The Marketing Strategies of Banks to Small Businesses in the Republic of Ireland with particular reference to the Determinants and Impact of Service Quality.

by

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September 1993

Declaration:

I hereby certify that this material, which I now submit for assessment of the programme of study leading to the award of Ph.D is entirely my own work and has not been taken from the work of others, save and to the extent that such work has been cited and acknowledged within the text of my work.

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ABSTRACT

This research examined the banking relationships of 83 small manufacturing firms in the Republic of Ireland. The research was grounded in the growing body of research into the quality of services, which was seen as a potentially fruitful direction for progress in the area of services marketing. Following careful review of the service quality literature and of published research on the small business/banking relationship, a preliminary research study was undertaken. The four marketing managers of the associated banks were interviewed and interviews were also conducted with eight branch managers from the two major banking groups. A questionnaire was developed to investigate the expectations, perceptions and the evaluation of small firms of the banking service they receive. This questionnaire was faxed to 118 small manufacturing companies in the Republic of Ireland. The samples were chosen as two groups of companies which were matched in terms of size, age, location and manufacturing activity. The initial group was a list of small companies who were chosen by the Industrial Development Authority to participate in their Business Development Program. These companies were seen by the IDA as companies with potential to grow.

The results of the survey indicate that the concept of quality as perceived by small manufacturing firms in relation to the banking service they receive can be considered to consist of two aspects. The technical quality of the service is created by the provision of a reliable service, with the required tangible components of the branch accessibility and convenience. The requirement by banks for personal guarantees from small manufacturing businesses can also be considered to impact on this aspect of the service quality. The way in which the service is delivered is seen as the functional quality of the service. Functional quality is created primarily by the branch manager, with support from head-office.

The results of the survey suggest that the relationship which is created with the small firm through the supply of the banking service is also dependent on the small firm. Three types of companies were found to exist within the sample, who varied in terms of the level of satisfaction they exhibited with their banking relationship. Characteristics of the firms which appeared significant in this respect were the performance of the company, the background of the owner and the use of outside advisors.

The service quality which was perceived by the small firm customers was seen as the outcome of the relationship and this was found to have a positive influence on overall satisfaction with the banking service. The level of perceived service quality was also found to be related to the desire of the owner/manager to move the small firm's business to another bank.

The implications of the results of the survey are described in terms of their relevance to the development of a marketing strategy by an Irish bank aimed at the small business market and in terms of their possible contribution to services marketing theory.

ACKNOWLEDGEMENTS

This thesis would not have been completed without the help of a number of people. I am indebted to the staff of DCU Business School, who assisted me in many ways during my years as a post-graduate student. In particular, I am grateful to for the advice and encouragement of my supervisor, Professor Peter Chisnall. He provided me with the guidance, expertise and, on occasion, inspiration needed to complete this piece of work.

I would also like to take this opportunity to thank the bank staff who helped me in my primary research. Bob O'Reilly of AIB, Brian Forrester of Bank of Ireland, Harold Strong of Ulster Bank and Michael Kearns of National Irish Bank were all prepared to give me a significant amount of their time and to facilitate my interviews with their bank managers. In addition, Des Doyle of the IDA was most helpful in providing me with information regarding the IDA company development programme for small business. All bank managers and small firms who participated in my field work are also to be thanked.

I am also very grateful to Dr. Finian Buckley in DCU Business School for his statistical help and his support throughout. Finally, I would like to acknowledge the support of my family and friends throughout the research process. Above all, the presence and support of fellow post-graduate students in DCU Business School has been invaluable.

This work is dedicated to my parents.

