BANK-BUSINESS CLIENT INTERACTIONS: AN EMPIRICAL STUDY

Ugur Yavas, East Tennessee State University, College of Business & Technology, Johnson City, TN 37614, 423-439-5382, raxyavas@mail.etsu.edu Emin Babakus, The University of Memphis, Fogelman College of Business & Economics, Memphis, TN 38152, 901-678-3857, ebabakus@memphis.edu

ABSTRACT

At a time when small to medium-sized businesses represent a viable market segment for banks, the study reported here identifies the factors that home building contractors consider in selecting a banking partner and the performance of banks in terms of these factors. One hundred fifty usable responses obtained from a survey of construction firms in a Southeastern state serve as the database for the study. Results and their implications are discussed.

INTRODUCTION

Many SMEs are characterized by a lack of capital. And access to finance on competitive and realistic terms is a key to their viability and growth [1]. Unlike large firms that have ready access both to debt and equity markets, the small firms have nowhere else to go but the banks. Just as the success of a small business is dependent on the type of relationship it maintains with the commercial banking industry, the success of the banking industry depends on the type of relationship maintained with its clientele and an understanding of client needs. This study identifies the factors that home building contractors consider in selecting a banking partner and the performance of banks in terms of these factors. In accomplishing the study objectives, first an attempt is made to determine the underlying configurations of bank choice criteria employed by homebuilders. Then, importance-performance analysis [2] is used to assess the relative of importance of various choice factors to homebuilders and the performance of banks in meeting these criteria.

METHODOLOGY

To collect the data for the study, 600 questionnaires with postage guaranteed reply envelopes were mailed to the top manager (i.e., CEO, president, owner) of the construction firms listed in the <u>Roster of Licensed Contractors</u> maintained by the Home Builders Association in a Southeastern state. One hundred fifty usable responses were obtained for a response rate of 25%. Completed questionnaires were divided into early and late response categories. To detect the possibility of non-response bias, early and late respondents were compared in terms of their background characteristics and evaluations of their principal bank. No significant differences were found between the two groups.

After a review of the relevant literature and discussions with homebuilders, a list of 39 bank choice criteria was prepared. During the course of the study, respondents were first asked to indicate the level of importance they attached to the criteria thus obtained on seven-point scales ranging from 7 = very important to 1 = not important at all. Respondents were then asked to evaluate their principal bank on these criteria on a six-point scale ranging from 1 = very poor to 6 = excellent.

RESULTS

By using importance ratings as input data, principal components analysis was employed to identify the underlying dimensions of the 39 bank choice criteria. The initial solution was rotated using the varimax procedure and factors with eigenvalues greater than 1.0 were retained. The analysis resulted in 10 factors. These factors collectively accounted for 70% of the variation in the data. By considering variables with highest loadings on each of the 10 retained factors, they were named as: 1. Overall Competence, 2. Range of Services, 3. Flexibility, 4. Staff Quality, 5. Knowledge of Client, 6. Bank Charges, 7. Trustworthiness, 8.Emergency Help, 9. Decision-Making Process, and 10. Commitment to Customer.

To investigate the performance of banks in terms of the identified factors, importance-performance analysis was employed. To determine which of the 10 factors are important and which are non-important, initially mean importance ratings were computed for each factor by considering criteria with highest loadings on that factor and adjusting for the number of items comprising it. These mean scores were summed across factors and divided by 10. The mean of each factor was then compared to this grand mean. The factors whose averages exceeded the grand mean were designated as "high importance" and those which had lower means compared with the grand mean were labeled as "low importance" factors. From this analysis 7 factors emerged as being important. These were factors 1, 3, 4, 6, 7, 9 and 10.

In dichotomizing the 10 factors into low and high performer categories, a similar procedure was used. That is, each factor's performance score was compared to the grand mean. The factors whose averages exceeded the grand mean were designated as "high performance" and those which had lower means compared with the grand mean were labeled as "low performance" factors. Based on this procedure, four factors were designated as high performers (factors 1, 4, 7 and 10).

By simultaneously considering each factor's importance and banks' performance in terms of these factors, placements of each of the 10 factors were determined. Four factors (1, 4, 7, and 10) fell into the "keep up the good work" cell of the grid. Concentrate here cell contained 3 factors including factors 3, 6 and 9. Also three factors (2, 5 and 8) were designated as low priority.

CONCLUSIONS

The results are enlightening and conjure up several implications. For instance, the results suggest that banks should keep up the good work in terms of their overall competence, staff quality, being trustworthy and showing their commitment to customers. All of these factors are important to homebuilders and the banks seem to be successful in meeting the demands of their customers in these areas. By the same token, banks must take decisive steps to improve their performance in other areas such as fees they charge to customers, flexibility in dealing with customers and their overall decision-making process as perceived by customers. The latter three factors are also important to homebuilders when they choose a banking partner but, on the whole, they do not currently feel that banks are doing a good job in addressing these needs. It is interesting to note that many of the factors emerging from the study and the items comprising them closely parallel service quality dimensions widely discussed in the literature. By instituting policies to improve their performances in areas where they are already perceived in a favorable light as well as in those factors where they are found deficient, banks can enhance their standings in the eyes of their clients.

These strategies can proceed on several fronts. One viable strategy for banks is to make acquisition of bank services less painful via providing prompt, responsive services free of bureaucratic hassles and being easily accessible. Another strategy entails improvements in staff quality, which is a significant determinant of customers' subjective perceptions of individual service encounters. While all the disparate elements of a banking organization may combine to collectively deliver the service to the client, it is usually the one-on-one encounter between a boundary spanner and a client that will ultimately determine the outcome, good or bad, in the client's mind. In this context, to improve clients' perceptions of the competences and skills of their staff, banks can establish service quality support departments to provide training. Also by setting up a service quality task force to create a two-way flow of communication and streamlining policies and fees banks can deal with clients' concerns regarding gaps in decision-making process and fees. Creating a two-way flow of information would ensure that top management is not isolated from clients' complaints over policies and changes. Streamlining policies and fees would make them easier to explain to customers.

REFERENCES

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