

Bank-company interactions and relationships: some empirical evidence

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Large companies avoid dependence on a single bank and there is an atmosphere of confidence and satisfaction between banks and middle- and large-sized companies.

Introduction

Today most banks face a market that is extremely dynamic. In the light of the rapid changes in competitive situations and in market conditions all banks, large and small, are placing increasing emphasis on attracting and retaining corporate customers. Corporate customers undoubtedly offer the greatest profit opportunities. Their banking needs range from the simple product/service of clearing cheques to a lengthy list of complex banking product/service packages.

In banking today, the different actors offer a wide variety of products and services. Banks are no longer in the business of buying and selling money. They are rather in the business of offering complete financial services to their varying corporate customers. Commercial banking has expanded its range of products and services into what is known as universal banking, thus moving into new areas (Browaldh, 1989).

Traditionally, government regulation, close supervision and ethical prohibition have limited the development of new banking services. Since the early 1960s, market development, developments in the theory of finance and deregulation of financial markets helped to cause a shift away from traditional forms of financing into multi-based services. Today, commercial banks operate in a highly competitive climate and offer a variety of new services to both individuals and business firms.

As a marketing strategy, banks seek ways to develop formal, ongoing relations with companies in order to ensure repeat transactions and/or ongoing financial relationships. The commercial financier must focus on the company's needs and must create an environment that concentrates on customer satisfaction. One of the keys to success is in making a client understand that the

satisfaction of needs is important to the bank. The financier or the salesperson has to understand the customer and the nature of the seller-customer relationship – what motivates the customer to consider a purchase? What factors will stimulate the customer to actually buy? In short, how can the financier facilitate a transaction that will satisfy the company's needs and allow the bank to make a profit?

The purpose of this article is to generate a more comprehensive picture of the nature of bank-corporate client relationships. In this context the present study was designed to describe and analyse empirically the major factors influencing the relationship and interaction between banks and their corporate customers.

Marketing concepts and philosophy

The traditional approach to improving selling performance has focused on how to sell existing products more efficiently. This approach is known as the selling concept and sales orientation. It could be very expensive and ineffective when trying to reach a large and dispersed market. The focus was not on the consumer's need but on the company's selling effort. However, marketing is not only selling. Marketing is central to all business functions (Drucker, 1973).

Dealing between buyer and seller is the most important starting point towards satisfying the customer's needs. This philosophy that marketing strategies must be based on consumer's needs is known as the marketing concept or marketing orientation. The shift from a sales orientation to a marketing orientation has been designated the marketing mix theory. This theory was developed to meet the demands of manufacturers of consumer goods, and to influence consumers to buy the goods offered by the firm.

Once marketing had successfully established itself in consumer goods markets, marketing began to emerge in

some industrial goods markets. A large number of marketing scholars became dissatisfied with applying marketing mix to industrial goods marketing. The marketing of industrial goods has been regarded as basically different from the marketing of consumer goods. In *International Marketing and Purchasing of Industrial Goods*, Håkansson (1982) has developed a new approach to the industrial markets called the interaction approach. This approach is based on heavy theoretical and empirical research. The marketing scholars have stressed that the relationship between buyers and sellers in industrial markets has another character; for example, both buyer and seller are active participants in the market where the relationship between them is frequently a long-term one, close and involving a complex pattern of interaction between and within each company. The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform. Accordingly, the concept of the marketing mix could be replaced by a buyer-seller interactions approach as a key element in the marketing strategies in industrial markets. Personal selling is likely to be the most important means of informing and influencing buyers in industrial markets, whereas advertising is likely to dominate in consumer markets.

Services marketing is inherently different from goods marketing. Despite the importance of the service sector in the economy, services marketing has only recently attracted the attention of academic marketers. Serious attempts have been made to develop a new theory and models of service marketing (e.g. Grönroos, 1984; Gummesson, 1985). Their research has stressed that service marketing requires new concepts and strategies that are relevant to the service industry. They state that the traditional marketing discipline and marketing mix theory are not directly transferable to the service sector. As a result, Gummesson (1985) has developed a new marketing concept which integrates the service marketing theory and interaction/network approach with traditional marketing mix theory. The new marketing concept or approach has stressed the significance of customer participation; integration between production, marketing and consumption; and the close interaction between personnel and customers.

