

The Substance of Business Banking Relationships

Proença, João
Faculty of Economics,
University of Porto,
Portugal
Tel.: 351-22-5571100;
E-mail: jproenca@fep.up.pt

Castro, Luis M.
Faculty of Economics,
University of Porto,
Portugal
Tel.: 351-22-5571100
E-mail: mcastro@fep.up.pt

Abstract

The concept of business banking relationship, ie, the relations between banks and their client firms, as found in literature, is a poor conceptualisation of a rich and complex phenomenon whose structural, dynamic and organisational aspects are thus neglected. Most studies stress the operative and administrative issues whilst others looked at the relationships between banks and their customers as if they were just another variable in the banks marketing mix. Besides, very rarely have relationships themselves (between banks and their customers) been taken as the object of research and analysis

This paper seeks to provide a new understanding of the substance of banking relationships. It presents a comparative study of ten banking relationships in Portugal, using the interaction and network approach development by the “IMP Group” in the context of industrial (manufacturing) systems. The study reported here also deals with relationships between firms, but the fact that one of the participants is a bank induces numerous specificities.

1. Introduction

Literature on banking relationships neglects several important aspects of an otherwise rich and complex phenomenon, namely those of a structural, dynamic and organisational nature. Most studies stress the operative and administrative issues that arise in banking relationships and take these relationships as if they were just another competitive variable which banks can manage. Many papers looked at the relationships between banks and their customers as if they were just another variable in the banks marketing mix (see, for example, Moriarty, Kimball and Gay, 1983; Perrien, Filiatrault and Ricard, 1993; McKechnie, 1992, Perrien and Ricard, 1995). Besides, very rarely have relationships themselves (between banks and their corporate customers) been taken as the object of research and analysis, in order to explain the transactional behaviour of either banks or their corporate clients. Therefore, some important questions remain unanswered in this context, for example: is buyer's behaviour strictly rational? Or is there an “atmosphere” which may facilitate the development of the relationships between both parties? In the case of long lasting relationships with stories

punctuated by relevant events, what is the nature of the bonds which develop between banks and their corporate customers?

This paper seeks to contribute to a better understanding of the substance of corporate banking relationships. It presents a comparative study of ten banking relationships in Portugal, using the interaction and network approach developed by the “IMP Group” in the context of industrial (manufacturing) systems (Håkansson, 1982; Turnbull and Valla 1986; Axelsson and Easton, 1992; Håkansson and Snehota, 1995; Ford, 1997). The study reported here also deals with relationships between firms, but the fact that one of the participants is a bank induces numerous specialities, dealt with further on.

2. Banking and Industrial Relationships: a Brief Review of Relevant Literature

2.1. Industrial Relationships

The work done by the IMP Group of researchers on industrial markets, which led to the development of the interaction approach (Håkansson, 1982; Turnbull and Valla, 1986), emphasises the description and understanding of complex interaction phenomena. According to this Group, events can only be understood in their social, cultural, and historical context. Therefore industrial or organisational purchasing decisions should not be regarded as discrete decisions, based solely on the attractiveness of the supplier’s marketing mix variables. Instead, purchasing is often part of a growing commitment to a particular supplier, resulting from a relationship between companies that often goes back many years. Buyers and sellers in industrial marketing often have mutual convergence of interests. Each one many want resources the other one has, or be dependent on the other one in some way (Håkansson, 1982; Turnbull and Valla, 1986).

One of the most important characteristics of this approach to industrial markets is that it sees both the supplier and the customer as active participants in the relationship. A long-lasting relationship tends to develop as a risk reduction strategy, and as a recognition of mutual dependence (Turnbull and Valla, 1986). The reality of industrial marketing and purchasing is one of exchange processes and adaptive behaviour of both parties, taking place through organisational interaction over time. Its fundamental feature is the recognition that transactions in industrial marketing and purchasing occur through an interactive process between individuals within functional departments and hierarchical levels in both supplier and customer firms. In this sense, the Interaction Approach can be seen as a descriptive and explanatory framework of industrial market dynamics.

More recently, the IMP Group researchers extended their focus from single relationships (between buyer and seller) to seeing the company as embedded in a range of relationships with buyers, sellers, partners, competitors, government, etc. (Easton and Araújo, 1989; Axelsson and Easton, 1992). According to Håkansson and Snehota (1993, 1995), taking relationships rather than single transactions as a unit of analysis to explain the exchange behaviour of companies in a market, requires a conceptual framework to develop a “model of business relationships”. Håkansson and Snehota propose to focus on three dimensions in which the effect of a business relationship becomes manifest (relationships as links between activities, as ties of resources and as bonds between actors), all this embedded in an aggregate structure: “the network”. It means that it is inappropriate to focus on single relationships as if they were isolated phenomena. Any act or interaction of a company must be seen within the context of its relationships, being affected by other relationships of its direct partners, and

indeed the pattern of relationships that surround it (Easton and Araújo, 1989; Axelsson and Easton, 1992).

2.2. Banking Relationships

Adler and Adler (1984) in their study of social dynamics in financial markets, go beyond the concept of economic rationality. They argue that the social structure supplements and may subvert the formal structure of the market. Also, Abolafia (1996), in an ethnographic study of the prevailing culture in the Wall Street market, presents a complex theoretical framework of financial markets which are conceptualised as socially built-institutions, where the behaviours of both sellers and buyers are dependent from a network of usages, norms and structures of control. Those authors describe financial markets as “social arenas” where the diffusion of information and the mutual feelings of the actors generate some kind of social cohesion which influences the way market members perceive, interpret and organise information and their own actions.

