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BANK LOYALTY OF BUSINESS CUSTOMERS IN THE BALTIC STATES

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ABSTRACT

Bank loyalty has been studied quite comprehensively among retail customers, but not very often with a focus on business customers. Insecure atmosphere in the global economy and bank market emphasizes the importance of knowing why business customers choose to be loyal to their business banks. It is essential for banks to hold on to their customers in every situation, but losing customers during the current financial crises can be decisive for any bank's future.

The main objective of this thesis was to form a bank loyalty model, which would consider national differences and point out the most important reasons for bank loyalty in chosen target group. The model was tested with small and medium size enterprises in the Baltic States, more specifically in Estonia and Lithuania. This target group was selected because of the large number of such companies in the Baltic States, which have not been a target for previous bank loyalty studies. Last of the objectives was to measure the level of bank loyalty and to describe bank - client relationships of the target group. These countries experienced market liberalization during the 1990's, and it was possible to see how actively companies are changing banks at the moment. Empirical part of the thesis was quantitative, as the data was gathered with an electronic questionnaire which was sent to company managers in Estonia and Lithuania by e-mail.

Results of the study indicate that loyalty is formed in several areas of the banks complete offering. Trust, satisfaction, functional service quality, commitment and technical service quality were main sources of bank loyalty according to responses of 150 company managers. Companies have long main bank relationships and they have not changed their main business bank actively, but changing the bank now is more likely than before. Most companies prefer a long relationship with one bank, however bank services could be concentrated more to the main bank. Currently bank services are acquired from many service providers.

KEYWORDS: business banking, small and medium enterprises, bank loyalty, service quality, relationship management

1. INTRODUCTION

In this first chapter, the overall view of the study is presented by introducing the topic and the structure of this study. It also covers the objectives and limitations the study faces.

1.1. Introduction to the topic

Traditionally banks have had control over the bank – customer relationship. Some decades ago people went to their nearest bank with a humble request to get a loan and other services. They took what was offered to them, as simple as that. Nowadays customers are not that easy to get and maintain. Economic growth and increased competition between banks have switched the balance of power towards the customer. Customers have learned to look for the best offer, highest interest rate or lowest loan margin. Also the banks have a contributed to this behavior by focusing on customer acquisition rather than on customer retention. (Market Watch: Financial Services 2004)

A recent study in Austria showed that 80% of retail customers are prepared to switch to a new financial service provider (Taylor 2007). This indicates that customers will not stick to one bank for their whole life. Even though corporate customers are generally thought to be more passive with changing of their financial service providers, similar results were found in a study of Norwegian corporate customers. The study of Steven Ongena and Daviv C. Smith claims that firms become more likely to end a bank relationship as the relationship matures. Firms tend to switch from small banks to larger banks, and maintain the longest relationships with Norway's two largest banks. According to their results, firms terminate relationships as they outgrow their banks. (Ongena & Smith 2001.)

When Baltic States became part of the European Union on May 1st 2004, many European companies turned their attention to these three small countries. For European companies, membership of Estonia, Latvia and Lithuania meant easier acquisitions, less paperwork and risks in these countries (Vaalisto 2004). Investments started flowing and gave a start for a significant growth in all countries economies. On the other hand, EU membership opened doors for domestic companies to export and expand their business to other EU countries. International banking had grown steadily already from the 1960s due to increasing capital flows, foreign direct investments and international trade. International banks have been active in transition countries after significant market liberalization of CEECs (Central and Eastern European Countries) in the beginning of the 1990s. This was especially true for the European Union candidate countries that were subjected to deregulation and liberation over the last decade. The elimination of entry barriers has lead to the situation where many of CEEC's foreign banks control 60–80 % of the banking market. (Uiboupin 2005:3)

As was already pointed out, changing a bank is getting more and more common and therefore it is interesting to find out what things make bank-client relationship stronger. Business customers can be thought to be less emotional in their decisions than private customers and it will be seen what kind of things make them loyal to their banks. The market in the Baltic States was liberalized two decades ago and now it is possible to see how actively companies are using the freedom of selecting the best possible bank for them. Current financial turbulence and uncertainty makes the situation in the Baltic States even more interesting. The first Baltic bank to fall was Parex, which was bought by the state of Latvia. In that case, customers started suddenly withdraw their assets from the bank, which resulted in intervention of the state of Latvia (Sahiluoma 2008). Bank loyalty is a topic that requires bank manager's attention, since disloyal behavior can lead to very serious consequences for banks.

1.2. The objectives and limitations of the study

This study will look into the business banking markets of the Baltic States. Bank loyalty of small and medium size companies will be analyzed. Firstly, a theoretical model of possible promoters of bank loyalty will be formed. In order to do that, loyalty and especially business to business loyalty motivators have to be discussed. Then the so formed model will be tested with a chosen target group. As the interest of this research is in the bank loyalty of Baltic business customers, an international point of view is added in the model. This means that the model will be a suitable platform not only to bank loyalty studies in the Baltic States, but also in other parts of the world. Empirical part of the study can be described as preliminary research on bank loyalty motivators, because its aim is to give indications about what might be the most important loyalty motivators of business customers. Empirical part also analyzes the current level of bank loyalty and describes bank – client relationships of the target group. In short, the main objective of the study is to *analyze business customer's bank loyalty*.

This objective is approached by three sub objectives. First of them is the theoretical objective of the thesis:

- **Form a model of factors promoting business customers' bank loyalty (from an international perspective)**

Empirical objectives of the study are to:

- **Test the model empirically**
- **Analyze business customer's bank loyalty and describe bank relationships in the Baltic States**

When these objectives are met, the reader will find out what loyalty in business to business banking is and how it can be developed. This understanding is essential in order to be able to tackle the question of bank loyalty promoters. After discussion of bank loyalty, formation of the theoretical framework and bank loyalty model enable reader to understand the multiple sources of bank loyalty. As the study focuses on the Baltic States, an international aspect is included in the model. It considers national differences and their possible effect to bank loyalty. Testing of the theoretical model will point out in detail which parts of their offering generate loyalty among business customers. Finally, this study will analyze the level of bank loyalty among Baltic SMEs and also describe the relationships they have with their banks. This information reveals what kind of commitment Baltic companies have to their banks and how likely it is for them to change bank at the moment.

The ideal target of the study would be the whole Baltic region including all of its companies. However, due to limited resources some limitations had to be done. The empirical study will concentrate on small- and medium size companies in Estonia and Lithuania. Originally the research was meant to cover all three Baltic States including Latvia, but the co-operating bank was not able to provide necessary data (contact information) about Latvian companies. Therefore only Estonia and Lithuania are investigated in the empirical part of the study. As mentioned, the target group of this study are companies with turnover between 0,5 - 40 million Euros. This group was selected because there are plenty of companies of this size in the Baltic States. Bigger companies are relatively rare in the area, so they were left out as their number would not have been large enough to form a reliable sample. Smaller companies on the other hand do not require as many products and services from their banks and they were left out as well. Selected group is thus large in number and it is used to wide selection of bank services and products. In this study, small- and medium size companies in Estonia and Lithuania will be analyzed according to their nationality, industry and turnover. It will be seen if there are differences in bank loyalty and bank loyalty motivators between these groups.

Estonia and Lithuania are geographically the opposite ends of the Baltic States and as these two countries are included in the empirical study, the national differences are most likely to be seen. Chosen companies are situated all over Estonia and Lithuania, there is no regional focus within the countries. However, it is likely that most companies are located in the capital areas as they are the business centers of these two countries.

The study has its focus in investigating the promoters of bank loyalty. Factors that effect to bank loyalty in a negative way are not the essence of this study. It can be expected that all investigated elements have at least some level of positive effect to bank loyalty, but this study aims to point out which of them effect to it the most. Size, industry and location of the company are expected to have an influence to the variation of the results.

The question of bank loyalty has been studied rather comprehensively among retail customers. The Baltic States have also been a popular area of different types of investigations and studies thanks to their booming economies of the recent decade. However, there are only few studies about business customers' bank loyalty and none of them were conducted in the Baltic States. Therefore this study can be said to fill a research gap while it is still possible to take support from similar studies that were done in other parts of the world.

1.3. Literature review

The topic of the study, bank loyalty, leads to several areas of literature. Some of the keywords used in the theory gathering process were bank loyalty, relationship management, bank service quality, loyalty motivators and relationship quality. Literature was gathered from the library of the University of Vaasa as well as several electronic databases such as EBSCO and Emerald.

First of all the profitability of loyal customers is brought up by Reichheld & Sasser (1990). Loyalty is described by Oliver (1999); Hammond, East & Ehrenberg (1996) and

McMillan, Costley & Akoorie (2007). Zineldin's (1993) bank – client life cycle model is presented in this context as well.

Then, previous studies related to the topic of this research by Zineldin (1995); Nielsen, Terry and Trayler (1998); Ndubisi (2007); Veloutsou, Daskou S. and Daskou A. (2004); Lam & Burton (2006) and Reichheld and Sasser (1990) are discussed in order to understand what areas need to be discussed in this study.

Service marketing and service quality is defined by Grönroos (1981, 1991 & 2007) and Palmer (1994). After this, the unique aspects of banking as a service are presented by Zineldin (1992). Relationship marketing is first defined by Gummesson (2002) and then tools for analyzing relationship types and quality are presented by Peltoniemi (2004) and Ennew and Binks (1996). Again, the unique features of bank – client relationships compared to other businesses are brought up by Zineldin (1995).

As the study will cover three different nations, it is clear that some attention must be given also to the national differences between Estonia, Latvia and Lithuania. The most important macroeconomic factors that could affect to needs of bank – client interaction are collected from yearly report of International Monetary Fund. The market situation within the Baltic States is presented with the help of national bank associations' reports. National cultures and their affect to corporate decision making on the other hand is evaluated with the help of the Hofstede's (1991) national culture dimensions model, which is widely used method in analysis of culture's effect on behavior and expectations.

1.4. The structure of the study

The first chapter introduced the topic and the background of the study. It presents briefly the problematisation of this study to the reader. Also in this chapter, the objectives and limitations of the study were presented. In the latter part of the chapter there is a literature review and a description of the structure of the study.

The second chapter is about loyalty in business banking in general. First, small and medium size enterprises and their banking needs are presented to the reader. Then the idea of loyalty in business relationship is presented. Through some results of previous studies, nature of bank loyalty and factors that promote loyalty are discussed. This chapter is used to build a base for the theoretical framework of this study.

In the following chapter three, theoretical framework of the study is further developed. Service marketing and service marketing quality are defined in a general level. Then, the uniqueness of banking is discussed in relation to service marketing models. Chapter also defines relationship marketing and presents ways to analyze different types of relationships.

Chapter four aims to point out possible differences between Estonia, Latvia and Lithuania in cultural and economic context. Market situation of the Baltic banks and recent events in the banking sector are briefly presented to the reader. Eventually the framework of the study is presented in the fifth chapter along with the chosen methodology for the empirical part.

Chapter six concentrates on the empirical results of the study. Finally in the chapter seven, the conclusion and suggestions for further research are made.

2. LOYALTY IN BUSINESS BANKING

In this chapter, benefits of loyalty are explained and the term itself is defined more specifically in the context of business to business relationships. Next, SME banking is briefly described to the reader. After that, relevant factors related to bank loyalty are drawn together from previous studies. Studies of bank selection criteria, retail banking loyalty and business banking loyalty are used to find out what elements of bank offering are evaluated by clients. Finally, a recap of the findings from previous studies is presented in a form of a table.

2.1. Advantages of having loyal customers

In a highly competed business like banking, it is very important to be able to build long lasting relationships with customers. The cost of a customer acquisition is generally greater than the cost of customer retention. This applies especially in the service sector. As the lengths of customer relationships grow, so does the profit of the service provider. According to the experience of Reichheld and Sasser, customers become more profitable over time as described in Figure 1. (Reichheld & Sasser 1990.)

Their claim is based on the relatively high cost of acquiring a new customer versus the profits of a long lasting loyal customer. For each new customer it is possible to calculate a share of advertising and promotion costs which results in a negative profit. In the first year, the customer is usually using the service rarely and is providing the company with basic profit. If the customer keeps using the service in following years, the economics improve significantly. As the customer becomes accustomed to using the service and is satisfied with it, he uses it more and balances grow. In the following year profits grow because of reduced operating costs and better knowledge of customers needs. (Reichheld & Sasser 1990: 106-108.)

Profits rise also because of the free advertising the long term customers provide. Finally, as the relationship grows stronger, the customer may want to stay with a familiar service provider even though the prices are cheaper elsewhere. The same pattern was found in a study of Reichheld and Sasser in their studies of over 100 companies analyzed in 24 industries. (Reichheld & Sasser 1990: 106-108.)

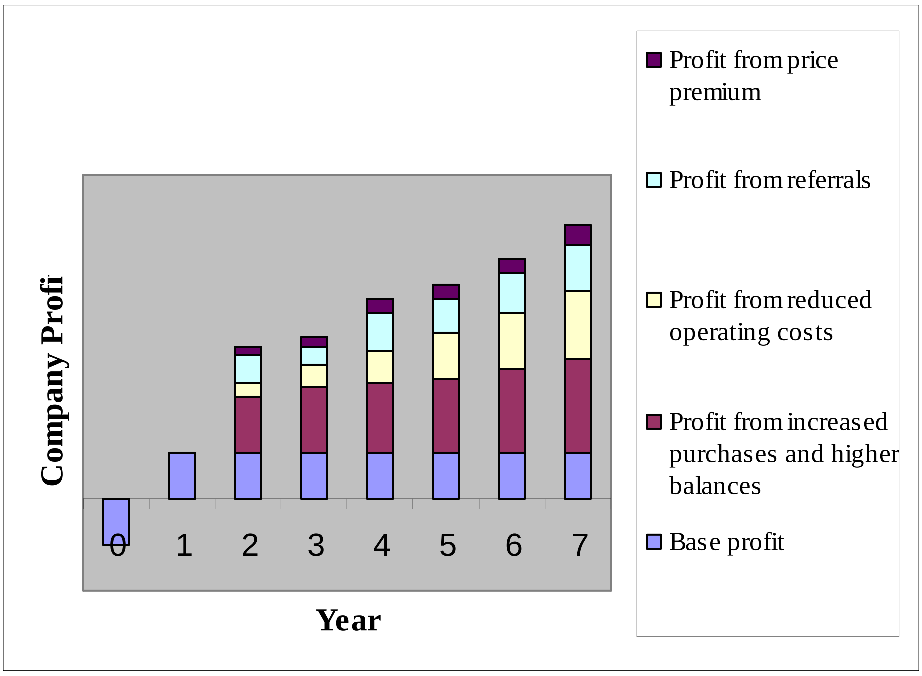

Figure 1. Why customers are more profitable over time. (Reichheld & Sasser 1990: 108.)

Customer defections have a surprisingly strong impact directly to the bottom line of a company. According to the studies of Reichheld and Sasser (1990: 110) 5% reduction of defections can result in profit boosts between 25% and 85% depending on the industry. These figures sound rather drastic and some criticism can be set upon them. Nevertheless, it is clear that cutting down the number of lost customers contributes positively to the profit of a company.

Furthermore, according to a research about small businesses and their banks in UK by Ennew and Binks (1996), customer retention is seen increasingly important in all businesses, but particularly in services such as banking in which the building and maintenance of a long term customer relationship is seen as central to improved business performance. (Ennew & Binks 1996: 228)

2.2. Small business banking

Like in any other industry, banks have found it useful to target their services to different customer groups. Smaller firms need totally different kind of services compared to large multinationals. Companies are most often classified according to their size. Turnover and number of employees in the company give an impression about the size of the business. The European Union recommends the classification in Table 1 for small and medium size enterprises (SME's) and large companies:

Table 1. The EU's recommendation for classification of companies. (Europa – Activities of the European Union)

Group	Turnover	Employees
Micro	< 2 m €	< 10
Small	2 – 10 m €	< 50
Medium	10 – 50 m €	< 250
Large	> 50m €	> 250

Banks tend to use turnover as the main mean of categorization of clients. However, as small firms are much more common than larger ones, banks have lowered their turnover requirements. In a survey of 113 European banks it was found that banks use roughly following classification for SME's (Table 2). Smallest of all companies form the largest customer group with 80 % share of all SME companies. (SME Banking in Europe 2008: 8-9)

Table 2. European banks' classification within SMEs. (Efma / Finalta SME banking in Europe 2008: 8.)

Group	Turnover	Share of all SME's
Micro	< 0,5 m €	80%
Small	0,5 – 2,5 m €	15%
Medium	2,5 – 15 m €	5%

From the above table it can be seen that even though individual firms might be small in terms of turnover, together they form vast majority of all corporate customers. For example in UK, micro and small enterprises (EU classification) form 99,6% of all enterprises. At the same time they contribute 42,8% of all turnover. In a larger perspective, the annual global revenue of small business banking products is estimated to be around 400 billion euros. This is approximately 16% of total global banking revenues and was expected to grow at around 10% per year from 2006 to 2009. However, this is not the whole story. Small business banking faces tough competition from retail banking sector. Owners of small businesses do their best in avoiding fees demanded by small business banks by using personal credit cards, accounts and even loans rather than ones offered for corporate customers. This means that large share of small business revenues are hidden in the retail banking sector. With this in consideration, the total global revenue of small business banking products can be up to 635 billion euros per year. Opportunity of gaining 50% higher profits are the reason why banks are nowadays extremely interested in so called cross-selling. This simply means that banks want to offer their business customers also retail banking services. However, many small business owners do not want to mix their personal wealth with their business related banking. Reasons vary from risk decentralization to doubts of personal bankers' skills. (Wyman 2006: 6, Rocco, Krammer, Vagunucci, Dayal, & Berz 2007: 2)

Small businesses form an extremely heterogeneous segment. Micro enterprises comprise mostly of small retailers or agriculture companies where financial requirements are mostly transactional. For many banks the focus of micro enterprises strategy is automation and reducing the cost to serve. Strategy with small companies is often to increase customer satisfaction and the share of wallet. Most banks have appointed Relationship Managers for these companies. Medium enterprises have normally access to a range of specialist advisors and they form the most profitable group of SME's. (Efma / Finalta 2008: 9)

In this study, the focus will be in the small and medium size enterprises (classification presented in Table 2) as these sub segments are extremely common in the Baltic States. 90-95% of all Baltic companies have a turnover less than 2 million euros. (Efma / Finalta: 2008) The idea is to compare bank loyalty of small and larger SME's against each other. Additional to the comparison according to the turnover groups, there will be also comparisons between different industries and locations.

2.2.1. Business bank products and services

In order to analyze the reasons for bank loyalty, one has to be familiar also with the products and services that banks offer to their corporate customers. After all, they are the most essential part of the bank’s offering. In this context, it is enough to get an idea of the types of products business customers need from their banks. These products can be divided to main categories of payments, bankcards, deposits, financing, and trade finance solutions. (Nordea, Hansabank)

Payments include domestic transactions, but also foreign transactions to EU- and non-EU countries. These payments can be done online in Internet bank or by using direct debiting. Banks' speed, reliability and price of delivering payments are evaluated by its clients. Bankcards include a variety of different debit and credit cards suitable for employees of the company. The terms of payment, reliability and flexibility of the cards are the main factors that clients are interested in.

Deposits consist of different kind of accounts for surplus funds of the company. Overnight deposits offer interest for the amount that lies in the company's account at the end of the business day. Accrued interest is paid on the account on the next business day. Term deposit accounts are used to deposit a specific amount for a specific period for a fixed interest rate. These deposits are virtually risk free, but other types of accounts can also utilize positive development of share prices to offer higher interest rates. Naturally, the interest rates and the security of deposits are important for the client in this case. Also the selection, terms and types of deposit products has to match the clients' needs.

Financing products vary from investment loans for buildings and equipments, different types of leasing contracts to overdraft loans. An overdraft is a continuous loan for the moments when the balance of the company's account is momentarily below zero. With an overdraft loan, the company can still operate from the account against an interest it pays for the used overdraft sum. Clients evaluate the interest rates, terms of repayment and flexibility of the loans.

Trade finance solutions are services used especially in international trade. For example letter of credit is used in a situation where the buyer wants to be sure that his money is not sent to the seller before the terms of the letter of credit are met. Another trade finance product is bank guarantee. It is used to cover risks of trade activities. In bank guarantee, the bank agrees to settle the creditors receivables if the debtor company itself fails to meet its obligations.

2.3. Loyalty in business relationships

As was pointed out by Reichheld and Sasser (1990), having loyal customers results in positive effect in profits of a company. Even though the practical benefits of loyalty are well observed, there seems to be shortage of well established definition for the actual term. In particular, the concept of loyalty in business to business context has not been clearly defined even though there are numerous ways of defining and measuring loyalty in consumer market context. (Caceres & Paparoidamis 2007: 836)

Oliver (1999: 34) defines loyalty as follows:
"*a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior*."

This definition includes two aspects of brand loyalty; behavioral aspect and attitudinal aspect. Behavioral loyalty refers to repeating purchases of a brand while attitudinal loyalty refers to loyalty caused by some distinctive value associated with the brand. The attitude behind the purchase is important because it drives behavior. (Caceres & Paparoidamis 2007: 838-839)

This division has been used in business to business studies, but Zainuddin, Russell-Bennett and Härtel (2007) claim, that it is necessary to divide attitudinal aspect in two component parts; cognitive and emotional loyalty. This enables more detailed approach to analyzing and maintaining existing levels of brand loyalty. These parts are described by Hammond, East & Ehrenberg (1996). "Emotional loyalty *is the affective commitment to a brand consisting of positive feelings about and attachment to purchasing a brand on the next purchase occasion.* Cognitive loyalty *is the psychological preference for a brand consisting of positive beliefs and thoughts about purchasing a brand on the next purchasing occasion.* Behavioral loyalty *is the consumer's tendency to repurchase a brand revealed through behavior which can be measured and which impacts directly on brand sales.*"

These definitions alone do not catch the idea bank loyalty, which is formed in a different way than in consumer goods.

