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Improving Compliance and Sales Cooperation in Banks: a Preliminary Study

Abstract

The aim of the paper is to characterize interdepartmental Compliance – Sales relationships while servicing external customers and explore a potential for improving it in financial institutions in literature and practice of Czech Republic. The paper utilizes mainly exploratory qualitative research. Methods are literature review and qualitative context analysis for semi-structured interviews with 7 employees of 7 banks in Czech Republic. The results indicates that sales department is in the position of internal customer within a cooperation with compliance department. This cooperation might be improved by six sigma (and related) project as a current cooperation does not take in consideration sales requirements for this cooperation with compliance department in sufficient manner. Literature review indicated the research opportunity consisting of not sufficient coverage of financial services by DFSS methodology. Research opportunity is apparent.

Key words

Compliance, Financial Institutions, Internal Customer, Sales, Voice of Customer.

JEL Classification

G20, O31, M10

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Introduction

The customer is central to any company's activity. Voice of Customer (hereinafter referred to as "VoC") is the customer's voice, expectations, preferences, comments, of a product or service in discussion. It is the statement made by the customer on a particular product or service (Linde & Philippov, 2021).

Customers are different: new and constant, random and loyal, potential and adherents. All customers contribute differently to the total revenue, but they are all equally important. Existing literature distinguish, among other decompositions, between internal and external customers. Internal customers are individuals or areas of the company that receives the intermediate product or service or as a finished product. While the voice of customers, employees, and other stakeholders have been identified as key components of corporate and marketing communication, comparatively little attention has been paid to how organizations listen to, make sense of, and use information provided. Similarly lower attention had a group of internal customers (Macnamara, 2020). Park & Tran (2020) showed that internal marketing is significantly associated with salesperson's customer-oriented selling behavior and relational selling behavior which are relevant to customer relationship quality. Regarding serving internal customers, Martin et al. (2022) stated that employee proficiency and proactivity were the main predictors of delivering reliable services. Employee proficiency was the main predictor for creating a sense of assurance. Employee adaptivity was the main predictor of being viewed as responsive. Employee proactivity was the main predictor for establishing a sense of empathy. In addition, Lee & Lee (2022) examined the effects of quality management activities and sociotechnical systems on internal customer (employee) experience and organizational performance in healthcare organizations and indicated that quality management activities have positive effects on sociotechnical systems components, which in turn help improve internal customer experience and organizational performance. Chen et al. (2021) asserted that to attain customer satisfaction, service firms invest significant resources to implement customer relationship management (CRM) systems to support internal customer service employees who provide service to external customers in both face-to-face and virtual channels. Financial sector is highly regulated therefore in many cases of customer service there is an involvement of legal, compliance or risk-related department.

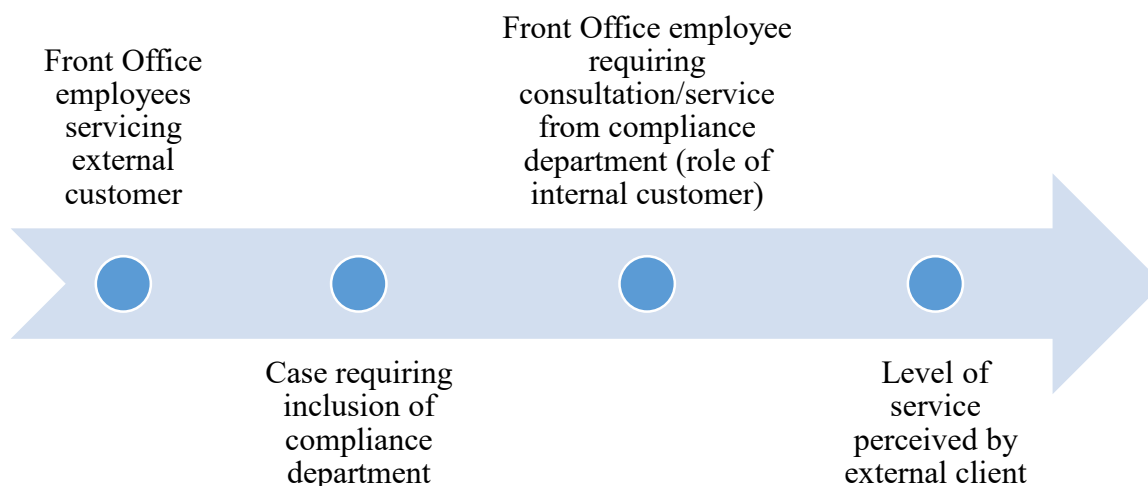
The Design For Six Sigma (hereinafter referred to as "DFSS") methodology and other "six sigma" methodologies (e.g. Lean Six Sigma) is one of the most important to achieving excellence in an organization's product development process (Francisco et al., 2022).

