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SME banking loyalty (and disloyalty): a qualitative study in Hong Kong

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Structured Abstract

Paper type

Qualitative research paper

Purpose

To investigate the extent of loyalty, and the reasons underlying banking behaviour by business customers from the SME sector in Hong Kong, and to thereby contribute to a better understanding of the drivers of customer loyalty.

Design/ methodology/ approach

Thirty-two in-depth qualitative interviews were carried out with decision makers from SMEs in Hong Kong. Content analysis was employed to analyze the interview data.

Findings

In contrast with earlier studies on banks' share of wallet in the SME segment in the US and Australia, a lack of loyalty or 'disloyalty' appears to be the norm within this sector in Hong Kong. Perceived service quality and the length of business relationship appear to have strong associations with loyalty behaviour, in terms of customers' willingness to continue to use a bank and/or to recommend the bank to others.

Research limitations/implications

Since the study is qualitative, a larger empirical study would be useful to attempt to replicate our results in this and other geographic markets.

Practical implications

The results suggest that the Hong Kong SME market is characterized by high level of disloyalty, and that attaining 100% loyalty from this group of customers will be very difficult.

Instead, a banking strategy that focuses on service and on developing a sustained relationship with the customer may have the greatest chance of maximising the share-of-wallet of SME customers. The study offers important marketing implications for banks which are operating, or are planning to operate, business banking in Hong Kong and comparable Asian markets.

Originality/ value

It is the first paper to study the incidence of, and reasons underlying, SME banking loyalty in an Asian market. It shows that *disloyalty* appears to be the norm in this sector, presenting a reminder to managers and researchers that customer loyalty may be the exception, rather than the norm.

Keywords

Customer retention, customer loyalty, relationship marketing, share of wallet, service quality, qualitative study

Introduction

Customer loyalty has been the subject of extensive marketing research in recent years. In both consumer and business markets, loyal customers are more likely to engage in repeat purchases from a supplier or increase their “share” of purchases from a particular supplier. They may also provide referrals of business to suppliers or engage in word of mouth promotion.

Customer loyalty can lower costs and/or increase profitability, as the cost of recruiting a new customer is said to be five times more than the cost of retaining an existing customer (Barsky, 1994, Reichheld and Sasser, 1990, Reichheld, 1996). Fornell and Wernerfelt (1987) have claimed that the costs of customer retention are substantially less than the relative costs of customer acquisition, and loyal customers, if served correctly, are said to generate increasingly more profits each year that they stay with a company (Reichheld, 1993), though other authors have pointed out that loyal customers are not always profitable (see for example Storbacka, 1997, Dowling and Uncles, 1997, Reinartz and Kumar, 2002). Given the claimed benefits for businesses of loyal customers, it is not surprising that many businesses have invested substantial amounts in developing customer retention and cross-selling programs in an attempt to retain customers and to obtain a higher percentage of their business.

In order for firms to develop effective loyalty or customer retention strategies, they must understand the specific drivers of customer loyalty. However, there has been only limited research into the determinants of bank customer loyalty, particularly in the high value area of business-to-business or corporate banking. In particular, there has been almost no academic research examining business banking loyalty in the Asian banking sector. This paper addresses this gap in the literature through a qualitative study that investigates the extent of, and the key determinants for, business customer loyalty within the small to medium enterprise

(SME) sector in the Hong Kong market. The sector is highly attractive to banks as the SME sector comprises approximately 98% of Hong Kong's enterprises. In addition, the SME sector provides job opportunities to about 1.3 million persons, or about 60% of total employment (Trade and Industry Department Hong Kong, 2003), and a SME's bank may have some advantages in obtaining business by the SME's employees. The SME sector is therefore a very important segment for banks, and understanding the factors that drive bank loyalty is vital to enhance banks' competitiveness. Brian Robertson, the assistant general manager and head of corporate and institutional banking of HSBC said in 2001, "SMEs are the very lifeblood of Hong Kong commerce, which makes them worthy of special consideration and deserving of their own 'niche' in banking terms...With the rapid growth in communications and technology the market has never been more competitive."(Chan and Dow Jones Newswires, 2001). This sector is also particularly appropriate for research, because the business owner will typically control the choice of bank, in contrast to larger organisations, where multiple decision makers make investigating the reasons for choice of bank more problematic.

