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FRAMEWORK FOR DOCTORAL RESEARCH: THE BANKING PROFITABILITY OF FINNISH INDUSTRIAL MEDIUM-SIZED COMPANIES

1.1 Quality vs. Quantity in the financial service

The banking sector in Finland is double-edged: on one hand, the traditional banking services with cashier services for daily banking transactions and cash withdrawals in branches are experienced as rather old-fashioned. On the other hand, a new, virtual banking market is arising with modern solutions of mass customisation, commissions, transactions as well as virtual services. The traditional banking market is mature¹ and it is difficult for a bank to differentiate its products in that market. Nevertheless, in the virtual environment, it is easy for banks to differentiate and lead its customers into an electronic solution. Difficulties in changing the whole system directing the accounts and the financial affairs make the customer liability usually higher in the electronic banking services. In order to survive in the hard competition, banks' services and products are developed to reach equilibrium between demand and supply². Banks are profit-making institutions and their profitability depend on their customers, the customers' characteristics and the way the banks can manage the customer relationship. Storbacka has shown that there is not a correlation between customer profitability and a bank's customer profitability. The customer that is most profitable is not always the most profitable customer for the bank and vice versa.³

It is important to know the customers' needs and to give the customers right information. In order to supply appropriate banking services and products, many universal banks have to offer the whole range of services and products from traditional branch service to advanced Internet solutions and product concepts. It is important to chart the method of how to develop the banks' services and products in

¹ Kotler, Philip, 1997: Marketing Management. Analysis, Planning, Implementation and Control, p. 366.

² Begg, David; Fischer, Stanley & Dornbusch, Rudiger: Economics, 6th edition, 2000 Italy, McGraw-Hill.

³ Storbacka, Kaj: The Nature of Customer Relationship Profitability. Analysis of

order to meet customers' increasing challenges. By sorting out how the development can be handled, the banks can also grow more competitive.

In order to know how the development of future banking services and products can be provided, it is vital to know the factors behind the probable success: What should a bank think of when developing the customer relationship, the risk management, the customer profitability? Is there any pattern to describe the change in customers' behaviour? How can banking be more efficient in their approach to customers? These are some of the questions that arise when analysing the current banking sector in Finland. The approach of answering these questions will be theoretical as well as empirical.

Nordea Bank Finland Plc operates in the financial market in Finland. As a universal bank, Nordea Bank Finland Plc offers all financial services allowed in Finland for banks according to the Finnish Bank Act. Being the parent company of three Nordic bank subsidiaries, Nordea Bank Sweden AB (publ), Nordea Bank Norge ASA and Nordea Bank Danmark A/S, Nordea Bank Finland is the subsidiary of Nordea AB (publ), the group's holding company, formerly called Nordic Baltic Holding. Nordic Baltic Holding changed its name to Nordea AB (publ) on the Group's Extraordinary Shareholders' Meeting held on November 30, 2000⁴. The Group's holding company Nordea AB (publ) consists of the subsidiary Nordea Bank Finland Plc, Nordea Securities AB (domiciled in Sweden), Nordea Asset Management AB (domiciled in Sweden) and Nordea Life Holding A/S (domiciled in Denmark). The Group operates in the global financial market, its home market being the Nordic countries Finland, Sweden, Denmark and Norway, the Baltic States and Poland, and it has outlets in 22 other countries all over the world.⁵

As for other profit-oriented firms, also Nordea Bank Finland's main pillars are its shareholders, customers and employees, as shown in figure 1. The bank needs all three stakeholders: the shareholders as owners, the customers as buyers of products and services, and the employees as the providers of products and services. Behind this triangle are the market and the media. The market follows what happens in the bank and the bank's identity and image, or brand, are transmitted to the stakeholders

Relationships and Customer Bases in Retail Banking. Doctoral dissertation, 1995. Swedish School of Economics and Business Administration, Finland, Helsingfors. ISBN 951-555-436-5.

⁴ Nordea's press release, November 30, 2000

⁵ internet site www.nordea.com.