Banking is unique. It is not like other industries. We must always observe four basic fundamentals that are unique to banking. If they are not observed and accommodated, the marketing planning will be worthless and the institution possibly imperilled. First, a banker is a fiduciary, his inventory belongs to his depositors. Second, banks are licensed by law to serve as repositories of citizens' funds and to use these funds for constructive purposes. No sound bank marketing strategy can ignore or escape that requirement. Third, a banker is expected to minimize the risk before maximizing the return. Since bankers are merchants of debt, bank market planning

must take cognizance of the fact that the purchase of debt (lending money) must always be made in response to the expressed need of the customer. They may not employ a marketing strategy successfully that attempts to create a market for debt where one does not legitimately exist. Finally, banks must stand ready to serve their markets in bad times as well as good. Loans must be made; interest rates may be low or high. Foreign trade must be financed; interest must be paid to depositors. In short, the wheels of commerce must be kept turning. An industrial marketing executive can cut his losses and take a product off the market if it is unprofitable. Bankers cannot decide to stop accepting deposits or lending money to individuals or firms. Thus, bankers' marketing strategy must accommodate itself continually in the market of the full spectrum of the essential services a bank provides under all business conditions.

Within the field of industrial organization the study of market structure often refers to a selected number of characteristics in an organization which enables the establishment of an interrelationship between buyers and sellers operating within a given industry. The industrial organization approach is based on the exchange relationship between the parties.

However, scholars working in the field of banking have found it useful to describe and analyse the industrial network model and its implications for the relationship between banks and corporations. For example, Engwall and Johanson (1989) note that:

In recent years deregulation and the development of information technology has prompted several observers to conclude that the former long-term relationships in banking have disappeared. The development is analysed in the present paper by means of a model of industrial networks, focusing on relationships, dependencies, connections and positions.

In addition, the dynamic and uncontrollable character of networks is stressed. It is shown that the type of service provided is crucial for the dependence between banks and corporate customers. The paper also stresses the significance of relationships between networks of financial institutions for preventing liquidity problems and for arranging large placement programmes.

As a matter of fact, the customer now holds the balance of power. Every company is being called on by other financial institutions. Customers have greater opportunities to make comparisons, and financial management is more sophisticated and specialized. How, then, will a bank or another financial institution be able to differentiate and identify itself uniquely? The answer is: marketing and the quality of the core and facilitator services (Maister and Lovelock, 1982; Normann, 1984) that satisfy the customer's needs. Without creative bank-company relations and a high quality service package, there would not be success (Zineldin, 1993a). The quality and nature of the service purchased at the point of sale

depends on the quality of the interaction and the relationship between the two parties.

We assume that companies tend to judge banks by their ability to help them solve their problems. They do not place much value on the technology or the technical expertise of the banks; they value only the ability to solve their problems. To be effective, the bankers need to know enough about the customer to understand what sort of demands he may make, know enough about the bank to understand what products they can provide, and know where to go for support or advice (Zineldin, 1993b). As Paré (1990) stated: "The best marketing tool banks have available to them is the vast amount of information they have about their customers". Banks, therefore, emphasize deeper penetration of the existing company base. Haubrich (1989) says that: "bank-corporate client long-term relationship is like marriage, and that the bank acquires a great deal of information that would be impossible to transfer to another lender". Consequently, in recent years researchers have increasingly stressed the significance of bank-corporate customer relationship (Donnelly *et al.*, 1985; Moriarty *et al.*, 1983; Turnbull, 1983; Turnbull and Gibbs, 1987).

What is bank-company interaction and relationship?

Banking is unique. It is important to recognize that in many respects banking is a very different industry. As a consequence, a number of the concepts and relationships established in manufacturing and other services may not be fully applicable in banking, or have a different emphasis. The relationships between banks and their corporate clients are unique and will always be unique.

Accordingly, to apply the recent theories and concepts of marketing directly on the banking sector is inappropriate.

