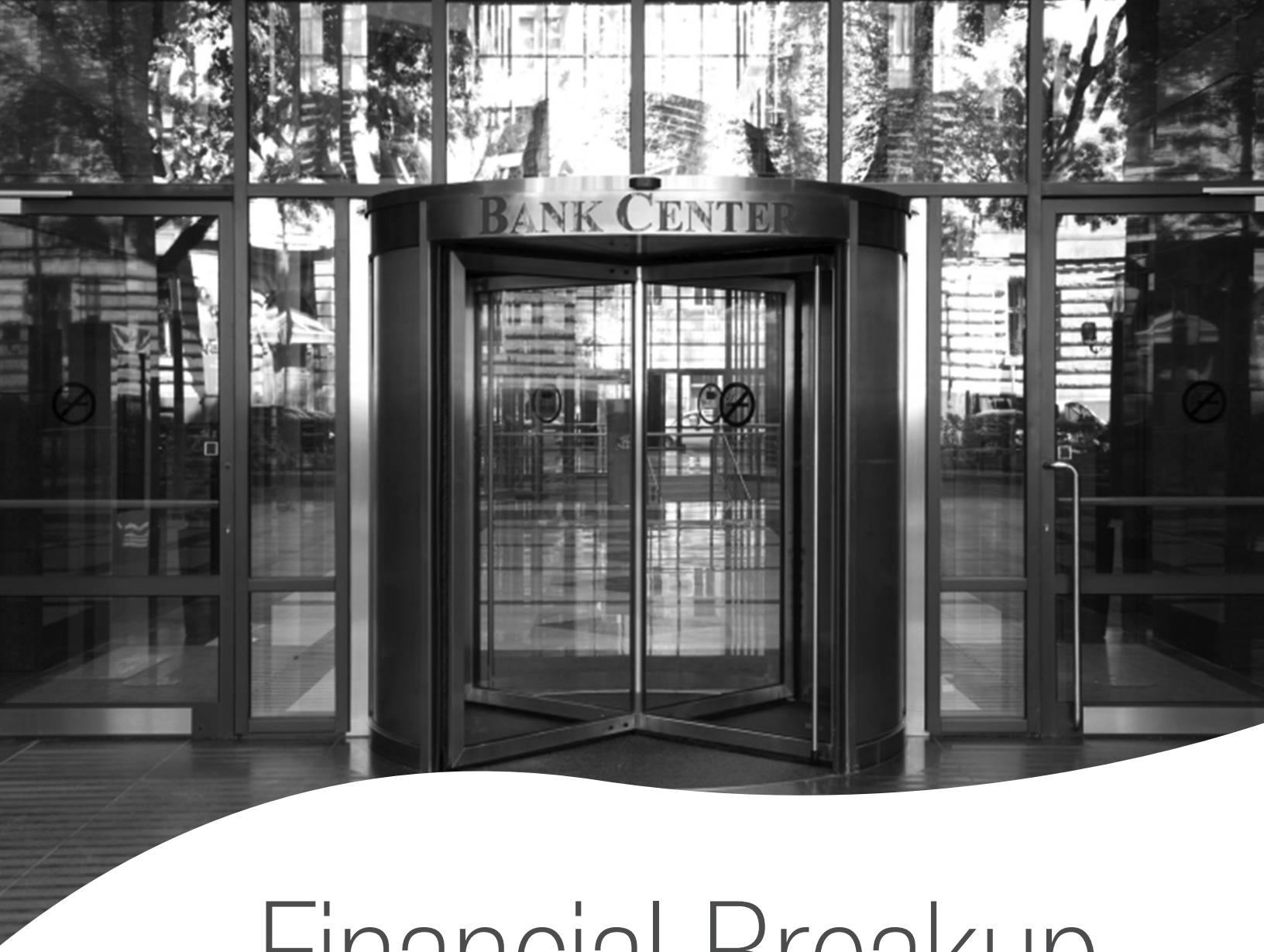



# Financial Breakup

## The Four Crucial Conversations that Drive Customers Away

By David Maxfield and Joseph Grenny

crucial conversations®

VitalSmarts®

# Financial Breakup

## The Four Crucial Conversations that Drive Customers Away

*"When my short sale was complete and I had the ability to make changes, I sent [termination] letters to the headquarters, the finance manager, and the loan representative. I wrote them much as I would if I was breaking up with a boyfriend. 'It's not me it's you. This relationship clearly meant more to me than it did to you. I will remember the good days when we called one another by our first names and I felt like I had something special. I am giving you back your debit card, credit card, and address labels. Please don't call or write—we both know this is over.'"*

Disenchanted Bank Customer

## Do financial institutions need to care about the breakup? What is customer loyalty worth?

Multiple research studies confirm that creating customer loyalty can spell the difference between profit and loss for a financial institution. Not only is attracting new customers expensive, but loyal customers purchase more services and provide new referrals.

The financial services industry has entered an era of mature markets, complex regulation, and intense competitive pressure. Customers have more choices than ever before, and their loyalty to a credit union, bank, credit card company, insurance company, accountancy company, consumer finance company, stock brokerage, or investment fund has become a precious asset. So what is it that drives customers' loyalty? It has never been more important for leaders in financial services to understand the drivers of customer loyalty and defection.

In 2013, VitalSmarts conducted a series of three research studies to examine why customers quit their financial services provider (FSP).

**The first study examined** the reasons customers choose an FSP. Here we found that convenience and reputation lead to FSP selection.

**The second explored** why customers quit. This study showed that painful interpersonal interactions explain most customers' disloyalty. Surprisingly, we found that poor handling of just four crucial conversations incite the majority of customer defections.

