2.1 Account Manager Transfer

Account manager *transfer* refers to the movement of clients from CFS to Small Business and *vice versa* is a move between departments. When this transfer occurs, there is always a change of account manager. Clients end a relationship with one person and begin a relationship with another. No such research, that I am aware of, exists on account manager transfer. Studies have however been completed regarding account manager turnover. Therefore, it is possible to use the research and studies that have been completed on account manager turnover and apply the findings to clients being transferred between departments.

Madill, Haines Jr. and Riding (2007) examined account manager change and its effect on clients, focussing on how satisfaction of customers is impacted by account manager turnover (p. 241). Importantly, their study, was completed in Canada, where the structure of financial institutions is national in scope with branches spread throughout the country. This structure results in high turnover rates within institutions as employees have many opportunities to move to other roles than they would if the financial institutions were community based (243). This particular study proved that levels of client satisfaction did not decrease in the event of excessive account manager turnover if the turnover was managed well. If, however, that same turnover was handled poorly, customer satisfaction decreased and the possibility of losing the client was elevated (241-242). In their study, business owners were divided into two groups; those that had experienced account manager turnover in the past three years (56%) and those that had not (44%). Within the group that had faced account manager turnover, 61% of them had dealt with two account managers, 29% had dealt with three account managers and the remaining 10% had dealt with four or more. Their results showed that the group in which account manager turnover was handled poorly, had rated their overall satisfaction the lowest (5.49 out of 10). The group with the highest overall satisfaction with their financial institution was the group that had experienced turnover when it was well handled (8.33 out of 10). Finally, the group with no turnover had a satisfaction level of 7.44 out of 10.

Madill, Haines Jr. and Riding (2007) drew no conclusions regarding the factors that drove a poor experience when the cleint had account manager change. However, through follow up interviews, they found that frustrations occurred when new account managers needed to be educated about client's businesses (245). Additionally, those that did participate in the follow up interviews indicated that one of the critical aspects of successful account manager turnover is *personal contact* during the change period (243). No indication however was given as to whether or not they were referring to the old account manager contacting the cleint in relation to the transfer or to the new account manager making contact. Madill, Haines Jr. and Riding (2007, 245) did quote one of the respondents as follows,

> "I don't think there is enough personal contact with people that are lending you the money. I think I had a total of 4 or 5 account managers at the bank I dealt with first...I would get a letter from the saying, your new account manager is so-and-so but there was never any personal contact."

It is this statement that allows the conclusion that contact - whether it is from the old or new account manager - must be personal rather than in the form of a letter.

All financial institutions provide the same core products to their cleints; therefore, it is necessary to differentiate their products in other ways. As such one way to differentiate financial institutions is service. Perrin and Ricard (1995) examined relationship marketing in a number of financial institutions and their business banking customers. While their study focussed on relationship marketing, additional findings around account manager turnover were uncovered. Their research was completed in Canada and they interviewed 28 bankers, both managers of commercial banking branches and account managers, and 19 companies within the community. They acknowledged that the response rate of solicited business was small (32%) which, according to them, was not surprising given that investigations into banking practices is somthing that people are uncomfortable discussing. In this particual study they found that bankers interviewed indicated that a way to improve the effectiveness of a relationship strategy was to reduce turnover. This, however, was the opposite of what the business clients indicated. Business clients did not percieve account manager turnover as a threat the quality of the relationship. Furthermore, customers actually indicated that turnover of account managers was a positive experience if they were not satisifed with the relationship that existed with their previous account manager (41).

Both of these studies indicate that there is no detrimental effect of account manager turnover for business clients as long as turnover is managed effectively. As such, effectively managing account manager transfers will keep clients from becoming dissatisfied. The importance of ensuring client satisfaction and the drivers of client satisfaction will be reviewed in the following section.

2.2. Drivers of Client Satisfaction

A review of the literature available relating customer satisfaction in the financial services industry identifies the drivers of client satisfaction and why client satisfaction is important. According to Madill et al. (2002), when customers are satisfied, they will be less likely to seek out services from another service provider and will be more willing to refer others to their financial institution (87). The above research proves that change of account managers when handled properly does not damage the relationship that business clients have with their financial institution. Since account manager change, when handled well, does not destroy or undermine the relationship that exists, what other activities drive client satisfaction?

Zineldin (1996) completed research as to why small-medium size enterprises (SME) satisfaction with their financial institution is critical and explained why these clients placed greater value on a relationship with their financial institutions than large corporations (14-22). Zineldin (1996) proposed that financial institutions must focus on 'partnership' relationships in order to develop a long term banking relationship with their clients. It is this partnership relationship that will grow and retain the clients for long-term growth. Figure 4 shows the partnership-relationship life cycle. This cycle shows how a relationship can be grown with clients over time (19). Zineldin (1996) states that there are 4 stages to the bank-client partnership: early stage, development stage, long term stage and final stage (18). When a client has a negative experience at any stage in this cycle it is possible and even likely that they will seek out another financial institution. Therefore, focus on growing and maintaining client relationships to sustain client satisfaction is critical to retain business for the long term.

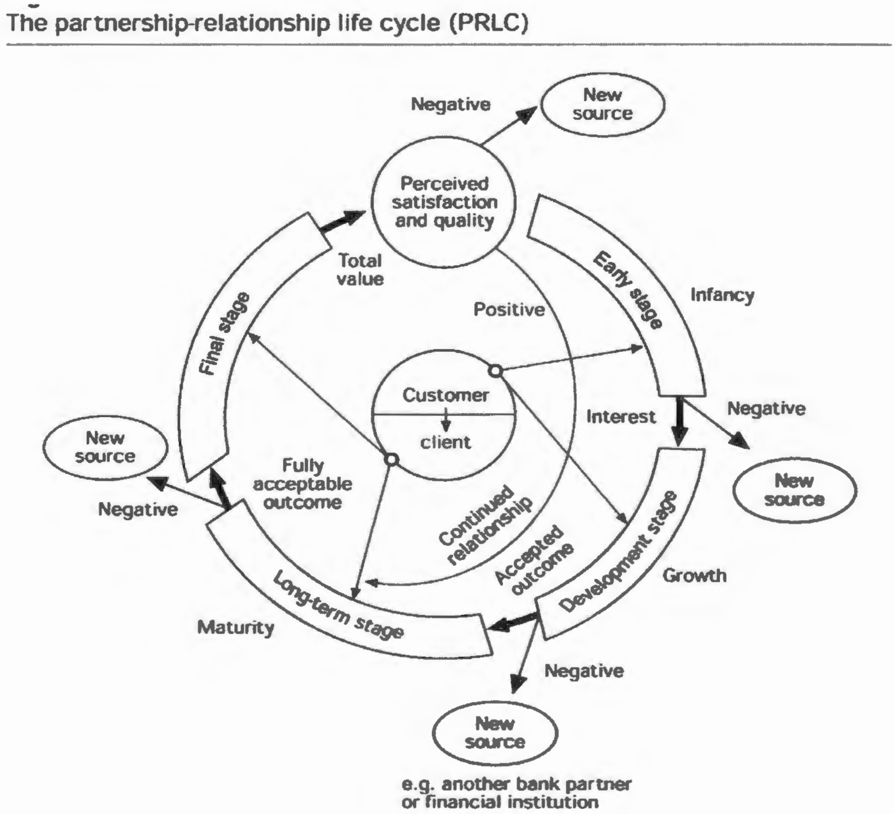

Figure 4 – The partnership–relationship life cycle (Source: Zineldin, M.. (1996) p 19.)

Zineldin (1996) also explains why the banking relationship that exists between corporations and financial institutions is more important for SME's than it is for large corporations. SME's are more likely to be dependent on their Financial Institution as they do not have the have the leverage to be in a dominant position. Large corporations on the other hand because of their size are able to reduce Financial Institutions dominance by dealing with multiple financial institutions. Transaction and information costs make it unattractive and less cost effective for an SME to deal with more than one financial institution. Furthermore, SME's feel that dealing with one Financial Institution the relationship will be stronger because the Financial Institution will be able to better understand their needs. Finally, many

SME's believe that access to future credit is more likely when they have an established relationship with one Financial Institution (20-21).