Banks more than other services should see themselves as partners with their corporate clients. Both partners actively participate in an interaction process. The concepts of partnership and interaction we use in the case of the banking industry cannot be applied to other services (e.g. a restaurant or an airline). How many customers (individual or firm) and restaurants or airlines are concerned about a close relationship between each other? Does it concern the staff of a restaurant or an airline if the customer's social, economic or financial situation is bad or good? It is none of their business! They are not and will not be partners with the customers. Neither the customer nor these service firms have the authority to control each other's activities. There is no interdependent relationship between them.

I assume that the relationship between banks and most corporations is often close. It is also long-term and

involves a complex pattern of interaction. As a result of this close and long-term relationship, the ability and disposition to control this relationship is often justified. The activities of one partner are always more or less dependent on the outcome of those of others. This dependence is a critical factor of the direction of the interaction process between the two parties.

The extensive involvement of a human component in the production of a service introduces a high degree of variability in the outcome. This is an important consideration, given the vast number of service industries that are labour intensive. Arguably, this is not the case with the bank-corporate relationship. This relationship does not need extensive contact with many different members of the bank staff. This relationship is relatively close and long-term by nature. Companies like Volvo, Saab, Agfa, IBM, or even Fermenta are well known to the bankers and bank management. Such clients can always get individualized service from the manager of the bank or from a well trained banker with whom they have dealt before. Watson (1986) emphasizes the significance of assigning an account manager to be responsible for each corporate customer. The result is that the banking service to the corporate client is often standardized and less variable. I assume that this relationship is, or should be, highly adapted, more institutionalized, and the social exchange can be demonstrated by the establishment of trust, confidence and personal friendships. Of course, this relationship may involve conflict as well as co-operation between the two partners.

Moving from selling product concepts to the transaction and marketing concepts based on trust and partners' relationship may require changes in the attitudes of every level of the bank staff. Thus, the bank management must create environments that focus on developing the relationships that turn corporate customers into long-term clients whose specific needs are satisfied effectively. The bankers have to think and be rewarded like entrepreneurs and partners in the service partnership with their corporate clients. This kind of relationship may reduce the bank's default, and the client will then be able to reduce the uncertainty of his expectations.

Some factors affecting the bank-company interaction and relationship

The purpose of this section is to explore the feasibility of approaching the bank-corporate client relationship from a somewhat different angle. The theoretical perspectives in this article are based mainly on the theory of "industrial marketing" (Håkansson, 1982), the standard interaction/network approach and the "new concept of marketing" which has been developed by the Nordic school of service marketing (Grönroos and Gummesson, 1985).

Since the banking service industry is unique, especially in terms of its relation to corporate clients, we need a better understanding of the bank-company relationship, the interaction process and the factors influencing them. Thus, I will try to develop a discussion which may have both similarities and differences to the standard interaction/network approach and the new concept of marketing.

I shall now turn to the formulation and analysis of some components and variables that describe the bank-company interactions and relationships. These major components are:

- environment;
- atmosphere;
- interaction process.

The sub-factors of these components will be different from those of the industrial interaction approach.

Environment

The relationship and the interaction process between the bank and its corporate client is influenced by the environment surrounding the two parties. Three main factors of environmental aspect are relevant to bank-corporate relationships:

- (1) economic;
- (2) technical;
- (3) legal/political.

Examples of relevant economic factors include the competition within the banking or corporate industries, interest rate, inflation, unemployment, business cycles, and the state of the client's business or industry. The major external technological element of the environment is the almost unlimited number of possible applications of computer systems. For the banking industry, this will influence the development of the computer and communication (C&C) network, such things as the automated teller machine system (ATM), electronic funds transfer (EFT), and cash management and salary payments. In turn this development can affect the bank-corporate client relationship. Illustrative legal/political factors are the degree of political stability, the regulations and constraints on business and the banking policies.

Central to any successful bank-company relationship and to any implementation of strategies in banking is an understanding and analysis of the external environment which allows the two parties to adapt all components of their relationship to changing conditions. Environmental information scanning is essential to avoid the credit risk and to maintain a close and long-term bank-company relationship. To be effective bankers need to know enough about the operating environment of the firms, e.g. knowledge of their business, industry and market.

Atmosphere

The relationship and interaction process between the bank and its corporate clients is influenced by the overall atmosphere with the two parties. The following three types of atmospheric forces are relevant to the bank-corporate relationship:

- (1) power/dependence;
- (2) co-operation/conflict;
- (3) trustworthiness.

