BANK STRATEGIES FOR THE CORPORATE MARKET:
EUROPEAN CUSTOMERS' CRITERIA FOR CHOICE OF
DOMESTIC CASH MANAGEMENT BANKS

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DENMARK

ABSTRACT

This article provides evidence of the criteria for choice of domestic cash management banks adopted by large European firms. A questionnaire completed by 1129 corporate customers from 20 European countries indicates that service quality is the most important criterion for choice of domestic cash management bank followed by pricing and relationship. Based on the empirical findings the appropriateness of relationship-oriented and transaction-oriented bank strategies across Europe is discussed.

1 Thanks to the participants in a seminar at Department of Management, University of Aarhus for helpful comments on a previous version of this paper. We gratefully acknowledge the research assistance of Henrik Antvor and Boel Christensen.
1. INTRODUCTION

At present most European banks can be considered domestic banks, i.e. operating in one country only. However, for a number of banks this is changing. The integration of Europe makes the borders less important, and both firms and consumers are becoming more internationally oriented. This is e.g. manifested through more international trade and an increasing use of airline transport. Further, the European banking sector is becoming more concentrated. Through mergers and acquisitions banks are expanding, and they establish branches throughout Europe. The result is that the banks need to consider not only their home country as a market but the whole of Europe as the potential market.

For the banks that plan to expand across borders or are already present in several European countries an important question arises: Are the European corporate customers all alike or do they differ from country to country? It is crucial to know which criteria are important to the corporate customers to be able to focus the marketing strategy on the appropriate customers, and for the banks operating in several European countries it is just as important to know whether the corporate customers have the same needs and wants in all countries and thus whether the chosen marketing strategy is applicable in all countries.

This paper aims at answering the basic question: What are the appropriate marketing strategies for banks offering cash management services to the largest European firms? The paper is based on a survey among the largest firms in 20 European countries. A similar survey conducted in 1994 was reported by Middleton and de Caux (1995), but with fewer observations and without an analysis of the strategic implications for the banks.

In section 2 the marketing theories related to corporate customers’ criteria for choice of suppliers are shortly reviewed, followed in section 3 by an outline of four types of bank strategies: a relationship-oriented strategy, a transaction-oriented strategy, a focused strategy and a dual strategy. In section 4 the data are described. Finally, based on the survey, a description and an analysis are made in sections 5 and 6 of the corporate customers’ criteria for choice of domestic cash management banks and the variation in these criteria between the different European countries, and the implications for the banks’ choice of marketing strategy are discussed in section 7.
2. CUSTOMER'S CRITERIA

Customers' criteria for choice of products and firms can be discussed from different perspectives (cf. Kotler, 1997). The classical starting point is the marketing mix approach, popularized in McCarthy's (1960) four P's: place, price, product and promotion. However, the marketing mix does not represent the customers’ expression of their preferences and trade-offs, but they are so closely related that it can be argued that the corporate customers are able to express their needs and costs in terms of the marketing mix. Also buying behaviour models give hints to what might influence the choice of specific products or business partners (e.g. Robinson, Faris and Wind, 1967; Webster and Wind, 1972).

While both the marketing mix theory and the buying behaviour models use stimuli-response or stimuli-organism-response explanations, dyadic theories take a starting point in the relationship and the interaction between two or more parties. Evans (1963) is probably the first researcher that explicitly suggests that the unit of analysis should be the interactive dyad. Later Bagozzi (1975) and Hakansson and Ostberg (1975) adopt a dyadic approach and starts building the first interaction models, among which are the IMP-group’s interaction model (Hakansson, 1982), and more specifically for the banking sector, Moriarty, Kimball and Gay’s (1983) contribution to relationship banking.

