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Alignment of Workforce Strategies with Business Values for Relationship Manager at a Branch Networking Organization

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ABSTRACT

Objectives: This research will assess a full-scope alignment between the activities of Relationship Manager, the design of performance score cards and their correlations to the value produced to the bank, and the rewards (compensation) received by RM. It is essential for the bank to have complete scope alignment to guarantee that activities will contribute to the achievement of bank-wide revenue targets and that RM will receive rewards in proportion to their contributions.This starts from a phenomenon that occurs in branch network organisation in the banking industry, namely the decision to reward RM (Relationship Manager) which is calculated based on activity-based (RM activities in offering products) or value-based, namely revenue generated from the sale of banking products offered by RM. RM plays a key position in the branch network organization and serves as a point of contact between banks and their clients. This RM engages in activities such as the provision of banking products including deposits, insurance, investments, and account opening. If customers successfully acquire all of these products, the bank will get value in the form of revenue. To qualify as a value-based reward, RM compensation (rewards) must be computed as the total of the percentage of revenue. Method/Analysis: This research will focus on sales organizations with a branch network organisation in the banking industry. In order to provide systematic information about a phenomenon and to describe the current state of an identified variable, the analysis will first start with descriptive analysis, continue with correlational analysis to determine the extent of a relationship between two or more variables using statistical approach. Findings: The outcomes of the analysis indicate that RM activities have been governed into a scorecard, with Wealth Management having the largest weightage (50%) and having a significant correlation with business value (revenue). Consequently, we should be able to find a positive correlation between the overall score-card outcomes and the amount of revenue earned. The revenue that RM brings in is also strongly correlated with the rewards (compensation) that RM receives.

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INTRODUCTION

The role of banking branch networks is still very necessary amid this digitalization era; however, banks need to transform their branch office operations to adjust to the needs to remain efficient. For example, making the organization leaner and eliminating the role of the back office a lot are two examples of how banks can transform their branch office operations to adapt to the needs to remain efficient. The main goal of banking institutions is to provide consumers the finest services at the lowest possible transaction cost. Through digital and interactive communication channels, digital banking automatically offers users both new and old banking goods and services, creating a sizeable customer base [4].

Customers may begin working with RM to develop a financial plan that satisfies their requirements and goals. Financial guidance of this kind might take the shape of an investment strategy, will or estate preparation, tax accounting services, retirement planning, or asset management for a client. Because personal financial management may affect every aspect of a person's financial life, it can be claimed that it is more than simply investing advice. Personal financial management allows customers to get a holistic approach from an RM who is able to coordinate all customer requirements, both now and in the future, saving time and money that would have otherwise been wasted on engaging different experts to handle various financial elements.

The bank presents RM productivity in a performance scorecard comprised of the product that must be sold, the monthly or quarterly objective, and the percentage weight of each product, with a total of 100%. This performance scorecard is created by the management sales team, which must fit with the bank's financial objectives. Idealistically, the more the RM productivity, the greater the performance score-card accomplishment, and the closer the bank is to attaining its financial objectives. The journal article "Balance Scorecard (BSC) as a Strategic Performance Management Tool: Application in A Multinational Bank," authored by Sevgi Sumerli Sarigul and published on April 30, 2021, serves as the foundation for this analysis of performance scorecards. In his research, he concluded that the performance scorecard assists managers in determining the success of their businesses and making the best choices for the future of their organisation. The performance scorecard facilitates the management, assessment, and improvement of processes and outputs and helps to evaluate the magnitude of deviations from objectives by comparing predetermined goals to actual outcomes.

In the research by Sevgi Sumerli Sarigul, he said that the Balanced Scorecard first appeared in the management literature with the article "The Balanced Scorecard Measures That Drive Performance," which was first published in the Harvard Business Review magazine in 1992. (Kaplan and Norton). In 1993, Kaplan and Norton wrote an article called "Putting the Balanced Scorecard to Work" for Harvard Business Review. In it, they explained how many businesses have used it successfully (Lopes, 1996: 7). The results of this thorough study were then published in the book "Translating Strategy into Action: The Balanced Scorecard" (Kaplan and Norton, 1996a) (Niven, 2002: 11). In the article "Using the Balanced Scorecard as a Strategic Management System," which came out in 1996, it was shown as the model in Figure 2. (Kaplan and Norton, 1996b). With this study, Kaplan and Norton first called the balanced scorecard a way to measure performance. Later, they called it a model for strategic management (Griffiths, 2003: 71).