Because trustworthiness dominates in banking, banks and clients may employ a different evaluation process from those of other goods and service industries. Banking services may involve more risk and uncertainty than other businesses.

The bank services are not accompanied by guarantees. Thus, both parties perceive greater risks during the interaction processes. Consequently, a high level of trustworthiness will lead to a higher level of co-operation, and the lower level of risk and uncertainty will be justified and vice-versa.

Bank management's persuasive action must be geared to the client's needs

In today's global competitive marketplace where there are many banks, and where airlines all go to the same place, the firms hold the balance of power. Most companies are called on by another financial institution. Companies have greater opportunities to compare, and financial management is more sophisticated and specialized. On the other hand, increased competition for banking has caused bankers to be increasingly concerned about satisfying their customers. Competition for loans is stronger than ever, with a larger number of lenders serving roughly the same aggregate number of borrowers.

A service alone will not provide sufficient differentiation or sustain a price differential in the highly competitive market. In effect, an interaction process based on a selling transaction concept is a more effective element of banking services. The transaction aspects of banking service concerns all activities that must be performed: first, from the time a meeting of the minds occurs among the parties; second, during the transaction process; and third, after the transaction is completed. The quality of these three transaction stages may develop the relationship from a bank-customer relationship into a closer and long-term

bank-corporate relationship (Donnelly *et al.*, 1985). This development may include such characteristics as decision speed, the provision of business advice, and a competitive price and term for the loan. Closer and long term relationships will, in turn, lead to interdependence, a higher degree of trustworthiness and more co-operation between the two parties.

Interaction process

As mentioned above, the marketing of banking services is seen as an interaction process between the bank and its corporate clients within a certain environment and atmosphere. I suggested that the relationship between banks and most companies is close and long-term by its nature, especially in an ongoing collaborative context. This closeness is a result of long-term transactions and exchanges between them. The exchange process within such a relationship often includes three major factors:

- (1) information exchange;
- (2) business or financial exchange (transactions);
- (3) social exchange.

As a direct consequence of these exchange processes an institutionalized relationship can be built and the two parties can adjust and adapt the factors exchanged or the process of exchanges. To implement the service strategy of the bank and ensure its success, the bank management and the bankers must manage the exchange process actively. The bank management's persuasive action must be geared to the client's needs at every stage of the transactions. This transaction is the result of two parties engaging in the exchange process and negotiating in mutually satisfying terms.

To initiate the exchange process, the two parties should collect information about various aspects. The bank must know what the client wants, and the client must be aware of everything the bank has to offer (e.g. credit, terms, business advice and support and technical expertise in risk assessment, capital market, foreign exchange, documentary credits, swaps or whatever).

The social exchange is a critical aspect of the interaction process maintaining a close and long term relationship. The social exchange aspect consists of an exchange of social symbols between the two parties. Confidence, trustworthiness, ethics, and friendship (to some extent) are central factors of the social exchange aspect. Performance and atmosphere can be improved by solving the problems which might occur at each stage of the exchange process.

Empirical methodology

Empirical data concerning the existence and the expected bank-company interaction and relationship were collected by means of questionnaires. A total of 300

questionnaires was mailed to a random sample of companies in various cities in Sweden. This included questions about background of the respondents, and highly structured questions about the area of interest. Responses were received from 179 companies, or 60 per cent, comprising 134 from the first mailing and 45 from the second. The size of a firm can usually be expected to correlate with the value it places on banking relationships (Elliehausen and Wolken, 1990; Moriarty *et al.*, 1983). Thus, we divided our sample of firms into three employment-size categories – 50 per cent of the respondents were small-sized (0-49 employees), 30 per cent were medium-sized (50-499 employees) and the remaining 20 per cent were large-sized (500 employees or more). The small- and medium-sized firms account for the vast majority of enterprises in Sweden and were selected from the general companies' directory, and the large-sized firms were selected from the directory of the largest companies in Sweden.