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CHAPTER ONE

1.0 THE DEVELOPMENT OF MARKETING THOUGHT

1.1 INTRODUCTION

Kuhn defines 'normal science' as 'research firmly based upon one or more past scientific achievements...that some particular scientific community acknowledges for a time as supplying the foundation for its further practice'(Kuhn, 1970). A prerequisite for the development of such a normal science, therefore, is the existence of a shared paradigm or commitment by a group of researchers to an accepted body of knowledge and research practices. Despite significant criticism of Kuhn's description of the rise and fall of paradigms, Arndt concludes that 'nevertheless, the notions of a paradigmatic life-cycle and the status quo function of paradigms seem to be intact' (Arndt, 1985, p46). Even those philosophers of science who dismiss the notion of Kuhnian paradigms accept that science operates within a generally accepted conceptual framework, which has also been termed a 'research tradition' (Anderson, 1983, p23).

As a paradigm or research tradition becomes accepted, most members of the research community become engaged in what Kuhn terms 'mopping up' operations. This involves accumulating additional facts and trying to increase the extent of the match between these facts and the paradigm's predictions. In addition, most researchers are very anxious to articulate the paradigm further (Kuhn, 1970).

No single marketing bibliography could hope to encompass the vast amount of applied research which has been conducted on the marketing topic since the development of the marketing concept. Much of this work would correspond to Kuhn's description of the 'mopping up' work which is typical of a normal science.

As with other fields of social science inquiry, marketing experienced the emergence of a dominant paradigm only to have it questioned and attempts made either to improve or replace it. These developments in marketing are outlined in this chapter which concludes with a description of the recent concept of relationship marketing.

1.2 THE EARLY YEARS OF MARKETING

The commonly-held view that the marketing concept only emerged following the explosion of discretionary spending power after 1955 has been exposed as over-simplistic (Hollander, 1987). In support of Hollander's proposition that marketing practices predate this century, Rassuli (1988) presents data which is evidence to the application of marketing strategies and techniques in the medieval trade in printed books.

More commonly-cited examples of pre-twentieth century marketing practices are the successful differentiation strategies of the early branded products in the UK. As early as 1889, £100,000 was being spent advertising Pear's Soap in the UK press. In 1899, Kellogs joined what had become known as the 'cereal war' between Quaker Oats and Hornby Oats (Turner, 1952). The period between 1890 and 1914 saw expenditure on advertising in the UK increase to the point where it actually matched the economy's spending on its army and navy at £10 million (Turner, 1952).

Clearly, the practice of marketing predates its emergence as a business subject in the twentieth century. These examples also belie the common belief that early marketing practices were the preserve of US manufacturers.

In tracing the development of marketing as an academic discipline in its own right, however, the starting point is often the new courses being offered in US universities at the turn of the century. Interestingly, the first courses to deal with what are today considered marketing issues were on the 'distributive industries'. This apparently stemmed from the growing interest of economists at the time in understanding how commodities were moved from where they were produced to where they were consumed. This interest 'is generally accepted as the beginnings of marketing as a discipline' (Firat, Dholakia and Bagozzi, 1987, p381).

Ten such courses were introduced in the US between 1902 and 1910 (Bartels, 1962). Their main concern was the mass distribution of products to meet growing demand across the United States and many of the issues dealt with would now be considered marketing problems. From these general courses, more specialised areas were addressed such as advertising, salesmanship and one even dealt specifically with the distribution of services.

The decade 1910-1920 has been termed the period of conceptualisation of the school of marketing thought which prevailed throughout much of the twentieth century (Bartels, 1962). The circumstances which fuelled the growth of marketing are worth considering as they are responsible for much which continues to preoccupy marketers to the present day.

Firstly, western economies were continuing to apply the techniques and processes of the industrial revolution of the nineteenth century. Industrial production was soaring and unit costs were being reduced by the continual application of production-line techniques to more industries. As noted already, the problems associated with the distribution of these goods from a central production location to a wide variety of outlets was of immediate concern. Simultaneously, consumers were benefiting from the industrial growth and found themselves more affluent, more educated and more consumption-oriented. In addition, significant population growth ensured that a ready market existed for the output of the mass production techniques. The US population, for example, had increased from 31.4 million to 91.9 million within a period of four decades leading up to the turn of the twentieth century (Bartels, 1962).