Ensuring competitiveness, especially in financial services facing the disruption and increased regulatory pressure, is not possible without proper intradepartmental relations resulting to proper servicing of external customers.

Clearly, this study has following aim: The aim of the paper is to characterize interdepartmental Compliance – Sales relationships while servicing external customers and explore a potential for improving it in financial institutions in literature and practice

of Czech Republic. Derived goal is to capture VoC of Front Office employees regarding their needs of cooperation with compliance department to ensure provision of best possible service to final (potential) external customer.

Figure No. 1: Conceptualisation of Front Office in the role of Internal Client of Compliance Departments



Source: Author's own

The remainder of this paper is organized as follow. First, Introduction section provides a review of relevant knowledge and conceptualization of a problem investigated. This is followed by providing methodological framework for the paper. Empirical application of data collection techniques and described methods is presented next, in the Results section of the paper. Based on of the exploratory analysis, the analysis of role of Front Office as the internal customer of compliance department followed by captured VoC of Front Office is the core of the paper and it includes also managerial implications. The paper concludes with general conclusion and opportunities for future extension of this research.

1 Material and Methods

The paper utilizes mainly exploratory research and methods of qualitative research.

To fulfil the goal of the paper, it must explore and map attitudes, opinions and experience of banks' front office employees regarding cooperation of front office (sales) and compliance department.

Research question is: What are the interdepartmental Compliance – Sales points of cooperation? Clearly, this research does not cover the intention of the paper hence

it is decomposed to following research sub-questions that translated to open questions for the interviews (questions author asked interviewees – front office employees as explained later):

- How often do Front Office employees cooperate with compliance department?
- In what occasions Front Office employees cooperate with compliance department?
- Do Front Office employees recognize a need for improvement of sales department in position of internal customer with compliance department in financial institution?
- What Front Office employees expect from the cooperation with compliance department in financial institution?
- What Front Office employees perceive as barriers, defects or deviations from quality in the cooperation with compliance department in financial institution?
- What aspects of cooperation between Front Office employees and compliance department result to dissatisfy of external customer based on the experience of Front Office employees?

VoC methodology pack is focused mainly on surveys, interviews and focus groups, but also experiments. As this paper has a character of a preliminary study, interviews are the chosen technique for primary data collection to answer research questions. Interviews allows lower sample than surveys and allow potentially capturing knowledge in detail, but for the price of lower robustness of the research.

Reproducibility of research, connected to interviews as data collection tool, is the limitation of this paper. Considering having a character of exploratory research, it is acceptable for clearing out the limits of future research that will utilize more robust and valid data collection techniques and methods. More of the potentially influential limits of research are following:

Table No. 1: Potential Biases of the Paper

<i>Risk</i>	<i>Remedy/Commentary</i>
Small sample (non-response bias)	The sample can be expanded geographically (e.g. we might include also subjects from Slovak republic) or expand to new industry. Every participant will be offered an individual report of the findings of our study.
Potential misunderstanding	Despite the fact that author studied required literature to conduct the research, there is still a possibility of lack of training and knowledge to provide deep results as in case of scientific teams. First we will test research tools on smaller sample to identify misunderstandings.
Lack of confidence	We will propose signing the Non-disclosure agreement to subjects in the sample; all data will be used anonymously and in aggregate form.
Social desirability	We will warn subjects in the sample regarding these issues and demotivate them from such answers.

