

# **Digitalization Challenging Institutional Logics: Top Executive Sensemaking of Service Business Change**

## **PERSONAL VERSION**

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### **Abstract**

**Purpose.** The study explores the mental models of top executive team members in a selected retail bank. The focus is on how each executive team member makes sense of the market situation and changes with regard to customers and customer-bank interactions in the current situation where earlier bank practices are at risk of becoming obsolete.

**Design/methodology/approach.** All members in the executive team were interviewed individually in August 2014 on how they reason about challenges in the service business. The study uses an abductive research approach.

**Findings.** The mental models were largely dominated by internal bank issues, and adjusting the services to changing customer preferences was considered a main challenge. The research analysis showed that the executive team members identified the same business challenges, but their interpretations of the meanings and implications of the challenges were different. Mental models tend to be hidden and stable and are seldom explicitly elaborated. There was a distinct spread in mental models in terms of content. Limited focus was on customers as the starting point for business development and renewal.

**Research limitations/implications.** The study was conducted in the retail banking setting, which is currently affected by many changes. The study, however, was limited to executive members in one bank.

**Practical implications.** The foremost implications of this study relate to sensitising executive members and teams to their mental models and exposing different core challenges related to customers and customer relationships in the retail banking sector.

**Originality/value.** The value of the study is it sheds light on top executives' prospective sensemaking of current business challenges by addressing individual mental models. The study represents a novel approach in the strategic service management literature.

**Keywords:** Mental models, sensemaking, retail banking, top executive team, service business, digitalization

**Article classification:** Research paper

## INTRODUCTION

This study sheds light on the sensemaking of a top-level management team in a company that faces pressure to change—a situation that is typical for many business settings.

We have had a very long history of different logics that have brought success, but I claim that right now, where we are now, when we can talk about what is called disruptive banking, we are at the cross-road, where it is not at all easy any more . . . there are totally different, new models and there are no ready answers. Those who can come up with more right than wrong answers will probably become successful in the future.

The quote from one of the interviewed bank executives in our study summarises the situation in the banking industry and the compelling need for new thinking. For a long while in many countries, the banking industry was rather stagnant and unchanging. This situation created a belief among managers that customers and customer relationships could be managed according to previously developed practices. Increasingly, however, digitalization, macro economy and banking regulations, competitors, and not to mention customer behaviour and demographics, challenge established views and operations (e.g., Lähtenmäki and Nätti, 2013; Lundberg, Öhman and Sjödin, 2014; Durkin, Mulholland and McCartan, 2015; Ruotsila, Ekdahl and Vitali, 2015; Ruefenacht, Schlager, Maas and Puustinen, 2015; Stamenkov and Dika, 2015; Nätti and Lähtenmäki, 2016). For example, a recent review of challenges for Nordic retail banking notes that ‘banks across the Nordic region have been unsuccessful when it comes to addressing transformational marketplace forces . . . Nordic banks are not fully addressing rapidly evolving consumer behavior and the digital disruptors attacking the entire banking value chain’ (Ruotsila, Ekdahl and Vitali, 2015, p. 7).

But even if bank managers increasingly recognise the changing environment and the need to ‘think differently’, they still experience difficulties in how to do so. How do managers actually make sense of what is going on, or in other words, what kind of mental model do they have of the situation? It seems to be hard for managers to reflect on their own thinking and especially on how they could change their way of thinking about their business. The transition from one way of doing business to a fundamentally different one is by no means easy. For the manager, the mental model becomes the landscape (Das and Teng, 1999; Normann, 2001; Ellis and Hopkinson, 2010), and a mismatch between the mental models and the real business landscape can lead to intriguing consequences.

Sensemaking on the individual and the team level is important and can constitute important barriers to change because of its effect on decision-making and consequently on company success (Reger and Palmer, 1996; Rydén, Ringberg and Wilke, 2015). As the business environment in many service industries is changing, there is thus a growing need to understand how managers understand and strategically cope with such change. So far, there has only been sporadic attempts (e.g., Zaltman, LeMasters and Heffring, 1982; Welch and Wilkinson, 2002; Tollin and Jones, 2009; Tollin and Schmidt, 2015; Rydén, Ringberg and Wilkie, 2015) to study this in the marketing and service management literature. The purpose of this study is to explore the mental models of executive team members in a selected retail bank. The focus is on how each executive team member makes sense of the market situation and changes with regard to customers and customer-bank interactions in the current situation where earlier bank practices are at risk of becoming obsolete.

Highlighting the sensemaking of bank executives on an individual level differs from academic literature that typically does not distinguish this level but emphasises the team and aggregate levels. The fact that we cover the entire executive management team contributes to being able to depict challenges an entire business unit meets when engaging in prospective, future-oriented sensemaking. In the well-established sensemaking perspective in organization studies, prospective sensemaking is considered to be a neglected and fruitful area of research (Sandberg and Tsoukas, 2015). Exploring such sensemaking is comparable with how fundamentals of mental models in service contexts are increasingly discussed in terms of different academic logics (Vargo and Lusch, 2004, 2015; Grönroos, 2008, 2011; Heinonen, Strandvik, Mickelsson, Edvardsson, Sundström and Andersson, 2010), market representations (e.g., Storbacka and Nenonen, 2011) and network pictures (e.g., Henneberg, Mouzas and Naudé, 2006).