Literature Review

Customer Loyalty

The study of customer loyalty has long been a topic of interest in the arena of consumer buying (Jacoby and Chestnut, 1978). There has been extensive discussion of how loyalty should be measured and defined, with at least two dimensions of loyalty being identified, behavioural and attitudinal loyalty (Dick and Basu, 1994). Loyalty is often gauged by behavioural measures such as frequency of purchase or word of mouth, because behaviour reflects what customers actually do (Dekimpe et al., 1997). While behaviour can be measured in a number of ways, Jones and Sasser (1995) have argued that share of wallet is a key

indicator of loyalty and stated that ‘the ultimate measure of loyalty, of course, is share of purchases in the category’ (p. 94). However, behavioural measures such as repeat purchase have been criticized for a lack of conceptual basis, and for failing to yield a comprehensive insight into the underlying reasons for loyalty (Day, 1969). The attitudinal approach, in contrast, sees a loyal consumer as attached to a brand, and when their positive beliefs are reinforced, these customers are said to buy a brand more often (Riley et al., 1997).

Behavioural patterns are thus one of the components of loyalty, however if a consumer does not also demonstrate a favourable attitude towards a brand or company, there is a possibility of brand switching (Bloemer and Kasper, 1995). In the present study, we investigate both behavioural measures (e.g. repeat usage of a bank’s service, word of mouth and share of wallet) and, by means of in-depth interviews, we also examine attitudinal factors and/or other factors that customers say are the underlying reasons causing them to become loyal to their service providers.

Customer satisfaction has frequently been suggested to be the leading determinant of loyalty (Anderson and Fornell, 1994, Jackson, 1985, Bitner, 1990, Rust and Zahorik, 1993). For example, levels of satisfaction have been found to be positively related to repeat purchase behaviour in a longitudinal study of repeat purchase of twenty-four grocery products (LaBarbera and Mazursky, 1983). Satisfaction has also been found to be positively associated with customer loyalty in the form of share-of-wallet and a business-to-business setting (Keiningham and Perkins-Munn, 2003). However, ‘disloyal’ behaviour has also been found despite high levels of satisfaction by customers in the healthcare and car repair services (Mittal and Lassar, 1998). In fact some studies have suggested that disloyalty is the norm, particularly for low involvement products; studies by Ehrenberg, Goodhardt and Barwise (1990) and Uncles et al (1994) into low involvement purchases revealed that customers

habitually tend to opt for some variety in their brand choice and that the users of smaller brands tend to be less loyal.

A number of factors other than satisfaction have been identified as important in the loyalty of customers of service industries. For example, corporate image has also been found to have an impact on customer satisfaction and customer loyalty in the insurance and newspaper businesses (Andreassen and Lindestad, 1998). Perceived service quality has also been found to have a positive association with customer loyalty (Ruyter et al., 1997, Zeithaml et al., 1996), and has even been said to be a key determinant of service loyalty (Lee and Cunningham, 2001). Another factor which may have an impact on service loyalty is the relationship between the customer and the service providers, because the characteristics of services provide opportunities for person-to-person interaction with the providers of service (Czepiel and Gilmore, 1987). Previous research argues that interaction between customer and provider may lead consumers to develop strong relationship with the providers (Gronroos, 1990, Parasuraman et al., 1985). As a result, Dwyer, Schurr and Oh (1987) have argued that marketing practitioners are likely to gain reliable repeat business by paying attention to conditions that foster relational bonds with their customers. The literature review thus provides evidence for a number of industries that relationships with customers may thus play an important role in the development of customer loyalty towards services organizations. However the importance of this relationship has not been investigated in an SME financial services market, where cost comparisons between competitors are often easy, and where customers may weight factors such as the cost of service more highly than relationships.

With a growing focus on offering excellent services and meeting the needs of customers, banks need to have a good understanding of their customer behaviour so that appropriate

marketing strategies directed towards relationship building and retention can be developed. Past research on loyalty in the banking sector has been limited, and has tended to focus on retail banking, with an emphasis on the positive effects of customer satisfaction (e.g. Colgate, 2001, Ganesh et al., 2000, Loveman, 1998, Jamal and Naser, 2002). Bloemer, Ruyter and Peeters (1998) found a complex relationship between bank image, service quality and customer satisfaction, with these three factors exerting an influence on banking loyalty. Beerli, Martin and Quintana (2004) concluded that satisfaction together with personal switching costs are antecedents to loyalty. However, the extent to which these findings explain business customer behaviour is unclear.