2.4. Business to business loyalty

McMillan, Costley and Akoorie (2007) have taken a closer look at the business to business loyalty through a survey of 350 B2B relationships in the financial service industry in New Zealand. They discovered three phases in the development of loyal business relationships (Figure 2). According to their model, the first step towards B2B loyalty is satisfaction. However it is important to notice, that satisfaction itself does not create loyalty. Researchers point out that overdeveloping customer satisfaction level beyond industry standards might not result in more loyal customers. This view is supported by Bennett and Rundle-Thiele (2004), who state that while satisfaction can anticipate loyalty, it does not precisely predict it. Actual loyalty starts to develop when the companies start to have stronger sense of shared values that hold relationship together.

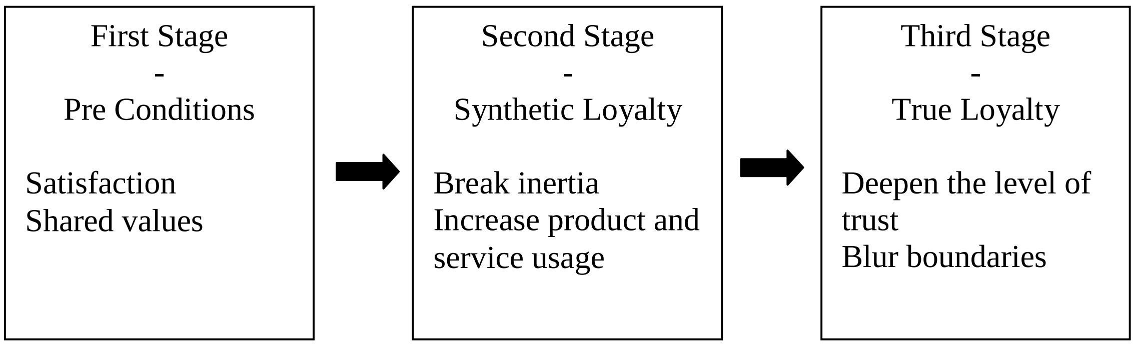

Figure 2. Stages of business to business loyalty. (McMillan et al. 2007: 68)

The next stage in the model of McMillan et al. (2007: 68) is synthetic loyalty. It means loyal behavior without a loyal attitude. In practice this means concentrating on getting more business from the customer, rather than on trying to generate a long – term relationship. Means of achieving more business are for example volume discounts and access to more tailored products and services. In order to move to the final stage of true loyalty, one more aspect is needed in the relationship – trust. It can be achieved through development of interpersonal relationships in social events and successful achievements during the relationship. The ultimate goal in B2B loyalty is to blur the boundaries of two companies in such a way, that they become inseparable.

However, as McMillan et al. (2007) and Zineldin (1995) suggest, not all business customers aim for a loyal and stable relationship. Some companies prefer to have their independence and shop constantly for the best offer. With them, every transaction might be the last one. McMillan et al. (2007: 68) formed three groups of customers according to their will to be loyal: Independence seekers, Reward seekers and Relationship seekers. The already mentioned type of customer would be an Independence seeker. Reward seekers on the other hand are a good target group for synthetic loyalty. They are not actively seeking for a stable long – term relationship, but they are willing to move more of they business to one location if the terms are attractive enough. Last group of

Relationship seekers is the main target for true loyalty. They believe in the advantages that can be gained through long – term relationships. Most often, they are already in a stable relationship with some party, but they can be lured to change their partner if the current one can not meet their expectations.

The most significant finding in this model is that behavior leads to loyalty and not vice versa. In other words, company should first try to increase the amount of business it has with customers. Doing so, it is possible to make them also loyal. (McMillan et al. 2007: 68)

Caceres and Paparoidamis (2007) explain how satisfaction, trust and loyalty are connected in business to business context. They conducted a questionnaire study where they studied 234 advertising agencies' clients. Respondents answered questions about relationship satisfaction, service delivery, trust and loyalty. Based on the results, Caceres and Paparoidamis found statistically solid causal chain from perceived service quality to committed and satisfied relationship which will lead to trust and finally to loyalty. This result thus suggests that service quality and relationship management may have a lot to do with the level of trust, satisfaction and loyalty between in a business to business relationship. (Caceres & Paparoidamis 2007: 854-857)

2.4.1. Satisfaction and trust as prerequisites of loyalty

Since satisfaction and trust seem to be essential in forming a loyal relationship in business to business context, a closer look at the definitions of the terms is taken.

Customer satisfaction is defined by Oliver (1997:13) as:
"*The consumer's judgment that a product or service feature, or the product or service itself provided a pleasurable level of consumption related fulfillment*".

This definition is very general, but it leaves space for using it in many businesses. Satisfaction is generally viewed as a broader concept than mere evaluation of service quality. However, service quality among other things is a component of customer satisfaction. Satisfaction and measurement of customer satisfaction level has been recently very popular area of research among financial service providers who offer virtually similar products to their customers and the level of satisfaction is a way to stand out from the competitors. (Pont & McQuilken 2005: 347-348)

Trust between two business parties can be divided to calculus based trust and relational trust. Calculus based trust is based on rational choice. In other words, trust is generated because the trustor perceives that the trustee intends to something that is beneficial. It is in trustee's interest to co-operate in order to achieve rewards or avoid sanctions. Calculus based trust can be provided also by good reputation or by certificates and quality diplomas. Relational trust arises from social bonds built during repeated interactions between the parties. Reliability and dependability in previous interactions raise the expectations about the trustee's intentions which in turn raise the level of relational trust. (Rousseau, Sitkin, Burt & Camerer 1998: 399)

Sources of satisfaction and trust depend on the type of business one is looking at. Later on in this study, chapter three will focus on the sources of satisfaction and trust in business banking.

2.4.2. Bank – client relationship life cycle model

McMillan et al. (2007) pointed out that loyalty is a result of increasing amount of interaction and business between the two parties. Zineldin's (1993) life cycle model supports that thought but also points out the possibility of losing the customer if the customer is not satisfied and happy with service and relationship quality.

Zineldin's (1993) model (Figure 3.) describes the life cycle and stages of a forming bank - client relationship. His idea is supported by McDonald, Rogers & Woodburn (2006). They have also divided customer relationships in stages according to their maturity. Zineldin separates early stage, development stage, long-term stage and final stage from each other. During each stage, there is a chance of losing the corporate customer for various reasons. Zineldin does not claim that the four stages of the life cycle will always happen. He notes that even though these stages are clearly identified, relationships may fail to move on to next stages depending on the actions of the two parties.

During the early stage both parties get to know each other and are uncertain about what they hope to gain from the relationship. Marketing objectives of the bank are to create interest in the bank and its product, identify target corporate clients and their behavior, understand the customers' needs and to what extent these needs are currently met and to emphasize the features of the bank’s products that are most appealing. At this point, parties are unaware of each other’s ability to fulfill promises and requirements. The bank has to make an offering and if the corporate feels that the bank could satisfy the needs, uncertainty is reduced. This means entering in to the next stage. If partners do not understand each other’s needs or fail to develop an appropriate offer, the next stage will not occur. Instead, corporate customer will continue to seek another partner. (Zineldin 1993: 18.)

In the development stage, the potential corporate customer and the bank have agreed on service solution. Parties have acquired some knowledge of each other’s norms and values. Marketing objectives of the bank are to convince the customer that his requirements will be fulfilled with the services on offer, identify future customer needs and identify the level of satisfaction currently obtained by the customer. In this stage, need for adaptations to the offering are apparent in order to meet the needs and wants of the parties. If the outcome of the adaptation is negative, the next stage will not occur. If the outcome is positive, the probability of customer relationship continuity increases. This takes parties to the third stage. (Zineldin 1993: 18.)

If the corporate customer decides that the offering is good enough to satisfy its needs, it decides to concentrate most of its future transactions with the bank. The customer relationship becomes a long-term client relationship. Now the bank can offer additional services, build and maintain the relationship. At this stage, maintaining service quality and performance are the most important marketing tasks. The degree of client loyalty is getting higher and enduring customer relationship should be achieved. (Zineldin 1993:19)

If the parties are able to move to the next stage, the partnership relationship is formed. During the process, the client is sure about the bank’s ability to take care of its current and future problems and provide a high quality service package. For the bank, supporting services helps to differentiate itself from competitors. At this stage institutional relationship includes interdependence, personal relationships and service packages. If clients feel they are receiving value they are willing to pay premium price for the offering that should be hard to imitate by competitors due to adaptations. (Zineldin 1993: 19.)

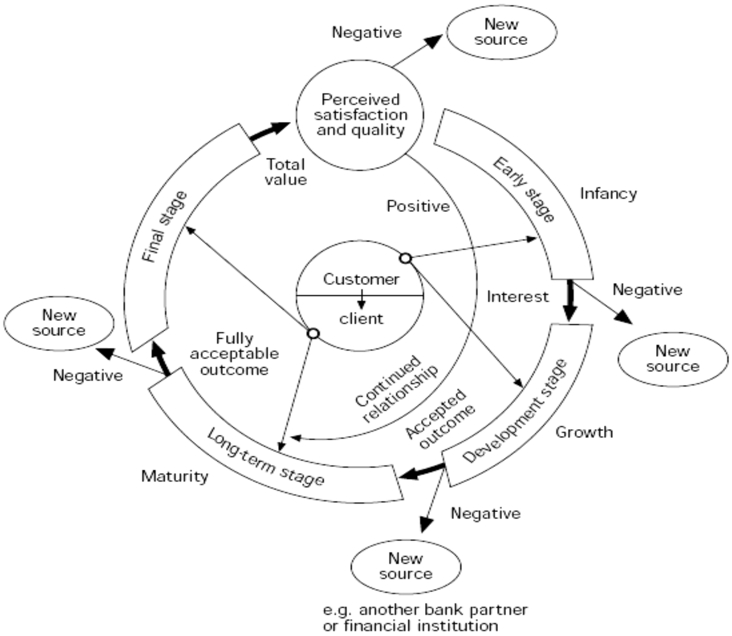

Figure 3. Bank – client life cycle. (Zineldin 1993:19)

According to Zineldin, bankers should understand the process of each stage of the cycle. It is not enough to introduce the customer to bank's products and services. The client must be shown that the service provides real value, which outclasses alternatives offered by competitors. It is important to note that the value placed in relationship may wear off over time. Therefore, banks should constantly examine its relationships with each client at every stage of the life cycle. (Zineldin 1993: 15.)

In the context of this study, the life cycle model is used to evaluate the Baltic bank - company relationships' stage of maturity.

2.5. Bank selection and loyalty studies

Bank loyalty has been studied rather comprehensively among retail customers (eg. Veloutsou, Daskou & Daskou 2004 and Ndubisi 2007), but not as much in the context of business customers. Perhaps this is due to the complexity of decision-making process of organizational buyers. Studies have been done about business customers' needs (e.g. Zineldin 1995; Nielsen, Terry & Trayler 1998) and relationship between customer participation and retention (Ennew & Binks, 1999). However, there are only few studies investigating the drivers of business banking loyalty (Lam & Burton, 2006; SME Business Owners Survey 2008). Since pure loyalty studies in business to business banking are few and far between, bank selection studies are used here together with retail customer bank loyalty studies to broaden the view of relevant issues to be considered. Bank selection and loyalty studies have been done all over the world, but not in Baltic countries. Because there are no local studies on the subject, it is mandatory to include studies from different geographical areas in to this overview of previous studies.

2.5.1. Bank selection criteria and client satisfaction level

In the already mentioned study of Zineldin (1995), some 300 Swedish companies were sent a survey, which aimed at generating a comprehensive view of the nature of bank-corporate client relationships. 179 responses were received from small, medium and large firms. Companies were classified according to the number of employees (small < 49, medium 50-500, large > 500). Most of the answers came from small and medium size firms. It turned out that in Sweden, most small and medium size companies (80% and 70% respectively) have one main bank, whereas 100% of large companies operate with number of different banks. Stability of the bank relationship was favored among small and medium size companies, while large companies prefer flexibility of multiple bank relationships. Conclusion, based on these findings, was that company size determines the will to have one or many banking relationships. (Zineldin 1995: 34-35.)

It was also evident that most large companies have power and control over their business with banks. Contrary to that, 44% of small companies feel that they do not have any negotiation power over their banks. 60% of medium size companies have been able to form mutual interdependent relationships. This reflects to the results of satisfaction level of companies to their banks. Majority of small companies, 55%, and 25% of medium size companies were unsatisfied, because bankers do not pay enough attention to their arguments about their businesses. All large companies were satisfied with their banks. (Zineldin 1995: 35-36.)

Zineldin (1995) also found out which banking service characteristics are most important, when choosing the primary bank. The following criteria were selected as "very important" (out of three choices - not important, important or very important) by managers of the companies: high trust (81%), price competitive loans (66%), high ability of adaptations (43%), close contacts with bank manager (42%), fast speed in processing transactions (36%), advice and additional services (28%) and close contact with other staff (23%). (Zineldin 1995: 38-39.)

Nielsen et al. (1998) conducted an study about the Australian corporate customers and their banks. They sent a survey for 2500 small, medium and large firms to inquire which three out of 15 given factors, were the most important when choosing the primary bank for the company. Addition to that, they also sent the same questionnaire to 25 Australian bank CEO’s. The CEO’s were asked to rank three most important factors in main bank selection of small, medium and large corporate clients according to their own view. Total of 1249 responses were received from the firms and 13 from the banks. From the firms’ standpoint, the four most important factors in the main bank selection were the ability to provide long-term business relationship, competitive charges for products and services, efficiency in day-to-day operations and the willing to accommodate the firm’s credit needs. When these results were compared to CEO’s views it turned out that firms and banks have differences in their views. Banks overestimated the importance of competitive prices, personal relationships and service delivery. On the other hand they clearly underestimated factors like long-term relationship, efficiency of operations, accommodation of credit needs, knowledge of business and convenient location. (Nielsen et al. 1998: 253-257)

A study of Madill, Feeney, Riding & Haines Jr. (2002) identified key reasons for SME satisfaction related to their bank relationships. The research used data from 3190 interviews of Canadian SME's. Contribution of the research was to point out that satisfaction of SME customer is dependent on the way bank manages the relationship. For example change of relationship manager does not necessarily lower the level of satisfaction if the matter is handled correctly by the bank. The study identified three factors affecting SME satisfaction – satisfaction with account manager management of the relationship, satisfaction with branch staff management of the relationship and satisfaction with banks policies and procedures. (Madill et al. 2002)

2.5.2. Bank loyalty studies

A study of 220 retail customers in Malaysia by Ndubisi (2007) investigated the impact of relationship marketing to customer loyalty. In his study, all four variables derived from earlier studies and relevant literature, were positively affecting bank loyalty. He thus claims that customer loyalty can be created, reinforced and retained by marketing plans aiming to build trust, commitment to maintain high service ethic, communicating with customer in timely and proactive fashion and handling conflicts efficiently. (Ndubisi 2007: 98-106)

Study about Greek retail bank customers discussed the drivers of bank loyalty within that segment. Veloutsou et al. (2004) state that customer satisfaction, perceived service quality and brand image are likely to influence the development of a loyal customer base. Their study tested these hypotheses and they all were positively correlating with bank loyalty. (Veloutsou et al. 2004: 113-120)

There are only few studies investigating the drivers of business customer's banking loyalty. One of them is a study about SME banking loyalty in Hong Kong (Lam & Burton: 2006), which was a preliminary study and has it weakness in small number of interviews. In that study, using more than one bank ("split banking" behavior) was common. In the sample of 32 interviewed companies, 23 used more than one bank. Thus, disloyalty was a norm among that group of customers. The usage of different banks was argued by special skills of banks. One bank might have excellent connections to an important market area, while the other might have superior service speed or better e-banking system. Other reasons for having multiple bank relationships were the unwillingness to "put all the eggs to the same basket" and increased bargaining power. Even though split banking was common, most interviewed companies had a "main bank" where they obtained credit and deposit most of their cash or had the longest business banking relationship. The key reasons for choosing the main bank were (besides length of the relationship) banks ability to accommodate credit needs and the efficiency or reliability of service. Half of the participants said that bank's ability to accommodate specific customer needs is particularly important in the selection. Only six participants named pricing policy as the main criteria for choosing the main bank. (Lam & Burton 2006: 41-44.)

According to the results of this study, bank-switching behavior was common among the interviewees. The key causes of switching behavior were a perceived service delivery failure or an inadequate relationship management (e.g. after a change of a relationship manager). When asked about the future buying behavior, 17 out of 32 interviewees said that they would increase the extent of usage of their main bank's services due to satisfaction and/or length of the relationship. However, nearly half of are not planning to do so because of perceived risk of relying extensively on one bank and secondly, due to anticipated lack of growth. Based on the study, banks should pay attention to relationship management in maintaining SME customers. Building long term partner-like relationships increase loyalty. The other aspect that requires attention is perceived service quality, particularly efficient credit and remittance (money transfer) services. (Lam & Burton 2006: 44-48.)

A survey for 500 French business owners inquired their tendency to leave a business bank and the main criteria for decision making regarding the choice of the principal business bank. These companies were from all over France and their turnover was between 1 and 100 million €. SME owners in France seem rather loyal as 69% have never left their business bank. Nevertheless, 54% said that they are willing to consider alternative business banks. Those who had changed their business banks named degrading quality of service (60%), exclusive product offers elsewhere (39%), bad advice (37%) and high fees (27%) as main reasons for the change. 26% of respondents said that they use one bank only. The most common situation was having two banks (47%). (Efma / Finalta 2008: 10)

In the same survey, the criteria for the selection of main business bank were following: 33% mentioned that they still use specific bank because it was the “take off bank” of the company (the bank that the company chose when it started its business). Second most common reason with 21% was the bank's support during the hard times. Branch proximity (12%), products (10%), advisory skills (6%) and owner’s personal bank (5%) were also mentioned. Surprisingly, low fees were the reason only for 3% of the respondents. Conclusion would be that loyalty is gained over a long period of time. SME's are loyal to the bank that has been durably on their side especially in the hard times. (Efma / Finalta 2008: 13)

Already mentioned studies on the subject are also used as a guide in forming the empirical part of the study. By using question types that have worked well in earlier studies, it is possible to avoid some of the problems one would otherwise face. Nielsen et al. (1998) and Zineldin’s (1995) studies will be used in generating a set of questions about the nature of relationship between client and its bank, importance of specific products and services and finally, about satisfaction level. The study of Lam & Burton (2006) and survey results of Exton Consulting (2008) will be used in forming a set of questions about the factors that promote loyalty towards a specific bank. Two retail banking (private customer) studies by Velautsou et. al (2004) and Ndubisi (2007) were added because there are simply not enough previous studies about business customers’ bank loyalty.

2.6. Summary

McMillan et al. (2007) suggest that satisfaction and trust precede loyalty. Satisfaction is the first step, increased use of products and services is the second. Finally, real loyalty can be achieved through deep feeling of trust between two parties. According to them, satisfaction and trust can eventually lead to loyalty and therefore business banks should be aiming for these things. Previous studies presented here (Table 3.) will help in forming the first outline for the theoretical framework of this study. From these results, it is possible to identify two main reasons for bank selection and loyalty; relationship management and service quality. Satisfaction and trust have also come up in several bank selection studies as well as in general business to business loyalty literature (McMillan et al. 2007). Therefore they will be included in this study of bank loyalty.

Table 3. Summary of loyalty driver and bank selection criteria studies.

	Hong Kong (Lam & Burton 2006)	France (Efma / Finalta 2008)
Reasons to loyalty	Long relationship Fulfilled credit needs Service quality Satisfaction	Take off bank Banks support during hard times Branch proximity Products Advisory skills Owners personal bank
Reasons to disloyalty	Service failure Inadequate relationship management	Bad service quality Better offers elsewhere Bad advice High Fees
	Sweden (Zineldin 1995)	Australia (Nielsen et. al 1998)
Bank selection criteria	High trust Price competitive loans High ability to adaptations Close contact wiht bank manager Speed of service Quality of advices and services Close contact with other staff	Long term business relationship Competitive fees Efficiency Willingness to fulfill credit needs
	Greece (Veloutsou et. al 2004)	Malaysia (Ndubisi 2007)
Retail banking loyalty	Perceived service quality Image Satisfaction	Trust Commitment Communication Conflict handling

Based on this chapter, following areas of theory need to be discussed in order to tackle the topic of bank loyalty: According to Caceres and Paparoidamis (2007); Veloutsou et. al. (2004) and Lam and Burton (2006) *service quality* of a bank seems to play a major in a loyal business to business relationship. Service quality is also critical element when a company evaluates its bank (Zineldin 1995). Therefore it is necessary to find out what service marketing and service quality actually are. After definition of service quality, tools for measuring it have to be found. *Relationship management* is another important issue that has proofed to be vital ingredient in a loyal business to business relationship (Caceres & Paparoidamis 2007; Lam & Burton 2006; Efma / Finalta 2008). Good relationship management was an important factor in bank selection criteria studies (Zineldin 1995, Nielsen et al. 1998).

Also Madill et al. (2002) suggest that satisfaction is achieved through appropriate relationship management. Therefore a deeper view into *relationship management* is needed in order to understand what it consists of. Going through *relationship types* and *relationship quality* is essential in understanding the complete role of relationship marketing in promotion of loyalty. Also, as this study concerns three different nations, the significance of *national differences* has to be analyzed.

