

The Belief Trade-off: Customers or Efficiency First?

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Understanding customers and acting on that understanding is critical to success – so say 62.7% of senior executives. Yet only 24% adopt a customer-led approach to running their business. Our data collected from 454 executivesⁱ suggests they are either customer-led or efficiency-led and that only the customer-led approach contributes to competitive success. Given the gap between what is said and what is done, we urge executives to challenge themselves and colleagues to be more honest about what they believe really drives competitive performance, so that words and actions are aligned. In addition, we encourage them to recognize that their company’s interests are best served by putting customers first. And we encourage action and learning around initiatives that could demonstrate this clearly. This is what grows shared belief that these less common ways of working lead to success.

Customers matter...

Of course they do, or so executives we regularly meet and work with like to assert. But so do finance, people, operations, innovation and lots more. When we asked respondents to name the top 3 contributors to performance from a list of 12 factors suggested to us during in-depth interviews of 50 executivesⁱⁱ, 4 were mentioned significantly more than others - customer understanding and response, people, operational excellence, and innovation.

Figure 1: Performance Drivers: Espoused Beliefs



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Further, the most common *combination* of “top three” factors were customer understanding and response, operational excellence and people (47 respondents reported this combination).

Yet they lose out...

Our survey suggests that, in practice, customers lose out to other more influential stakeholder groups and to other priorities. When forced to identify which of two rich descriptions of a business most closely reflects their own, describing what gets said and what gets done, only 24% of respondents claim to both prioritize customers *and* run a business model designed first and foremost to create customer value which will go on to allow the business to earn an attractive return. Most respondents (45%) reveal a less decisive approach that covers more bases. While acknowledging the importance of customers, for them customer understanding is just one of many important capabilities such as product excellence, R&D leadership, scaling, cost cutting and operational improvement and thus their business models are designed with all of these in mind. These two groups of respondents have the merit of being consistent – what they say matters is followed through in their actions. By contrast 11% of respondents claim they prioritize customers over other stakeholders, but they are less attentive to them in practice. Curiously, while 20% of respondents pay significant attention to creating customer value in practice, they do not see themselves as being customer-focused per se. Rather, they see themselves as focused on “products, finances, operations, competitors, the stock market and on other subjects, including customers, *as the need arises*.” These could well be customer-led as they naturally focus on responding to customer needs, seeing all of the other activities as important in generating as response, creating value for customers and, as a result, also for all involved.

Figure 2: The Gap Revealed: Beliefs in Practice

| | | | |
|---------------------|---------------------|----------------------------|------------------------------------|
| What you say | Customer Excellence | Pretenders (11%) | Customer-led (24%) |
| | Business Excellence | Other-led (45%) | Customer-attentive (20%) |
| | | Business Excellence | Customer Excellence |
| | | What you do | |

Of the four archetypes represented in Figure 2, “customer-led” is reported as having the highest, and “other-led” the lowest, competitive performance. No surprise then – beliefs matter. And they matter a lot because when they are genuinely held, not just spoken about, they

² Performance is measured by the respondent’s assessment of their own company’s sales growth, operating margin, profit growth, market share and return on assets, all relative to their main competitor in their principal served market over the last year.

determine everyday actions, priorities, assumptions, policies and procedures. They explain decisions such as who gets promoted, which budgets are cut and how the senior team spends its time. What we are describing here are the shared beliefs of a group of people. Shared beliefs are invisible to all except new hires and they tend to be unrecognized. An individual with different beliefs will usually adjust to fit in with the group. There are always shared beliefs. These particular shared beliefs explain how managers define success, and what they assume leads to being successful. They explain, for example, whether creating customer value in new and better ways is seen as the ultimate goal and the way to win, or whether hitting the numbers more directly is seen as the route to success. Acknowledging the numerous drivers of corporate performance and the complex interactions between these drivers, we set out to explore the effects of the critical elements on our model of company performance.

So, what is really going on?