To further support why a focus on SME's is critical for Canadian financial institutions it is necessary look at the percentage of firms that are classified as SME's. According to RBC Economics (2008) SMEs account for approximately 98% of the firms in Canada (1). This proportion of small businesses in Canada implies that failure to retain these clients will negatively impact a financial institution in terms of business client growth. Therefore an understanding of what business client's value is important and should theoretically provide the ability of financial institutions to execute on these things.

Madill et al. (2002) noted that the relationship that exists between corporate clients and Financial Institutions is often strained (86). Therefore they sought to determine the key attributes or drivers of satisfaction. One of Madill et al.'s (2002, 89) hypothesis stated that, "satisfaction with the account managers' performance in 11 key relationship management activities is positively related to overall satisfaction with the Financial Institution with which the SME has its primary relationship." They were able to prove that there was a link between account management activities and overall satisfaction with the account manager. Appendix 1 shows the account management activities and respondents satisfaction with the account manager and the financial institution. The table in Appendix 1 shows is association between an activity and a client's satisfaction with both their account manager and their financial institution, using a Pearson r correlation. Pearson r is a statistical measure that reflects the degree of linear relationship between two variables. Therefore the table shows that there is greater impact to a client's satisfaction based on how well the account manager performs the 11 key activities of account management than the clients overall satisfaction of their financial institution. **The conclusion can be drawn that it is satisfaction with an account manager which increases the likelihood of client retention.**

The research of Madill, Haines Jr. and Riding (2007) clearly indicates that personal contact is the primary activity to ensuring a smooth transfer for clients of their account managers. Lack of contact therefore deters from the transfer process and impacts client satisfaction. A study commissioned in the US indicates that problems exist with clients receiving proactive contact from their account managers (Sibillin (2009)). This survey of 6000 SME's in the US indicated contact by relationship account managers does not happen (17). Sibillin (2009, 17) states that, "banks assign a relationship manager to 95 per cent of medium business customers ($5-50 million annual turnover); this falls to 81 per cent of small businesses ($1-5 million) and 50% of micro businesses (less than $1 million)." What is surprising is the percentage of clients who indicated that they are not contacted by their account manager. Sibillin (2009) says that when there is a relationship manager in place, half of medium businesses are not contacted or contacted proactively; approximately 60% of small businesses and two thirds of micro businesses receive no contact (17).

Why this is a problem for Financial Institutions? Sibillin (2009), argues that when a client is under the impression that they have a relationship, and yet receive no contact client satisfaction falls and therefore the client is less likely to do more business with the their financial institution than a client who is not committed a relationship banker (17). Essentially when a commitment is made to a business client that they have one person who will deal with their banking needs and that commitment is not met satisfaction will fall.

2.3. Effective Reward Systems

A review of literature relating to effective reward systems has been completed helps address the secondary question; "what are the motivational consequences if employees are impacted because of the existing transfer process?" If there are gaps in the transfer process, what additional knowledge of how to construct effective reward systems is needed to address these gaps?

An effective reward system is one in which people value the reward and therefore will work towards achieving set goals in order to obtain the reward. According to Agarwal (1998, 60) reward systems need to include three elements. (1) He states that "the first requirement is that the appropriate behaviour reward contingencies be established i.e., rewards should be made contingent upon specific behaviours that are of importance to the organization." He explains that the need to link the rewards to desired behaviours is because of reinforcement theory. This theory is based on the premise that reinforcement of desired behaviours will lead to the same behaviours in the future. Employees will focus on what gets rewarded and therefore avoid activities where there is no reward. In addition to reinforcement theory, expectancy theory also impacts the motivational aspect of employees; employees will be more inclined to focus on activities in which they think will lead to a desired reward (60). (2) The second requirement for the building of an effective reward system is that rewards should be viewed by employees as equitable; this can be referred to as equity theory (61). According to Bowdich, Buono, and Stewart (2008) equity theory explains that people will compare the effort that they put in to a job and the rewards which they receive as a result of effort expended. If employees feel that there is not an adequate balance between the effort and reward as compared to others that they perceive to be similar there are consequences both positive and negative. They may work harder because they perceive their reward to be greater or they perceive that their reward is less and decrease their work effort. If it is not possible to balance out the inequity the employee may choose to look for other roles or potentially leave the organization (90). (3) The third and final requirement when designing effective rewards systems Agarwal (1998) states is that the employee must value the reward. It is this perceived value that leads to an employee being satisfied with the rewards received. A challenge for organizations when designing effective reward systems consequently is that not all people are satisfied with the same rewards (61).

It is important to recognize the characteristics of an effective performance management system and the role that reward systems play. According to Aguinis (2009) performance management can be defined as the process an organization uses to align the activities of employees to the strategic goals of the organization (2). Good alignment of organizational goals and employee activities increase business results; therefore it is important that employees understand how their activities link to the organizations strategy.

2.4. Pay-for-performance Systems

In an attempt to link employee activities to organization strategy many organizations attempt to increase performance through pay-for-performance systems. A traditional pay-for-performance method is to increase an employee's salary based on performance ratings. Agarwal (1998) explains that one of the problems with simply using annual salary increases as a means of motivating employees is that there can be no assurance that the effort expended to obtain the salary increase will be sustained. Therefore, if a salary increase has been granted, a company will have higher salary costs even if the performance of the employee is not maintained at a level consistent with their new level of pay (66).

Why would a company want to examine the way which they compensate and consequently motivate employees? According to Attwood (2004) the reason that companies began to move towards a pay-for-performance system was to increase productivity and performance and allow companies cultures to become performance based (31). Based on a survey completed to determine what factors in the pay-for-performance system would have the greatest impact, Attwood (2004, 36) listed the most important factors:

- employee understanding and communication
- clear objectives to measure
- sufficient funding
- consistency
- Clear link between performance and reward

This is supported in a study by Kauhanen and Piekkola (2006) which hypothesized the following in support of pay-for-performance systems. (1) Effort is higher when performance is measured at an individual level and when measurements are controllable. (2) Effort is higher when employees can clearly see the linkage between effort and rewards. (3) The amount of variable pay must be sufficient to become a motivator. (4) Jointly establishing goals will positively impact on employee perception of the pay system and as such make it more motivating (156-157).

The hypotheses of Kauhanen and Piekkola (2006) are backed by their research. When someone perceives that they have control of their performance results and compensation, they are likely to view it is fair and be motivated. They found that there was a clear linkage between employee's efforts if they knew how the reward would impact them financially. Expectancy theory supports this finding, Bowdich, Buono, and Stewart (2008, 82) define expectancy theory as having "three components: (1) an effort-performance expectation that increased effort will lead to good performance (expectancy); (2) a performance-outcome perception that good performance will lead to certain outcomes or rewards (instrumentality); and (3) the value or attractiveness of a given rewards or outcome to an individual (valence)." Put simply, for someone to increase effort they must perceive the reward as desirable. According to the research, as long as the variable pay is high enough then it is a motivator; 5 percent of the median annual salary. Finally employees were found to be more motivated when they had the opportunity to be part of the development of the pay-for-performance scheme. Figure 5 shows that different levels of effort will result in different levels of performance leading to different outcomes.

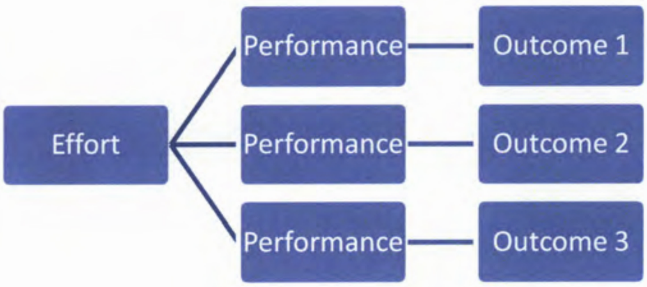

Figure 5 – Schematic model of Expectancy Theory (Source: Bowditch, J. L., Buono, J. F., Stewart, M. M. (2008) p.83)

Miceli et al. (1991) examined research on reactions of pay-for-performance systems and found that an employee's satisfaction with their pay is directly linked to whether or not they perceive the pay that they receive is equal to what they expect. When they think that a gap exists, they become dissatisfied (508). Additional dissatisfaction arises when employees think that others, in similar positions to theirs outside their organization, receive higher levels of pay (509).

