Needs for customer capital in banks

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Abstract **Regardless of new technologies or products what banks will offer for its existent and future customers, the banks will not be able to hold them, if a special attention will not be turned to one of the main undisclosed value of balance sheet - customer capital.**

The goal of this study is to define the concept of "customer capital" and its role and impact on the bank's financial performance.

Keywords **- Customer capital, Banks, Latvia.**

I. INTRODUCTION

Taking into consideration the fact that each bank has different priorities and dynamics, it is essential for them to realize a sophisticated risk management. And in order to maintain competitiveness of them, in the economy of today's knowledge it is more than not sufficient with determination of material values and inclusion in the balance sheet value, therefore essential importance shall be paid also to the nonmaterial values of the bank, such as customer capital and containing elements of them.

Analysis of scientific literature has shown that the idea of customer capital significantly influences the results of bank operations. Customer capital is considered to be as the key source of competitive advantage in the economy of knowledge [1] and it is an essential element of structural fund for any kind of company, especially for the know-how companies, which include financial services industry, such as banks, insurance companies. Banks have to invest both the time and money for their potential customers before making a decision on the necessarity of the certain financial service, therefore it is very important to create reliable relationship with customers, which will result in the increase of profitability and thus ensure the increase of customer capital value in the future. According to Sveiby, in order to choose the right customers, it is very important to understand which of the customers are profitable, increase the proficiency of the company, create the image of the bank, as well as recommends the bank to some other potential customers. Upon making the right choice in terms of the customer and the ability to maintain it, thus such customers may provide high level customer capitals for the know-how companies [2].

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While based on other resources of literature on building relationships with customers, it is mentioned that every customer is essential, because entering the initial cooperation it is not possible to assess the profitability of each customer, but it may affect the income of the bank in future.

The purpose of this research is to establish theoretically and empirically what does a customer capital, as well as components of it means for the banking industry.

To achieve the goal were used the following research methods: a questionnaire, quantitative and qualitative methods, including the method of sociologic research, monographic and descriptive method.

II. LITERATURE REVIEW

A. Customer capital

Not only the scientists but also the bankers were found when customer capital is in the words unspeakable balance of intangible assets added value. One of the first banker who introduced concept of customer capital was St-Onge, she describe when they are knowledge's who makes relationships what organization to keep with the customers [3]. But Sveiby, one of the first were classified customers by their comparative investments in the intangible value creation process to subdivide them into three groups: the first improves the learning competencies and staff development of ideas, the second improves the external structure but the third improves the internal structure, thereby to support the knowledge further deliver [2]. Also Bontis to accent when customer capital is the external structure and it continuously need for expand, which included knowledge implementation processes and customer relationships [1;4], but Cegarra and Rodrigo to indicate when customer capital is internal structure which includes employers, leaderships and shareholders [5]. While Roos and Roos recommend to merge external and internal structure and define it by new term – "relationship capital" [6]. Customer capital also raises relationships importance with those customers, providers, community and country as a whole [7], how also it consider for most important privilege of competition in the knowledge economy [8; 9]. By Duffy customer capital includes the processes which to support the customer development how also value of revenues in present and future [10]. In compliance with Rust et al. customer capital is the company's total value for all customers, how also important role play brand and attitude by it and company`s corporate ethics [11].

B. Components of customer capital internal structure:

Intellectual capital

The intellectual capital as a concept emerged when a difference in value between tangible assets and market value was realized (Sveiby, 1997; Brooking, 1997; Bontis, 1998; Edvinson, 2000; Joia, 2000), as well as it shows the ability to introduce innovations that will determine the future operations of organization [12].

Stewart considers the intellectual capital, like knowledge, information, intellectual property and experience, being used to create richness [8].

Knowledge management

Knowledge as a basis to success emerged in the 21st century [21]. Knowledge is not used appropriately if they are used to solve organisational problems, because knowledge is value which survives in contradistinction to assets included in balance sheet, which may be amortized or replaced [13].

Knowledge management is the ability of the organization to support and organize the training process in the organisation, taking into consideration the demand for necessary information [14].

Structural capital

Structural capital is the organization's ability to develop with internal and external challenges. This includes infrastructure, information systems, procedures and organizational culture [15].

Relationships

According to Lewis, world has never been so interdependent, because all trends indicate on the fact that a cooperation is the foundation of a successful business development – relationship marketing [16].

Berry considered that the relationship marketing is a strategy, enabling to attract, maintain and improve relationship with customers [17]. While Rapp and Collins stated that a purpose of the relationship marketing is to create long-term relationship between a company and a customer, which thus provides mutual benefits to both parties involved [18].

