

Corporate customer behaviour towards financial services: empirical results from the emerging market of Greece

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Abstract

Examines issues related to the behaviour of corporate customers towards financial services in Greece. Deviates from the customary empirical approaches concerning customer satisfaction and loyalty issues since it is considered that banking, at the corporate level, entails issues that cannot be depicted into customer disconfirmation studies. Proposes a framework of analysis that draws on the assumption that corporate customers select their banking relationship on a product by product case. Furthermore, there is differentiation between the dominant criteria of bank selection with price not exhibiting the expected widespread dominance over other types of selection criteria. The empirical analysis was based on a sample of 468 Greek enterprises drawn from a population of the 2,197 largest and profitable Greek enterprises in Greece. Using methodologies of multidimensional scaling, MANOVA and multivariate discriminant analysis the study has shown that the extent to which individual firms are captured in global banking relationships can be explained.

1. Introduction

Corporate banking is traditionally considered a complex function since it involves relationships between corporate firms and financial institutions. These relationships can be assigned a case-by-case specific character and thus of identifying and studying some patterns may not bear any meaningful results. On the other hand firm behaviour even at the corporate banking level may reveal significant patterns of similar or dissimilar behaviour which, undoubtedly, contributes to our understanding about corporate banking relationships. Corporate banking is quite difficult to place into a fixed form of cooperation in the same way as retail banking. It can be argued, in accordance with Engwall and Johanson (1989) and Zineldin's (1996a) contentions that corporate banking has a strong resemblance to network economics theory.

A key driver of this renewed understanding about the nature of relationships between corporate companies and financial institutions has been the new form of competition and industry structure that has been witnessed in recent years. That is, corporate customers may rely less on the mere banking supply-side of the financial services industry. The globalisation effect has made traditional firms with national orientation look outside their national borders for sources of finance. Financial engineering and other innovations in the industry have widened the gap between what the banks know or have available and what the average business customer has got used to. Most of the changes within the banking sector are not primarily driven by the demand side of the industry but by competitive pressures, substitute products (e.g. the stock market) and the economic environment (e.g. common European

currency). As a result there is an unavoidable delay before this new environment is communicated effectively to the business world by virtue of new product and service innovations.

In the conceptual framework proposed by Zineldin (1996a) banking institutions are classified according to their selection of strategic orientation either towards financial supermarkets, low-cost producers or market nichers. The three alternatives have profound implications for the corporate banking behaviour of business customers. The strategic choice of a particular mode of entry into the banking market, however, is vastly affected by the behavioural characteristics of the market upon which a market positioning decision is to be made. The latter is one of the key motivations of the current research that seeks to provide an empirical assessment as to which form of entry would be more beneficial for a corporate banking institution in developing a portfolio of business solutions for corporate customers. Having confirmed that individual firms may choose alternative forms of cooperation with their banks, the next step concerns an investigation about the type of firms individual banks should target such that they will acquire the targeted customers.

In the remainder of the paper we seek to build on existing research concerning corporate banking behaviour (Turnbull, 1983; Turnbull and Gibbs, 1987; Donnelly *et al.*, 1985; Zineldin, 1995; 1996b; Edris and Almahmeed, 1997). As a preamble to the managerial implications of the empirical results of the study, it is suggested that the corporate market environment has room for alternative strategic choices; banks may consider whether to position themselves as multiproduct all-exclusive firms or alternatively explore the option of specialization. Furthermore, it has been found that firm's qualitative responses concerning the importance of individual products is a good



predictor of the way these firms bundle their products when purchasing financial services.

The rest of the paper unfolds as follows. In the second section the literature is reviewed and research hypotheses are proposed. The third section concludes the paper.

2. Conceptual framework and hypotheses

For researchers in the area of bank marketing management it has long been recognised that the business of banking is unique and therefore the dynamics between customers and providers should be subject to special attention (Zineldin, 1996b). Undoubtedly, bank marketing should be positioned away from the mere selling job and more towards the relationship marketing arena. Taking on board Grönroos's (1990) definition about relationship marketing:

establishing a relationship involves giving promises, maintaining a relationship is based on fulfilment of promises, and enhancing or developing a relationship means that a new set of promises are given with the fulfillment of earlier promises as a prerequisite.

Thus it can be argued that the application of these principles to corporate banking seems to be a re-statement about the way business should be conducted in the first place.

The banking industry has been for some time in the spotlight of major technological and other innovations that have mainly been targeting the consumer marketing activities. The movement towards the branchless banking institutions and emergence of Internet and home banking are all innovations that will affect the future shape of retail banking (Fletcher and Wright, 1997). The marketing paradigm in banking is moving progressively from the sole assessment of determinants of customer satisfaction to more demanding issues such as new product development (Edgett, 1996; John and Pavlidis, 1996; Cooper and Edgett, 1996) and relationship marketing frameworks (Berry, 1995; Zineldin 1996b).