3. BANK STRATEGIES

Following the IMP-studies (see Hakansson, 1982) the distinction between discrete transactions and collaborative relationships has been used to formulate marketing strategies (e.g. Gronross, 1990; Keltner and Finegold, 1996). Focusing on corporate banking relationships, Moriarty et al. (1983) argued that whether customers’ are transaction-oriented, i.e. emphasizing price and quality, or relationship-oriented emphasizing long-term, trusting win-win relationships have implications for a bank’s strategic product decisions.
3.1. Relationship-Oriented Strategies

Moriarty et al. (1983, p. 4) describes relationship banking as “a recognition that the bank can increase its earnings by maximizing the profitability of the total customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction”. Key elements in a relationship-oriented strategy are cross-selling to the corporate customers on a recurring basis, interdependence between the bank and its customers, and relationships based on “mutual trust and openness, shared objectives, and a commitment to doing business with each other on a long-term basis” (Moriarty et al. 1983, p. 4). These relationships are often characterized by a complex pattern of interaction between the members of the two organizations and bonds of different types and strengths, i.e. economic, informational, organizational knowledge, technical and social bonds (e.g. Proenca and Castro, 1995; Thunman, 1992). The advantages of emphasizing relationships are that through routinization, uncertainty is reduced and costs are lowered, and through an open exchange of information joint problem solving is facilitated.

A relationship-oriented strategy is, however, a resource demanding strategy that requires the patience to establish and build the trust and closeness needed. Further, not all customers are likely to favor relationship banking. Customers using pricing as the main criterion in the selection of banks and customers who do not value relationships at all are likely to be disloyal and willing to exploit temporary conditions giving an advantage. The customers desirable for a relationship-oriented strategy are those who value relationship banking and have an institutional memory that gives them a long-term view of the relationship. Having established a relationship with these firms they are likely to be less price sensitive (Thunman, 1992) and thus constitute a stable customer segment that will be difficult for competitors to capture (Gronross, 1990, p. 148)

3.2. Transaction-Oriented Strategies

A transaction-oriented strategy in its stylized version regards each transaction as independent and perceives the customer as reacting to stimuli such as price and quality of the offering. The
strategy does not value long-term relationships in themselves, but rather regards them as a manifestation of a bank's ability to continuously offer better quality products or services at lower costs than competing banks. Thus, customers matching a transaction-oriented strategy are price/quality sensitive and non-loyal (e.g. Gronross, 1990). They do business with the bank which at present offers the best product in cost-quality terms.

Transaction-oriented strategies have a number of advantages. If a major share of the customers emphasize price and quality as the most important criteria in selecting cash management banks and if the bank is in a position where it is able to offer its customers quality products at low cost, it will gain a large market share. The strategy is not vulnerable with respect to customers with a short memory, and on a short-term basis it is easy to use price as the primary marketing tool. However, it is not a strategy that generates loyal customers and therefore transaction-oriented banks are vulnerable to competing banks.

3.3. Focused and Dual Strategies

Banks adopting focused strategies aim at serving certain customer segments. Generally this type of strategy may apply to smaller banks that lack resources to pursue a strategy aimed at all corporate customers. Customers that emphasize criteria such as domestic branch network, technology and level of commitment to their business, are likely to be customers that appreciate and value a focused strategy.

It is further useful to distinguish between transaction-oriented and relationship-oriented focus strategies. Moriarty et al. (1983, p. 10) suggest that because middle market customers have simpler product needs than larger customers, smaller banks may be able to apply a relationship-oriented strategy to this segment. The focused transaction-oriented approach is more vulnerable to larger banks with specific competences related to product development, distribution, technology etc. entering the market of the focused bank. These larger banks can utilize scale and scope economies and market superior price/quality offers. Therefore a focused transaction-oriented strategy may be an extremely dangerous strategy to pursue for a smaller bank which lack the volume over which to spread the product development costs.

The dual strategy emphasizes a relationship based approach to some of the customers,
while the rest is served on a transaction basis (Moriarty et al., 1983). This may be a necessary strategy if a bank wants a significant market share in a certain region and a large part of the customers are using either relationship, pricing or service quality as their most important criterion for selection of bank. The success of such a strategy will depend on the presence of competences that can favorably be used for different products and customer types. A dual strategy is also relevant as a transitory strategy for a bank changing between a transaction-oriented strategy and a relationship-oriented strategy.