3. BANK LOYALTY DRIVERS

In chapter 2, satisfaction, trust, service quality and relationship management were proven to have major roles as bank loyalty drivers. Third chapter will take a closer look at the broad concepts of service and relationship marketing. In the first half of this chapter, service marketing is first defined in general level. Next, the unique features of banking as a service are pointed out. Then, service quality and ways to analyze it are presented. Second half is devoted for bank – client relationship. First, relationship marketing is defined and its purpose and meaning in business context is explained. Then, a way to identify different relationship types is presented along with discussion about relationship quality in bank – client relationships.

3.1. Service marketing

Service marketer faces problems that are not there for a marketer of physical goods. Buyers have hard time evaluating a service because of its intangibility. They can not hold it in their hands or posses something concrete about the service they are purchasing. Still, buyers want to grab something factual in order to evaluate the service. Many times they end up evaluating image or reputation of the company - something else than the service idea itself. Therefore service providers have to take in to account such issues. (Grönroos 1981: 45-46)

Services have proven to be difficult term to describe. In 1990 edition of Service Marketing and Management Grönroos listed four main characteristics of a service as follows:

- Services are more or less *intangible*.
- Services are activities or *series of activities* rather than things.
- Services are at least to some extent *produced and consumed simultaneously*.
- The customer *participates in the production process* at least to some extent.

In his 2007 edition Grönroos removed intangibility because he thinks that physical goods are not always tangible either in the minds of customers. Therefore intangibility characteristic does not distinguish services from physical goods as clearly as is usually stated in the literature. However, he admits that services are characterized by varying degrees of intangibility. (Grönroos 1990:29, 2007:54.)

Palmer (1994:3-6) defines “pure” services with nearly the same characteristics that separate services from goods. He says that intangibility is an essential part of a pure service. It can not be assessed by using any of the physical senses. Another feature of a service is that they are generally sold first, then produced and consumed simultaneously. Consumer is thus involved in the process of production. Goods tend to be standardized, but as services are produced and consumed simultaneously, there is more room for variability and human factor. This can occur especially in services where personnel are involved in providing services on one-to-one bases. Services differ from goods also in that they can not be stored. Perishability applies to service providers like airlines, who can not store their empty capacity of an aircraft for future customers once the plain has left. Palmer’s last definition for a service is the inability to own a service. Once a service is performed, no ownership is transferred from the seller to the buyer. The buyer merely gets the right to a service.3

3.1.1. Banking – a unique service sector

Zineldin (1992:6) stresses that banking sector differs from other service industries for following ways. Firstly, a banker is a fiduciary; his inventory belongs to his depositors. It is the depositors’ money and they have a right to withdraw it at any time. Secondly, banks are licensed by law to serve as repositories of citizens’ funds and to use these funds for constructive purposes. Thirdly, banker is expected to minimize the risk before maximizing the return. Since bankers are merchants of debt, bank market planning must take in to account that the purchase of debt must always be made in response to the expressed need of the customer. They may not successfully employ a marketing strategy that attempts to create a market for debt where one does not legitimately exist. Finally, banks must stand ready to serve their markets in bad times as well as good. Loans must be made with low or high interest rates. Foreign trade must be financed and interest must be paid to depositors. In short, wheels of commerce must be kept turning. An industrial marketing executive can cut his losses and take a product off the market if it is unprofitable. Bankers cannot decide to stop accepting deposits or lending money to individuals or firms. Thus, bankers must change their marketing strategy continually under all business conditions. Because of this, Zineldin claims that common characteristics of services cannot be adapted to banking services.

Intangibility of a service is true when talking about traditional services such as travelling, there is nothing material to show for it. But for example a bank loan to its corporate client is very tangible. The money or the credit card is a physical object. In traditional services, human component is present in the production of a service. This results in a high degree of variability in the outcome of the service. In a bank – corporate client relationship there is no need for extensive contact with many different members of the bank staff. Corporate customers can get individualized service from the bank manager or from a well trained banker with whom they have dealt before. This leads to the fact that bank services are often standardized and less variable. Bank - client relationship can be highly adapted and include feelings of trust, confidence and personal friendship. As traditional services are produced at the same time they are consumed, a banking service like a loan is produced first (depositors' or shareholders' money), then sold, and finally consumed. The loan can be consumed immediately or it can be stored and consumed later. Traditional services have to face peaks in demand and times when their capacity is not fully used, which makes services perishable. If services are not consumed when they are offered they are wasted. In banking, demand peaks can occur at any time of the day at any time of the year. Demand peaks are not dependent on any period, rather they depend on the level of interest rate, financial position of the companies and the state of their industries. (Zineldin 1992:13-15.)

3.1.2. Service quality

Service quality is whatever the customers say it is, and the quality of particular product or service is whatever the customer thinks about it. Despite the interest in service quality research, the term itself remains hard to define in many service contexts (Dagger & Sweeney 2002). Quality is often seen in too narrow scope, especially in technology oriented companies. In reality, customers often perceive quality as a much broader concept, and other aspects than technical details may dominate the quality experience. In a firm, quality must be defined in the same way customers do, otherwise wrong actions may be taken and money and time may be poorly invested.

According to Grönroos (1990: 37-42), the quality of the service as it is perceived by customers has two dimensions, namely, a *technical or outcome dimension* and a *functional or process-related dimension*. What customers receive in the interaction is not the whole quality of the service, it is one quality dimension called the technical quality of the outcome. It is *what* the customer is left with, after the interaction is over. The other part, functional quality of the process is *how* the customer received the service. It comprises of several intangible features such as accessibility to ATMs or service advisors and how service providers behave and perform their tasks.

Company image can impact the perception of quality in many ways, either filter or magnify. If the provider has a good reputation in the eyes of the customer, minor mistakes are often forgiven. If mistakes happen often, the image will be damaged. If mistakes happen to a company that has a weak image, the impact of the mistake to the experienced service quality is greater than it otherwise would have been. Company image affects a great deal to what the customer eventually experiences as the service quality. (Grönroos 1990: 37-42)

Figure 4 shows how the quality experiences are connected to the traditional marketing activities resulting in a *Total Perceived Service Quality*. Good perceived quality is obtained when the experienced quality meets the expected quality of the customer. If the expectations are unrealistic, the total perceived quality will be low, even if the experienced quality is good. Expected quality is a function of number of factors, namely, market communication, word-of-mouth, corporate image and customer needs. The level of total perceived quality is not determined by the level of the technical and functional quality dimensions only, but rather by the gap between the expected and experienced quality.

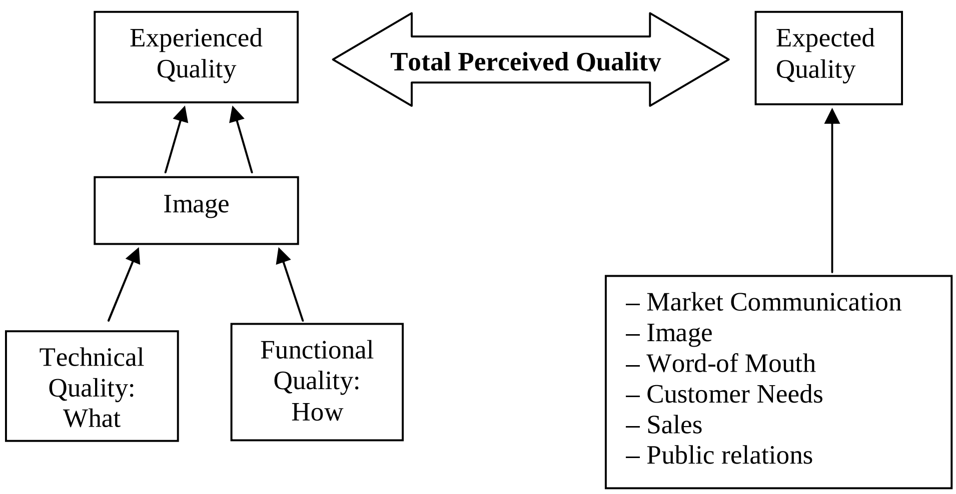

Figure 4. The total perceived quality. (Adapted from Grönroos 2007:77.)

Parasuraman, Zeithaml and Berry (1988: 23) provided more detailed tool for measuring service quality. They formed a conceptual model – SERVQUAL, which originally included ten determinants of service quality in service industries. Later, these ten determinants were narrowed down to five dimensions of service quality:

Tangibles:	Physical facilities, equipment and appearance of personnel
Reliability:	Ability to perform the promised service dependably and accurately
Responsiveness:	Willingness to help customers and provide prompt service
Assurance:	Knowledge and courtesy of employees and their ability to inspire trust and confidence
Empathy:	Caring individualized attention the firm provides its customers

Even though SERVQUAL was developed during the 1980's, it is still widely used in this decade to analyze service quality in service industries. It definitely adds depth to Grönroos' (1990) service quality model, but lacks one important aspect of bank services - numbers. Bank services can be easily compared by looking at some key numbers. For example the amount of loans a company can get and the interest rate of the loans and deposits are extremely decisive in bank selection. Most importantly they are easy to compare. Therefore it can be thought that Grönroos' technical quality – what the customer is left with, includes also "number part" of bank services. Another reason for using Grönroos is the fact that this study aims to find out reasons for bank loyalty, instead of measuring service quality as a single factor. This setting does not allow too detailed look at service quality alone, which would no doubt require elaborate use of SERVQUAL. Finally, the ideas and details of these two models are overlapping for the most part. By complementing Grönroos' model with parts of Parasuraman's SERVQUAL determinants (responsiveness and assurance), a good general tool for analyzing bank service quality is generated.

3.2. Relationship marketing and relationship management

Relationship marketing (RM) is often presented as the opposite to transaction marketing, the one-shot deal. In transaction marketing, the fact that a customer has bought a product does not forecast the probability for a new purchase, not even if a series of purchases have been made. In RM, loyalty – especially customer loyalty – is emphasized. In the loyalty ladder, the lowest rung is the contact with a prospect who hopefully turns into a customer and a first purchase. Recurrent customers are clients; those who come back and long term relationships are in the making. (Gummesson 2002:17.) Banking services in general can hardly be described as one-shot deals. First of all, bank services are used constantly over a long period of time. Secondly, as was mentioned in the first chapter, the longer a customer life time means higher profits for the service provider. Of course it is theoretically possible for the customer to shop for the best deal and change banks constantly. However, as mentioned earlier, most bank – client relationships are long-term deals. Therefore a closer look to the concept of relationship marketing is taken.

Gummesson (2002:14) has listed four fundamental principles to describe RM:
1. *Marketing management should be broadened into marketing-oriented company management*. Marketing and sales are functions that must permeate every corner of an organization, not least in the minds and actions of management. Terms “*full-time marketer”* and “*part-time marketer”* stress, that everybody, irrespective of task and expertise, influence customer relationships either full-time or part-time.

2. *Long-term collaboration and win-win.* The core values of RM are found in its emphasis on collaboration and the creation of mutual value. RM should be more of win-win than win-lose, more of a plus sum game that a zero sum game. In a plus sum game, parties increase value for each other. In zero sum game, what one gains is the loss of the other. Extending the duration of relationships becomes a major marketing goal. RM encourages customer retention first and getting new customers second.

3. *All parties should be active and take responsibility*. RM should not be mixed with traditional selling, which represents the supplier perspective and does not put the customer and an interactive relationship in focus. In B-to-B, also customers initiate innovation and force suppliers to change their products or services. Supplier is not necessary the only active party.

4. *Relationship and service values instead of bureaucratic-legal values.* Bureaucratic-legal values are characterized by rigidity, legal jargon, application of dysfunctional laws and regulations. These values have historically dominated governments and their agencies, but the international wave of privatization, deregulation and demand for

competition, as well as failure of the command economies, has forced a change. RM requires different values based on relationships and services to the customer. These values establish that all customers are individuals and different in certain respects; the customers are the source of the revenue and should be in focus. It is supplier’s task to create value for the customer.

Transaction oriented banking concentrates on single transaction with a customer, or multiple identical transactions with many customers. For example, transactional lending is viewed as arms length financing focusing on that particular transaction rather than trying to achieve information intensive relationship with the customer. (Boot & Thakor 2000: 679) Relationship banking, on the other hand includes an intention to obtain customer specific information from multiple interactions over time or across products. This information remains confidential and is used by the bank to evaluate the customer. (Boot 2000: 10-11)

In business relationships, companies have to be able to co-operate based on imperfect information. In financing sector, collaterals are a way of counteracting the information asymmetries that lead to credit rationing. Alternative mechanism is to increase the flow of information between a bank and its client. Both parties should be willing to involve themselves with each other and work together. (Binks & Ennew: 1997)

Having a good bank – client relationship can offer several benefits for both the client and the bank. Borrower firm may enjoy lower costs, flexible terms of credit, and support from the bank during tough times and lower collateral requirements. (Peltoniemi 2004: 38) Borrower firm is more willing to share information about its situation to a bank compared to open capital markets. This is due to the fact that firms can be sure that when dealing with banks, no confidential information will leak to competitors. For the bank, one benefit is thus more detailed information about the borrower’s situation. This offers the bank an opportunity to diminish information asymmetry by better risk evaluation of customers. Other advantages from the banks’ perspective are flexibility of contracts, covenants and collateral requirements. By evaluating the customer’s business in more detail, bank might also be able to grant loans that are unprofitable for the bank in short-term perspective, but may become profitable if the relationship with the borrower lasts long enough. (Boot 2000: 12-13)

3.2.1. Relationship types

Traditionally relationship type between a firm and a bank has been determined by the length of the relationship. It is easy to measure, but tells nothing more than the age of the relationship and nothing about the intensity or commitment to it. (Peltoniemi 2004: 31) In this research also the scope and participation level of the relationship is taken into account when analyzing the relationship types and their effect to bank loyalty.

First of all, the relationship between the bank and the firm can be exclusive or non-exclusive. In latter case, the firm maintains several simultaneous bank relationships side by side. Usually one bank is still used as a main bank. In the first case, sole financing service provider has an important role for many reasons: It is the most important source of external finance, there is a significant amount of trust in the relationship and the bank holds unique position thanks to variety of firm specific information gathered through the relationship. Finally, the bank has the opportunity to choose whether or not to support the firm during hard times. (Peltoniemi 2004: 16)

Intensity of existing firm – bank relationships build a barrier for entry in international banking markets. For example, in Scandinavia where firms maintain few and strong bank relationships, foreign banks may only be able to enter successfully through mergers and acquisitions. In Southern Europe firms maintain many bank relationships. Therefore banks may consider entering Southern European banking markets through direct investment. (Degryse & Ongena 2002: 401) While intensity of firm – bank relationships form an entry barrier to new overseas competitors, it can be argued that this intensity is also affecting to already present competitors ability to lure new customers from the competitors. Intensity of a firm – bank relationship is measured in this research by the scope of the relationship.

Scope defines the relationships breadth by finding out in what extent single bank provides firms' financial services. (Peltoniemi 2004: 20) These services include loans, savings, daily money transfer, international trade services and additional services like insurances. If a company uses one single financial institution for all of them, the relationship type is completely different from another extreme example of using different financial institutions for each of the services.

In order to find out what types of banking relationships are, Binks & Ennew (1997) conducted a survey for British SME's. Approximately 14 000 questionnaires were sent and 27% of them were received. Banking relationship was measured from two angles from clients' perspective. Respondents had to evaluate their behavior towards their bank in terms of willingness to share various types of information, monitoring of charges and accounts and the nature of personal contact with their bank manager. Also, they evaluated how their bank manager behaved towards them in terms of provision of advice and support, awareness and understanding and implementation of bank policies. A measure for the degree of participation was conducted based on these two sets of questions .The outcome was a simple 2 x 2 model (Figure 5.) which present relationship types according to whether each party is participative or non-participative. On the horizontal scale, there is the participation level of the bank and on the vertical scale, the participation level of the firm. In the study, all four corners of the model were present in the sample. Half of the firms had participative/participative relationships as the rest of the firms divided evenly on the other three relationship types. Results of the study suggested that when both parties are participative, interest rates, collateral ratios and the extent of overdraft use are all lower. Also, perceived service quality and satisfaction were considered higher in the relationships that were more participative. (Ennew & Binks 1997: 83-89)

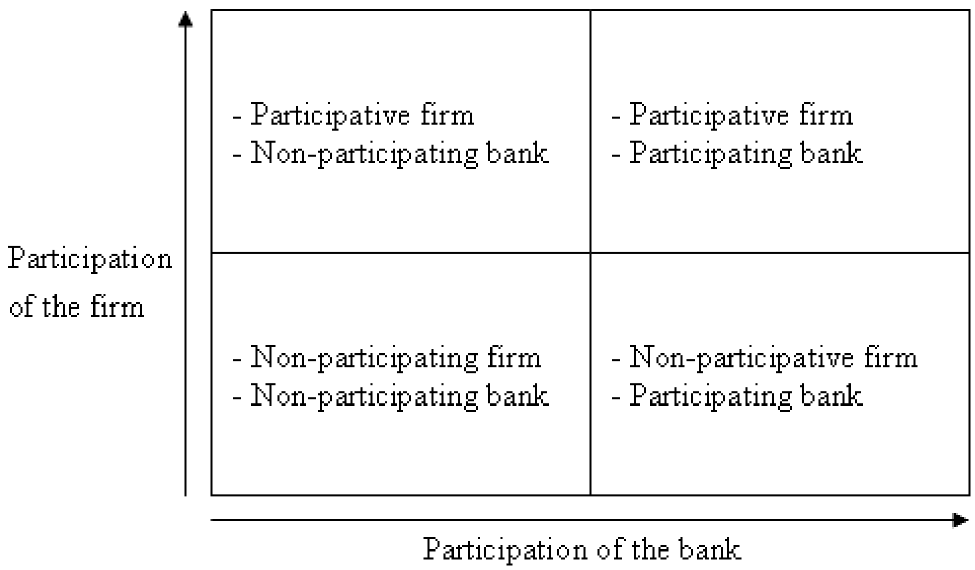

Figure 5. Bank – client relationship types in terms of participation. (Ennew & Binks 1997: 86)

Based on the study, firms should consider what type of relationship is most appropriate for them. If their business is stable and mature with no obvious growth potential in sight, less participative relationship may be entirely appropriate. On the other hand, for an entrepreneurial young firm that wants to grow fast, the more participative style may be essential. If this is the case, the firm must work to achieve such a relationship by sharing information and clearly articulating its needs. Because of cost and competitive pressures, banks may not want to offer same type of relationship to all of their smaller clients. They might want to segment their smaller business markets based on the type of relationship companies need instead of based on turnover or sector. (Ennew & Binks 1997: 89-91)

This grouping of relationship types according to their participation level aims to analyze the commitment of the parties to the relationship and it is the third and last tool for analyzing the relationship types in this research.

3.2.2. Bank – client interaction and relationship quality

Over relationship's lifecycle, the bank and the client become more valuable to each other. During this period, the bank can gather plenty of accurate information about customer's investment plans, business strategy and the market in which the customer operates. With this information, the bank is able to understand customer's current and future needs and what is the reasonable way of satisfying these needs. (Zineldin 1993:3)

Interaction between a bank and its customer is different compared to other service providers. Zineldin (1995) formulated three main components that describe the bank – company interactions and relationships; *environment*, *atmosphere* and *interaction process*. In a study by Ennew and Binks (1996: 225, 228), relationship quality between banks and clients was measured by conducting a survey for 3000 British small companies. In their study, the measurement of relationship quality used three variables: trust, approachability and information flow. In their study, trust variable had the most effect in the relationship quality, as lack of approachability has an impact on the potential for defection. Contents of Ennew's and Binks' variables can also be found in Zineldin's model, specifically in atmosphere and interaction components.

Environment

The relationship and the interaction between the bank and its corporate client are influenced by the environment surrounding the two parties. Three main factors of environment surrounding the two parties are relevant to bank-corporate relations:

1. economic
2. technical
3. legal/political

Economic environment consists of competition within the banking or corporate industries, interest rate, inflation, unemployment and the state of the client’s industry. The major external technological element of the environment is the almost unlimited number of possible applications of computer systems like automatic teller machine systems (ATM), electronic funds transfer and cash management and salary payments. In turn this development can affect the bank corporate client relationship. Legal and political factors are the degree of political stability, the regulations and constraints on business and banking policies. Environmental information scanning is essential to avoid credit risk and to maintain close and long-term bank company relationship. To be effective bankers need to know enough about the operation environment of the firms, e.g. knowledge of their business, industry and market. (Zineldin 1995: 33.)

Atmosphere

The relationship and interaction process between the bank and its corporate clients is influenced by the overall atmosphere with the two parties. The following three types of atmospheric forces are relevant to the bank-corporate relationship:

1. power/dependence
2. co-operation/conflict
3. trustworthiness

Because trustworthiness dominates banking, banks and clients may employ a different evaluation process from those of other goods and service industries. The bank services are not accompanied by guarantees. Thus, both parties perceive greater risks during the interaction process. Consequently, a high level of trustworthiness will lead to a higher level of co-operation and the lower level of risk and uncertainty will be justified and vice-versa. In today’s global competitive marketplace, there are many banks that are competing for a limited number of customers. Most companies are attracted by another financial institution. Companies have greater opportunities to compare, and financial management is more sophisticated and specialized. Increased competition has caused bankers to be increasingly concerned about satisfying their customers. (Zineldin 1995: 33.)