Relationship marketing in corporate banking, however, goes some steps further such that the banking products, despite their names, are subject to co-development between the client and the bank. Furthermore, there is a clear share of responsibility between the bank and the firms concerning the eventual success of each product. Relationship banking issues have already been addressed at the corporate level, with notable cases by Seal (1998) concerning the effect of trust in corporate banking relationships, Turnbull and Moustakos (1996) concerning

the investment banking function of financial services, and Perrien *et al.* (1992) concerning the deployment and boundaries of relationship management in commercial banking.

Corporate customers engage in a unique relationship with their banks in the sense that the information does not flow freely between banking institutions concerning their customers. At the same time the banks access a vast amount of information from their customers in order to optimize their decision making process. Therefore, one would expect individual firms to build long lasting relationships, avoiding changing banking institution and remaining loyal. Recent research by Zineldin (1996a) has put forward the concept of partnership relationship life cycle (PRLC) in an attempt to emphasize the need and also the benefits from developing such an understanding between the corporate customers and the banks. A notable element of the PRLC framework are the four stages (early stage, development, long-term perspective, final stage) that have been proposed to describe the nature and content of the life cycle. What comes out of the suggested relationship chain is that there is scope for expecting co-operation and relationship marketing between the corporate customers and banking institutions.

Corporate customers, however, should not be expected to participate into relationship marketing policies by default since such a move requires significant commitment that should be compensated by lower transaction costs. The latter implies that a banking institution that seeks to deploy a strategy towards its corporate banking activities should not necessarily make choices towards full-scale relationship marketing or not prior to assessing the behaviour of individual firms. This discussion leads to proposition *P1* concerning the behaviour of corporate customers.

P1: Corporate customers select modes of cooperation with banking institutions that best suit their interests.

P1 can be used as a basis for assessing the shape of the corporate banking industry in a country and thereafter the way individual banks can be positioned. Why should all firms engage in relationship marketing? Is relationship marketing a safeguard for those firms that feel weak in dealing with banks and therefore seek to explore the benefits of marketing in order to finance their operations? Therefore, one would expect some banks to have established full-contact relationship with a few banks, some others to select the same bank for groups of similar

products and some other firms to adopt a free-selection policy and seek to get deals on individual banking products from different banks.

The hypothesis emanating from the previous proposition, therefore, is that:

H1: Within an industry setting all different forms of co-operation between banks and corporate customers exist.

Further to the case of banks there is the issue of selection criteria that firms use in selecting a particular form of co-operation with their bank. This is, in principle, a relatively difficult task since in industrial marketing cases, such as corporate banking is not given *per se* that individual firms will be willing to participate and reveal their criteria of selection. Numerous attempts can be found in the literature concerning the selection criteria that customers use when making banking related decisions. The vast majority of this literature is occupied with the commercial banking activities (Boyd *et al.*, 1994), while some attempts have been made on issues of corporate banking (Chan and Ma, 1990; Zineldin, 1995; 1996a; 1996b).

Critical issues in the pursuit of “magic-factors” that explain consumer behaviour have been issues of bank image, product variety, pricing, convenience and many sociodemographic factors that have also been proposed as a means to segmenting the markets. In this research we shall not present an endless list of selection criteria simply because the main driver of the research is to examine differential criteria between different banking products and thus the list of criteria proposed to corporate customers had to be of secondary level. In such a way it will be feasible to present a manageable set of criteria for a list of different banking products that will enable respondents to participate effectively in the whole process.

Glassman (1996) argues that many financial services’ organizations still look at certain other institutions as, generally, the competition. However, today competition is not only institution-to-institution; it is product-by-product. A new form of competition has emerged and indeed is widely argued that pricing is not the sole most important contributor to the decisions made by individual entrepreneurs in selecting a banking institution. Sucec and O’Donoghue (1997), for instance, suggest the role of branding and corporate image as a strong contributing factor in corporate banking. The latter has also been confirmed empirically by Athanassopoulos (1998) studying the behaviour of corporate banking customers in

Greece. The driving force, therefore, of the research hypotheses emanating from this discussion lead to a study of the behaviour of individual firms concerning the selection of banking products and not banking institutions:

H2: Corporate customers adopt product by product bank-supplier search-pattern that leads to different classes of criteria being perceived as most important in the final bank-supplier selection.

