The impact of the bank's key contact person on the strength of the relationship between banks and business clients

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ABSTRACT

Drawing on relationship marketing and sales management theories, the role of the key contact person (KCP) on customer satisfaction, trust and commitment was investigated. The study shows that the KCP becomes the main factor in promoting better relationships between the bank and its business customers. Data from this study provides empirical evidence that businesses that are assigned a KCP are significantly more satisfied, have more trust for the bank, and show a stronger commitment to continue their relationship with the bank than businesses that are not assigned a KCP. The study found that Australian banks nurture close relationships with most of their business customers.

INTRODUCTION

Relationship banking as a concept and business practice emerged in the 1980's (Barry and Thompson 1982; Moriatry, Kimball and Guy 1983). Various consultants have enticed banks, through selling additional products to existing customers, or cross-selling (cf. Ritter 1993), to effectively increase the volume of their business from existing clients. Since clients that have established multiple business links with their bank are less likely to shift to other banks, developing stronger relationships with customers increases customer loyalty and retention.

While in the retail sector, only a small number of important customers who offer a significant potential of banking business attract banks to give personalized attention, in business banking, virtually all clients provide banks with an opportunity for creating multiple product and service offerings. As businesses have traditionally relied on banks to tap new opportunities, the concept of developing close and long lasting relationships has a long history in many countries. Increased competition during the 1980's, caused by various technological developments, deregulation and the internationalization of financial services, resulted in markets emphasizing the importance of establishing and maintaining close relationships with important business clients. According to Moriatry, Kimball and Guy (1983), commercial banks have used relationship banking as an effective strategy to enable them to maximize the profitability of total customer

relationships over time, rather than to extract the most profit from any one individual product or transaction.

Through multiple product linkages, linkages between the bank and customer become stronger, hence creating a substantial benefit for both the client and the bank (Moriatry, Kimball and Guy 1983). The client benefits from the bank's continuous commitment to provide on-going assistance for most of its needs for products and services, and support for tapping growth opportunities. Working closely with a bank over time, the client develops confidence in the bank and becomes more secure with its products and services, which are often tailored to suit their own specific needs. By increasing the share of the customer's business, the bank is assured a special treatment by customers such as the position of lead or main bank. Turnbull and Gibbs (1987) consider that in the long-term, the goal of relationship banking is to enable the bank to become the preferred supplier of banking services (or the lead bank for the corporate customer). Business customers are less price sensitive to the lead bank than to other banks they do business with. Consequently, a lead bank is able to realize higher margins on business with relationship customers. *"Lead status may confer on banks some immunity to the cyclical reduction in customer loan demand. During a cyclical downturn, the lead bank is likely to suffer lower cutbacks in load volume than is a non-lead bank"* (Turnbull and Gibbs 1987, p. 25).

Important relational customers, whose bank's value more than temporary opportunities, become very attractive for all banks. These customers are frequently targeted with attractive opportunities made by banks interested in developing close relationships with businesses. Bargain seeking customers are not of importance in forming a relationship with a bank, as they aggressively search for financial solutions from numerous banks. These transaction-oriented customers switch from one bank to another, based on the best rates and charges offered for that particular transaction. Banks should not count on them as a customer base. As the response of these customers in future bank offerings is based mainly on price, banks are reluctant to bundle their products with value added services. Investing time and effort to service bargain hunters cannot be substantiated and, as a result, many banks are outsourcing customer service.

Outsourcing becomes a major strategy for survival and growth for many banks. Breakthrough developments in information technology and the global expansion of

markets, followed by the deregulation of financial services in most important financial markets, has made it possible for some banks to develop their competitive advantage based on the low cost of their financial services. Heavy competition at the global level and the importance of the economies of scale in reducing operating costs for banks, made many banks shy away from tailoring product and services to individual customers. According Keltner (1995. p. 46), American commercial banks during 1980's "*turned to price and convenience as their major sources of competitive appeal, and their customers discovered that other financial providers and instruments could meet their financial service needs just as cheaply and conveniently*." As American banks turned to volume-oriented product strategies, businesses large and small left the banking system in search for services that were no longer offered by the banks.

