# Stress in business relationships: the case of corporate banking

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**ABSTRACT**

*This paper presents the results from four short case studies about relationships between banks and their business clients in Portugal. It shows important insights on irregularities that impact as temporary reductions in the volume of business in those relationships. The paper provides interesting material for managers and researchers alike to better understand the nature of banking relationships.*

Keywords: relationship banking, relationship marketing, business-to-business marketing, bank marketing.

## INTRODUCTION

The IMP Group's initial work in international industrial markets sought to describe and understand the complex interaction between buyers and sellers, which led to the development of the *Interaction Approach* (Håkansson, 1982; Turnbull and Valla, 1986) and the *Network Approach* (Axelsson and Easton, 1992; Håkansson and Snehota, 1995; Ford, 2001). According to IMP, events can only be understood in their social, cultural and historical context. The interests of buyers and sellers in industrial markets are often convergent and each firm may be dependent upon the resources another firm has (Håkansson and Ford, 1999). A long-lasting relationship often develops as a risk reduction strategy and from the recognition of mutual dependence. Industrial marketing and purchasing is a complex mix of exchange processes and the adaptive behaviour of firms. This takes place through organisational interactions, not only between firms but also between individuals from a variety of functional departments and hierarchical levels in both the buyer and supplier firm (Ford, 1998 and 2002). The IMP Group approach provides a theoretical framework for a better description and understanding of business-to-business market dynamics, not only in industrial markets but also in services markets, as is the case of financial services.

This paper presents the results from four short case studies about relationships between banks and their business clients in Portugal. It shows important insights on irregularities that impact as temporary reductions in the volume of business in those relationships.

The paper provides interesting material for managers and researchers alike to better understand the nature of banking relationships. The next section reviews the context for the study and the relevant literature. The third section gives a description of the research method. The research findings are then presented and the paper closes with a discussion of findings, managerial and research implications and conclusions.

## CORPORATE BANKING RELATIONSHIPS

Various authors have described the rapidly changing competitive environment facing the banking industry throughout the world. Due to such changes, many commercial banks placed greater emphasis on establishing and maintaining relationships with their customers (Trethowan and Scullion, 1997; Crane and Eccles, 1993; Perrien, Filiatrault and Ricard, 1992 and 1993; Ennew, Wright and Watkins 1990).

It is also considered that the relationship paradigm (Grönroos, 1994) influences the behaviour of financial services organizations. Turnbull and Gibbs (1987) highlighted the importance of relationships in corporate banking and Eccles and Crane (1988) contend that relationship management is a common and important integrating device in investment banking. Recently, Horne, Naudé and Worthington (2000) studied triadic relationships in financial services markets and Tyler and Stanley (2002) argued that relationships are relevant, indeed inherent, in the over-the-counter derived market.

Perrien, Filiatrault and Ricard (1992) made a critical analysis of relationships in banking and gave us many insights about customers' and account managers' perceptions of the problems facing relationships. Relationships are affected by the turnover of account managers[1], their limited authority and the banks' credit norms, organization and structure. Madill, Feeney, Riding and Haines, Jr. (2002) present consistent data from more than 3000 interviews done in Canadian SME's that show how SME satisfaction is affected by the account manager's management of the bank/SME relationship, the branch staff's management and the bank's policies regarding bank/SME relationship.

These insights are concerned with the management of the relationship (mostly, by the bank), and consider the relationship itself as a new marketing mix variable or a new strategic issue for banks. In fact, the view of a managerial relationship by banks has

[1] "*Relationship marketing requires personalized interactive process between account managers and customers… and the knowledge of the customer, his needs, characteristics are a perquisite to such an interaction…*" (Perrien, Filiatrault and Ricard, p. 27).

been highlighted in the literature[2]. For instance, Ennew and Binks (1996) consider the development of effective "customer" relationships as a key element of marketing strategies in the service sector.

The role and the positive (or negative) effects of personal contacts on relationship development are found in different business contexts (Halinen and Salmi, 2001; Halinen and Törnroos, 1998; Cunningham and Turnbull, 1982). Adler and Adler (1984), Abolafia (1996) and Tyler and Stanley (2001) look at social issues in financial markets. Adler and Adler (1984) describe financial markets as "social arenas" where individuals interact.