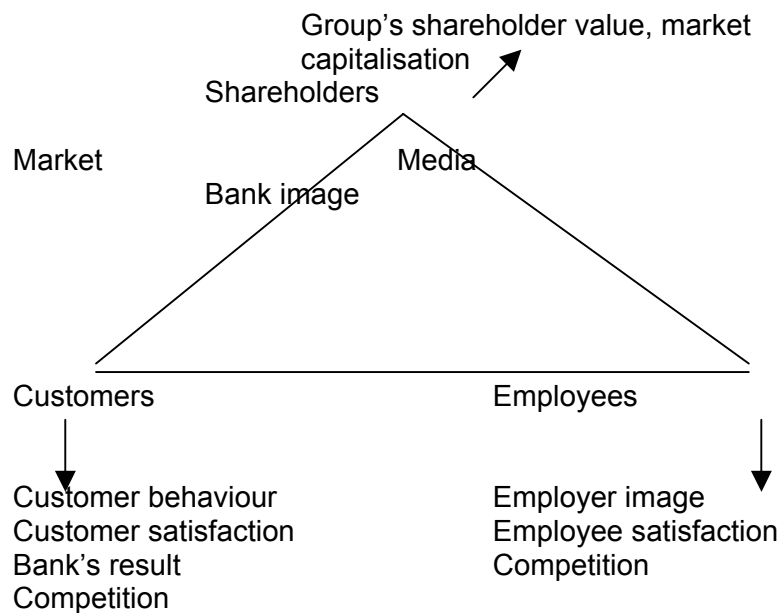
through the media. The bank's success on the market and in the media usually has an impact on image, which is reflected on the customers' behaviour and on the bank's result and the Group's share value, market capitalisation, competition and expansion possibilities as well as on employer image.

Customer analysis is a vital element for the survival of any bank operating in the financial market. It is important for the bank to realise its customer pattern, what the customers need and how they experience their banking affairs. Equally important for a bank is also to chart the customer needs, as well as analyse its competitive edge, differentiation and positioning on the market.

The customers' behaviour is reflected and influenced by several subjective as well as objective factors. The subjective factors are due to the customer's own situation and financial background, family, age, education, profession, gender, geographical location, and possibly other elements. Customer information is important for the bank to have when discussing with the customer and offering the customer products and services.

The objective factors behind a customer's behaviour can be taxes, legislation, banks' provisions or fees, cycles, time, market, offers, competitors, and many more bonds. The elements belonging to the objective factors are discussed in this paper as background factors and are partly included in the theoretical part of the study.

Figure 1: The stakeholder triangle.



1.2 Purpose of the study

The purpose of this study will focus on the profitability of Nordea Bank Finland Plc's medium-sized industrial company customers during the 2000's in Finland and discuss the medium-sized company sector's banking behaviour. The aim is to analyse the banking relationship and profitability, what profitability factors have enhanced the companies to achieve a long-term banking relationship, and if the relationship has been advantageous for the bank or for the company.

The purpose of the research is

1. to analyse the profitability of Nordea's medium-sized industrial company customers' profitability during the 2000's
2. to analyse Nordea's medium-sized industrial company customers' banking affairs and how the banks rate their customers
3. to analyse how satisfied Nordea's medium-sized industrial company customers are with their banking relationship.

An industrial company is a company within the industrial industry.

Why the 2000's?

- 1. The 1990s were very difficult in Finland, and it is interesting to see how the companies have succeeded in surviving turbulent times during the 1990's, considering the bank as well as the company relationship.
- 2. The banks have saved this database in a digital format.
 3. The overall competition has hardened, as there is a tendency of globalisation and accurate strategies. The handling of the companies' leverage has developed and is an important competitive edge.
 4. The deregulation is striving and it is important for the banks as well as the companies to handle their money in an appropriate way.

The 1990's were volatile considering the profitability, so the survival factors for companies will be taken into account. The sample will include companies that have expanded as well as companies that have decreased in size. The aim is to analyse the factors behind the profitability and the success or failure during the 2000's and make a model of how the Finnish banks' company customers have behaved during the 2000's, with reflections to the 1990's. The aim is also to find out how companies can be more profitable and analyse what factors have laid behind profitability through a model for Customer Relationship Profitability Outcome (a CRPO model). The profitability of a customer should be at least the total costs for a bank in that division. The bank should produce the service and products for the company customer to the extent that the company customer is satisfied. The quality level of the service and products provided to the customers are one determinant in the overall CRPO model.

The material for the study is supplied by Nordea's unit for small and medium-sized companies, which is organized under Retail Banking, the division for private customers. Thereby also the company customers can use the branches and other outlets.