Variable pay is a pay-for-performance system that attempts to avoid problems associated with the traditional method of annual merit pay increases. Agarwal (1998) lists reasons why variable pay is a potentially better method of compensating employees. There is a need on the part of the employee to continue to perform at a high level in order to qualify for the higher pay variable pay would be in line with the actual levels of the performance of the employee. Additionally, variable pay is a good tool for companies as it allows them to manage costs. If all employees are performing at high levels it is likely that the company is doing well financially and can therefore afford to pay higher salaries. The most important aspect of variable compensation is the ability to direct employee focus to organizational goals (66-67). It this ability to direct focus to evolving business needs which makes variable pay-for-performance plans so attractive. People likely will change employment activities quicker and with greater buy-in when they know that they will be compensated accordingly.

Performance-related-pay is not without its drawbacks. Hindle (2008) notes that pay-for-performance systems may not be as effective as thought due to pay not being a primary motivator. It can further spread the gap that exists between the highest paid and the lowest paid employees. Challenges exist in designing pay-for-performance systems because they potentially force individuals to focus more on their own goals without consideration of the team as a whole. Specifically, decisions are made for the short term impact that they can have as opposed to making decisions that are in the long term best interest of the company. Pay-for-performance systems may also cause employees to focus ignore certain activities which positively impact their long-term results. Training would be an example of such a situation (145-146); if an employee views that taking time to do training will prevent them from achieving their goals it is likely that they will not be inclined to commit to the training.

Green and Heywood (2008) examined whether or not there was a link between pay-for-performance and job satisfaction and whether or not these schemes increased job satisfaction. Green and Heywood (2008, 710) found that "performance-related pay is positively associated with increased overall satisfaction, satisfaction with job security and satisfaction with hours." They were unable to find evidence that pay-for-performance leads decreased satisfaction with the job itself (724-825). This study is supported by previously mentioned theories of motivation; specifically, expectancy theory and reinforcement theory. Expectancy theory holds that if an employee knows that by directing their work effort towards specific activities they are able to achieve their desired reward, then they will be likely to do so and be satisfied with the outcome. Reinforcement theory states that when an individual is satisfied with an outcome they will likely duplicate the same actions leading to the outcome.

Further supporting Green and Heywood's research a study completed by Rynes, Gerhart, and Minette (2004) which focussed on the importance between employee pay and motivation. They hypothesized that people's choices and actions were more conclusive indicators regarding the importance of pay than surveys in which people rank job motivators (381). To prove this Rynes, Gerhart, and Minette (2004) did a comparison of studies related to self-reported pay importance and studies related to behavioural responses to pay and other motivational intervention. This comparison allowed them to identify that there was a difference between what people said about pay and motivation and what they actually do in regards to pay (381-382). Essentially when people are asked what motivates them they will not say money is important however of the studies that they reviewed regarding pay-for-performance productivity increased. Their research proved that the tasks which are measured are the tasks that get completed. From their research they were able to conclude that money is an important motivator for most employees (391).

Research shows that pay-for-performance systems are an effective motivator. Employees will focus on activities which are measured and if completed effectively will increase their salary. When activities are not measured, employees will not be motivated ensure that they are executed. As such it is necessary for organizations to ensure that critical activities are aligned with the pay-for-performance system.

3 Methodology

To address the questions presented in the above introduction both quantitative and qualitative analysis is necessary; the specific questions are:

- **Is there a problem with the way the current client transfer process measures revenue?**
- **What are the implications of transfer to overall client satisfaction?**
- **What are the implications of transfer of clients to employees; specifically to Account Managers and Sales Managers?**

The quantitative research will focus on the revenue impact of the client transfer to determine the resulting financial implication from a geographical perspective (British Columbia) and from a regional perspective (RVP regions within BC). This will be accomplished through analysis of data on the year-over-year implication of revenue; specifically data for clients that transferred from CFS to small business in fiscal 2009.

Three topics will be analyzed and discussed. First, the data will be analyzed to determine what the net year-over-year effect is to the BC region. Second, the data will be broken out by individual areas to determine what the effects of the revenue reporting are at the RVP level and subsequently used to determine if there would have been significant fluctuations in their year-end results. The fluctuation measurement will be based on the net impact of the accounting of revenue from client transfer and its resulting impact to year-over-year market contribution growth. Market contribution includes all costs and revenue generated from a variety of sources of which Small Business revenue is included. Identifying consequences to year-end market contribution growth is significant because when revenue is transferred from one department to another there may be negative consequences to a RVP's year-over-year financial results. Third, the client transfer data will be analyzed to determine if the clients, once they were transferred, maintained an active banking relationship with the Financial Institution. To determine this, the clients that were transferred must be individually reviewed to see what type of banking services they continued to maintain with the Financial Institution. Furthermore, to determine whether or not the change of account manager was completed effectively, each client's contact history will be reviewed. It is expected that all clients transferred will have maintained a banking relationship with the Financial Institution and as such will either have a proactive sales focussed or a relationship focussed contact from their account manager or their branch.

The analysis will focus on clients transferred from CFS to Small Business in BC during the fiscal year of 2009. The data, and thus the clients reviewed relating to the transfer, were from a report produced by the Financial Institution called the "Client Transition from Commercial (CFS)." This report is produced by the Financial Institution's provincial office and it details the specific clients that were moved. In the fiscal year of 2009 the report was produced four times; months ending January, April, July and September. These reports recapped client transfers that took place between CFS and Small Business, and only capture clients whose profitability changed greater than $2,500 per year. Therefore, business clients whose profitability change is less than $2,500 per year are not included any report and as such not tracked. The impact of this threshold will be discussed further in the paper.

From these reports it showed 272 individual clients had been transferred from CFS. After each clients profile has been reviewed, the client will be assigned a rating. These ratings will form the basis of the client satisfaction analysis. When the reports were obtained the client information was compiled as follows: client reference number, year-to-date year-over-year revenue change, estimated full-year revenue, previous full-year revenue and new department. There was a lack of consistency in the four reports. For instance, three of the reports provided an estimated change in client's full-year gross-revenue and one of them did not. The report that did not include this annualized information only included the year-over-year year-to-date change in client gross revenue. In order to calculate estimate year-end revenue it was necessary to determine how many months in the year had elapsed divided by the accumulated revenue and that resulting amount was annualized.

The qualitative research to be completed will relate to effective reward systems and whether or not the current measures of performance are structured to facilitate a smooth client transfer process. Due to the fact that the Financial Institution asked that there be no human participant research in this study the analysis will be limited to a review of the current performance measures in place for Account Managers CFS, Account Managers Business and Personal, Sales Managers Small Business, CFS Vice Presidents and Regional Vice Presidents.

By comparing the literature regarding effective performance measurements systems against the current performance measures in place it will be possible to show whether the transfer of clients is supported by the performance measures. Also, building on research that has been completed, based on the potential employee reaction to the impact of the transfer, a determination of how the transfer process is impacted will be discussed. Furthermore, do the transfer process guidelines support a smooth transfer and how might they impact an employee's motivation?

4. Analysis and Results

The analysis will be broken into four sections to answer the questions posed at the beginning of the paper. The Financial Institution produces a report listing clients transferred from CFS to Small Business. To begin, an explanation of the report and how the information was presented and compiled will precede the analysis of the data. Client transfer results will be evaluated to determine based on research, what might be the impact to overall client satisfaction? This will be followed by an analysis of the revenue impact to answer the question, is there a problem with the transfer in terms of the way revenue is recognized for year-end financial reporting? Finally reviewing the transfer process guidelines an attempt will be made to answer the question regarding what the impact of the transfer is to employees, specifically account managers and sales managers Small Business.

4.1. Client Transfer Reports and Results

The Client Transfer from Commercial report is presented in the format as shown in figure 6. The report is broken into three sections for each client: client information, current month information and previous fiscal year information. Each commercial banking centre has its own specific area or region which manages a book of clients. When the clients are transferred to small business they appear on this client transfer report according to CFS area.