Studies about the nature of the relationships between buyers and sellers in a banking context are, nevertheless scarce. Some literature has shown and stressed the importance of the relationship between banks and their clients (Perrien, Filiatrault and Ricard, 1993; Holland, 1992; Moriarty, Kimball and Gay, 1983; Turnbull and Gibbs, 1987). These authors stressed the fast changes in the competitive environment in banking across the world, and referred various factors for increased competition among banks and changes in the nature of competition: increasingly competitive capital markets, diminishing demand for loans from firms, deregulation allowing non financial firms to enter traditional banking markets and strong technological innovation all of which has been eroding profit margins (Turnbull and Gibbs, 1989; Perrien, Filiatrault and Ricard, 1993; Ennew, Wright and Watkins, 1990; Emerson, 1995; Proença and Castro, 1993; Proença, 1992). Most of these authors consider that, due to the changes in the markets, many commercial banks started giving greater emphasis to the setting and nurturing of relationships with their major clients. Moriarty, Kimball and Gay (1983), following this line, compare the present emphasis of banking marketing on the relationships with major clients, with a previous emphasis on transactions. Banking relationships, in this context, are taken on their simplest form, following the recognition that a bank can increase its gains by maximising the profitability of a whole relationship with its client, instead of trying to maximise the profit from each transaction or individual product. Also, Proença, Castro and Salle (1994) and Proença and Castro (forthcoming) say that the initial link originated from the sale of a product, often result in personal relationships which transcend the sale of individual banking product and these induce the creation of new relationships involving new products. Personal relationships thus developed and generate intangible benefits both for the client firm and for the bank. Moriarty and others (1983) give some examples of this phenomenon.

From point of view of banking strategies followed by commercial banks client firms, Holland (1992) concluded, that the firms he researched followed either one or two strategies which characterised two kinds of banking relationships: the first one he called “close relationship” and the second one “transaction, or arms-length relations” (op. cit., p. 30). Close relationships are characterised by rich flows of information between both parties, a regular level of business and low margins, a privileged access by the bank to large deals, a strong loyalty and commitment between both parties and expectations for a fair and long term relationship. In contrast, transaction (arms-length) relationships are characterised by poor or restricted flows of information, business being mostly affected by price, temporary or fortuitous links between parties (i.e. without much expectations for the future)(op. cit., p.30). Holland considers that

both parties in close relationships, have unique information about each other, power and influence *vis a vis* each other and, therefore, each party can be seen either as principal or agent for the other party. Thus, Holland suggests, for this type of relationship, a more complex model, which he does not present where the roles of principal and agent could be played by either party on a relationship (op. cit., p. 31). He does not go further in characterizing banking relationships. He just tells us that the firms he researched held a portfolio of banking relationships, made out of both types, where arms-length relations are used by firms to monitor the market, for a better control of relationships their major bank or banks (for viable alternatives, and for some specialized activities).

Most research work does not take as object of study the relationship between banks and their client firms. Relationships were not taken as the object of analysis but rather as resulting from commercial and strategic actions taken by the banks or their client firms'. These works did alert to the importance of the relationships between banks and their corporate clients, but they seem to have contributed little to the knowledge about the nature of such relationships.

Other more ambitious pieces of work have shown some insufficiencies. Eccles and Crane (1987; 1988) presented a very serious ambitious work about the nature of the relationships between banks and their clients. Although theirs is a rather more complex perspective to those previously mentioned, they limit their research to relationships, in investment banking. According to them, the management of investment banks is mostly based on the need to manage a "net of internal ties". They describe a function in investment banking - the management of relationships – which is responsible for the integration of the efforts of all the specialists in the bank who share a customer. They argue that, although relationship management is an element or integration mechanism found in all the investment banks they studied, it is also a complex issue for which general principles are difficult to establish. They also say that, despite its importance for the development and keeping of relationships, this function raises important issues and its nature shows great variety and ambiguity. Later Crane and Eccles (1993) brought in further complexity to their work by emphasising the different meanings relationships take for banks and clients and within each of these groups. Nevertheless, they still confined their analysis to investment banks leaving aside related financial services, including commercial banking.

This paper, following preceding work by its authors (see example Proença and Castro, 1997 and 1999) seeks to cover some aspects missing in the reviewed research by taking relationships themselves as the object of study. Proença and Castro (1999) discussed the structure of banking relationships, and found that banking transactions and operations do not have direct implications for the nature or structure of operations on either side of the relationship, which suggests some frailty in these relationships. This is in contrast to industrial relationships, where the objects of transaction are material or equipment which directly affect the production processes of the firms involved, whilst in banking the object of transaction is money, which does not have comparable implications. However, Proença and Castro (op. cit.) show that banking relationships last for long periods of time. The present paper discusses this question and investigates what allows such banking relationships to last and develop over such long periods of time despite their (apparent) frailty. The concept of substance of banking relationships is also proposed.

3. Research Method

The objective of this research was to identify the most important factor, for the duration of business banking relationships in Portugal. The case study method (Yin, 1994; Ragin and Becker, 1992) was chosen to arrive at an encompassing view of relationships seen as a complex phenomenon. The research included multiple case analysis and comparison (the cases were confronted and triangulated) according to Ragin (1987) methodology²²⁵. The IMP Group method of personal, in-depth interviews was adopted in order to gain insights into issues perceived as relevant for both sides (banks and their corporate customers), so as to understand the nature of the relationships involved and to compare them with those reported to IMP Group literature for industrial relationships. Data was collected from ten case studies in Portugal. Three banks were selected for their dimension (3 of the 4 largest Portuguese commercial banks). Ten corporate clients were selected according to the banks' perception of the complexity of the relationship (number of actors involved, transactions volume and cross-selling²²⁶).

Forty-six interviews were made to the selected bank managers, key-account bank managers and financial corporate managers representing the interacting parties in each case. The interviews contained both open-ended, semi-structured and structured questions and lasted between 1 and 2 hours (in two cases about 4 hours), were tape-recorded and transcribed. At the end of the interview, each side of the relationship was asked to answer a questionnaire which measured the atmosphere and the bonds dimensions of the dyadic relationship. Documentary material was also collected.

4. Analysis of the Substance of Business Banking Relationships

This research suggests three characteristics of banking relationships that are important for their duration and development in time: the "atmosphere" involving the relationship, the "bonds" between banks and their clients and the "connected relationships" to the banking relationship, involving financial firms associated to the banks. These three dimensions are discussed next.