Banking deals with financial services. This means that there are two parties, the financial institute and the customer, who are in a banking relationship.

The financial institute provides possibilities for financial transactions, company products and company services for the customer, e.g. project financing, letters of credit. The bank is aware of the competition on the market, and tries to find as refined service and products as possible for its customers. The focus being financial matters about companies and enterprises, the bank develops information and

education about this sector. The bank's services and products depend on the customer.

The Finnish company customer has many alternative banks to choose between. The customer wants the best service and products for the least money. Nevertheless, the relationship outcomes are the customer's performance, and among them the profitability. Although one product might not be profitable enough, another product can, and therefore the total customer relationship profitability can be positively profitable also in numbers. According to the banking agreements, each customer should be profitable, because there is no total customer segment paying for non-profitable customers, as during the regulation period.

The banks have certain obligations to fulfil considering their solvency instructions, as the Tier 1 capital ratio should exceed 6 per cent according to regulations by the Bank of International Settlement. The customers are of different industrial areas, which have various regulations. Thereby, in order to perform well, also the customers should have a good solvency.

Small companies have a turnover of about EUR 2-15 million and employees of about 10-50 persons. Medium-sized companies have a turnover of about EUR 20-250 million and employees of about 50-250 persons. The medium-sized companies chosen are not registered on the Stock Exchange.

1.3 Research questions and hypothesis

1.3.1 Research questions

The research will concentrate especially on the performance and profitability of the relationship between banks and company customers. The process of this study is illustrated in Figure 2. There are some research questions to be introduced in order to reach some answers enlightening the problem:

A. The bank's environment

1. What is the most important factor in a company customer relationship?
2. How are the company customer relationships handled in the bank?
3. Who is engaged in the company customer's affairs?

4. How do the banks prioritise the relationship with company customers?
5. How well does the information flow between the different departments in a bank considering one customer's affairs?
6. Is the company customer sector profitable to the bank?

B. The company

1. Does the banking relationship function?
2. How many banking relationships does the company have?
3. Is the company satisfied with the relationship to the bank(s)?
4. Is the company prepared to pay for the banking relationship?
5. Does the customer have a good solvency?
6. How international is the company?

1.3.2 Hypotheses

Hypothesis 1: There is an inverse correlation between the profitability of medium-sized industrial customer companies and the profitability of the customer companies to the banks.

In this hypothesis there are two factors: the banks and the customer companies. The setting is the relationship between the banks and their customers. A relationship is two ways: on one hand the banks give service to their customers and thereby have certain principles for their customer relationship and how they measure the service. On the other hand, the relationship is measured in certain ways by the bank, and the hypothesis assumes that the bank profitability of the customer depends on the customer's profitability. On the other hand: does the customer rate his or her own profitability in the same way as the bank does? Here is the constitutive definition of the statement: the relationship must be measured. How can a relationship be measured? If there is a relationship then it should be settled. For a company, there are usually one or at least very few bank relationships. For a bank, the relationship with one company is only one of several hundreds of thousand of other similar relationships. Why are there different relationships and what does the difference in relationships lead to? Is it right to measure a relationship only in figures?

According to market economy, the profitability of a company means that the competitive advantage of the company is influenced. The managers of the company have a business concept, and in order for the company to be able to implement that idea, it needs financial services. The relationship to a certain bank usually drives the company to that bank, which rates the company according to the risks the relationship includes: a less risky relationship gets a higher rating than a more risky one does. There are, however, differences in the market economy between the financial needs and the risk. The dynamics behind the relationship is thereby the financial risk, which makes banks a big operator in the market economy, as the rating of the industry operators depends on the finance structure and rating.

In principle, no venture financing gives a better rating than venture financing. What does that mean for the banks? It means that the banks want to have good

customers, which do not want to take loans, but on the other hand the banks live from lending money, which means that the correlation does not have to be true. A customer with a good individual rating does not thereby have to be the most profitable customer to the bank, so the inverse correlation of the hypothesis can be true.

Hypothesis 2: There is a correlation between the customer satisfaction and the customer profitability based upon loyalty and trust

A successful customer relationship is the utmost base for a development of the profitability. The customer relationship builds upon loyalty and trust from the customer's side to the bank. The customer believes in the bank and its possibilities to help and enhance the customer. Thereby a longer and more fruitful relationship can be created, which promotes the mutual understanding between the bank and the customer. The banks strive for long customer relationships, and usually a longer customer relationship can end up in better profitability.