A service alone will not provide sufficient differentiation or sustain a price differential in the highly competed market. In effect, an interaction process based on selling transaction concept is a more effective element of banking services. It covers all activities that must be performed: first, from the time a meeting of the minds occurs among the parties; second, during the transaction process; and third, after the transaction is completed. The quality of these three transaction stages may develop the relationship from a bank-customer relationship into a closer and long-term bank-corporate relationship. This development may include such characteristics as decision speed, the provision of business advice, and a competitive price and term for the loan. Closer and long term relationships will, in turn, lead to interdependence, a higher degree of trustworthiness and more co-operation between the two parties. (Zineldin 1995: 33-34.)

Interaction process

As mentioned above, the marketing of banking services is seen as an interaction process between the bank and its corporate clients within a certain environment and atmosphere. Close and long-term relationships are results of long-term transactions and exchanges between them. The exchange process within such a relationship often includes three major factors.

1. information exchange
2. business or financial exchange (transactions)
3. social exchange

To implement the service strategy of the bank and ensure its success, the bank management and the bankers must manage the exchange process actively. The bank management's persuasive action must be geared to the client's needs at every stage of the transactions. This transaction is the result of two parties engaging in the exchange process and negotiating in mutually satisfying terms. (Zineldin: 1995: 34)

To initiate the exchange process, two parties should collect information about various aspects. The bank must know what the client wants, and the client must be aware of everything the bank has to offer (e.g. credit, capital market, and foreign exchange). The social exchange consists of social symbols between the two parties. Confidence, trustworthiness, ethics, and friendship (to some extent) are central factors of the social exchange aspect. (Zineldin 1995: 34.)

3.3. Summary

In this chapter, a closer look at the two broad sources of bank loyalty was taken. The aim of this chapter was to point out what elements of service quality and bank – client relationships can vary and thus result in different levels of loyalty. In service quality, those sub categories are technical quality (what the customer receives), functional quality (quality of the process) and expected quality (expectations and assumptions about the service). The division of service quality elements was done mainly according to Grönroos (2007) but it was supplemented with Parasuraman's SERVQUAL model's assurance and responsiveness dimensions. Bank – client relationships on the other hand are described according to relationship length, intensity of the relationship and commitment to the relationship. Relationship quality can be evaluated by looking at atmosphere and interaction of the relationship.

Third chapter includes the variables empirical part of this study is going to measure. It will be seen which elements of service quality promote bank loyalty the most. Relationship management is evaluated in the same way and the results of the empirical part of this study will show which types of relationships are more loyal than others.

4. DIFFERENCES BETWEEN BALTIC STATES

This chapter handles national differences that may have an affect in bank loyalty. It can be expected the differences between the countries investigated in this study are not great. However, as the aim is to build a bank loyalty model from an international point of view, this chapter is essential. Cultural differences are first discussed and compared in the context of this study. Hofstedes' cultural dimensions are commonly used in studies which explain or predict behavior and preferences of different nationalities. Then, the Baltic States economic situation is briefly explained. Finally, the market situation of banks operating in the Baltic States is presented to the reader. Due to limited resources, more in depth analysis (for example PESTEL) of the countries is left out. Cultural and economical issues are discussed here as they are expected to have the most significant influence to the investigated subject.

4.1. National culture

In most Western languages "culture" means civilization or refinement of the mind such as education, art and literature. In a broader sense it means also the patterns of thinking, feeling and acting. It consists of ordinary things like greeting, eating or keeping a certain physical distance from others. Culture is always a collective phenomenon, because it is at least partly shared with people who lived within the same social environment, which is where it was learned. (Hofstede 1991:5.)

It can be argued whether characteristics of individuals in a nation have something to do with actions of a company in that country or not. It is thought that a company is not as inclined to influences of surrounding habits and culture as a person. Most of the company's decisions are taken after a rational deduction, but one might ask; who are involved in the decision making process? There are systematic tools for company decision making, but the discussion and decisions are always done by an individual or by a group of individuals. These individuals have been under the influence of their surrounding cultures all of their lives and therefore the influence of national culture is inevitably involved in a decision making of a firm. Therefore it is important to take national culture in to account when analyzing relationships between corporate customer and its bank.

This opinion is supported by Hofstede and Hofstede (2005: 20). They state that "*managers and leaders, as well as the people they work with, are part of national societies. If we want to understand their behavior, we have to understand their societies – for example, what types of personalities are common in their country, how families function and what this means for the way children are brought up, how the school system works, and who goes to what kind of school, how the government and the political system affect the life of citizens, and what historical events their generation has experienced*."

Geert Hofstede developed a theory about dimensions of national work cultures based on data that was collected from IBM employees in 50 different countries (Hofstede 1980). A statistical analysis of the answers on questions about the values of similar IBM employees in different countries revealed differences in following areas:

1. Power distance (PDI)
2. Collectivism versus individualism (IDV)
3. Femininity versus masculinity (MAS)
4. Uncertainty avoidance (UAI)
5. Short-term versus long-term orientation (added to the 1991 edition)

Power distance can be defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that the power is distributed unequally. In countries in which employees are not seen as submissive and managers not as authoritarian, employees express a preference for a consultative style of decision making: a manager who usually consults with his subordinates before reaching a decision. In countries on the opposite side of the power distance scale, where employees are seen as frequently afraid of disagreeing with authoritarian superiors, employees in similar jobs are less likely to prefer a consultative boss. In summary, in small power distance countries subordinates are more likely to approach and contradict their superiors. On the other hand, in large power distance countries, such consultations and contradictions are rare. (Hofstede & Hofstede 2005: 45-46.)

Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. *Collectivism* pertains to societies in which people from birth onwards are integrated into strong, cohesive groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty. The vast majority of people live in collectivistic cultures, where the interest of a group prevails over the interest of an individual. This is a result of larger family sizes in such cultures. Children are used to number of people living close to each other including parents, children, grandparents, aunts', uncles and so on. When children grow up, they learn to think themselves as a part of a larger group of people. Opposite to this, in an individualistic culture, families are smaller and more distant relatives are rarely seen. Children from such families soon learn to think of themselves as "I". One distinction between extremely individualistic and extremely collectivist culture concerns business negotiations and interactions. In individualistic countries, business is done with any representative of a company while in a collectivist culture it is done with a specific person whom one has learned to know and trust. (Hofstede & Hofstede 2005: 74-75.)

Femininity pertains to societies in which social gender roles overlap. *Masculinity* pertains to societies in which social gender roles are clearly distinct. In work life, femininity is expressed by a will to solve conflicts by compromises and negotiation. In masculine cultures, conflicts are solved by a good fight. Another difference lies in the motivator of the work. In highly masculine cultures, people "live to work", but in feministic cultures people "work to live". (Hofstede & Hofstede 2005: 117, 141-145.)

Uncertainty avoidance can be defined as the extent to which the member of a culture feels threatened in uncertain or unknown situations. All human beings have to face the fact that we do not know what is going to happen tomorrow, but we have to live with it anyway. This dimension measures the need of predictability: a need for written and unwritten rules. This dimension can be utilized in work life as an indicator of the will for long term careers. (Hofstede & Hofstede 2005: 167.)

Short-term orientation stands for the fostering of virtues related to past and present–in particular, respect for tradition and fulfilling social obligations. Its opposite, *long-term orientation* stands for the fostering of virtues oriented toward future rewards–in particular, perseverance and thrift. Thrift leads to savings and availability of capital for reinvestments. Actually, there is a correlation between GNP growth rate of nations and their long-term orientation. This indicates that the most rapid economic growth can be expected from countries that have high long-term orientation. Recent examples and proofs of such events are Taiwan, South Korea, Singapore, Hong Kong and Japan. (Hofstede & Hofstede 2005: 222.)

4.1.1. Cultural dimension scores

As the dimensions model has gained popularity, researchers have tried to go beyond the existing database in order to be able to use Hofstede's dimensions also when studying countries not included in the original database. In these cases, estimations have been used for countries that were not in the original study. The use of estimations is a legitimate way of extending the applicability of Hofstede's dimensions model, as long as the difference in reliability between these estimates and original scores based on Hofstede's research is taken into account. Also, the foundations of the estimations have to be considered in order to use them in an empirical study. (Kolman, Noordhaven, Hofstede & Dienes 2003: 77)

Unfortunately, the Baltic States were not included in the original studies of Hofstede (1980), so estimations of the scores have to be used in this case. Therefore it is necessary to point out that the following estimated scores do not posses the same reliability as the scores of the original research of Hofstede. However, as the meaning of the scores in this study is to highlight what kind of national differences there are, (instead of pointing out exactly how big they might be) these estimations can be used as indicators of national culture differences.

Estonian scores are estimations that were published by Hofstede and Hofstede (2005). Lithuanian scores, on the other hand are from a study of Mockaitis (2004). She made a replication study using the methodology of Hofstede using a matched student samples strategy. Latvian scores and a second set of estimations of Lithuanian scores were conducted by Huettinger (2008: 371). He formed a similar replications study among students in Latvia, Lithuania and Sweden. He used Swedish scores to calibrate the estimations, as Sweden was part of the original study of Hofstede (1980). In Table 4, scores of Estonia, Finland, Sweden, Russia and Poland are either from the original study of Hofstede or from his later (2005) estimations. Underlined scores are from the estimations of Huettinger (2008) and the italic scores are estimations of Mockaitis (2004). Huittinger and Mockaitis found very similar results except in masculinity-femininity dimension. There, Huettinger found exceptionally feminine scores for Latvia and Lithuania. Both estimations by Mockaitis and Huettinger were conducted from students, which gives reason to believe that the results may not apply to whole working society. It is surprisingly common to find completely opposite culture dimension scores about one country from different sources. For example PDI score of Russia has been given scores from 40 to 93. (Hofstede 1991, Bollinger 1994, Naumov & Puffer (2000).

Because of this, the whole concept of cultural dimension scores need to be analyzed carefully and one has to be critical when explaining or predicting real life situations based on them.

The short-long term orientation index was not included in all of the sources, so it was left out from this study. Available scores are in the table below. Scores of Finland and Sweden (Hofstede 1991) were added to give the reader a chance to compare the Baltic scores to Scandinavian culture, while scores of Russia and Poland (Hofstede 1991) reflect the cultural distance to east.

Table 4. Cultural dimension scores. (Hofstede 1991, Hofstede & Hofstede 2005, Mockaitis 2004, Huettinger 2008)

Country	**PDI**	**IDV**	**MAS**	**UAI**
Estonia	40	60	30	60
Latvia	44	70	9	63
Lithuania	*45* 42	*50* 60	*65* 19	*67* 65
Finland	33	63	26	59
Sweden	31	71	5	29
Russia	93	39	37	95
Poland	68	60	64	93

According to these scores, the cultures in Estonian, Latvian and Lithuanian are rather similar. It can be seen that the Baltic culture is much closer to the culture of Scandinavia, than to their other close neighbors Russia and Poland. It seems that the Soviet business culture did not eventually transfer to former the Soviet republics and nowadays the business culture of the Baltic States nearly matches the one in Scandinavia (Huettinger 2008: 372).

Power distance (PDI) index is nearly at the same level in Latvia and Lithuania, but somewhat higher compared to Estonia which leans towards Scandinavia in this sense. This indicates that Estonian culture is less hierarchical and decisions in a company are done more often through consultation between boss and subordinates. This could also reflect to the relationship between a bank and its client. Based on the scores, it is possible to assume that it is more common for clients and banks in Estonia to form an equal partnership, compared to Lithuania. In Lithuania, there would be clearer roles as a weaker and a stronger party. However, the difference is extremely small and the practical effects to bank relationships can not be expected to be major between Estonia and Lithuania.

Individualism-collectivism (IDV) index places all Baltic States among more individualistic countries. There is hardly any difference between Estonia and Lithuania in this dimension. Based on this, it can be assumed that managers in both countries are able to discuss with any representative of the bank instead of relying on one familiar contact.

Femininity-masculinity (MAS) scores from different sources give totally different kind of indications. If the distinctively feminine results of Latvia and Lithuania in Huettinger's (2008) study are put off, there seems to be major differences in the femininity-masculinity (MAS) index. According to bolded and regular font scores, Estonian and Lithuanian cultures differ clearly in masculinity – femininity dimension. Lithuania seems to be very masculine country as its MAS index is similar to Poland, Italy and Germany. In the original study of Hofstede, Lithuania would have been 15th most masculine country. Estonia on the other hand would have been found on the other end of the scale among the few of the most feminine countries in the original study. This indicates that Lithuanian management is more decisive and aggressive. Conflicts are generally solved by letting the strongest win. Estonian style is thus more intuitive and consensus seeking. Possible conflicts are more commonly solved by compromises and negotiation. However, as the MAS index scores from different sources gave opposite indications, it remains to be seen if the above argument is valid.

Uncertainty avoidance (UAI) seems to be at the same level in each Baltic State. Compared to results of the original study, all three countries are among the less uncertainty avoiding cultures. However, as Lithuania scored highest, one can expect more resistance for changes there, than in Estonia. This could apply also to the change of bank.

4.2. Economic situation

The Baltic States comprising Estonia, Latvia and Lithuania, are amongst the better performing economies in the Eastern Europe. The three have turned a corner since the collapse of the Soviet Union in 1991. Reforms were implemented at a rapid pace even as the respective economies declined sharply between 1991 and 1994 in the aftermath of the fall. Economic reforms like privatization, laid the foundations for growth in the years to follow. The countries gradually loosened government-control over the state-owned enterprises through the nineties and also implemented price reforms. Trade has increasingly shifted from Russia towards Western Europe and North America. The area is interesting as its economies are still developing. (Baltic States Country Profile 2006: 14-20)

Significant growth of the last decade lasted until 2007 and has now showed signs of slowing down as external demand weaken due to cooling of demand in Western Europe and tighter external financing conditions are weighing on investment and exports. Simultaneously private consumption has slowed because of rising food and energy prices. Table 5 visualizes radical changes in the growth rates of Baltic GDP's and consumer prices. It can be seen that all of the Baltic States are in a similar situation in terms of these numbers. Year 2007 was the last year of rapid growth and for the following years Baltic GDP is expected to stagnate. At the same time consumer prices are rising with two digit numbers. (International Monetary Fund 2008: 68-70)

Table 5. GDP and consumer prices of the Baltic States. (International Monetary Fund 2008: 70)

	Estonia	**Latvia**	**Lithuania**
Real GDP growth % (2007)	6,3	10,3	8,9
Real GDP growth est. % (2008)	-1,5	-0,9	3,9
Real GDP growth est. % (2009)	0,5	-2,2	0,7
Consumer prices growth % (2007)	6,6	10,1	5,8
Consumer prices growth est. % (2008)	10,2	15,9	11,3
Consumer prices growth est. % (2009)	5,1	10,6	6,2

These changes along with financial turbulence of 2008 have resulted in pessimistic views about the economies of the Baltic States. According to Violeta Klyviene, chief analyst at Danske Bank for the Baltic States, there is a high probability that the Latvian and Estonian economies will slip into recession this year. In Lithuania, the slowdown will be milder. (Klyviene 2008)

This development will inevitably lead to difficulties in Baltic SME sector as well as in bank sector. It is interesting to see which banks can support their corporate customers during the economic downturn. Bank loyalty is very multidimensional topic at the moment. As was mentioned by Ennew and Binks (1997: 89-91), banks have to consider what type of relationships and services they want to offer to companies, since not all of them can be provided with ideal terms from the company's point of view. On the other hand, some banks may actually fall down in the current financial environment. Warning example was 10.11.2008 when Parex Banka was taken over by the State of Latvia due to panic like withdrawals by their customers (Sahiluoma 2008). In this environment, it is vital for banks survival to hold on to their customers and assets.

From the business customer's point of view the situation is also interesting. Is the current bank strong enough to stand through the financial turbulence? Is it able to provide the company with necessary financing and other services? These questions may bring up an idea about a change of bank.

4.2.1. Market situation in the Baltic States

In Estonia, Hansabank is the largest bank with a significant difference in assets compared to the second largest bank, SEB Eesti Ühispank. Sampo (Danske) and Nordea hold the third and fourth position respectively. There are some other competitors in the country, but they are not as strong as the four main banks in Estonia (Figure 6). In Latvia (Figure 7), Hansabank is also the largest bank in assets. Parex (The State of Latvia has majority ownership since 10.11.2008) and SEB are the runner-ups with significant difference over DNB and Nordea. Latvian bank market has a distinctive feature of having plenty of small banks with low individual assets. In other words, a large share of markets is currently owned by very small banks. In Lithuania (Figure 8), SEB holds the first position, but Hansabank is not far behind. DNB Nord, Nordea, Danske and Snoras are medium size banks in the country. When looking at the assets of Baltic banks, it can be said that Hansabank dominates the Baltic markets with a significant margin.

Hansabank is owned by Swedish Swedbank. They aim to operate under one brand in all of its markets and therefore Hansabank is going to change its name to Swedbank gradually by autumn 2009. (Swedbank press release 15.9.2008)

Following the event of Lehman Brothers Investment Bank's request for bankruptcy protection, Swedbank announced that it has approximately SEK 202 million unsecured exposure and USD 1350 million secured exposures in Lehman Brothers Group. The collateral in the secured exposure consists of pool of 70 real estate debtors. (Swedbank press release 16.9.2008) According to Dagens Industri, this information has led many Swedish Swedbank private customers to withdraw their money from the bank (Mellqvist 2008). This suggests that recent turbulence in global finance can trigger a wave of disloyalty among the banks that are hurt by the fall of institutional banks. Practical example of such behavior was the nationalization of Parex Banka in Latvia. From this point of view, it is interesting to see how these kinds of news affect to the bank loyalty of SME customers.

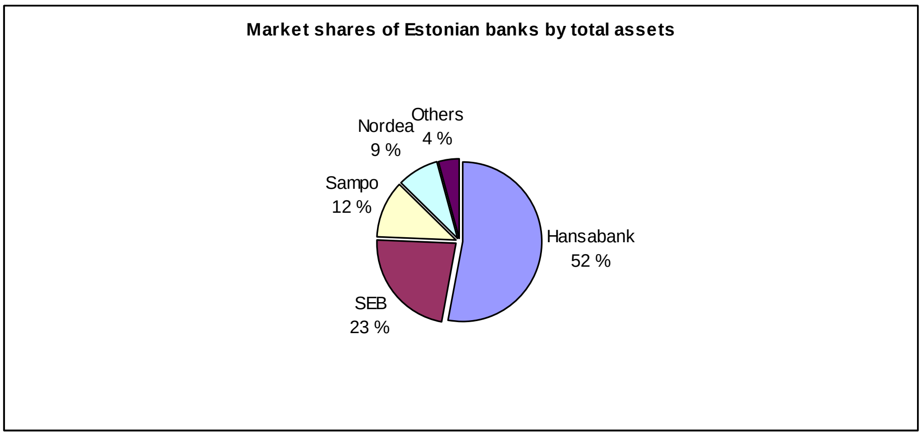

Figure 6. Assets of Estonian banks. (Estonian Banking Association 2007)

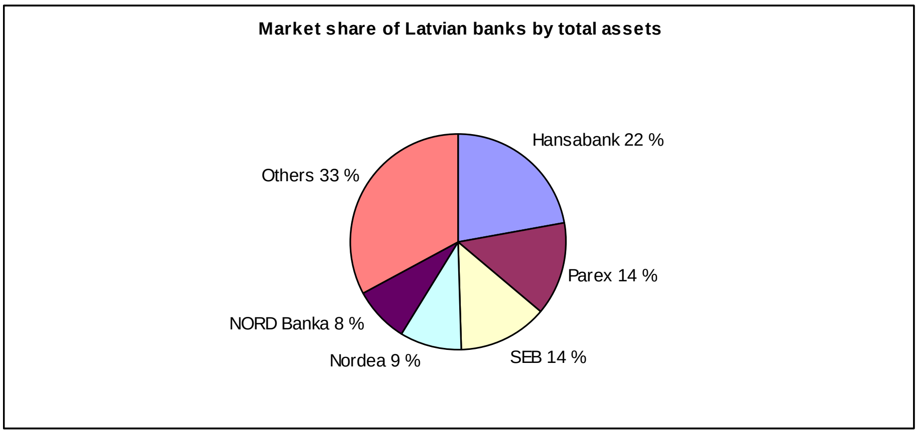

Figure 7. Assets of Latvian banks. (Association of Latvian Commercial Banks 2008)

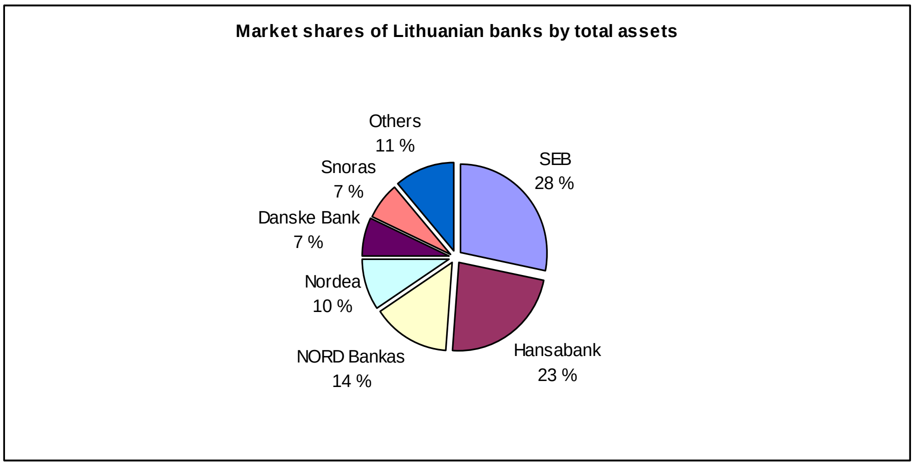

Figure 8. Assets of Lithuanian Banks. (Association of Lithuanian Banks 2008)

4.3. Summary

In this chapter, the Baltic States were introduced in terms of national culture, general economic situation and market situation in the bank sector. It was pointed out that the Baltic States are much closer to Scandinavia than to Russia in terms of national culture. However, some differences were found and assumptions about the bank relationships were made according to these findings. General economic situation and the reflections of recent global financial turmoil to the Baltic States were introduced briefly to give reader perspective to the environment the banks and the clients are facing at the moment. Economic situation is similar in each Baltic State, as all three countries are facing years of negative growth. Figures on the previous page show that the majority of the Baltic bank markets are controlled by Swedbank (former Hansabank), SEB, Nordea, NORD Banka and Danske (Sampo). As mentioned, the empirical part of the study concentrates to Estonia and Lithuania. However, this chapter points out that the national differences would not have been great even if Latvia was included in the study.