We know executives often say customers matter. While this may be so, our data suggest that for many of them, other stakeholders and priorities hold greater sway. It is rare for any executive to argue that a stakeholder group is unimportant. Yet executives have mental maps of what works for them, which stakeholders are most important, what matters “in the end” or, to summarize, what they “know” success looks like and what drives it too. They may not express it directly, but through their actions and words they create a body of evidence revealing, sharing and enlisting others in the beliefs of the dominant group. We went in search of the executive “tell”. Like a poker player, who in moments of stress reverts to a classic behavioural tic that reveals her hand, the executive will under certain conditions reveal beliefs about what drives performance. Our exploratory interviews identified three specific “tells”: Employee beliefs, adaptiveness and responsiveness. Here’s what we found.

- 1) Employee beliefs, learned from interpretations of top managers’ actions, and from those of colleagues around them, are largely responsible for how they conduct themselves and discharge their responsibilities. Recognizing that beliefs are complex and multifaceted, we asked executives to assess the extent to which employees believe the company is about five different factors: the numbers, being lean, being compliant, being fast and focusing on customers.

Table 1: Employee Beliefs

| What employees believe is important | % agreeing or agreeing strongly |
|-------------------------------------|---------------------------------|
| “The numbers” | 57 |
| Lean | 46 |
| Compliance | 55 |
| Speed | 56 |
| Customers | 79 |

Our survey confirms a view that many things matter: A majority agree or strongly agree that each factor is important, with a lower outlier – lean – and a higher one – customer.

- 2) The adaptiveness of the organization in the face of intense environmental change is a requirement for survival. The behaviours through which companies adapt reveal the depth of their commitment to being customer-led. We asked executives to identify the extent to which the following had been strengthened or weakened over the last five years: the clarity of shared understanding of the key customer, the focus on satisfying clearly identified customer segments, the ability to bring innovative customer propositions to market and, finally, employee engagement.

Table 2: Adaptiveness

| What has been strengthened over the last 5 years in the face of persistent environmental changes | % reporting somewhat or much stronger |
|--|---------------------------------------|
| Customer understanding | 69 |
| Customer satisfaction | 74 |
| Customer proposition | 61 |
| Employee engagement | 49 |

Our survey confirmed that most executives believe their company adapts their approach to creating customer value in the face of changed circumstances.

- 3) The responsiveness of companies faced with emerging competitors is another stress point that allows us to reveal strongly held beliefs. We asked executives to indicate how they respond when a competitor emerges and gains traction, even with respect to a small section of their market. Do they stick with their established approach, wait for another competitor to respond first, publicly challenge the newcomer's approach, buy and integrate it, or study its approach and adapt as required?

Table 3: Responsiveness

| Typical response in the face of an emerging competitor | % agreeing or agree strongly |
|--|------------------------------|
| No change: Stick with established approach | 57 |
| Wait for someone else to respond first | 20 |
| Publicly challenge the newcomer's approach, highlighting any weaknesses detected | 22 |
| Buy, learn, incorporate | 21 |
| Study, reassess, adapt | 72 |

Our study suggests the majority of incumbents feel in control. Executives report either a tendency to believe in the veracity of their own approach, being closed to the need to change or,

on the contrary, an openness to study, reassess and adapt. This latter group will find it easier to create value for customers in new and better ways.