Unlike consumer banking, where only the top customers are profitable, small business banking makes profits from the majority of customers – and banks still control the market (Austerberry *et al.*, 1997). The steady state situation, however, is threatened by the changing nature of competition. Software firms, pay-roll processors, office product retailers, credit card companies, and a host of other competitors are already serving some of the financial needs of small businesses, and many of them are looking to expand. As competitive intensity in the industry increases, the margins on most conventional products will shrink. Furthermore, as Wendel (1996) argues a new borrowing marketplace was embraced in recent years by the changing nature of banking. In this marketplace, corporate firms will select banks as their financial intermediaries only when they deliver value. Increasingly, non-bank financial service companies are being accepted as specialized lenders providing not only critical products and services but also, more importantly, a choice against which bank financing services can be measured. The growing package of borrowing options will present corporate chief finance officers a financing strategy with three pathways: relationship, transnational, or blended relationship.

One of the immediate implications of the new borrowing marketplace is the tendency towards the emergence of global banking providers that seek to create sustainable relationships with their customers and then promote cross-selling. Despite its appealing nature, this has yet to be verified empirically. For instance the research by Berger *et al.* (1996) concluded that the well-promoted idea of joint provision of financial services does not yield any evidence about the presence of cost and/or revenue complementarities. The latter, therefore, casts doubts about the competitive advantage of global-banking institutions.

It is not straightforward therefore as to how the relationship between banking institutions and firms develops and thus any

related research hypotheses should address this issue:

H3: The entrepreneurial behaviour of large and profitable businesses tends to rely on their ability to sustain a bargaining position against their capital suppliers. This bargaining position is translated by means of using different bank-suppliers for separate products. This behaviour is to a large extent statistically predictable by factors concerning the perception of individual firms about banking products.

Recent research focuses exclusively on the effect of customer profile on the measurement of perceptual magnitudes such as customer satisfaction (Athanassopoulos, 1998) and customer perceptions about the introduction of technical innovations by financial institutions (Barczak *et al.*, 1997). These research efforts emphasize the need to develop customer typologies as a means of exploring their behaviour towards service systems such as banking. Customer segmentation has been for long a key strategic management concept emphasised at both the theoretical and management practice levels (Jenkins and McDonald, 1997). The relevant literature is overwhelmed with studies from the consumer markets (Anderson *et al.*, 1976; McDougall and Levesque, 1994) while there is similar appreciation from the industrial markets area (Sudharshan and Winter, 1998; Abratt, 1993). What is notable, is that there is no unique way for the implementation and actual use of segmentation analysis and thus it can be argued that there is a context specific use of the methodology. In any case, however, it is possible to segment a population of firms based on the behavioural aspects of these firms:

H4: Clustering firms in terms of the banking institutions they choose reflects to a large extent the differential attitude of these firms towards financial services. Therefore, the choice of banking institution reflects to some extent the type of corporate customer concerned.

The set of research hypotheses alluded to above will form the basis for the implementation of the empirical side of the study.

2.1 The Greek financial services sector

The banking industry in Greece is made up of 46 corporate institutions of which 25 are Greek and 21 are foreign. This size gives a total of about 2,500 bank branches with 53,000 employees. The density of the bank branches per 10,000 inhabitants is the smallest in Europe. The banking industry has entered

into the zone of deregulation and restructuring in a similar way as other countries such as Spain and Portugal. The root cause of the reorganization is the need to respond to the deregulation of financial markets and also the acquisition of new technologies. The reorganization response, however, follows a different path to the one faced in the UK and Italy and thus the traditional branch networks enjoy a constant growth. At the same time the banks are undertaking large-scale projects for improving and modernizing their operations. For instance, over the period 1997-1999 three public sector banks have initiated reorganization projects of 50m Ecu budget in total.

The changes implemented within the financial services industry are not without costs. That is, the industry experiences severe job losses and the lesson from Spain was that the intensification of the competition may lead to profit losses in at least the short term. The picture regarding the strategic moves of banking institutions in Greece is not uniform. The three policy options concerning the public and private sector banks are as follows:

- 1 viable public banks implementing reorganization projects;
- 2 non-viable public banks that seek consolidation and/or privatization; and
- 3 private banks that seek expansion by own means and/or acquisition of public banks.

Typical projects include the efforts made by private sector banks to co-ordinate their activities with newly acquired smaller banks from the public sector.

The long-standing period of high interest rates that were enjoyed by all banking institutions has come to an end and thus most banking institutions in Greece have had to re-discover the terms of strategic management and marketing. The latter has been expressed by an attempt by individual banking institutions to know their markets and customers better and thus to design their products/services as appropriate. The effective implementation of market-oriented policies that would yield non-immutable competitive advantage has yet to be capitalized on and thus the leading banking institutions in Greece hold their positions.

2.2 Descriptive analysis

The sampling framework of the study was constructed on the basis of a population that satisfied specific criteria of size, profitability and sector proportionality. That is, a population of 2,197 Greek enterprises satisfied the criterion of positive profitability and 500 million drachmas (1 ecu = 300 drachmas)

turnover. The sample was drawn proportionally to the size of individual sectors in this population (Table I). Geographical location was also entered into the sample framework in order to ensure adequate spatial representation of the responses. Data were selected by professional interviewers and were controlled by suitably trained supervisors[1].