What has made the companies survive?

Hypothesis 3 is that organizational and managerial factors have made the company survive.

What has made the banking relationship survive?

Hypothesis 4 is mutual trust, understanding for each other's processes.

1.3.3 Profitability

Cost – volume – profit

Net profit = (units sold x unit selling price) – [(units sold x unit variable cost) + total fixed costs]

NP	= Net profit	}	NP = Px – (a + bx)
x	= units sold		
P	= unit selling price		
b	= unit variable cost		
a	= total fixed costs		

- Break-even points in units: Since $NP = Px - (a + bx)$, then the break-even point (BEP) is at a level of output where $a + bx = Px - NP$
BEP in units = $\frac{\text{fixed costs}}{\text{contribution per unit}}$
- 2. Units sold for desired profit = $\frac{\text{fixed costs} + \text{desired profit}}{\text{contribution per unit}}$
- 3. The profit-volume ratio: the contribution expressed as a percentage of sales = $\frac{\text{contribution}}{\text{sales revenue}} \times 100$
- 4. Percentage margin of safety = $\frac{\text{expected sales} - \text{break-even sales}}{\text{expected sales}}$
- 5. Capacity utilisation = $\text{actual volume} / \text{nominal volume} \times 100$

1.4 Definitions

Profitability itself is not a goal, but the customer relationship and the expectations and the opportunities from that relationship as well as the performance of the total relationship is in focus. The total performance in the relationship between a bank and its company customer is the locomotive that usually makes a relationship, as it fulfils certain expectations on the relationship.

This study focuses on the customer relationship profitability for Finnish banks' company customers. The biggest operator within the company customer banking is Nordea with a market share of about 80 per cent. However, this division in Nordea has not been a very profitable one, and this study aims to give factors for the profitability. According to Kaj Storbacka, who has investigated the private banking market, the customers' own profitability or assets do not correlate with how profitable the customers are to the bank.⁶

The term profitability is very disputable. What is a profitable customer? What is not a profitable customer? How does the profitability influence the banks' attitude towards the customer? The banks have a separate matrix system for counting profitability for their company customers. Company customers have their own development considering profitability throughout time span.

Profitability is the extra income that is left over to the service provider or the producer when all the costs for the service or the product provided are reduced from the total income. The company selling or producing a service or a product must on one hand set the price so accurately that all the costs are included and there is still something left from the price of the product or service sold. The return on products or services sold must exceed the company's total costs. The company must be very competitive at the market, so the pricing should be accurate. The break-even point and the cost-volume-analysis is important to know, because otherwise the company might make a loss.⁷

⁶ Storbacka, Kaj The Nature of Customer Relationship Profitability. Analysis of Relationships and Customer Bases in Retail Banking. Doctoral dissertation 1995. Swedish School of Economics and Business Administration, Finland, Helsingfors. ISBN 951-555-436-5.

⁷ Drury, Colin (1997): Management and Cost Accounting, 4th edition. International Thomson Business Press. Italy. ISBN 1-86152-230-4.

The numeric profitability is only one dimension of the total value of the customer relationship. As almost all markets are mature and the competition on the banking market is severe, customers are scarce and the customers you have you should cherish. The companies are often prone to derive from the normal pricing policy leading to profitability and try to attract customers by decreased prices in order to gain a longer relationship, to sell services or products in order to be able to sell more, because of interrelationships between the manager and the customer, when other profits except for the normal pricing are expected to roll into the company, or because of a hard competition on the market. The bonds of the structure of changing partners has been analysed by Storbacka and Strandvik. The dependency structure analysed by IMP is also important here, as in Alajoutsijärvi, Möller and Rosenbröijer as well as Campbell.

Customer Within Customer Relationship Management, customer relationship value is the parachute term for the financial measurement of the relationship between the customer and the service provider or the producer. This study is more inclined to concentrate on the customer relationship profitability, i.e. the numerical part of the relationship, but also on several other factors that influence the profitability. The customer satisfaction measure is one of the most important interaction tools in finding the customer's opinion of the service provider or producer. The service supplied is measured through customer satisfaction.

Time is important, on the one hand for both parties to get to know each other, on the other hand for the companies to live through certain economic cycles and test the industry.