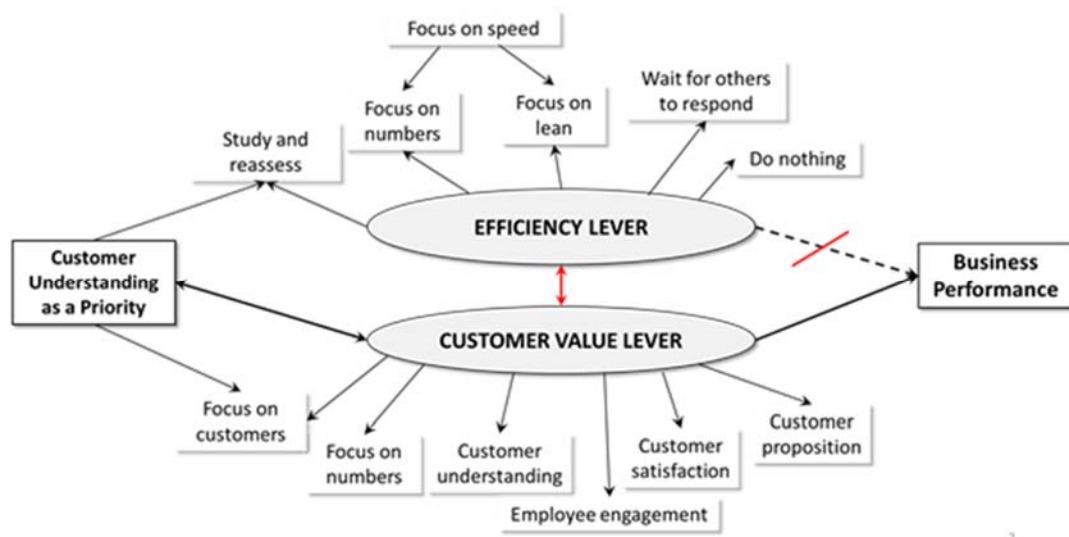
Taken together, the three “tells” demonstrate significant variance and thus are powerful signals of the extent to which any company is truly customer-led. When we modelled their contribution to reported business performance, two distinct approaches were clearly observed.

Customer-led or Efficiency-Led?

Since our domain of interest is to understand what being customer-led really means, we worked with the data provided by the 62.7% of respondents who declared customer understanding and response as one of the top three factors contributing to competitive performance. We modelled the contribution of their responses to the three “tells” on performance.

The data suggest two basic mutually exclusive approaches are followed. We refer to one as using the efficiency lever, the other the customer lever.

Figure 3: A Simplified Model of Corporate Performanceⁱⁱⁱ



Our model confirms important differences between companies that are customer-led and the rest. Predictably, customer-led companies are characterized by:

- A gathering momentum, which over recent years has strengthened employees’ focus on customers
- A shared understanding of their key customers
- An effort to satisfy clearly identified customer segments
- Their ability to bring customer propositions to market
- A high level of employee engagement.

Furthermore customer-led companies are absolutely “focused on the numbers,” and this contributes to their performance, rather than detracting from it.

Efficiency-led companies are characterized by a focus on the numbers and on lean. They tend to be less adaptive and less responsive than customer-led firms.

The beliefs of executives in truly customer-led firms, as revealed by their choices in the situations explored, are clearly associated with the superior business performance of their companies. Those who believe in the efficiency-led route to success, while declaring that customers are one of the top three priorities, do not experience superior business performance.

This suggests it is time for a rethink. When asked, managers have a tendency to casually claim, and possibly individually believe, that customers are among the most important factors contributing to competitive performance. Yet on closer inspection, nearly twice as many managers follow a more finance- and operations-oriented approach than follow a customer-led approach. In so doing, these finance and operations orientated managers experience less satisfactory competitive performance than those following a customer-led approach. It is time to revisit casual claims that customers matter.

ⁱ The survey was sent to 8,000 IMD alumni and other executives from over 4,500 companies in 134 countries in late 2016. The 454 respondents (a response rate of 5.7%) comprise CEOs (41%) and executives with responsibility for business development (11.5%), marketing (10.5%), finance (8.5%), HR (5%), production (4.5%) and "Other" (19%).

ⁱⁱ We conducted in-depth interviews with a convenience sample of 50 senior executives exploring how customers are treated as stakeholders in their companies.

ⁱⁱⁱ We examined more closely *whether* and *how* beliefs drive business performance, using Structural Equation Models (SEM). The best-fitting model included two latent variables (we labelled them as Efficiency Lever and Customer Value Lever), which were negatively correlated. Only the Customer Value Lever had direct positive effect on Performance.