4. THE DATA

A survey was conducted focusing on cash management organization and structure, the methods used for payments, collections and liquidity management, and the specific character of the domestic and pan-European cash management practices in large European firms. The questionnaire was constructed on the basis of previous experience with a similar study in 1994 and sent to 5783 firms representing the largest firms (measured by sales for non-financial companies and assets for non-bank financial companies) in 20 European countries. 1129 partially or fully answered questionnaires, corresponding to a 19.5 percent response rate, were returned. The distribution of respondents by annual worldwide sales is shown in table 1.

<table>
<thead>
<tr>
<th>World-wide sales</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100</td>
<td>116</td>
<td>12.1</td>
</tr>
<tr>
<td>101 to 500</td>
<td>144</td>
<td>15.0</td>
</tr>
<tr>
<td>501 to 1,000</td>
<td>109</td>
<td>11.4</td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td>130</td>
<td>13.6</td>
</tr>
<tr>
<td>2,001 to 5,000</td>
<td>162</td>
<td>16.9</td>
</tr>
<tr>
<td>5,001 to 10,000</td>
<td>101</td>
<td>10.5</td>
</tr>
<tr>
<td>Over 10,000</td>
<td>196</td>
<td>20.5</td>
</tr>
<tr>
<td>Total</td>
<td>958</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Frequency missing = 171

Table 1 - Size of companies in the survey: Annual world-wide sales of the company group in million US$
The survey was undertaken in each country by a local business school or university\(^2\) bringing into the study knowledge of the local banking practice as well as improved access to the firms in their countries. The questionnaire was under cover of a personal letter from the appropriate school addressed to the most appropriate person identified in the firm. In some of the countries the questionnaire was translated into the respective languages, but the questions were the same in every country. Sending out the questionnaire to the recipients were followed up with a telephone chase for its completion and return.

The question in figure 1 was asked regarding domestic bank cash management services.

<table>
<thead>
<tr>
<th>( ) Relationship</th>
<th>( ) Domestic branch network</th>
</tr>
</thead>
<tbody>
<tr>
<td>( ) Pricing</td>
<td>( ) Reputation for cash management</td>
</tr>
<tr>
<td>( ) Service quality</td>
<td>( ) Level of commitment to your business</td>
</tr>
<tr>
<td>( ) Bank ratings</td>
<td>( ) To compensate for other services (e.g. provision of credit)</td>
</tr>
<tr>
<td>( ) Technology</td>
<td>( ) Other (please state) ___________________</td>
</tr>
</tbody>
</table>

**Figure 1 - Question**

The question forces the respondents to rank their criteria. However, this might misrepresent the true weight assigned to the criteria, since a number of criteria might be equally important or unimportant. The advantage is that the respondents have to consider all possible criteria instead of answering that all prespecified criteria are highly important.

5. RESULTS AND DISCUSSION

In table 2 the ranking of criteria done by the respondents are reported. All codings were done strictly in accordance with the answers provided by the respondents, which explains the larger number of 1st ranks than 5th ranks. The results are consistent with results from the study

\(^2\) The list of schools and sponsors are available from the authors. The survey was administered by The Bank Relationship Consultancy and University of Bath.
conducted in 1994, where service quality, pricing and relationship were the first, second and third most important reason for allocating business between domestic cash management banks (Middleton and de Caux, 1995). This can be taken as an indication of reliability, and also that these criteria will continue to be important at least in the near future.