The BSC system tries to explain strategic aspects of an organization and balance them with key performance indicators (KPIs). The key is to link the different types of measurement to the strategy. BSC usually groups strategic metrics into four perspectives (Gautreau and Kleiner, 2001: 153-154; Walker and MacDonald, 2001: 365). These are the financial perspective, customer perspective, internal processes perspective, and learning and growth perspective. Figure.2 shows how the four perspectives of the scorecard relate to each other and how these perspectives relate to the vision, mission, and strategy.

Balanced scorecard perspectives should be thought about as a whole to achieve the company's vision and strategy. In order to make the scorecard, the following questions about these points of view need to be answered (Kaplan and Norton, 1997: 5–11; Neely, Bourne, and Kennerley, 2000: 1120; Argüden and Sadc, 2000: 14):

1. **Financial Perspectives:** What quantitative goals must our business reach for our partners to consider it successful?
2. **Customer Perspectives:** How should our customers see us for us to achieve our vision?
3. **Internal Processes Perspectives:** In which processes should we strive for excellence to satisfy our customers?
4. **The Learning and Growth Perspectives:** What kind of corporate learning and growth model should we use to reach our vision?

As there are logical connections between the balanced scorecard's four perspectives, each dimension also has a connection to the enterprise's vision, mission, and strategies. Kaplan and Norton (2001, p. 23) say that these points of view let businesses keep an eye on the growth of the skills they need to get the intellectual capital and intangible assets they need to grow. In the same way, they can make themselves more competitive in the long run while keeping an eye on their financial results.

As efficiency may be gauged by factors like revenue to expense ratio (R:E), determining the compensation structure of RM based on revenue is a crucial basis. We may analyse to see whether the RM has provided revenue that is more than the compensation amount, for example, if we pay an incentive of Rp1,000,000 every month. This suggests that to maintain efficiency levels in a balanced way, we must ensure that the R:E is greater than 1. Why does the bank choose to design its rewards structure for RM based on activity-based criteria rather than revenue-based criteria?

This starts with the construction of a performance scorecard, which ideally should have its weight calculated based on revenue. This indicates that the amount of weight assigned to a product is directly proportional to the amount of revenue that the product contributes when it is sold by an RM. If this is the case, the structure of the incentives for RM may be established not based on RM activities but rather on revenue. However, in practice, most banks are unable to determine the reward structure based on revenue alone. This is due to the fact that there are other strategic goals that need to be accomplished, such as giving a large weight to one of the products that does not provide a large revenue, i.e. new customers. This is done despite the fact that the primary investors in the bank want to increase the value of the company from the increased number of customers.

In Sevgi Sumerli Sarigul's research, he looked at how the Balanced Scorecard tries to make sure that all departments' financial goals are linked to the organization's strategy. All of the other goals and measurements in the Balanced Scorecard are based on the financial goals (Yilmaz, 2007, p. 110). Businesses may also have different financial goals and measures based on where they are in their life cycle, such as growth, promotion, or maturity (Güner, 2008: 254). The financial perspective encourages the use of traditional financial goals like getting a return on the tangible and intangible assets used, making new investments, cutting costs, and making more money (Ensari, 2005: 57).

METHOD

Research Questions: The research questions are developed to learn more about the issue at hand while also providing a clear focus and purpose. Furthermore, it gives guidelines for the research's design and data collection, as well as the potential to produce additional questions that are more detailed as the data is gathered and examined.