About 46 per cent of the sample of firms have a workforce lower than 50 employees while the average size is 140 employees. The typical firm size positions the sample as medium sized enterprises. In terms of financial dependency the working capital stocks of the average firm is one billion drachmas (three million ecus) while the average long-term lending obligations are much lower (100,000 ecus). These figures offer an indication of the short-term lending tendency that is prevalent within the Greek economy as a reflection of the economic crisis that has yet to let the enterprises behave in a more entrepreneurial manner. The spatial concentration of the sample has been proportional to the concentration of firms within different parts of the country and thus has shown concentration in the large city centres and particularly the region surrounding Athens, the capital of Greece.

From a descriptive point of view firms expressed positive views concerning their perceptions about the way the economy was moving. While 90 per cent of the sample firms have undertaken investments over the last five years only 35 per cent have financed their investment by means of long-term loans. Furthermore, the market shares of the leading banking institutions seemed to be stable aside of the leading private sector bank (Alpha Credit Bank) that showed a market share increase in the order of 8 per cent over the last three years.

The investments undertaken by individual firms amount to on average 3.1M ecus

with primary investments from firms involved in commercial activities. The descriptive analysis leads to the conclusion that large and profitable enterprises self-financed their investment activities over the last five years since the climate concerning bank borrowing was not prosperous. In the post 1994 era the economic conditions in terms of financial markets have improved significantly and thus individual firms are more willing to borrow capital over longer periods.

2.3 Selection criteria for financial products

Product attributes were assessed for their perceived importance from the point of view of individual firms. That is for each type of product (e.g. long-term lending) individuals were asked to select the three most important criteria (out of a list of seven) that determine their decision in selecting a bank supplier. In this type of measurement we obtain information concerning both the relative importance of criteria in selecting banking products and also the importance assigned by respondents across different banking products. Results are reported in Table II concerning both the reported frequency of each product-attribute and also the proportion of variation explained as was obtained from a principal component analysis rotated via the varimax criterion. The two statistics (i.e. frequency and variation explained) yield information concerning the importance of each selection criterion in terms of popularity with respondents and also the extent to which each of the nominated selection criteria are able to explain the degree of variability in selection ratings. Where a particular selection criterion accounts for a high proportion of the variance extracted, the indication is that this criterion is very effective at capturing variation across the set of selection criteria (i.e. it is important in differentiating between different products).

The descriptive information given in Table II leads us to conclude that product-specific attributes are conceived differently by corporate customers and this seems to verify our research hypothesis *H2*. Price seems to be a very popular selection criterion in the case of lending and services with commissions without however being able to explain much of the sample variation in the factor analysis results. Relationship marketing reflects the banks' tendency to provide package solutions to their customers, inhibiting the assumption, therefore, that the packaged solutions offer better overall terms and conditions. Relationship marketing, however, did not prove very important in the

Table I
Summary statistics of the sample of firms

Sector	Population		Sample	
Food and drinks	281	(17)	70	(15)
Metals	117	(7)	42	(9)
Textiles	261	(15)	79	(17)
Remaining industry	524	(31)	123	(26)
Hotels	103	(6)	38	(8)
Construction	125	(7)	33	(7)
Services	86	(5)	22	(5)
Transportation	63	(4)	18	(4%)
Commercial	120	(7)	43	(9)
Total	2,197	(100)	468	(100)

Note: Numbers in parentheses are percentages

Table II

Product attributes descriptive statistics

Lending products			Depository products			Services with commissions		
Attributes	(1)	(2)	Attributes	(1)	(2)	Attributes	(1)	(2)
Relationship marketing	15	35	Relationship marketing	18	63	Relationship marketing	17	35
Speed	15	59	Speed	18	63	Speed	17	30
Flexibility in terms	17	50	Bank's Reputation	17	20	Flexibility in terms	17	30
Price	15	84	Technology supports	16	11	Price	10	70
Provision of consulting	13	6				Knowledge of personnel	16	15
						Willingness to service	16	15

Notes: (1) is the percentage variation explained from principal component factor analysis; (2) corresponds to percentage response frequency of the particular attribute

case of the lending products that can be considered as stand-alone products not fully integrated with the rest of banking products. Relationship marketing is important in depository products since they are often used as weapons in the lending negotiations between banks and customers (i.e. bring all your deposits to our bank and then we shall consider your loan application more favourably). Attributes associated with the tangible side of service (i.e. speed in response and flexibility in terms and conditions) were also considered as important determinants of individual firms' behaviour.

These results should be read in line with the empirical results found in the McGoldrick and Greenland (1992) study concerning the importance of bank-attributes when selecting a financial services supplier. That is the importance of the cost element is recognized as an important but not leading factor concerning the selection of banking institution.

