Business Relationships Dynamics and (In)Stability

A Comparative Case Study in Corporate Banking

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Abstract

This paper looks at the evolution of business banking relationships regarding the stability of the volume of trade between corporate clients and their banks. Ten cases of dyadic relationships were studied. For each relationship, we looked at the variations in trade volume both within calendar years (short periods of time) and throughout the duration of the relationship (long periods of time). Theses cases were compared in terms of their atmospheres (co-operation, accessibility, commitment, trust and conflict), the strength and the kind of bonds, and the existence (or not) of connected relationships. Both the bonds between clients and banks, and those to connected bank relationships seem to contribute to the stability of relationships. Also, there is no relation between the stability of a banking relationship and its atmosphere. Finally, ten factors were identified that can interfere with relationships for short periods of time: three factors concern the client (bargaining behaviour, power, and financial and economic situation), two factors concern the bank (personnel turnover and risk policy), and another two have to do with the transactions (cost, and financial and economic risk). Finally, three factors are 'external' to the relationships (connected relationships, market competitiveness, and socio-political/legal factors). Positive and negative impacts on relationships stability are discussed.

1. Introduction

Research concerning the long-range dynamic process of relationships in banking contexts is still scarce. This paper presents the results from a study of ten cases about the dynamics of relationships in corporate banking. It provides some insights on stability and instability of business relationships in the banking business, and suggests some factors that can generate or intensify the (in)stability of those relationships. The paper seeks to contribute to knowledge about the dynamics of business relationships on a banking context and to provide a framework for managers and bankers alike to better understand the nature of banking relationships. The next section reviews the context for the study and some relevant literature. Section 3 gives a description of the research method. The research findings are presented on section 4. The paper concludes with a discussion of the findings, and their managerial and research implications.

2. Business and Banking Relationships: a Brief Literature Review

2.1. Business Relationships

The IMP Group developed a conceptual framework of long-lasting business relationships in industrial markets and illustrated its applicability through numerous studies across several countries, especially in Europe. According to these studies, buying and selling when relationships matter should not be viewed as series of independent transactions, but rather, as a complex number of episodes in (often) long-lasting and complex relationships between buyer and seller (LaPlaca, 2004). Long-lasting business relationships tend to develop as risk reduction strategies, and as recognition of mutual dependence. The IMP Group's work (see, for example, Ford 2002) emphasised a description of business relationships as complex mixes of exchange processes and adaptive behaviour of firms. These occur through organisational interactions, between firms and also between individuals from a variety of functional departments and hierarchical levels at both the buyer and the supplier. Therefore, business purchasing is often part of a growing commitment to a particular supplier which results from a relationship between parties that often goes back many years. Buyers and sellers in business markets 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 and Snehota (1995) propose three dimensions for business relationships: links between activities, ties of resources and bonds between actors, all this embedded in an aggregate structure: "the network". Any act of 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 (Axelsson and Easton, 1992). The IMP Group approach to business relationships can be helpful as a theoretical framework for a better description and understanding of business-to-business market dynamics, not only in industrial settings but also in services markets, like financial services markets.

2.2. Business Relationships in Banking

Early references are Turnbull and Gibbs (1987), who highlighted the importance of relationships in banking, and Eccles and Crane (1987 and 1988) who researched relationships in investment banking and presented an ambitious study of their nature. According to them, the management of investment banks relies on the operation of a "net of internal ties", which integrates the efforts of all the specialists in the bank who share a customer. They found relationship management to be an element or integrating mechanism in all the investment banks they studied. Still they considered it to be a complex issue for which general principles are difficult to establish and said that, despite its importance for the development and keeping of relationships, this function raises important issues and its nature shows great variety and ambiguity. Crane and Eccles (1993) emphasised the diverse meanings of relationships for banks and their clients and within each of these. Still, they restricted their analysis to investment banks. They did not look at related financial services, including commercial banking.

Perrien, Filiatrault and Ricard (1992) made a critical analysis of relationships in banking and gave some insights about the perceptions of customers and account managers about some issues affecting relationships: the turnover of account managers, their limited authority, and the banks' credit norms, organization and structure. Madill, Feeney, Riding and Haines, Jr. (2002) presented consistent data, from more than 3000 interviews to Canadian SME's, showing how customers satisfaction is affected by: (1) the way the account manager runs the bank/SME relationship; (2) the management of branch staff and (3) the bank policies regarding bank/SME relationship. Horne, Naudé and Worthington (2000) studied triadic relationships in financial services markets and Tyler and Stanley (2002) argued that relationships are relevant, indeed inherent, to the over-the-counter derivative market. The banks view of 'managed relationships' has been highlighted in the literature and many commercial banks emphasized establishing relationships with their customers (Trethowan and Scullion, 1997; Crane and Eccles, 1993; Perrien, Filiatrault and Ricard, 1992 and 1993; Ennew, Wright and Watkins 1990). Ennew and Binks (1996), for instance, consider the development of effective “customer” relationships to be a key element in marketing strategies for the service sector. Tyler and Stanley (1999) provide a recent review of literature on marketing of financial services to businesses.