Another outcome of the revolution in engineering and manufacturing was an energetic pursuit of applied invention (Chisnall, 1977). New products were constantly being introduced to the market-place by innovative manufacturers, who then turned to the problems of making the product available and persuading consumers to buy it.

When the depression of the 1930's significantly reduced the volume of demand for many consumer goods, manufacturers looked more carefully for techniques which would convince the consumer to buy their goods. It was in this environment that the first texts entitled 'Principles of Marketing' appeared (Bartels, 1962). Marketing was entering its development phase and many concepts were borrowed from other disciplines such as economics, psychology, sociology as well as management, accountancy and even anthropology. Given the circumstances, it is understandable that these and subsequent textbooks tended to concentrate on the problems of the expanding manufacturing sector.

The 1940's represented a period of reappraisal where authors tried to integrate the diverse contributions of the varied disciplines and to discuss for the first time the possibility of marketing being or becoming a science (Anderson and Cox, 1948). The presence of a marketing department in many manufacturing companies in the US by the 1950's brought a new responsibility to the proponents of marketing, whose recommendations were now a common element of managerial decision-making. This and the following decade saw the incorporation of a societal dimension into many developing marketing concepts (Cox and Enis, 1968). Bartels (1962) terms this a period of reconception for marketing and, in many respects, this era conforms to Kuhn's transformation to maturity from a pre-paradigm stage of development. Up to this, fact gathering had remained a random activity and many of the concepts and data used were borrowed from existing disciplines (Kuhn, 1970).

1.3 THE MARKETING CONCEPT

It has been noted that marketing practices were in evidence before a discipline of marketing had emerged. In attempting to define marketing, the concept of marketing in theory as opposed to marketing in practice continues to make a single all-embracing definition difficult to achieve. In a review of over fifty definitions of marketing, Crosier (1975) distinguished primarily between those definitions which conceive marketing as a process to connect the producing company with the market and those which saw marketing as a concept or philosophy of business. This distinction is echoed by Chisnall when he notes that 'marketing has two aspects: 1. A business philosophy, 2. A management function' (Chisnall, 1989, p3).

Clearly, practitioners of marketing are seeking an operational definition which encompasses what their experience has shown them of marketing and to which they can, therefore, easily relate. A leading marketing practitioner gives the definition which best captures his view of the marketing concept:

> 'marketing is a total business philosophy aimed at improving profit performance by identifying the needs of each key customer group and then designing and producing a product or service package that will enable a company to serve selected customer groups or segments more effectively than its competition.' (Ames, 1970 in Garda, 1988, p33).

For marketing academics, who are already immersed in the study of the subject, a more analytical definition is required. Such definitions exhibit a far higher level of abstraction to that shown in the above definition. O'Shaughnessy (1984) writes:

> 'marketing covers those activities that relate the organisation to those parts of the outside world that use, buy, sell or influence the outputs it produces or the benefits and services it offers'
> (O'Shaughnessy, 1984, p3).

The author concedes that such definitions are usually controversial and acknowledges that they are 'more meaningful to those already familiar with the subject' (O'Shaughnessy, 1984, p3). Practitioners, however, may argue with some justification, that abstract definitions such as the above are obtuse and irrelevant.

Attempts have been made, however, to span the divide between academics and practitioners with a definition which encompasses the normative aspects of the discipline or study of marketing as well as the positive dimensions of the practice of marketing. Hunt sees marketing science as 'the behavioural science that seeks to explain exchange relationships' (Hunt, 1983, p13) and proceeds to outline his four 'fundamental explananda'. These are the phenomena which the science of marketing is attempting to explain and predict and from these Hunt derives the guiding research questions of marketing. These questions can be summarised as 'why do buyers purchase what they do, where they do, when they do and how they do?' (Hunt, 1983, p13). These are also the common concerns of most marketing practitioners.

Classification of marketing phenomena has helped to throw some light on the divergence of thought as to the essence of marketing. Kotler (1972) used a 2x2x2 matrix to analyse the unquestionably broad scope of marketing, based on the three dichotomies of profit/non-profit sector, micro/macro and positive/normative aspects.

