

The importance of effective communication

Introduction

The Building Societies Association (BSA) is the **trade association** for all the UK's building societies. A building society is a financial institution that offers savings accounts and **mortgages** as its main business. About 15 million adults have building society saving accounts whilst over 2.9 million adults are currently buying homes with the help of a mortgage. The UK has 54 building societies with **assets** of £395 billion. All are members of the BSA.

Building societies are mutual organisations. These are different to other forms of business. A mutual organisation has no shareholders and does not need to pay dividends. Building societies are collectively owned by their members – the people who save with them and borrow from them. Building societies actively support the communities in which they are based. This helps to differentiate them from other financial providers.

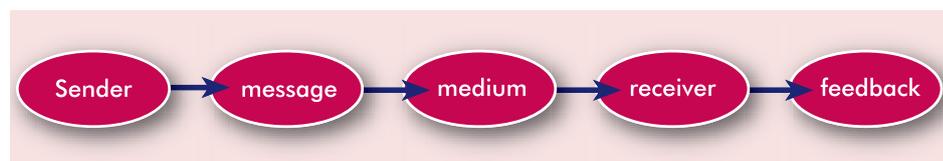
In a **limited company**, like a bank, there are **shareholders** to satisfy. Shareholders want the company to be profitable, taking a share of the profits (in the form of **dividends**) in return for their **investments**. Shareholders usually have different objectives to **customers**. For example, customers want low prices, but this may mean less profit for shareholders.

Changes to the Building Societies Act 1986 meant that in the 1990s some building societies gave up their mutual status and became banks. It is estimated that the requirement for banks to pay dividends to shareholders adds around 35% to their running costs. Consequently, those building societies that remained mutual (the BSA's members) can generally provide better rates than rival banks.

The BSA is a central point of contact and represents its members in a wide variety of areas. Examples include lobbying government when changes in legislation are discussed and in interpreting current legislation. It gathers the views of its members and expresses them with more strength than each individual society can. For example, instead of speaking to every building society separately, financial regulators and other **stakeholders** speak to the BSA. The BSA, therefore, has a key communications role. It communicates detailed policy to its members so they can communicate with their own members – their customers. It also provides research and guidance on issues of interest to societies. This case study shows how building societies communicate with their own members on many different levels.

The communication process

Effective communication is vital to all businesses. The communication process involves:



If the right message does not get to the right person, in the right format, then this could affect the overall efficiency of the business. Worse still, the wrong messages might be passed on to the wrong people. This could actually harm the business.



CURRICULUM TOPICS

- Communication process
- Communication media
- Communication networks
- Barriers to communication

GLOSSARY

Trade association: independent body that works with suppliers within an industry.

Mortgages: a long-term loan secured against a property.

Assets: something that is of worth to an organisation e.g. people, cash, financial claims on others, machinery, buildings.

Limited company: a company whose owners enjoy limited liability for the company's debts and losses.

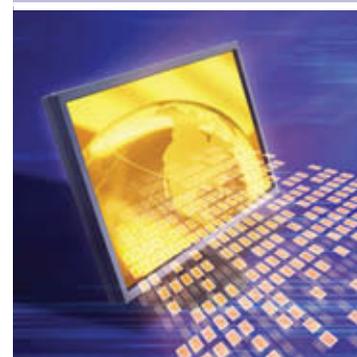
Shareholders: persons owning or holding a share or shares of stock; a stockholder.

Dividends: a share of the company's profit paid to shareholders.

Investments: putting funds to use in the hope of securing returns later.

Customers: individuals or organisations that buy a product.

Stakeholders: individuals or group with an interest in the decisions made by an organisation.



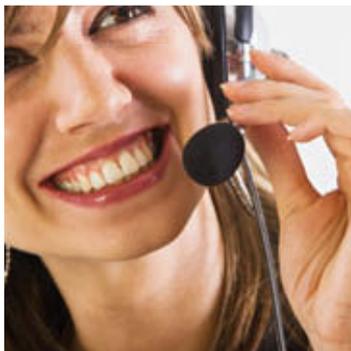


GLOSSARY

Media: the form in which the message is sent, e.g. newspapers, magazines, radio, television and the internet.

Employees: the people who work for a business.

Public relations: activities involved in communicating with different stakeholders such as customers, the government, the general public and the media.



There are a number of parts to any communication. For instance, sending a text message involves:

- the sender - the person writing the text
- the receiver - the person to whom the message is addressed
- the content of the message - for example, news, information, an invitation
- the format of the message - in this example it is text but many other different ways are possible
- the communication channel through which the message is sent - in this case a mobile phone network
- the medium - how the message will be sent, in this case it is in writing.