**The final study examined** the conditions that cause FSP employees to mishandle the four crucial conversations that drive customers away. We found that a small number—just five—of common internal challenges lead to the vast majority of missed opportunities to secure customer loyalty. Interestingly, the study showed that the problem is not these five challenges. The problem is that employees generally don't confront, discuss, and resolve these issues. It's the undiscussability of these challenges that leads to persistent problems and customer disloyalty.

### Report Overview

This study combines data gathered from approximately five thousand customers and one thousand employees of FSPs who took part in one of three research studies.

The first half of this report describes the three studies outlined above. The first study identifies the crucial conversations that undermine

customer loyalty within the financial services industry. The second study traces these loyalty-killing interactions back to five challenges employees face within their organizations. The third study evaluates each challenge along four dimensions: how common it is; how costly it is; how discussable it is; and how solvable it is. This study also evaluates the impact these internal challenges have on customer loyalty, productivity, quality, and employee engagement within FSPs.

The second half of the report describes the skills successful employees use to navigate the five internal challenges—how they make them discussable and solvable. We conclude with strategies successful organizations use to build skills and change their culture to make employee challenges less common, less costly, and more discussable and solvable.

## CUSTOMER LOYALTY **Challenges & Opportunities**

**Loyal customers reduce** the need to attract new customers, which is five to six times more expensive than retaining existing ones (Bhattacharya, 1998; Colgate and Danaher, 2000; Rasmusson, 1999).

**Loyal customers purchase** more services (Paulin et al, 1998; Ganesh et al, 2000), and are less costly to serve (Ganesh et al, 2000; Paulin et al, 1998).

**Loyal customers provide** new referrals through positive word-of-mouth for the company (Ganesh et al, 2000; Colgate et al, 1996), and are less sensitive to competitive marketing activities (Colgate et al, 1996).

# Study #1. Customer Loyalty-Killing Interaction

## Meet Ramon

Ramon is a forty-something software sales manager who supports a three-state market. When he moved to Colorado, he opened an account at the local branch of a national bank. He described his reasons as "convenience, reputation, and . . . convenience." The local branch was just two blocks from his condo and had ATMs near his office, at the airport, and in most of the cities where he traveled for work.