The positive aspect of marketing is attempting to describe, explain, predict and analyse while the normative approach is prescriptive and makes recommendations as to what ought to be or what organisations ought to do. Micro-level marketing is concerned with activities at an individual level, be it a household, consumer or firm, while macro-level marketing looks at behaviour at a more aggregate level. The resultant schema has eight cells, half of which are in the profit sector and half of which are in the non-profit sector (Table 1).

Table 1: The Scope of Marketing

		Positive	Normative
Profit sector	Micro	(1) Individual consumer buyer behaviour. Case studies of firm's decision-making.	(2) Managerial approach
	Macro	(3) Most early approaches to the study of marketing, eg functional	(4) Attempting to answer questions such as: Is advertising desirable?
Non profit sector	Micro	(5) Public goods' marketing and demand forecasting.	(6) Managerial approach for non-profit organisations, ie societal marketing.
	Macro	(7) Attempting to answer questions such as: Is political marketing desirable?	(8) Attempting to answer questions such as: Does political marketing work?

Source: adapted from Hunt, 1976, p9.

Undoubtedly, 'most marketing practitioners and some marketing academicians perceive the entire scope of marketing to be profit/micro/normative' (Hunt, 1976, p8). This is represented in cell (2) and is termed the managerial approach as it adopts the perspective of the marketing manager, often in a large manufacturing firm. Given the historical background to the growth of marketing, this is hardly surprising.

The managerial marketing concept and the scope of the marketing function as it is recognised today, were really only delineated in any commonly-accepted form in 1960 by McCarthy (Kent, 1986). The concept of marketing thus became the philosophy of a firm to base all its activities on the needs and wants of customers in selected target markets. Following from this, it is assumed that a firm's operations will be successful and profitable. This orientation of a firm was found to be more successful than a production-orientation or a sales-orientation (Keith, 1960).

Translating this orientation into the practice of marketing involves the blending of various means of competition into a 'marketing mix', within the given constraints of the environment (Borden, 1964). The marketing concept of customer satisfaction together the 4 P's is the most commonly-accepted general paradigm for the marketing field (Day and Wensley, 1983). The '4 P's' model is usually represented by three concentric circles. The inner circle contains the consumer who is the focal point of the marketing effort. The second circle contains the 'controllable factors' of price, place, promotion and product, which are the '4 P's'. Finally, the third circle contains the 'uncontrollable' elements of political and legal environment, economic, cultural and social environment, resources and objectives of the firm and the existing business situation (McCarthy, 1960).

The successful application of the managerial marketing concept in the business sector was eventually noted by the non-business sector. 'Social marketing' was the term used to describe the adoption of successful marketing techniques by non-business organisations such as the public sector and non-profit making institutions (Kotler & Levy, 1969). The revised marketing concept covered the analysis, planning and control of the organisation's activities with a view to obtaining desired responses from the organisation's publics.

A second trend identified by Hunt (1976), which broadened the scope of marketing beyond the managerial perspective, he termed 'societal issues'. This involved close examination by the marketing function of evaluative issues such as consumerism, ecology and social responsibility. This implies a shift toward the positive macro cells (No 4 and No 8) in Kotler's classification scheme.

On a more abstract level, Anderson makes the point that marketing is worthy of close examination, not just with a view to improving managerial practice but also as a social phenomenon in its own right. The focus of study then switches to the exchange process itself. 'The interest must be in understanding and explaining the phenomenon itself, rather than understanding it from the perspective of only one of the participants' (Anderson, 1983, p28). Attainment of scientific status, Anderson argues, is only possible once the study of phenomenon is broadened far beyond the managerial perspective. Ideally, then, marketing science of the future will address all eight cells in Kotler's scheme.