It is believed that significant insights about the nature and workings of the banking relationship can be gained by using the IMP Group methodology. Thunman (1992) and Proença and Castro (1999, 2000a and b) took the IMP approach to study relationships in banking. Thunman (1992) argues that banking decisions should not be regarded as discrete issues, where a firm evaluates the attractiveness of suppliers' marketing mix variables, but as sequences of events occurring in the context of a growing commitment between identified clients and banks. Proença and Castro (1999) argued that customer-bank relationships are sustained by the atmosphere of the relationship itself and by different bondage dimensions that were seen to be of different types and strength. Proença and Castro (2000a) applied the network paradigm to banking relationships. These relationships included a variety of financial services supplied by financial corporations associated to the banks that must be considered in the context of each banking relationship as a whole.

Proença and Castro (2000b) suggested that, despite long lasting relationships in banking not being a recent phenomenon, most theoretical frameworks have understood the behaviour of banking actors as if they were discrete episodes, or one-off transactions, somehow isolated in time. When such episodes are analysed in isolation (both in time and from one another, i.e. outside the relationship context where they took place), some aspects derived from economic theory like transaction cost and opportunism tend to be stressed, at the expense of other aspects which appear to be important determinants of actors' behaviour. Nevertheless, the literature appears to have neglected the continuity of banking relationships in time and emphasised instead short-term episodes, like

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[2] For a recent review of literature on marketing of financial services to businesses, see Tyler and Stanley

transactions. In reality, business between banks and their corporate clients have been, for a long time, long range dynamic processes, tacitly understood by the parties involved in them. In retrospect, it seems that such processes could (and should) have been conceptualised with reference to the conceptual constructs of business relationship theories. However, for a long time, banks, their corporate clients and analysts alike, seem to have been “rationally” quite unaware of the relationship content of recurrent business banking transactions. Theorists also emphasised *"transaction banking"*, despite there already being relationships. The cases analysed by Proença and Castro (2000b) suggest that continuity in time is a structural characteristic of banking relationships. However, such continuity does not mean that banking relationships are static. Quite on the contrary, they show their own dynamics. This paper discusses such dynamics and analyses the interactive processes in banking relationships over short time periods.

## THE RESEARCH METHOD

The case study method (Yin, 1994; Easton, 1995) was chosen to allow an encompassing view of the dynamics of business banking relationships. Data were collected from four case studies in Portugal, involving three of the four largest Portuguese commercial banks and four industrial or commercial firms (a producer of cabling for the automotive industry, a textile industrial firm, a petrol refining company and an automobile manufacturer firm). The banks were selected for their dimensions. The corporate clients were selected according to short duration irregularities in the trade volume of the banking business.

We interviewed the bank managers and the key-account managers or financial corporate managers representing all the interacting parties in each case. The IMP Group method of personal, in-depth interviews was followed, in order to gain insights into issues perceived as relevant for all parties (banks and corporate customers). The interviews involved open-ended, semi-structured and structured questions. Interviews lasting 1 to 2 hours each, were tape-recorded and transcribed. Documentary material was also acquired.

## MAJOR RESULTS

According to the methodology adopted, business banking relationships were considered to be *stable* when they showed regular volumes of trade over time, which typically evolved following the client's turnover. If, on the contrary, important variations in the values of trade were found throughout time, then the relationship was understood to be *unstable*. Further, periods of analysis were considered to be short time periods when they were contained within one calendar year. They were considered *long time periods*, when the analyses covered the whole duration of the relationship. Data were corrected for seasonality on the client's turnover, which reflected on its volume of trade in the banking relationship.

All four researched relationships showed variations in their volume of trade over short periods of time. Over long time periods, the volumes of trade either were regular or followed the evolution of the turnovers of the client firms. The relevant information about all four cases, relative to the analysis of the instability of the relationships over short periods of time can be summarised as follows:

**Case A**

This has been a stable relationship over the long time period. However, in short time periods, there have been reductions in the bank's share of the client's volume of banking trade. This was due to the bank finding its involvement in this client as somewhat exaggerated. Whenever the bank perceives a high involvement and economic risk in the relationship, it transfers some of the operations which it normally does with this client to other financial companies with which it is related, e.g. factoring and leasing companies.