Source: Author's own based on the evaluation of proposed research

Research sample included 7 Front Office employees from 7 banks serving mass retail or mass affluent retail for both natural persons or small and medium enterprises (no private banking services); professionals with at least 5 years of experience within current or similar Front Office in Czech Republic. Available sampling was applied, respondents were contacted by LinkedIn or by e-mail. Interviews were conducted individually, within the period of October 2023, in person.

Regarding methods of processing gained primary data, results were Qualitative content analysis (hereinafter referred to as “QCA”) of the data is used to identify the key concepts and opinions. Denzin & Lincoln (2018, p. 122) stated that QCA “*is not intended to celebrate the empirical detail*” but rather to identify new and emerging issues for future, in line with paper’s intention of conducting exploratory research. This approach was proposed in similar conditions of investigating internal audit by Knott (2022) who stated that for future research, the constructed theories can be explored by conducting interviews with experts in single organizations. Moreover, Burdon & Sorour (2020, p. 54) added that “*QCA is also widely used in mainstream management journals*”. Schreier (2012, p. 7) specifies that the coding scheme would be valid “*to the extent that your categories adequately represent the concepts in your research question*”; in case of this paper, the main themes are clearly stated above in title, main and partial goals and research questions.

Naturally, some of the respondents could provide similar or even the same answers, considering the expectation that strongly regulated financial sector requires some processes to be similar between subjects. For this purpose the affinity diagram method was applied (also known as affinity chart, affinity mapping, K-J Method, thematic analysis) to cluster same or similar answers between respondents (American Society for Quality, 2023). Based on this the results are drawn and summarized in following chapter.

Considering the Six Sigma process and acceptable range and character of this paper, it does not provide full VoC method application as it is limited to following steps:

- Identify the Verbatim (Direct Quotes): Collect direct quotes, feedback, and comments from customers. These are typically verbatim statements that reflect what customers have said about their experiences, preferences, and expectations. This is the raw, unfiltered voice of the customer.
- Analyze and Transform into Needs: Analyse the verbatim statements to identify recurring themes, patterns, and underlying needs. Convert the direct quotes into actionable needs that can guide process improvement efforts. This step involves categorizing and prioritizing the VOC data.

Prioritization and translation of needs to metrics are not conducted in the paper.

VoC in this paper consists of three interconnected themes: verbatim, need, and requirement:

- Verbatim: Verbatim represents the direct, unfiltered feedback and comments provided by customers. These are the exact words and statements that customers use to express their opinions, preferences, and experiences with a product or service.
- Need: Needs, within the context of VOC, are the underlying and often unspoken customer requirements or desires that are revealed through the verbatim feedback. Needs reflect what customers truly want and value from a product or service.
- Requirement: Requirements are the specific, actionable, and measurable criteria derived from customer needs. These are the detailed specifications or expectations that must be met to deliver a product or service that aligns with customer desires and ensures satisfaction.

2 Results

There are various situations when Front Office employees are in the role of internal customer of compliance department:

Front Office as Internal Indirect Customer of compliance department:

In this context, the Front Office serves as an internal indirect customer of the compliance department. The Front Office comprises roles such as sales, client services, and relationship management within a financial institution. These teams are not the direct recipients of compliance services but are indirectly affected by compliance activities.

The compliance department plays a vital role in establishing and enforcing regulatory and internal policies, ensuring that the organization operates within the bounds of the law. Compliance teams define the rules and guidelines that the Front Office must adhere to when conducting business with external customers. They monitor and assess the Front Office's activities to verify their compliance with these rules, identify potential risks, and ensure that the institution's reputation and legal standing are upheld.

While the Front Office does not directly receive compliance services, they rely on the compliance department to provide clear and up-to-date guidelines, training, and oversight. Any misalignment or misunderstanding between the Front Office and compliance can result in compliance breaches, legal issues, and damage to the institution's reputation. Therefore, the Front Office indirectly depends on the compliance department to operate effectively within the boundaries of the regulatory landscape.