By the 1970's, empirical evidence already suggested the acceptance of the broadened concept of marketing by 95% of US marketing educators (Nichols, 1974). Most marketing textbooks now include non-business organisations and macro issues in introducing the student to marketing. Stanton believes companies now have to pass the stage of marketing orientation and reach a fourth stage, that of 'social responsibility and human-orientation' (Stanton, 1984, p17).

This then became the 'accepted body of theory' and the 70's and 80's also correspond strongly to Kuhn's description of a 'post-paradigm period' with large volumes of brilliant and consuming original work being carried out. As Kuhn suggests, the focus of the work being conducted during this phase was the matching of newly-accumulated facts to the theory, which is consequently more clearly articulated (Kuhn, 1970).

As with the emergence of many new sciences, technology also played a vital role. The incorporation of statistical and other quantitative techniques allowed researchers to collect and analyse vast amounts of consumer and industry data (Anderson, 1983).

The editors of a special edition of the Journal of Marketing in 1983 dealing with marketing theory, however, look back on this era as one where the emphasis was very much on empirical work (Cunningham and Sheth, 1983). In fact, this special edition was compiled in response to 'a hiatus..in the development of the theoretical foundation of marketing' since the 1960's (Hunt, 1983). This had been noted earlier by Lutz (1979). Although he believed the discovery and widespread application of mathematical and statistical procedures to be worthwhile, he felt attention was being diverted from the important inquiry into the conceptual foundations of marketing.

Another consequence of the 'empirical bias' of much research in marketing was growing divergence between the concerns of marketing practitioners and the academic world of marketing. The American Marketing Association Task Force on the development of marketing recognised that the practitioner, who is the ultimate user of marketing knowledge, must have an important role in developing such knowledge and sought to encourage interaction between the two groups (Churchill, Garda, Hunt and Webster, 1988).

1.4 THE CRISIS

Kuhn (1970) demonstrated with examples from the natural sciences that if there are substantial discrepancies between the world of theory and real life, the discipline enters a 'crisis stage'. As early as the 1970's, traditional marketing based on the marketing concept showed many indications of being caught in such a crisis. By this time, marketing was enjoying academic autonomy and could boast a highly respected professional association and several journals, which one author has termed 'the accoutrements of a mature discipline' (Dawson, 1971, p66). Bartels, however, speaks of this era as 'the identity crisis in marketing' (Bartels, 1974, p73).

This reappraisal of the prevailing marketing paradigm must, however, be viewed in relation to the application of its principles in the real world of industry as this is the arena in which the discrepancies with the concept arose.

Much of the evolution of traditional marketing thought has been allied to the classical economist's assumption of perfectly competitive markets, with many sellers and many buyers. Despite the realistic market structures which have overtaken the competitive model, the market transaction for many purposes is still held to be 'autonomous, transient and efficient' by the traditional marketing model. (Arndt, 1979)

This had no immediate negative consequences for the marketing model, as the markets for many mass-produced consumer goods did not initially deviate significantly from this ideal. It was in the transfer of the traditional marketing model to areas outside the fast-moving consumer goods and other mass markets that the problems with the concept first arose. This was the case in industrial markets where companies are often involved in long-term buyer-seller relations. (Arndt, 1979)

Even in markets for consumer goods, the traditional marketing model was proving less than completely satisfactory. This was particularly true in smaller countries, where the degree of concentration is high in many markets. Arndt (1979) gives the example of Finland, Norway and Sweden where between three and five retail chains in each country account for over 75% of the grocery volume. It is interesting to note, therefore, that researchers in northern Europe had already begun to develop their own 'Nordic view of the marketing function' (Gronröos, 1989).

Research into the marketing of services and industrial products was finding consumer goods marketing to be only partially valid. In fact, some researchers in these areas felt that universal application of the one marketing theory could even prove to be destructive as it failed to recognise the unique features of these business sectors (Gummesson, 1987).