Over the next decade, Ramon expanded his banking relationship from savings and checking accounts to a home loan and student credit cards he cosigned with his two daughters.

Ramon might have stayed forever, except for an incident that happened about a year ago. He went through a divorce and was distracted for a time. He missed a payment on one of his daughters' credit cards and not only was he charged a late fee but the interest rate on the card doubled.

Ramon went to his bank, explained his situation to a teller, and asked the teller to reverse the changes. The teller told him the fine could be reversed, but the interest-rate increase could not. Ramon asked to speak to a manager who confirmed what the teller said. Ramon told the manager she should give him more respect because of his history with the bank. The manager replied, "You would get more respect if you paid your bills on time."

Angry, Ramon cancelled all of his business with the bank.

### How Customers Choose and Quit

Our first research study focused on interactions that destroy customer loyalty. Ramon's reasons for quitting are typical of what we found in our research.

This study began with a survey of 5,352 people to learn about their experiences as FSP customers. We examined how these people choose providers, and the reasons they quit. We analyzed the findings from this survey using a paired-samples t-test. The results of this analysis are detailed in Table 1.

Convenience and reputation are the top two reasons customers gave for *choosing* a financial services provider. While reasons for selection were objective and impersonal, we found that the reasons for quitting were highly emotional and intensely personal. Respondents cited a bad personal interaction with a service provider—interactions described as rude, uncaring, and unhelpful—as the #1 reason they *may quit* a provider. Cost was close in importance, but a clear second.

We also asked respondents if they had ever had a high-stakes conversation that was so negative it caused them to seriously consider stopping their business with the FSP.

3,600 respondents answered yes—that they had experienced this kind of loyalty-killing interaction with an FSP. Sixty-four percent of them (1,148 people) actually stopped—with 5 percent (97 people) returning later.

### Types of Negative Incidents

If respondents answered yes to having experienced loyalty-killing interactions, we asked them to describe the negative incidents. We collected 1,679 stories, averaging 188 words—a rich source of qualitative data. Three judges independently grouped these stories into themes, and then used a consensus-building process to consolidate them into the four categories described below.

TABLE 1

# CHOOSING & QUITTING

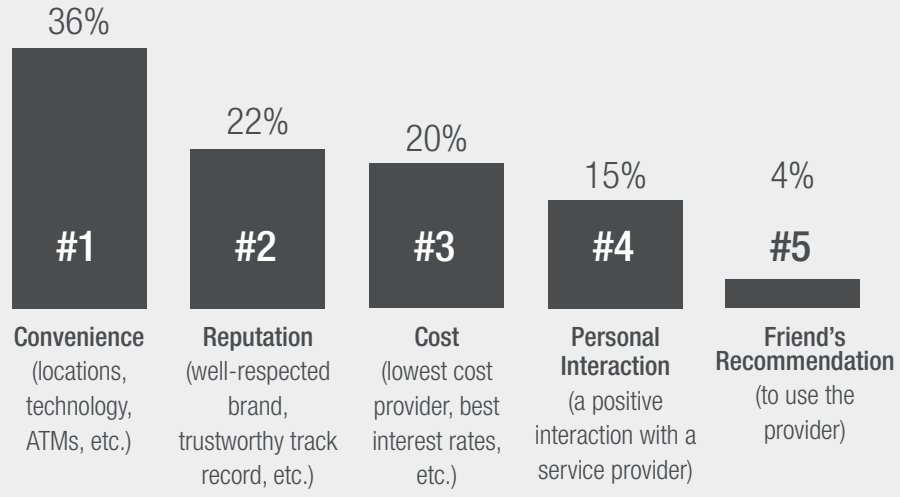
## a Financial Services Provider

5,352 people completed a survey asking about their experience with their FSP—their credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, and investment funds. We compared their reasons for choosing and their reasons for quitting, using a paired-samples t-test.