<table>
<thead>
<tr>
<th>Rank:</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Not ranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship</td>
<td>23.2%</td>
<td>14.3%</td>
<td>17.5%</td>
<td>15.6%</td>
<td>10.6%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Pricing</td>
<td>29.8%</td>
<td>26.2%</td>
<td>17.2%</td>
<td>10.5%</td>
<td>4.5%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Service quality</td>
<td>31.7%</td>
<td>26.5%</td>
<td>16.1%</td>
<td>9.2%</td>
<td>5.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Bank ratings</td>
<td>7.9%</td>
<td>6.8%</td>
<td>6.0%</td>
<td>8.1%</td>
<td>14.8%</td>
<td>56.3%</td>
</tr>
<tr>
<td>Technology</td>
<td>3.7%</td>
<td>6.9%</td>
<td>15.2%</td>
<td>15.2%</td>
<td>15.8%</td>
<td>43.1%</td>
</tr>
<tr>
<td>Domestic branch network</td>
<td>6.7%</td>
<td>8.9%</td>
<td>9.1%</td>
<td>9.4%</td>
<td>9.0%</td>
<td>56.8%</td>
</tr>
<tr>
<td>Reputation for cash management</td>
<td>3.8%</td>
<td>5.5%</td>
<td>7.5%</td>
<td>5.9%</td>
<td>4.7%</td>
<td>72.5%</td>
</tr>
<tr>
<td>Level of commitment to your business</td>
<td>11.3%</td>
<td>9.8%</td>
<td>9.7%</td>
<td>12.3%</td>
<td>11.2%</td>
<td>45.9%</td>
</tr>
<tr>
<td>To compensate for other services</td>
<td>5.5%</td>
<td>6.9%</td>
<td>5.7%</td>
<td>8.8%</td>
<td>6.6%</td>
<td>66.6%</td>
</tr>
<tr>
<td>Total frequency</td>
<td>1396</td>
<td>1263</td>
<td>1175</td>
<td>1071</td>
<td>938</td>
<td>4338</td>
</tr>
</tbody>
</table>

Note: 1=most important criteria down to 5=5th most important. Number of observations = 1129.

Table 2 - Criteria for choice of domestic cash management banks

5.1. Relationship

The ranking of relationship is the direct measure of the value attributed to the idea of relationship marketing (cf. section 3.1), and it is ranked most important by 23.2% of the respondents only surpassed by service quality and pricing. As this survey involves the largest firms in Europe, the respondents probably account for a disproportionate large share of the banks' sales of specific products. Therefore continuity and stability in the relationships are wanted by the banks. 81.2% of the customers rank relationship among the five most important criteria indicating that the majority of customers to some degree share these wants. This provides a first indication that a relationship-oriented strategy will be viable for several cash management banks operating in Europe.
5.2. Pricing

Pricing is directly related to the other elements in the marketing mix and is especially important when products are highly comparable. The survey showed that on average, the price was the second most important criterion used by the European corporate customers in their choice of domestic cash management bank.

It is noteworthy that price is a relatively important criterion for the customers, considering the emphasis that has been placed on relationship banking (e.g. Gronross, 1990), and considering earlier studies indicating that price is not as important as reliability, prompt decisions, willingness to lend, simplicity of loan agreements and reputation (Turnbull, 1982a, p. 118). Moriarty et al. (1983) suggest that such a finding may be due to fierce competition between the banks, large and financially strong firms with a low need for credit, a preference for performing functions internally and a high turnover of financial officers. In addition, Turnbull (1982a) indicates that the importance of pricing increases as the service becomes more expensive (see also Biong et al., 1996; Perrien et al., 1993).

5.3. Service Quality

Following Lewis and Booms (1983) service quality can be defined as “a measure of how well the service level delivered matches customer expectations”. Considering the correlation between price and quality, and the multi-dimensionality of the theoretical construct "service quality" (cf. Zeithaml et al., 1988), it is not surprising that service quality came out as the most important criterion. In this respect, the results are in accordance with Turnbull (1982a), who reported that reliability, prompt decisions and willingness to lend are the three most important criteria used by medium- and large-sized UK firms for evaluating banks. The results are also in accordance with a study of 30 British firms’ use of foreign banks by Turnbull (1982b), who found that quality of services was the most important selection criterion. This indicates that banks that do not offer a minimum of acceptable service will not be able to compete as low cost producers, and a close relationship with the customers will not continue since customer satisfaction drives loyalty (cf. Jones and Sasser, 1995) and customer satisfaction is related to
quality issues.