Finally, it is important to note that aside of the "core" element of selection criteria each product was associated with specific criteria. For instance, the lending function was associated with the provision of consulting advice, the deposits with availability of high-tech services and the services including commissions with the knowledge of the staff and its willingness to deliver the service. All the extraordinary items indicate the significance of the peripheral criteria on the selection process. For example, it is perhaps impossible to encounter banking staff not willing to take on depository products. On the other hand, however, the support and servicing of special products (e.g. leasing, factoring, imports/exports, etc.) requires knowledge assets that individual banks and/or branches may not have in place.

The next step sought to examine the weight individual products carry as determinants of the relationship that may evolve with banking institutions. The responses assessed were not concerned with the frequency of

transaction between firms and banking institutions but indeed with the strength of the relationship embraced by the product itself.

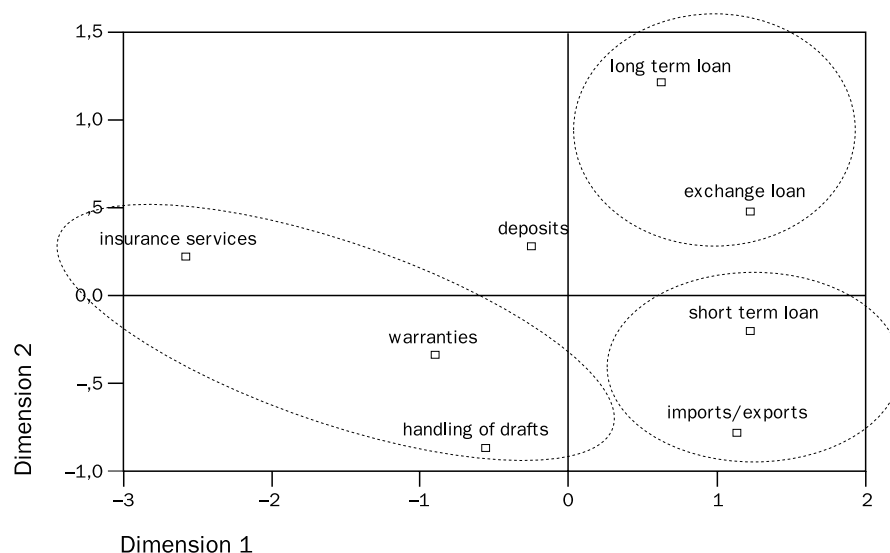
The responses were obtained on a 1 to 7 scale, indicating degree of importance of each product. These responses were then used to derive a distance matrix using Euclidean distances and pursue the mapping of the products on the multidimensional space. The mapping of the products can be found in Figure 1.

The results indicate that the lending function constitutes a banking activity that is highly regarded by the bank customers. The right upper quadrant in Figure 1 includes the two loan categories, with long-term lending being the product taking the highest score in both dimensions of the multidimensional scaling function. The depository accounts constitute an area of lesser importance on firm decisions to cooperate with banks and thus is not considered an important differentiating factor between banking institutions. Services involving commissions constitute banking products that attract customer attention in at least one perceptual dimension of the multidimensional scaling results. The multidimensional scaling statistics yielded a stress function score of 0.13 with fit index of 0.91 which can be considered very satisfactory.

The statistical association on which the bundling of individual banking-products was based on behavioural responses on individual corporate customers. The empirical results indicate that the lending function constitutes an important aspect in the decision making process of corporate customers. Long-term lending and foreign-exchange lending have historically shaped the relationship function between banks and firms in Greece. Clearly the importance given to long-term lending as opposed to working capital reflects to a large extent both the easier access large firms have to working capital and also the macroeconomic climate currently experienced in Greece which enables

Figure 1

Mapping of banking products on the basis of customer perceptions



management to undertake long term capital commitments with moderate risk. On the depository side it can be argued that this type of product constitutes a leverage that individual firms use in their relationships with their banking institution. It can be argued that in terms of bank-institution selection the depository side of business is affected significantly by service provisioning issues and less by price related issues. However, it must be noted that most service related issues have ultimately monetary implications on the banks that provide the services and the firms that enjoy the special type of facilities. Finally, commission related financial products and services were found to form a similar cluster that leads to conclude that they form a different type of business activity between firms and banking institutions.

The multidimensional map in Figure 1 indicates three clearly defined product groups on which individual banks and corporate clients can invest and build long lasting relationships and/or supermarket-type one-off purchases. What matters, for both sides, however, is the fact that not all products carry the same weight for individual customers and therefore, the service propositions banks have to offer must accommodate this differential importance their customers place on their products. Furthermore, it must also be argued that the high importance given to lending products must not lead the banks to make these products attractive at the expense of other products and services. The remaining products can be considered as the preamble for individual customers to predict the behaviour of their

bank when a request for a lending product is put forward.