Client Name

- Year over year change in revenue
- Year to date gross revenue change (not included in all reports)

Current Month

- New responsibility department
- Account Manager number
- Average deposit balance YTD
- Average lending balance YTD
- YTD Gross revenue
- Annualized Gross revenue

Prior Fiscal Year End

- Old responsibilility department
- Old account manager number
- Average deposit balance for fiscal year
- Average lending balance for fisacl year
- Previous year gross revenue
- Full year gross revenue

Figure 6 – Client Transfer from Commercial Report Structure

Initially when consolidating the data in order to determine the financial impact to each RVP area it became necessary to group clients by the area in BC which their revenue contributes to the financial results. Challenges with this arose because reports were produced for CFS centres. As such it was necessary to determine what RVP area was receiving the client as this was not included in the report, simply the branch to which the client was being transferred.

When the client transfer reports were reviewed from fiscal 2009 it was determined that 272 individual businesses were transferred in B.C. region from CFS to Small Business. Each client, being a distinct entity, needed to be reviewed in order to determine whether the transfer process would be conducive to client satisfaction. Each client therefore was reviewed and assigned a numerical rating of 1 – 7. The numerical ratings are on a scale of best to worst in terms of importance to maintaining a client's relationship. Table 1 defines what each of the numerical ratings represents.

1	Maintained client relationship – active bank account and client contact within the last six months
2	Maintained client relationship – active bank account and no client contact within the last six months
3	Maintained client relationship – active bank account and attempted contact to client has been made.
4	No active bank account – other banking products
5	Client was transferred to SBFS and PFS and then has been transferred back to CFS
6	Lost client relationship – client contact made
7	Lost client relationship – no client contact made

Table 1 – Client Transfer Effectiveness Rating Scale

The findings of the analysis were surprising. The Financial Institution defined what they expected to happen regarding the client transfers therefore it was hypothesized that all clients transferred would have been contacted and there would be a banking relationship with the client. That however was not the case. Each client was reviewed to determine if there had been contact and what type of relationship the client maintained with the Financial Institution. The criteria used which defined contact was a recorded conversation regarding client's current banking needs or a discovery of the client's future banking requirements. Of the 272 clients transferred Table 2 and Table 3 show the results.

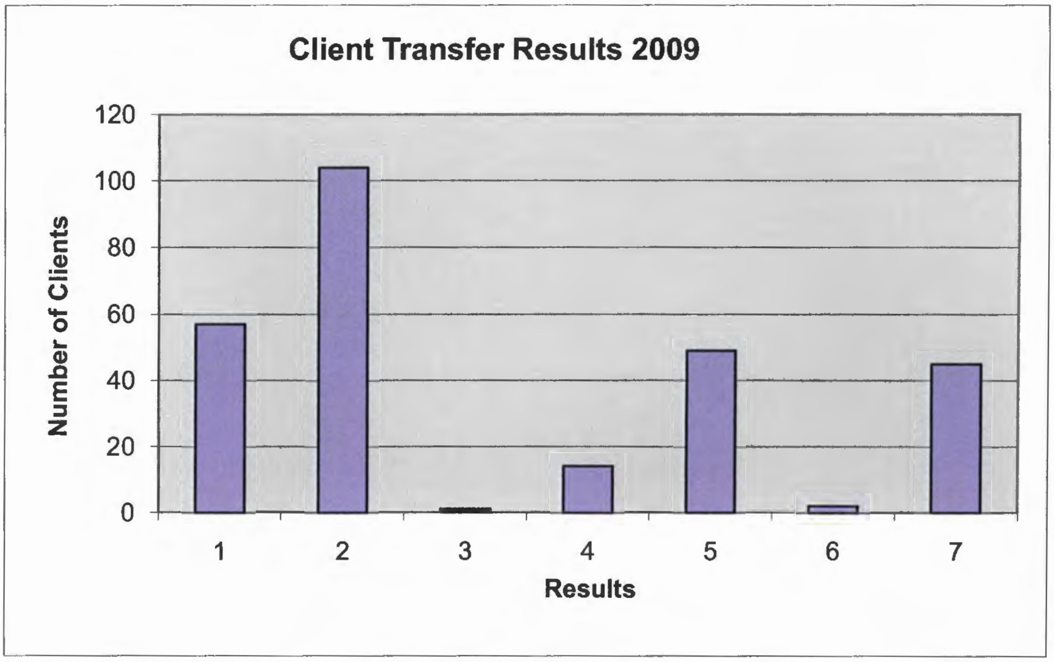

Table 2 – Client transfer results 2009 - The horizontal access - numbers 1 – 7 - represent the transfer effectiveness rating scale as defined in Table 2.

Number of Clients	Result when client was transferred
57	Maintained client relationship – active bank account and client contact within the last six months
104	Maintained client relationship – active bank account and no client contact within the last six months
1	Maintained client relationship – active bank account and attempted contact to client has been made.
14	No active bank account – other banking products
49	Client was transferred to SBFS and PFS and then has been transferred back to CFS
2	Lost client relationship – client contact made
45	Lost client relationship – no client contact made

Table 3 – Number of results according to the transfer effectiveness rating scale

To conclude whether there is an impact to client satisfaction it is important to analyze the above results. Table 2 shows the frequency of results after the client was transferred according to transfer effectiveness rating scale. It is these results where an attempt is made to determine whether or not the transfer process was handled well. Madill, Haines Jr. and Riding (2007) determined that when account manager change was handled well the result was an increase in client satisfaction. This research was further suppported by Perrin and Ricard's (1995) research which had similar findings. Madill, Haines Jr. and Riding (2007) also drew the conclusion that contact was a critical aspect of clients being satisfied with the transfer when it occurred. Therefore, to determine whether the transfer to Small Business would increase clients satisfaction a critical step needed to occur; contact from an account manager. When analyzing results it was thus necessary to exclude those Small Business clients that were either immediately transferred back to CFS without chance of contact, or those clients that no longer dealt with the Financial Institution. The need to exclude these 96 clients existed because there is no opportunity for contact from Small Business. Figure 7 shows a distribution of percentages based on the clients that continued to have a banking relationship with the Financial Institution. This graph shows that of the 176 clients that were transferred between banking platforms that 68% did not receive any contact. Numbers 1 – 4 in the graph represent the corresponding number in the transfer effectiveness rating scale. Client satisfaction is bound to suffer when the transfer takes place if there is no contact according to the research completed by Madill, Haines Jr. and Riding (2007).

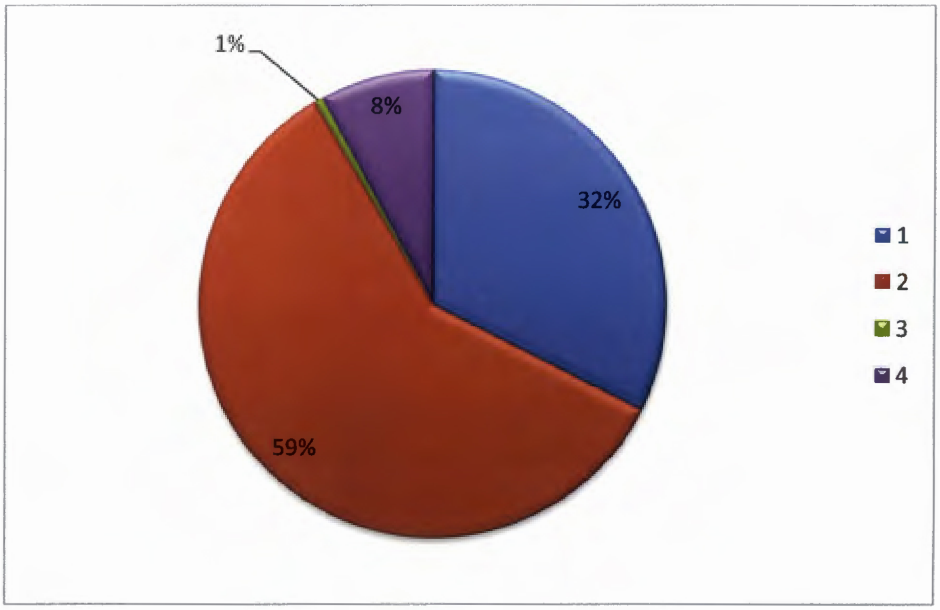

Figure 7 – Pie chart indicating contact results for clients transferred to Small Business

To determine if there was a relationship between negative year-over-year revenue to Small Business and lack of client contact a correlation coefficient analysis was carried out using Microsoft Excel. Appendix 2 explains the correlation coefficient and limitations of the analysis.