4.1. The Atmosphere involving Business Banking Relationships

The literature about industrial relationships shows the importance of the atmosphere involving a relationship which qualifies the direct environment for the interactive process concerning that relationship (Håkansson, 1982; Valla, 1987). It was thought that this concept should be used to help understand the interaction between banks and their corporate clients. In order to characterise the atmosphere of banking relationships, the story of each relationship was studied, as well as its process dynamics, and the perception of the persons involved, relative to the various dimensions of the climate surrounding that relationship. The process for a relationship underlying the atmosphere created and developed overtime was considered

²²⁵ According to Ragin (1987), the study of one only case can illustrate a given combination of causal factors underlying a specific phenomenon. These fact interact with one another, (a factor may reinforce, counter or block one or more other factors). However, Ragin argues that cases usually differ from each other in terms of results and combinations causal factors. Consequently he proposes comparative studies of cases. This method may illustrate how different combinations of causal factors may give rise to different results, how other causal factors, combined in a certain way may originate similar results and/or how the same causal factors, combined otherwise, can produce different results. That is, comparison of multiple cases can be of help for the understanding of links and combinations of the causal factors of a given phenomenon (Ragin, 1987).

²²⁶ By "cross-selling" it is meant that commercial banks offer a diversified package of financial products and services to their customers; products of leasing companies, insurance companies, factoring companies, and investment banks, etc, related to them.

both through episodes (like, for example, transactions carried out) and the very interactive process from a long term perspective. Thus, like the “IMP Group”, the atmosphere for a relationship was not considered independent, but rather as emerging from the interactive conceptual scheme of the relationship (Håkansson, 1982). The atmosphere influences the interaction between both sides on a relationship but it, in turn, may change due to the (dynamic) process of the relationship and, as such, it is itself a product of the relationship.

This study suggests five dimensions to characterise the atmosphere involving the relationship between a bank and its corporate client: 1) the state of conflict or absence of it; and 2) the level co-operation; 3) degree of mutual openness; 4) the level of mutual trust and, finally, 5) the level of commitment between both. Tables 1 and 2 show the summary of the conclusions reached about the atmosphere and bonds in each case studied (bonds are dealt with in the next section). Four of the dimensions for the atmosphere are briefly described in the cases presented in Table 1 (trust, accessibility, co-operation and absence of conflict). Table 2 shows the fifth dimension (commitment) which, however, was found in only three out of the ten cases studied.

Table 1: The Atmosphere of Banking Relationships (Cases nº 1, 2, 4, 5, 6, 9 and 10)

<p>Case Nº 1: There are personal relations between the administrations of both sides and some friendly relations between elements of the two organisations. Due to these relations, there is a great facility in communication between the two sides and a strong knowledge by the bank about the client’s business. In this context, the climate involving the relation is characterised by the trust, co-operation and accessibility between both sides. It is considered that this climate is essentially due to social ties between the families holding the bank’s capital and the corporate client and of the actual story of the relation. Nevertheless, there is no atmosphere of commitment as both actors feel commercially "free" to face each other.</p>
<p>Case Nº 2: There is a constant and tough negotiation of prices. For example, many transactions are not carried out because the bank and the client do not reach an agreement concerning the commercial conditions. However, this does not put the relationship at risk and does not mean that there is a climate of conflict, but is evidence that the degree of commitment between both is not high. On the other hand, there are relations of friendship which reveal the presence of important social ties between elements of the two organizations, which allowed for a climate of great accessibility and strong cooperation in the relation. Due to that, the bank has a sound knowledge of the business and the strategies of the corporate client.</p>
<p>Case Nº 4: In this relation, both organisations feel that they are partners from a long-term perspective and that success or good performance can only be obtained by their co-operation (some quotations from interviewees on both sides are presented which illustrate the climate of the relation: "Our relation is an informal partnership...The relation is transparent, competitive and faithful...The bank has supported us in difficult moments...We both want success and this can only be obtained together...This isn't one of those mercenary banks, useful only in the short-term..."). In this context, an atmosphere of co-operation and mutual trust prevails, despite tough and constant negotiations. On the other hand, the level of commitment between the client and the bank is not high. For example, the client will not be inhibited from not making a transaction with the bank, if he considers it to have a high price in comparison with the competitors. In its turn, the bank will also not be inhibited from refusing to finance the client, for not wanting to take on the greater risk before him.</p>
<p>Case Nº 5: There are personal links between the Financial Director of the corporate client and the Manager of the bank’s Branch (particularly important from the perspective of the</p>

corporate client) which permitted the development of a climate of confidence, cooperation and accessibility. In the study of this case no conflicts were detected, only some episodes of a more difficult commercial nature that, nevertheless, were always solved in a positive way.

Case N° 6: The bank collaborated actively in the financing of the strong and rapid growth of the corporate client, which marks the atmosphere of this relation. For that, the knowledge which the bank had of the promoters of the project was determinant, in particular, the prestige and image of the Portuguese entrepreneur involved in the new company and the foreign institution associated with it. The relation is characterised by accessibility, co-operation and a low level of commitment between the two organisations. For example, both actors refuse specific transactions, due to unwanted conditions, or because they do not intend to get strongly involved in the relationship. Nevertheless, because they refuse certain transactions their relation is not at stake.

Case N° 9: The history of the growth of the corporate client is intimately linked to this bank, which created on both sides of the relation a climate of great consideration for the other part (essentially from the client to the bank). On the other hand, the former Manager of the bank's Branch (now the Director of the Department for Large Companies in the North) led, on behalf of the bank, the relationship with the corporate client since its inception. Consequently a friendly relation developed between one of the partners of the corporate client, their Finance Director and the current Director of the Department for Large Companies of the bank. Due to these links and to the length of time of the relation there is strong mutual knowledge between the two organizations and a climate of high accessibility and mutual trust.

Case N° 10: The atmosphere of this relation is essentially marked by a climate of accessibility and reliability. The client perceives some insecurity when the interlocutors in the relation change. Thus, the links of organizational knowledge are important. The economic questions (particularly the high amount of credit granted by the bank to the client) are also very important in the maintenance of the relation, which reveals the importance of the ties of an economic nature.

↓

Atmosphere of Relationships 1, 2, 4, 5, 6, 9 and 10:
Trust, Accessibility, Co-operation and Non-Conflict

An histogram is shown on Fig. 1 picturing the evaluations made by the actors about those dimensions, which reflect the perceptions by both sides in interaction. The data on Fig. 1 are consistent with the data on Table 1 and 2 and in fact, confirm and reinforce them.