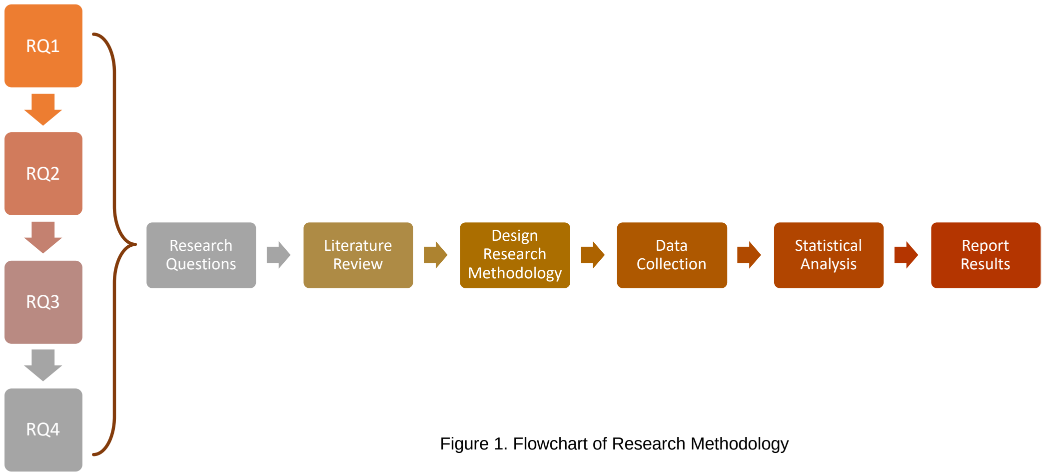


Figure 1. Flowchart of Research Methodology

Figure 2. Framework of Research Questions:

[RQ1] What are the standard components that are utilized to measure RM activities and are subsequently used to quantitatively generate a performance scorecard?
[RQ2] How are RM activities included into performance scorecards, and what types of RM activities are significantly correlated with scorecard performance?
[RQ3] Is there a strong and positive correlation between the performance scorecard and the value of the business? In other words, does the RM who has better score cards have a greater likelihood of having earned larger revenue for the company?
[RQ4] Is the RM's rewards tied to how much of an impact they have on the company, as measured by revenue? Is there a correlation between the RM's rewards and the business value they create?
Data Collection Tools: The research will use primary data gathered from a Jakarta-based consulting firm that can supply a collection of data for research purposes.
Measures and Data Analysis:
The analysis will first begin with a descriptive analysis to provide systematic information about a phenomenon and to describe the current state of an identified variable. Next, the analysis will continue with a correlational analysis to determine the extent of a relationship between two or more variables using a statistical approach

- Scatter plots are used to analyze correlations between variables in correlation analysis. The position of each dot on the horizontal and vertical axis represents values for each RM data point. Scatter plots may also be used to identify patterns in data
- The correlation analysis uses R-Squared (also called the coefficient of determination) as a statistical measure in a regression model to find out how much of the variation in the dependent variable can be explained by the independent variable
- The Mean Squared Error (MSE) of a regression line is used in correlation analysis to gauge how closely it approaches a collection of points. This is accomplished by squaring the distances between the points and the regression line (also known as the "errors"). The prediction is more accurate the lower the MSE
- The LOWESS (Locally Weighted Scatterplot Smoothing) method is used in correlation analysis to generate a smooth line across a time-plot or scatter plot to identify relationships between variables and predict trends

RESULTS AND DISCUSSION

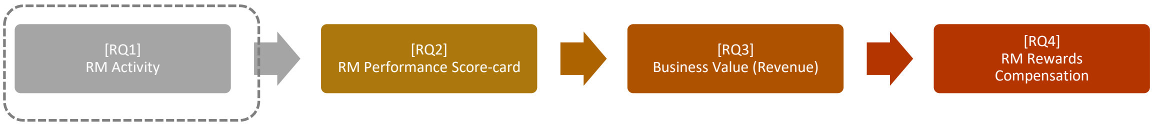


Table 1. What are the standard score-card components that are utilized to measure RM activities and are subsequently used to quantitatively generate a performance scorecard?