**Case B**

This is a stable relationship over the long time period. However there are moments of instability associated to the rotation of the people that "impersonate" the relationship on the side of the bank. The bank pursues an internal policy of rotating its personnel around diverse functions. As a consequence, the bank's representatives before the client change often and this does interfere with the relationship. The "initial" phase with a new counterpart is usually difficult. This does not mean that the new bank staff are either better or worse than the previous ones; they are just unknown to their counterparts from the client. The absence of personal connections or acquaintance between the major individual actors in the relationship jeopardises some transactions and consequently it generates some instability. Nevertheless, this does not threat the continuation of the relationship, which becomes stable again, after a while.

**Case C**

Again, this is a stable relationship over a long period, but it shows cyclical periods of irregularity. The relationship regained stability after the client overcame a period of financial hardship when the bank refused some transactions with it, due to the risk perceived. However, after the client's hardship period was past, the relationship still showed significant fluctuations in the values traded, despite maintaining stable annual values. Short term irregularities are associated to the client's negotiating behaviour. The client firm closes deals with one or more competitors of the bank, basically after considering the cost of the transaction. In this sense, any fluctuations in the client's volume of trade impinge on the whole of its banking relationships. The client firm manages its banking relationships in a somewhat opportunistic manner. This shows on the pressure that the client puts on its banks by sharply transferring its financial movements from one bank to another in order to benefit from cost reductions. Nevertheless, as said above, its annual volume of trade within the relationship is rather stable year-in year-out.

**Case D**

This is also a stable relationship over a long time period, but showing irregular cycles. Short time irregularities are associated to the client's strong negotiating power and its behaviour, very much centred on the cost of transactions. On the one hand, the client is concerned with the cost of specific transactions. One the other hand, the bank avoids taking on an excessive amount of risk with this client. The client firm is unusually large in the Portuguese context; its turnover is about 3,500 million Euros. This gives it exceptional negotiating power, which translates into greater pressure on cost reductions. This is enough to induce instability in its banking relationships. Normally, one of the banks gives into its pressures and the client delivers its business to the bank that offers the best quote. Nevertheless, the values involved in the focal banking relationship have been stable on an annual basis, despite showing oscillations throughout any one particular year.

## DISCUSSION

The data presented suggest that banking relationships tend to be stable for time horizons longer than one year. Also, the volume of trade involved on each of the relationships studied is either stable or closely related to the turnovers of the client firms concerned. However, when analysing periods of time shorter than one year, short duration periods of instability were found in all cases. This suggests that short-term irregularities may be characteristic of banking relationships, alongside with continuity, which has been discussed in Proença and Castro (2000b).

It should be mentioned that these results are in agreement with those obtained by Gadde and Mattsson (1987) on a longitudinal study of business relationships. These authors also concluded that long-term stability may conceal local disquiet and short duration irregularities (Figure 1).