Table 2: The Atmosphere of Banking Relationships (Cases n° 3, 7 and 8)

Case N° 3: This relation involves various organisations from both the client's and the bank's side (from the client's side a holding and more than seventy subsidiary companies are involved and from the bank's side various corporations affiliated to a financial group). Due to the great number of people and organisations involved in the relation, the protagonists of the relationship (the holding client and the commercial bank) agreed to a partnership with the purpose of facilitating the process of the relation in such areas as accessibility, co-operation and reliability. Some companies on the client's side tried to "boycott" the agreement and made its implementations difficult. For example, one of the sub-holdings of the client had no intentions of dealing with the bank and, on the other hand, the organisations on the client's side tried to negotiate directly with the bank due to its external and internal negotiating capacity. In this context, it was difficult to reach an agreement and "infiltrate" the whole group and its process of implementation was extremely tense internally on the client's side. Nevertheless, over time, the holding client centralised the

main financial operations of the whole group and the conflicting episodes between the bank and some of the client's companies were overcome.

Presently, the relation is not characterised by a climate of conflict, although some conflicting episodes still occur, but different from the previous ones as they are related to commercial questions rising from the process of negotiation. On the other hand, there is some commitment due to the agreement made.

Case N° 7: There is a written agreement between the bank and the client which establishes the economic conditions of business and gives rise to a climate of some commitment. On the other hand, the relation is characterised by a climate of trust and co-operation (despite the occurrence of various conflicting episodes) and by an enormous accessibility of one actor in relation to the other.

Case N° 8: The atmosphere of the relation is characterised by a climate of intense commercial negotiation (with particular emphasis on the price of the transactions), but simultaneously by a great accessibility and reliability. For the development of the climate of accessibility and reliability it was important for the corporate client's Financial Director to have been a bank employee. This element knows both sides of the relation very well, which was determinant in the strengthening of the relation.

There is also the perception (both for the bank and the client) of an atmosphere of some commitment. Thus, both sides feel that the relationship should keep up an interesting volume of transactions at the end of the year, despite there being constant fluctuations in the amount of business.

⇓

**Atmosphere of Relationships 3, 7 and 8:
Trust, Accessibility, Co-operation, Non-Conflict and Commitment**

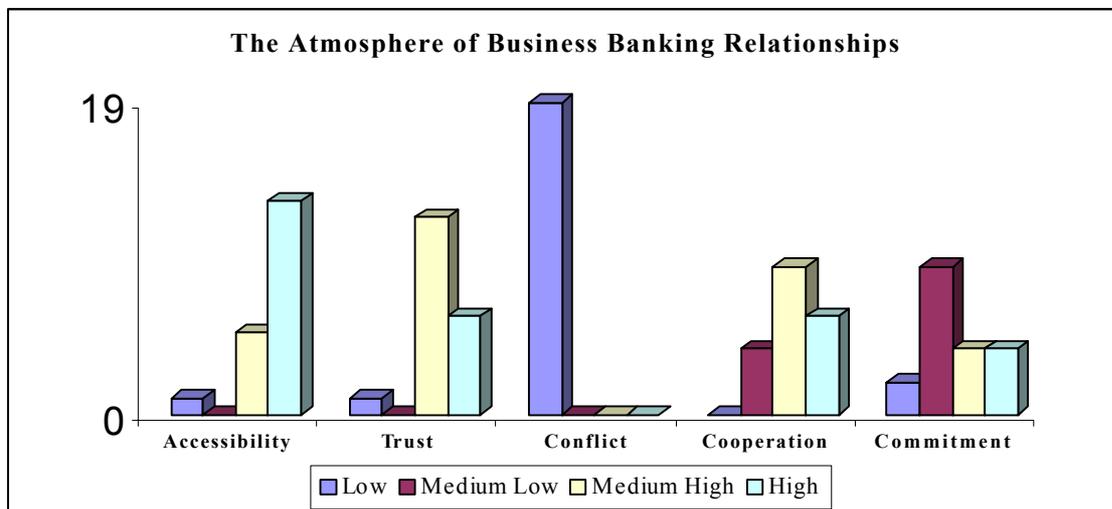


Fig. 1 – Perceptions of banks and clients about the atmosphere involved in banking relationships. This figure shows a histogram of the evaluations of the atmosphere dimensions of the relationships, as done by the interviewees: 10 from the banks' perceptions and 9 from the client perceptions. The scale range is: low (1.0 to 2.0), medium low (2.1 to 2.5), medium high (2.6 to 3.0) and high (3.1 to 4.0).

Fig. 1 and Charts 1 and 2 are evidence of the climate of trust, accessibility, cooperation and low conflict involved in the relations studied. On the other hand, despite seven out of the ten cases investigated not suggesting any climate of commitment between banks and clients,

Cases 3, 7 and 8 (see Chart 2) are evidence of some commitment between the interacting sides, which is consistent with the data presented in Fig. 1. However, despite these three cases, the commitment involved in the atmosphere of bank relations is considered barely relevant in the maintenance of those relations in the long-term. This is in agreement with Proença and Castro (1999) who found that the process of adaptation between banks and clients is neither complex, nor does it involve relevant investments from either side of the relationship. It is thought that these characteristics of bank relations impinges on the type of commitment between banks and clients which, once broken, does not seem to have serious or very important consequences for either side of the relation. The cost of change are not high because there are no complex adaptations or relevant investments in most of these relations despite some relations suggesting high levels of commitment. Only three relations suggested the existence of a climate of commitment, but these were somewhat specific. In two of them, commitment derived from a commercial agreement and, in the third relation, the climate of commitment ensued from both sides wishing to show a regular amount of transactions at the end of each year. The commitment found in these three cases is thought weak, in the sense that it is sustained only by commercial agreements or intentions. This is in contrast to what happens in industrial relationships where close resource and activities interdependence is often reported which can have important consequences for either or both sides should the relationship be broken. This results from the technological aspects which predominate in those relationships (Dubois, 1992; Håkansson and Snehota, 1995).