The findings below confirm that people choose a financial services provider based on convenience and reputation, and quit because of a bad personal interaction.

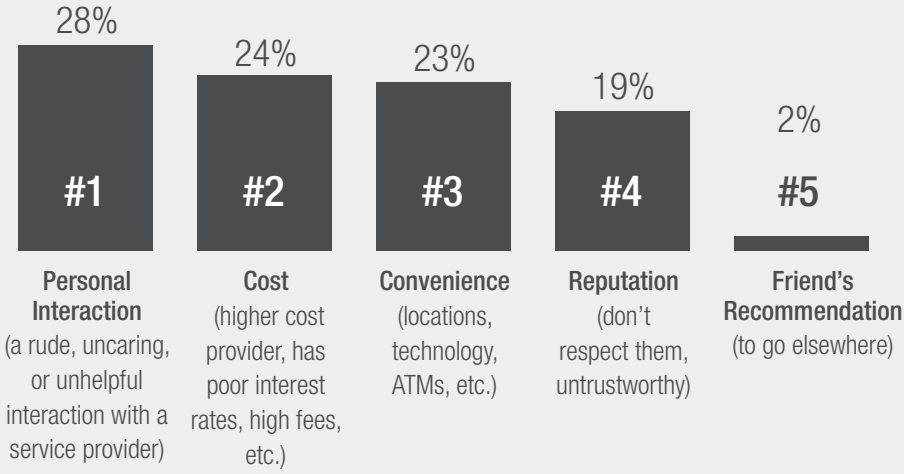
## CHOOSING

Reasons people give for choosing an FSP (shown as rankings):




## QUITTING

Reasons people give for quitting an FSP (shown as rankings):




### Paired Samples T-Test Findings

**Personal Interaction and Cost were significantly *more* important factors in quitting than in choosing an FSP.** In fact, a personal interaction nearly doubled in importance. Interactions described as rude, uncaring, or unhelpful are loyalty killers ($p < .05$).

**Convenience, Reputation, and a Friend's Recommendation were significantly *less* important factors in quitting than in choosing an FSP.** These considerations are more related to customer acquisition ($p < .05$).

## Four Crucial Conversations that Drive Customers Away

**1. You see me as a transaction not a relationship.** This interaction involves customers who make a one-time mistake or are in a special circumstance that results in fees, fines, or changes in interest rates. The customer believes the incident should be treated as an exception and wants the organization to reverse or waive the charges. The customer may have a positive history of payments, a number of accounts, a large balance, a personal relationship, or other factors that they believe should cause the firm to make an exception. Customers who think they deserve long-term loyalty but are disappointed conclude the FSP cares only about extracting maximum value from each transaction.

*"My husband unexpectedly passed away at the age of forty-three. My kids and I travelled to his hometown for the funeral services. Apparently in my dismay, I transferred money into the wrong account. The bank charged me $70 in overdraft fees. I hoped that a personal face-to-face interaction with my local branch would offer some compassion. She proceeded to tell me she was sorry but there was nothing they could do. I calmly said that since they were more interested in collecting fees than providing compassion to their customers I would close my accounts at that time."*

**2. Your policy is more important than my problem.** This interaction involves customers who believe that a policy is unfair, petty, overly rigid, or takes advantage of their business. All the customer really wants is individual treatment and he or she believes the organization or employees are hiding behind policies and technology—or failing to listen to their concerns.

*"I work for the state—a very secure organization—and brought in my salary check on the last day of the month. The date on the check was the next day—the first of the next month. They refused to let me deposit it saying that the check wasn't good until the date on the check. We often get our paychecks one or two days before the first of the next month and the checks are always dated the first. I let the employee know that I'm aware that other banks don't have a problem with cashing the state checks when they are issued but the attitude felt like 'then go there.' So I did and haven't had any problems like that since."*

**3. Guilty until proven innocent.** This interaction involves customers who believe the way they are being treated is demeaning. For example, an FSP—or employee—accuses the customer of lying, is patronizing, refuses to let the customer speak to his or her manager, shows impatience, or is disrespectful because of the customer's race, sex, clothing, or class.