The main battery of these questions was related to the firm's interaction and relationship with the banks. The questionnaire had open questions, classification questions, preference questions and attitude questions. However, because of the exploratory nature of the study and the nature of the sample, formal statistical tests were not used. The data analysis is based on frequency distributions and cross-tabulations. Some of the questions could be answered by "yes" or "no", and other questions used a single-scale with single indicator. In most of the questions respondents were asked to rate on a summary index with various indicators, using a three-point scale from 1 for a poor evaluation to 3 for a good response. An average of these scores would give a more reliable, and probably a more valid, measure of the company's attitudes, preferences, and views of its interactions and relationships with the banks.

Empirical results

The nature of the relationship

An understanding of the nature of the relationship between the bank and its corporate clients is important and useful for analysing the interaction process between the two parties. Therefore, respondents were questioned about the nature of their relationship with banks in respect of the following aspects:

- stable relationships with a principal single bank or multiple banks;
- range of the relationship in terms of a time period;
- preferences for a stable/flexible relationship.

The results in Table I thus confirm what has been stated earlier, namely that, by its nature, the relationship between most companies and their banks is to some extent identical with a partner relationship.

Table I. *Empirical results of the nature of the relationship between banks and organizations (percentage distribution)*

Size of firm	Doing business with:		Range of relationship		Preference of relationship	
	One lead bank	A number of different banks	Short term (>5 years)	Long term (<5 years)	Stability	Flexibility
0–49	80	20	84	16	83	17
50–499	70	30	81	19	63	37
> 500	0	100	87	13	14	86

It is a long-lasting and stable one. However, Håkansson (1982) found that the benefits of stability and the obstacles to change in industrial markets greatly restricted the applicability of the concept of free movement within markets. The same is true for the nature of relationships between banks and corporate clients.

It can be observed from Table I that, while the small and medium-sized companies tend to tie their relationships with one bank, the large companies tend to move in the opposite direction. With respect to the small and large companies, the data reveal that all large companies (100 per cent) have a relationship and contacts with several banks and financial institutions. In contrast, most small-sized respondents (80 per cent) stated that they do business with only one main bank.

Table I also confirms that most small and large companies had and still have long-lasting relationships with their banks, i.e. more than five years. Out of 49 middle-sized respondents, 35 companies, representing 71 per cent, have a relationship of more than five years, and 14 companies, representing 29 per cent, have relatively long-lasting relationships with their banks, i.e. between three to five years.

Table I also shows whether these relationships are stable with only a single bank or flexible with more than one bank. Different answers are given and the conclusion drawn is that it is dependent on the company size. Most small and medium-sized companies prefer to have contact and a stable relationship with a single bank and large companies favour a flexibility of multiple bank relationships.

As we have just affirmed, a long-term relationship between banks and most small and middle-sized companies seems crucial within a stable relationship with a single bank. On the other hand, the analysis indicates that large companies seem to believe that a multiple bank relationship is more appropriate. Some of the medium-sized respondents stated that a stable relationship with

two banks is a most favourable situation. However, these different opinions could be due to several factors:

- Increased competition both from domestic and foreign banks and financial institutions has caused large companies to move more easily between different financial institutions and banks. Larger companies frequently have multiple bank relationships in order to avoid the dominance of a single bank. They have strong power and are in a position to act and influence the outcome and performance of the banks.
- Small and medium-sized companies believe that they can reduce the credit uncertainty and secure their financial resources by doing business with a single bank or two banks. They argue that their communications with one single bank are excellent and that all staff know and understand what their needs and strategies are. Small companies are often weak in power and position, they have no great opportunities to compare and choose among different banks and financial institutions. Thus, a stable relationship between a small firm and its bank is very crucial for the stability of its financial system.

Atmosphere

It is imperative for successful relations and interaction between bank and corporate client to communicate and co-operate in an atmosphere of frank debate, trust, interdependence, and the mutual expectations of both parties. It was important for this research to study what the respondents experienced and what they expected of the atmosphere of their relations with banks. That is because it is assumed that both parties have to match the expected atmosphere and the experienced atmosphere to each other, so that client satisfaction and the bank's interests are achieved. It is also assumed that when they recognize the cause of any problem in the atmosphere, they might attempt to solve this problem or propose different solutions.