Business Customer Loyalty in Banking

Loyalty by business customers has been relatively neglected in research studies, perhaps due to the complexity of decision making processes by organizational buyers. While there are studies that have reviewed the extent of banks' understanding of their business customers' needs (e.g. Chan and Ma, 1990, Nielsen et al., 1998, Zineldin, 1995, Nielsen et al., 1995) and the relationship between customer participation and retention (Ennew and Binks, 1999), studies investigating the drivers of banking loyalty by business customers are almost completely lacking in the bank marketing literature. The business banking market deserves attention as it is considerably more valuable and more complex than the more frequently examined retail banking market, especially in terms of frequency, value of transactions and frequency of multiple banking relationships (Tyler and Stanley, 1999a). While there are studies that suggest business customers' satisfaction will have an impact on bank selection (Chaston, 1993) and relationship development (Madill et al., 2002, Moriarty et al., 1983, Armstrong, 2000), the interrelationship between these factors and loyalty behaviour are relatively unknown. A business customer may continue or increase usage of a bank's service

because of one or more of many factors such as price, perceived service quality, perceived switching costs, the relationship and/or their emotional attachment to the firm.

The literature review thus reveals limited prior research on the determinants of bank loyalty by business customers, although understanding these determinants is critical for banks to retain customers. There is evidence however to suggest that banking loyalty by business customers will be influenced by their satisfaction with the service, their perceptions of service quality, and may also be affected by their relationship with the service providers and by the bank's corporate image. This study addresses this gap in the literature, particularly in the important SME sector, and investigates the extent to which SMEs' decision makers choose to use more than one financial institution, and the factors contributing to their usage of one or more banks. The study thus aims to provide a better understanding of organizational customer loyalty in the banking industry, and to assist in the development of better business customer retention strategies.

Methodology

A qualitative approach was chosen due to the lack of previous research data for this customer group. Interviewees were selected from the garment and electronics industries in Hong Kong, since these two sectors contribute over 60% of total Hong Kong exports (Trade and Industry Department Hong Kong, 2003). 250 companies were selected from an industry list (Dun & Bradstreet, 2002) by systematic sampling, and contacted by letter and by a follow-up telephone call between May 2003 and January 2004. Interviews were restricted to SMEs where the decision maker was located in Hong Kong. Thirty-two companies were eligible and agreed to participate in the interview. The low response rate illustrates the difficulty in

gaining access to business markets, perhaps due to confidentiality of sensitive information (Tyler and Stanley, 1999b) and suggests an ongoing challenge in investigating customer responses to banking practices (Turnbull and Gibbs, 1989, Perrien and Ricard, 1995). All interviewees were the directors or general managers of their companies with the authority to choose the bank or banks used. In total, 32 semi-structured in-depth interviews lasting for approximately forty minutes were conducted at customers' premises. All interviews were conducted by the first author in order to create a consistent interview situation. Interviews were conducted in Cantonese or English, depending on the preference of the interviewee. Each interview was taped, and for interviews conducted in Cantonese, the translation of any quotation was checked by an individual not associated with the study.

Content analysis was used to analyse the interview information, since it is suitable for systematically evaluating the symbolic content of all forms of recorded communications (Kolbe and Burnett, 1991). As a research technique, it provides knowledge, new insights, a representation of "facts", and a practical guide to action (Krippendorff, 1980, Kolbe and Burnett, 1991), so it is particularly appropriate in a field such as this, where there has been limited previous research. A number of themes were identified from analysing the interviews, and they were then coded. The codes were grouped under a number of categories using the approach suggested by Holsti (1968).

Results

All interviewees were asked to provide demographic information about their company, information relating to the number of banks they are currently using and the key reasons for them to stay with their main bank. Table 1 summarizes demographic information for respondents' organisations.