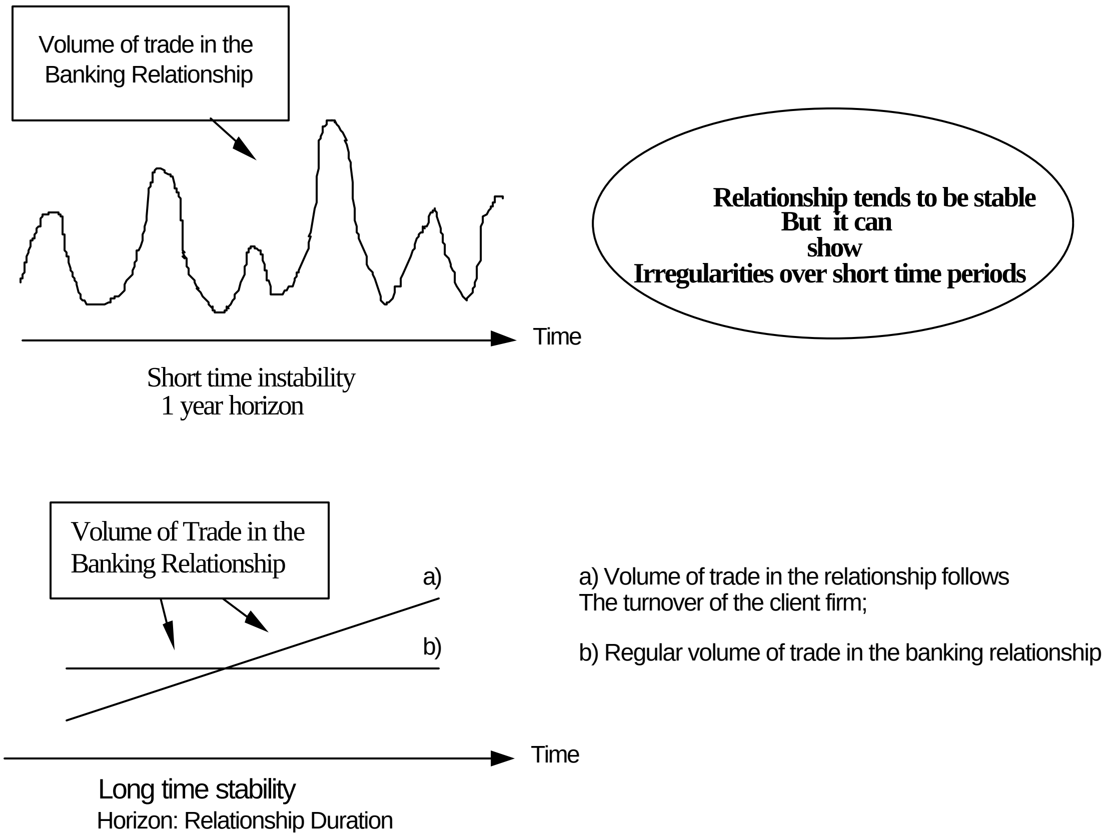


**Figure 1. Stability/instabilty in banking relationships**

Irregularity in the volumes of banking trade in the short term were found to be mostly due to factors endogenous to the relationship, some of which originate in the bank, others in the client, and others in the transactions themselves. There may be occasions when one or various factors may interfere on the relationship, thereby causing instability or financial hardship in the client firm (case C), the financial risk perceived or assessed by the bank either in the relationship or in some of its transactions (cases A, C, and D), the introduction of new counterparts in the relationship or personnel rotation by the bank (case B), the cost of some transactions (cases C and D), and, finally the behaviour and the negotiating power of the client firm (cases C and D) (Figure 2).