THE ROLE OF THE BANK'S KEY CONTACT PERSON IN PROMOTING RELATIONSHIPS BETWEEN THE BANK AND BUSINESS CUSTOMERS

While American banks strived to attract customers with low prices, banks in Germany spent heavily in human capital and pursued closer relationships with customers. "*By offering their customers high levels of financial advice, quality service, and convenience of consolidating financial service products with one provider, German banks managed to retain their competitive appeal. Individual products were not necessarily offered the most inexpensively, but 'bundling effects' made the overall set of products offered by banks more attractive than what could be found elsewhere. Strong connections to their customers were, moreover, used to adapt to changing market conditions.*" (Keltner 1995, p. 46). Despite the alternatives in the economical delivery of products and services offered by new developments in information technology, German banks were convinced that the contact with customers should not be disrupted in any way. Each customer was offered a relationship manager. Broader product knowledge by the customers and improved service quality was considered as the key to achieving successful relationship banking in Germany.

Keltner (1995) demonstrated that a qualified and stable labor force, in particular relationship managers, is essential for building and maintaining long lasting relationships with important clients. Moriatry, Kimball and Guy 1983 suggest that relationship banking becomes relevant when banks become aware that long term

customer relations can more effectively increase earnings and profits than by seeking to extract the most profit from any one individual product or transaction. Being in close contact with business clients, relationship bankers are able to listen to the business customer's voice, identify their needs and wants, and translate them into attractive product services (Ritter 1993). They are in a position to satisfy each customer's needs by tailoring product and services to match these needs.

Marketing literature has recognized the vital strategic position the boundary person (cf. Arndt 1979) or the salesperson that negotiates on behalf of the organizational selling center (Hutt, Johnston and Ronchetto 1985) has with the buying organization. In their boundary role, relationship bankers serve as an effective link between the bank and the client; they are required to have broad knowledge of both the bank's offer and the client's business needs. In particular, they should be able to continuously update knowledge on customer needs and bank offerings, so as to promote relationships with assigned customers through performing important tasks and responsibilities, such as;

- information generated through frequent visits at customer locations should enable the KCP to become knowledgeable of business entities, their current cash flow problems and future financial needs of assigned business customers;
- continuous monitoring of consumer financial needs, combined with detailed knowledge of bank products/services that the bank offers, should enable the KCP to develop a relationship plan for each assigned customer and offer the appropriate products and services that will satisfy the customer's needs;
- the access the KCP has to resources should enable them to call in specialists and teams to provide customer service that meet customer needs by the appropriate competent service channels;
- having the ability to continuously satisfy the customer, the KCP should be able to build bank credibility and trust while assuring a high level of loyalty from the customer. Customer trust enables the KCP to become a trusted advisor for the customer and opens up the possibility of strengthening the customer's relationship with them;
- building stable and long-term relationships with the particular business enables the banks to sell more products and services to them and becomes the preferred supplier of financial products and services for a particular business; and

- through initial calls, the KCP could cultivate a key referral source to attract new business clients.

The performance of bank employees, including the KCP and relationship manager is based on various measures of satisfaction and retention of existing customers and on the number of new customers attracted to start doing business with the bank. To be perceived as successful, a KCP in the bank should be able to assure the business client of the present and future financial stability, and, at the same time, persuade the customer that the prices offered to them are competitive and can match any other genuine offer. This leaves no reason for the customer to give much thought to search for an alternative bank.

The impact of assigning a KCP in promoting relationships between the bank and its customers has been the object of many studies that have provided the base for setting the framework for the research reported in this paper. By using empirical data from the Australian business community (who are customers of banking products and services), the role of the KCP in the status of the main bank (Zineldin 1995; Turnbull and Gibbs 1987) will be tested. Then, the impact of the presence of the KCP on customer satisfaction (Carpenter 1997; Ennew and Binks 1996; Ennew, Reed and Binks 1993; Smith 1989), trust (Morgan and Hunt 1995; Zineldin 1995; Doney and Cannon 1997) and commitment (Keltner 1995) will be investigated. Finally, the implications on both managers and researchers will be discussed.