*"I called a bank regarding money that did not dispense from their ATM—however it had recorded on my bank statement that it had dispensed. I called customer service only to be told that they didn't handle those issues and that the bank that owned the ATM should handle it (even though it was their ATM). I explained this again and the response was 'Are you sure you aren't lying?' When I explained again what happened the employee became very agitated and yelled 'I already told you to call the bank that owns that ATM.' I don't use that bank at all. Ever."*

**4. "Sorry" seems to be the hardest word.** This interaction involves customers who believe the FSP has made a mistake and isn't taking responsibility for it. The customer loses faith in the competency of the provider, which often means losing faith in an entire FSP. Examples include money taken or deposited in the wrong accounts, mistakes in contracts, lost information, unreasonable delays, finger pointing, etc.

*"I went to this bank a few days after setting up an account (which took a couple hours). They mistakenly set up an estate account when it should have been a trust account. Although they were in the wrong, they refused to change the account to the correct type—all the time agreeing it was the wrong account type. This was the decision of the assistant branch manager."*

Poor handling of these four crucial conversations will drive away customers who are otherwise loyal, profitable, and desirable.

Occasionally, the poor handling may be attributed to the actions of an individual employee who is rude, uncaring, or unhelpful; however, most negative incidents cannot be attributed to this alone. Poor customer interactions are often the tip of an iceberg of problems that lie deep within the culture of the financial services industry. We decided to delve deeper and examine other cultural conditions that affect an employee's ability to positively mitigate customer concerns.

## Meet Alexis

Alexis arrived at work early on Monday to prep for an 8:00 a.m. conference call with a compliance team at corporate. While she was on the call, multitasking with her e-mail, other calls backed up. Following her morning meeting, she worked the phone until 11:00 a.m. without pause. By then, she'd been thrown several unexpected curveballs: five store visits that had to happen over the next week, interviews to replace a branch manager, a store that was off track on a major project, and a meeting about an incident of possible harassment. All of this was piled on top of her already busy week.

## Why Employees Predictably Fail at the Four Crucial Conversations

Our second research study asked employees from a wide range of financial services organizations to describe incidents that make it difficult to provide effective customer service. Our research revealed that Alexis' experience is common within the financial services industry. Operations are lean, issues are complex, and change is constant.

We collected incidents from 463 employees. These incidents provided detailed qualitative data. Three judges independently grouped these incidents into themes. These themes were consolidated, using a consensus-seeking process, into the five internal challenges described below.

1. **Overwhelmed and missing help.** An employee is overwhelmed with tasks that need immediate attention, or by customers who need immediate help. Examples include: an unexpected rush of customers, too few employees trained to do a particular task, a technical issue that has caused a backup, staff who are missing or unavailable, or lean staffing in general. As a result, tasks don't get done on time or to quality specs, employees become frustrated and feel demoralized and unsupported, and customers become upset.

*"I had multiple promotions out of my branch in a short period of time without being able to replace those individuals in a timely manner. I also had a massive change in my teller staffing which left me with two tellers, one part-time teller, and no service manager for three months. We struggled in customer service, Saturday rotations, and overtime issues. We were unable to get help from other branches during this time. Everyone was stressed and customers were very unhappy with the time it took to complete simple transactions."*

2. **Missing information.** An employee lacks the information that is needed to correctly complete a task. Examples include: new employees or newly promoted employees who are on their own, missing or inconsistent information, conflicting instructions, and decisions that are overruled without explanation. As a result, errors get made, procedures are delayed, employee morale and engagement suffer, and customers get poor service or experience problems resulting from bad information.