5.4. Bank Ratings

Bank ratings, i.e. credit ratings, can be regarded as explicit measures of reputations or as measures of the risk connected with using a bank. This is probably only an important criterion if the corporate customers fear that their bank will fail. The survey shows that bank ratings are approximately the 6th most important criterion. This indicates that most banks used for domestic cash management in Europe are regarded as financially solid.

5.5. Technology

Moriarty et al. (1983) argued that complex cash management systems linked by electronic means of communication made it an advantage to only have a few banks carrying out these activities for the firm. Technologies could be specific either to the relationship, i.e. when the bank and the customer both invest in relationship specific assets, or a technology could be part of the bank's marketing mix, i.e. when the bank offers valued products that are not readily available from other sources. The low rank attributed to technology as a criterion for choice of cash management banks indicates that no bank has been able to develop a significant technology-based advantage. Rather it is a sign of the application of standard systems or standard functionality for cash management.

5.6. Domestic Branch Network

In traditional distribution literature (cf. Stern et al., 1996) branch networks is related to factors such as delivery time, transaction amount, and market decentralization and thus influencing the service level. However, with the emergence of effective global information systems delivery time, transaction amount and market decentralization become increasingly independent of the number of branches a bank has established. For an example of a computerized cash management system, see Holland et al. (1994). Thus, as the technology progresses and the
customers become used to long-distance relationships the size of the domestic branch network becomes unimportant, and therefore it is not surprising that domestic branch network is the least important of the nine criteria.

The domestic branch network was ranked most important by only 7% of the respondents, and was not ranked at all by 57% of the respondents. This indicates that only a small percentage of customers choose cash management banks because of their local branch network. Hence, banks specializing in cash management services need not establish a branch network and accordingly need not rely on cross-selling of products in order to finance branches. This makes entry of cash management banks into new geographical areas more easy.

5.7. Reputation for Cash Management

Reputation is an important intangible asset possessed by banks. Often reputation is cited as a reason for a bank to expand across national borders (cf. Heffernan, 1996) exploiting expertise in cash management and various other banking services. Further, reputation can be seen as a method of dealing with quality issues for example, where it is difficult for customers to obtain independent information. Turnbull (1982a) found evidence that reputation was more important than price as a criterion for evaluating banks, and Granovetter (1985) argued that buyers prefer to do business with sellers with a good reputation, but most preferred, though, is the buyers’ own experience with the sellers. Thus a good reputation for cash management is likely to be very important for those customers which have no or only limited own experience with the different cash management banks.

The firms surveyed are large and likely to have years of experience with their existing cash management banks. This might explain why reputation for cash management is one of the least important choice criteria. Alternatively, insignificant differences in the reputation of several banks might have induced the respondents to rank it low.

5.8. Level of Commitment to a Company’s Business

The level of commitment a bank has to a company’s business can be viewed as an insurance
for the customer that the bank will try to deliver the best customized products not only now but also in the future. This is important when the investments made by the buyers in the cash management system in terms of hardware, software, time etc. are relationship specific, i.e. without value or with significantly lower value when the relationship is terminated. In such cases a high level of commitment to the company’s business is a safeguard that the bank seeks to provide an ongoing stream of suitable services. Further, banks pursuing a relationship-oriented strategy, can be expected to show a high level of commitment to the company’s business. This makes a high ranking of commitment an indication that banks are actually pursuing a relationship-oriented strategy (for a discussion of commitment see e.g. Wilson and Mummalaneni, 1986). The survey showed that on average, the level of commitment to the customers’ business is the 4th most important criterion for choice of cash management banks.

5.9. To Compensate for Other Services

The last pre-specified criterion was whether a firm’s cash management bank was chosen in order to compensate for other services from that bank, e.g. provision of credit. This criterion can be regarded as a manifestation of for example the banks’ power. The survey showed that some firms used this as an important criterion, which could indicate that some firms regard domestic cash management as less important than other bank services.