We believe that significant insights about the nature and the dynamics of banking relationships can be gained by using the IMP Group approach. Thunman (1992) and Proenca and de Castro (1999 and 2000) used the IMP approach to study relationships in banking. Thunman (1992) contended that banking decisions should not be perceived as discrete events, in each of which a firm evaluates the attractiveness of its suppliers’ current marketing mixes, but rather as sequences of events occurring in the context of growing commitments between identified clients and banks as in other industries (op. cit., pp. 15, 16). Proenca and de Castro (1999) sustained that the customer/bank relationship is maintained by the atmosphere of the relationship itself and by bondage dimensions of various types and strengths. Proenca and de Castro (2000) stressed that the banking business includes a variety of financial services provided by financial corporations connected to banks, which must be considered for a holistic perspective of each banking relationship.

Proenca and de Castro (1999) also suggested that, despite long lasting relationships in banking not being a recent phenomenon, most theoretical frameworks have understood the behaviour of banking actors as 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 also to be important determinants of actors' behaviour. Literature appears to have neglected the continuity of banking relationships in time and emphasised, instead, short-term episodes like transactions. In reality, business relationships between banks and their corporate clients have been, for a long time, long range dynamic processes. However, such continuity does not mean that corporate banking relationships are static. Quite on the contrary, they show their own dynamics.

Most recent research about relationships in banking adopts the relationship marketing approach, which is seen as a "…hot topic of the marketing discipline during the 1990s…welcomed as a saviour from the detrimental impact of traditional marketing" (Möller and Halinen, 2000). In fact, relationship marketing is a broad concept and it has been used to reflect a variety of themes and perspectives and to cover a very fragmented set of ideas and theoretical frameworks applied to marketing channels, database and direct marketing, or services and business-to-business marketing (Möller and Halinen, op. cit.). The concept reflects different perspectives, but the majority of the literature is related with the flow of promotional efforts towards targeted customers, trying to treat each customer as "segment of one", and keeping in touch with customers after a sale has been completed (Mattsson, 1997; Kalafatis and Miller, 1997). In contrast to IMP, this approach does not take <u>the relationship</u> as the research object. Relationships are perceived as the result of commercial and strategic actions taken by firms (normally sellers). They are often seen as "instrumental" and a directional perspective is adopted, from the eyes of the supplier, with the focus on the customer (as a segment of 'one'). These works did certainly alert to the importance of relationships between firms, namely between banks and their corporate clients, which may have sufficed for some purposes but seems to have contributed little to knowledge about the dynamics of relationships where perceptions and initiatives are often bilateral. This paper aims to look at such dynamic processes.

3. The Research

3.1. The Methodology

Our units of analysis were the relationships and each relationship was a case. The case study method (Yin, 2003) was chosen for an encompassing view of relationships. This had important consequences: it allowed considering the interactive nature of relationships, and it also allowed the researcher to focus on the processes of each relationship, and not give any privilege to either side. Further, we emphasised the issues related with interdependency between interacting organisations, thus leading to investigating the whole of each relationship, for instance the need to consider connected relationships with "third party" organisations. Context was looked at, rather than formal boundaries between the interacting organisations.

Following the suggestion of Ragin (1987), we resorted to multiple case analysis and comparison. This allowed us to examine similarities and differences between circumstances, situations and relevant examples, trying to obtain the multiplicity of causes that can explain any fact. Thus, the data were confronted and triangulated, trying to 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.

Data were collected from ten cases in Portugal, involving three of the largest Portuguese commercial banks and ten industrial or commercial firms. The banks were selected for their dimensions. The cases for the ten corporate clients were selected following the banks' top directors' perception of the representative ness and complexity of those long term relationships given the number of actors involved, the transactions volume and the offer of a diversified package of products and services by the bank (leasing, insurance, factoring, investment products, etc.). Customer firms are from various trade and industry sectors and are dispersed throughout the country. Personal, in-depth interviews were made in order to gain insights into issues perceived as relevant by both parties in each case, and understand the dynamics of the relationship processes. About fifty people were interviewed, including the bank managers, and the key-account managers and corporate financial managers representing all the interacting parties in each case. The interviews were based on open-ended, semi-structured and structured questions. They were tape-recorded and transcribed. Documentary material was also acquired.

3.2. Stability and Instability - Analysis of Cases

This research has unique characteristics concerned with the study of the cases. The method followed and the analyses made, are presented next.

Relationships were considered to be either ***stable*** or ***unstable***. Relationships were considered *stable* when they showed regular volumes of trade over time, typically following closely the evolution of the client's turnover. When important variations were found, throughout time, in the values of trade, then the relationship was understood to be *unstable*. Periods of analysis were taken to be ***short time periods*** when they were contained within one calendar year. They were considered ***long time periods***, when they covered the whole duration of the relationship. Data were corrected for seasonality on the client turnover reflected on its volume of trade in the banking relationship.

All the relationships studied are old, and some lasted over twenty years. Nine of the ten cases studied showed regular volumes of trade during the whole period under analysis, i.e. they either kept constant or followed the evolution of the client firms' turnover. Only one of the relationships showed instability and it could be an exception in the sample. The story of this relationship was closely related with the political turmoil following the 1974 left wing revolution in Portugal, which affected the relationship and originated several ups and downs on the volume of its banking transactions. Those oscillations are analysed in the following section with relation to the instability drivers in banking relationships.