When asked about how the respondents experienced dependency in their relationship with banks, the data

reveal that 47 per cent of all respondents stated that they had an interdependent relationship with banks. Thirty-two per cent mentioned that the bank dominates and influences the trend of the relationship and they are dependent on its outcome, the remainder (21 per cent) stated that they had complete power to control the relationship and the performance of the bank. However, Håkansson (1982) stated that the power of organization A over B is directly related to the dependence of B on A. It means that if A has power over B he can get B to do something that B would not otherwise do. The activities of one actor are always more or less dependent on the outcome of those of the others (Engwall and Johanson, 1989).

It is also evident that there is a strong and clear relationship between the size of firms and the level of independence. Most large firms seem to have power and control over their business with banks. This is due to the fact that the power of large companies derives from expertise and their relatively strong financial and economic position. Forty-four per cent of small companies have been unable to exert any influence on their banks to change or improve the type and terms of their loans. Sixty per cent of medium-sized companies have developed a mutual, interdependent relationship.

However, the level of dependence depends on other factors such as co-operation/conflict, trust, and satisfaction/dissatisfaction. Thus, I asked the respondents if they were satisfied with their banks or not, and about how much the bankers were willing and capable of listening to their arguments. The results for all respondents are presented in Table II.

Of all respondents, 75 per cent stated that the bankers were able to have mutual discussions and arguments. Sixty per cent of respondents were also satisfied with their bank relationships. On the other hand, 40 per cent of respondents were not satisfied with their bank relationships. They stated that bankers often ignore their negotiations and requirements.

In conclusion, the figures in Table II reveal a very serious problem. Fifty-five per cent of small companies experience a kind of discrimination because bankers do not give any special attention to their arguments about their own business. Thus, there are often conflicts, misunderstandings and confusion between the banks and their small corporate clients. This attitude in turn may lead to a negative influence on the overall atmosphere and threaten the interest of not only small firms but also the bank itself.

Small firms need the confidence of knowing that they have the full support of management in their task. Thus, there is a need for the banks to reconsider the atmosphere of their relationship with companies. The atmosphere in terms of co-operation, trustworthiness and power/dependence can be used to change the crisis between the counterparts into a fruitful new development of the relationship. On the other hand, an irresponsible way of acting can lead to a break in the relationship. It takes time and costs much more to reconstruct a broken relationship than to retain the existing one. The future belongs to those bankers who can get and keep their corporate clients, particularly small firms.

However, disappointment, lack of confidence, absolute dependence and conflict in a bank-corporate client relationship creates an unhealthy atmosphere. A healthy atmosphere also helps in creating a commonality of purpose, and in overcoming the ultimate inertia that tends to exist in the interaction process and acting as a positive motivating force. Finally, a good and true atmosphere is necessary in isolating and reducing any potential resistance.

Environment

There are many environmental variables influencing the establishment and maintenance of bank-corporate client relationships. Three main factors are examined empirically in this report, i.e. economic, technical and legal/political factors. A lack of information and understanding of these external factors can lead to a destructive cycle of interrelationships. Many decisions of the firms and banks can be influenced by such factors.

Table II. *Frequency (percentage) distribution of opinions about co-operation, satisfaction and conflict between banks and their clients*

Size of firm	State of existing bank-company relationship		State of satisfaction	
	Mutual co-operation	Conflict	Satisfied	Dissatisfied
0-49	58	42	45	55
50-499	90	10	75	25
> 500	100	0	100	0

Therefore, the respondents were asked to state how important they view and consider these environmental factors in their relationships with banks.

In the three aspects of environment, it is noticeable that, while 63 per cent of firms consider the economic factor “very important”, 49 per cent rank the technological factor as not important. The political/legal aspect is regarded as important by half of the firms (50 per cent). The reason for including the environmental aspect is that the above mentioned factors, generally, would affect how the firms would react in a particular situation from the financial and economic point of view. The economic factor is given a much higher ranking and the technical factor is given lower ranking because clients tend to judge banks by their ability to help them solve their financial and economic problems.

Bank-company interaction process

The interaction process between the firms and their banks depends on and is influenced by the factors of the environment and the atmosphere. It is a product of the relationship between the two parties. This relationship in turn affects and may be affected by the parties’ behaviour and performance in the interaction framework. The interaction appears in the form of exchange episodes such as information, financial transactions, and social exchanges in both directions. These different episodes are essential to maintain, develop and build up strong financial and social bonds which influence the decisions of each organization in the business relationship. The results of all respondents are shown in Table III.