Score-Card Components	Weightage	Definition of RM Activities
Wealth Management	50%	RM will reach out to customers to sell investment products.
CASA Growth	10%	RM will reach out to consumers with the goal of increasing the amount in their checking and savings accounts.
Other Products Combinations	40%	RM will reach out to customers to sell other banking products such as lending, mobile banking.
Total	100%	

The Wealth Management and CASA Growth components are applied in accordance with the specifications of this research. The descriptive metrics for each RM's scorecard and scorecard components are as follows:

Descriptive Analysis: Average Incentive, Scorecard & Scorecard Components per RM

Variable	Avg. Q2 20 Sc	Avg. 20 Q2 WM Revenue %Ach	Avg. 20 Q2 CASA Growth %Ach
Average per RM	105.63%	99.26%	-46.67%

- The average total score card achievement per RM in quarter 2 is 105.63%
- The average Wealth Management Achievement per RM in Quarter is 99.26%
- The average CASA Growth Achievement per RM in Quarter 2 is – 46.67% (negative growth).

Ordinary linear regression and the smoothing regression method (LOWESS) are utilized in the process of conducting correlation analysis for the scorecard performance and RM Activities. This allows for the examination of the possibilities of a non-linear relationship. In the result of the scatter plot, it is possible to observe that Wealth Management has more positive linear trends with Scorecard in comparison to CASA Growth, which is concentrated more in the vicinity of 0 and also seems to have non-linear patterns.

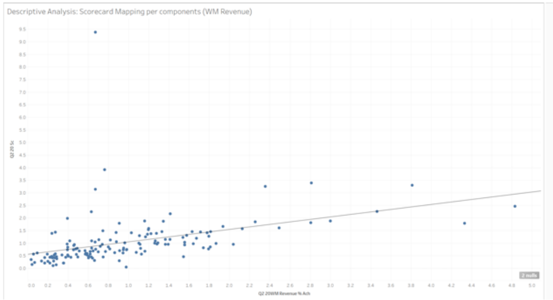


Figure 3. Correlation Analysis between RM Activities Wealth Management and Total Score-Card Score

When we contrast the results of linear regression with those of smoothing regression, we can observe that the performance of linear regression is better (a higher r2 and a lower MSE). **This indicates that there is a correlation between Scorecard and Wealth Management that is favorable.**

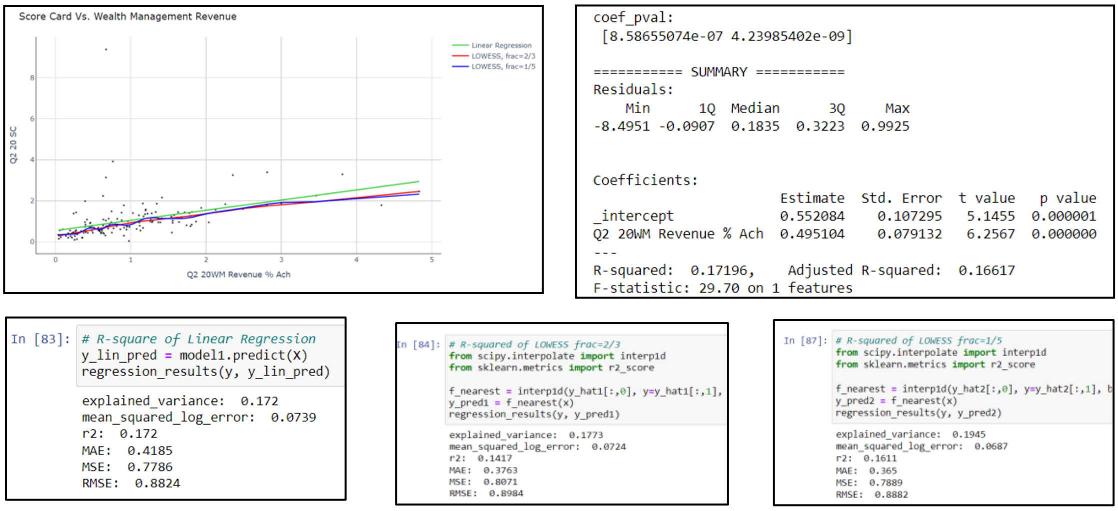
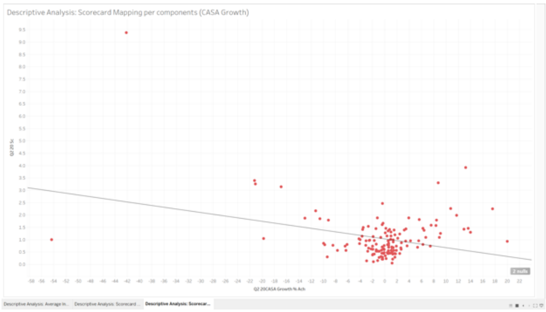
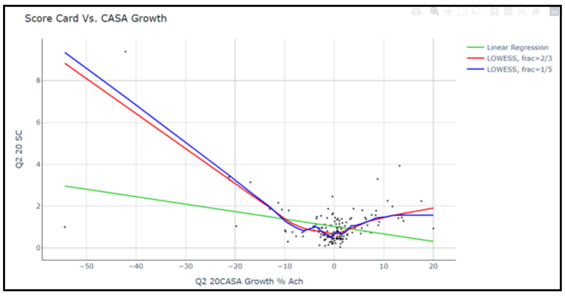