The 1960's are, in retrospect, considered to be the era of marketing's greatest influence and promise (Day and Wensley, 1983). Its declining importance in the 1970's is attributed by these authors to a number of factors. Firstly, the increasing financial pressures of that decade forced companies to concentrate on the conservation of scarce resources. Planning took place at the level of the strategic business unit and marketing was relegated to a tactical role.

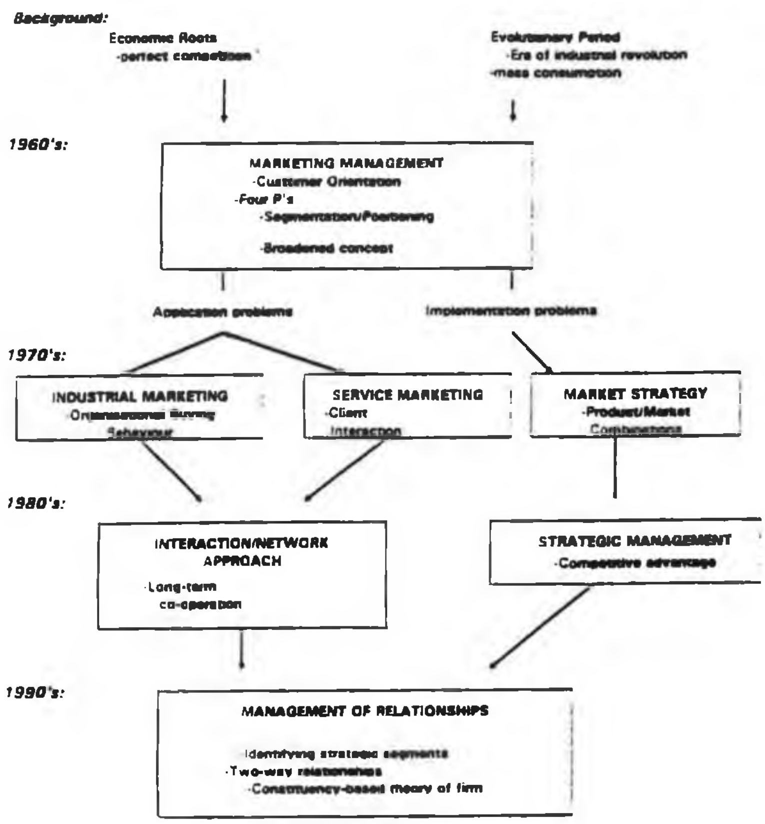
In addition, managers were becoming frustrated with the difficulty of implementing the marketing concept. In a survey of top American business executives, marketing was criticised for not asking the right questions (Webster, 1981).

Finally, it has been pointed out that the structure of world markets became increasingly protectionist in this period and many of the ideas of the traditional marketing model had little relevance (Day and Wensley, 1983).

1.5 CURRENT MARKETING THOUGHT

The original marketing concept which was adapted to encompass a broader spectrum of activities continued to adapt to these problems of application and implementation. The evolution of the marketing concept since the crises period has been conceptualised as a process involving initial splintering of thought which has converged more recently in a general consensus on the importance of relationship building in marketing. (Figure 1).

Figure 1: The Evolution of Marketing



(Adapted from Moller, 1991)

The application of the traditional marketing concept to industrial and service fields proved difficult and common ground emerged from the development of services marketing and industrial marketing. In a paper written in 1980, Gronröos claims that 'service marketing now stands at the same point as industrial marketing did some ten years ago' (Gronröos, 1980a). Since then, however, there has been a significant converging of the two strands of marketing.

1.5.1 Industrial and Services Marketing

The development of a European body of thought on marketing, separate from that of the US has a stronghold in Scandinavia. The Nordic School of Services is the name adopted by a group of independent researchers based mainly in Sweden and Finland (Gummesson, 1987). The Industrial Marketing (IM) Group has its roots in Uppsala in Sweden and its influence has spread to be taken up by the IMP Group now operating worldwide. The basis of the marketing concept upheld by these researchers is the network/interaction approach (Håkansson, 1982).