Some of the stable banking relationships went through short periods with variations in business. Nevertheless, the average volume of business in these cases has been regular or followed closely the volume of sales of the client firm. This set of nine stable relationships could thus be divided in into three subsets: (1) the subset of perfectly stable relationships, (2) the subset of relationships that, sometime in their history, underwent some turbulence, and (3) finally the subset of stable relationships consistently showing short term periods of irregularity. Table 1 shows these three subsets and summarises information about stability & instability in each case. The following sections discuss the dynamics of corporate banking relationships based on the comparison of the data relative to the three subsets of cases.

4. The Dynamics of Corporate Banking Relationships

This section starts by discussing the dynamics of corporate banking relationships. It analyses stability and instability in the cases researched, following the methodology presented above. Then it discusses the factors that may drive the stability and instability through time of corporate banking relationships.

4.1. “Localised turbulence” (noise) in Corporate Banking Relationships

The data from this research suggest conclusions similar to those of Gadde and Mattsson (1987) in a longitudinal study about business relationships. When the analysis adopts a time frame longer than one year, banking relationships are stable. The volume of trade

Table 1: The stability and instability of the bank relationship cases

<table>
<tr><td>Set of 1 Unstable Relation ship</td><td colspan="2">Case 1: Unstable relationship: instability was exogenous to the relationship; the 1974 revolution; the subsequent across the board nationalisation of banks and the re-opening of banking to private initiative in the 1980’s followed by re-privatising of nationalised banks, all affected the evolution of the relationship, since they jeopardised the social connections that sustained it.</td></tr>
<tr><td rowspan="3">Set of 9 Stable Relation ships</td><td>Sub-set 1
Perfectly Stable Relationships
In these relationships, the volume of banking trade is regular throughout their duration or evolves with the volume of sales of the client sales turnover. These relationships show to be stable both for long and short periods of time.</td><td>Case 2: Despite this being a stable relationship there was a strong increment in banking business following the development of a connected relationship with a factoring society associated to the bank;

Case 3: This is a stable relationship. Its apparent instability was found, at closer scrutiny, to be a side effect of its progressive strengthening.

Case 9: Definitely perceived as a stable relationship. Its always evolved in proportion with the client firm’s business.</td></tr>
<tr><td>Sub-set 2
Nearly Stable Relationships

The volume of business in these relationships has followed the volume of sales of the client firms or has been regular, with exception of a short period of time, directly associated with to great market instability, when the banking business in these relationships did not follow either a regular pattern or the volume of sales of the clients.</td><td>Case 4: Stable relationship, however it went through a period of some turbulence when the market was re-opened to private initiative.

Case 5: Stable relationship, although it went through a period of some instability related to turbulence in banking markets, especially when the market re-opened for private initiative, and to the start of a relationship between the client and a factoring firm..
.</td></tr>
<tr><td>Sub-set 3
Stressed Stable Relationships

These 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.</td><td>Case 6: A stable relationship but, in some limited periods, the bank deliberately reduced its share on the client’s banking business in order to contain its perceived economic risk perceived as too high;

Case 7: A stable relationship but with moments of instability due to the rotation of the personnel that impersonates the relationship on the side of the bank;

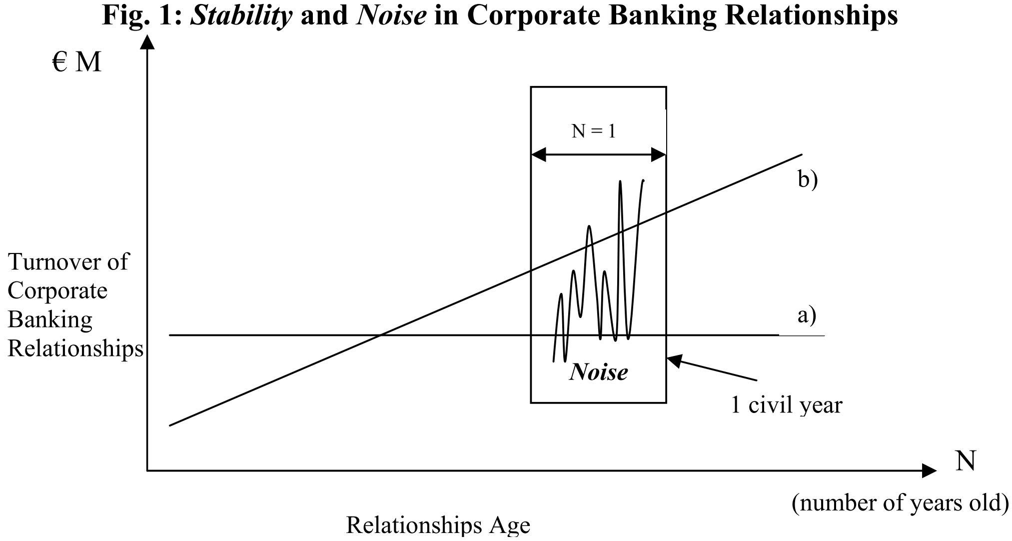
Case 8: A stable relationship that undergoes cyclical irregularities. Stability came after the client overcame a period of economic stress and financial hardship. Short term irregularities can be detected, which are attributed to the client’s arms length negotiating posture;