Customer retention

Customer retention include the cost of goods and services, competition as well as the changing of variable character size like the customer service experience [19].

C. Components of customer capital external structure:
Reputation

As shown by the scientific literature, the reputation is an important factor in determining the company's further survival and development, according to Hal, it is a strategic asset that can influence the company's business assets [20].

Brand and marketing knowledge

According to Rust et al. (2001) brand and marketing knowledge is assets that can affect the equity of own capital, as well as the customer's subjective and intangible assessment, treatment, and the corporate ethics [11].

Customer satisfaction

Customer satisfaction is also so important factor as trust that to establish and to form customer loyalty, as well as to forecast the future possible development tendencies [21].

III. METHODOLOGY

The research was to realize from March till July 2011 for evaluate the theoretically and empirically concept of customer capital. Initially to perform summarize of scientific literature and based on obtained information was create the questionnaire. During the research the obtained data were collected and displayed graphically.

A. Defining the concept of customer capital

Finding the answer on the question what is the customer capital, were found the 151 definitions. The achieved information the authors were summarized and used sociological research methods – text analyzing program TextStat were showed who included customer capital and it characteristics of the frequency. From achieved data authors create customer capital model what included internal and external structure.

B. Questionnaires

To found the understanding for needs for customer capital from bank customers and employers and their external elements how one of the most important intangible indicators were used the questionnaires which to take part one Latvian commercial bank customers and bank employees to evaluate and define the concept of customer capital. Questions of questionnaire were developed based on the acquired model of customer capital, which includes also demographic type of questions. The questionnaire includes only elements characterizing the external factors. Each element group consisted of three questions.

Measurements were made on a five-point Likert-type scale (1 - completely disagree, 5 - completely agree).

Based on the data acquired during the questionnaire, the results were summarized and compared with each other between the answers of the customers and employees of the bank.

C. Comparing of customer capital theoretical and empirical data

Theoretically acquired data were also equalized with a Likert-type scale in order to clearly establish whether there exist or not mutual regularities between theoretical and empirical data of customer capital.

IV. RESEARCH RESULTS

A. Defining the concept of customer capital

Summarizing the information available in literature, the analysis of data showed the frequency of elements containing the concept of customer capital. As shown the obtained quantitative data, then most of elements which are referred such as customer capital characteristic are

intellectual capital, bank reputation, knowledge management in the bank, customer loyalty, relationships (customer-bank employee, external service providers-bank employee), brand and marketing knowledge, structural capital, products and services (included innovation), customer satisfaction, customer data bases, customer trust, customer profitability (Fig. 1).
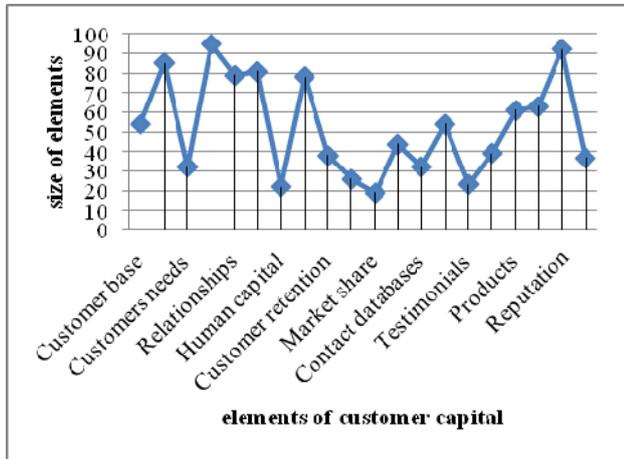

Fig. 1 Theoretical assessments of customer equity elements

Based on the obtained quantitative data it is possible to identify elements of customer capital and divided them into two groups: external and internal factors, and thus create customer capital model for banks (Fig. 2).
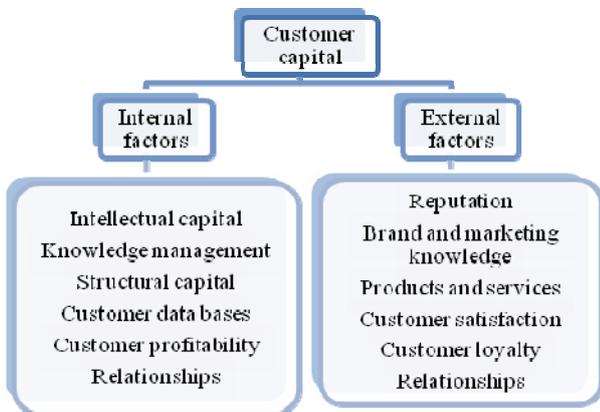

Fig. 2 Customer capital model in bank

B. Questionnaires

The questionnaires were sent electronically total 90 questionnaires, of which 65 were received back, including 27 of the bank customers and 38 of the bank employees. In the Questionnaires took part one of the bank employees and bank customers. Questionnaires the bank customers and employees the key purpose was to verify the obtained information of theory about customer's capital external factors.