Table 1 – Sample demographics and bank usage behaviour

| Company Demographics | |
|--|-----------------------------|
| Annual sales range (HK\$) | <7.7M – 630M |
| Average years of business | 15.3 (s.d. 1.5 years) |
| Single bank | 28% |
| Two or more banks | 72% |
| % (n) of firms that have changed banks in the last three years | 40% |
| Average length of time with main bank | 12.3 years (s.d. 1.3 years) |

The themes that emerged from analysing the qualitative responses from the interviews were summarized and classified into four categories (bank selection, loyalty and usage, split banking, switching behaviour and future buying behaviour). The key factors identified from analysis of the interviews are discussed below under these four themes.

Bank Selection, Usage and Loyalty

Perhaps the most notable finding is the lack of customer ‘loyalty’. Only nine interviewees out of 32 used only one bank, with the rest of the respondents dividing their banking activity between two to ten banks. Interviewees were specifically asked the most important reason for their choice of, and retention of, the bank that they would classify as their ‘main bank’. (The main bank was generally described as the one where they obtain credit and deposit most of their cash and /or have the longest business banking relationship.) Factors relating to perceived service quality, particularly in terms of the bank’s ability to accommodate credit needs and the efficiency and/or reliability of service were identified by 18 interviewees as the key determinants of the primary choice of bank e.g.

“Our lead bank can accommodate our financial needs and offer us speedy and efficient service in import/export services and insurance, it is a total solution.”

In contrast, a lack of efficiency in processing applications was identified as a factor limiting use of the primary bank:

“I would say if the bank could process my letter of credit application more quickly and more efficiently, I would use more of that bank’s services.”

While issues of quality were the most commonly identified reason for using a particular bank, the length of a relationship was also identified as a major factor, being identified by 15 interviewees e.g.

“We have been banking with this bank for almost 30 years. They understand our needs. They know our records. Even if there is a change of our relationship manager, they (the bank) could still retrieve our bank records from their computer or the files.”

“Both of us have a very strong sense of each other. We have been cooperating very well. We understand each other pretty well.”

In contrast with perceived service quality and the length of the relationship, pricing policy (e.g. deposit or loan interest rates) appeared to be less important in affecting customers’ usage and selection of banks. This factor was only identified by six participants as a factor influencing their selection of banks, and by seven participants as a contributor to staying with a bank, suggesting that business customers are possibly less price sensitive than is often believed. For example, one respondent reported:

“Loan and deposit interest rates are not important for me in choosing which bank or banks, and I don’t really mind paying a bit more for better quality of service.”

The ability to understand and accommodate specific customer needs appeared to be particularly important in influencing SMEs’ choice of banks (15 out of 32 interviewees) e.g.

“Our main bank always knows our business and our credit needs. They always provide adequate trade facilities to us.”

“They (the bank) provide an invoice financing service which exactly suits my business, so we use more of that bank’s service.”

The nine interviewees who use only one bank also identified their bank’s ability to accommodate their needs as the key determinant of remaining with the bank. However, personal preferences and the perceived cost of having more than one bank appeared to dominate the decision to remain with one bank.

“It makes me and my company more important to our bank if we only use their service.”

“I am a conservative merchant and I don’t want to have many banks serving me as it would create a headache for me.”

Contrary to the suggestions of previous research (Andreassen and Lindestad, 1998), corporate image was not identified as influential in selecting or staying with a bank. However this may only imply that in this sector, corporate image is not seen as differentiating between competing banks.

Split Banking

Use of more than one bank, (or ‘split-banking’ behaviour) was the norm in the sample, being practised by 23 out of 32 interviewees. Thus *disloyalty* was in fact the norm among this group of customers. Respondents were specifically asked the key reasons for using a range of banks. Specialised bank skills, perceived risk and a perception of having a better negotiation position were identified as key factors influencing the choice to use more than one bank.

Specialist skills: Certain banks were perceived to have specialist skills or to offer a higher level of efficiency, with bank specific advantages being identified by 12 interviewees e.g.

“We really need a bank to have excellent China connections and our major banker suits my criteria. They are the largest bank in China and they always offer quick service in processing bank drafts in the Mainland and T/T

service, always! However, our next major banker (a local bank) offers a better e-banking system and provident fund service so we also use their services.”

“We will use different banks for different services since some banks perform better in a particular service in terms of efficiency”

Perceived risk: The perceived risk of using a single bank was another major driver of split banking, being identified by nine interviewees:

“I had a bad experience with a bank, when I put up cash as a loan security and they only provided me with 70 cents in the dollar credit. We did not have enough facility to operate the business; they’re just too conservative.