Finally, it should also be pointed out that the existence of the climate of cooperation or absence of conflict, does not mean absence of conflicting episodes. These do happen but do not put the relationship at risk, nor its climate. For example, in Case 3, the bank sometimes quotes higher rates than those of the market. When this happens, the client interprets it as meaning that the bank is not interested on that particular transaction. Such small commercial conflicts do not break the relationship despite the client disliking them. However, it can be argued that these episodes can “deteriorate” the atmosphere the relationship and the levels of confidence involved if they happen too often.

4.2. The Business Banking Relationships Bonds

The literature of industrial relationships gives evidence of a company operating within a structure of different types of interdependence (Håkansson and Snehota, 1995), as, for example, technology (Håkansson, 1982, 1987 and 1989; Dubois, 1992), knowledge (Nonaka, 1991; Lorenzoni, 1990; Piore, 1992), social relations (Hamfelt and Lindberg, 1987), the routines and administrative systems and legal bonds (Håkansson and Snehota, 1995). The investigation carried out suggests that in business banking relationships there are different types of bonds between banks and clients with different forces or depths. Presented below are the elements which were used to characterize the bonds involved in the relations investigated. Thereafter the data obtained are presented and discussed.

- **Economic Bonds** – The existence, importance and intensity of the links of a financial nature, of the business investments of the other part and of the economic risk involved in the transactions of the relation or in the business of one of the sides. The importance of the questions of prices and costs in the transactions involved in the relationship.
- **Informational Bonds** – The volume and importance of the information exchanged between the parts.
- **Organizational Knowledge Bonds** – Knowledge about the structures, processes, markets and clients of the counterpart. The importance of the information which is made available about the counterpart.

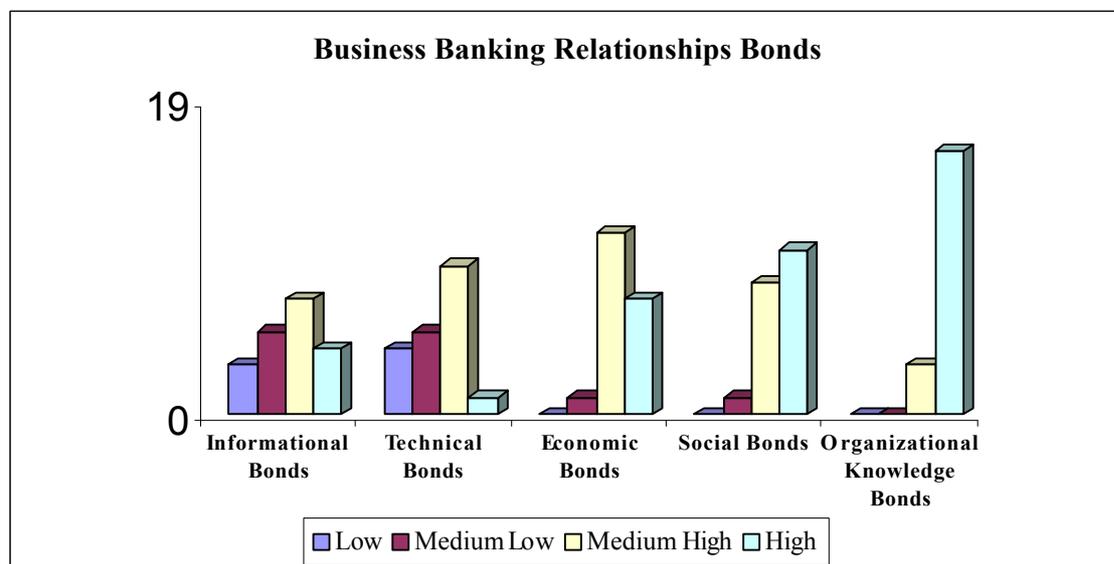
- **Technical Bonds** – The existence and the importance of the connections of know-how between the bank and the client. The existence of computer links between the bank and the client which facilitate the circulation of financial information relating to the relation and to each side.

- **Social Bonds** – The existence and importance of links or connections and personal preferences, of friendly relations and of family ties.

The results of the research suggest that organizational knowledge bonds great importance in banking relationships. The depth of these types of bonds is very strong and usually superimposes itself over other types of bonds. Also, evidence was found of the importance of economic and social bonds. Finally, it is suggested that the bonds of a technical and informational nature are less important for banking relationships.

Fig. 2 represents a histogram which summarizes the results of the appraisal by the actors of the various relationships about the bonds of the relations in which they were involved. Those perceptions are consistent with the analysis carried out and synthesize the data relating to the bonds involved in the business banking relationships their ranking in terms of importance. Those data shows very high bonds of organizational knowledge, mostly high bonds of a social nature, but also medium high, bonds of an economic nature which are mainly medium high, but also high, and, finally, informational and technical bonds mainly of medium importance and intensity.

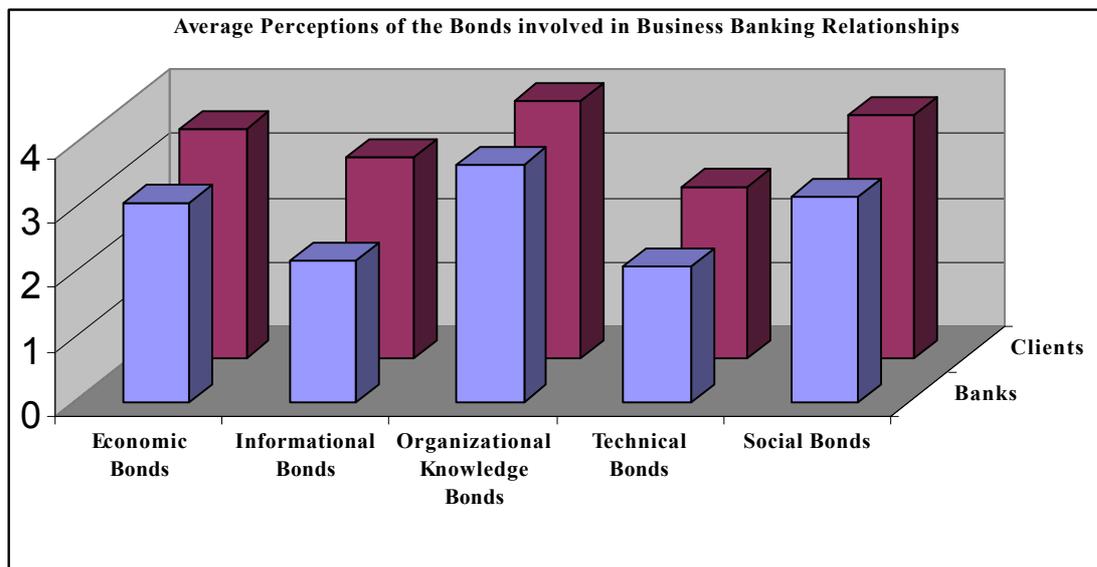
Fig. 2 – Perceptions of Banks and Clients of the Banking Relationships Bonds. This figure shows a histogram of the evaluations of the bondage dimensions of the relationships, as done by the interviewees: 10 from the banks’ perceptions and 9 from the client perceptions. The scale range is: low (1.0 to 2.0), medium low (2.1 to 2.5), medium high (2.6 to 3.0) and high (3.1 to 4.0)).