2.4 Explaining the decision towards product-bundles

One key research issue has been the investigation of the behaviour of individual firms towards the selection of flexible terms of relationship with their suppliers of funds (banks). A multidimensional analysis framework was employed in order to investigate the complex phenomenon of “one-stop-shop” versus the “portfolio-type” of relationships between each firm with a bundle of banks. This analysis was carried out in two phases as follows: in the first stage two dimensional chi-square tests were employed and in a subsequent phase the analysis was complemented by the use of discriminant analysis.

Chi-square tests were employed to investigate the association between product-bundling (i.e. the number of banks a firm cooperates for four major product categories) with the size of individual firms. Significant association was found between size and product-bundling ($\chi^2 = 28, 12 \text{ df}$) using the number of employees as a size indicator of firms. The direction of the relationship was such that smaller firms tend to have a more restrictive portfolio of banks for their financial transactions. At the same time larger firms tend to have a wide portfolio of banking institutions (than expected in a statistical assumption of independence). This preliminary finding adds support to the hypothesis concerning the bargaining power of large and profitable firms who are in a position to select financial intermediaries on a product by product base. For smaller firms there is an

inverse situation that either shows their limited bargaining power and/or their tendency to stick with fewer banking institutions and claim better trading conditions. Furthermore, the more banking institutions reported in the portfolio of individual firms (one firm may get loans from more than one or two banks) the higher the likelihood that these firms will cooperate with different banks for different products ($\chi^2 = 64, 16 \text{ df}$). In a banking industry with relatively limited fully competitive conditions (in terms of pricing and product variety) the case of multibank purchasing should be read with caution. That is, firms capitalise on the banks' desire for market share and co-operate with many banks spreading their exposure to different banking institutions.

The final step in the case of product-bundling concerns the ability to explain a firm's decision towards bundling relationships with banks through an assessment of the qualitative responses and so to identify drivers of the decisions of each firm to select particular banking policies. This analysis was carried out by means of stepwise multiple discriminant analysis (Wilks' criterion of variable selection) and the results are listed in Table III.

The results listed in Table III indicate the predictive power of the discriminant model concerning the bundling decisions of individual corporate firms. That is, the model yielded a 89 per cent correct classification of the corporate decisions towards the product bundling. These results were also verified by a second stage assessment where the discriminant function was used to predict firm membership. The variable list used to obtain the discriminant functions is listed in Table IV.

The results listed in Table IV indicate the importance particular product attributes get when the decision of individual firms to bundle banking products is considered. Based on these four attributes the allocation

of firms to product-bundle categories yielded correct classification at a 89 per cent level. The shaded boxes in the table reflect the maximum coefficients corresponding to the attributes used for the classification. In some cases the maximum coefficient corresponds to full accordance between the criterion concerned and the financial products selected (see the case of working capital). In some other cases the maximum importance given to a criterion corresponds to non-bundled products which indicates the importance given by the firm to their product (see the attribute concerned with the importance given to deposits).

The behaviour of individual firms towards banking is by no means in the sole discretion of the firm concerned. As has already been proposed there is always a case to be made between the banks that seek to bundle their products and keep customers connected for a long period of time and those individual firms that seek to select the best possible option for banking. The results listed in Table III indicate that the behavioural responses of individual firms can be used as an indication towards their banking behaviour.

2.5 Segmenting customers based on decision making behaviour

Customer segmentation constitutes a vital element of strategic marketing. The exact nature of segmentation, however, is not straightforward since there are strong contextual effects that need always to be taken into account. Speed and Smith (1992) offer a review article concerning the typologies of segmentation research in financial services. In their research it is evident that there is a lack of empirical studies focusing on the segmentation of corporate customers. Furthermore, other empirical studies exhibiting the value of segmentation in financial markets focus solely on personal and not business customers (Palmer and Lucas, 1994).

Table III

Firm behavioural factors and bundling of banking products

Selected bank	Predicted membership						Total
	(1)	(2)	(3)	(4)	(5)	(6)	
The same bank (1)	154	0	0	2	0	1	157
Working capital and long term lending (2)	6	5	1	1	0	1	14
Working capital and deposits (3)	10	2	58	5	1	11	87
Different banks (4)	12	2	4	34	1	11	64
Long term lending and deposits (5)	1	1	0	2	7	0	11
Working capital and deposits (6)*	0	0	19	0	0	116	135

Notes: (1) indicates the products of deposits, long term lending and working capital; (6)* indicates firms that have not taken a long term loan over the last three years and have their working capital and deposits with the same bank

Table IV

Classification function coefficients (Fisher's linear discriminant functions)