Case 10: A stable relationship with cyclical short periods of irregularity associated to the client’s high bargaining power and its behaviour, very centred on transactions costs.</td></tr>
</table>

in most relationships is either stable or follows, through time, the client's own volume of business. However, when analysing short periods of time (less than a year), a different picture emerges and short duration instability (noise) is patent. For one reason or another, the actors involved in a relationship may not close a deal but they will end up finishing another one and, in general, not doing a limited number of transactions does not jeopardise the relationship.

In the cases researched, the stability of banking relationships is a characteristic that comes in association with their longevity and irrespective of their short-term irregularities because they can endure such short duration irregularities. However, they should be looked at from a long-term point of view where punctual episodes can dilute. This result is in agreement with Holmlund-Rytkönen and Strandvik (2003), who shows that some incidents can impact and decrease the strength of relationships and Gadde and Mattsson (1987) who suggest that long-term stability may disguise local disturbances and occasional irregularities, see figure 1. Figure 1 illustrates the analysis done, representing a volume of trade that, in most relationships is (a) regular or (b) follows the evolution of the volume of trade of the firm throughout time and, in either case, can suffer disturbances for short periods of time.

Fig. 1: *Stability* and *Noise* in Corporate Banking Relationships



4.2. The Instability Factors on Corporate Banking Relationships

This section discusses the causes of instability for those cases that displayed it and suggests a framework to accommodate the factors that seem to drive that short-term "noise". The discussion also points out some factors that can intensify or foster stability in banking relationships. These are further discussed in section 4.3.

We will start by analysing the only relationship found to be unstable in a long-term perspective (see Table 1 - case 1), because this relationship was 'unique' from that point of view. Table 2 presents a brief reference to and analysis of the instability manifest in that case and shows that the structural instability of the relationship is related with the high political turbulence in Portugal that lasted about 20 years. This meant regulatory volatility for the Portuguese banking market (political instability – ephemeral governments along with the nationalisation of all Portuguese banks which eventually lead, twenty years later, to the re-opening of the market to private banking and the re-privatisation of nationalised banks).

Table 2: Instability in Case 1

Case 1: This is a very old relationship, strongly founded on social bonds. Up to 1975 this was the major banking relationship of the client firm. However, the Portuguese bank system was nationalised in the political turmoil that followed the 1974 revolution and the family that had dominated the nationalised bank moved abroad and re-initiated its banking activity there. Consequently, the client started a relationship with the bank abroad newly held by that family and substantially reduced its trade with its relationship counterpart, the now nationalised bank, which ceased being its major bank. Later, in 1988, since the state re-opened the banking sector to private initiative, the banker family started controlling another bank in Portugal. Following the social connections between both families, the client firm initiated a relationship with their friend's new bank, which rapidly became its major bank. Later on, in 1992, the state re-privatised the 'old' relationship bank and the banker family re-gained control of it. Thereafter, business between the client and the 'old' relationship bank re-developed and it became once again the client's major bank. This relationship stabilised and remained stable since. This illustrates the strength of the role of social bonds in keeping and re-vitalising a banking relationship.

These events seriously affected this relationship because they impacted drastically on the major basis that sustained it: the social connections between the families that were the dominating shareholders in the bank and the client firm, respectively. This suggests that instability in a banking relationship may derive from exogenous, social political, variables. It also suggests that strong social connections between dominating stakeholders in a bank and in its corporate client, respectively, may help to sustain, revive and, stabilise a relationship (about social connections, see Ben-Porath, 1980).

It is also important to look at those cases found stable in long periods that, nevertheless, showed short-term instability or irregularities (sub-sets 2 and 3 in Table 1). A closer look at the "Almost Stable Relationships", that went through a somewhat turbulent period (sub-set 2, i.e. cases 4 and 5), revealed that their unstable phase was related with the re-opening of the market to privately owned banks. This brought new banks to the market and there was an enormous increase in competition, which troubled these banking relationships. This reinforces the argument that factors exogenous to relationships, like rivalry in the market and its regulation, may induce periods of instability in banking relationships. Case 5 also shows that instability can also ensue from the development of another relationship, with a financial firm that, although not operating in commercial banking, is connected to the conglomerate of a competitor bank. Due to its developing relationship with that financial firm, the client also developed much of its trade with the connected bank. This caused instability in the focal relationship. Both case 5 and case 2 suggest that the development of other relationships connected to the focal relationship can help in strengthening and stabilising it. We shall come back to this, in section 4.3, with relation to a discussion of stability drivers in banking relationships.

The analysis of "Stressed Stable Relationships", stable relationships with short duration irregularities (sub-set 3, Cases 6, 7, 8 and 10), showed various factors, endogenous to the relationship, that can induce irregularities in the volumes of transactions. Some of these originate in the bank, some in the client and others in the transactions.