Gronröos sees the connection between these two areas of marketing to lie firstly in their similar research approaches and the research method employed. This is '..highly empirical, although it is conceptual aswell. It relies heavily on a close contact between the researchers and the actors in the marketplace and on case studies...although more traditional, quantitative methods have also been used..' (Gronröos, 1989). In addition, the approaches to industrial and services marketing of the emerging Nordic tradition both agree on what must be considered the core issue of marketing: to establish, strengthen and develop customer relations with a view to meeting individual and organisational objectives and achieving commercial profitability.

The development of new marketing concepts is not solely the preserve of the northern Europeans, however. In their challenge to the established paradigm of the marketing concept, Johnston and Bonoma (1977) propose a 'dyadic model' for the marketing of industrial products. The focus is on the transaction relationship between the seller and the buyer rather than on either of the actors alone. The interdependencies, interactions and reciprocities are emphasised and the main marketing instruments are bargaining and negotiation.

Faced with the disappointment of practitioners, who found the original marketing concept too difficult to implement, industrial marketing was more realistic regarding what it hoped to achieve in the marketplace. Chisnall (1989) summarises his discussion of the marketing concept by recognising that 'to some extent there has to be a trade-off between the ideal and what is feasible'. In addition, the vital 'interface relationships' of marketing with purchasing, personnel, finance and production management are highlighted.

1.5.2 Strategic Marketing

Concurrent to the emerging fields of industrial and service marketing, the concepts of strategic planning were being incorporated into the marketing concept. Day describes the evolution of the concept of strategic market planning as an inevitable advance which concludes the progression from an era of budget-based planning to one of long range planning. These earlier forms of planning were based on the assumption that the future would resemble the past and centred on managing growth. They were an early victim of the oil crises of the 1970's (Day, 1984). Strategic market planning seeks to anticipate and shape events rather than simply respond to them. It prepares a firm to develop a strategic response to its rapidly changing environment. Within this framework, marketing is one of a number of functional areas, all of which are competing for the resources of the organisation (Kerin, Mahahan and Varenderajan, 1990). Marketing does, however, occupy a key role in strategic planning in meeting its responsibility to look outward and establish a fit between the organisation and its environment (Day, 1984).

The on-going development of the strategic planning process seeks to 'integrate the operational element' (Day, 1984, p12). What this means is that the task of the strategic planning team should be to develop plans that will have the commitment of those responsible for their implementation. This recognised need for 'top-down and bottom-up' dialogue (Day, 1984) has permeated much of the recent growth in strategic management and provides marketing with a chance to reassert its importance as a boundary function (Day and Wensley, 1983). Marketing in the 1980's sought to help firms overcome the difficulties of being 'strategy-sophisticated and implementation-bound' (Bonoma, 1985).

1.5.3 Relationship Marketing

The traditional marketing concept has been expanded and adapted to the point where marketing's role in the organisation of the 1990's is potentially very significant. This expanded role involves a clear recognition of the two-way relationship involved in conducting an exchange. This exchange concept is applicable to firms and non-profit organisations who deal with customers buying products, clients buying services or industrial users negotiating contracts. In addition, the role of marketing is recognised and is a key ingredient in the strategic decision-making process of the firm. Day and Wensley (1983) have proposed a suitable definition for this role when they state that:

> 'the marketing function initiates, negotiates and manages acceptable exchange relationships with key interest groups or constituencies in the pursuit of competitive advantage with specific markets on the basis of consumer and channel franchises (Day and Wensley, 1983, p83).

The relationship approach to marketing revolves around the creation, maintenance and development of customer relationships. It recognises the importance of businesses keeping existing customers and cross-selling to them rather than viewing customers as a series of discrete transactions.

The need for successful formation and continued management of a buyer/seller relationship is a characteristic of many service industries, both consumer and commercial. The next chapter outlines how the area of services marketing has grown and is expanding to incorporate the concepts of relationship marketing.