6. NATIONAL DIFFERENCES

Based on the aggregate data for Europe, a number of alternative interpretations are possible, cf. section 6. In order to obtain a more detailed understanding of the choice criteria and draw implications for marketing strategies across Europe, the national average rankings were examined\(^3\). To assure comparability, questions that were not answered strictly in accordance to the directions in the questionnaire were deleted. This reduced the number of usable question-

\(^3\) A chi-square test rejected the hypothesis that country and ranking were independent (p < 0.001) for the criteria: 'relationship', 'pricing', 'service quality', 'bank ratings', 'domestic branch network' and 'to compensate for other services'. This is a strong indication of important national differences in corporate customers' criteria for choice of cash management banks in Europe.
naires from 1129 to 706 (cf. table 2 and table 3)

<table>
<thead>
<tr>
<th>N</th>
<th>Country</th>
<th>Relation­ship</th>
<th>Pricing</th>
<th>Service quality</th>
<th>Bank ratings</th>
<th>Technology</th>
<th>Domestic branch network</th>
<th>Reputation in c.m.</th>
<th>Level of commit­ment</th>
<th>As com­pen­sation</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Austria</td>
<td>3.9</td>
<td>1.7</td>
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<td>4.8</td>
<td>5.0</td>
<td>5.6</td>
<td>3.8</td>
<td>5.2</td>
</tr>
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<td>68</td>
<td>Belgium</td>
<td>3.3</td>
<td>2.4</td>
<td>2.6</td>
<td>4.7</td>
<td>4.8</td>
<td>5.3</td>
<td>5.7</td>
<td>4.8</td>
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</tr>
<tr>
<td>45</td>
<td>Czech Republic</td>
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<td>4.2</td>
<td>2.0</td>
<td>4.3</td>
<td>5.4</td>
<td>4.8</td>
<td>5.6</td>
<td>5.3</td>
<td>5.1</td>
</tr>
<tr>
<td>28</td>
<td>Denmark</td>
<td>3.6</td>
<td>2.0</td>
<td>2.5</td>
<td>4.6</td>
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<td>5.9</td>
<td>4.6</td>
<td>5.5</td>
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<td>2.8</td>
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<td>5.8</td>
<td>4.7</td>
<td>5.0</td>
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<td>5.2</td>
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<td>5.7</td>
<td>4.4</td>
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</tr>
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<td>5.8</td>
<td>4.3</td>
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</tr>
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<td>3.0</td>
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<td>5.5</td>
<td>6.0</td>
<td>6.0</td>
<td>4.0</td>
<td>4.5</td>
</tr>
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<td>27</td>
<td>Netherlands</td>
<td>3.1</td>
<td>2.1</td>
<td>2.4</td>
<td>4.9</td>
<td>5.0</td>
<td>5.6</td>
<td>5.7</td>
<td>4.9</td>
<td>5.4</td>
</tr>
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<td>2.1</td>
<td>3.1</td>
<td>5.2</td>
<td>3.8</td>
<td>5.4</td>
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<td>4.9</td>
<td>5.9</td>
</tr>
<tr>
<td>7</td>
<td>Poland</td>
<td>4.7</td>
<td>4.3</td>
<td>1.6</td>
<td>3.3</td>
<td>5.3</td>
<td>4.4</td>
<td>5.4</td>
<td>4.9</td>
<td>5.1</td>
</tr>
<tr>
<td>22</td>
<td>Portugal</td>
<td>3.4</td>
<td>2.0</td>
<td>2.3</td>
<td>5.1</td>
<td>4.4</td>
<td>5.4</td>
<td>5.9</td>
<td>4.9</td>
<td>5.6</td>
</tr>
<tr>
<td>41</td>
<td>Spain</td>
<td>4.2</td>
<td>2.6</td>
<td>2.5</td>
<td>5.5</td>
<td>4.8</td>
<td>4.5</td>
<td>6.0</td>
<td>4.3</td>
<td>4.8</td>
</tr>
<tr>
<td>33</td>
<td>Sweden</td>
<td>3.6</td>
<td>2.4</td>
<td>2.2</td>
<td>5.3</td>
<td>4.5</td>
<td>5.3</td>
<td>5.8</td>
<td>4.5</td>
<td>5.3</td>
</tr>
<tr>
<td>16</td>
<td>Switzerland</td>
<td>3.6</td>
<td>1.9</td>
<td>1.8</td>
<td>5.4</td>
<td>4.9</td>
<td>4.9</td>
<td>6.0</td>
<td>4.7</td>
<td>5.7</td>
</tr>
<tr>
<td>115</td>
<td>UK</td>
<td>2.6</td>
<td>2.5</td>
<td>2.5</td>
<td>5.2</td>
<td>4.9</td>
<td>5.2</td>
<td>5.6</td>
<td>4.8</td>
<td>5.7</td>
</tr>
<tr>
<td>706</td>
<td>Total Europe</td>
<td>3.3</td>
<td>2.6</td>
<td>2.6</td>
<td>5.0</td>
<td>4.8</td>
<td>5.1</td>
<td>5.7</td>
<td>4.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Note: N = number of observations. The rest of the numbers are the average ranking of criteria for choice of domestic cash management within specific countries. Non-ranking was coded 6.0, and therefore the scale goes from 1.0 = most important criteria down to 6.0 = least important.