This has taught me a lesson not to put all my eggs in one basket.”

“As our business grows, we need to have additional banks since it would be too risky to rely on one bank.”

Perceived better negotiation position: A number of interviewees identified specific advantages provided by using a range of banks. For example, four interviewees identified a belief that they obtained increased bargaining power in use of credit facilities:

“We have more bargaining power in negotiating the pricing terms with our main bank if they know other banks we are using are offering better terms than they do.”

One respondent, who only used one bank, suggested that this was partly due to the fact that they did not require credit, reinforcing the finding from other participants that credit requirements encouraged the use of more than one bank:

“Unlike other SMEs, we don’t need much credit service and therefore we don’t need to worry about loans from banks. One bank will be enough for sure, provided we are very satisfied with their existing services.”

Switching Behaviour

While shared banking services were found to be the norm in this group, there were also high levels of switching between banks. Over 40% of the interviewees (13 out of 32 interviewees)

had changed the extent to which they use their banks or had switched to other banks in the last three years. The key cause of switching appeared to be perceived service delivery failure by banks and/or inadequate relationship management after a change of relationship manager e.g.

“Our relationship manager left the bank two years ago and we were concerned about his successor who didn’t seem to understand our banking needs, and so we found a new bank.”

Interviewees were specifically asked whether perceived switching costs would influence them to stay with their main bank. The majority (18 interviewees) contended that switching costs would not be a barrier to changing banks since they were seen as minimal:

“Switching costs are minimal to us since the costs will be much higher in the long run if you are served by a bank offering you poor quality service.”

Future Buying Behaviour

Interviewees were asked whether they would increase their usage and/or refer new business to their main bank. A number of interviewees (17 in total) mentioned that they would, or were likely to, increase the extent of usage of their main bank’s services in the near future, due to satisfaction and/or length of relationship with the main bank.

“Yes, we will use more of the bank’s service as we have been very satisfied working with them and we really work as a partner.”

“We will definitely increase our usage as we have had a very long business relationship with our main bank of over 15 years.”

Out of these 17 interviewees, five companies reported they would increase usage of their main bank under some limited conditions:

“I will only increase a very small portion of usage of my main bank but won’t switch everything. It’s risky using only one bank’s service.”

“We will increase our usage only if my main bank can keep up the efficiency of the remittance services.”

The 15 interviewees who reported that they would not increase their usage of their main bank's services in the near future appeared to be driven by two major reasons; first, the perceived risk of relying extensively on a particular bank, and secondly, by a perceived lack of need for extra financial services, due to an anticipated lack of growth.

“We won't use more of our lead bank's service because we can see our business will be very stable in the next few years.”

17 companies indicated that they would consider recommending their lead bank to their counterparts in the industry. The remaining companies reported that they had no intention of doing so. However a failure to recommend did not appear to be associated with low satisfaction. While a perception of a similarity in bank offerings was mentioned as a reason, the main reasons for unwillingness to recommend a bank appeared to be uncertainty of the needs or perceptions of others because perceptions of a banking relationship were seen as varying between individuals:

“All the banks in Hong Kong offer very generic and similar products and services. I think there is no need for me to recommend my bank to my counterparts as they can choose it on their own”.

“We have had an excellent relationship with our bank because they understand and know our service preferences. Our counterparts may have their own needs or preferences in selecting banks.”

In summary, the results show that only a small proportion of the SMEs interviewed were loyal to one bank, switching levels were high, and a large proportion of the decision makers interviewed were unlikely to increase their usage of their main bank or recommend the bank to others. In this segment, ‘disloyalty’ appears to be the norm, suggesting a difficult challenge for banks in maintaining and/or increasing loyalty by SME customers such as these.