The study adds to current knowledge in many ways. One contribution that can advance the rather limited strategic service management literature lies in, first, scrutinizing a strategically relevant and difficult situation that many top executive teams in service companies currently have and, second, developing new insights into the role of mental models in such teams. Another contribution comes from revealing how sensemaking among bank executives relates to the current variety of academic service thinking. For example, the same phenomenon of developing digitalization or becoming more customer oriented can have very different meanings depending on what mental model the individual has (cf. Rydén et al., 2015). A

significant issue is to reveal meanings that are not shared in contrast to the traditional focus on shared meanings. These not-shared meanings might be unrecognized, have deep paradigmatic roots and have profound effects. The third contribution stems from offering empirical insights into the nature of mental models, specifically in terms of retail bank challenges related to customers and customer-bank interactions. The practical implications relate to sensitising executive individuals and teams to their mental models and exposing current core challenges related to customers and customer relationships in the retail banking sector.

The next section discusses mental models in business, specifically in banking, and develops an analytical framework and focuses on strategic elements of mental models to be used in the empirical study. The following sections present the research methodology and the empirical data analysis. Then finally, results are summarised, and implications are discussed.

## MENTAL MODELS IN BUSINESS

Mental models reflect the fundamental underpinnings of how an individual makes sense of a certain issue and the reasons behind it. Mental models are relevant because they rely on a practical rationality, that is, organisational practices that are constituted and enacted by actors. Furthermore, mental models capture the essential aspects of the logic of practice (Sandberg and Tsoukas, 2011) that is related to practical managerial relevance (Jaworski, 2011). How managers make sense of an equivocal situation affects the decision-making process, and through their assumptions, embedded in their mental models, they influence the strategic possibilities for the firm. This is because mental models contain a set of beliefs and assumptions that represent the managers' interpretation of what they face, which issues they attribute significance to, how they react to them, which solutions they develop in response to them and how they evaluate the efficacy of their response. What makes mental models relevant, in other words, is that they directly link to decision-making and strategizing. Various regulations, systematic decision processes and political compromises within organisations guide individuals' behaviours towards some commonality (Drazin, Glynn and Kazanjian, 1999). Thus, in practice, it is not possible, even if it will be beneficial, to switch from one way of doing business to another very quickly because the established perspective

is embedded in everyone's mental models, in the setup of the organisation, in business models and strategies, in operative processes and in physical structures.

Barr, Stimpert and Huff (1992), for example, identified the fatal consequences for U.S. railroads when managers failed to consider important new areas of technology. Similarly, Das and Teng (1999) demonstrated how companies got locked into certain ways of doing things, which led to their downfall when the external situation changed as a result of persistent mental models that created 'blind spots' and limited managers' abilities to adapt business activities to changes in customers' needs. Specifically, in the financial intermediary market, Reger and Palmer (1996) explored the managerial categorisation of competitors and found that managers relied on cognitive maps that reflected obsolete industry boundaries rather than configurations representative of the deregulated marketplace. Furthermore, their longitudinal results indicated that change creates diversity of thought across managers in the same environment.

Sensemaking is intrinsic to mental models and associated with structuring the unknown, which enables individuals to comprehend, understand, explain, attribute and predict events and actions (Weick, 1995). According to the classification of prime sensemaking researcher Weick (1995), sensemaking is a process that (1) begins with a sense maker, who is an individual; (2) is retrospective, meaning people make sense of past events; (3) is enactive of sensible environments, which means that in organisations, people contribute to producing the environment that they encounter; (4) is social, implying that sensemaking includes both individual- and organisational-level activities; (5) is ongoing, which indicates that the process never ceases as people constantly encounter new situations; (6) is focused on and by the extracted cues, which means that sensemaking is dependent on past meanings; and (7) is driven by plausibility rather than accuracy, which means that people are seeking an interesting, attractive, appealing and plausible definition and that the criterion of accuracy is only secondary.

The mental model concept is far from new in the marketing literature. In 1994, Day already researched market orientation and highlighted the role of the 'mental models of managers, which contain decision rules for filtering information and useful heuristics for deciding how to act on the information in light of anticipated outcome' and defined mental models as 'simplified cognitive portrayals of environments that actually drive strategic decisions' (p.

43). Before him, organisational learning and strategy researchers (e.g., Weick, 1995; Prahalad and Bettis, 1986) had used the same concept.

Chermack (2003) reviewed studies on mental models and concluded that they seem to share the view that (a) mental models are inherently important and influence the decision-making system, (b) decision-makers must work to make their mental models explicit, and (c) if the mental models are inadequate for addressing the problem at hand, then they must be changed. These three observations correspond to the starting point of the current study as well, which takes a sensemaking perspective and highlights bank executives' mental models of customers and customer relationships. Mental models filter the attention of a person, such as a manager, and guide their subsequent sensemaking as well as their decisions and behaviour. A change that happens in reality in the business landscape might not be discovered because information collection is not geared towards detecting changes in, for example, customer behaviour. Methods for this may not be available, nor is it necessarily recognised that novel methods need to be developed. Company activities may become less effective and may be seen as decreasing profitability, but even this might not lead to a change in how managers think about and understand their business. The pivotal factor in this situation is that part of the mental model that defines the business, including the role of customers.

There seem to be no studies published on managerial sensemaking and mental models in the retail banking sector. Whereas little attention has been paid to bank executives, other categories of employees and especially contact persons have been embraced because of their decisive importance for customer satisfaction. Although banking studies often take the provider perspective and scrutinise how to, for example, increase market orientation (e.g., Kaur, Sharma and Seli, 2009), they do not touch upon sensemaking. Another type of banking studies investigates customer reactions and report findings on how retail bank customers perceive and use technology-based services (Proença and Rodrigues, 2011; Lin and Chang, 2011; Hsieh, Roan, Pant, Hsieh, Chen, Lee and Chiu, 2012). Also, our study consequently provides an industry-specific contribution.