*"I was asked to complete a project by my department manager. The guidelines and expectations for this project were not clearly identified and communicated to me. Furthermore, I was very unfamiliar with the subject matter. I asked for more clarification but was not provided any additional information. It appeared to me that others expected me to complete this assignment on my own, without me pushing for more directions. I felt like I did not receive any support from the management. The project took a lot of time and effort to complete. At the same time, my stress level was increasing and it was affecting my work and personal life. I ended up completing the project, spending a lot of time on details that proved not to be necessary. If I was given clear instructions and expectations, I would have completed the project much faster, more effectively, without wasting precious time on too many details, and causing myself stress in the process."*

3. **Left out or shut down.** An employee wants to be involved in decisions, but doesn't feel heard. Examples include not having an opportunity to comment on ideas or plans, being rule-bound when addressing a customer concern, not being involved in decisions that affect conditions at work, and not receiving career feedback and coaching. As a result, decisions are not understood or accepted, employees feel devalued, and customers feel dissatisfied with the organization. In addition, employees conclude that compliance is more highly valued than initiative. This shows up in customer interactions as a higher regard for bureaucracy than for service.

*"My biggest stressor at work is not being able to give my opinion or feedback without fearing my manager is going to take it as me not being a team player or me being negative. I am a team player! My manager says he wants me to be honest and direct with him and that I can talk to him about anything, yet when it really comes down to it, I can't. If I share my opinion, even if I just need to be heard, he thinks I am being negative. I have tried SEVERAL different approaches, none of which seem to work. Now, I keep my opinion to myself and just do what he says. The hard part is, I have a lot of experience and I feel like there are times my ideas should be tried. But it's not worth being perceived as 'not a team player.' I am very passionate about my job and sometimes that passion can be taken as being negative, no matter how direct, tentative, or diplomatic I am. My manager's actions just make me feel shut down and less valued."*

4. **Disrespected by a customer.** A customer bullies, insults, interrupts, shouts at, or otherwise abuses an employee. Sometimes this occurs because the employee isn't listening to the customer or expressing empathy about a customer's concern. Other

times it occurs even though an employee is doing exactly what the customer wants, but the customer is unreasonable. The result is that the professional environment suffers, the customer experience gets undermined, or an employee feels angry, unsafe, and unappreciated.

*"I received a call from a customer who had attempted to make a payment at a financial center and their payment was not accepted. The customer was very loud, aggressive, and accusatory. The customer did not want to hear details of the situation; he only wanted to have us accept his payment. I couldn't understand why the borrower was yelling and making insults without knowing the situation and not allowing me to provide him assistance. It was very frustrating and stressful."*

**5. Performance problems.** An employee has concerns with another employee's performance or with the performance of another area in the organization—for example with a person's decisions, behavior, timeliness, mistakes, professionalism, etc. As performance problems persist, the employee concludes that leaders are avoiding the problem—selling out high standards for a false sense of harmony. These problems may involve peers or managers, may occur in front of customers, and may center on sensitive or embarrassing topics. Over time, frustrated workers lower their expectations and settle for mediocrity.

*"I work with another lead teller who seems to 'drop the ball' on a lot of things. The other day, she sent me an e-mail stating that she had taken care of all the end-of-the-month security things. The following week, she went on vacation. As I was working and putting things in folders, I realized she had not taken care of any of the end-of-the-month things. All of the ATM receipts, night drop receipts, main cash, and loan/membership sheets were still mixed up and in the folders instead of bundled. She never follows through with things and the tellers come to me to be submitted for trainings or tests. I have talked to my manager several times about what is going on, he is aware and has talked to his supervisors about the issue. However at this time nothing has been done."*

## Study #3: Evaluating these Internal Challenges

In the third study, we surveyed a second group of 274 employees of financial services organizations and asked them to evaluate each of the five internal organizational challenges along four dimensions:

**Common**—how often they encounter the challenge.

**Costly**—the range of negative impacts the challenge creates.

**Discussable**—whether the challenge is addressed promptly in a direct, honest, and respectful way.

**Solvable**—whether the discussions resulted in an effective solution.

Within the four dimensions, respondents could select among several options. The results are presented in the table below. The number indicates what percent of respondents selected the option. A t-test was performed on the "solvable" dimension to measure the impact that an effective discussion has on the solvability of a challenge. The difference between discussions that go well and those that don't is statistically significant ($p < .05$) for all five challenges.