A relationship can be defined as a mutual contact, where both parties are aware of the other and want to preserve the link. The process is that the parties get to know each other out of many reasons, there are certain expectations on the relationship, there are rules set to the relationship and there is a certain power to cherish the relationship so that it should last.

The most optimal result is if the customer satisfaction is high and the customer relationship profitability is high. If the customer relationship profitability is low and the customer satisfaction is low, both the customer and the service provider/producer want to abolish the relationship. If the customer satisfaction is high and the customer

relationship profitability is low, the service provider/producer has to analyse the cost structure around the customer and change the customer relationship process in order to improve the profitability, or try to finish the customer relationship. If the customer satisfaction is low and the customer relationship profitability is high, the service provider/producer has to increase the relationship process around the customer relationship in order to retain a higher customer satisfaction but try to keep the customer and analyse the reasons behind the low customer satisfaction. If the low customer satisfaction depends on high pricing, the service provider/producer must analyse if there are possibilities to decrease fees from the customer, or provide a better service. Usually the customer is the active part in these circumstances. This correlation is highlighted in figure 3 below.

Figure 3: The correlation between customer satisfaction and customer relationship profitability

		Customer satisfaction low	high
Customer relationship profitability high low	high	No use continue relationship	Service provider/producer must change process in order to make the customer more profitable
	low	Service provider/producer should analyse the customer's needs	Ideal situation, service provider/producer should make efforts to retain the high scores

The customer satisfaction is for instance in Nordea's unit for company customers, Retail Banking, relatively high, and the customer relationship profitability is fairly good among the corporate customers in Finland. Therefore, the service provider should be the active part in changing the service and product processes to a more fortunate one. The corporate sector has another banking profitability profile, where the profit to the banks usually consists of value-added banking services. The regulation and deregulation discussion has a much larger dimension in this respect. The companies have larger alternatives for international funding and competing with the margins. The company segment enables thereby a more thorough banking study. This is the reason for choosing the medium-sized company segment.

1.5.1 The Industrial Marketing and Purchasing Model

The IMP Group has published an interaction model⁸, in which they illustrate the basic model for the Industrial Marketing and Purchasing approach. Studies within Industrial Marketing and Purchasing (IMP) approach often deal with highly complex products or projects, involving a high level of know-how and consequently broad personal contacts between firms.

Environment

Market structure

The market structure is the most primary of all conditions for a party in commercial life. The operating party in its complexity as well as all the parts of that institution depend on the consisting market. Nowadays, as the market economy is a fact, the parties must totally face demand and supply on the market, and there is no shortcut to easy relationships within the company banking sector.

Depending on a company's brand, the media, the Stock Exchange and many other factors can have a large impact on the way in which a party decides upon how to react in a market, and other parties can based upon these factors draw conclusions about a certain company. A company's market position and how the company is positioned on the market, for instance if it is large or small, a niche player or a challenger, can have an influence on further measurements.

Dynamism

The dynamism in the environment means the power that pushes the business forward and how the parties in that environment react when they operate in the environment. Dynamism can be constructive as well as destroying, depending on the company's market position and decisions.

In a market economy like Finland, many business decisions are taken in a flow of information about other markets, other companies and expectations, also in other

⁸ IMP Group: An Interaction Approach, p. 16. In: International Marketing and Purchasing of Industrial Goods. Wiley, Chichester, pp. 10-27 (1982).

countries, because a market economy is never a vacuum. Decisions in other countries and other markets will also influence our dynamism and our decisions, as well as our dynamism and decisions will have an impact on the global dynamism.

The dynamism is a general power in the environment, and the competition is more like between certain actors, so therefore these two factors should be kept apart.

The opportunity cost of a reliance on the relationship can be high considering the other market members, according to the IMP Group.

Time dimension

The time dimension has an influence on interest rates, profitability, competition as well as relationships. In banks money grows, as the whole economic circle with deposits and lending can be fulfilled, seen also in interest rates.

The profitability can be enhanced through the short-term money handling as well as through long-term financial investments. A company customer might from one angle seem prosperous, and from another angle not wealthy. Well-managed finances always take the time dimension into account.

Competition grows as times go by. Technological solutions might change the market environment and investments in technology might be needed.

Relationships usually grow more understandable as time passes, especially if finances are well handled.