## A LANDSCAPE OF ACADEMIC SERVICE MARKETING PERSPECTIVES

Reasoning on managers' thinking is equivalent to the debate in the academic marketing literature about different 'marketing logics' that have evolved over the years. These, on a

high abstraction level, could include, for example, the relationship marketing paradigm (e.g., Gummesson, 1998), the network perspective (e.g., Möller and Wilson, 1995), the service logic (Grönroos, 2011; Grönroos and Gummerus, 2014), the service-dominant logic (Vargo and Lusch, 2004, 2015; Skålén and Edvardsson, 2016) and the customer-dominant logic (Heinonen et al., 2010; Heinonen and Strandvik, 2015). Paradigm, perspective and logic here refer to overarching notions of streams of research that share underlying assumptions and can be distinguished from other paradigms. We use paradigm, perspective and logic as synonyms and select here the term that is typically used for each of them. We will use a categorization of these academic logics as a tool to analyse managers' mental models.

We choose to extract two fundamental dimensions in the logics reflecting two salient elements of marketing management—managerial scope and managerial focus. Figure 1 displays different areas of emphasis within these two dimensions and combines them into a three-by-three arena of nine different mental model possibilities with different highlighted combinations of strategic elements.

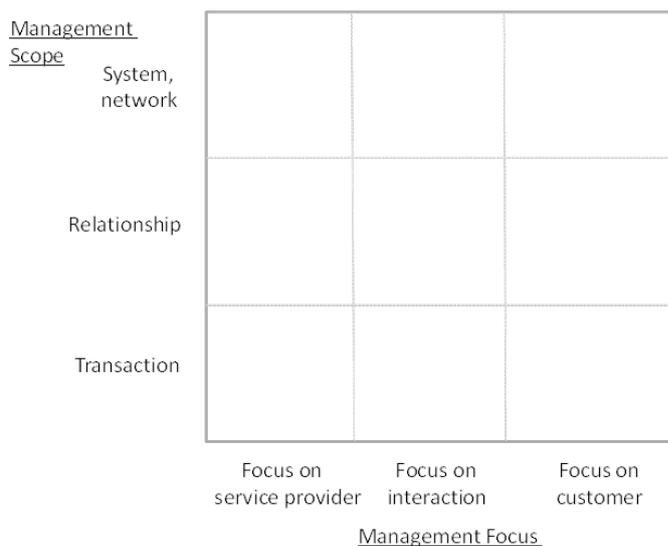


Figure 1. Strategic elements of managers' mental models about marketing (adapted from Strandvik and Holmlund, 2015, p. 206)

First, the core of the managerial scope can vary and enfold the business as transactions (i.e., encounters and single service products), relationships (i.e., repeated encounters and chains of services) or systems/networks (i.e., collections of services). These alternative scopes indicate a narrow, more encompassing or broad view, respectively. Typically, the transaction scope could refer to highlighting individual offerings compared with underscoring the

system/network scope, which could highlight a package of offering, such as solutions. Second, and as the other fundamental, complementary dimension, the mental model's focus can relate to the seller, the company-customer interactions or the customers. A combination of these two dimensions as strategic elements is in the figure used to distinguish how they may dominate a mental model. For example, whereas one individual's mental model can be dominated with transactions and does so from the company's own perspective, another mental model can be different and be dominated with relationships with an interaction focus.

The above mental model conceptualisation is useful to show the shift that has taken place over the years in how marketing is considered in academic research concerning the role of the customer (management focus) and the scope of the interface with the customer that needs to be seen and managed (management scope). In both marketing research and company practice, the general trends have included a shift from provider focus to customer focus on one hand and a move from a transaction scope to a system scope on the other. The very same trends concern the retail banking setting. Lähteenmäki and Nätti (2013), for example, found that banking services are largely provider oriented and are the products of a producer-centred mind-set that gives primacy to the bank's own practices and processes.

A shift in focus and scope means entering significantly different mental models of how business should be conducted. An interest to adapt the marketing perspective to changing business conditions has driven the development in the academic discussion. Among practitioners, such a change in mental models has not been easy to achieve because of mental and organisational inertia and the need to be convinced that a different mental model is really needed. For example, a change in scope from considering sales in terms of transactions to considering customer relationships has proven to mean substantial adjustments in practice. Similarly, a change from provider focus, where the fundamental belief is that the provider creates value for the customer, to interactive focus, where the customer is invited to participate in the provider's process, creates many practical challenges. These changes have, however, already been discussed for many years from a change and implementation point of view. The more radical step is to refocus on the customer, which indicates that the key question switches from how the customer can be involved in the service provider's processes to how the service provider can get a role in the customer's processes (customer-dominant logic [CDL], as proposed by Heinonen et al., 2010).

## EMPIRICAL STUDY

The research team of this study consists of three persons: two of whom are academic researchers, and one has a combination of extensive familiarity with the banking industry and a PhD degree in marketing. All three have previously done similar, although not identical, studies and share an interest in managerial sensemaking and value research themes that can simultaneously contribute to academic knowledge and company practice. Questioning the relevance of the current ways of practicing marketing and conducting abductive action research (e.g., Dubois and Gadde, 2002, 2014) that explores bank executives' mental models was a natural research strategy for us.

Empirical insights were gained by interviewing all current members of the executive team of a selected bank in Finland. We conducted, recorded and transcribed a total of seven interviews. Each meeting at the bank's head office in the room where the board meetings take place lasted 1.5 to 2 hours. The interviews were conducted for one week in August 2014, and each interview resulted in 18–25 pages of transcribed raw data. All three researchers were present in all the interviews, and the analysis started during the interviewing in between the meetings.