### Summary of Findings

**1. Each of the five internal challenges is common.** *Four challenges are experienced by more than nine out of ten employees, with about three-quarters of employees experiencing them at least once a month.* The remaining challenge, Disrespected by a Customer, is less common, but still experienced by two-thirds of employees, with more than a quarter experiencing it at least once a month.

| 4 DIMENSIONS | 1. Common | | 2. Costly | | | 3. Discussable | 4. Solvable | |
|---|---|---|---|---|---|---|---|---|
| 5 CHALLENGES | Occurs at least once | Occurs at least monthly | Impact on Customer Loyalty | Impact on Employee Engagement | Impact on Business Results | Discussed Well | Solved If Not Discussed Well | Solved If Discussed Well |
| **1.** Overwhelmed and Missing Help | 94% | 75% | 57% | 91% | 91% | 15% | 2% | 55% |
| **2.** Missing Information | 94% | 73% | 42% | 83% | 90% | 25% | 2% | 73% |
| **3.** Left Out or Shut Down | 97% | 75% | 48% | 96% | 87% | 9% | 3% | 48% |
| **4.** Disrespected by a Customer | 66% | 27% | 46% | 83% | 58% | 35% | 5% | 75% |
| **5.** Performance Problems | 96% | 73% | 38% | 92% | 88% | 10% | 3% | 61% |

**2. Each of the five internal challenges results in significant costs,** which respondents expressed by selecting among three options we provided—that the challenge impacted customer loyalty, employee engagement, and/or business results.

**3.** A large majority of respondents indicate that, **when these internal challenges occur, they are not promptly discussed in a direct, honest, and respectful way.**

**4. A large percentage of these internal challenges are solvable,** but only if they are promptly discussed in a direct, honest, and respectful way. When they are not discussed well, almost no respondents say that the challenges are solved.

*When they are discussed well, then between half and three-quarters of respondents say they are solved.*

## Overall Performance

We also asked this second group of employees a series of questions to evaluate their organizations' overall productivity, quality, customer satisfaction, and employee engagement. We averaged the four categories together to form a measure of overall performance. As detailed in the sidebar, the five internal challenges combine to undermine overall performance. The greater the frequency of these challenges and the lower their discussability and solvability, the poorer the overall organizational performance will be.

We also looked at the data from a different perspective. We correlated each of the four dimensions with the overall performance measure. We learned that the frequency, impact, discussability, and solvability of the challenges are independently correlated with overall performance as detailed below.

- The more frequent the challenges are, the worse the performance. Where challenges are frequent, performance is 32 percent lower than where challenges are infrequent.
- The more impact the challenges have, the worse the performance. Where there are many areas impacted, performance is 12 percent lower than where there are few areas impacted.
- The more discussable the challenges are, the better the performance. Where these challenges are discussable, performance is 22 percent higher than where challenges are undiscussable.
- The more solvable the challenges are, the better the performance. Where these challenges are solvable, performance is 26 percent higher than where challenges are unsolvable.

## Solutions

As the data suggests, widespread competence in speaking up and solving internal challenges that negatively impact customer experience and loyalty is missing in most financial services organizations. And yet, retaining loyal customers makes financial sense and cents. Customers end their "relationship" with their bank, credit union, insurance agency, accountant, credit-card company, or investment fund because of a bad personal interaction with a service provider. Financial institutions need to care about the breakup.

So what will it take to move these internal challenges from common and costly to discussable and solvable? We found the answer to this question when we focused on the small percentage of our respondents who were able to discuss and resolve these five internal challenges. We examined their stories to discover the skills they employed.