Clearly, in this table, the financial factors very important or important (96 per cent), since credit terms and facilities are the critical issues for the companies in reducing the uncertainty of their business expectations. If we consider the banks in their role as provider of funds, this element is generally regarded as much more important by all firms.

Information exchange is also an important factor; 92 per cent of the respondents stated that this element is either very important or important. The need to interact may arise from a desire to increase the efficiency of financial transactions and communications. These needs can be well satisfied if there is a reasonable and fair information

exchange between banks and firms. Adequate information about the companies’ economic and financial statements, the market, and the industry are essential for the banks to make the right decision and judgement. Banks sell services, not products. To do this effectively and profitably the bankers have to serve their corporate clients within a framework which provides the information, knowledge, advice, newest product or service and support necessary for the satisfaction that firms need.

Integrated social exchange requires adaption to the client’s needs

With respect to the social exchange factor, the data reveal that only 11 per cent of respondents stated that this factor is very important in the interaction process. Less than half rank this element as important. However, there is a clear weakness with respect to the role of the social exchange factor in the interaction process, with a majority of the firms ranking this as not important.

A comparison of the answers to the questionnaire concerning the importance of the above mentioned elements in the interaction process tends to show the same direction of the relationship between the small firms and their banks. In short, it is a negative direction. While most large and middle-sized companies declared that the social element is important, most small companies stated that the social element of the interaction is not important. The reason is that they usually have difficulties in building up a good pattern of contacts and relationships with their banks.

A highly integrated social and information exchange requires large adaptation to the client’s individual needs. Unfortunately, this empirical investigation reveals that this is lacking in this area, particularly between the banks and their small corporate clients. Social exchange is explained by personal contacts and friendships, establishment of trust, and confidence. Building up these aspects of social exchange takes time and must be based on personal experience, and on the successful execution of the other components of the overall interaction process, i.e. environment and atmosphere. Furthermore, interaction may appear in long-term exchanges which may be illustrated by institutionalization and adaptation in financial arrangements, in information routines or social relations. Interaction can lead not only to co-operation, but also to conflict between the two parties.

Table III. *Importance of elements of the interaction process*

Element	Percentage ranking		
	Very important	Important	Not important
Information exchange	32	60	8
Financial exchange	64	32	4
Social exchange	11	40	49

Obstacles to interaction can occur where one party fears an extreme and immoderate exercise of power by another party.

Major factors that determine the choice of the principal bank

It is important for the banks to know what the company wants. Perceived quality of banking services is one of the most important factors governing the companies' choice and convinces them to maintain their relationships with banks. In order to develop an understanding of banking services, it is essential for the banker to understand what clients are looking for and how they evaluate the quality of their service. To answer the question of what the clients are looking for is a very important issue in identifying future corporate customer needs more effectively and in improving the bank's ability to communicate with potential clients in terms they can understand.

To identify the respondents' preference of bank services, questions concerning this point were included in the questionnaire. The firms surveyed were presented with a range of characteristics for bank services and were asked to rank these according to their perceptions of the importance of each. The responses to the survey from all companies are presented below in Table IV.

There is evidence to assume that banking services are unique and differ from other services. The cost factor is not the most important one in the bank-company relationship and interaction process. While high trust and confidence are regarded as either important or very

important by 98 per cent of firms, 85 per cent rank price competitiveness (credit cost) as either important or very important. In addition, most firms (92 per cent) considered the factor of adaptation as either important or very important.

General patterns of the importance of the necessity of certain characteristics emerge from the data in this form, but any detailed interpretation is difficult because of their aggregate nature. However, it is possible to identify and determine the most important factors considered by firms in choosing their lead bank. These factors are presented in Table V.

The data suggest that the most important factors for corporations in the choice of their bank are the trust and confidence, price competitiveness on loans, flexibility in tailoring services (adaptations), contacts with bank decision makers, and the speed of the decision and of processing transactions.