We interviewed the executives about their view on customer relationships, the challenges facing the management of relationships and the changes needed in order to stay competitive. In essence, this represents the interplay between the established mental model and the process of changing the model. The interviews followed a semi structured theme interview technique that is typical and suitable for abductive studies (Dubois and Gadde, 2002). The discussions were rather open in format and started with a short overview of the purpose of the study, that is, to explore how managers reason individually and in an executive board group. We instructed the informants to be spontaneous and candid and told them that there are no 'wrong or right answers'. All informants were intrigued by the topic and stated that the issue of mental models has not been discussed, although everyone is influenced by them, and that they have noticed that others seem to be guided by a mental model different from their own. The interviews were rather open-ended to let the informants freely talk about 'top of mind' issues that they feel are part of their worldview. There were, however, certain broad topics that we brought up as initial concepts to inspire them. The themes were discussed with regard to how they used to be, how they currently are, and how they envision themselves in the future. They concerned the core of banking business and were key challenges for the bank

and the banking sector, bank service, marketing, branding, customer value, ideas for innovating the business and what it takes to be successful in the banking sector. In this paper, the focus is on the part of the empirical material that concerns customers and customer-bank interactions. These issues emerged in reflections on several themes.

### Analysis of data

Analysing the qualitative data at this exploratory phase consisted of inductively searching for themes in the material. We used 'constant comparative analysis' (Dubois and Gadde, 2002) to thematise the material (Miles and Huberman, 1984) into (a) different challenges that the informants discussed related to customers and customer relationships and into (b) features of mental models in the executive team. We illustrate the findings in matrixes that show core challenges related to customer relationships that emerged in the interviews. These findings, based on the two elements of mental models about marketing, have been separated further into different categories with different management scopes (transaction, relationship and system/network) and management focuses (service provider, interaction and customer):

- 1) The transcribed interviews have been screened for issues concerning customers and customer-bank interactions that the informants have reflected on in the interviews. As the informants have been asked to reflect on certain themes, their responses reflect their mental model on these themes. The most common issues were selected for further analysis. The authors have participated in the analysis by each reading interviews and agreeing on the selection. The interview material was rich, but in this study, we decided to focus on the most commonly expressed issues. We assume that these issues and opinions are also present in running the business in the bank.
- 2) Data were categorised according to two dimensions of core challenges: the customer and the customer-bank interaction content. Then we developed the contents of each challenge type with different subcategories of challenges reflected in the informant data. The material was further analysed in several rounds by searching for each informant's stance concerning the issue, selecting representative excerpts for each informant and comparing informants with detected similarities and differences. This analysis aimed to detect the relevant issues in each individual's mental model and compare data across individuals.
- 3) Another aim was to reveal each individual's characteristic mental model. The informant's reflections on different issues were used to pick out dominant thoughts

and arguments. Thus, we analysed within-case data and let the unique patterns of each informant emerge before systematically searching for cross-case patterns (Eisenhardt, 1989) and comparing findings between the informants. Each informant was 'profiled' based on this interpretation, and we assigned characterisations to each individual mental model.

- 4) Furthermore, each informant's mental model was positioned in the map of strategic elements of mental models described in the previous section.

Lincoln and Guba (1985) as well as Miles and Huberman (1984) suggested various ways of enhancing the credibility of the research that are suitable for our abductive exploratory study. These means are, for example, prolonged engagement and learning about the culture that extends nearly two years, which involve learning the banking sector and establishing trust and rapport with the informants. We verified the information and findings by triangulating data, theories and interpretations among them as well as through peer debriefing and/or member checking, which involves regular sharing and discussing the findings of the research. Balancing between coming close to the informants' reasoning and avoiding becoming too close and losing neutrality was needed. Being three persons in the interviewing and analysing team and having considerable research and banking experience were beneficial, as were using interview themes, using different interviewing techniques, reading other material about banks, intentionally staying neutral during the analysing and iterating the findings in several rounds. A key quality and relevance measure of our study is that it was validated as one team member constantly interpreted the results from the bank's perspective and was able to anchor them directly in the banking context and give feedback based on the results. In this way, our findings were enacted in daily business, and outcomes were reflected back on them, which, in turn, allow constant modification. Our regular monthly team discussion meetings further strengthened this cross-fertilisation between conceptual development and bank practice relevance. This feedback loop increased the trustworthiness and relevance of the findings.

## EMPIRICAL FINDINGS

### The informants

The roots of the informants' mental models were deep and well anchored in the institutional logic of the banking sector. Their vision of the future, on the other hand, was rather blurred overall. The informants saw themselves as 'old-fashioned' bank executives who had long-term working experience on different functions in the same and other traditional banks. None of them had worked in other industries or considered recruiting someone from outside banks.

#### Mental models: Core contents

The informants considered the essence of banking to be trust. They saw some but rather minor differences among current competing traditional banks; in their opinion, banks would gradually need to start differentiating themselves more clearly. They were very familiar with other banks and financial institutions and did compare themselves with other banks offering an equivalent broad portfolio of financial services. They saw no major differences in terms of core services, customer base and preferences, online channel usage and ways to screen the market and develop business among the current so-called traditional banks. Some differences were recognised primarily in customer satisfaction ratings, branch office network density, organizational structure and new mobile banking services. No single bank was, however, seen to stand out and have a clear competitive edge on the market. So far, none of the informants considered new actors in the financial sector to have become significant competitors, although two informants thought that this could change in the future, especially if traditional banks are not prepared to realise that the banking sector is fundamentally changing. It seems that an institutional logic was well established in the industry (Vargo and Lusch, 2015; Koskela-Huotari and Vargo, 2016).