It is interesting to point out that the clients perceive the existing bonds in bank relations with greater intensity than the banks (see Fig. 3). Nevertheless, this does not diminish the consistency of the analysis effected beforehand. On the contrary, it is thought to strengthen it, for two reasons. Firstly, it is thought that the banks’ perceptions are influenced by them being the "product" sellers, which may, on its own, give rise to insecurity. The “degree of freedom” (referred in the previous Section) existent in business banking relationships can contribute to the perceptions of the seller's side denoting some insecurity, despite the relationship

appearing “firm”. It is thought that this “insecurity” was reflected in the lesser value being attributed by the banks to bonds with their corporate clients. Secondly, the averages of the perceptions of the banks and clients follow an identical pattern. That is, they follow the same order of importance, despite each side quantifying the bonds differently. Thus, this results seem consistent with the previous analyses. From either side, the organizational knowledge bonds appear in the first place as being more important or stronger in the sustenance of the relationships. Social bond rate second for both sides, and the economic ones are rated third. The answers obtained from both banks and clients for the questions concerning technical and informational bonds rated these fourth and fifth respectively).

Fig. 3 – Average Perceptions of Banks and Clients about the Bonds involved in Business Banking Relationships



Finally, it is important to stress that the atmosphere of a banking relationship is dependent, but also influences the bonds, ties and links connect and unite banks and their clients. Besides, the variables which characterize the atmosphere and the bonds are both derived from the interaction process between the banks and their clients over time, as shown in the previous Section. In Case 2, the links of friendship which exist between elements of the two organizations have strongly influenced the atmosphere of the relation, to the extent allowed by accessibility between the interacting sides. Given that accessibility, it was possible for the bank to detect the opportunity (or need of the corporate client) for a very specific type of factoring. This became a fundamental factor for the development of the relation. That is, the climate involving the relationship allowed for greater mutual knowledge, which in turn allowed for the deepening of the relationship. Just as it happens in an industrial environments, the atmosphere of a banking relationship is interconnected with the bonds which unite clients and banks, both being products of the actual relation.

4.3 Connected Relationships

Business banking relationships are not adequately understood without considering, in their context, other transactions that clients often do with companies associated with the banks: leasing transactions, investment trusts, factoring, etc. Informants both from the corporate clients and from banks, often referred to their relationships as being between the client and a “Financial Group”. These references suggest that the actors in the relationship do not see the

“bank” actor just as a commercial bank, but rather as an actor connected to other actors which provide other financial products. In many instances the relationship was reinforced after the client began trading with the companies associated with the banks. Finally, both sides of the relation see advantages in the development of connected relations of this nature.

The connecting relationships with businesses associated with the banks are usually promoted and encouraged by the commercial structures of the banks by selling policies articulated with products from other companies of group and, therefore, are covered by the atmosphere of the relation bank-client, irrespective of there existing direct contacts between the clients and those companies. The initiative of the banks is usually very important, but the opposite also happens. This illustrates the interactive nature of the business banking relationship, suggesting that the client may influence the organizational structure of the bank as a group of companies, see Proença (1999, pp. 258-288) and Proença and Castro (forthcoming).

The relationships between the clients and the companies associated with the banks were born, in nearly all cases, in the context of the relations with the banks, being “covered” or “protected” by the atmosphere of confidence and loyalty therein, despite being legally and formally independent. The bonds between the client and the companies associated with the bank can be tenuous, particularly the social ties which in many situations are practically non-existent. Nevertheless, it is of interest to analyze the process of interaction between the corporate clients and the companies associated with the banks, as these can interfere with the bank connections. Differentiated situations were found, depending on the type of product being negotiated or of the activity in question. As an illustration of this, the relationships which involve companies specializing in leasing and factoring are analyzed next as they were the most common in the ten cases studied).

• **Connected Leasing Relationships**

Contact between the clients and the leasing companies is practically non-existent, except for the necessary formalities. A legal connection exists, of a contractual nature, together some important economic links (derived from the financial transaction and the periodic payment of instalments) together with administrative ties like invoicing. However, the cases seldom showed evidence of social links. Whatever social interaction arose, it practically “died” after the signing of the contract. The Case 9 is a good example of this: all contacts exist between the client and the leasing company are done by telephone or fax (people from both sides never met). Contracts were separately signed and exchanged by post. According to the Financial Director of the corporate client involved in Case 9:

“... I don’t even know the manager of the leasing company. The first transaction with them was dealt with directly by the bank. For that transaction we did not have any personal contact with members of that company... ..Even now that we have already dealt with those transactions directly with them, it is all done over the telephone. When I need to personally deal with anything related to leasing, I do it with the bank! ...For us it is very important that this relationship be included in the context of the relationship which we have with the bank. Sometimes it happens that I agree over something with the bank and another comes from the leasing company. I turn to the bank and they solve the problem...Furthermore, I think that generally cross-selling transactions have many advantages: they shorten the channels, facilitate communication, reduce conflicts, etc...”