It is vital that each part of the message is correctly chosen and in place. If not, the message may not be received or understood. Sending a text to someone without a mobile phone will obviously fail. It is important for a business to choose how and when it will send messages to intended receivers. For example, a building society will only send information about a new savings product to its members by text or email, if they have specifically chosen to receive communication by that method. Sending information by this method to people who cannot receive text or email could result in losing an opportunity to sell a new product.

The BSA's member building societies mainly communicate with three groups:

1. Members who require information about the society's aims and performance. Members are legally entitled to receive certain information from their society, such as a copy of the annual summary financial statement on the society's business and notice of the Annual General Meeting. As well as the required formal forms of communication, societies also communicate with their members on a more informal basis:
 - Building societies run roadshows to promote services or support the community. For instance, the West Bromwich Building Society has run roadshows with the charity Help the Aged helping pensioners to cope with finances in winter.
 - Members can also become part of member panels that discuss key issues and report back to the whole membership. Yorkshire Building Society uses its Member Panel of more than 10,000 customers to decide which charitable causes it will donate to.
2. Societies believe it is important to engage with the local communities in which they work:
 - The Cambridge Building Society explains its commitment to local people: *'As a local, mutual society, we are committed to supporting the local community in which we operate.'*
 - Saffron Building Society lends its mobile communications vehicle and loudspeaker equipment to local shows and sports events.
3. New customers may be attracted by TV or radio broadcasts and press advertising. Societies also use different forms of **media** to promote their services and the benefits of mutuality:
 - Bath Building Society pays to advertise itself on a hot air balloon. In return, the balloon company gives it a number of free flights. The Society offers these as prizes in auctions to raise money for charity.

Communication media

A business will need to provide messages in different formats or media. This depends on the individual needs of different stakeholders and whether the message is internal or external.

- Internal communications take place within the organisation. The BSA communicates internally with its members using detailed policy briefs and updates, as well as a monthly newsletter and quarterly magazine. The BSA also promotes career opportunities for employees and potential **employees** at <http://www.bsa.org.uk/consumer/factsheets/careers>
- External communications take place with people or bodies outside the organisation such as regulators, the government and the press. Any communication provides an opportunity for good **public relations** (PR). The BSA provides press releases and case studies through its own media centre at <http://www.bsa.org.uk/mediacentre/index.htm>



To communicate effectively, the message needs the correct medium. This depends on the nature of the communication and the direction of the message – across, up or down an organisation or group.

- Vertical communication – up and down the organisation – may be necessary when a particular message must be delivered quickly and exactly, for example, a change to interest rates on a product. This change needs to be understood throughout the society – from the marketing department who advertise through to the branch staff who sell it to members.
- Lateral communication – across the organisation – may be within building societies or between them and their customers. For example, when informing members of legal changes, a letter to individual members would be the most appropriate route. If the society wanted to communicate to new or prospective customers/members, then TV or leaflet advertising would be effective.

Building societies deal with members’ money and the purchase of their homes. They work within a legal framework, which requires **formal communications**. Formal communication uses a set format and has a record kept. Examples include annual reports, briefing notes, leaflets, factsheets, letters, seminars and training courses. These are all effective in carrying the formal messages of the building society. Other media include presentations, member groups and panels, newsletters and new technology. **Informal communications**, such as the office ‘**grapevine**’ can be effective channels. However, they are more appropriate for non-urgent issues or for communication on a one-to-one basis, for example, building society employees talking to each other in a branch.

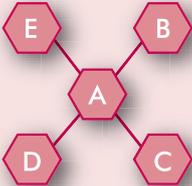
Communication networks

There are a number of ways to organise communications networks, each with different advantages. Networks of communications may be:

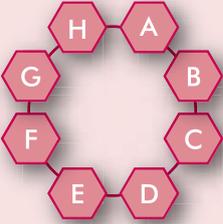
- **centralised** - where a leader directs the flow of communication
- **decentralised** - each member of the group has access to the ideas of all other members.



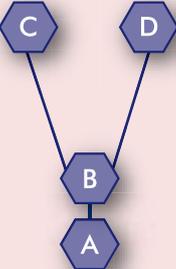
In the **chain network** information is passed straight up or down the line. Chains have a leader (A) who decides what messages should be passed on and how. Messages, especially those that must be legally correct, may use this structure.



The **wheel** (or ‘star’) **network** has a central leader (A). There is little or no connection between the ‘spokes’. In this structure, the leader controls lines of communication and ensures that messages are passed on efficiently. For example, the Nationwide Building Society holds regular ‘Question Time’ and ‘Meet the Chief Executive’ events at different venues, including branches. These give all members the opportunity to ask the Chief Executive questions and meet other senior managers and branch staff.