The informants found that the earning logic for banks is fundamentally and gradually changing as, for example, digitalization is gaining significance, loan and other margins are shrinking and competition in profitable service areas is increasing. They also concurred that costs remain high because the staff need to stay competent and that various marketing activities are needed to attract and retain customers. Additionally, all agreed that the future will hold more turbulence than the present and that no one in the industry seems to have a clear vision of where the banking sector is going. International links, on the other hand, were not emphasised as countries were seen as rather unique in terms of regulation and even more so in terms of history and geographical dispersion. All informants shared the view that in the banking sector, improving efficiency and redesigning internal processes are given more attention and time than finding and developing innovative new business ideas.

Overall, five of the seven informants were firmly anchored in the current business model and in ways to improve it and make it more cost-efficient. The mental models were rather narrow, with deep content related to internal bank issues. Two informants recognised the need to go beyond the current business model and mentioned that customers could be the source of new business development ideas. However, these views did not contain details since they repeatedly said that they did not know how to go about developing it by, for example, utilising profound customer insights. Additionally, they saw several obstacles such as the lack of benchmarking and successful experiences from similar initiatives in the banking sector. Thus, to some extent, there was awareness but not yet a capability or preparedness to advance along these lines and switch to a more customer-based way of operating.

#### Mental models: Core challenges related to customers and customer-bank interactions

Even if the informants brought up identical issues of a challenge, they oftentimes had different views on it, for example, whether it is significant for them or in what ways it should be considered. In the first coding round, we reviewed each interview transcript and our notes from the interviews by exploratorily asking, ‘What changes in the banking sectors does the informant talk about?’ The purpose was to understand the text’s general sense to further intensify the data analysis and detect change types in the data. From reading the transcripts and notes, we identified changes that we grouped into two categories and labelled *changes in customer attitudes and behaviour* and *changes in customer-bank interactions*. Thereafter, we organised the detected changes in the data into these two categories and organised the findings to visualise them and combine them with the two new ways of analysing mental models in the team: overlap and conformity. The change types cover issues related to the banking sector more broadly and not merely those specific to the studied bank. The changes are rather comprehensive, and each of them contains different and complex interlinks. In general, the change referred to growing customer heterogeneity as well as increasing dynamism and complexity, which, in turn, lead to rising challenges for the bank to understand the customers and stay competitive.

The core challenges were developed from the data by extracting and coding data chunks and grouping them together into themes representing the challenges shown in the first column. The number was not predetermined, but we identified eleven challenges related to customer attitude and behaviour changes as well as to customer-bank interactions, respectively. The

issues are listed in the table according to our interpretation of how much attention they received during the interviews and how relevant they seemed to be to each informant. The two right-hand side columns show our interpretation of how overlapping and congruent the views are.

Table 1 below shows a set of core challenges related to the changes in customers and customer relationships and the ways the individual informants reflected over them. The table also shows the extent to which the views overlapped and conformed to each other. A dark dot on the row of a challenge listed on the left-hand side of the table means that the informant whose number is shown above in the same column reflected on the challenge. An X equivalently means that the informant did not reflect on it. A strong overlap means that several informants spoke about the challenge and basically brought up the same issues. For the other challenges, they mentioned disparate issues. Strong conformity in comparison reflects a high degree of agreement concerning the consequences of the issue. We developed two ways of analysing to capture mental models and reveal different challenges in a team context. Even if the group overall seemed to have rather similar views, there were issues that the informants did not have on top of their mind or that they disagreed on. From a mental model perspective, these distinctions are significant and particularly relevant to observe since underlying reasoning differences affect decision-making.

	Executive team mental model								<i>Overlap</i>	<i>Conformity</i>	
	<i>Recognition of issue</i>										
	Informant number										
	1	2	3	4	5	6	7				
<b>1. Changes in customer attitude and behaviour</b>											
Socioeconomic context	•	•	•	•	•	•	•	<i>Strong</i>	<i>Strong</i>		
Digitalisation and social media usage	•	•	•	•	•	•	•	<i>Strong</i>	<i>Strong</i>		
Bank switching propensity	•	•	•	•	•	•		<i>Strong</i>	<i>Strong</i>		
Bank interaction media/channel preferences	•	•	•	•	X	•	•	<i>Strong</i>	<i>Strong</i>		
Customer lifestyle	•	•	•	•	•	•	•	<i>Strong</i>			
New banking services/concepts	•	•	•	•	•	•	•	<i>Strong</i>			
Customer interest and knowledge	•	•	•	X	•	•	•	<i>Strong</i>			
Bank involvement	•	•	•	•	•	•	X				
Brand meaning	•	•	•	•	•	•	•				
Customer feedback	•	•	•	•	•	•	•				
Sources of trust	X	•	•	•	X	•	•				
<b>2. Changes in customer-bank interaction</b>											
Customer-need understanding	•	•	•	•	•	•	•	<i>Strong</i>	<i>Strong</i>		
Online banking	•	•	•	•	•	•	•	<i>Strong</i>	<i>Strong</i>		
Usability of technical solutions/mobile apps	•	•	•	•	X	•	•	<i>Strong</i>	<i>Strong</i>		
Speed of serving	X	•	•	•	•	X	X	<i>Strong</i>	<i>Strong</i>		
Organisational format	•	•	•	•	•	•	•	<i>Strong</i>			
Management guidelines	•	•	X	•	•	•	•	<i>Strong</i>			
Presence in customers' lives	•	X	•	X	•	X	•		<i>Strong</i>		
Bank's official know-how	•	X	•		•	•	X		<i>Strong</i>		
Bank's official problem-solving willingness	X	X	•	•	X	X	X		<i>Strong</i>		
Face-to-face encounters	X	•	•	•	•	X	X				
Revenue-generating opportunities	X	X	•	•	X	•	•				