Table 3 displays a synthesis of the most relevant data for these cases. Our analysis suggests that, in short periods of time, one or more factors can interfere in the relationships, and cause noticeable instability: a) the client's financial and economic difficulties (case 8); b) the economic and financial risk that the bank perceives in the relationship or in some of its transactions (cases 6, 8, and 10); c) the arrival of new personae onto the relationship and/or the banks' policy regarding personnel rotation (case 7); d) the cost of some transactions (cases 8 and 10) and, finally; e) the power and bargaining behaviour of the client firm (cases 8 and 10).

Table 3: Instability Factors Analysis on sub-set 3 (*"Stressed Stable Relationships"*)

Case 6	When the bank perceives an excessive risk on the relationship, it transfers to other (connected) firms some operations that it would take with this client;
Case 7	The bank has a policy of rotating personnel across different jobs. The people from the bank with whom the client has to deal change often and this affects the relationship. The ice-breaking phase with a new counterpart (partly independent of that person's capabilities) affects the relationship. The periodic absence or fragility of personal bonds between the actors in the relationship hinders some transactions and creates instability, but the relationship re-gains stability after some time.
Case 8	This relationship underwent a phase similar to case 6 when the bank refused some transactions due to the economic risk it perceived in the relationship. When that period of economic and financial difficulties of the firm was past, the relationship became regular on an annual basis but kept showing wide short-term fluctuations in its trade volume, because the client now allocates each operation to one or another bank strictly according to its direct transaction costs. Because it does so with all banks, it is argued that the firm takes a somewhat opportunistic approach on its banking relationships. The firm does pressurise the banks by punctually switching its business from bank to bank, for price reductions.
Case 10	This relationship also goes through periods of irregularity despite a regular volume of trade year in year out. These irregularities are due to the importance the client gives to the cost of each transaction and to the limits the bank sets on its risk exposure with the client. The client firm is unusually large (for the Portuguese context) with a turnover of about € 3,500 million a year, which gives it significant bargaining power. The firm's muscled negotiating posture translates into short-term instability for all its banking relationships because the client transacts where it gets the best quote and, more often than not, one of the banks (not always the same) gives in to its demands.

Hence, we would suggest a framework for the factors that generate "noise" in banking relationships, which includes ten factors capable of giving rise to short periods of irregularities. These factors can be arranged in four groups, according to their nature, see figure 2:

a) Factors exogenous to the relationship: socio-political issues, connected relationships and the global rivalry in the market.

b) Factors internal to the client: its economic and financial hardship, its relative power and bargaining behaviour.

c) Factors internal to the bank: its policy relative to the economic and financial risk of its relationships and its personnel rotation policies;

d) Transactional Factors: the cost and the economic and financial risk of the transaction.