Table 3 - Criteria for choice of domestic cash management banks by country

With the exception of Hungary, service quality is in every country either the first or second most important criterion when choosing a domestic cash management bank. Only a few regional differences are noteworthy. In Switzerland (1.8) and in Poland (1.6) service quality
Average ranking of pricing cf. Table 3

Figure 2 - Average ranking of pricing

seems to be especially important to the corporate customers, while it is less important in Austria (3.2) and Hungary (5.4). Major differences in the service quality are likely to draw attention to this topic especially if a number of banks offer an unacceptable low service quality. This might also be the result if the banks are heavily emphasizing service quality in their promotion. Where service quality is rated less important this might be the result of all banks offering the same service quality.

Pricing is on average rated as a very important criterion in a coherent area covering most of the Benelux region, West Scandinavia, Austria, Germany, and Switzerland (see figure 2). This indicates that some price competition is taking place and that several banks are offering cash management services of an acceptable quality. Pricing is less important in the Eastern European countries, which indicates that only few banks are offering cash management services of an acceptable quality, and that their customers regard cash management services as less important. This is supported by the result that in the three Eastern European countries cash management services are more important as compensation for other services than in most other European countries surveyed.

Relationship is an important criterion in the Czech Republic, Finland, and the UK and rather unimportant in Germany, Hungary, Italy, Poland and Spain (see figure 3). No obvious explanation for this result appeared from our study.
In nearly all countries the banks' domestic branch network is relatively unimportant. Yet, in countries like Denmark (5.6), Luxembourg (6.0) and the Netherlands (5.6) the domestic branch network is less important than in countries like Italy (4.2), Spain (4.5) and Poland (4.4). A possible reason for this could be the relative size of the countries. The first three countries are relatively small measured by square miles while the last three are among the largest countries in Europe. No matter where you are in the small countries, it is a relatively short way, both measured in distance and time, to a centrally situated bank and therefore there is less need for a dense branch network. In the larger countries it is not necessarily so. Moreover, if personal contact between the bank and its corporate customers matters, then the branch network will be more important in the larger countries than in the smaller ones.

The results for Eastern Europe are somewhat different from the rest of Europe. In Hungary service quality was rated among the least important criteria (5.4), while bank ratings were the most important criterion (1.8). Also in Poland (3.3) and in the Czech Republic (4.3), bank ratings were ranked more important than in the other European countries, which indicates a lower confidence in the banking system in these Eastern European countries.