Table 1. Challenging changes in customers and customer relationships

The challenges cover various aspects of the banking business. For changes related to customers, the informants reasoned about not only general consumer trends but also changes specifically related to how customers view and behave relative to banks. Changes in the banking sector are taking place with an increasing pace, and many of them concern the interactions between the bank and its customers as well as how to design and improve the prerequisites for handling encounters in different channels. The views were particularly homogenous with regard to customers and continuous changes in the socioeconomic context, increased digitalisation and social media usage, increased bank-switching propensity and more heterogeneous bank interaction channel preferences. In addition, the informants

similarly recognised changed customer lifestyles and the need for new banking concepts. It seemed as if the informants noted heterogeneous customer interest in and knowledge about banking but disagreed on the significance of these trends for the bank. Furthermore, divergences in views were related to how customers have changed in the way they involve themselves in banks in general, the role of brands to them, the value and use of customer feedback and the way trust emerges among customers today.

The bank executives' reasoning about changes in customer-bank interactions was rather homogenous regarding the increased need to understand customer needs as a foundation for the changing interactions, the growth of online banking, the significance of the usability of technical solutions/mobile applications and customer expectations on instant response from banks. Whereas the views largely overlapped with regard to changing organisational format and management guidelines, the informants did have different opinions about how successful the changes have been and how the format and guidelines could be developed. Not all the informants brought up increased significance of being present in customers' lives. On the other hand, all emphasised reacting to customer contacts and related issues, such as the escalating demand on the contact personnel's know-how and problem-solving willingness. Those who discussed them assigned great importance to them in how the interactions are changing and becoming more demanding for the banks. Various changes concerning face-to-face encounters and revenue-generating opportunities in bank-customer interactions were discussed by some team members and with rather different reflections.

#### Summary of individual informant mental models

Next, we profiled each team member based on all his or her responses. The text of each informant with regard to how they specifically reflect on their own bank was analysed in several rounds. First, it was scrutinised for an impression of whether it reflected a mental model dominated by a focus on internal bank issues (i.e., service provider, interactional or customer issues). We also simultaneously analysed it with regard to transaction, relationship and system/network indications. Then the subsequent impression and data for each informant were summarised with a label that characterises the mental model of each informant. It seemed that the most suitable way to label the mental model was by giving it a primary and secondary descriptive name, the former label representing the core of the mental model and the primary label representing a complementary feature of it. Combined, the two labels reflect the essence of the mental model. For example, the *customer value and banking*

*innovation* label means that the core of the mental model was customer value and that banking innovation was interpreted nearly as important and essential to support customer value. Finally, we further describe the contents of each mental model with more concrete indications of it from the data in the form of listed findings.

As shown previously in Table 1 in the informant-specific columns, although all the informants were long-term bankers and board members, they were indeed different in terms of how they viewed their customers and interacted with them. The differences are shown in Table 2. The third column shows the core emphasis of each bank executive's mental model and lists a few more concrete contents of it. Whether the informant was responsible for a functional area or core process type is also mentioned in the table.

<b>Informant number</b>	<b>Role</b>	<b>Mental model characterisation with listed key clues from the interviews</b>
<b>1</b>	<b>Broad responsibility of bank</b>	<b>Customer value and banking innovation</b> <ul style="list-style-type: none"> <li>- Digital banking</li> <li>- Demystifying banks</li> <li>- Disruptive banking</li> <li>- Learning customer-based business development</li> </ul>
<b>2</b>	<b>Functional responsibility of bank division</b>	<b>Communication and customer service</b> <ul style="list-style-type: none"> <li>- Customer encounter quality</li> <li>- Branch office assistance</li> <li>- Bank's official knowledge and support</li> <li>- Banking at the core and about cash</li> <li>- Data follow-up and analysis followed internally by discussions</li> </ul>
<b>3</b>	<b>Process responsibility of business development</b>	<b>Customer acquisition and interaction quality</b> <ul style="list-style-type: none"> <li>- Cost efficiency, especially internal process streamlining</li> <li>- Active extensive selling</li> <li>- Branding</li> <li>- Digital banking</li> <li>- Face-to-face or digital meeting quality by optimising and coordinating processes and tools</li> </ul>
<b>4</b>	<b>Functional responsibility of customer interactions</b>	<b>Customer encounters and current operation adjusting</b> <ul style="list-style-type: none"> <li>- Human encounters</li> <li>- Customer information and feedback</li> <li>- Incremental improvement</li> <li>- Follow-up</li> </ul>
<b>5</b>	<b>Functional responsibility of customer relationships</b>	<b>Online responding and early presence</b> <ul style="list-style-type: none"> <li>- Digital banking</li> <li>- Scanning customers in social media</li> <li>- Responding to customer initiatives especially online to become considered</li> <li>- Customer satisfaction information</li> </ul>
<b>6</b>	<b>Functional responsibility of bank back-office</b>	<b>Portfolio analysis and regulatory compliance</b> <ul style="list-style-type: none"> <li>- Process streamlining</li> <li>- Customer understanding and risk management in portfolio analysis</li> <li>- Credit portfolio management</li> <li>- Long-term profit focus</li> <li>- Customer security</li> </ul>
<b>7</b>	<b>Process responsibility of business development</b>	<b>Customer closeness and service concept clarifying</b> <ul style="list-style-type: none"> <li>- Customer understanding</li> <li>- Strategising</li> <li>- Third parties</li> <li>- Technology</li> </ul>