The literature reports the prominent role of social interaction in any relationship (Axelsson and Easton, 1992; Proença, 1999). In this sense, these leasing relationships might be said to

exist only on a formal level if they were not seen in the context of the bank relationship. It is therefore considered that they are fragile or have little depth and are dependent on the bank relations in which they are included. However, in the ten cases investigated there two exceptions were found. In Case 4, the leasing relationship is and was always autonomous from the bank relation, given the financial policy followed by the client and in Case 8, the ability to apply for leasing takes on special significance in the set of the client's financial transactions. In this case, the relationship between the client and the leasing company is totally autonomous of any bank relationship and is marked by an enormous confidence and sound mutual knowledge (not only of the people and institutions which confirm the leasing contract, but also the very transactions financed). This is because the nature of the client's transactions makes it indispensable for the financial leasing company to know well the purchaser of the equipment and its business. Because of this, the atmosphere and bonds in this relationships are quite distinctive from others. This is in agreement with Håkansson and Snehota (1995) who stress that each relationship is specific.

• **Connected Factoring Relationships**

The relationships between banks clients and the factoring companies associated to the banks involve more regular contacts, taking on strong social interaction. This is due to the nature of the factoring business which demands frequent administrative and commercial contact between the corporate client and the company that takes on the invoicing. Thus, the bonds between the corporate clients and the factoring companies are connected with the bonds of the banking relationships and in agreement with their intensity. For example, in Case 2, the ties between the corporate client and the factoring company associated with the client's main bank are very much stronger than those with other factoring competitors associated with whom the client trades less and whom he considers less important.

The relationships between the clients and the factoring companies are much stronger and closer than those with leasing companies, but less strong and less close than the banking relationships that surround them. Nevertheless, these connected relationships (be they leasing, factoring or another financial activity) strengthen the bonds of banking relationships and reinforce them. Around and across a banking relationship there can be various technically differentiated, interactive processes (relating to the activities of the commercial banks themselves, and other institutions associated to them dealing with leasing, factoring, investment banks, etc., but coordinated by "the bank's" commercial structure. On the other hand, according to the type of "product" or activity being traded, members of the companies associated to the bank can become involved (particularly when more complex issues are at stake, as for example, investment bank transactions). In these situations, beyond the "normal" process of interaction between the bank and the corporate client, there is a "complementary" process of interaction coordinated by the bank, involving the companies of the bank's financial group. For example, in Case 3, any negotiation between the client and the leasing company or between the client and the investment company (companies associated with the bank) give rise to quadripartite meetings including staff of the bank, of the financial company associated with the bank, of the company of the client's group, and finally, of the Financial Coordination Department of the client's holding.

In this environment, very complex relationships can exist between companies of the same financial conglomerate, which in their turn make the business banking relationship more complex. This is because both the bank and the client are connected to other companies in their respective groups. An interviewee from the client of case 3 put it this way:

“...Why should the bank have various interlocutors facing our company without being minimally coordinated? Why? It doesn't make sense! If we are coordinated in this area for any financial transaction (be it treasury, leasing or capital market), it is also natural for the bank to do the same...” “...Furthermore, that process allows both sides to get to know each other very much better...”).

5. Conclusion

This research suggested three dimensions of business banking relationships which constitute its essence and, therefore, are essential for their maintenance and development: the atmosphere involving the relation; the bonds between banks and clients; and the connected relationships which involve financial companies associated with banks.

It was concluded that the atmosphere involving banking relationships is characterized by five dimensions: trust between the two sides, accessibility to either counterpart, cooperation and low conflict between banks and clients and some commitment from both sides, despite the latter being of little relevance for the maintenance of the relationships in time.

Second, it was concluded that various types of bonds are developed between the parties with different forces or depths. Five types of bonds are distinguished: economic, informational, organizational knowledge, technical and social bonds. The results of the investigation revealed the great importance of organizational knowledge bonds. The depth of these types of bonds is very strong and usually superimposes itself over other types. The data also gave evidence of bonds of an economic and social nature. Finally, it was concluded that the bonds of a technical and informational nature are less important in the sustenance of banking relationships and, therefore, in the union between banks and clients.

Finally, it was concluded that the business banking relationships are not correctly understood without taking into consideration in its context, leasing transactions, investment banking, factoring, etc., which many times clients carry out with companies associated with the banks. This is because, in many of the cases studied, the banking relationships developed strongly after initiating the connected relationships which involve the companies associated with the banks. Also, it was confirmed that both sides of the relationship see advantages in the development of connected relationships of this nature and include them in the context of the banking relationship.

References

Abolafia, Mitchel Y. (1996), *Making Markets: Opportunism and Restraint on Wall Street*, Harvard University Press, Cambridge, Massachusetts.

Adler, P. A. and Adler, P. (1984), *The Social Dynamics of Financial Markets*, JAI Press, Greenwich, Conn.

Axelsson, Björn and Easton, Geoff (eds.) (1992), *Industrial Networks - a New View of Reality*, Routledge, London.

Crane, Dwight B. and Eccles, Robert G. (1993), "Customer Relationships In The 1990s", in Hayes, Samuel L. III (ed.), *Financial Services - Perspectives and Challenges*, Harvard Business School Press, Boston, Massachusetts, pp. 131-144.

Dubois, Anna (1992), "Changing Activity Structures - A New View of Make-or-buy Decisions", Proceedings of the 8th IMP Conference on *"Business Networks in an International Context: Recent Research Developments*, Salle, Robert; Spencer, Robert and Valla, Jean-Paul (Editores), Lyon Graduate School of Business, Lyon, France, 3-5th September, 1992, Vol. 1, pp.70-80.

Easton, Geoffrey (1992), "Industrial Networks: a Review" in Björn Axelsson and Geoffrey Easton (eds.), *Industrial Networks - A New View of Reality*, Routledge, London, pp. 1-27.

Easton, Geoffrey and Araújo, Luis (1989), "The Network Approach: an Articulation", in Hallén, L. and Johanson, J. (eds), *Advances in International Marketing: Networks of Business Relationships*, JAI Press, Vol.3, pp. 97-119.

Eccles, Robert G. and Crane, Dwight B. (1988), *Doing Deals - Investment Banks at Work*, Harvard Business School Press, Boston, Massachusetts.

Eccles, Robert G. and Crane, Dwight B. (1987), "Managing Through Networks In Investment Banking", *California Management Review*, Fall, pp. 176-195.