5. FRAMEWORK AND METHODOLOGY

In this chapter the framework of the study is put together to form a model which explains bank loyalty. The methodology of the empirical part of the study is also presented.

5.1. Bank loyalty framework

The theoretical objective of this study was to form a model, which points out bank loyalty drivers. The pieces for the framework were introduced in detail in previous chapters. Figure 9 draws them together as a visual model. This model is expected to include the reasons for bank loyalty, and this assumption will be tested in the empirical part of the study.

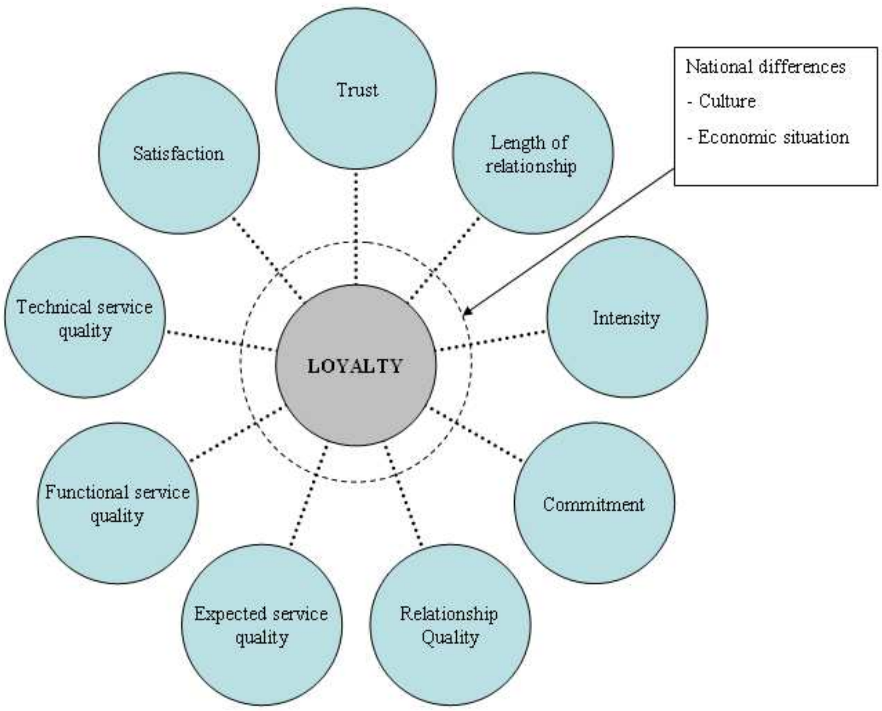

Figure 9. Model of bank loyalty drivers.

In the center of the model is loyalty. In chapter two, a three phased model of business to business loyalty was introduced by McMillan et al. (2007). According to the authors, *satisfaction* and *trust* are the two main ingredients for a truly loyal relationship. They are possible results of increasing interaction between two parties that can eventually lead to true *loyalty*. The increasing interaction and its affect to bank – client relationship was discussed in the relationship life cycle model by Zineldin (1993). It supports McMillan et al. (2007) idea of achieving loyalty by achieving larger share of client's wallet, increasing the level of trust and blurring boundaries between the parties.

Zineldin (1995), Lam & Burton (2006), Efma / Finalta (2008) and Ennew & Binks (1996) have identified a variety of reasons for bank loyalty. They can be categorized in two main groups. First of them, service quality was introduced in chapter 3. According to Grönroos (2007), experienced service quality comprises of *technical and functional quality*. Technical quality, the outcome covers all that the customer actually receives and is left with after the interaction. Examples of technical quality in this case are for example loan and deposit rates or variety of products and services. The other side, functional quality refers to the manner in which the service is delivered to the customer. Examples for functional quality are for example fast and reliable customer service, speed of decisions and skillfulness of staff. Once the experienced quality is combined with *expected quality*, i.e. what the customer can expect based on marketing and image of the company, the result is total perceived service quality. Grönroos' (2007) model was chosen to the framework to describe service quality, because of its broad subcategories. They capture the essential parts of bank services, cold hard numbers, practical execution and expectations towards the bank's services.

The other source of bank loyalty, bank – client relationship, was also discussed in chapter 3. Bank relationships can be different for various reasons. In this study, they are evaluated according to their length, intensity, commitment and quality. In studies of Zineldin (1995), Lam and Burton (2006), Efma / Finalta (2008) and Ennew and Binks (1996), *relationship length* has been found to be a major source of loyalty. It is also a simple way to categorize bank relationships. Peltoniemi (2004) suggests that the age of the relationship is not the only factor which needs to be addressed. According to him, bank – client relationship *intensity and commitment* are essential parts of the relationship. (Peltoniemi 2004: 20) Scope of services (intensity) will indicate how large share of the overall bank services are being consumed in one bank while the participation level (commitment) will reveal how open and flexible interaction is between the two parties. In addition to above differences in relationship types, there are also variation in the experienced *relationship quality*. In order to measure it, Zineldin's (1995) model was used to identify sources of relationship quality in business banking. Zineldin formulated three main components to describe bank – client interactions and relationships: environment, atmosphere and interaction process. Out of these three components, atmosphere and interaction focus on the parties' mutual relationships. Relationship quality is examined through personal relationships and banks attitude towards the company.

Circle around loyalty represents a filter, which modifies the answer to the question "What promotes bank loyalty?" It will be seen how much the importance of reasons for bank loyalty differ between countries. It is important to note that the filter is not in the essence of the bank loyalty model. Its purpose is to point out that the importance of different individual factors to bank loyalty can be amplified or restrained because of the environment.

As the study covers two countries, neglecting *national differences* would not have been wise. Especially because the model is meant to be adaptable to other countries as well. The idea is, that national differences can influence the way companies rank loyalty promoting elements. For example, what is considered an ideal bank – client relationship in one country might be mediocre in the other. General economic situation may affect to companies' emphasis when defining most important reasons for bank loyalty. For instance, in a country that is in recession, financing terms and ability get loan could have a big impact on bank loyalty. On the other hand, if the national economy is thriving, investment products and savings account interest rates could have a bigger role in evaluation of banks. In order to analyze the preferences of relationship types, Hofstede's cultural dimension scores can be used as indicators. They highlight the diverse natural behavior of persons and groups of persons in the different countries. Baltic countries seem to be rather similar according to Hofstede's dimensions. Still, few suggestions can be drawn from them. PDI –index showed that Estonian culture is less hierarchical than culture of Lithuania. This might indicate that equal and open "win-win" partnerships are more common in Estonia. Lithuania's high MAS –index supports this suggestion, as Estonian culture is more consensus seeking and open for compromises compared to Lithuania. On the other hand, UAI –index shows that Lithuanian culture resists change more than Estonian culture. Because of this, one could expect that changing banks is more common in Estonia.

As mentioned, the differences in economic situation between nations may have an effect for example to the demand of different types of products and services. Major differences in macroeconomic variables such as GDP growth rates and inflation rates would give reason to believe that nations' macroeconomic factors result in a different kind of situations for SME's. All Baltic States are facing the same financial challenges, but according to IMF forecast, Lithuania would be best off in terms of inflation and GDP development. This situation together with the threat of collapsing banks might reflect to the reasons for bank loyalty and likeliness of changing bank. The health of the whole economy, especially banking sector, may have positive or negative effect on bank loyalty. Therefore it is suggested that national differences can give different weight to individual loyalty motivators. However, as the countries economic situation is similar, the filter might be irrelevant in this case.

The model in Figure 9 is the main tool for analyzing bank loyalty of the chosen target groups in the empirical part of this study. The model will be tested and its functionality will be evaluated once the results are presented. The empirical part will also analyze the current level of bank loyalty and the relationship types between banks and their clients. National differences were discovered to be nearly non-existent, but this assumption will be tested by investigating Baltic companies' preferences and views about their bank relationships.

5.2. Methodology of the empirical study

Explanatory research aims to explain a phenomenon i.e. find a reason for it. Explanatory research answers to question "why". Descriptive research is rather close to explanatory research as it aims to describe the nature, frequency, development or other features of a specific phenomenon. It tries to find answers to questions like "what" and "how". (Uusitalo 1991: 62-63) Chosen research questions make this study descriptive in its nature. This study aims to give out preliminary results about bank loyalty in the Baltic States and tests the formed model of bank loyalty. Thus the results must be considered as indications about what the loyalty motivators might be, rather than absolute truth.

Survey was selected as a method of data gathering because it can economically collect a great deal of data about one individual respondent. Even though survey response rates are usually low, it was chosen over qualitative interview methods because surveys are a good way to gather large amount of preliminary information about a phenomenon. The question types in a survey can be divided to open-ended and closed questions. Closed questions specify the range of possible responses to a question and the respondent is forced to answer one of the given alternatives. Open-ended questions can pose similar questions but the respondent has freedom to answer in his or her own way. (Sapsford, Roger & Jupp 1996: 102, 105-106)

In order to make the questionnaire (Appendix 2.) easier to answer, all of the questions were closed. Having open-ended questions would have required use of several language versions and translators. It was also expected that a request to write complicated answers in English would have further lowered the response rate.

Survey was conducted with an E-form application available at the library of University of Vaasa. The respondents received an invitation e-mail (Appendix 1.) which introduced the idea of the research and included a hyper link to the actual Internet site of the questionnaire. In the invitation e-mail, each company received unique user name and password to log in to the questionnaire. Resistance to use given user name and password may have decreased the number of respondents somewhat, but this system allowed reminders to be sent only to the companies that had not yet answered the questionnaire. 1st invitation was sent on Sunday 23.11.2008. Two rounds of reminders were sent after the initial invitation. First of them was sent on Wednesday 3.12.2008 and second on Monday 8.12.2008. The questionnaire was on line until 14.12.2008 which offered companies full 3 weeks of time to answer the questionnaire. Results were analyzed with MS Excel and SPSS 15.0 for Windows.

Perkins (2004) has analyzed the pros and cons of internet surveys. According to her article, electronic method faces problems with layout problems, reaching the desired target group and wide variety of different technical problems the researcher and the respondent may face during the process. On the other hand, electronic surveys can reach extremely large sample with minimum costs. This normally results in better generalization of results. Electronic method is also less time consuming and the data coding and analysis of quantitative data can be done more efficiently. (Perkins 2004: 123-126)

The survey and its results are evaluated according to survey quality and the validity and reliability of the results. In order to get meaningful results, the survey has to meet following conditions stated by Aaker & Day (1986: 142):

- Population has to be defined correctly
- Sample is representative of the population
- Respondents selected to be interviewed are available and willing to co-operate
- Questions are understood by the respondents

- Respondents have the knowledge, opinions, attitudes or facts required
- Interviewer correctly understands and records the responses

Population was not narrowed down too much. By focusing into companies that work in one individual field like manufacturing or services, the results would have been statistically more valid. However, by including all Estonian and Lithuanian SME's of suitable size to the population, the sample size was kept high enough to expect reasonable amount of returned questionnaires.

The sampling frame was requested from a bank operating in the Baltic States. Co-operation with the bank only covered acquiring the e-mail addresses of suitable companies. The received sampling frame included contact information of Baltic SME's that fit to the target group of the study (customers of all banks). Some of the companies were excluded because they were too big in terms of turnover or number of employees. Even though sample size is large, the collection of the sample limits the validity of the results. As the sample was collected by a third party, it may be that it does not represent entire population as well as simple random sample would have. However, with the help of the contact information database of the bank it was possible to send the questionnaire to fairly large number of companies. Invitation was eventually successfully sent to 3056 companies in Estonia and 1552 companies in Lithuania.

Originally, above mentioned bank offered to sponsor the research by offering a prize which would have been raffled among the respondents. Due to the stormy situation in the Baltic financing sector, the bank withdrew itself from the research and thus there was no prize to motivate the respondents. In order to raise the respondent's willingness to answer the questionnaire, the opportunity of telling banks what business customers want in order to stay loyal was highlighted. Also, a chance to receive the results of the research was added to give respondents some concrete benefit for their time and trouble. Lack of motivating prize resulted in very small response rate. Total of 150 responses were received, out of which 125 from Estonia and 25 from Lithuania. Response rate was thus 4,09% in Estonia and 1,61% in Lithuania. Low response rate makes some of the statistical analysis impossible and it effects to the validity of the results.

As mentioned, English was chosen to be the language of the questionnaire, which no doubt affected to the response rate of the survey in a negative way. It was eventually the only possible solution with the available resources. Feedback from Lithuania indicated that some part of company managers could not understand the questions because of the language barrier.

The invitation to the questionnaire was sent to e-mail addresses which were rarely personal e-mail addresses of the managers. Most of the invitations were sent to companies general e-mail addresses (e.g. info@company.com). Therefore one can not be sure that the questionnaires ended up to the managers to answer. On the other hand, the invitation (Appendix 1.) was clearly addressed to company managers. Finally, the interpreter of the results can make mistakes when analyzing the data. All suspiciously filled questionnaires were discarded to minimize the likelihood of misinterpretations.

Credibility of a research depends on validity and reliability of it. Research validity can be evaluated according to its external and internal validity. External validity refers to generalization of the results, which means to what extent the results of a study apply to a larger similar group. It is important to design the research in such a way that it eliminates as many threats to validity as possible. Internal validity on the other hand refers to research's own validity. Researcher has to use the right terms, theories and scales. He has to make sure that the research measures what it is meant to measure. Careful planning and use of correct terms and relevant theories improve internal validity of a research. (Metsämuuronen 2005: 57) In this study, external validity is aspired through quantitative approach. In quantitative research it is important that numeric data is gathered from a group that statistically represents larger similar group. (Uusitalo 1991:81) In this case, the small amount of replies and language barrier lower the external validity of the results. Internal validity of this research depends on the chosen theories and quality of the questions. They were gathered and modified based on six previous internationally recognized studies related to the subject (Table 3).

Reliability refers to repeatability of the study. If the study is reliable, then the approximately same results will be achieved if the same phenomenon is measured using the same research type repeatedly. (Metsämuuronen 2005:65) As this study is based on earlier studies on the topic, some level of reliability ought to exist.

6. RESULTS OF THE EMPIRICAL STUDY

In this chapter, the results of the empirical study are presented and analyzed. First, the respondents are described in terms of location, turnover and industry. Then, the results achieved by testing the bank loyalty model are presented. After that, the level of bank loyalty is analyzed from several angles. Finally, existing relationship types and cultural preferences about bank relationships are discussed.

6.1. Overview of the respondents

As mentioned, the total number of filled questionnaires was 150. Out of them, 125 were from Estonia and 25 from Lithuania. Size of the companies was measured by turnover. Companies were able to select one out of eight different groups of turnover in the questionnaire, but the groups were combined in to two size groups for the analyzing of the data. These groups are companies which have turnover of less than 2,5 million Euros and companies with turnover of more than 2,6 million Euros. The questionnaire was sent to companies that had maximum turnover of 40 million Euros, which limits the second group's turnover to 2,6 - 40 million Euros. Three Estonian companies did not comment on their turnover, so they were left out from the results.

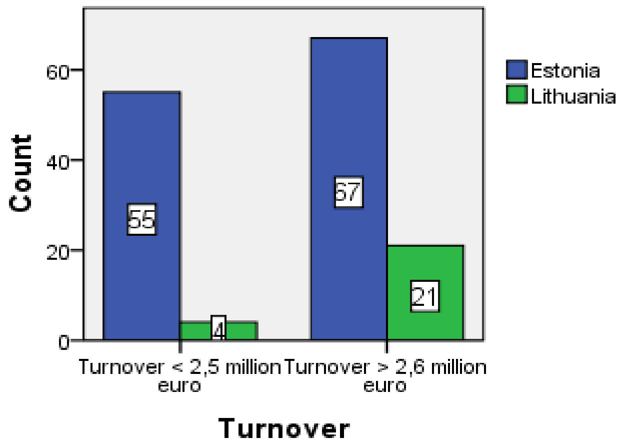

Figure 10. Turnovers of the respondents.

The respondents can also be grouped according to their line of business or industry. Again, the questionnaire offered more alternatives for the companies, but in order to form larger groups, 'Transport' was included in 'Services' and 'Agriculture' in 'Others'. There were seven Estonian and two Lithuanian companies who choose transport as their main line of business. Agriculture was chosen by two Estonian and one Lithuanian company. Figure 11 presents the companies according to their industry.

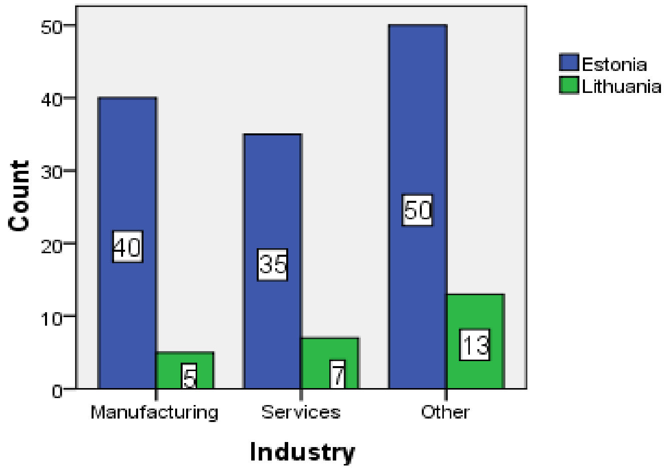

Figure 11. Industries of the respondents.

Grouping companies in categories according to their profession adds another angle to examination of business customers' bank loyalty. By dividing companies according to their industry, it is possible to form slightly larger groups out of the whole sample. However, the total number of respondents limits the possibility to compare companies within countries against each other.

6.2. Bank loyalty motivators

The theoretical model of bank loyalty drivers was tested with a set of questions about different factors impact to bank loyalty. Company managers selected a number from one to five to describe the factors' importance for staying as a customer of a business bank. Choosing number five meant that there is no effect at all, as number one meant that it is very important reason for staying in the bank. Next, the answers of company managers are presented as means of individual factors and means of factor groups. The 15 most significant reasons for bank loyalty are highlighted in Table 6.

Table 6. Bank loyalty motivators of all respondent SME's.

Satisfaction	**1,75**
You are generally satisfied with the bank	1,75
Trust	**1,67**
You trust the bank as a company	1,41
You trust the staff of the bank	1,92
Length of the relationship	**2,77**
The bank was your “take off” -bank (first bank)	3,16
You have long relationship with the bank	2,37
Commitment	**2,00**
The bank understands company's situation and is flexible in its decisions	1,82
You can openly tell the bank what is the real situation with your company	2,17
Intensity	**2,48**
The bank has most of your company's loans	2,66
Most of your company's banking services are in this bank	2,30
Relationship quality	**2,62**
The bank is willing to take care of all your company's credit needs	2,12
The bank has supported your company during hard times	2,08
You have your personal accounts in the same bank	3,48
You have a good personal relationship with your customer advisor	2,48
You find it easy to contact the staff of the bank	2,14
The bank has named one person to take care of your company	2,09
The bank treats your company as a unique client	2,23
You have regular meetings with the bank	3,25
The bank remembers you and your company with small gifts	3,72
Service quality (technical)	**2,09**
The bank offers quality advice	2,10
The bank has many products and services to choose from	2,29
The bank has good privacy and security level	1,67
The bank has lower than average fees and costs for their services	2,08
The bank has lower than average interest rate for loans	1,93
The bank offers higher than average interest rate for savings accounts	2,37
The bank offers innovative solutions, not just standard service packages	2,18
Service quality (expected)	**2,65**
The bank's image has not suffered from recent credit market turbulence	2,03
You have heard good things about the bank from other companies	2,64
The bank is active in its market communication and advertising	3,21
The bank has conservative and careful image	2,49
The bank is socially responsible	2,86
Service quality (functional)	**1,85**
The bank is near to your company (branch office is not far away)	3,35
The bank has good and reliable Internet bank	1,42
The bank offers fast and reliable customer service	1,52
The bank corrects its mistakes as soon as you mention about them	1,50
The bank personnel is skilled at its work	1,67
The bank personnel is always willing to help	1,66

On top of the table, satisfaction and trust receive very low scores which confirm that the model of McMillan et al. (2007) is valid. Existence of satisfaction and trust are extremely important for companies to stay loyal to their banks. All three individual factors are among the 15 most important reasons for bank loyalty. Length of the relationship receives highest factor group score and is thus least important source of loyalty for respondent companies. This is interesting, as previous studies in other geographical areas have found it to be very important reason for bank loyalty. It is important to notice how small impact the status of a start off bank has for Estonian and Lithuanian companies in this sense.

Commitment, on the other hand, is one of the most important factor groups. Bank's understanding and flexibility is among the top reasons for bank loyalty, but also company's own commitment to the relationship received relatively low score. According to the respondents, intensity of the relationship does not play a major role in generation of bank loyalty.