RESEARCH DESIGN

To provide evidence of the role of the KCP on the quality of customer relationships, multi-item measures for the construction of satisfaction, trust and commitment were developed. A pilot study conducted with small and medium size enterprises in Western Australia revealed a significant number of issues underlying bank-business client relationships (Rexha 1999). Additional item measures were adopted from the existing literature. In addition to some relevant item measures in the widely used SERVQUAL scale (Parasuraman, Zeithaml, and Berry 1988), a large number of item measures developed in the literature on the relationship between banks and small businesses (Carpenter 1997; Ennew and Binks 1996; Ennew, Reed and Binks 1993; Smith 1989) were used in the questionnaire. Due to the lack of measures for relationships between

banks and larger corporate clients, further items were developed based on operationally defining some advanced concepts of bank – large customer relationships presented in research by Moriatry, Kimball and Gay (1983), Turnbull and Gibbs (1987) and Zineldin (1995). Additional in-depth interviews with medium to large size companies were conducted in Western Australia in November 1998. Interviews revealed some new concerns and suggestions that manager's in Western Australian businesses have in their relationship with their banks that have not been addressed in published research.

Based on the Dun and Bradstreet database, a mailing list of executives and financial managers in 1200 companies was developed. One questionnaire was mailed to each firm from the mailing list in mid February 1999. By the end of March, we had received 276 completed questionnaires, with 89 (24%) of them responding for two banks (some of them reported using up to eight banks). Even though 75% of the returned questionnaires were completed only for one bank, in many cases the respondents indicated that they occasionally might use other banks. As this paper investigates bank-business client relationships, questionnaires that reported the respondent's attitudes on two banks provide two cases. Thus, the total number of cases is 364.

RESULTS

Stepwise regression analysis showed that the existence of a key contact person in the bank and the level of satisfaction business customers have with their bank had the most significant impact on the strength of the relationship banks had with their customers. This strength is a good predictor of which bank is considered as the main bank for business customers and which bank also earns the major share of their business.

Given the diversity of assigning a KCP in a bank to serve a particular business and their authority to make independent decisions, it was necessary to capture not only situations where the KCP clearly was or was not assigned to a business, but also to allow the respondents opportunities to capture realities that cannot be classified in either category. Instead of asking respondents to answer if they were or were not assigned a KCP by the bank, they were asked, based on their experience in doing business with their banks, to respond to the question "This bank has *appointed a manager or key contact person* to serve our firm." Respondents were asked to respond on the scale from 1 'If you strongly disagree with the statement', to 7 "If you strongly agree with the statement'.

Data generated by measures using this interval scale were used to categorize 364 cases into two dichotomous groups that reflect the existence or absence of KCPs. All cases are divided into three categories. In the first category were those businesses where respondents indicated that their banks did not assign a KCP to serve their business (8%). In the second category were those businesses where respondents indicated that the bank had appointed a KCP to serve their business (77%). The remaining 15% of cases where respondents circled numbers 3, 4 and 5 were considered irrelevant for addressing this research issue hence they were disqualified for further analysis. It was assumed that in these cases, the respondents either did not know if a KCP had been assigned or they were not well informed about the reality of the on-going relationships between their business and the bank.

As one of the aims of this research was to know if the assignment of a KCP to serve a business impacted upon the business willingness to consider that bank their main bank, the appointment of a KCP and the status of the main banks were cross tabulated. The relatively high Pearson chi-square (15.9, significance = 99.9%) shows that the status of the main bank for a particular business is significantly influenced by the assignment of a KCP to that business.

Of particular interest for this study was whether the assigned of a KCP to a business had any impact on the clients' satisfaction, trust and commitment with the bank. As multi-item measures were used to capture factors that underlie customer satisfaction, trust and commitment, exploratory factor analysis was first used to develop a reliable scale for each construct.

Large numbers of multi-item measures of the attitudes of business customers in the questionnaire enabled a comprehensive analysis of the underlying factors of customer attitudes toward their banks. As the aim of this paper was to explore the roles of the bank's KCP in customer satisfaction, trust and commitment, the mean of each of the extracted factors was compared between those customers that were assigned a KCP and those who were not.

Applying principal component analysis on a large number of items designed to measure customer **satisfaction with bank personnel,** a reliable single construct was identified (Cronbach alpha = .84) that explained 61% of the variance (Table 1).