	Product-bundle selection					
	The same bank	Working capital and long term lending	Working capital and deposits	Different banks	Long term lending and deposits	Working capital and deposits
Importance to working capital	2.58	2.54	2.78	2.41	1.64	2.31
Importance to long term loans	1.43	1.33	1.04	1.39	1.67	0.95
Importance to deposits	1.56	2.08	1.75	1.66	1.69	1.98
Having taken long term loan	9.55	9.29	10.7	8.88	11.2	12.0
Constant	-20.2	-25.7	-26.8	-26.7	-32.7	-28.9

Apart from the technical issues associated with the problem of segmentation there is the more fundamental issue of purpose that needs to be addressed prior to proposing segmentation of a market area. In the case of corporate financial services the question of segmentation is very often size related since the banking industry considers the size of firms as a good indication of their needs and thus behaviour towards banking services. Industry sector also plays a very significant role since different investment requirements and also the ability of firms to be self-reliant for undertaking investments determines their banking behaviour. For example, many firms from the food and drinks sector in Greece funded their investments by means of own equity in the period of stiff economic conditions (1989-1993).

The discussion concerning segmentation also has close ties with the concept of strategic group analysis. The similarity can only be drawn insofar as there are groups of firms behaving in a similar manner in terms of relationship with financial services firms. It is argued therefore that there are factors that lead firms to similar strategic behaviour concerning their banking decisions. This issue is addressed empirically in the current research.

In the context of the present study the question of segmentation was addressed from a behavioural and not product point of view. That is, the fundamental decision making issue concerning product bundling was used as the basis for segmenting the firms in the sample. The focus of the analysis will be, therefore, on the validation and interpretation of the clusters obtained in relation to consumer behaviour differences between the cluster members.

The cluster analysis was done using the Ward cluster method based on Euclidean differences between the variables. As clustering variables, attributes reflecting the decisions of individual firms concerning their way to bank were used as clustering variables. That is the clustering variables

were mere indicators of the banking institution that each firm had selected for its banking products.

The results listed in Table V position the profile differences between the central tendency of the five segments of the corporate customers. Following the classification of observations it can be argued that there are mainly four groups of firms that provide a substantial number of observations. As has been mentioned earlier the use of the *post hoc* assessment of the four customer segments is based on behavioural/qualitative responses of individual firms concerning their behaviour towards their banking activities. The existence of statistical differences between the four groups of firms on factors outside the variables used to derive the clusters in the first place validates the whole segmentation exercise.

Owing to the different nature of measurement of each variable listed in Table V those variables represented as frequencies were examined by means of χ^2 tests and those measured on Likert scales by means of ANOVA tests. The variables listed in Table V are those that exhibited significant differences from a list of questions that were asked to the management of the firms.

Firms in Cluster 1 are relatively large both in terms of sales but mainly in terms of workforce. The behaviour of the particular firms towards the banking products is not extreme (in terms of teaching maximum and/or minimum numerical values) with the notable exception of the duration of long term lending which is relatively high compared with the other clusters.

Firms in Cluster 2 represent a portion of the market that exhibits a relatively high commitment towards the long term lending products. Not surprisingly, the long-term loans have the highest duration in the sample indicating firms that are not affected by the general economic climate (in periods of economic instability and high interest rates firms avoid to commit into long term lending) and high interest rates. This cluster

Table V

Cluster profiles and behavioural differences

	Cluster 1 No. 100	Cluster 2 No. 35	Cluster 3 No. 158	Cluster 4 No. 96	Cluster 5 No. 9	Statistics
Duration of long term loans (years)	7.45	8.50	4.69	6.24	5.33	$F = 3.65^{**}$
Significance of short term loan in selecting a bank	4.25	4.33	4.39	3.96	4.22	$F = 2.35^{**}$
Significance of long term loan in selecting a bank	3.42	4.33	3.32	3.64	3.78	$F = 2.69^{**}$
Significance of imports/exports in selecting a bank	4.13	3.57	4.15	3.78	3.44	$F = 2.55^{**}$
Significance of handling of drafts in selecting a bank	3.17	3.29	3.54	3.11	3.67	$F = 1.90^*$
Significance of warranties in selecting a bank	3.39	2.81	3.51	3.30	3.44	$F = 2.61^{**}$
Use of leasing product	12%	3.6%	21%	9%	0.8%	χ^2 : 9.34, 4 df
Use of factoring product	4%	0.8%	3.5%	0.8%	0.8%	χ^2 : 13.4, 4 df
Use of options/futures/swaps	5%	0%	6%	3%	0.3%	χ^2 : 7.9, 4 df
Use of EU programs	9%	1%	10%	8%	0%	χ^2 : 7.8, 4 df
Importance of new products on deposits	4%	0%	2.3%	1.3%	0.3%	χ^2 : 8.6, 4 df
Importance of cross-selling on lending products	20%	3%	30%	15%	0.8%	χ^2 : 7.9, 4 df
Sales size of firm [1 small, ... 5 large]	3.33	2.90	3.28	3.07	2.56	χ^2 : 2.34, 4 df
Workforce size [1 small, ... 5 large]	2.56	1.76	1.86	1.82	1.89	χ^2 : 20, 12df

contains small firms both in terms of sales size and also in terms of workforce.