Why are contact results significant in terms of client satisfaction? Satisfaction is related to retention of clients in the long term. According to Madill et al. (2002) when customers are satisfied they will continue a banking relationship with their Financial Institution. They also stated that the relationship between corporate clients and Financial Institutions is often strained so they identified drivers of satisfaction. Of the activities that drive satisfaction the following would be impacted by lack of contact: (1) easy to get in touch with, (2) approachable, (3) shows interest in doing business in the SME's industry, (4) treats the SME as a valued customer, and (5) is reliable. If the client has never had any contact from their new account manager then they are likely to perceive that their Financial Institution or account manager is not easy to get in touch with, that their Financial Institution or account manager is approachable, that they show any interest in doing business, that they are being treated as a valued customer and that their Financial Institution or account manager is reliable. The reason for these reactions are that when a client has been moved from CFS they, in the majority of the instances, no longer have any type of proactive contact from their Financial Institution.

Zineldin (1996) states it is imperative for financial institutions to focus on a partnership relationship on order to develop long term relationships. At any stage of this partnership relationship if a client has a negative experience they will be likely to seek out services elsewhere. This is because small businesses value a relationship more than large businesses and therefore are more likely to seek all their services from the institution that meets their needs.

Transfer results should not be surprising. They are consistent with the findings of Sibillin (2008) which determined that two thirds of micro businesses (less than $1 million in sales) had never received any contact from their account managers.

As a result of the analysis, it is possible to answer one of the questions posed, "what are the implications of transfer to overall client satisfaction?" Based on results from the data and research relating to effective account manager change and drivers of satisfaction that the current client transfer process leads to a negative experience and therefore client satisfaction will be lower. This is because the majority of the clients transferred were not contacted which is a critical aspect of account manager change. This negative client experience and decrease in satisfaction could cause clients to decide to seek out other financial institutions to meet their banking needs.

4.2. Revenue Impacts of Client Transfer

The primary question asked in this paper was, is there a problem with the current client transfer process relating to revenue recognition? From a provincial perspective there is no revenue issue with the transfer of clients between platforms. This is because when a client transfers from one department to another all of the revenue still rolls-up in provincial results and, as such, has no impact on financial results. There are, however, revenue impacts for the CFS and Small Business departments. When clients are moved between the departments the previous revenue history follows the client and impacts financial results for both CFS and Small Business.

CFS ultimately benefits from the way that revenue is recognized. When a client is moved from CFS to Small Business it is because there is a year-over-year decrease in revenue or growth opportunities. As the client is no longer on the CFS platform the current year and previous year revenue related to the client (negative growth) disappears from CFS. To account for this manual adjustments are made at the CFS level so that appropriate revenue is used to determine financial results. Small Business, when receiving the clients, inherits the financial history and in most cases the year-over-year decreases in revenue. There is no opportunity on the Small Business platform to restate revenue results. Therefore when a client has negative revenue it will decrease the year-over-year growth of revenue assigned to Small Business.

When clients are moved from Small Business to CFS it is because there has been either an increase in revenue or their borrowing needs exceed the threshold established by the Financial Institution. Revenue that has been generated and in most cases has increased year-over-year, disappears from the Small Business results. This has a negative impact on Small Businesses revenue growth. On the one hand, after the client has moved current and previous years revenue no longer is recognized for Small Business. On the other hand, CFS, benefits from the move. There is no adjustment made and all of the positive revenue growth that has been generated under Small Business benefits CFS immediately.

To determine the impact on revenue for RVP areas, data relating to market contribution was obtained for 2009. The market contribution results are in the Table 4. This table breaks down the market contribution results by area from highest growth to lowest growth and includes the dollar increase in the market contribution as well as the year-over-year growth by percentage.

Area	Market Contribution Growth		YoY Growth
1	$	13,950,547	14.80%
2	$	9,088,103	8.80%
3	$	7,741,539	7.70%
4	$	6,207,071	6.30%
5	$	5,958,363	6.20%
6	$	5,017,294	5.70%
7	$	5,660,667	5.60%
8	$	4,345,241	4.60%
9	$	5,764,718	3.90%
10	$	3,253,749	3.50%
11	$	2,556,843	2.20%
12	$	66,484	0.10%

Table 4 – 2009 Market contribution results by RVP area

Table 5 illustrates how the transfer affected 2009 year-over-year results at the RVP level. RVP's are measured on market contribution growth, which includes revenue from Small Business clients. Table 5 lists the year-over-year market contribution growth both in dollars and percent, the revenue impact of the client transfer and the adjusted year-over-year growth if the transfers had not occurred. Clients that were excluded from this analysis were the clients that were transferred back to CFS because the impact of the revenue would have been nullified if the clients were returned to their original department prior to the end of the fiscal year.

Adjusted Impact of Transfer to Year-Over-Year Market Contribution Growth				
Area	Market Contribution	YoY Growth	Revenue Impact of transition	Adjusted YoY growth
1	$ 13,950,547	14.80%	-$17,320	14.82%
2	$ 9,088,103	8.80%	-$50,287	8.85%
3	$ 7,741,539	7.70%	-$34,295	7.73%
4	$ 6,207,071	6.30%	$891	6.30%
5	$ 5,958,363	6.20%	-$13,750	6.21%
6	$ 5,017,294	5.70%	-$26,247	5.73%
7	$ 5,660,667	5.60%	-$4,707	5.60%
8	$ 4,345,241	4.60%	-$41,442	4.64%
9	$ 5,764,718	3.90%	-$59,292	3.94%
10	$ 3,253,749	3.50%	$17,484	3.48%
11	$ 2,556,843	2.20%	-$6,707	2.21%
12	$ 66,484	0.10%	-$460,741	0.79%

Table 5 – Adjusted impact of the transition to year-over-year market contribution growth

Table 5 shows that in most cases the year-over-year revenue impact of the transfer is minimal compared to the size of the year-over-year growth of market contribution. In all instances but one there was very little impact to a RVP's market contribution growth. In all but the one instance the revenue impact of the transfer would have increased or decreased RVP performance results less than one tenth of one percent. Furthermore, transfers would not have changed any RVP's ranking against their peers within the province.

RVP area 12 however, was impacted significantly by the revenue adjustment of the transfer. In 2009 the year-over-year market contribution growth for area 12 was extremely limited due to local market factors. When an adjustment was made for the revenue of the transfer, the year-over-year growth rose substantially from 0.1% to 0.79%. Due to the significance of the increase in year-over-year market contribution, and to the fact that RVP's are stack-ranked nationally against their peers, it is evident that there can be a substantial impact to RVP's year-end results. These situations likely will only occur when year-over-year market contribution is small and client transfers have a large negative impact to year-over-year revenue growth. The analysis has shown however there can be significant impact to year-end results.

The data that was analyzed relating to the transfer was limited to clients that transferred to Small Business from CFS and which the revenue impact year-over-year was greater than \$2,500. Therefore the revenue impact is potentially larger and the number of clients that are not receiving contact is likely higher. Until the Financial Institution decides to produce the reports to include all clients being transferred the actual impact cannot be accurately determined.

It is important to note that although an attempt was made to review reports showing clients transferred from Small Business to CFS no such report exists. Therefore the analysis was limited to the clients moved from CFS to Small Business. Because adjustments are made manually in CFS, the impact of the transfer would have been accounted for in their financial results.

4.3. Transfer Process Analysis

To understand the transfer process, it is important to revisit the Financial Institution guidelines which establish where in the organization a business client should be placed. When a client has less than \$100,000 in borrowing, they are a Small Business client whose borrowing needs are fulfilled by a centralized group of responsive business lenders available by telephone; all other client needs are met by responsive account managers within the branch network. If a client has more than \$100,000 but less than \$250,000 in borrowing, they are a SBFS client and their borrowing and investment needs are fulfilled by an AMBP. Finally, if a client has more than \$250,000 in borrowing, they then are a CFS client.