Table 1. Satisfaction with bank's personnel

1. *Our firm has benefited significantly from this bank's particular strengths.*
2. *It is difficult to find a person who can solve our problem in this bank [R].*
3. *I have easy access to this bank's decision-makers at my request.*
4. *This bank enables us easy access to the right person in charge.*
5. *I value the relationship with this bank's customer service personnel.*

Variance explained = 60.68%
Reliability = 0.84

These five items collectively demonstrate an appropriate measure of customer satisfaction with the bank's personnel. The mean calculated from each customer response on all five item measures was 2.75 for the group without a KCP assigned to service the customer, and 4.75 for those where a KCP had been assigned to service their businesses. The difference between the means was not only significant for the composite factor, but also the ***t*** value for each measure was significant at the 95% level. Thus the assignment of a KCP to serve customers has a strong impact on a customer's satisfaction with a bank's personnel.

The same procedure was then applied to 42 items designed to measure the impact of the bank's personnel on customer **trust**. One highly reliable construct (Cronbach alpha = .94) with ten item measures that explained 66% of the variance was extracted (Table 2).

Table 2. Customer trust in bank personnel

1. This bank will assist our firm in the case of traumatic events happening
2. In my opinion, this bank is reliable
3. I think this bank keeps its commitments
4. I think that this bank negotiates realistically
5. Our dealings with this bank have enabled our firm to achieve its objectives
6. Our business is very secure with this bank
7. I get along well with this bank
8. This bank treats us like a business partner
9. I feel that we can depend upon this bank
10. I feel that this bank is "straight" with us

Variance explained = 65.5%
Reliability = 0.94

The mean value of the customer's response on each of the ten items that measured their trust in their banks was 3.53 for the group without a KCP assigned to service the customer, and 4.93 for the group of cases where a KCP had been assigned to service

their businesses. Again, the ***t*** values were significant at 95%. This significant difference shows the strong positive impact the assignment of a KCP in the bank has on the customer's trust in the bank and its personnel.

Principal component analysis was then applied to eight items designed to measure the customer's **commitment** to continue business with a certain bank. A single reliable construct (Cronbach alpha = .91) comprised of four items that explained almost 80% of the variance was identified (Table 3).

Table 3. Commitment to continue business with the bank

1. We are proud to invest with this bank 2. Our firm will continue dealing with this bank for a long time 3. I would recommend this bank to my best friends 4. We are fully committed to our relationship with this bank Variance explained = 79.85% Reliability = 0.91

The mean value of the customer response on each of the four items that measured their commitment to continue business with their banks was 3.09 for the group without a KCP assigned to service the customer, and 4.49 for the group where a KCP had been assigned to service their businesses. Each measure's ***t*** value was significant at 95%. This demonstrated the strength that the assignment of a KCP within the bank had on the customer's commitment to continue business with their current bank.

DISCUSSION AND CONCLUSION

Analysis showed that there was a clear tendency for businesses that had been assigned a KCP by the bank to consider that bank as their main bank. The KCP in a bank plays a significant role in the strength of the relationship of the customer with the bank, and can influence the status of the lead or main bank for the business. In comparing the means of the satisfaction, trust and commitment factors, that group of customers who had not been assigned a KCP in the bank had significantly lower means than the group of customers to whom their banks had appointed a KCP to serve their needs. These findings provide some important empirical evidence for banks in assigning a KCP to serve each customer in the bank. The study found that Australian banks nurture close relationships with most of their business customers.

However, the conclusions in this study should be used bearing in mind the limitation of the research that was used to derive its foundation. Current research was based on a simple random sampling procedure of which in 77% of the cases, a KCP was assigned to the sampled business; only 8% of the businesses declared that no KCP had been assigned in the banks to serve their business, and 15% of respondents gave mixed answers that disqualified these cases from further analysis. The sample is strongly skewed towards those where a KCP had been assigned to the businesses, but the relatively large sample size enabled significant statistical tests of stated research hypotheses. Based on this information, future researchers may apply a disproportional stratified sampling procedure to include a similar number of cases, and a more balanced sample of cases in each of the two strata – business with and without a KCP assigned to businesses.

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