Discussion

Although a major goal of banking strategy is often to increase share of wallet, almost all interviewees in this study used a range of banks, possibly reflecting a double jeopardy type effect (Ehrenberg et al., 1990). There were also high levels of switching between banks, suggesting ‘disloyalty’ in both share of wallet and retention. The result is significantly different from a study which was carried out by Trayler et al (2000) into bank selection by small business firms in Australia and the US. Table 2 contrasts the findings of this study to the results from Trayler et al (2000), showing the high proportion of split banking behaviour by the Hong Kong SMEs, when compared to Australia and the US. Reasons for the difference are unclear, but may possibly be explained by several factors. Firstly, SMEs in Hong Kong appear to believe they obtain better and more efficient services by using a range of banks since different banks have unique advantages, supporting similar findings from other research (e.g. Turnbull and Gibbs, 1989). Secondly, the perceived risk of relying extensively on one bank also seems to affect SMEs’ reluctance to increase usage of a bank’s services. The result offers significant marketing insights for foreign banks, especially for Australian and US banks that operate or are planning to operate in the Hong Kong business banking market. There appear to be substantial differences in the views and banking behaviour of SMEs across the three countries, which need to be understood by any bank operating, or hoping to operate in, Hong Kong.

Table 2: Current results compared to Australian and the US small business firms

| Source of information | Current study | Trayler et al. (2000) | |
|--|---------------|-----------------------|----------|
| | Hong Kong | Australia | US |
| Annual sales range (HK\$) | <7.7M – 630M | <58M- 292M | <40M |
| Sample size | 32 | 614 | 115 |
| Average years of business | 15.3 | 21 | 20 |
| Single bank | 28% | 88% | 70% |
| Two or more banks | 72% | 12% | 30% |
| % of firms that have changed banks in the last three years | 40% | 17% | 17% |
| Average length of time with main bank | 12.3 years | 12 years | 12 years |

Given the identified high levels of use of multiple banks, driven by customer beliefs about the benefits of multiple banking relationships, low perceived switching costs and high switching behaviour, achieving high and stable levels of share of wallet by SME customers presents a difficult challenge for banks. This group of customers may be best described as “latent loyal” according to Dick and Basu’s (1994) and Griffin’s (1995) definition: they seem to have a relatively high attitude toward a bank but low repeat patronage due to particular cognitive beliefs (e.g. a belief that banks with a China background will have higher efficiency in performing remittance transactions within China) and situational effects (e.g. banks with a non-China background having fewer branches in mainland China). Since creating an even higher relative attitude is difficult and expensive, bank rivals, especially those that have weaker business operations in China, are suggested to focus on other differentiating attributes in developing their customer retention strategy. For example, banks without a strong Chinese network might promote their wider branch network outside China, or offer more innovative products and better electronic infrastructure.

The study also showed the importance of relationship management in maintaining SME customers. For example changes in bank policy and/or bank managers were identified as having caused some customers to recently change banks. Similar research with other

professional services has also suggested that organizational change has a negative effect on customer retention (e.g. Eriksson and Vaghult, 2000). This suggests that bank management may need to pay more attention to the potential negative effects on customer behaviour of any change in staffing or lending policy.

The study suggests that perceived service quality, in particular two dimensions, the ability to ‘accommodate and understand customer needs’ and ‘efficiency and attitude of service delivery’, appears to be the primary driver of SME bank loyalty in Hong Kong. The first dimension has been discussed by other authors as influencing the bank-customer relationship and the choice of the main bank by customers (Turnbull and Gibbs, 1987, Zineldin, 1995, Tyler and Stanley, 1999b), but not as an influential factor in ongoing banking loyalty. The second dimension, ‘efficiency and attitude of service delivery’ has been previously identified in other banking studies as an important determinant of SME loyalty (Tyler and Stanley, 1999b, Bloemer et al., 1998). Service quality, in particular efficient credit and remittance services, may be even more critical for banks providing services to business customers trading in China, since maintaining efficient credit and remittance services appear to drive many SMEs’ choice of bank or banks, with speed of transaction processing being mentioned by a number of respondents. Therefore, if banks can develop a better understanding of the critical service attributes for the SME segment, they may be able to focus resources on issues that are most influential in customer choice.