The Financial Institution therefore has structured the transfer process to occur when the client does not fit predetermined guidelines. When a client has been identified to move there must be consent from both the department receiving and the department transferring the client. Once concurrence has been obtained the client transfer can take place.

For clients leaving Small Business and going to CFS as long as the client agrees to the transfer and they meet the criteria, the transfer can be completed. The expectation is that the client will be contacted by the receiving CFS account manager to fulfill client needs and continue the relationship. It is this contact from the account manager that is necessary for additional client needs to be met.

The process of transferring clients to Small Business is different depending on whether or not the client has borrowing. If a client has no borrowing then they can be transferred to Small Business with responsive account management. In this situation although it is not a requirement contact be made a responsive account manager should be contacting the client to give them a contact point should any future needs be arise. When a client has borrowing they must be transferred to an AMBP. Guidelines state that if CFS determines that client banking needs will likely remain within the Small Business definition for the foreseeable future then they should be transferred. Simply put, if a CFS account manager cannot see any opportunity to grow the client relationship or the revenue then they should transfer the client to an AMBP.

For the transfer to take place there are several criterion that must be met. The AMBP once notified that they are receiving a client must complete activities of an administrative nature. One criterion in the transfer is that if the clients have an established personal banking relationship account manager they must have their personal banking managed by the AMBP. The significance of this requirement will be discussed later in the paper. It is because of the required activities it would be impossible for an AMBP to not be aware that a client was being transferred from CFS to and Small Business. After all transfer process guidelines have been met a letter is supposed to be sent to the client in addition to contact. In both situations it was not clearly stated that contact with the client must occur when the transfer has completed.

The analysis is only focussed on the transfers that take place from CFS to Small Business as there was no opportunity to review any transfers from Small Business to CFS. Based on the results it is evident that clients are not being contacted. This is problematic considering when the client is transferred to an AMBP they are committed a relationship. With the transfer this commitment is not being met. Further compounding the issue is if the client's personal relationship has been attached to an AMBP not only is the business relationship at risk due to decreased satisfaction but also the personal relationship. As previously discussed when clients are dissatisfied or have a negative experience they will be likely to seek their banking services elsewhere.

Other problems with the process exist. For instance there are obviously no discussions happening between the departments prior to clients being transferred. If there were conversations there would not have been 96 clients transferred, half of which no longer had any banking products and the other half were sent back to CFS. The significance related to both of these situations is as follows: if a client no longer deals with the bank there is the certainty of a decrease in revenue year-over-year. By moving the clients from CFS to Small Business the negative revenue immediately impacts RVP year-end market contribution results. In the case of Area 12 two clients accounted for almost $400,000 in year-over-year decrease in revenue. CFS would have made an adjustment for the account manager for the year of the transfer however it is unlikely that they will adjust in the following year. The impact of this transfer however will negatively impact Small Business financial results for two years. This impact is demonstrated in the Table 6.

2008 Revenue	2009 Revenue	Year-over-year Revenue Decline	2010 Revenue	Year-over-year Revenue Decline	2011 Revenue	Year-over-year Revenue Decline
$ 606,355	$ 207,630	-$ 398,725	$ 0	-$ 207,630	$ 0	$ 0

Table 6 – Trailing Impact of Revenue

Table 6 illustrates that for the year-over-year revenue to be zero for a client who no longer has banking with the Financial Institution it takes 2 years. As a result of this negative revenue the impact to RVP's revenue in 2010 is shown in Table 7.

Area	Market Contribution Impact in 2010 from non clients
1	$ (1,170.00)
2	$ (3,723.00)
3	$ (3,723.00)
4	$ (9,467.00)
5	$ (440.00)
6	$ (19,818.00)
7	$ (10,446.00)
8	$ (2,645.00)
9	$ (3,306.00)
10	$ (8,205.00)
11	$ (9,139.00)
12	$ (307,055.00)

Table 7 –Revenue impact in 2010 for transfers completed in 2009

Table 7 shows that RVP areas which have significant revenue generating clients who cease to deal with the Financial Institution, as is the case with area 12, the revenue impact of the platform transfer can be significant in the following year. Additionally, if clients are dissatisfied with the transfer process many of them could choose to take their banking elsewhere. Therefore to accurately estimate what the impact to RVP areas is in the long run it will be necessary to monitor clients transferred over a couple of years to determine the percentage of clients retained after one year. When the sample size of clients is large enough it will be possible to estimate how many clients transferred continue to bank with the Financial Institution in the following year. At that time a more accurate forecast can be developed as to the revenue impact of the transfer.

A review of the process identifies weaknesses. Client contact is not explicitly stated in the internal processes as defined by the Financial Institution. Lack of contact was determined to be a detractor from client satisfaction therefore failure to make it a requirement of the transfer is a problem. Additionally transfers are taking place without an agreement which has impacts to revenue and in the case of clients that are moved from department to department impacts to satisfaction.

4.4. Performance Measures by Role

Performance measures of roles within the Financial Institution include both sales and business performance and desired behaviours. For the purposes of the analysis only a portion of the sales and business performance will be evaluated. Each role within the context of the client transfer process has a portion of their annual performance rating on either revenue growth, a measure that is dependent on revenue growth, or sales. This analysis therefore seeks to identify why certain measures of performance are contributing to the unsatisfactory contact results of the transfer. Because the Financial Institution did not want the roles involved in the client transfer interviewed this analysis is limited to explaining why, based on theory, the results may have been driven by measures of performance. Small Business roles will be evaluated first and followed by an evaluation of CFS roles.

A RVP's primary rating which determines where they rank in relation to their peers nationally is year-over-year market contribution growth. Market contribution includes all costs and revenue generated from a variety of sources of which Small Business revenue is included. There are growth thresholds which must be achieved in order for the RVP to participate in any variable compensation.

A Sales Manager Small Business has a specified portion of their total performance rating based on year-over-year percentage growth of Small Business revenue new dollars sales dollars to sales plan and number of net new business clients. This growth is determined solely on the revenue Small Business clients generate which is collected from data based on the clients that are attached to a Sales Manager's area. Unlike RVP's, Sales Managers Small Business are not ranked against their peers nationally.

AMBP's measure for sales and business performance is unlike a RVP or a Sales Manager Small Business; they are not rated on revenue growth or a measure that is impacted by revenue growth. Instead these roles are rated on new sales. Sales include new loans and new deposits which increases client's revenue being generated. Within the context of these AMBP roles there is however no focus on revenue growth.

A CFS VP is ranked nationally against their peers similar to a RVP. Unlike a RVP however, the CFS VP is rated on the total percentage growth of gross revenue under administration and total percentage growth of gross revenue per account manager. Again established growth thresholds must be met for there to be variable compensation awarded.

CFS account managers are rated on the year-over-year percentage increase of revenue growth. This revenue growth target is different depending on the total size of the account manager's book of business under administration. What is consistent among all of the account managers is that variable compensation is tied to the amount of revenue growth achieved.

When evaluating all of the roles measurements of performance, it becomes clear that while some have different measures, all are designed to drive the same end result; increasing the bottom line performance of the Financial Institution. All roles have a component of variable pay otherwise known as performance related pay. There are many arguments as to why performance-related-pay is effective which is why the results of the client transfer are not surprising. Micili et al (1991) identified factors that would predict pay-for-performance outcomes for instance; perceived fairness of the system and understanding the factors that would impact the end result. Green and Heywood (2008) also identified that pay-for-performance is associated with an increase to job satisfaction. Therefore using Green and Heywood's study and applying the principles of expectancy theory, if people know that when they direct their effort towards a specific activity which will positively impact their results it is likely that the activity will get completed. As such, when people know an activity will not have a positive impact on their results they will avoid it. Finally, the study completed by Rynes, Gerhart and Minette (2004) proved that that tasks that get measured and rewarded are the tasks that get completed.