Relationship quality as a factor group received high average score, but some of the individual factors are worth pointing out as two of them are included in the 15 most important reasons for bank loyalty. These two individual factors are bank's support during hard times and a named contact person. Other important factors in this group are banks willingness to take care of all financing needs, approachability of the bank staff and a feeling of being a unique client to the bank. Gifts, regular meetings and having company manager's personal accounts in the same bank have weaker effect to promotion of bank loyalty of SME's.

Technical service quality is important factor group in general. It also includes three of the 15 most important individual reasons for bank loyalty. These individual factors are good privacy and security level, low fees and costs for services and low interest rate for loans. This factor group does not have distinctively unimportant factors, and thus all of them have to be considered at least significant reason to the promotion of bank loyalty.

Expected service quality is not among the most important factor groups according to the respondents. Only one individual factor rise to the top-15 list, the image of the bank during the turbulence in the credit markets. Understandably companies want to stay as a customer of a bank that is able to go through threatening financial crises with dry feet. Other rather important factor in this group is the conservative and careful image of the bank. These two factors are interrelated but this confirms that companies value banks that seem to survive well in current difficult market situation.

Functional service quality is the most important source of bank loyalty (if satisfaction and trust are excluded) according to the respondents. All but one individual factor received extremely low scores in this factor group. Banks will achieve many loyal business customers if they concentrate on having easy to use e- banking solution, fast and reliable customer service and personnel that is skillful and willing to help.

In summary, the most important reasons for promotion of bank loyalty can be found in different areas of the complete offering. Based on these results, it is not enough if one section of the offering is in top shape. For example having lowest fees on the market does not guarantee that the client feels like staying with that bank. By concentrating on the selected individual factors in the complete offering, it is much more likely to achieve a situation where the client's loyalty level is high enough for it to stay as a customer of its main business bank.

6.2.1. Bank loyalty motivators of smaller and larger SME's

By dividing the respondents to two size groups it could be seen if the reasons for bank loyalty are different for smaller and larger SME's. Size groups were formed from SME's of both countries with turnover of less than 2,5 million Euros (N=58) and with turnover of more than 2,6 million Euros (N=87). The results can be seen on Appendix 3. There were hardly any statistically valid differences in the reasons for bank loyalty between smaller and larger SME's. Only two were found and they are marked with stars in the Appendix 3. However, some directions can be drawn from the results and they are discussed next.

Length of the relationship seems to be more important factor for smaller companies. Nevertheless, it is the least decisive factor group for bank loyalty of both smaller and larger SME's. Commitment, on the other hand, is one of the most important factor groups. Larger SME's value especially banks’ flexibility in its decisions while smaller companies value possibility to openly discuss the situation of the company with the bank. Intensity of the bank relationship, in other words how large share of the financial services are provided by the main bank is evenly important for both segments.

According to the results, it is not among the top loyalty promoting factor groups with smaller or larger SME's.

Smaller and larger SME's value approximately same factors when it comes to relationship quality. It can be noted that larger SME's see regular meetings more important than smaller SME's. Technical service quality is among the top factor groups and it is slightly more important for larger SME's. For example innovative solutions, privacy and security issues and quality of advices are important for both segments. Both segments see pricing policies as an important source of loyalty, but interestingly larger companies emphasize the importance of fees (statistically valid weak correlation), savings account and loan interest rates more than smaller companies do.

Expected service quality is not as important as technical or functional service quality. However the image of the bank during the credit market turbulence stands out from this group as extremely important reason for bank loyalty. Small companies gave a higher importance to hearing good things about the bank from other companies (statistically valid weak correlation). Both segments agree on the importance of functional service quality. According to the respondents, it forms the most important factor group. Fast correction of mistakes, functional net bank, good customer service and having skillful and helpful staff are among the top reasons to be loyal towards a business bank.

6.2.2. Bank loyalty motivators of service and manufacturing SME's

Responded companies can be divided into three groups according to the industries the companies work in. These groups are manufacturing (n=45), services (n=42) and other industries (n=63). Since the last group consists of all sorts of companies, there is no point of including it in the analysis of loyalty motivators according to industry. Therefore only manufacturing and service companies' motivators were compared against each other. With more responses, the breakdown of bank loyalty according to industry could have been done within both countries. However, as the total number of responses remained low, this comparison will combine Estonian and Lithuanian companies into one larger group. Results can be seen in a form of a table on the Appendix 4. There was only one statistically valid difference in the reasons for bank loyalty between manufacturing and service SME's. This difference is in the impact of having most of the company's loans in the current bank. Manufacturing companies rate it as more important reason for bank loyalty than service companies. The existing weak correlation is marked with a star in the Appendix 4. Again, there were hardly any statistically valid differences between bank loyalty motivators of these groups, but the differences in the mean ratings can give an indication about them. They are discussed next.

Satisfaction and trust receive the lowest scores also in this comparison. It is worth noticing that the importance of trust was clearly highest among manufacturing companies. Relationship length was valued to approximately same level by all segments. The status of take off -bank is clearly less significant than the long relationship with the bank. This might sound controversy, but it merely points out that the companies value long relationships more than their debt of gratitude to the take off bank. Commitment of the relationship received one of the lowest overall scores. Especially manufacturing firms value bank's understanding and flexibility towards the company. Companies' own ability to tell the bank its true situation was considered important, but not as much as bank's flexibility towards the company. Intensity of the bank relationship was least important for companies in service industry (statistically valid weak correlation). Manufacturing- and other companies are thus more likely to stay loyal to the bank that they have most business with.

The bank's willingness to provide loans to companies in all industries is evenly important. It might be that the global shortage of financing makes this factor as important as it is now. Manufacturing companies give much more weight to bank's support during the harder times than the rest of the companies. Still, it is an important factor for all segments. Regular meetings are among the least important factors in this factor group, but manufacturing companies value them more than other segments. Manufacturing companies value lower fees, lower interest rates and higher interest for deposits more than other segments do. Expected service quality is among the least important factor groups. Only banks' good reputation in the middle of financial crisis is a major source of loyalty for all segments.

Functional service quality receives the lowest overall score of the bank loyalty model and is thus the most important source of bank loyalty for both manufacturing and service companies. Many of the factors in this group are more important than for example trust and satisfaction. Fluent co-operation with the bank begins to be seem like the single most important reason for bank loyalty among Baltic companies.

6.2.3. Bank loyalty motivators of Estonian and Lithuanian SME's

Finally, the bank loyalty motivators are analyzed according to the location of the company. This type of analysis would show if Estonian (N=125) and Lithuanian (N=25) companies have different loyalty motivators. As mentioned before, proper comparison between these two countries would have required more respondents from Lithuania. Still, two statistically valid differences were found and they are marked with star on the Appendix 5. Due to low number of responses from Lithuania, the following discussion about the differences in bank loyalty motivators can only be considered as indications about the reality.

Satisfaction and trust receive extreme low scores also with these segments. The length of the relationship is more important to Lithuanian companies than to Estonian companies. With these segments, there is the clearest difference in the importance of take off -bank -factor. Estonian companies do not consider it to be as important as the Lithuanian companies. Commitment is one of the top factor groups in both countries. Lithuanian companies do however give more value to flexibility of the bank.

Intensity of the bank relationship is more important source of loyalty to Lithuanian companies as having most loans in one bank seems to make Lithuanian companies more likely to be loyal to that bank. Estonian companies do not feel so strongly about its importance (statistically valid weak correlation). Relationship quality is evaluated approximately at the same level in both countries. Only noticeable difference is in having manager's personal accounts in the business bank, which makes Lithuanian companies more loyal to their banks (statistically valid weak correlation).

Technical service quality is important for both segments. Estonian companies value security issues and high interest rates for savings accounts more than Lithuanian companies do. Lithuanian companies on the other hand concentrate on the quality of advice, low fees and interest rates for loans. Expected service quality is the least important factor group together with relationship length. Only bank's reputation in the middle of financial crisis has exceptionally low score. However, it is worth reminding that as the scale is measuring how important different factors are in generation of loyalty, having mean scores close to 4,00 would mean that the factor is still a small reason for bank loyalty. Only by rating factors by number five, company managers indicated that a given factor does not have any effect to promotion of bank loyalty.

Functional service quality received once again extremely low scores. Qualities of bank personnel, quality of customer service and fluent use of net bank seem to be nearly identically important in both segments.

6.3. Level of bank loyalty and description of bank – client relationships

This part of the chapter concentrates in analyzing the level of bank loyalty and describing bank relationships in Baltic States – in this case Estonia and Lithuania together. First, the maturity of the bank relationships is discussed in the light of Zineldin's life cycle model. Then, the length of current bank relationships, the number of already conducted bank changes, the willingness to change bank at the moment and the number of simultaneously used banks is discussed. Finally, national differences in the preferences of bank relationships are approached by looking into some questions that were developed based on Hofstede's cultural dimensions model

6.3.1. Maturity of the bank relationships

Zineldin (1993) presented a life cycle model of bank - client relationships. It describes different phases in the relationship as it matures and changes its content. Four questions in the questionnaire (questions 16, 17, 18 and 10) aimed at identifying the current situation of Baltic companies and their banks in the context of life cycle model. In the first stage, the bank has made an offering and if the company feels that the bank could satisfy its needs, uncertainty is reduced and it is possible to move to the next stage. In the second stage, need for adaptations to the offering are apparent in order to meet the needs and wants of the parties. At the third stage, bank can offer additional services, build and maintain the relationship by simply having more business with the client. In the final fourth stage, the relationship includes interdependence and company's strong willingness to concentrate more and more of its business to one bank. If clients feel they are receiving value they are willing to pay premium price for the offering that should be hard to imitate by competitors due to adaptations.

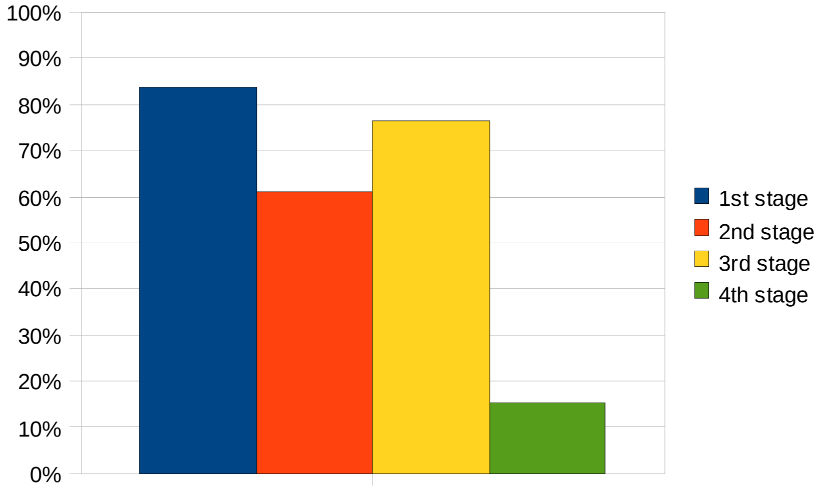

Figure 12. Achieved stages of the life cycle.

Figure 12 presents the percentages of Estonian and Lithuanian companies in each stage of the relationship. As expected, most companies are satisfied with the bank's ability fulfill their needs and thus 83,9% of all relationships have reached the 1st stage. More than half of all companies (60,7%) do not get adapted offers from their banks. This is understandable as it is economically profitable for banks to standardize their service packages. However, this does not encourage companies to deepen their relationship with their banks. Banks have been active on the third stage of the life cycle. Three quarters (76,7%) of all relationships have included offers of additional services from banks. This means that banks understand the profitability of having as large share of the clients' wallet as possible. By gaining banks' share in the wallets (getting larger share of all financial services the company needs) of their clients, third stage of life cycle is reached. It is worth noticing, that surprisingly many, almost one out of four companies have not received even offerings of additional services from their banks. Final stage of the bank client relationship life cycle is a stage of partnership relationship. During the process, the client is sure about the bank's ability to take care of its current and future problems and provide a high quality service packages. Only 15,3% of companies in this research are on the last stage of the life cycle. Vast majority (70%) of the respondents mentioned that they will not increase or decrease their shares of financial services in any bank.

Based on these results, most of Baltic or at least Estonian and Lithuanian bank – client relationships have reached three first stages of the life-cycle. However, only small share of the companies are fully committed to the bank relationship and plan to increase their business in their main business bank. As mentioned, 70% of Estonian and Lithuanian companies are not going to either increase their business with the main bank, or either to move it somewhere else. This indicates that the markets are stable and there is not much movement between competitors. According to the life-cycle model, Baltic companies have found their business banks and most of them are not going to make any changes to one direction or the other.

6.3.2. Number of bank changes

From all respondents, 130 answered this question. 81 companies (62,3%) had never changed their main business bank. Total of 37 companies (28,5%) had done it once, 9 companies (6,9%) twice and three companies had done it three or more times. Table 7. groups companies to different clusters and presents how many times they have changed their main business bank so far. First row of the table includes the percentages and frequency of all respondents. Differences between different segments were analyzed with correlations. There seems to be no significant correlation between turnover (r = 0,05; p = 0,572), industry (r = 0,126; p = 0,155) or location (r = 0,136; p = 0,124) of the company and the number of bank changes. All segments have similar bank changing history.

Table 7. Frequency of bank changes.

Number of bank changes	**0**	**1**	**2**	**3**	**4 or more**
All respondents	62,3% (81)	28,5% (37)	6,9 (9)	1,5 (2)	0,8 (1)

Thus it can be said that Baltic SME's do not change their main business bank actively. Vast majority (90,8%) of all respondents have never changed their main business bank or have done it only once.

6.3.3. Length of the relationships

The length of the relationship with the main business bank was also inquired. Total amount of responses for this question was 150 and they are presented in Table 8. More than half (66,0%) of all respondents have been customers of their main banks for 7 or more years. Bank relationships of 24,5% of all respondents have lasted for 4-6 years.

Only 9,5% had changed bank during the last 3 years. Similar structure was found in all investigated clusters.

Table 8. Length of main bank relationship.

Length of the relationship	7 or more	6-4 years	3-2 years	1-0 years
All respondents	66,0% (97)	24,5% (36)	7,5% (11)	2,0% (3)

Correlations between turnover (r = 0,003; p = 0,967), industry (r = -0,061; p = 0,458) or location (r = 0,003; p = 0,967) and the length of main bank relationship are not statistically significant. Based on these results it can be said that Baltic banks have had steady and faithful customers for the last decade. Based on the correlations, there seems to be no difference in the main bank relationship lengths between SME segments.

6.3.4. Willingness to change bank at the moment

Last questions about the level of bank loyalty focused more on the current situation. Companies were asked to evaluate their willingness to change bank at the moment on a scale from 1 (very likely) to 5 (definitely not possible). As the global financing crisis has had its impact also in the Baltic States, its influence to the willingness to change bank was asked separately.

Result of current bank loyalty question (Table 9) shows completely different kind of facts about the bank loyalty of Baltic SME's. First of all, 24,7% of all respondents consider changing main business bank at some level the moment (options 1 and 2). 10,7% chose the most extreme option. This is somewhat surprising as over 60% of companies in this research had never changed bank so far (Table 6.).

Table 9. Likelihood to change bank, all respondents.

Likelihood to change bank at the moment	1 Very likely	2	3	4	5 Definately not possible
All respondents	10,7% (16)	14,0% (21)	25,3% (38)	36,7% (55)	13,3% (20)
Estonia	11,2% (14)	16,8% (21)	25,6% (44)	35,2% (44)	11,2% (14)
Lithuania	8,0% (2)	n/a (0)	24,0% (6)	44,0% (11)	24,0% (6)

Only 13,3% of all respondent stated that is definitely not possible for them to change bank at the moment. When comparing results of Table 7 to previous bank loyalty behavior, it can be suggested that Baltic banks have to face increased defection rates in the near future. Still, the emphasis is on the neutral and loyal part of the scale as the mean of all responses is 3,28.

Correlations between two groups of companies according to their turnover (r = 0,119; p = 0,152) or industry (r = 0,032; p = 0,699) and likelihood to change bank are not statistically significant. However, the correlation between company location and likelihood to change bank is significant at the 0.05 level (r = 0,182; p = 0,026). This low correlation is a result of 46,4% of Estonian companies choosing either 4 or 5 (two most loyal options) as an answer to this question. These same alternatives were chosen by 68% of Lithuanian company managers. This indicates that Lithuanian companies are more likely to stay with their main business bank at the moment.

Table 10. Likelihood to change bank according to turnover.

Likelihood to change bank	Disloyal (1&2)	Neutral (3)	Loyal (4&5)
Turnover < 2,5 m€	25,5%	30,5%	44,1%
Turnover > 2,6 m€	23,9%	22,7%	53,4%

However, the small number of Lithuanian responses may have affected to the result. As mentioned, there was no statistically significant correlation between likelihood of changing bank and turnover of the company. However, by looking at the results in Table 10 it seems to be more common for larger SMEs stay loyal to their banks. Two most loyal options were chosen by 53,4% of larger SMEs.When asked about the effect of recent financial turbulence to the likelihood of changing bank, 13,3% said that it is a major reason for thinking about it. 30,0% said it is a small reason and 40,7% mentioned that there is no effect at all. On the other hand, 4,0% claim that the turbulence in the financial world is a small reason for staying in the current bank and 12,2% of all respondents said it to be major reason for staying in the current bank. There were no statistically significant correlations between the segments and the effect of financial turbulence to the willingness to change bank.

6.3.5. Loyalty level of different bank's customers

Table 11 presents differences in willingness to change bank among customers of different banks. Rather many, 45 respondents did not want to name their main business bank as the question was optional. Majority of respondents were customers of Swedbank and SEB, which was expected because of their strong market share in Estonia and Lithuania (Figures 6 and 8). Also Nordea and Danske were represented in approximately right ratio. Rows present the distribution of the current level of loyalty grouped in three categories for each bank. First column includes all those who answered two 1 or 2 (likely to change bank), the column on the middle includes neutral respondents and the third column shows how large share answered 4 or 5 (unlikely to change bank).

Table 11. Likeliness to change bank – comparison between banks. (1=Very likely, 5=Definitely not possible)

Likelihood to change bank	Disloyal (1&2)	Neutral (3)	Loyal (4&5)
Swedbank (n=53)	32,0%	28,3%	39,6%
Empty (n=45)	20,0%	33,3%	46,7%
SEB (n=30)	23,3%	16,7%	60,0%
Nordea (n=10)	0,0%	10,0%	90,0%
Danske (n=9)	33,3%	11,1%	55,5%
Other (n=3)	33,3%	33,3%	33,3%
Total (n=150)	24,7%	25,3%	50,0%

This cross tabulation reveals that there are few banks that stand out from the average results. Customers of Swedbank are more likely to be disloyal than any other bank which was represented in this research with significant number of responses. On the other hand, customers of SEB and Nordea are most likely to stay with their current banks. These results indicate that if Baltic SME's intend to be active in the bank changing front, some banks will face larger amount of customer defection than others. Bad press and damage of image related to the credit crieses may very well be the reason behind high disloyalty of Swedbank's cuostomers.

6.3.6. Number of simultaneously used banks

This part gives a general view on the behavior of all respondents in terms of how many banks are used simultaneously. Zineldin (1995) discovered in his research on Swedish

SME's that smaller companies tend to rely more on their main business bank, while larger companies operate through several banks. The same pattern is visible also in Estonia and Lithuania. When all respondents from both countries were divided in two groups according to their turnover, the difference was clear. One third (32,2%) of smaller SME's use only one bank and 42,4% use two banks. Same numbers for larger SME's are 25% and 51%. According to these results, split banking - the use of more than one bank is more common as the company size grows. However, the share of single bank users was significantly lower than in study of Zineldin (1995) and much closer to the results from Hong Kong by Lam & Burton (2006). It may be that split banking behavior has become more common over the years, as Zineldin's study is already 14 years old.

Mangers were asked how likely it is for their companies to use loan bank for all the other financial services their companies need (Figure 13). In other words, how much the fact of having loans in one bank effects to the selection of service provider for other financial services in favor of that same bank. In this case, there was no difference between smaller and larger SME's. Results suggest that it is extremely important for a bank to be the "loan bank" for their clients. Almost one fourth (22,8%) of all company managers state that they are extremely likely to use only loan bank for other services, while 44,3% chose the milder alternative of it being likely. Only 17,4% selected the option of using other banks and 14,8% did not have an opinion.

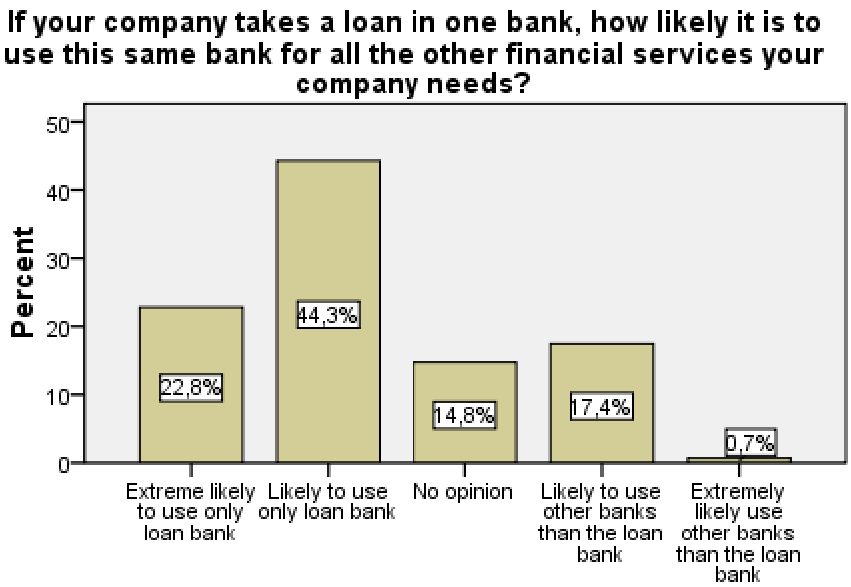

Figure 13. Likeliness to use loan bank for other financial services.