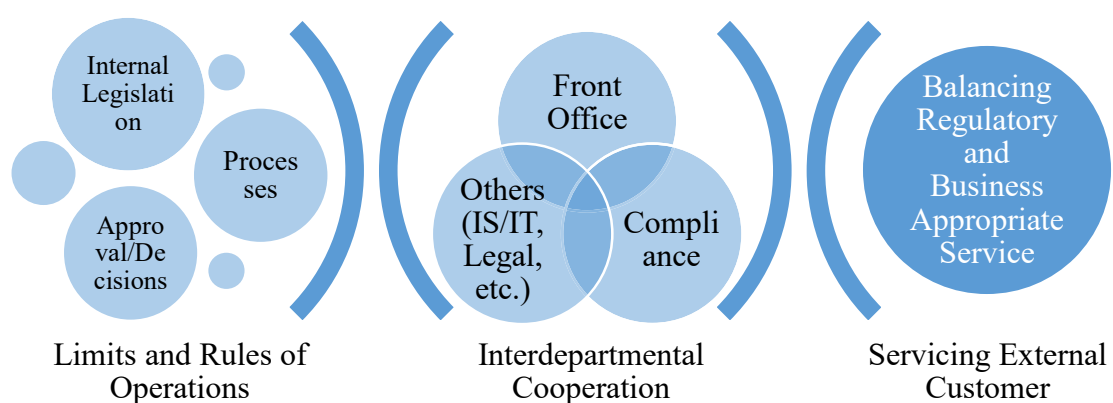
Front Office as Internal Direct Customer of compliance department:

In this scenario, the Front Office acts as an internal direct customer of the compliance department within a financial institution. The Front Office includes teams responsible for revenue generation, client interactions, and sales. These teams are directly engaged with external customers and are reliant on the compliance department to ensure their activities adhere to regulatory and internal policies.

The compliance department provides essential services to the Front Office, including regulatory guidance, risk assessment, approval processes, and ongoing monitoring of activities. Compliance staff work closely with the Front Office to interpret and apply compliance requirements, assess the suitability of marketing materials, approve new product offerings, and provide real-time guidance on customer interactions to maintain legal and ethical standards.

The Front Office's dependence on the compliance department is significant, as they must navigate a complex regulatory landscape while meeting customer needs and sales objectives. Failure to obtain timely and accurate compliance support can lead to delays, legal issues, and customer dissatisfaction. Therefore, the Front Office relies on the compliance department as its direct provider of regulatory guidance and oversight to ensure that their day-to-day activities remain compliant and align with the institution's values and legal obligations.

Figure No. 2: Decomposition of Intradepartmental Cooperation while Servicing External Customers



Source: Author's own

Effective cooperation between the sales and compliance departments is essential for delivering a seamless and compliant customer experience in the financial industry. This collaboration helps to prevent compliance issues, enhances customer trust, and supports overall business success.

The following Table No. 2 provides aggregated (clustered) VoC as the crucial concept for this paper that should allow financial institutions to meet Front Office expectations from compliance cooperation effectively.

Table No. 2: Voice of the Customer – Front Office Employees

<i>Verbatim (clustered)</i>	<i>Need</i>	<i>Requirement</i>
<p>I do not know who to contact and I have customer at the counter.</p> <p>There is no clear point of contact.</p> <p>We do not have dedicated compliance liaison for quick issue resolution.</p>	<p>I need clear roles and contact information for compliance department colleagues.</p>	<p>Availability</p>
<p>I cannot tell client when I will get to him (compliance request will be solved).</p> <p>We do not have dedicated compliance liaison for quick issue resolution. (again)</p> <p>I do not know when they will get back to me.</p>	<p>Give an estimation of a time to solve compliance request.</p>	<p>Timeliness</p>
<p>I just receive an e-mail in “legal language” which I do not understand.</p> <p>I am not sure how to use information provided for future.</p> <p>I am not sure how I can use trainings they deliver to us.</p> <p>Compliance does not provide user-friendly tools to check regulatory compliance in real-time.</p> <p>Our sales team struggles with interpreting complex compliance jargon; simplification is needed.</p>	<p>I need to understand message regarding law and regulation.</p>	<p>Clarity/Usefulness</p>
<p>I just receive an e-mail in law language which I do not understand. (again)</p> <p>I have to refuse a customer and his request and explain complicated regulation reasoning.</p>	<p>I need compliance department to back me during meetings with clients.</p>	<p>Accompaniment</p>
<p>I feel sometimes like stupid when they talk to me.</p> <p>They are superior. I am afraid of them.</p> <p>We are on the opposite side of business.</p> <p>Sales and compliance do not have any shared platform.</p> <p>Compliance often seems like a roadblock; we need a smoother collaboration process.</p>	<p>I need to feel that we are working towards common goal.</p>	<p>Common Cause/Team Work feeling</p>