The **circle network** is where all information is shared equally between all members of the network. In this structure, members feel the greatest satisfaction. Many building societies have member forums that are set up in this way.



The **Y network** - here information from the leader (A) is shared at the same time through two channels (C, D) who pass on the information outwards. This structure can spread information faster than the chain.

To communicate appropriately the BSA sometimes acts as a ‘hub’, providing information to government, regulators or the media. Other times it acts as a ‘rim’, providing sector-wide information (both examples of parts of the ‘wheel’ network). On occasions, it provides the forum in which members can carry out discussions (an example of the circle network). Finally, when it is necessary for it to communicate directly with specific people or groups it uses the chain or Y network.

GLOSSARY

Formal communications: communications made in a set format and where records are usually kept.

Informal communications: communications that are more casual and usually not recorded.

Grapevine: an unofficial means of relaying information from person to person.

Centralised: a central figure controls.

Decentralised: authority is delegated by dividing the organisation into several units, each responsible for its own performance/decisions.

Chain network: a vertical communication channel.

Wheel network: a centralised communication channel where messages pass between the ‘hub’ and the ‘spokes’ but not necessarily between each ‘spoke’.

Circle network: a decentralised communication channel where messages pass across and between all members.

Y network: a centralised communication channel where messages can be directed vertically and laterally as required.





GLOSSARY

Noise: barrier to communication that may weaken or destroy a message being relayed.

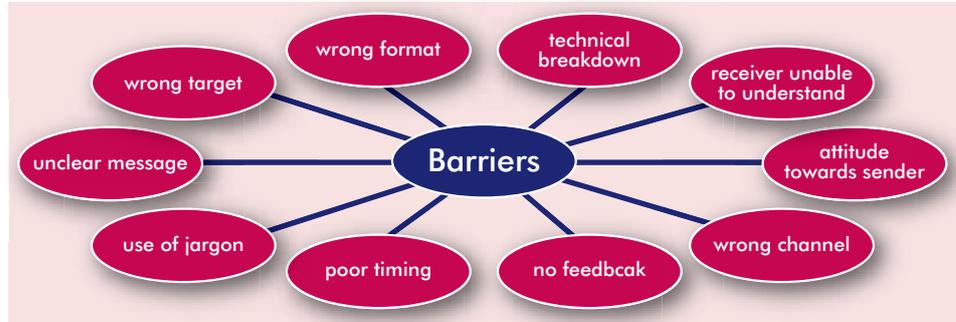
Deposit protection: the amount at which savings are protected if a bank or building society were to go out of business.

Jargon: words or phrases used by particular groups of people that are difficult for others to understand.

New technology enables building societies to reach their audiences efficiently and quickly. The BSA has a website and an electronic newsletter 'Newsbite'. The website has key areas aimed at groups such as consumers, the media and its own members. The e-newsletter is a monthly online update of news, views, statistics and events information. Online member forums also provide a way of exchanging news and views.

Barriers to communication

Barriers can get in the way of effective communication. This is known as 'noise'. Noise makes communication less efficient and less cost-effective.



For example, if a change occurred to legislation, such as changes to **deposit protection**, the message explaining this to building society staff would be different to that for its customers. Each version would need to be written and presented to make it meaningful to the chosen group.

The key to effective communication is to cut down the amount of noise in order to keep the message clear. To minimise problems, the BSA and its members make sure that:

- senders understand what information has to be transmitted, to whom and when. They know which channels of communication are most appropriate
- messages are in the right format
- messages are written in clear English with as little use of **jargon** as possible so readers understand. For example, the term 'mutuality' could be explained as members and customers being the same thing.

Conclusion

The Building Societies Association represents the interests of its member building societies. In turn, these building societies serve the interests of their own members – who are also their customers. The BSA and societies need to convey clearly the benefits of mutuality to member customers, as well as to potential new customers. Mutuality brings positive impacts to both customers and communities.

To do this efficiently requires clear communication. The right messages need to be passed, via the right channels and using the most appropriate media. This ensures that building societies are able to distinguish their services and compete against other financial providers in a competitive market.

Questions

1. Describe the process of communication.
2. Describe the difference between formal and informal channels of communication. Suggest examples of when each might be appropriate.
3. Explain why the circle network might be the most effective way to organise member forums.
4. Analyse the barriers to communication ('noise') that could affect a communication regarding:
 - a) a change in interest rates
 - b) a new and attractive savings account.