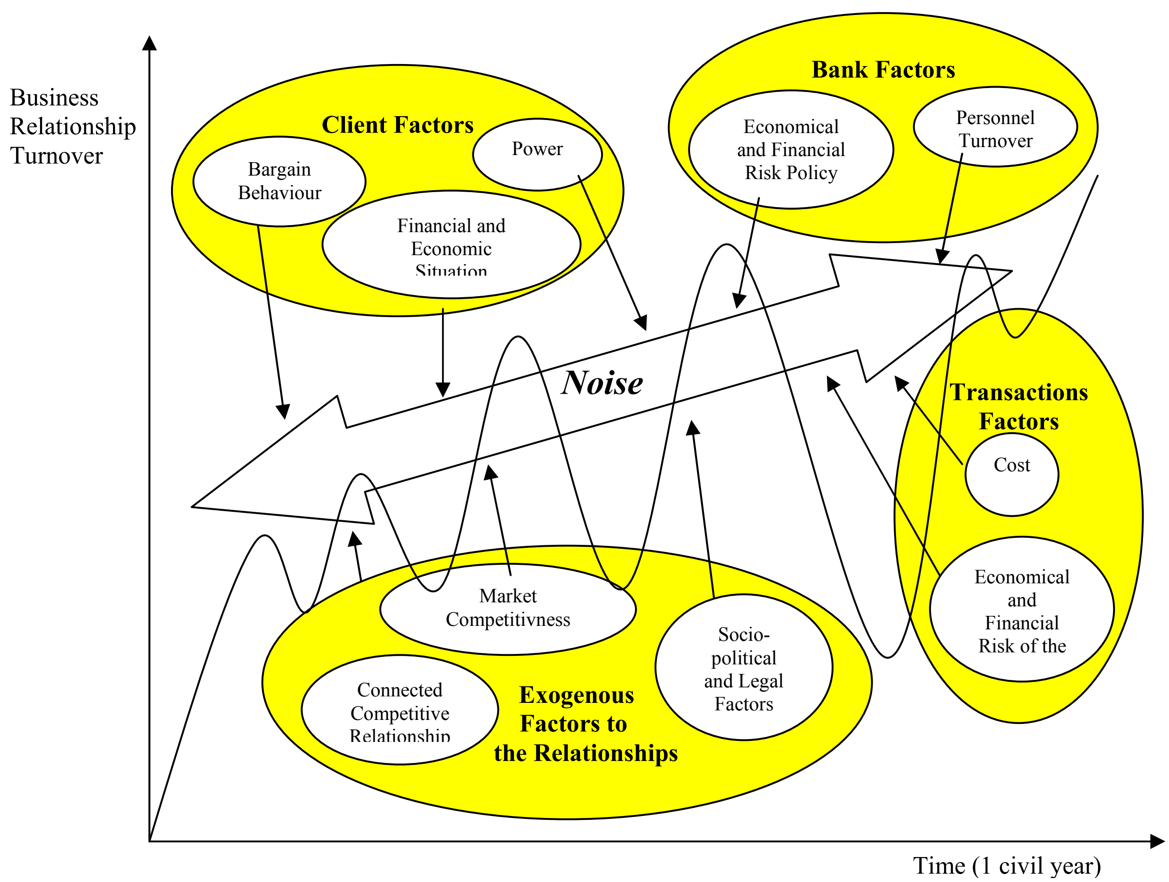


Fig. 2: Noise Factors in Corporate Banking Relationships

These factors interact with each other and, in different times, one or more of them may be especially active/important. Also, all of them do not always show in all cases or with the same impact. Besides, there may be other variables to add in to these groups that we did not detect. We based ourselves on the data we could collect and some variables may not have been active in the cases we studied, which may become manifest in others (we found no others on our literature reviews, though). The framework we propose illustrates well, to our view, the intervention of the bank and its corporate client on the banking relationship and the interactive nature of banking relationships. This issue of interactivity, as pointed out above, has been neglected in most studies about banking relationships and we suggest that such omission reduces the potential of those studies in helping the decision makers to analyse the relationships in which their institution is involved and to draw policies about them.

4. 3. Stability Factors in Corporate Banking Relationships

Proenca and de Castro (1999) presented three important dimensions for the nature of business relationships in banking, following the IMP framework. *First*, the atmosphere of the relationship (Håkansson, 1982), which surrounds the interaction process between the bank and its customer and is a product of the relationship itself. It is a dynamic feedback process built on by the episodes of exchange as well as by the long-term process of interaction. It has been described, in banking, in terms of the state of conflict or cooperation, and overall closeness or accessibility of the relationship, and the trust and commitment involved in the relationship (Proenca and Castro, op. cit., pp. 183-185). *Second*, the bonds (Mattsson, 1985), developed between clients and banks. Relationships are based on different kinds of bonds, which develop over time and through which the actors are tied to each other. The links between banks and corporate clients can be seen as bonds of different types and strength: **economic bonds** (the degree of financial involvement and investment in each other's business, and economic risks taken on behalf of the other organization), **informational bonds** (the amount and perceived importance of information exchanged, the accessibility of relevant information from the counterpart), organizational **knowledge bonds** (the knowledge about each other's structure and processes, encompassing all organizational and market aspects of the counterparts), **technical bonds** (investments made in adapting/coupling information systems, of computer and e-links between the bank and the customer, importance of know-how links, access to a full range of information about relevant financial products, etc.) and **social bonds** (social connections, personal contacts, empathy and friendship, family ties, cultural issues, and so on) (Proenca and Castro, op. cit., pp. 186). *Third*, connected banking relationships, especially banks 'internal networks' that connect the client with firms associated to the bank. Banking relationships are expected to include a variety of financial services often provided by other financial firms. Therefore, the banks and those firms related to them that offer a diversified package of financial services should be considered for a holistic view of the relationship. These connected relationships start and develop from direct contacts with the bank, and are covered by the atmosphere and bonds of the relationship between the bank and the client (Proenca and Castro, 1999 and 2000).

In a previous section we identified some factors that induce short-term irregularities and others that may contribute to the long-term stability of banking relationships. In sequence, we tried to find out whether the characteristics of relationships studied, according to the three dimensions identified, could be seen as fostering or hindering the stability of those relationships. For that purpose, we analysed and compared data collected for the three sets of stable cases (Table 1) for those three dimensions: atmosphere, bonds, and connected banking relationships. Previously, each side of each dyadic relationship had been asked to answer a questionnaire that sought to characterise the atmosphere (regarding accessibility, cooperation, conflict, trust and commitment) and the bonds of the relationship (for the economic, informational, organizational knowledge, technical and social dimensions). Each interviewee was asked to grade the relationship with relation to each dimension on a scale ranging from 1 to 4: 1 (strongly disagree), 2 (disagree), 3 (agree) and 4 (strongly agree).

Having, for each subset of cases, analysed and compared the values of the variables that characterise the atmosphere, we could not find any relation between the stability of a relationship and its atmosphere because the data collected are identical for all three subsets of cases. Table 4 shows the scores for strength of bonds, per bond type, for the three subsets of cases. Those data suggest that bond strength for all types of bonds follows a decreasing trend from Subset 1, on to 2 and 3, *i.e. Perfectly Stable, Nearly Stable,* and *Stressed Stable* relationship*s*, in this order. This would suggest a positive correlation between bond strength and relationship stability, for all types of bonds, see also Fig. 3).