Performance-related-pay does work and as such if there is a choice between activities which will increase performance results and activities that do not, it is likely that the activity that directly impacts compensation will be the one where emphasis is placed. CFS account managers are rated on the year-over-year revenue growth achieved based on the group of clients that they serve. Because an account manager's number of clients will vary depending on complexity and clients that are account managed by CFS expect and receive a high level of service it should be no surprise that if a client has no expected growth opportunity the account manager is going to want them off of their desk. There are two immediate impacts of moving the client off of the desk. First, the impact of revenue growth is more significant given a lower base of business and second more time available to spend uncovering and developing new business. A CFS account manager is not likely to move smaller clients in terms of business thresholds, slightly below the $250,000 borrowing level, who have referred outside business to the account manager in the past and are likely to do so in the future.

Although there is a requirement that a conversation take place between departments prior to the client being transferred from the results it is evident that this is not happening. CFS account managers, are incentivized to increase revenues, as such, may simply move the clients without any conversation possibly hoping that they will no longer be on their desk or even in the CFS banking platform. This has been proven from the data analysis because 18% of the clients were transferred back to CFS and another 17% of clients had no business with the Financial Institution. These results are combined with the additional 51 active clients transferred to a responsive account manager of which 84% received no contact. In these situations if there had been a conversation prior to the move of the clients the transfers would not have taken place or a contact plan could have been out in place for the active clients that moved. The exact same motivation to encourage these activities applies to CFS VP's as they are measured based on growth of assets under administration and revenue growth per account manager.

An AMBP is rated by a measure other than revenue growth; they are rated on new loan and deposit business. It is because of this measure of performance that they are likely to ignore the clients that are transferred to them. The guidelines of the transfer state that clients without any further growth opportunities should be transferred therefore it is likely in many cases that AMBP`s see no business opportunity with the client. AMBP's have a different client mix than a CFS account manager. They have a high number of Small Business clients, approximately 250, and another 150 – 200 personal clients. Because of this volume of clients when an AMBP is receiving a client to their desk and there is no perceived business opportunity they are unlikely to contact the client. This reaction is based on expectancy theory, if the account manager perceives that an activity is not going to positively impact their performance results they are not likely to focus on that activity. This confirmed within the data analysis of the transfer when it was discovered that 62% of clients transferred to an AMBP had not received any proactive contact within the last six months. When an AMBP has a client whose borrowing needs may exceed the $250,000 threshold of business allowed, a current system exists in which this is addressed. The AMBP is credited for sales referred to their CFS partner. Because of this an AMBP is still incentivized to make a referral. This however is not necessarily the case for the sales manager Small Business.

A Sales Manager Small Business has a component of revenue growth year-over-year new sales to a set plan. Because of this focus they are unlikely to place a great deal of emphasis on transfers of clients to and from CFS. In the case of clients transferring to CFS there is a negative impact to the Sales Manager. Either a client is being transferred because they have a financing need that is beyond the tightly defined parameters of Small Business or their revenue has increased substantially. In both cases revenue impacts arise. If a client has grown their business relationship based on revenue and they get moved immediately all of the revenue growth disappears from the Small Business department. There is no negative impact because as previously mentioned the revenue from the previous year disappears therefore there is no negative year-over-year growth. Where there is a problem however is the inability to capture the revenue that has been generated throughout the year which should be attributed to Small Business. If a client has borrowing needs which exceed the $250,000 threshold the same system is in place to recognize the dollar amount of the sale however not the revenue growth that occurs once the transfer takes place. When a client is being transferred to Small Business the Sales Manager, for the same reasons as the AMBP, is unlikely to place very much emphasis on ensuring there is a contact plan in place.

Furthermore, as the revenue in most cases is negative year-over-year, Sales Managers year-over-year revenue growth results are lower when the client has decreasing revenue.

Finally a RVP is in most cases not impacted by the transfer of clients from CFS to Small Business. There are however situations where the impact can be enormous. For that reason the Financial Institution needs to do further research to determine what the total impact of the client transfer is to revenue. This is to ensure that it is not significant in situations where market contribution growth results are already suffering.

As the analysis has been able to illustrate, there is a problem with the method of reporting revenue pertaining to the transfer. The impact to RVP results depends on many factors such as the proportion of year-over-year Small Business revenue when compared to year-over-year market contribution. The analysis completed only looked at one direction of the client transfer. In order to be able to fully measure the net impact of the transfer the Financial Institution must make changes to their existing reporting of the transfer and collect data which is specific to clients being moved to CFS and clients who are currently below the $2,500 threshold.

The impact of the transfer to CFS is typically positive regardless of whether the client is being transferred to or from Small Business. When a client is transferred to CFS they immediately capture the revenue growth which has accumulated year-to-date. When clients are moved from CFS they will likely make an adjustment in revenue for the year that the transfer took place however the following year the client may still have declining revenue which is likely not being adjusted as the client is no longer in CFS. Whether a RVP is going to be negatively impacted by the transfer results will depend on conditions such as the economy, market growth, spreads of loans and deposit and the significance of the transfers that occurred. It was however proven that when the appropriate conditions were present the impact of the transfer could have a significant impact on final performance results.

The question of whether there are implications of the transfer to overall client satisfaction has been answered. Research indicated that for a client to be satisfied with the transfer there had to be contact from their new account manager. This is not happening as proven by the contact results for the clients who were transferred in fiscal 2009. The impacts of decreased satisfaction or a negative experience are that the client may decide that they will choose to seek alternative Financial Institutions for their future needs. Furthermore, word of mouth is an effective marketing tool, if clients are unhappy they will cease to refer other potential clients to the Financial Institution which further eliminates a source of growth opportunities into the future.

The final question posed was what are the implications of the transfer for employees? Depending on the role that is being looked at the effect of the transfer is positive or it is negative. CFS roles benefit from the transfer and Small Business roles are either penalized for the transfer or get no benefit. The results that occurred were consistent with research that supports the premise that performance-related-pay works. If there is an incentive tied to an activity people will focus on that activity. As Hindle (2008) indicated challenges that exist with performance-related-pay related activities that detract from employees final results. Therefore, if a perception exists that when a client is transferred to Small Business and there is no opportunity to grow their business, the likelihood of consistent contact results is low.

5. Suggested Modifications to Improve the Client Transfer Process

There is no question that the current process of client transfers in place at the Financial Institution is flawed. There is potential negative impact to client satisfaction due to the lack of proactive personal contact by the Financial Institution creating the risk that client will leave. Furthermore, because there is a pay-for-performance structure in place, it is likely that without recommendations which address the causes of the problem the transfer results will likely not improve. Recommendations will be made to potentially solve the transfer process problems and hopefully increase client and employee satisfaction.

One modification which could potentially solve the problem is to go back to the old structure of the Financial Institution. As Figure 1 shows the previous structure meant that all business clients regardless of size would be served by CFS and all personal clients would be served by personal financial services. Making this change would solve the problem with the way that the revenue is captured at the VP and RVP level. To make this change it would be necessary to move the AMBP's and Sales Manager Small Business into CFS. AMBP's would no longer fulfill a clients business and personal needs. The positive impact of doing this would be two fold clients would not be moved from a department just move between account managers within the CFS platform and because the revenue is reporting only for the CFS platform there is an incentive for the CFS VP to encourage the contact activity to prevent further decreases in revenue. Furthermore by making this change, the time that is being wasted by RVP's who are involved in this process will be eliminated.

The benefit of making this change is that the previous structure worked. To accomplish this creation of responsive CFS account manager roles would have to occur. These account managers would not deal with a set number of clients rather responsively deal with needs when they arise. This will allow for specialization in business banking products and will actually drive up the level of service that Small Business clients receive. The organizational realignment can likely be done without significant displacement. The potential challenge with this solution is that it will require an organizational realignment. When these realignments happen there is the potential for lost productivity, negative client impact and potential other problems to arise.

If the primary recommendation is not acceptable the following modifications should be considered.

1. Make changes to the way that revenue is reported within the Financial Institution for clients transferred between departments. CFS has the ability to manually adjust for any clients that are moving therefore the creation of such a system in Small Business is possible. By allowing Small Business the opportunity to 'start fresh' with a client essentially not punishing them for the year-over-year negative growth which occurs Sales Managers Small Businesses focus may be directed to ensuring that the AMBP is maintain the relationship with the client to keep the revenue base up. This solution addresses one of the root causes of the problem which is the recognition of revenue. When a Sales Manager is being evaluated on revenue growth and the potential solution solves the issue with revenue growth then it is possible that the Sales Manager will place greater emphasis on contact of transferred clients. It does not however address the challenge with AMBP's being rated on sales rather than revenue. If there is no opportunity to drive sales there is still the potential for transferred clients to be overlooked as the primary motivation from an account manager is going to be to focus on clients that represent sales opportunities.