Internationalisation

Globalism is a very strong trend in today's business world. Efficiency is wanted overall in the market economy, and competitive edges can be met through changes of processes and activities. The current information technology admits more job types than before to be done without limits anywhere in the world. The companies utilise differences in employee wages, social fees, raw material resources, price, tax, time, laws, union behaviour, negotiation strategies, processes and prices for legal acts and court challenges, government and parliament, and much more in order to cut costs or keep costs down in the harsh competition.

Globalisation also means that mergers, cross-country as well as local, occur frequently, in the bank world as well as among companies. There are many forms for

a company to found a company in another country, among others to merge, or to acquire a company, to start a subsidiary, to give a franchising, to have a commercial representative, to admit a license, and many other forms. In principle, the parent company's interest in taking part in the development and administration of the firm often decides the form of the company's entrance into the new country. The internationalisation trend in Finland is essential in order for companies in the medium-sized segment to survive.

Competition

Competition has increased during the last two decades immensely, and Finland has become more market conscious within the banking sector. Until the late 1980's there was still a regulation of the banking sector, but nowadays there is no such regulation anymore. The competition has an impact on the parties' behaviour on the short-term contracts, as many can have a certain tactic in a competitive situation.

Position in the finance channel

Banks

There are two kinds of banks, central banks and banks serving private and company customers. On the financial and money market, the central banks handle the value of a currency and decide upon the interest levels, the amount of currency circulating and possible interventions, as well as the external value of the currency. The general banks with a concession follow the central bank's decisions and serve the market, consisting of institutional (also municipal) and private customers.

The banks with a universal banking concession have all kinds of service, lending, deposits, payment transfers, asset management, and offer these services to institutional and private customers. This is also what this study will define banking as. According to the banks' ethical rules for instance money laundering is prevented, as well as other criminal financial operations.

The banks' interest groups consist of institutional and private customers, personnel, shareholders, suppliers, media, persons making decisions at a high level, for instance in parliament, at court and in the government.

The banks get their profit in banking mainly from loan margins, deposit margins, customer service fees, funding and treasury, project financing, letters of credit, courtages and agios. The banks also get profit from their own operations on the foreign exchange market, the bond and the share market and from other activities. Only a part of the profit comes from customers, depending on the bank's strategy. Some company customers need also help with issuances and company acquisitions or mergers, but these transactions are usually handled in the banks' investment banking unit, which is clearly separate from the rest of the banking operations.

The media can influence a bank's image so that the customers also are influenced, a decision at court can be negative for a bank, the government or parliament can decide on certain laws or measures which affect the banks, but the focus here is mainly on the banks and the customers during the 90's, which makes the focus dyadic.

Customers

There are mainly two kinds of customers, institutional customers, which are legal entities such as corporations (big companies), small and medium sized companies, business proprietors, the public sector, municipal federations and private customers, who are natural persons.

In this study the focus is on company customers, which are a part of the institutional customers. This segment consists of different, partly small, expanding companies, partly big and perhaps well established companies, which have a set corporate governance. They form an important part of society, because they employ many persons, have a medium-sized turnover, and big network of interest groups such as customers, suppliers, branding and media coverage to think about.

In bad times, the corporations and companies are a big financial risk to the employees, to the shareholders, to the bank and to society at large, because of the potential uncertainty considering further strategy foci. The companies are customers to the bank, but companies have also their own customers, which makes the position a further link.

Social system

The banks exist because of money transactions and generating money through interests. A social system without banks means that each person in a marketing or purchase situation would have to have a negotiation between the parties about the compensation of a service being done or a product changing owners. Money has been invented for the easiness of mutual compensation and the risks of decentralising the supervision of financial management are fraud, treason and forgery. There are many acts regulating the banks' activities.

Atmosphere

Power/dependence

Campbell has divided the different buying strategies of companies into competitive buying, cooperative buying and command buying and analyse these according to the product characteristics, industry characteristics, company characteristics and individual characteristics, where the network of the behaviour of the companies can be found.

Håkansson and Snehota describe the business relationships within companies and point at how the business relationships considering activity structure, activity links and activity patterns are improved by better co-ordination of capability development, marketing and purchasing as well as strategy development.

Alajoutsijärvi, Möller and Rosenbröijer present an advanced model. They have found the characteristics of the Generic Relationship Modes, which also can be applied on the relationship between the banks and their customers. The characteristics are: competitive, cooperative, banks' dominance and customers' dominance. The banks can likewise be competitive when they compete with a company's treasury or lending bureau, co-operative, when the banks attempts to have one (good) partner and is cautious and uses power with sense as well as creates rules of relationship in common with the customer. Banks usually have a dominant role depending on the size of the customer and very seldom bear the submissive role.