6.3.7. Intensity and commitment of the bank – client relationships

Intensity of the bank relationship means in what extent the company has chosen to use services of its main business bank. Extremely intensive bank relationship would be one where all financial services are provided by one and only service provider. Figure 14 shows who provides financial services for SME's in this research. Results are in percentages of all companies. Different products are listed here so that the blue bars indicate how large share of the companies acquire that service or product from their main business bank only. Orange bar represents the share of all companies who use other than their main bank for that service or product. Yellow bar shows the share of companies who do not use such service or product.

It can be seen that over 60% of companies have debit/credit -cards, daily money transfers and loans from their main business bank. Cash management services are purchased from the main bank by 58,6% of all respondent companies. These four services are most often in the main bank. By looking at the orange bars, the share of products from elsewhere, it can be seen that insurances, leasing and savings/investments are most common services to be bought somewhere else.

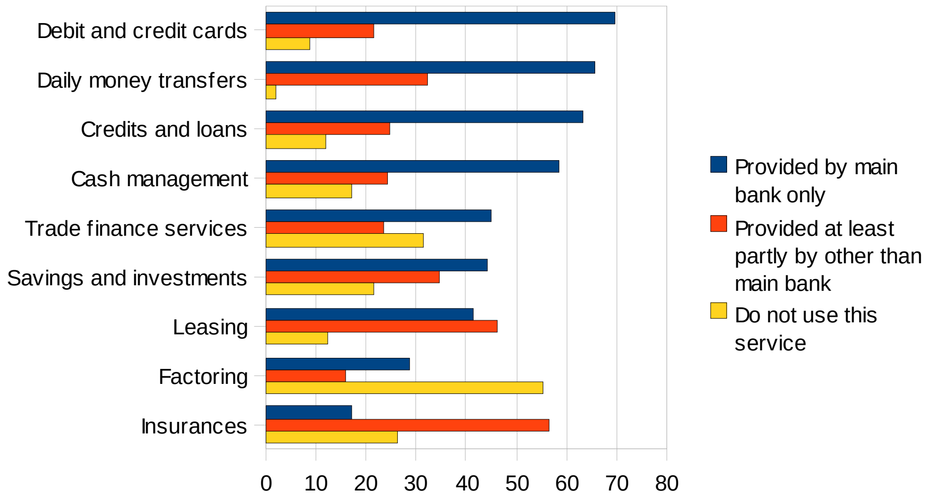

Figure 14. Intensity of bank relationships.

From the main bank's point of view there is definitely lot to improve in this sense. Increasing the level of intensity in the relationship would bring more cash flow to the bank. Evidently, there are plenty of companies who are spreading their banking needs to several service providers. Not to mention smaller, but surprisingly large share of companies who are getting such basic services as debit/credit cards and cash management services from somewhere else than their main business bank.

Intensity's effect to level of loyalty was tested by comparing results of this question to the likelihood of changing bank at the moment. Four services correlated in a significant level with the possibility of changing bank. Based on the results of this research, if a company is getting specific services from its main bank, it is statistically valid to say that they are less likely to consider changing bank. These services are daily money transfers (r = -0,207; p = 0,012), savings and investments (r = -0,276; p = 0,003), cash management services (r = -0,220, p = 0,016) and trade finance services (r = -0,220, p = 0,025)

Commitment of the relationship means firstly in what extent the company is willing to share information about its situation with the bank and secondly, how much flexibility bank is offering to the company in its decisions. Table 12 shows in a form of a cross tab how committed respondents see themselves and their banks to the relationship. Results are in percentages of all companies. Rows represent the commitment of the respondent companies and how openly they tell their banks what the real situation of the company is. Columns show the commitment of banks and how flexible banks are towards the respondent companies.

Table 12. Commitment to the bank - client relationship.

	Bank is always flexible	Bank is sometimes flexible	Bank is rarely flexible
Company tells everything	**5,3%** (8)	**2,7%** (4)	**0,7%** (1)
--"-- most things	**10,7%** (16)	**30,2%** (45)	**4,7%** (7)
--"-- only partly	**5,4%** (8)	**24,2%** (36)	**1,3%** (2)
--"-- as little as possible	**0,7%** (1)	**8,7%** (13)	**5,3%** (8)

The results show that when banks are committed to the relationships, so are the companies. Statistical analysis confirm that these two types of commitments are correlating with each other (r = 0,312, p = 0,000).

Commitment's effect to level of bank loyalty was tested by comparing results of this question to the likelihood of changing bank at the moment. There was no statistically significant correlation between the company's willingness to share information and the level of bank loyalty (r = -0,008, p = 0,923). It seems that companies that have direct and open communication with their banks are not more loyal than others. However, banks' flexibility towards the company is connected to the level of bank loyalty. Correlation between these two variables was visible (r = -0,230, p = 0,005). This result is not a surprise since there is no reason why any company would want to change a bank that is often flexible in company’s favor.

6.3.8. National preferences about bank relationships

Company managers in both countries were asked some questions that tried to reveal how much cultural difference affect to business customers' bank relationships and loyalty. Having only 25 responses from Lithuania limits the validity of this part, and thus these results must be seen as indications of what reality might be. Also, the responses were very similar as the differences in culture and economic situation are nearly non-existent. For example, 92,7% of Estonian managers and 92,0% expected to have a named contact person for their company. This question was not able to make significant difference between the countries and it is likely that the question did not measure what it was supposed to.

The managers were asked which one is better for their company - flexibility of short term bank relationships and using many banks at the same time or stability and long term relationship with one bank. The results were the same in Estonia and Lithuania with no difference between smaller or larger SME’s. Vast majority of companies in each segment (84,0% – 86,4%) preferred stability of one long term relationship. It seems that this ideal situation does not always exist in real world, as it was already pointed out that two thirds of smaller SME’s and three fourths of larger SME’s use more than one bank. However, this result indicates that companies are interested in building strong bank relationships with one financial service provider.

Managers from both countries gave similar answers also to the question about the possibility of a win-win situation between the bank and the company (Figure 15). More than half of the company managers in both countries think that a win-win situation is possible. Even though Lithuania is more masculine than Estonia according to cultural dimensions scores, Estonians seem to think more often that there is one stronger and one weaker party in a bank - client relationship.

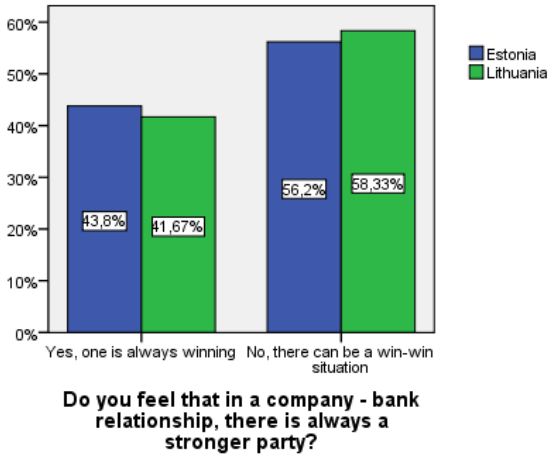

Figure 15. Femininity - masculinity in bank relationships.

Only one question divided respondents according to their nationality. Question related to uncertainty avoidance asked respondents "Do you feel that if your company changes bank, it could lead to unexpected difficulties?" The results (Figure 16) show that only one fourth of Estonian companies think that changing a bank would cause them difficulties they can't foresee. Opposite to that, more than half of the Lithuanian respondents said that they felt changing their bank would cause such difficulties. Lithuania's uncertainty avoidance score was the highest of all Baltic States, so this result supports cultural dimension's suggestion of Lithuanians being more resistant to change bank than Estonians.

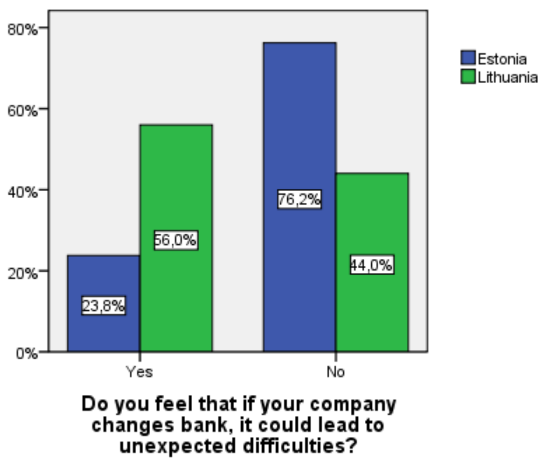

Figure 16. Uncertainty avoidance in bank relationships.

7. SUMMARY AND CONCLUSIONS

Bank loyalty has been studied quite comprehensively among retail customers, but not very often with a focus on business customers. Bank markets in Baltic States have developed freely since significant market liberalization of Central and Eastern European Countries in the beginning of the 1990's. The motivation to make this research rose from the interest to see what makes business customers loyal to their banks especially in this area. Business customers are traditionally considered less emotional than private customers. However, bank – client relationship is quite different from traditional buyer – supplier setting. As Zineldin (1992) mentioned, banking is most of the time intangible, services are complicated and long lasting. Many times there is high level of trust and even personal friendship involved in these relationships. Therefore it can be expected that there are not only price –related reasons for bank loyalty. Therefore this study aimed to answer what kinds of factors play a role in generation of loyalty? It was also interesting to see how active companies are in the bank changing front and to find out how loyal business customers are towards their banks at the moment. In few existing business customer loyalty and bank selection studies around the world some key factors have been found to increase business customer's willingness to choose a bank in the first place or to keep on using that bank. Such studies had not been done about the Baltic States. The international credit crunch and crises of global finances adds an important reason to study bank loyalty of such an large segment as SME's. As the results of this study confirm, companies are considering change of bank more often than they used to because of recent events in the global finance.

Three sub objectives were created in order to meet the main objective of the thesis - analysis of business customer's bank loyalty. They were the following:

- **Form a model of factors promoting business customers' bank loyalty (from an international perspective)**
- **Test the model empirically**
- **Analyze business customer's bank loyalty and describe bank relationships in the Baltic States**

This chapter explains how these objectives were approached and what the outcome of the results was. In the end, future research possibilities and practical implications of the results are discussed.

7.1. Bank loyalty model

First objective was approached by focusing on the concept of business to business loyalty. McMillan et al. (2007) suggested that satisfaction and trust precede loyalty. Satisfaction is the first step, increased use of products and services is the second. Finally, real loyalty can be achieved through deep feeling of trust between two parties. According to them, satisfaction and trust can eventually lead to loyalty and therefore business banks should be aiming for these things. Previous research results about bank selection criteria and bank loyalty were used to collect factors that might be causing satisfaction and trust. After discussing the results of previous studies, relevant areas of theory were presented in more detail. Chapter three discussed the service quality and relationship management. Service quality factors were grouped to technical, functional and expected service quality. Relationship –related factors were grouped as length, intensity, commitment and quality of the relationship. The fourth chapter considered national differences' possible effect to the importance of individual loyalty promoting factors. So formed business customer bank loyalty model was presented in chapter five (Figure 9).

The model aimed at gathering the most important loyalty promoting factors into one visual model. All factors that came up in the previous studies and theory part of this study were tested to see how well the model works in real life situations.

7.2. Testing the bank loyalty model

Second objective of the study was to test the model empirically. For this purpose, Baltic SME managers were contacted and requested to fill a questionnaire which was conducted based on the bank loyalty model. Initially, the purpose was to cover all three Baltic States, but limited resources narrowed the target group to Estonian and Lithuanian SME's with turnover up to 40 million Euros. As there was no significant motivator for the company managers to answer the questionnaire, the total number of filled questionnaire was disappointingly low, 150. However, this amount makes it possible to use tools of statistical analysis and thus it can be considered as sufficient for the testing of the suggested bank loyalty model.

The results show that the reasons for Estonian and Lithuanian SME's bank loyalty are various. The most important sources of loyalty are as expected, trust and satisfaction. Bank loyalty model suggested different ways satisfaction and trust can be achieved. These factors were scored from 1 to 5 according to their importance by Baltic SME managers. Number one meant that the factor is extremely important reason for bank loyalty, while number five meant that there is no effect at all to bank loyalty. Each factor group of the model included two or more individual factors. The results were compared between smaller and larger SME's, different industries and home countries of the companies. Surprisingly few statistically significant differences were found in the reasons for bank loyalty between these sub groups. According to these results, the reasons for bank loyalty are similar for all studied segments. This result indicates also, that the national differences between Estonia and Lithuania are not large enough for them to have an effect on the reasons to bank loyalty. Therefore, this part of the bank loyalty model remains to be tested properly. Still, there is no reason to believe that reasonable differences in culture and economic situation would not affect to the reasons of bank loyalty. At this point, it is good to remind that the small amount of responses narrow the possibility of pointing statistically significant differences. However, by looking at the mean scores in Appendixes 4, 5 and 6, some direction can be drawn about the different impact of specific factors to bank loyalty between segments.

All individual factors' mean scores as well as factor group mean scores were presented in Table 6. Segment to segment comparisons can be found in Appendixes 4, 5 and 6. Here, Figure 17 shows the connection of different factor groups to formation of loyalty. Thicker line means that the connection is more significant. It is worth noticing that all factor groups were rated at least slightly important in the empirical results. This means that the theory found correct factors and factor groups.

Trust and satisfaction are on top of the list as expected. Functional service quality is next. This means that business customers value highly functionality and usability of their banking services. Commitment to the relationship is also significant reason for bank loyalty. If a bank wants to hold on to specific business customer, it pays off to show understanding and flexibility as well as encouraging business customer to openly tell about its business situation with the bank and thus make it more committed to the bank relationship.

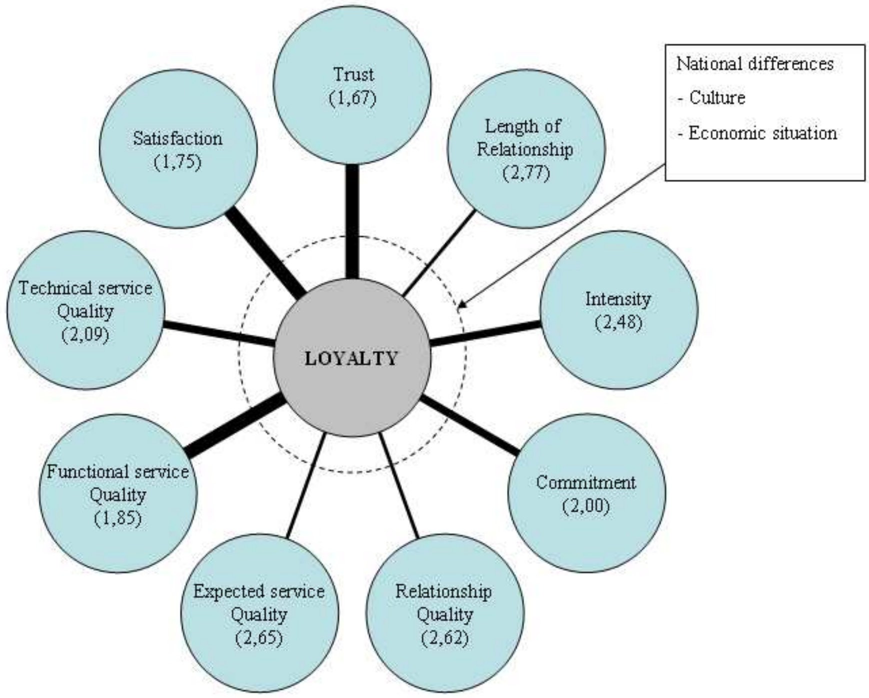

Figure 17. Conclusion of the bank loyalty model

Technical service quality - what the company is left with, is high on the list but as suggested by previous studies, not the most important factor group. Intensity of the relationship was scored as surprisingly unimportant factor group. Perhaps the respondents could not objectively evaluate the tendency to keep using the services of the bank they are currently using the most in this context. Earlier in Chapter 5, Figure 13 supports this view with results to similar question which indicates that the having most of the company loans in one bank is a major reason for using that same bank for other services as well. Relationship quality received third biggest factor group mean score because it included few very unimportant factors. This factor group had several individual factors that were ranked as significantly important reasons for bank loyalty. Therefore this factor group should not be overlooked. Expected service quality was the least important type of service quality. This was expected as only hearing good things about the bank from competitors and colleagues was discovered as a loyalty motivator in earlier studies. Length of the relationship was the least important factor group for the respondents, which was a surprise as it was one of the identified reasons for bank loyalty in earlier studies in other parts of the world. Based on this study, it can be said that Estonian and Lithuanian companies do not consider long history with the current bank as an important reason to stay loyal to it.

After looking at the importance of factor groups, it is essential to see also which individual factors were ranked as the most important reasons for bank loyalty. Table 13 presents a list of the 15 most important reasons for bank loyalty according to all respondents. This list together with rest of the factors (Table 6) proofs that there are several areas of the banks offering that can cause business customer to stay loyal. Only few of the tested factors received average rating of 3,00 or higher.

Table 13. The 15 most important reasons for bank loyalty.

Individual factors - TOP 15	**Mean**
1.You trust the bank as a company TR	1,41
2.The bank has good and reliable Internet bank FSQ	1,42
3.The bank corrects its mistakes as soon as you mention about them FSQ	1,50
4.The bank offers fast and reliable customer service FSQ	1,52
5.The bank personnel is always willing to help FSQ	1,66
6.The bank personnel is skilled at its work FSQ	1,67
7.The bank has good privacy and security level TSQ	1,67
8.You are generally satisfied with the bank SAT	1,75
9.The bank understands company's situation and is flexible in its decisions C	1,82
10.You trust the staff of the bank TR	1,92
11.The bank has lower than average interest rate for loans TSQ	1,93
12.The bank's image has not suffered from recent credit market turbulence ESQ	2,03
13.The bank has lower than average fees and costs for their services TSQ	2,08
14.The bank has supported your company during hard times RQ	2,08
15.The bank has named one person to take care of your company RQ	2,09

Trusting the bank as a company and having good and reliable Internet bank received the lowest scores. The importance of Internet bank facility is definitely something that Baltic banks should take into consideration if they want to make their customers loyal in a cost effective way. Improving Internet bank facility should in theory increase the level of loyalty most effectively as it is nowadays used by nearly all companies and its importance is essential according to the respondents of this study. Fast correction of mistakes was third on the list and followed by fast and reliable customer service and personnel’s willingness to help. Focusing on these issues is something that can be done in each unit of the bank without massive investments and reforms. Still, they are among the most important factors that promote bank loyalty among Baltic SME’s.

Seventh on the list is good privacy and security level of the bank. This is a challenge for most banks as new ways of “phishing” are developed constantly. General satisfaction towards the bank is followed by bank’s understanding and flexibility towards the company. Offering flexibility is naturally something that cannot be offered to all clients in same extent. Anyway, if a bank shows understanding and agrees to be flexible in its decision, it is very likely that the client becomes more loyal towards that kind of a bank. Number 10 is the trust towards the staff of the bank. It is interesting to note that trust towards the bank as a company is rated more important than trust towards the personnel of that bank.

Numbers 11 and 13, low interest rate for loans and low fees and costs for the services are the easiest factors for the clients to compare. Still, they are already out of the ten most important reasons to stay loyal towards a bank. Thus it can be said, that even if a company’s current bank offers lowest interest rates and fees for its services in the market, there might be at least ten better reasons to switch to a competitor. These technical service quality factors are of course significant, but as previous studies have proven, they are definitely not the most powerful motivators to stay loyal towards a bank.

Bank’s support during difficult times had been identified as one of the main reasons for bank loyalty of European SME’s in the SME Business Owners Survey (2008). Currently Estonian and Lithuanian company manager value it as 14th most important reason to stay loyal to the main business bank. As the region is stepping into recession, the difficult times are now at hand. Banks have to consider which of the companies can be supported and compare the cost of it to the moderate increase of bank loyalty. A named contact person in the bank was the 15th most important reason to be loyal to a business bank. This is understandable as relationship gets tighter as matters are dealt mainly with one specific person. This kind of service is impossible to offer to all SME’s due to limited resources. The complete list (Table 6) includes many more significant reasons for bank loyalty, but these 15 are the most important ones. As mentioned, many of the top 15 factors are quite easy for banks to develop if they consider enhancing their customer loyalty worthwhile.

The bank loyalty model seems to have grasped many important factor groups and based on their mean ratings all groups are at least slightly important for staying as a customer of a business bank. In this light the model worked well, as all groups were supposed to be important. Meaning of the model was to identify all relevant areas that create bank loyalty. Within them, some of the key reasons to bank loyalty were discovered and presented in Table 13. The only remaining questions are whether there are some more factor groups that were not included in the model, or if the included groups did not cover all individual factors that promote loyalty.

7.3. Analysis of the level of bank loyalty and bank relationships

Based on Zineldin's life cycle model, most of Baltic or at least Estonian and Lithuanian bank – client relationships have reached three first stages of the bank - client life cycle. This indicates that the markets are stable and there is not much movement between competitors. However, only small share of the companies are fully committed to the bank relationship and ready to move to the final fourth step by increase their business in their main business bank. Approximately 70% of Estonian and Lithuanian companies are not going to either increase their business with the main bank, or either to move it somewhere else.