The findings about demographic and personal data of customers show that 31% of all respondents are women and 13% of men. 15% of respondents are aged 20-29 and 20% of 30-39 years and 18% over 40 years. Most part of the respondents, 19% have higher education, 9% have master's degree but 21% secondary education.

Findings about the demographic and personal data of bank employees show that 38% of all respondents are women and 18% of men. 26% of respondents are aged 20-29 but 13% of 30-39 years and 6% over 40 years. Most part of the respondents, 35% have higher education, 12% have master's degree but 4% secondary education.
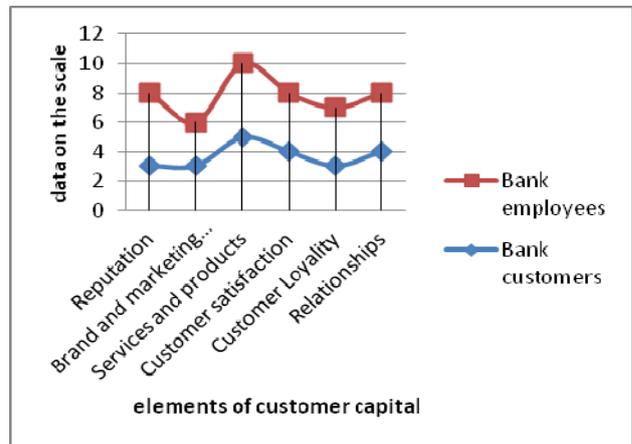

Fig. 3 Practical assessment of customer capital elements

As shown the obtained data in Figure 3 then the bank's customer appreciation the major role of customer capital development are for bank's products and services, customer satisfaction, relationships, and the lowest brand and marketing knowledge. In the similar thoughts about the importance of customer capital elements also are bank employees.

C. Comparing of customer capital theoretical and empirical data

During the comparison of the acquired data, the results demonstrated that there is a connection between theoretically and empirically acquired data in customer capital (Fig. 4).
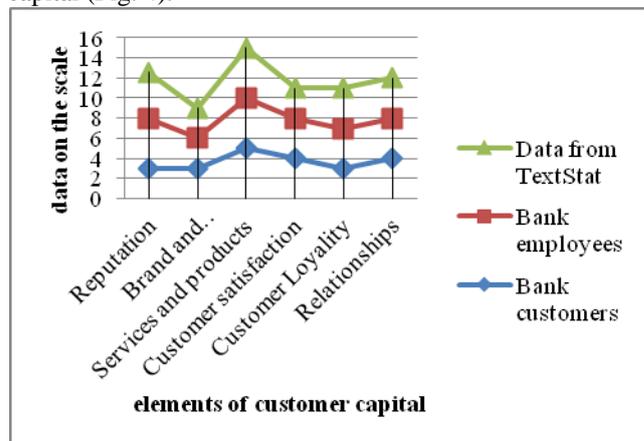

Fig. 4 Comparing of customer capital theoretical and empirical data

IV. CONCLUSION

With this research the authors were able to define those elements of customer capital they are based on, as well as establish a model of customer capital for a financial services industry – banks, which is developing between a bank and a customer. Data acquired during the research also confirmed the existence of regularities between results acquired theoretically and empirically.

With the increase of competition between banks and taking into consideration the fact that the range of services provided by banks is practically the same, an increasing attention is being paid to the nonmaterial values of the bank, especially the customer capital, which is a foundation of successful operations of the bank. This question is actual not only for researchers but also for bankers including bank management, shareholders and employees.

During the research the authors were faced with some limitations. The external structure of customer capital was discussed in the research, based on the acquired model of customer capital, because the research of the internal structure was not possible to obtain with the help of questionnaire, taking into consideration the different educational level and knowledge on economics of the employees and customers of the bank.

Further researches on the customer capital of banks should be managed in the whole banking industry, using the existing questionnaires for external structure, but the empirical evaluation of the internal structure should be managed with a help of interviews, choosing customers and employees with high level of knowledge.

Authors established customer capital model can be used in the banking sector, and can also be used as a basis for other industries to determine the customer capital.

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