Applied according to the characteristics worked out by Alajoutsijärvi, Möller and Rosenbröijer, the following chart, Figure 5, can show the general directions of the Competitive and the Cooperative situation as well as the environment where the banks dominate and the customers dominate.

The factors to be analysed could be motivation to invest in relationship, capability, particularity, mutuality, consistency, commitment to other party, dependence on other party and connectedness to alternative partners, relationship's brand and image, follow financial analysis.

The material would be further illuminated through an in-depth interview as a quality method turning to the banks and their company customers about their relationship. The power/dependence factors can be one of the most important to understand the forthcoming analysis of the customer relationship profitability, as the pricing of the customers is a highly psychological factor.

The banks have their own rating of the company customers, according to the international Basel standards. This study will take the Basel into consideration but also follow Nordea's own ratings in order to give a fair view of the situation.

Another important distinction is the independent-interdependent-dependent role model. It can be used for emotional dependence or financial dependence. The financial dependence analysis is more accurate for bank relationships.

The outcome can be a matrix where the banks' differently rated company customers can be shown according to their total value to the bank.

The relationship can be estimated through the parties' experienced dependencies towards each other. The different processes and the dependency structures might be another interesting angle towards getting a thorough picture of the situation.

For a mature market, the power/dependence angle is very interesting and there might be correlations within the power/dependence structure and profitability.

Co-operation

A co-operative action means a situation where both parties in a relationship play the same games with the possibility to decide or suggest mutual rules for the game⁹. In a relationship a co-operation is very important, as the process in order to keep a relationship alive should be to be aware of each other, have certain expectations on the relationship, set certain rules for the relationship according to the expectations, and cherish the relationship.

The preparedness and the processes for each party respectively towards each other in the co-operation are important to chart. An uncertain process might be one clue to customer dissatisfaction, which might lead to the customer quitting the relationship.

Closeness

When is a relationship close? Closeness is a very subjective term. The factor closeness can have an impact on profitability, even though bias, partiality or challengeability should be abolished. The banking relationship can have started from a close relationship or contact from before, or it can grow during time. It is often difficult to judge whether the relationship is close or not.

The bank's closeness to the customer can be vital as a psychological aspect for a private customer. A bank has to have a good relationship with certain key persons in the companies, but is a close relationship important for the bank? What is good service? Mostly discussed is the closeness to the bank's decisions made about the customer's affairs, that is, are the decision makers near the customers and how long does it take for a customer to get information, how can the banks improve the decision process. Many major banks have their own electronic banking, is it enough to have a connection with the customer relying upon the electronic banking or is there more needed in the connection between the company customer and the bank?

Availability

Availability in a relationship is referred to the service provided and will enhance the relationship. The customer usually gets a more complex service with a better availability, and the service provider can solve the question of availability in co-

⁹ IMP Group. An Interaction Approach. In: International Marketing and Purchasing of Industrial Goods. Wiley, Chichester, pp. 10-27 (1982)

operation with the customer. Today, much of the availability is solved with technique and computers.

Availability is a key factor in customer service for mass transaction, but in asset management and certain more requiring company customer service forms the term closeness is more accurate. Good service is both available and close.

Expectations

Expectations are a psychological phenomenon created mutually at both parties in a relationship. Also the word expectation means a positive attitude towards the other party, in this case also the service or product the other party can offer. The parties in a relationship make a certain picture of the other considering possible development, advantages and decisions about the rules in the relationship. Expectations are one of the most important drivers for continued relationship, because expectations will be changed and accustomed to the real situation. The psychological factor of both parties' dealing with the same issue, which affects the relationship, has a big impact on further attitude towards the relationship. Expectations are created even before the physical interaction. The customer might only think about the bank, or the bank might think of the customer in order to gain him.

What are the expectations on the bank from the customer's side?

Which words can you use to describe the expectations on a service?

What expectations can the bank foresee on the customer?

Does the bank's service meet the customers' expectations?

Does the customer pay according to the service expectations?

What is expected from the interaction?