Figure 4. Correlation Analysis: RM Activities Wealth Management and Total Score-Card Score

Correlation Analysis: RM Activities CASA GROWTH and Total Score-Card

For CASA Growth, the correlation with the best performance is derived by smoothing regression results (higher r2 and lower MSE) with a u-shaped curve and a minimum value close to 0. This is presumably owing to the fact that Wealth Management Revenue is earned by investing the CASA balance. To prove the idea, further studies are needed. Currently, only the variable Wealth Management is deemed to have an association with Total Score-Card.






```
coef_pval:
 [0.         0.00016031]

========== SUMMARY ==========
Residuals:
    Min      1Q  Median      3Q     Max
-6.8548 -0.3599  0.2193  0.5448  1.9603


Coefficients:
                        Estimate  Std. Error  t value  p value
_intercept              1.026939    0.076782  13.3748  0.00000
Q2 20CASA Growth % Ach -0.035569    0.009175  -3.8768  0.00016
---
R-squared:  0.09371,    Adjusted R-squared:  0.08737
F-statistic: 14.79 on 1 features
```

```
In [93]: # R-square of Linear Regression
         y_lin_pred = model1.predict(x)
         regression_results(y, y_lin_pred)

         explained_variance:  0.0937
         mean_squared_log_error:  0.1215
         r2:  0.0937
         MAE:  0.6022
         MSE:  0.8522
         RMSE:  0.9231
```

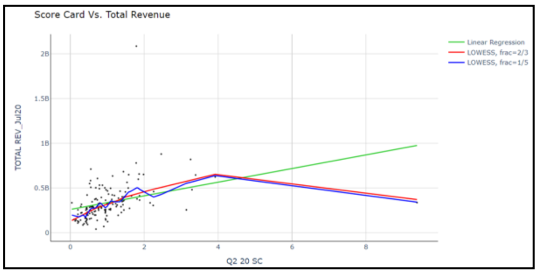
```
In [94]: # R-squared of LOWESS frac=2/3
         from scipy.interpolate import interp1d
         from sklearn.metrics import r2_score

         f_nearest = interp1d(y_hat1[:,0], y=y_hat1[:,
         y_pred1 = f_nearest(x)
         regression_results(y, y_pred1)

         explained_variance:  0.2098
         mean_squared_log_error:  0.0752
         r2:  0.2097
         MAE:  0.4514
         MSE:  0.7431
         RMSE:  0.862
```

```
In [95]: # R-squared of LOWESS frac=1/5
         from scipy.interpolate import interp1d
         from sklearn.metrics import r2_score

         f_nearest = interp1d(y_hat2[:,0], y=y_hat2[:,1], b
         y_pred2 = f_nearest(x)
         regression_results(y, y_pred2)

         explained_variance:  0.1688
         mean_squared_log_error:  0.0734
         r2:  0.1688
         MAE:  0.4322
         MSE:  0.7816
         RMSE:  0.8841
```

Figure 5. Correlation Analysis between RM Activities CASA Growth and Total Score-Card Score

[RQ3] Is there a strong and positive correlation between the performance scorecard and the value of the business (Revenue)? In other words, does the RM who has better score cards have a greater likelihood of having earned larger revenue for the company?