In contrast to other services, a lower level of interest was given to kind personnel (47 per cent), and the level of technology (28 per cent). Indeed, there is a general and clear weakness with respect to the technological factor. In empirical tests of this factor that have been performed by Pierre and Ågren, the same result has been found (Thunman and Eriksson, 1991). This could be due to the fact that marketing and technology are a team demanding a leader, and the leader must be marketing. As I have already stated, corporate clients tend to judge banks by their ability to help them solve their problems. Technology could be the most efficient use of bank resources to achieve the optimal results at minimum risk.

Most crucial of all, corporations need the confidence to know that they have the full support of management in their task. It is more important for the companies to have a close and true contact with the decision maker in their banks. In turn there is not much need to have a close and friendly contact with other members of the staff. A possible reason could be due to the fact that most

Table IV. *Importance of service characteristics*

Element	Percentage ranking		
	Very important	Important	Not important
Low credit costs	66	19	15
High trust and confidence	81	17	2
Speed of decisions	36	49	15
High technology	15	57	28
Kind personnel	11	42	47
Advices and additional services	28	64	8
Personal friendship	15	60	25
Close contacts with bank managers	42	47	11
Close contacts with other staff	23	62	15
High ability of adaptations	43	49	8
Banks' requirements of collateral and good name reputation	15	47	38

Table V. *Major factors in choice of principal bank*

Factor	Percentage ranking "very important"
High trust	81
Price competitive on loans	66
High ability of adaptations	43
Close contacts with bank manager	42
Fast speed in processing transactions	36
Advices and additional services	28
Close contacts with other staff	23

companies have personal contacts at top management level with their banks.

Conclusions

The focus throughout this study has been on the relationships and interactions between banks and corporate clients. The purpose was to explore the possibility of approaching bank-company relationships from a somewhat different angle. Our theoretical framework can be traced back to two major theoretical models from outside the bank marketing literature. These are the interaction approach and the new concept of marketing. At the same time it is possible to relate our approach to earlier thinking in traditional marketing and service marketing literature.

The interaction approach outlined in this study identifies a large number of factors which influence the interactive relationship between bank and corporate customers. The nature and characteristics of the relationship depend largely on the characteristics of the atmosphere of dependence, co-operation, and closeness; the economic, technical, and legal/political, and social environment surrounding the two parties; and the financial, information, and social exchange between banks and corporate clients.

Large companies have the power to move between different banks

The aim of our empirical work was to test the major factors that influence the relationship and interaction between the two parties. By analysing these variables, processes and elements, marketing strategies for banking services can be developed. The interaction process between the banks and their corporate clients is a product of the relationship between them. This relationship in turn affects and may be affected by the parties' behaviour and performance in the interaction framework. Empirical evidence of this study also confirms the following results.

While small and medium-sized companies tend to have a stable contact and relationship with usually a single bank, larger companies tend to move in a contrary direction by having a flexible contact and relations with multiple banks. The reason is that large companies often have the power and competence to move freely between different banks and financial institutions in order to avoid the dependence on and dominance of a single bank.

The study also highlights the atmosphere and relations between small companies and banks. Most small companies are not satisfied with their relations with banks because there is a lack of confidence and co-operation in the atmosphere. The banks' knowledge of the firms' operating environment, e.g. industry and market, are given much lower ranking and the banks are seen to be particularly weak with respect to knowledge of the firms' business and industry. The study also showed, however, that there is a healthy atmosphere of confidence, co-operation and satisfaction between banks and middle- and large-sized companies.

In the discussion of the interaction process, the empirical evidence reveals that the financial exchange was a very important common factor for most companies. Information exchange is also a crucial element in maintaining the relationship between banks and firms. Social exchange was more important for large companies than for small companies. It was difficult for small companies to create a good pattern of social contacts and relationships with their banks.

Empirical tests of the study also investigated the major criteria that can be used for the selection of lead banks by corporations. The key task was to develop a checklist of the specific needs and wants which the companies believe influence the decision making in their choice. This checklist will help the bankers to plan for each criterion in order to convince prospective firms that they should do business with their banks. The result has shown that confidence and trust, price competitiveness on loans, adaptations and speed of bank decisions were the decisive criteria and characteristics in this issue. Close contact with the manager of the bank, contact with other personnel, and the level of technology are important, but not sufficient to convince the corporations to select a certain bank.

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