Firms in Cluster 3 represent the typical profitable firms who have been mostly affected by the economic conditions and thus exhibit a risk averse behaviour. That is, short term investment activities and focus on working capital. The firms in the particular cluster exhibit a tendency towards the use of innovative and new financial products (leasing, EU programs, factoring and stock market products). Finally, these particular types of firms exhibit a strong interest towards the concepts of cross-selling and relationship marketing.

Firms in Cluster 4 represent firms that demonstrate the lowest interest in qualitative criteria for selecting suppliers of banking products. It is noteworthy that these firms have in fact the least sales size without, however, having the least size in terms of number of employees.

The latter is an indication that these firms do not have such a strong market position and this restricts their ability to exert negotiating powers in the selection of a banking institution.

Finally the firms classified in Cluster 5 correspond to those firms reflecting very poor responses towards the use of financial instruments. This cluster membership is clearly a non-representative sample of corporate behaviour and thus the impact it possesses is minimal.

3 Conclusions

In this paper an attempt was made to examine issues of consumer behaviour derived from common research topics such as customer satisfaction. The point of departure of the research presented has been the behaviour of special types of consumers such as corporate banking customers. In such situations the case of satisfaction is sometimes of moderate importance since the question items often used in popular questionnaires cannot capture the essence of the transaction between a profitable and strong enterprise and a banking institution. It was argued that the special type of relationship that often evolves between service providers (e.g. banks) and service receivers (e.g. corporate customers) is not predetermined and therefore corporate customers do not fit within "statistical types" of propositions concerning the selection of their banks. It was found, for instance, that some firms prefer to collaborate with the same bank for all their products while some others are not tied to one supplier and prefer a more open relationship.

In addition our research has explored issues linked with the question of individual banking products. Most firms, in Greece, seem to make product-by-product selection concerning their banking supplier and therefore it is worth examining firm behaviour towards individual products. The lending function and two different

types of banking services comprise the product-positioning. This differential, however, was further examined in terms of relationship marketing and cross-selling which constitutes a key management issue in the banking agenda. That is, evidence derived from the empirical results indicate that profitable and prosperous firms “resist” cross-selling and do not follow a one-stop-shop pattern concerning banking products. Product-bundling arises as a result of negotiations and supplier search activities.

The last part of the research focused on the segmentation question of individual firms according to their banking behaviour. It was found that such segmentation can be substantiated by the qualitative responses of individual firms concerning their priorities and preferences towards banking products and services. The experiment was carried out successfully: corporate firms were found to exhibit statistically verifiable differences in the way they conduct banking and therefore such information can be utilized from banking institutions towards targeting their clientele with unique selling propositions depending on their banking profile. Despite the uniqueness of the relationship between corporate firms and their banks it can be argued that it would be very beneficial for the strategic marketing function of a bank to anticipate the general trend and behaviour of their targeted customers and then act by means of small changes to predetermined business-banking forms of relationship-marketing.

Banking behaviour is undoubtedly an open and challenging question for both banking institutions and the corporate world. The corporate banking agenda is pulling the strings in traditional banking institutions in Europe as it has been recognized that this function is about to shrink to fewer hands as the single currency era approaches. Yet, the profitability of corporate banking activities is often considered limited (as a result of negotiating power of strong firms) and indeed more appropriate for specialized institutions. Many global banking institutions seek to reshape their functions towards retail and consumer banking activities by anticipating the strength of the market and thus their likelihood for market share. The concentration of corporate banking activities among fewer banking institutions may not prove beneficial, in the short term, for individual firms that will not have the technical capabilities to search for capital and banking services across the European Union. The entrance of new and substitute forms of banking institutions and capital

intermediaries may resolve such problems in the long run.

Despite the progress that has been made in the arena of new forms of bank marketing there is considerable scope for banking institutions to come closer to their customers and revitalise the meaning of relationship marketing. Relationship marketing, despite its appeal, needs to expand its scope such that the case of corporate banking relationships will be encapsulated effectively. The “compulsory” bundling that is currently enforced as a marketing tool for better terms of service from banks to corporate customers is not sufficient to ensure long lasting relationships. Relationship marketing needs to be properly defined and applied in the context of corporate banking so that there are clear signs of the value of such a relationship for both the customers and the banking institutions.

Note

- 1 The study was supported financially by a publicly-owned banking institution.

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