Emerson, E. C. (1995), "Corporate Finance in the 1990s", *Long Range Planning*, Vol. 24, n° 1, pp. 83-87.

Ennew, C. T.; Wright, M. and Watkins, T. (1990), "New Competition in Financial Services", *Long Range Planning*, Vol. 23, n° 6, pp. 80-90.

Ford, D. (ed.) (1997), *Understanding Business Markets: Interaction, Relationships and Networks*, second edition, The Dryden Press, London.

Håkansson, H. (1989), *Corporate Technological Behavior: Cooperation and Networks*, London, Routledge.

Håkansson, H. (ed.) (1987), *Industrial Technological Development: A Network Approach*, London, Cromm Helm.

Håkansson, Håkan (ed.) (1982), *International Marketing and Purchasing of Industrial Goods: an Interaction Approach*, John Wiley, Chichester.

Håkansson, H. and Snehota, I. (ed.) (1995), *Developing Relationships in Business Networks*, London, Routledge.

Håkansson, H. and Snehota, I. (1993), "The Content and Functions of Business Relationships", paper presented at the 9th IMP Group Conference: *Industrial Marketing and Purchasing: The Next Stage*, Bath, UK, 23-25 September.

Hamfelt, C. and Lindberg, A.-K. (1987), "Technological Development and the Individual's Contact Network", in Håkansson, H. (ed.), *Industrial Technological Development. A Network Approach*, London: Cromm Helm.

Holland, John B. (1992), "Relationship Banking: Choice and Control by the Multinational Firm", *International Journal of Bank Marketing*, Vol. 10, N° 2, pp. 29-40.

Lorenzoni, G. (1990), *L'Architettura di Sviluppo della Imprese Minori*, Bologna: Il Mulino.

McKechnie, Sally (1992), "Consumer Buying Behaviour in Financial Services: An Overview", *International Journal of Bank Marketing*, Vol. 10, n° 5, pp. 4-12.

Moriarty, R. T.; Kimball, R. C. and Gay, J. H. (1983), "The management of corporate banking relationships", *Sloan Management Review*, Spring, pp. 3-15.

Nonaka, I. (1991), "The Knowledge-creating Company", *Harvard Business Review*, Nov.-Dec., pp. 96-104.

Perrien, Jean and Ricard, Line (1995), "The Meaning of a Marketing Relationship - A Pilot Study", *Industrial Marketing Management*, 24, pp. 37-43.

Perrien, Jean; Filiatrault, Pierre and Ricard, Line (1993), "The Implementation of Relationship Marketing in Commercial Banking", *Industrial Marketing Management*, Vol. 22, n° 2, p. 141-148.

Piore, Michael J. (1992), "Fragments of a Cognitive Theory of Technological Change and Organizational Structure" in Nohria, Nitin and Eccles, Robert G. (ed.), *Networks and Organizations: Structure, Form, and Action*, Harvard Business School Press, Boston, Massachusetts, pp. 430-444.

Proença, João (1999), *A Natureza e a Dinâmica dos Relacionamento Bancários*, PhD Dissertation, Faculdade de Economia, Universidade do Porto.

Proença, João (1992), *Banco Comercial Português: Um Caso de Estratégia Empresarial*, Master dissertation, Instituto de Empresa, Madrid, Spain.

Proença, João and Castro, Luis M. (forthcoming), "Cross Boundary Relationships in Portuguese Banking and Corporate Financial Services", *International Journal of Bank Marketing*, special edition on Financial Services Marketing in Business Markets in Non-English Speaking Countries.

Proença, João and Castro, Luis M. (1999), "The Structure of Business Banking Relationships" in McLoughlin, D. and Horan, C. (eds.), *Proceedings of the 15th IMP Group Annual Conference: Interaction, Relationships and Networks – Towards the New Millennium*, Graduate School of Business, University College, Dublin.

Proença, João and Castro, Luis M. (1997), "The Complexity of Business Relationships in Banking and Financial Services - A Case Study" in Mazet, F.; Salle, R. and Valla, J-P. (eds.), *Proceedings of the 13th IMP Group Annual Conference: Interaction, Relationships and Networks in Business Markets*, Lyon Graduate School of Business, Lyon, France, Vol. II, pp. 315-341.

Proença, João and Castro, Luis M. (1993), "As Fontes de Vantagens Competitivas Sustentáveis no Caso do Banco Comercial Português", I Encontro de Economistas de Língua Portuguesa, Faculdade de Economia da Universidade do Porto, 5-8 April.

Proença, João; Castro, Luis M. and Salle, Robert (1994), "The New Tendencies in the Portuguese Business Banking Industry - A Networking Interpretation" in Biemans, W. and Ghauri, P. (eds.), Proceedings of the 10th IMP Group Annual Conference: *Meeting the Challenges of New Frontiers*, Faculty of Management & Organization, University of Groningen, Vol. II, pp. 157-180.

Ragin, Charles C. (1987), *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies*, University of California Press, Berkeley.

Ragin, Charles C. and Becker, Howard S. (ed.) (1992), *What Is A Case? Exploring the Foundations of Social Inquiry*, Cambridge University Press.

Turnbull, Peter W. and Gibbs, Michael J. (1989), "The Selection of Banks and Banking Services Among Corporate Customers in South Africa", *International Journal of Banking Marketing*, Vol. 7, n° 5, pp. 36-39.

Turnbull, Peter W. and Gibbs, Michael J. (1987), "Marketing Bank Services to Corporate Customers: The Importance of Relationships", *International Journal of Banking Marketing*, Vol. 14, n° 4, pp. 7-19.

Turnbull, P.W. and Valla, J.P. (eds.) (1986), *Strategies for International Industrial Marketing*, Croom Helm, London.

Valla, Jean-Paul (1987), "L'Approche Interactive: Les Travaux du Groupe IMP en Marketing Industriel", Working Paper n° 8712 MPI, Institut de Recherche de L'Entreprise, ESC Lyon.

Yin, Robert K. (1994), *Case Study Research - Design and Methods*, 2nd ed., Applied Social Research Methods Series, Vol. 5, Sage Publications.