We learned that these successful employees aren't using novel skills, but that they use the skills they have more consistently and reliably. They are maintaining open dialogue and holding people accountable even when the circumstances have become risky, adversarial, and emotional.

# IMPACT
## on Overall Performance

The survey included summary measures of productivity, quality, customer satisfaction, and employee engagement. These measures were averaged together to form a performance scale (Cronbach's alpha = .87).

A multiple regression was used to measure the combined impact the five internal challenges had on this performance scale.

The R = .55, which shows that these five internal challenges have a significant and substantial impact on overall performance.

Summary scales were created for the categories of common, costly, discussable, and solvable by averaging scores across the five internal challenges. These scales were reliable, Cronbach's alpha > .75. These scales were then correlated with overall performance with the following results:

**Frequency and Performance:**

$r = -.43; p < .05$

**Impact and Performance:**

$r = -.23; p < .05$

**Discussability and Performance:**

$r = .34; p < .05$

**Solvability and Performance;**

$r = .30; p < .05$

Below are the skills we observed most often:

1. **Controlling emotions.** Employees may have felt frustrated, upset, or angry, but they found a way to gain control of their emotions before having the conversation.

*"I was pretty mad about the situation she had put us in. I had to really think about how I could put my anger aside and focus on getting a resolution for my clients."*

2. **Clarifying intentions.** They explained the positive reasons for their actions so the person didn't feel attacked.

*"I explained to her that what we are doing is not an attempt to 'micromanage' but to help her succeed in the department. Our job is to help her succeed."*

3. **Confirming facts.** They made sure they had the facts they needed, and then began with the facts rather than with conclusions or emotions.

*"I pulled together the facts and approached her in a very non-confrontational manner."*

4. **Involving others.** They asked for ideas, so that the other person could become part of the solution.

*"I asked her to help me understand the things that she did."*

These skills are the fundamentals of dialogue and accountability. The successful employees we surveyed showed us that these fundamentals are the answer to the five internal challenges identified in this study. If we could clone these successful employees, or influence their peers to follow their lead, we would solve a major obstacle to customer loyalty within the financial services industry.

The goal for leaders then is to create dialogue and accountability as a cultural norm across their organizations, and to make sure this norm is followed in even the toughest situations—namely, when employees face these five internal challenges.

## VitalSmarts Can Help

### FSP leaders need to make improving employees' skills one of their top priorities.

The reluctance to speak up and both discuss and solve internal challenges that negatively impact customer service is deeply rooted and it will take a concerted effort by leaders to create lasting improvements. Here are a few recommended next steps:

1. **Establish a baseline and a target for improvement.** The fundamental principle of organizational attention is that if you don't measure it, you don't care about it. Survey your organization to establish a baseline measure of the four crucial conversations that drive customers away as well as the five internal challenges and set a clear target for improvement. Update the baseline at least quarterly so people can be rewarded and held accountable for progress.

2. **Teach your employees world-class skills.** A handful of people in your organization are already speaking up and solving problems for both the organization and its customers. Training can be a powerful way to help others speak up and effectively solve internal challenges that affect customer loyalty.

We've distilled this high-leverage skill set into our award-winning training programs, Crucial Conversations® and Crucial Accountability™. These resources have a proven track record of leading organizations to results, and when customer loyalty is in question, results don't just mean improvements in satisfaction, results mean improvements in bottom-line performance.

3. **Target The Six Sources of Influence™.** Once you've taught your employees crucial skills, guarantee the success of your training initiative by identifying the few vital behaviors that, if changed, will lead to the performance results you desire. Then, ensure these behaviors are adopted by targeting The Six Sources of Influence that both motivate and enable your employees to change. Our research shows that when used appropriately, this influence process will increase your chances of a successful culture change tenfold. For a complete description of The Six Sources of Influence, as well as instructions for how to apply the "Change Management Approach of the Year" in your organization, see www.vitalsmarts.com/influencerreport.

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