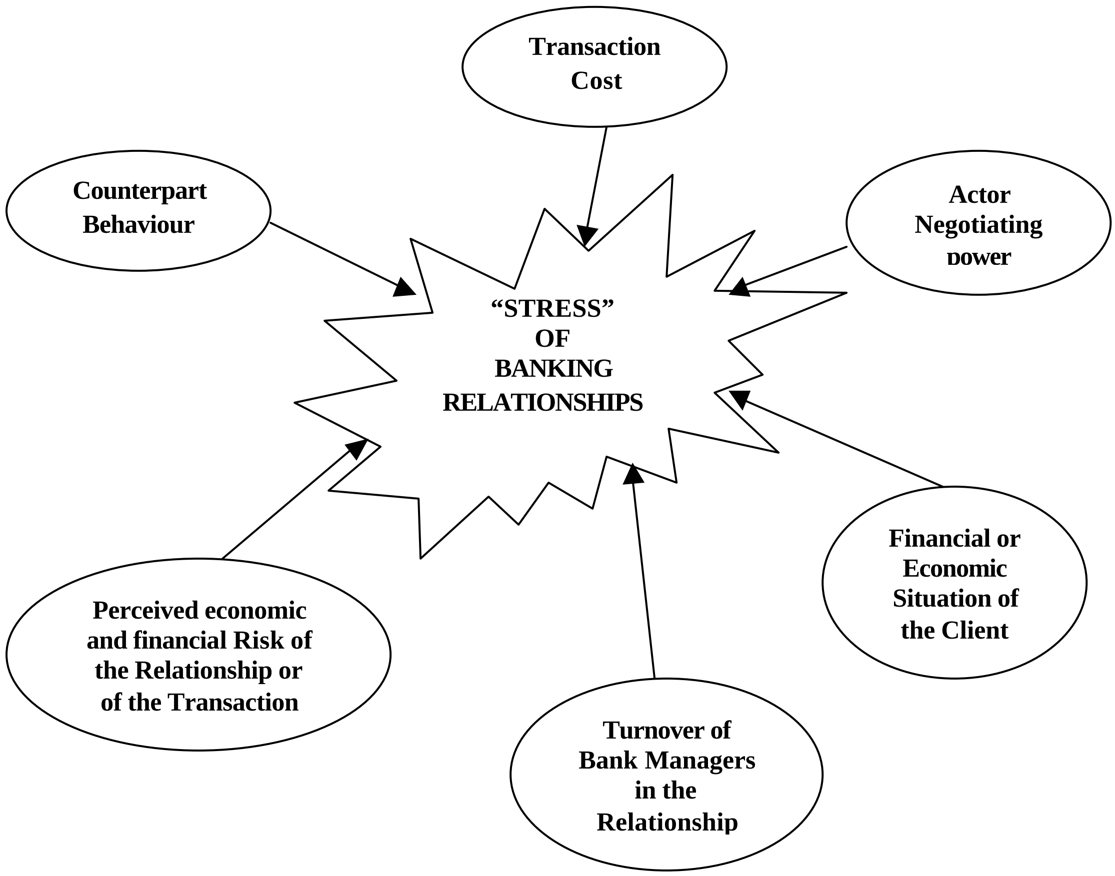


**Figure 2. Stress in Corporate Banking Relationships**

## MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH

The issues impacting on banking relationships have been insufficiently studied. Therefore the results from the present study, although hardly unexpected, seem relevant both for financial managers and for bank officers, and researchers, inasmuch as they expose the motives that underlie the short term unrest formed in these relationships, which can be a source of some stress for officers of both its sides, as they fight to meet their own short term targets.

A good understanding of the variables from which instability may arise, albeit momentaneous, can be very useful for people involved. The understanding of the banks' behaviour in the context of the banking relationship and the management of the clients' multiple relationships with various banks allows both parts to face and live through the inevitable stress periods they go through. It may allow them to better decide whether to "intervene" in order to "pacify" the relationship, or just to let fluctuations die out by avoid further causes for short attrition. The cases studied the *"stress"* in banking relationships tends to be temporary, and should be treated as such, once it is not seen as putting in jeopardy the relationship itself.

Further, this research contributes to the growing body of literature about how relationships can be managed. Gadde and Mattsson (1987) dealt with the problem of momentary instability and irregularity. However, little or nil empirical evidence has been provided in the case of banking. The irregularities found in the present study are endogenous to the relationships as they originate either with one of actors or with the transactions. No exogenous factors were analysed in the study reported here. However, rivalry in the market, for instance, is likely to induce instability in relationships. Therefore it is suggested that further research be done about exogenous factors that may affect on banking relationships stability.

Most research about banking relationships has ignored the interactive nature of relationships by favouring the perspective of one of the sides involved. The present study shows that both the bank and the client firm interfere in the dynamics of the relationship through their behaviours and policies. Despite some instability being associated with clients keeping a portfolio of banking relationships, the management of such portfolios is hardly dealt with in the literature, thereby begging for more work. It is also suggested that the present study be replicated in other countries and contexts for comparative purposes.

## CONCLUSIONS

This paper discussed the dynamics and the short-term irregularities that arise in banking relationships, despite their continuity and stability. The irregularities detected can be conceptualised as "noise or *stress* in banking relationships". The causes for irregularity were analysed and it was found that, in all cases studied, the factors for such "*stress*" were endogenous to the relationship. Some of these were internal to the client, namely its financial situation and perspectives, its power and trading behaviour. Others were internal to the bank, like its policy relative to the perceived financial risk of its client firms and the relationships with them, and its personnel rotation policies. Finally, others had to do with specific transactions, e.g. their cost and financial risk. These factors interact with each other and show up both together and in isolation in different points in time. Besides, not all factors are present all the time and they may show different forms and intensities. Finally, it should be mentioned that other variables may exist which would not be detected in the cases studies but, hopefully, further studies will reveal.

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