Another major determinant of SME banking loyalty appears to be their previous relationship investment. Relationship investment was characterised by either length of relationship and/or by a strong relationship with one or more individuals at the bank. A number of interviewees discussed their relationship with their main banks as a ‘partnership’, highlighting the importance of relationship building. This supports previous research which has discussed the

benefits associated with relationship building for both banks and business customers (Moriarty et al., 1983). Business customers will be more likely to share information (e.g. their potential financial needs) with their banks if they have maintained a good relationship and if banks can respond by customising service or by providing offers which are valued by customers. Building a relationship with customers may also have a positive impact on their perceptions of quality and their satisfaction, and thus on retention and loyalty (Ennew and Binks, 1999). Relationship management may be particularly important in the SME sector, since inappropriate relationship management in this study appeared to be a key contributor to bank switching. The results from this study also suggest that existing relationships are influential in customers' decisions whether to increase or decrease usage, that is in influencing share of wallet. This suggests that effective relationship management has the potential to increase both share of wallet and retention by customers. By developing a better relationship with customers, banks may be able to increase customer value (by increasing share of wallet) and also increase customer retention.

The specific financial needs of business customers also appear to influence the choice of bank or banks. For example, if customers rely more on bank credit services, our results suggest they will be more likely to use a range of banks, owing to their perception of flexibility in utilizing multiple bank loans, and the perceived risk of a change of bank lending policies. Significantly increasing the share of wallet of this group is likely to be very difficult or impossible.

No direct relationships between overall bank image and loyalty were observed in this study, contrary to findings from other industry sectors. This finding does not establish that bank image is not influential in loyalty; however it does suggest that the effect of corporate image

was not salient for SME customers. It is possible that the effect of corporate image is mediated by other factors such as satisfaction, and this relationship could be investigated in further research.

Conclusions and Future Research

The present study suggests that the issues driving banking loyalty by business customers are complex. While the marketing literature has encouraged practitioners to seek loyalty from customers, this study suggests that actual levels of loyalty in SME banking are low, and are likely to remain low. Banks need to recognise the apparently entrenched disloyalty of the Hong Kong SME sector. By using a range of banks, the SMEs in our sample appeared to see themselves as having more flexibility in utilizing banking facilities, especially in credit services. Nearly all respondents appear to actively choose not to use one bank exclusively, and appear reluctant to increase usage of a particular bank, because of the perceived risks of relying extensively on one bank, or on a small number of banks. The SMEs also see switching costs as low, and a large proportion have recently changed banks.

Since our findings were based on a qualitative study, it would be valuable to extend the sample by a larger empirical study and to attempt to replicate our results in other geographic markets. However as the first study examining the determinants of bank usage and choice in the SME sector, our study suggests some preliminary conclusions. Firstly, the study reinforced the positive association between perceived service quality (in particular efficiency of services) and customer retention in this largely disloyal sector. Secondly, the study suggests a strong and positive association between the relationship investment and customers' willingness to switch banks. In contrast, pricing and corporate image were not mentioned as a

determinant factor by any respondents. It would be over-interpreting our results to suggest that this means that pricing and bank image are unimportant, but it does suggest that within the current banking industry in Hong Kong, price and corporate image are not seen as differentiating between banks. A good relationship with the main bank was identified as important, but was usually insufficient to overcome the perceived risks of relying on one bank alone. A disruption to an established relationship was, however, a factor identified by a number of interviewees as influential in their decision to decrease usage of a particular bank. A relationship therefore appears to be critical to maintain loyalty, and failure to invest in the relationship may lead to loss of share of wallet. It is tempting to believe that conversely, investment in, and development of, an excellent relationship with the SMEs will increase loyalty, and this may be true. However our study suggests an asymmetric effect of relationship quality, consistent with the asymmetric value function of losses and gains proposed by prospect theory (Kahneman and Tversky, 1979). This theory posits a decision maker will perceive outcomes in terms of a value function over gains and losses relative to some reference point. In this study, an SME which has a satisfactory and stable relationship is not guaranteed to remain loyal, despite the relationship. The stable relationship may mean only that the customer uses more of that bank's services, or uses the bank as its main bank. However, a disruption or an upset to the business relationship can apparently be sufficient for an SME to decrease usage of the bank or at worst, to end the relationship by switching to another bank. A satisfactory relationship seems therefore to be necessary, but not sufficient, to maintain at least partial customer loyalty. Recognising this asymmetry of gains and losses may help banks to avoid setting unrealistic goals in customer retention and usage.

In conclusion, this paper suggests that the inherent preference of SMEs for maintaining banking relationships will make the attainment of 100% loyalty difficult, or potentially

impossible. Instead, a banking strategy that focuses on service and on developing a sustained relationship with the customer may have greatest chance of maximising the share-of-wallet of its SME customers.

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