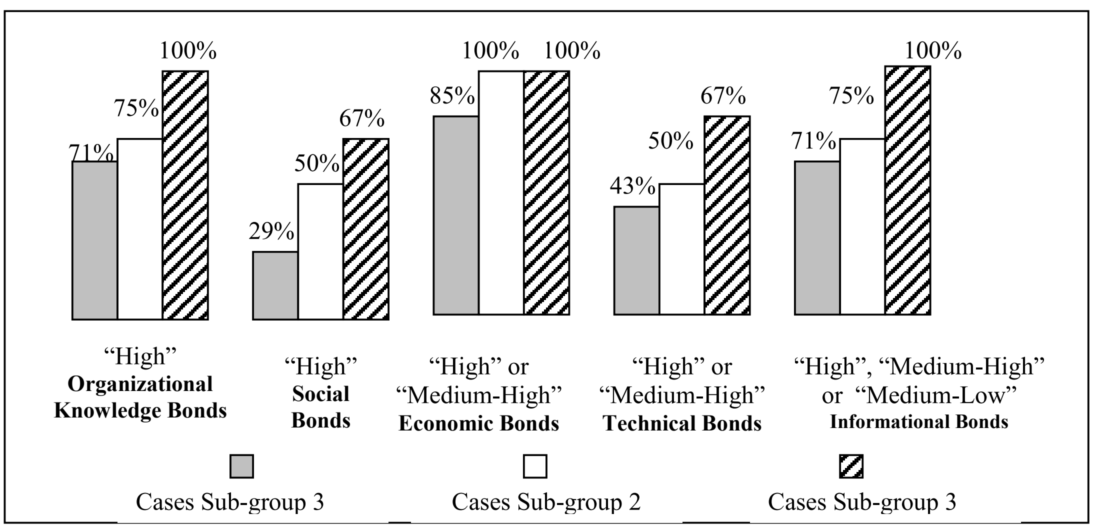


Fig. 3 – Bond Strength and Stability in Corporate Banking Relationships

Table 4 – Stability and Respondents assessment of Relationships Bonds

Strength and Type of Relationships Bonds	Subset 1 Perfect Stable Relationships	Subset 2 Almost Stable Relationships	Subset 3 Stressed Stable Relationships
High Organizational Knowledge Bonds	100%	75%	71%
High Social Bonds	67%	50%	29%
High or Medium-high Economic Bonds	100%	100%	85%
High or Medium-high Technical Bonds	67%	50%	43%
High, Medium-high or Medium-low Informational Bonds	100%	75%	71%

Proenca and de Castro (1999, pp. 186-187) suggested that the various types of bonds in banking relationships were not equally strong and organizational knowledge bonds were the most important for sustaining relationships in time, followed by social, economical, technical and informational bonds, respectively. The data on Table 4 is consistent with that contention, with the exception of the last two types of bonds that switch places on that rank.

It has been previously suggested that the development of connected relationships with financial services firms (belonging to same conglomerates as the banks) might strengthen and stabilise banking relationships. The three subsets of stable cases were analysed for the existence of connected bank relationships please see Table 5.

Table 5 –Relationship Stability and Connected Relationships

Sub- Group	Connected Banking Relationships
Sub Group 1 **Perfectly Stable Relationships**	Cases 2, 3 and 9: All cases involve connected relationships with transactions effectively made;
Sub Group 2 **Nearly Stable Relationships**	Cases 4 and 5: No case involves any connected relationship with transactions effectively made; N.B.: case 4 does present a relationship between the client and a leaser associated with the bank, but it is totally unconnected to the banking relationship;
Sub Group 3 **Stressed Stable Relationships**	Cases 6, 7, 8 and 10: Two cases present connected relationships with transactions made (cases 6 and 7); the other two do not present any.

The data does suggest some association between both, as all three *Perfectly Stable Relationships* display connected bank relationships, but none of the *Nearly Stable Relationships* presents them and only half of the *Stressed Stable Relationships* do so.

To sum up this section, the data collected and analysed suggest that the both the bonds developed throughout time between banks and their clients and the development, in the context of the relationship, of connected bank relationships may work as stability drivers in banking relationships please see Fig. 4.

