Intangibles as Determinants of Performance in Society.

The program is focused on assessing the importance of intangible performance indicators to elevate the financial performance of an entity (company, organization), and on industry levels. In this research the potential value of Customer Perception (CSI) as well as (perceived) Loyalty is viewed as driving the financial performance. More specifically we analyze whether it is possible to base a decentralized planning and monitoring structure on customer related KPIs in order to achieve good overall performance for the company/group. Possible conflicts between different levels in an organization are at focus.

Satisfied customers are central to good financial performance and financial returns according to conventional theory. In many places in the world, business organizations have been elevating the role of the customer to that of a key stakeholder over the last decades. Customers are viewed as a group whose satisfaction with the enterprise must be incorporated in strategic planning efforts. Forward-looking companies are finding value in directly measuring and tracking customer satisfaction as an important strategic success factor. Evidence is mounting that placing a high priority on customer satisfaction is critical to improved organizational performance in a global marketplace.

Based on a theoretical assessment, a hierarchy of structural models are devised on a combined time-series and cross–section (panel and multi-level) approach. General financial data for the empirical modelling is compiled from national and international databases (Alla Bolag, IMF/IFS, Bloomberg, Eurostat, etc.), and company specific data from the studied corporation. Customer perception data (like CSI and loyalty) are taken in the first instance from the EPSI-initiative database Annual observations for the period 2001 – 2015 and quarterly for Q1_2008 – Q4_2015 are utilized in the estimation phase. A number of different multi-level algorithms in Stata14 are considered and results extensively quality controlled. The finally communicated and implemented results are based on models estimated by Arellano-Bond procedures, (Miileva, 2007).

The core finding is that it is effective to regularly monitor CSI (measured by EPSI) as a forward-looking indicator for understanding future financial performance (measured the way the studied bank does). The lead time from realized CSI to main effect on financial performance is up to one and a half year. Further on, it is illustrated how operational instruments can be used on different aggregation levels to enhance CSI. This is most efficient on corporate level and for individual branches, while the regional level (6 Regions considered) appears less effective for policy management purposes in this context. Strong heterogeneity within the regions is considered as main cause of this challenge.

The results are sensitive to the choice of customer perception measure. As an example, the often referred to indicator NPS – Net Promoter Score – does hardly show any significant relationship to financial performance.

The statistical properties of the model system are very strong, and fairly stable over time. On average, an improvement of one percent in customer satisfaction will enhance the financial performance (measured as market capitalization) with 5 percent (already within one year). On branch level an increase of one percent in CSI leads to about 5 percent of improved cost/income-ratio in a year´s time. It should be noted that the results are symmetric and goes also the other way (reduced CSI will generated deteriorated financial performance).'

The research team is composed of the following people:

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- *Johan Adolphson, University of Stockholm, Accounting (affiliated).*

Working papers within the program (most of them presented at international conferences and a few in the process of being submitted to scientific journals):

Adolphson, J., J. Eklöf, J.Parmler, 2012a, Intangibles as determinants of performance in society - Research program design plan. SSE working paper, Stockholm 2012.

Adolphson, J.; Eklöf, J.; Parmler, J., 2012b, *Outside-in Inside-out: Explaining Financial Performance in the bank sector by (also) non-financial measures*, SSE, Stockholm.

Adolphson, J., J. Eklöf, J.Parmler, 2013, Customer Satisfaction as a key Performance Indicator in Decentralized Corporate Management. EPSI working paper 1:2013.

Eklöf, J. A., Adolphson, J., 2013, Best Practice in Health care and benchmarks to other Public sectors - Analysis based on Survey data focussing on intangibles. Invite Conference paper ICIT-18.

Eklöf, J., A., Hellström, K., Malova, A., Podkorytova, O., Parmler, J., 2016, Customer perception measures driving financial performance theoretical and empirical work for a large decentralized banking group, Invited paper to 4th PMA Conference, Edinburgh, 2016.

Hellström, K., Eklöf, J., Parmler, J., (2016) Non-financial performance indicators driving Financial Performance – industry benchmark, working paper, SSE, Stockholm.

Malova, A., Podkorytova, O., Eklöf, J., (2016), *"Customer satisfaction and market capitalization - International outlook", Working Paper, SSE, Stockholm.*

The final output of the program is planned to be presented in the form of a monograph for both academia and practical management use in order to enhance use of customer perception indicators in strategic work on corporate and industry levels.