Countries with very large firms such as Germany, France, and the UK do not seem to systematically place any different weights on the criteria used for choice of cash management.
banks than countries with firms of smaller average size such as Denmark, and Finland. A high
degree of similarity is also recorded for criteria like ‘technology’, ‘level of commitment to your
business’ and ‘reputation in cash management’, which is ranked low in all countries, e.g. from
5.1 in Germany to 6.0 in Spain for ‘reputation in cash management’. Overall, the results in table
3 are perhaps most remarkable because of the high degree of similarity between the twenty
different countries. Hence the results are rather a manifestation of similarity and homogeneity
than of diversity and heterogeneity.

7. CONCLUDING REMARKS

In all European countries, with the exception of the three East European countries, both price
and service quality are ranked high. This could suggest that a transaction-oriented strategy are
appropriate for most banks as this emphasizes the offering of low priced, high quality bank
services, which appeal to most large corporate customers. In countries where relationship is
ranked important, a relationship-oriented strategy might be relatively more appropriate. More
focused strategies seem appropriate in for example Norway, where technology is ranked as
relatively important, or for example Austria where the level of commitment to the customers’
business is ranked more important than in the other countries. Dual strategies seem necessary
for banks aiming at a high market share no matter which countries they operate in.

Alternatively, the results might be seen as depicting present bank strategies. Thus, the
results indicate that in most European countries most banks are pursuing a transaction-oriented
strategy, competing on price and quality, while fewer banks have successfully implemented
relationship banking. This interpretation is in accordance with Keltner and Finegold (1996),
who state that “[i]n practice ... most banks continue to focus on reducing labor costs and
competing on price”, and with Turnbull and Gibbs (1987, p. 19), who conclude that
“[r]elationship banking is a strategy requiring great patience and a substantial investment of
resources before it begins to give returns. Perhaps this explains why, despite bankers’ intuitive

4 This result is also corroborated by a chi-square test (p < 0.001), which could not reject the
hypothesis that the ranking of each of the nine criteria are independent of the size of the company groups’
world-wide sales and the companies’ home country sales.
understanding of the dynamics of banking relationships, very few banks have been able to implement an effective relationship-banking strategy”. The survey results suggest that there is plenty of business for banks implementing a relationship-oriented strategy, especially in countries like Germany, Italy and Poland. In the UK, the Czech Republic and Finland corporate customers are at present ranking relationships relatively high, and therefore it might be too late for banks presently using a transaction-oriented strategy to convert to a relationship-oriented strategy in these countries, simply because the corporate customers valuing relationships have already established such ties with their main domestic cash management banks.

Assuming the European corporate customers’ criteria for choice of cash management banks can be taken for granted, at least in the short-term, the survey can be used by banks considering entering one or more European countries. For example, in Austria pricing will be important in gaining corporate customers, in Poland offering an acceptable service quality will be important, in Finland building relationships will be relatively important, in Hungary good bank ratings will be useful in attracting new corporate customers etc.

However, in the long-term the European corporate customers’ criteria for choice of cash management banks can not be taken for granted. Thus, the results may be less useful for decisions regarding the distant future, because the rankings are not only a result of the needs and wants identified by the customers but also a result of the present bank strategies and the present cash management services offered by the banks.

There are several limits to the study. No formal tests of reliability, validity and non-response bias are provided. The 19.5 percent response rate indicates that non-response bias might be a problem, and the measures used can only be supported by face validity and even then problems arise because of the limited number of items used. For example service quality is only represented by a single item, though it is a multi-dimensional construct (cf. Parasuraman et al., 1985). Also the study distinguishes between a relationship-oriented and a transaction-oriented strategy, but no formal statistical analysis of the data is done to support this.

Thus, important tasks for future research are the use of more prespecified criteria, better measurements, i.e. more items, and the development of a stronger statistical analysis, for example a factor analysis to distinguish between relationship-oriented and transaction-oriented groups of buyers and sellers.
REFERENCES


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