Short Term product/service exchange episodes

The short-term product or service concerns mainly how the products and service can be handled and distributed to the customers, i.e. the companies. The product and service outlets should correlate and the long- and short-term targets should have synergies in the long run. The exchange processes should be handled in an accurate way for the customer as well as for the provider.

Short Term information exchange episodes

Information includes changing of data about the relationship and facts in the relationship or in the near environment of the relationship. Official information is often given through press releases, and thereby published in the media. Information should be given fast, in a reliable and controlled way and through a known source. The most efficient way of handling the exchange of information to company customers is through the contact persons, when information is given from the banks out. When information is distributed from the customers to the banks, it is usually documented and told to the contact persons.

(The contact persons have a distinct role in the banking organisations. They are the bank's face out to the customer, and the customer's negotiation partner towards the bank. The contact persons concentrate on normal routine affairs, and on special occasions or for extraordinary marketing the banks' higher managers contact the customers with the contact persons' acceptance.)

Short Term financial exchange episodes

The banks' most essential aspect of the customers is the financial dimension. The banks rely fully upon the company customers' economic situation considering their risk exposures towards the customers.

Loans and exposures are heavy losses in case the customers face bankruptcy, but if the customers are healthy, the loans can be paid in normal pace, which is traditional banking business. The short-term financial matters can be the bank's financial advise to the customer, the customers' needs of service in asset management, treasury, transaction matters, handling of commercial documents or lending.

Deposits and cash flows are handled on accounts without interest rates. Asset management and treasury are handled in normal procedure. The banks' service fees for companies are usually higher than for private persons.

The customer's customer is important, as the boundaries set for the customer for instance in commercial documents or in lending often are important pillars when the bank's customers discuss further with their customers.

How does the process to the customer's customers work?

Is the customer's customer profitable?

What is the customer's price policy towards its customer?

Which are the customer's ethical rules? Do the customer's ethical rules coincide with the bank's?

Short Term Brand Exchange Episodes

A company has a certain brand and a rumour, which can give certain expectations in the relationship. The brand need not be a short-term factor, but also be long-term factor. The short-term brand factor can be certain expectations about the company for a certain agreement or a statement.

Long Term Financial Development Relationships

Long-term problems concern handling the power – dependence and co-operation – conflict aspects of the relationships. The aim is to have a controlled development of the relationships. The power – dependence relationship refers to how large the company is versus the bank, and on the other hand how important the customer is to the bank.

The finances are an important asset for future performance in the relationship and long-term financial development tend to secure a continuous relationship. Both parties have the possibility of fulfilling what they have promised at the beginning of their relationship.

Long Term Adaptation Relationships

Adaptation is considered to be one dimension of the power-dependence relationship referring to the decisions made within the relationship. Mutual adaptation also depends on the interest both parties show in the relationship. The competition on the bank market is hard, and the adaptation from the bank's customer's side can depend on the bonds, as the bank's products, service, personal contacts, personnel, psychological factors, geography, social factors, and many more.

The bank has a certain set of products and services, which are priced. The better a company customer, the more it can tailor and influence on the service and the products.

The bank as a financial service and product provider to the company customer has often non-negotiable conditions according to which it wants to rate the relationship to the customer.

(Earlier there has been a banking rule that the more a customer needs a service or a product, the more expensive the necessity becomes. In the recent competition the bank cannot price the service or product in that way to the company customer anymore, as the company customer often asks for many offers. There are certain factors that decide if a bank gives a decent offer to the customer or not, which again has an impact on the company customer's flexibility. These factors can be the customer's own profitability, customer image, ethic rules, service or product risk, the bank's own risk exposure because of selling the product to the customer, personal contacts, customer satisfaction, possibility to create further contacts, use of product or service in the bank, if the customer considers the bank relationship belonging to the primary, secondary or lower level. The attitude that banks are usually non-negotiable has by and by faded, and banks will have to reconsider each relationship from the customer's point of view if the bank wants to keep the customer.)

Long Term Brand Relationships

The both parties in the relationship can be so much improved by the mutuality in the relationship that they decide to publish their relationship in agreement. The brand relationship can thereby be of an advantage for both, and therefore also profit on it. This is very rare, but there might be a certain interest in it.

Is there a tendency towards joint brand announcement?

Performance and Satisfaction

The performance is in focus considering this study and the banking relationship. How can both parties be aware of the performance expected and how does the performance and profitability influence the relationship? There must be a break-even between the performance/profitability and the satisfaction in the relationship.