The lengths of current main bank relationships support the view that the markets are stable and not much movement has happened over the last few years. The main business bank relationship has lasted more than 7 years with 66,0% of the respondent companies. On top of that, 24,5% of companies have had their current bank for 4-6 years. Only 9,5% of the respondent companies had changed their bank over the last three years.

Last confirmation for the stable market situation in the past can be given by looking at the total number of executed bank changes so far. Majority (62,3%) of the companies had never changed their banks and 28,5 % had done it only once. Together these two groups form 90,8% of all respondents, which makes it possible to say that Estonian and Lithuanian companies have not changed their main business banks actively.

Respondents answered also to a question about the likeliness to change bank at the moment. The results of this question give reason to believe that the calmness in the Baltic bank markets is about to change. Surprisingly large share of the respondents, (24,7%) indicated that they are likely to change bank at the moment. There was a statistically significant difference in the answers between Estonian and Lithuanian respondents. Lithuanian companies are more likely to stay with their main business bank at the moment. However, the small number of Lithuanian responses may have affected to the result.

When the current level of bank loyalty was analyzed according to the main bank, it could be seen that Swedbank has currently the least loyal customers. This result was anticipated as Swedbank's reputation has suffered due to recent events in global economy (Mellqvist 2008). On the other hand, SEB and Nordea have the most loyal customers. Exact result of Nordea has to be considered somewhat critically as there were only ten respondents who identified Nordea as their main business bank. However, SEB and Nordea received extremely good ratings and the results should give a good direction about the reality.

Zineldin (1995) discovered in his research on Swedish SME's that smaller companies tend to rely more on their main business bank, while larger companies operate through several banks. When all respondents of this study were divided in two groups according to their turnover, the difference was clear. One third (32,2%) of smaller SME's use only one bank and 42,4% use two banks. Same numbers for larger SME's are 25% and 51%. According to these results, split banking - the use of more than one bank is more common as the company size grows. In this context, it was also inquired how likely it is for companies to use only the main loan bank for other services the company needs. Contrary to the result of similar question in the bank loyalty motivators questionnaire, the managers indicated this time that it is likely or extremely likely to use only this bank (44,3% likely, 22,8% extremely likely).

Last part of the empirical results concentrated on describing the bank relationship intensity and commitment and their effect on the current level of loyalty. Also national preferences and attitudes about bank loyalty were discussed. By looking at the percentages of different services acquired from the main business bank, it can be said that there are chances of improvement in the intensity of the bank – client relationships. For example debit and credit cards are the most common bank service that is acquired solely from the main bank, but this happens in only 70% of the companies. Even with such a basic bank service, over 20% of companies use also other service providers than the main bank. There are plenty of other products and services companies are spreading to other competitors in larger extent. This is interesting, since some of the services correlated significantly to the level of current bank loyalty. In other words, companies that used their main bank for daily money transfers, savings and investments, cash management services and trade finance services were less likely to change their main business bank at the moment.

Commitment to the relationship was measured by asking how openly companies tell their banks what is the true situation of the company and how understanding and flexible banks are towards their clients. Most of the companies (54,3%) are able to tell their banks most or all things about the company situation. Truth is given to the bank only partly by 30,9% of the respondent companies and it is avoided as much as possible in 14,7 % of the cases. Correlation test did not point out any significant connection with company's openness and the current level of bank loyalty. Banks are always understanding and flexible in 22,1%, sometimes in 65,7% of the and rarely in 12% of the cases. As can be expected, bank's commitment to the relationship correlates significantly to the level of bank loyalty. Thus it can be said that a company that gets understanding and flexible decisions from its bank is more likely to stay loyal to that bank.

Company managers in both countries were asked some questions that tried to reveal how much cultural difference affect to business customers' bank relationships and loyalty. Having only 25 responses from Lithuania limits the validity of this part, and thus these results must be seen as indications of what reality might be. Also, the responses were very similar as the differences in culture and economic situation are nearly non-existent. Nearly all of the companies in each segment (84,0% – 86,4%) preferred stability of one long term bank relationship over flexibility of having many short term bank relationships. This means that there is a will to concentrate to one long term relationship which is not yet true in practice as the intensity of the relationships was discovered to be rather low. However, these results indicate that there is a demand of additional services from the main business bank.

Hofstede's dimensions suggested that Lithuanian is more masculine than Estonian culture and therefore it was expected that Lithuanians would be less likely to form win-win situations with their banks. Results were quite similar, as over 40% of companies in both countries believed that one party is always winning in bank relationships. Against the expectations, Lithuanians saw formation of win-win situations possible more often than Estonians. One question divided opinions according to the nationality of the company. Only 23,8% of Estonian companies think that changing bank could lead to unexpected difficulties, while 76,2% of Lithuanian companies chose the same alternative. This result was anticipated as the uncertainty avoidance is higher in Lithuanian culture. As mentioned before, the low response rate in Lithuania affects to the validity of comparisons between the countries, but some suggestions can be given especially about the uncertainty avoidance. Even though the likeliness to change bank did not correlate significantly according to nationality of the company, this last result indicates that Lithuanian companies might give up the idea of changing bank due to fear of unexpected difficulties after the procedure.

7.4. Practical implications and future research suggestions

This study gives insight to the reasons of bank loyalty firstly by presenting a bank loyalty model, which can be further developed and used in other markets to identify reasons for bank loyalty. It was pointed out that loyalty is created mostly in the area of functional service quality, but individual reasons for bank loyalty can be found all over the model.

Testing of the bank loyalty model offers some valuable information about the bank loyalty motivators of Estonian and Lithuanian SME's. These reasons can be carefully considered to apply to all Baltic States as the Latvian culture and economic situation is very close to Estonia and Lithuania. Also, the current level of bank loyalty and the effect of relationship intensity, commitment and culture were measured and this information can be used in planning of customer retention and acquisition strategies. It seems that the Baltic SME's have not been active in changing their main business bank, but this situation might be changing as one out of four companies indicated that they are considering changing of bank at the moment. Customers of different banks have different tendency to change bank and it may very well be that some banks are going to lose significantly more customers than others.

The results of this thesis have to be considered as preliminary and as a base for further research on the topic. It is likely that more responses and thus statistically valid results would have been achieved with a good motivator, such as a lottery and possibility to win a significant prize by answering the questionnaire. It is also possible that some of the main reasons for bank loyalty were not included in the questionnaire at all. Therefore it could be that both the suggested list of individual reasons for bank loyalty and the bank loyalty model itself is incomplete.

As the bank loyalty model was created for this purpose and was used for the very first time, there are definitely areas that need to be developed. For instance, a complete list of individual factors in creation of loyalty should be conducted by the companies themselves and then added to the model. This way the model would capture all relevant factors. Also, a study comparing reasons for bank loyalty between geographically, culturally and economically distant countries would test the model's assumption of national differences role as a emphasizer or restrainer of specific factors impact to bank loyalty.

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Appendix 1: Invitation e-mail

Dear company manager,

I am making my master's thesis about bank loyalty of Baltic small and medium size companies. The research takes place in the University of Vaasa, Finland. Purpose of the research is to find out what makes business customers loyal to their banks. All answers are confidential and used only in the statistical analysis of the data.

I humbly ask you to answer this short questionnaire about bank loyalty. It can be found from the link below. With your help, banks in Estonia, Latvia and Lithuania can offer better services for business customers. Please, answer to the questionnaire before 14.12.2008.

Username: XXXX
Password: XXXX

Internet address of the questionnaire:
https://eforms.uwasa.fi/lomakkeet/119/lomake.html

Best regards,

Toni-Mikael Ranta
Student of international marketing
University of Vaasa, Finland

toni-mikael.ranta@student.uwasa.fi
+358 41 547 5768

Appendix 2: Questionnaire

Dear company manager,

By filling this questionnaire, you can let banks know what they should offer if they want to keep business customers satisfied and loyal. All individual answers are anonymous and will be used only in the statistical analysis of the data.

I will send the results of this bank loyalty research to all interested participants. You can give your e-mail address for this purpose on the last page.

Thank you for taking the time to assist me in this research.

Toni-Mikael Ranta

Tel. +358 41 547 5768

E-mail: toni-mikael.ranta@student.uwasa.fi

1. Select your company's location.
a) Estonia b) Latvia c) Lithuania

2. How many people work in your company in the beginning of year 2008?
a) 1 b) 2-5 c) 6-10 d) 11-25 e) 26-50 f) more than 50

3. What is the turnover of your company in 2007 (approximately)?
a) less than 250 000 € b) 0,25 – 0,5 million € c) 0,6 – 1 million € d) 1,1 – 2,5 million € e) 2,6 – 5 million € f)5,1 – 10 million € g) 10,1 – 15 million € h) More than 15 million €

4. What is your company’s main line of business?
a) Agriculture/Farming b) Manufacturing c) Services d) Transport e) Other

5. How many years your company has been a customer of your main business bank?
a) 0-1 years b) 1-3 years c) 3-6 years d) 7 or more years

6. How many banks your company uses?
a) one b) two c) three d) four or more

7. If your company takes a loan in one bank, how likely it is to use this same bank for all the other financial services your company needs?

a) Extreme likely to use only loan bank b) Likely to use only loan bank c) No opinion d) Likely to use other banks than the loan bank e) Extremely likely use other banks than the loan bank

8. In a scale from 1 to 5, how possible it is for your company to change the main business bank at the moment?
Very likely 1 2 3 4 5 Definitely not possible

9. Has the recent turbulence in the financial markets affected your company's willingness to change the main business bank?
a) Major reason for thinking about changing the main bank b) Small reason for thinking about changing the main bank c) No effect d) Small reason for staying with the current main bank e) Major reason for staying with the current main bank

10. Do you plan to move more and more of your business to the main bank?
a) Yes b) No, nothing will be changed c) No, company will move more business to other banks

11. How many times your company has changed the main business bank?
a) 0 b) 1 c) 2 d) 3 e) 4 or more

12. If you have left your business bank, what was the reason for the change of bank? (You can move to the next question if your company has never changed bank)
1=Very important reason, 2=Important reason, 3=Slightly important reason 4=Small reason 5=Not a reason

Poor relationship with the bank	__	Bad service quality	__
Bad advice	__	Bad image of the bank	__
Company did not get loan	__	High prices	__
Other bank had better offers	__	Other. What? ________________	

13. If you use more than one bank, who offers the following services to your company?
1= Your main bank only, 2= At least partly by other than your main business bank, 3 = Your company does not use this service

Daily money transfers	_____
Credits and loans	_____
Insurances	_____
Savings and investments	_____
Debit and credit cards	_____
Cash management services	_____
Trade finance services	_____
Leasing	_____
Factoring	_____

14. On the following list there are characters of company – bank relationships. How much they effect to your company's willingness to stay as a customer of this bank?

1 = Very important reason for staying in this bank, 2 = Important reason for staying in this bank, 3 = Slightly important reason for staying in this bank 4 = Small reason for staying in this bank, 5 = There is no effect at all

You are generally satisfied with the bank
You trust the bank as a company
You trust the staff of the bank
The bank was your “take off” -bank (first bank)
You have long relationship with the bank
The bank understands company's situation and is flexible in its decisions
You can openly tell the bank what is the real situation with your company
Most of your company's banking services are in this bank
The bank is willing to take care of all your company's credit needs
The bank has supported your company during hard times
You have your personal accounts in the same bank
You have a good personal relationship with your customer advisor
You find it easy to contact the staff of the bank
The bank has named one person to take care of your company
The bank treats your company as a unique client
You have regular meetings with the bank
The bank remembers you and your company with small gifts
The bank is near to your company (branch office is not far away)
The bank has good and reliable Internet bank
The bank offers fast and reliable customer service
The bank corrects its mistakes as soon as you mention about them
The bank personnel is skilled at its work
The bank personnel is always willing to help
The bank's image has not suffered from recent credit market turbulence
You have heard good things about the bank from other companies
The bank is active in its market communication and advertising
The bank has conservative and careful image
The bank is socially responsible (Considers educational, ethical and environmental issues)
The bank offers quality advice
The bank has many products and services to choose from
The bank has good privacy and security level
The bank has lower than average fees and costs for their services
The bank has lower than average interest rate for loans
The bank offers higher than average interest rate for time deposits and savings accounts
The bank offers innovative solutions, not just standard service packages
The bank has most of your company's loans

15. Which one is better for your company?

a) Stability and long term relationship with one bank b) Flexibility of short term relationships and using many banks at the same time

16. Do you feel that your main bank can take good care of the tasks your company has given to it?
a) yes b) no

17. Do you get adapted offers from your main bank? (Can you negotiate about the terms?)
a) yes b) no

18. Has your main bank offered your company additional services? (Insurances, leasing cars etc.)
a) yes b) no

19. How much your company tells about its situation and future plans to the business bank?
a) I tell everything b) I tell most things c) some things are secrets d) I tell nothing

20. Do you get flexible solutions and understanding from your main business bank?
a) always b) sometimes c) rarely d) never

21. Do you have your personal accounts in the same bank as your company's accounts?
a) yes b) no

22. Do you expect having one specific contact person in the bank?
a) yes b) no

23. Do you feel that company – bank relationship has always a stronger party?
a) yes, one is always winning b) no, there can be win-win situation

24. Do you feel that if your company changes bank, it could lead to unexpected difficulties?
a) yes b) no

25. What is the name of your main business bank? (Optional question. You don't have to answer.)

____

If you want to receive the results of this study, please write your e-mail address here.
e-mail ______________________________

Thank you for your answers!

Appendix 3: Bank loyalty motivators of smaller and larger SME's

	< 2,5 m €	>2,6 m €
Satisfaction	**1,79**	**1,72**
You are generally satisfied with the bank	1,79	1,72
Trust	**1,69**	**1,65**
You trust the bank as a company	1,45	1,38
You trust the staff of the bank	1,93	1,91
Length of the relationship	**2,67**	**2,83**
The bank was your “take off” -bank (first bank)	3,03	3,25
You have long relationship with the bank	2,30	2,41
Commitment	**1,97**	**2,02**
The bank understands company's situation and is flexible in its decisions	1,90	1,77
You can openly tell the bank what is the real situation with your company	2,03	2,26
Intensity	**2,54**	**2,45**
The bank has most of your company's loans	2,79	2,57
Most of your company's banking services are in this bank	2,28	2,32
Relationship quality	**2,63**	**2,60**
The bank is willing to take care of all your company's credit needs	2,16	2,10
The bank has supported your company during hard times	2,10	2,06
You have your personal accounts in the same bank	3,40	3,53
You have a good personal relationship with your customer advisor	2,47	2,48
You find it easy to contact the staff of the bank	2,24	2,08
The bank has named one person to take care of your company	2,07	2,10
The bank treats your company as a unique client	2,14	2,23
You have regular meetings with the bank	3,41	3,14
The bank remembers you and your company with small gifts	3,71	3,72
Service quality (technical)	**2,16**	**2,04**
The bank offers quality advice	2,14	2,08
The bank has many products and services to choose from	2,29	2,29
The bank has good privacy and security level	1,60	1,71
The bank has lower than average fees and costs for their services *r=-0,197,p=0,018	2,33	1,91
The bank has lower than average interest rate for loans	2,03	1,86
The bank offers higher than average interest rate for savings accounts	2,48	2,30
The bank offers innovative solutions, not just standard service packages	2,24	2,14
Service quality (expected)	**2,54**	**2,71**
The bank's image has not suffered from recent credit market turbulence	1,93	2,10
You have heard good things about the bank from other companies * r=0,198, p=0,016	2,36	2,83
The bank is active in its market communication and advertising	3,24	3,18
The bank has conservative and careful image	2,41	2,54
The bank is socially responsible	2,78	2,92
Service quality (functional)	**1,88**	**1,86**
The bank is near to your company (branch office is not far away)	3,20	3,45
The bank has good and reliable Internet bank	1,46	1,40
The bank offers fast and reliable customer service	1,59	1,48
The bank corrects its mistakes as soon as you mention about them	1,73	1,48
The bank personnel is skilled at its work	1,62	1,73
The bank personnel is always willing to help	1,69	1,64

Appendix 4: Bank loyalty motivators of manufacturing and service companies

	MAN	SER	OTH
Satisfaction	**1,82**	**1,75**	**1,71**
You are generally satisfied with the bank	1,82	1,75	1,71
Trust	**1,56**	**1,76**	**1,71**
You trust the bank as a company	1,34	1,49	1,43
You trust the staff of the bank	1,77	2,02	1,98
Length of the relationship	**2,87**	**2,75**	**2,71**
The bank was your “take off” -bank (first bank)	3,16	3,08	3,21
You have long relationship with the bank	2,57	2,41	2,21
Commitment	**1,94**	**2,00**	**2,03**
The bank understands company's situation and is flexible in its decisions	1,73	1,88	1,84
You can openly tell the bank what is the real situation with your company	2,14	2,12	2,22
Intensity	**2,35**	**2,70**	**2,41**
The bank has most of your company's loans* r=0,276,p=0,010	2,36	3,07	2,60
Most of your company's banking services are in this bank	2,34	2,32	2,22
Relationship quality	**2,56**	**2,71**	**2,62**
The bank is willing to take care of all your company's credit needs	2,11	2,12	2,13
The bank has supported your company during hard times	1,86	2,22	2,16
You have your personal accounts in the same bank	3,50	3,59	3,40
You have a good personal relationship with your customer advisor	2,55	2,46	2,46
You find it easy to contact the staff of the bank	2,14	2,24	2,13
The bank has named one person to take care of your company	2,05	2,28	2,02
The bank treats your company as a unique client	2,11	2,22	2,33
You have regular meetings with the bank	3,00	3,39	3,32
The bank remembers you and your company with small gifts	3,73	3,88	3,62
Service quality (technical)	**1,96**	**2,12**	**2,15**
The bank offers quality advice	2,14	2,21	2,02
The bank has many products and services to choose from	2,11	2,45	2,29
The bank has good privacy and security level	1,64	1,57	1,79
The bank has lower than average fees and costs for their services	1,84	2,12	2,18
The bank has lower than average interest rate for loans	1,65	2,07	2,00
The bank offers higher than average interest rate for savings accounts	2,16	2,21	2,60
The bank offers innovative solutions, not just standard service packages	2,18	2,19	2,18
Service quality (expected)	**2,69**	**2,62**	**2,67**
The bank's image has not suffered from recent credit market turbulence	2,07	2,00	2,10
You have heard good things about the bank from other companies	2,80	2,62	2,57
The bank is active in its market communication and advertising	3,20	3,19	3,23
The bank has conservative and careful image	2,43	2,48	2,60
The bank is socially responsible	2,95	2,79	2,85
Service quality (functional)	**1,90**	**1,93**	**1,81**
The bank is near to your company (branch office is not far away)	3,58	3,29	3,21
The bank has good and reliable Internet bank	1,51	1,60	1,30
The bank offers fast and reliable customer service	1,53	1,67	1,48
The bank corrects its mistakes as soon as you mention about them	1,56	1,52	1,49
The bank personnel is skilled at its work	1,60	1,79	1,68
The bank personnel is always willing to help	1,60	1,71	1,71

Appendix 5: Bank loyalty motivators of Estonian and Lithuanian companies

	EST	LT
Satisfaction	**1,76**	**1,72**
You are generally satisfied with the bank	1,76	1,72
Trust	**1,68**	**1,66**
You trust the bank as a company	1,44	1,32
You trust the staff of the bank	1,92	2,00
Length of the relationship	**2,82**	**2,52**
The bank was your “take off” -bank (first bank)	3,21	2,92
You have long relationship with the bank	2,43	2,12
Commitment	**2,03**	**1,84**
The bank understands company's situation and is flexible in its decisions	1,88	1,52
You can openly tell the bank what is the real situation with your company	2,17	2,16
Intensity	**2,54**	**2,14**
The bank has most of your company's loans* r=-0,198, p=0,016	2,78	2,08
Most of your company's banking services are in this bank	2,30	2,20
Relationship quality	**2,64**	**2,56**
The bank is willing to take care of all your company's credit needs	2,11	2,16
The bank has supported your company during hard times	2,10	2,04
You have your personal accounts in the same bank* r=-0,206, p=0,012	3,61	2,84
You have a good personal relationship with your customer advisor	2,50	2,40
You find it easy to contact the staff of the bank	2,19	2,08
The bank has named one person to take care of your company	2,08	2,16
The bank treats your company as a unique client	2,22	2,32
You have regular meetings with the bank	3,26	3,16
The bank remembers you and your company with small gifts	3,68	3,92
Service quality (technical)	**2,08**	**2,09**
The bank offers quality advice	2,12	2,04
The bank has many products and services to choose from	2,27	2,36
The bank has good privacy and security level	1,65	1,84
The bank has lower than average fees and costs for their services	2,09	1,92
The bank has lower than average interest rate for loans	1,95	1,76
The bank offers higher than average interest rate for savings accounts	2,33	2,52
The bank offers innovative solutions, not just standard service packages	2,18	2,20
Service quality (expected)	**2,68**	**2,58**
The bank's image has not suffered from recent credit market turbulence	2,06	2,08
You have heard good things about the bank from other companies	2,64	2,72
The bank is active in its market communication and advertising	3,26	2,96
The bank has conservative and careful image	2,50	2,56
The bank is socially responsible	2,92	2,60
Service quality (functional)	**1,87**	**1,85**
The bank is near to your company (branch office is not far away)	3,34	3,32
The bank has good and reliable Internet bank	1,43	1,52
The bank offers fast and reliable customer service	1,58	1,36
The bank corrects its mistakes as soon as you mention about them	1,54	1,44
The bank personnel is skilled at its work	1,70	1,60
The bank personnel is always willing to help	1,64	1,88