Table 2. Key characteristics of each executive team member's mental model

Overall, based on the data, it was possible to distinguish between mental models with different core contents. The mental models for the interviewed individuals could be labelled *customer value and banking innovation*, *communication and customer service*, *customer acquisition and interaction quality*, *customer encounters and current operation adjusting*,

*online responding and early presence, portfolio analysis and regulatory compliance, and customer closeness and service concept clarifying.* The table further lists contents from the data showing what the informants reflected on in the interviews. Interestingly and similar to previous mental model characterisation, the informant's role had an impact. The informant with the broadest area of responsibility spoke about the banking sector and the role of customers in the future and did not emphasise internal processes and making them more efficient. He seemed to have the broadest scope of the mental model. Informants with specific areas of responsibilities clearly reflected primarily on the areas that characterise their mental models.

Table 1 informed about the degree and contents of shared meaning among informants related to challenging changes whereas Table 2 and Figure 2 reveal characteristics of individual informant's mental models. Figure 2 positions each of the mental models in the structure proposed earlier of the strategic elements of mental models around the managerial scope and managerial focus, resulting in different highlighted combinations that are specific to their own bank. This way of profiling shows ideal-type mental models based on the material compared with Table 2 that reveals the overlapping or complementary details of each model. An analysis was made to reveal whether the informants emphasised an internal, interactional or customer perspective combined with whether their scope was primarily transactions, relationships or networks. The mental model profiles formed earlier and their contents were scrutinised again to interpret how they could be positioned in the map. It was an analysis using both dimensions simultaneously of how each mental model could be characterised.

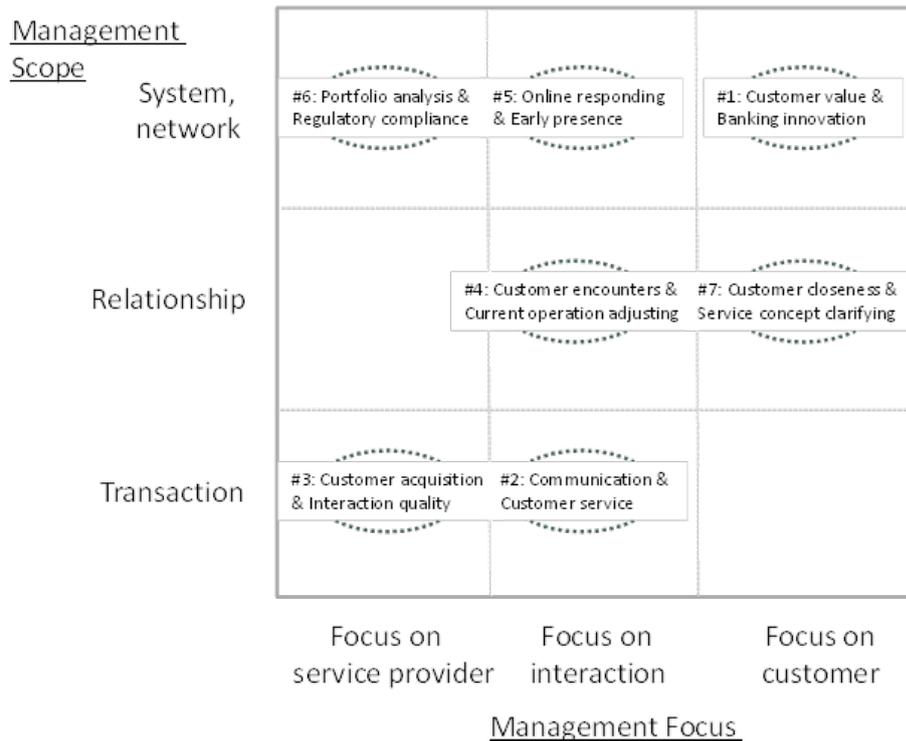


Figure 2. Positioning the informants and their mental models on strategic elements of mental models about marketing

The figure shows that there is a remarkable spread in mental models in terms of content. In general, the informants reflected on their own bank, such as how they have made organisational changes and streamlined processes as well as attempted to develop more efficient ways to handle customer encounters and develop new services. Comparatively, less focus was on customers and taking them as the starting point for business development and renewal. Informant #3 with a broader business process responsibility is more focused on efficiency and traditional marketing activities than informants #2, #4 and #5 who are responsible for functions closer to frontline interactions with current customers. Informant #6 without much frontline interaction with customers is conventionally positioned in accordance with the role and has a system and service-provider focus. Striving much more clearly than today to have customers truly as the starting point were two informants, #1 and #7, who spoke about customer value and customer closeness and linked these two to innovating the business.

## DISCUSSION AND IMPLICATIONS

This study highlights company sensemaking and mental models. Managers' mental models are important since they direct what is considered important, what is monitored and what is done. The mental models are representations that people have of the real business landscape. The selected context for this, that is, the retail banking setting, is exceptionally fruitful because of its long-standing traditions in conjunction with many ongoing changes currently affecting it. The study contributes in several ways to marketing and service management literature by highlighting how the mental models of individual executives as well as the collective mental model are reflected in strategic efforts.

First, the study explores the mental models of a top executive team and its members' individual understanding of strategic issues instead of focusing on resources, activities and shared understanding on an aggregate level emphasised in marketing and service management literature. Second, our results indicate that mental models tend to be hidden; the informants said that they were aware of them but seldom explicitly elaborated on them. Furthermore, our findings support earlier findings in that they confirmed that mental models tend to be stable; many assumptions were based on the institutional bank business logic about customers and customer relationships.