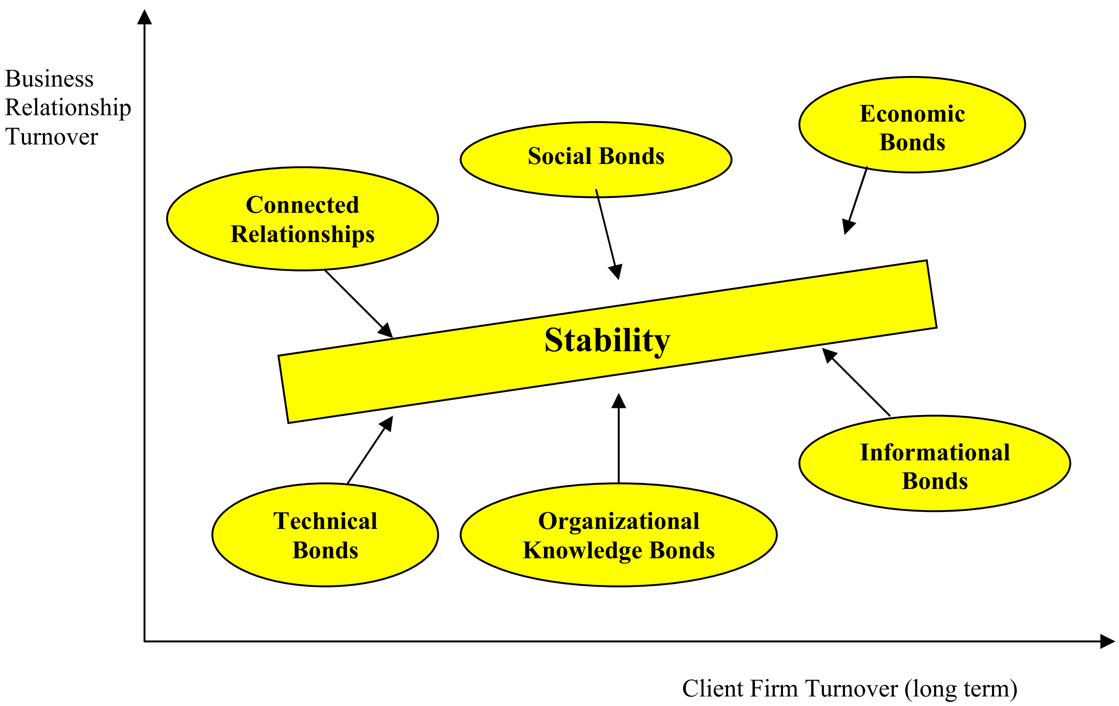


Fig. 4 – Stability Drivers in Corporate Banking Relationships

5. Managerial Implications and Future Research

The managers involved in business banking relationships stand to gain from knowing and monitoring the factors associated with stability and instability in such relationships and from understanding their dynamics. The results from the present study are relevant both for financial managers and for bank officers, and researchers, inasmuch as they show some factors, which underlie short term noise in some of these relationships. Such noise can be a source of instability for officers of both its sides, as they fight to meet their own short term targets. The understanding of the banks' behaviour in the context of the banking relationship and the management of the clients' multiple relationships with various banks will allow both parts to face and live through the periods of stress that may emerge. It should 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 dynamics of the cases researched show that that some instability, designated by the authors as "localised turbulence or noise", can arise in stable banking relationships. This noise tends to be temporary, and should be treated as such, once it is not seen as putting in jeopardy the relationship itself. Further, the research points out to some stability drivers, like the bonds between firms that develop in time and the connected relationships with other actors. These factors reinforce the relationship and can also be monitored by the managers on both sides.

This research contributes to the growing body of literature about how relationships can be managed. Holmlund-Rytkönen and Strandvik (2003) dealt with negative aspects or incidents that can impact and decrease the strength of relationships. Gadde and Mattsson (1987) dealt with the problem of momentary instability and irregularity. However, little or no empirical evidence about the relationships dynamics has been provided for services, particularly for the business-to-business financial services.

The irregularities found in the present study are mostly endogenous to the relationships, as they originate either with one of the actors or with the transactions. Irregularities can also be exogenous, as is the case of the rivalry present in the market, for instance, which, it was seen, can induce instability in relationships. We suggest that further research be done about exogenous factors that may affect relationships stability. A better knowledge of exogenous factors will hopefully enable preparedness and/or sense making, whilst knowledge of endogenous factors allows monitoring, early detection, pre-emption and, if needed, soothing and repairing actions.

Finally, 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 their policies. Despite some instability being associated to clients keeping a portfolio of banking relationships, the management of such portfolios is hardly dealt with in literature, and was barely touched in this research, begging for more work. It is also suggested that the present study be replicated in other countries and contexts for comparative purposes.

5. Conclusion

The paper looked at the dynamics of corporate banking relationships with regard to the stability or instability of the volumes of business involved. Ten dyadic cases, suggested by three major Portuguese banks as representative, where studied. Only one of the ten relationships was found to be unstable but its specificities made it an exception. All others were found to be stable for long periods of time. For horizons of less than one year, some relationships showed short duration irregularities or “noise”. Ten factors were found that might induce such “noise”, which were classified into fours groups, according to their origin: internal to the client, internal to the bank, transaction specific, and exogenous to the relationship.

The groups of relationships found stable (perfectly stable, nearly stable, and stable but stressed) were compared for their atmospheres, bonds and the existence (or not) of connected bank relationships. No conclusions could be drawn for atmosphere, as the data was invariant across the groups. However, it was found that bonds between clients and banks and connected relationships may contribute to the stability of relationships.

This study despite being “in depth”, was exploratory in nature. Its conclusions should be qualified, given the limitations of the sample, the methodology and the analyses. Nevertheless its conclusions should be helpful as a starting point for more extensive, survey based, studies. In the mean time, they may invite corporate financial managers, bank mangers and account managers to reassess policies and circumstances impinging on relationships, e.g. contact personnel policies, bargaining styles, the existing bonds of various natures, cross-selling (connected relationships), on how they affect their firm/bank relationships?

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