2. Prevent clients who should not be transferred between departments from being moved. One of the problems with the transfer is that clients who should not be moved between departments are being moved. For instance if a client no longer deals with the Financial Institution and this relationship ended when the client was in CFS the ability to move the empty client profiles should be removed. By preventing the movement of clients to Small Business that will have two years of negative growth there will likely be an immediate positive benefit to the perception of the transfer process from the RVP's. Furthermore this will also truly reflect CFS revenue results in the next year. This solution is quite easy to implement. Because all transfers of clients are processed at a central processing centre provide them with the mandate that no clients be moved if they no longer have any banking. The problem with this solution is it may encourage movement to happen sooner; before the relationship with the Financial Institution has ended.

3. Increase Small Business lending thresholds to build in the flexibility required to meet client needs. The Financial Institution, to prevent transfers for having to take place from Small Business to CFS immediately when a clients total borrowing exceed $250,000, should look at broadening their definition of a Small Business client. The definition of a small business is different depending on who is establishing the criteria. The most common definition of a small business in Canada is a business with annual revenues which are less than $5 million and fewer than 100 employees. When looking at the Financial Institutions definition of a small business it is

dramatically different. This difference likely exists because the Canadian Bankers Association has defined a small business as one that has authorized loans less than $250,000. By allowing flexibility in borrowing beyond the $250,000 limit t will prevent clients from having to change divisions and account managers. An example of how the limit negatively impacts clients currently is as follows. A client has $240,000 revolving loan and decide that they want to get visa cards for some employees. If the total amount available to borrow on the VISA cards exceeds $10,000 the client has to change platforms. By allowing flexibility beyond the set threshold clients will not be negatively impacted and account manager are likely going to want to fulfil the request. If an account manager is concerned that they will lose a client they may be inclined to discourage the VISA's beyond $10,000.

4. Implement automated notification to Small Business when clients are transferred to ensure that these clients receive contact. Currently when a transfer takes place there is a requirement that it is agreed upon by all parties. This is likely not happening therefore when a client is moved an automated system to notify Small Business that has been transferred would be of benefit. That way when the transfer occurs everyone is aware. This will allow for contact plans to be put in place and preventing clients from falling through the cracks. Additional programming changes will need to take place within the computer system that requests are put through which could represent significant costs to the Financial Institution.

5. Create a reporting system which tracks all movement of all clients between departments regardless of year-over-year revenue change. Until there is an accurate

reporting system in place which clearly shows the transfers when they happen, employee perception will be an issue. Because is the perception that the transfer is one sided, without full disclosure and transparency, there will never be agreement that the process is equitable.

The core problem identified within this paper is the unsatisfactory contact results which are occurring when clients are transferred between departments. Previous research completed shows that when account manager transfer is not managed effectively it can decrease a client's satisfaction. Personal contact is necessary to ensure that the transfer of account managers is handled effectively. This study shows that personal contact when the transfer happens is not occurring, and as such, client satisfaction will decrease. By accepting the primary modification suggested, the Financial Institution will eliminate the need to transfer business clients between departments. Should an organizational realignment not be a viable solution, implementation of the five modifications recommended will eliminate negative revenue consequences, prevent unnecessary transfers and accurately track all of the clients transferred to and from CFS. The implementation of these modifications will positively affect account manager's motivation to ensure that these transfers happen effectively.

6. Conclusion and Further Areas of Research

This paper examined a specific Canadian Financial Institution wherein the existing criteria and process for the transfer of business clients between two departments - and its associated employee pay-for-performance structure - puts at risk client satisfaction and impacts employee motivation.

The questions concerning the current transfer process posed were:

1. Is there a problem with the way the current client transfer process measures revenue?
2. What are the implications of transfer to overall client satisfaction?
3. What are the implications of transfer of clients to employees?

There are clear problems associated with the current processes measure of revenue recognition in that employees are not necessarily motivated to ensure that clients are contacted throughout the process. Existing literature shows that when clients are not contacted they are more likely to leave their financial institution.

It is recommended that the Financial Institution carry out more detailed research to fully understand issues. This research should be in the form of surveys of CFS account managers, Sales Managers Small Business and AMBP's. The theory applied in the research and subsequent analysis of why the results of client contact in the transfer process must be validated within the organization. Furthermore there needs to be better reporting related to transfer; data on the number of clients involved in the transfer process is incomplete. The performance measures in place, while not driving the specific desired activities relating client transfer, do drive the necessary results to sustain future performance of the Financial Institution.

The primary modification suggested here – a return to the previous structure - is likely the best solution as none of the problems related to the transfer existed under the old structure. There would however be challenges associated with an organizational change. Moving employees to another division that operates under a different platform of technology will require substantial training. Considerations as to whether there are sufficient resources, specifically people, would have to be taken into consideration need to be completed. Finally, there may be resistance within the organization to go back to the previous structure.

Should the Financial Institution not want to make such structural changes it is recommended that they implement five procedural modifications recommended. These modifications would address the issues without altering the organizational structure. Resistance will likely occur when implementing these recommendations as greater reporting will be required.

Irrespective of the changes or modifications the Financial Institution chooses to implement the key requirement is to address the revenue recognition problem and incentivize employees to complete the activities related to the transfer. Failure to address any of the issues identified in this paper will result in clients continually being to be put into situations where their satisfaction could fall and thus leave the Financial Institution.

Appendices

Appendix 1

Account manager relationship management activities	Satisfaction with account manager (Pearson r)	Overall satisfaction with financial institution (Pearson r)
Understands SME's Business	0.832	0.662
Easy to get in touch with	0.868	0.665
Is flexible in meeting changing needs of SME	0.837	0.657
Is approachable	0.731	0.557
Shows interest in doing business in the SME's industry	0.872	0.748
Has authority to satisfy most SME financial needs	0.802	0.587
Treats SME as valued customer	0.848	0.656
Is quick to react to problems	0.794	0.684
Is resourceful in finding solutions	0.883	0.705
Is reliable	0.833	0.673
Promptly follows up requests	0.866	0.683

Table A1 – 1: Account management role performance and satisfaction (Madill et al (2002, 93))

Appendix 2 – Correlation coefficient of the relationship between negative year-over-year revenue and no client contact

To determine if there was a relationship between negative year-over-year revenue to Small Business and lack of client contact a correlation coefficient analysis was carried out using Microsoft Excel. This analysis only includes clients who maintained an active banking relationship and received contact within the last six months; those that maintained an active banking relationship and received no contact in the last six months; those that maintained an active banking relationship and contact was attempted; and clients with no active bank account with other products. On the transfer effectiveness rating scale, table 1, this would include results 1, 2, 3 and 4.

	All Clients Transferred to Small Business	Clients transferred to an AMBP in Small Business	Clients transferred to a Responsive Account Manager
Correlation Coefficient	-0.0251	0.0029	0.1711
Mean result of contact from the Transfer Effectiveness rating scale	1.84	1.69	2.21

Table A2 – 1: Results of the correlation coefficient analysis broken out by all clients, clients transferred to an AMBP and clients transferred to a responsive account manager.

The table shows a very weak relationship between negative year-over-year revenue to Small Business and lack of client contact. Regardless of whether the analysis was completed on the 176 clients transferred with an active banking relationship, or were broken out by clients transferred to an AMBP or responsive account manager, the correlation coefficient was very small. This indicates that it is not possible to say with statistical confidence that if a client has negative year-over-year revenue growth than they are unlikely to be contacted. A client could have positive year-over-year revenue growth and still not be contacted. Additionally, in each of the situations the mean result according to the transfer rating effectiveness scale was closer to two, which indicates that a greater proportion of clients transferred were not contacted.

The limitation of this analysis is that there are only four degrees of freedom. As such the correlation coefficient analysis is not an effective analysis tool given this particular situation.

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