### Implications

The study addresses challenging strategic issues in dynamic service businesses. The business world is not a given reality but is created through a process of sensemaking, with attention and interpretation resulting in mental models of it. Identifying what the contents of the mental models are therefore significant. All persons in the executive team were individually interviewed about how they reason about customers and challenges facing their management of customer relationships. These executives are responsible for different functions in the bank; consequently, their mental models are significant for how the bank is managed, and their models have different 'roots' depending on the individual and his/her responsibility area. Since the informants are part of the same executive team, differences in their views constitute in practice the underlying team tension in interpreting the current situation and envisioning the need for changes in strategies.

Our analysis shows that the executive team members basically identified the same business challenges. However, more importantly, their interpretations of the meanings and

implications of the challenges were different. Each actor's mental model guides his/her interpretation, which again is related to the role the actor plays in the organisation. It is, therefore, quite natural that those who are responsible for a certain function have to optimise that function given the organisational restrictions, resulting in a mental model that differs from the mental model of someone else with another function and responsibility. Still, from a strategic perspective, members of the top management team need to be able to reflect on their own and other members' mental models.

In practice, they did not seem aware of the fact that they partly did not share meanings. This may lead to misunderstandings among the top executive team members. Furthermore, those that recognized the need to break free from the institutional logic were not able to do that. Others did not even question the institutional logic as such. Consequently, strategic change would need to start from someone changing his/her mental model and being successful in influencing and aligning the mental models of the others in the top executive team. Apparently, this is not an easy task even for those with formal power and authority.

At large, internal bank issues dominated the mental models. This view represents the current institutional logic in retail banking and entails focusing on how to sell more of the current services, develop new and more cost-effective replacements of current services preferably quicker than competitors, produce the services more profitably and redesign processes within the bank. Digitalization was frequently mentioned, as was adjusting the services to customer preferences, especially their mobile bank preferences. Everyone agreed that the banking sector is changing more and more rapidly and that so-called traditional banks are rather similar, but this will change in the future as the banking sector becomes more heterogeneous.

Keeping in mind the exploratory emphasis and preliminary analysis, we believe that they have been successful in revealing and highlighting the significance of mental models in business, particularly in retail banking. Our strategy was to let their mental models emerge through their responses to general discussion themes. The disadvantage of this approach, compared with a more structured cognitive mapping approach, lies in the challenges in the analysis phase. The advantage, on the other hand, is the simultaneous possibility to unobtrusively capture the nature of the mental model. In our case, it was more interesting to reveal possible differences in mental models on a more fundamental level characterising different logics than to detect differences in details. On the other hand, it has to be kept in mind that mental models are context sensitive and actor specific, which means that the

studied case represents one specific representation of a more generic research problem. Face validity of the usefulness of studying mental models in such a context comes from comments from our informants who perceived the findings to be valuable in practice.

Our exploratory study provides a starting point for investigations about top executive sensemaking in any dynamic business environment. Future studies can start from any strategically important issues, for example, how value is formed, customer logics, brand meaning, corporate identity and customer profitability. Other avenues that can be explored is how different functions of the company and external partners make sense of business development potential and business models or what the emerging challenges in the business environment are. In addition to interviewing informants, observation and secondary data can be collected and analysed, covering, for example, practices and emotions.

### Managerial implications

In the banking sector, a struggle seems to exist between thinking and living according to the old inert world dominated by regulation, which led to streamlining internal production processes to achieve effectiveness, and the new less-regulated world with increased competition, heterogeneous customer demand and more flexibility. Overall, it seems that bank marketing has dramatically changed and is changing, and there are still gaps in how to make sense of the new situation. Many assumptions from the previous bank business logic still seem to prevail, while there is limited knowledge about what the new situation will or could imply. One way of dealing with the current market dilemma for bank managers could be that they become suspicious about their current mental model and explore in-depth how they reason about the changing market situation and then attempt to act differently or so to say 'think outside the box'. Thus, the real innovation would not lie in immediately doing something in a new way but in first reflecting and reasoning differently, which then leads to detecting new possibilities.

The foremost implications of this study relate to sensitising executive individuals and teams to their mental models and exposing different core challenges related to customers and customer relationships in the retail banking sector. The ultimate outcome will be a framework to describe and analyse executives' perspective on customers and customers' relationships in

order to diagnose their reflections and underlying set of assumptions and, in the end, offer a tool for self-reflection and management development.

Our findings indicate that it is possible to capture mental models and different logics by collecting and analysing executives' reflections. This is encouraging from a practical perspective because it might enable practitioners to detect differences in mental models by careful listening, reflection and discussion within the top management team. Differences in mental models among the executive team members may cause difficulties but may also, if recognised as such, represent a fruitful ground for renewal and innovation. New persons to such team positions are often expected to bring new perspectives that revitalise the company's business. In other words, companies are essentially hiring new 'mental models'. The most challenging situation emerges when the 'real world' changes and mental models need to adapt. In our study, we have studied this type of situation.

Based on the findings and interview analysis, there are at least two important development tasks for an incumbent bank in the context of customer relationship change. First, the shift of the mental models of executives, in which the radical step is to refocus on the customer by starting to consider how the bank may become involved in the customer's process rather than involving the customer in the bank's processes, is fundamental. Second, those elements that are firmly anchored in the current provider-oriented business model are probably the most difficult to change. For the CEO, the main challenge is in the configuration and orchestration of the top management team, both the structure and the dynamic capabilities of the team.

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