Even though the r2 is lower and the MSE is greater for linear regression performance, the scatterplot reveals that it is due to a single outlier RM that has a rating more than 800% but earns less than $0.5 Billion in revenue. From the standpoint of the p-value, the linear regression has already produced a legitimate result. **Therefore, the Scorecard is deemed to have a positive linear association with overall revenue.**




```
coef_pval:
 [0.00000000e+00 2.44691927e-06]

========== SUMMARY ==========
Residuals:
          Min            1Q        Median            3Q           Max
-1.687751e+09 -6.272275e+07 2.843866e+07 1.022248e+08 6.381388e+08


Coefficients:
                Estimate    Std. Error  t value   p value
_intercept  2.602180e+08  2.372706e+07  10.9671  0.000000
Q2 20 SC    7.622260e+07  1.552185e+07   4.9107  0.000002
---
R-squared:  0.11549,    Adjusted R-squared:  0.10926
F-statistic: 18.54 on 1 features
```

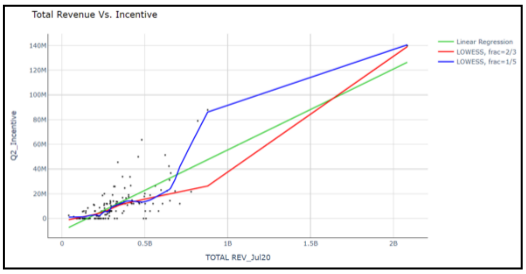
```
explained_variance:  0.1155
mean_squared_log_error:  0.2609
r2:  0.1155
MAE:  123184444.4879
MSE:  4.20039353039615e+16
RMSE:  204948616.2529
```

```
explained_variance:  0.2517
mean_squared_log_error:  0.2042
r2:  0.2321
MAE:  108056855.4116
MSE:  3.646664550694465e+16
RMSE:  190962419.0959
```

```
explained_variance:  0.3083
mean_squared_log_error:  0.1856
r2:  0.2911
MAE:  104407321.7382
MSE:  3.366241938213615e+16
RMSE:  183473211.6199
```

[RQ4] Is the RM's rewards tied to how much of an impact they have on the company, as measured by revenue? Is there a correlation between the RM's rewards and the business value they create?

The linear regression has a greater r2 and a lower MSE than the LOWESS regression with frac=2/3 (r2 = 0.6485), as shown by the result presented below. With the p-value near to zero, **it is reasonable to assert that the RM's rewards is proportional to the amount of revenue generated.**




```
coef_pval:
 [8.12776646e-09 0.00000000e+00]

=========== SUMMARY ===========
Residuals:
          Min           1Q      Median           3Q          Max
-4.215054e+07 -3.671647e+06 712952.9283 4741565.1924 2.458040e+07


Coefficients:
                Estimate    Std. Error  t value  p value
_intercept -9.936970e+06  1.621180e+06  -6.1295      0.0
Q2 20 SC    6.542000e-02  2.165000e-03  30.2122      0.0
---
R-squared:  0.64850,    Adjusted R-squared:  0.64603
F-statistic: 261.99 on 1 features
```

```
explained_variance:  0.6485
r2:  0.6485
MAE:  6955817.7572
MSE:  110157822889077.95
RMSE:  10495609.6959
```

```
explained_variance:  0.6085
r2:  0.5879
MAE:  6296422.4099
MSE:  129152787683610.5
RMSE:  11364540.8039
```

```
explained_variance:  0.7035
r2:  0.6988
MAE:  5698386.364
MSE:  94399791706522.19
RMSE:  9715955.5221
```

CONCLUSION

It is necessary for the bank to have a full-scope alignment in order to ensure that RM activities will contribute to the attainment of bank-wide revenue objectives and that RM will get rewards (compensation) that are proportional to the revenue contribution they have made. Consequently, the most important component of formulating workforce strategies is the construction of a performance scorecard that is in line with the overall revenue objectives of the bank. According to the findings of the analysis, RM activities have been regulated into a scorecard, with Wealth Management having the highest weightage (50%) and having a substantial correlation with business value (revenue). As a consequence of this, we are able to establish that there is a positive correlation between the results of the overall scorecard and the total amount of revenue generated. The rewards (compensation) that RM gets are highly associated with the amount of revenue that RM is responsible for bringing in.

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