Source: Author’s own based on the conducted interviews

In (Lean) Six Sigma, organizations collect verbatim feedback from customers to uncover their needs. Needs, in turn, are transformed into specific requirements that guide process improvements, product development, and service enhancements. By connecting these themes, organizations can effectively translate customer feedback into actionable steps for delivering higher-quality products or services that align with customer expectations. This customer-centric approach is a fundamental principle of Lean Six Sigma, ensuring that the end result reflects what the customer truly values. From provided results it is clear that Front Office values within cooperation with compliance department following requirements: Availability, Timeliness, Clarity/Usefulness, Accompaniment and Common Cause/Team Work feeling.

At the end, these points critical to quality of cooperation translates via channel of indirect and direct customers to servicing also external customers.

Discussion, Conclusion and Research Opportunity

The main goal of the paper was to characterize interdepartmental Compliance – Sales relationships while servicing external customers and explore a potential for improving it in financial institutions in literature and practice of Czech Republic. Derived goal was to capture VoC of Front Office employees regarding their needs of cooperation with compliance department to ensure provision of best possible service to final (potential) external customer.

Paper provided initial proof that Front Office is in a role of internal customer of compliance and other risk-oriented departments (e.g. risk management department) while servicing external customers of financial institutions. There are several attributes of intradepartmental compliance – sales departments' cooperation that might improve: Availability, Timeliness, Clarity, Accompaniment and Common Cause/Team Work feeling.

In case of special business cases but also in case of regular providing of financial services, Front Office employees directly receive, depend on, and are directly impacted by the output of compliance (and also risk management) department.

Research opportunity is apparent. Respondents, interviewed Front Office employees, very often perceive the compliance and other risk-related departments as internal enemies. This has to change and create in a financial institution climate that promotes the fact that all departments work towards the common goal and both business and risk are important to ensure growing, but healthy, portfolio of deals. Sales and compliance need in most cases a shared platform for tracking client interactions and their regulatory implications. Compliance often works in isolation; we need more cross-departmental meetings. As one of the respondents stated: “*We*

need clearer communication with compliance on the regulatory changes affecting our sales processes.”

Figure No. 3: Research Opportunity



Source: Author's own

Internal customers are sometimes underestimated, as those within the organization might not be perceived as revenue generators. However, this perception is inaccurate. Any disruptions in delivering products or services from compliance department to Front Office department, which relies on quality and consistency, can significantly impact the overall production, timing, and quality of the final service provided to external customers.

It's important to bear in mind that the primary objective of Lean methodology is to eliminate waste from processes. Any breakdowns in the delivery of products or services, regardless of the level, are considered wasteful and should be addressed.

As the focus of Lean Six Sigma is on improving the quality, efficiency, and effectiveness of processes within an organization and combines two powerful methodologies, Lean and Six Sigma, to achieve these objectives, we propose future examination of issues in this paper by this approach. To ensure proper utilization of these approaches, we recommend to follow *Ten commandments for successful implementation of Design for Six Sigma* by Gijo et al. (2021): *“alignment of DFSS with organisational strategy; top management support and involvement; listening to the voice of the customers (VOC); effective training programme for right project teams; project selection and prioritisation; linking DFSS with ISO international standards; linking DFSS with organisational learning and innovation; linking DFSS with the 4th Industrial Revolution; effective use of DFSS methodology and the integrated*

tools within the methodology and reward and recognition schemes". In addition, 18 critical failure factors of DFSS projects are provided by Bhat et al. (2022).

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