CHAPTER TWO

2.0 SERVICES MARKETING

2.1 INTRODUCTION

The service sector has undergone phenomenal growth in the twentieth century. This section traces the development of the tertiary sector from its humble servile origins to its current position as the primary engine for growth in the developed economies. Available statistics on the development of the service sector in industrialised economies are examined. The significance of services to both employment and output is highlighted and the growing concern with increasing productivity is discussed before the developments of marketing in relation to services are reviewed.

2.1 THE GROWTH OF SERVICE INDUSTRIES

It has been pointed out that the farmers and plantation owners of 100 years ago would have treated the prediction of a 'post-agricultural' society with scepticism (Wilson, 1988). However, the agrarian revolution which had led to the dominance of agriculture in that era was soon overtaken by the industrial revolution of the late nineteenth century. Within a generation, manufacturing had replaced agriculture as the dominant force for growth in the developed economies of the first world. The post-WW II era has been marked by yet another upheaval in the structure of industrialised economies. Few can now doubt the existence of the 'third wave' of economic development which has led to the emergence of the 'service economy'. In such an economy, the service, or tertiary, sector has become 'the largest and the most dynamic element' (Fuchs, 1968, p1). As early as the fifties, services accounted for over 50% of employment in the US, which has thus been termed the 'first service economy' (Fuchs, 1977). It was not until 1963, however, that the term 'service revolution' was first coined to describe this development (Regan, 1963). Marketing scholars subsequently started a discussion about the marketing of services and the progress that has been made in this area will be discussed later in this chapter.

Firstly, however, it is worth noting that, twenty years ago, Daniel Bell's prediction of the 'post-industrial' society (Bell, 1971), was greeted with the same degree of scepticism which was shown to the first forecasts of an industrial society (Wilson, 1988). Cogan argues that even now, when scepticism has had to give way to reluctant recognition, the dismay at this transformation remains among both scholars and policy-makers (Cogan, 1978).

Service researchers have traced the historical development of the attitudes of academia and the public towards the service sector. Even the etymology of the word 'service', whose Latin root 'servis' means slave, has been cited as a contributory factor to the disregard with which the service sector has long been treated (Cogan, 1978). In addition, many of the traditional service occupations were vocational in nature, such as the army, the church and teaching.

Early eighteenth-century 'physiocrats' in France regarded all labour as sterile unless it extracted something from the soil (Cogan, 1978). Productive activity was enlarged by the English classical school to include manufacturing as well as agriculture. In the eyes of Adam Smith, the non-durable nature of service work 'that perishes in the very instance of its production', disqualified it from consideration as economic output (Smith, 1776, p. 639). Smith's view of 'useful' labour was shared by all the major classical economists. The neo-classicists made a fundamental departure from this school of thought by judging the correct measure of value to be 'what people would buy' and redefining economic activity as the 'production of satisfactions'. The classification of intangible output as unproductive was further undermined by Alfred Marshall:

'It is sometimes said that traders do not produce: that while the cabinet-maker produces furniture, the furniture-dealer merely sells what is already produced. But there is no scientific foundation for this distinction. They both produce utilities and neither can do more....'(Marshall, 1890, p63).

The adoption of the Smithsonian doctrine by the Marxist philosophy meant that the output of service industries was not counted in National Income by the authorities in these countries, as they are considered unproductive. The work of a typist in a manufacturing industry is consequently counted as an addition to national output, but it would not be counted if the typist was employed by a service company (Metcalfe, 1980).

It is now generally accepted that it is the market which decides whether or not labour is being productively employed. The existence of a market for a service is enough to deem it a contribution to economic welfare.

Researchers, however, continue to bemoan the lack of economic statistics and reliable data concerning service industries (Fuchs, 1977 and Geary and Pratschke, 1968). Cogan argues that the shift from agriculture to industry in the nineteenth century caused the economic concepts of the time to be refined and developed accordingly but that 'there is a conspicuous absence of any parallel flowering in economic thought to match the needs of a service economy' (Cogan, 1978, p7). What has been termed 'the status problem of the services industries' (Normann, 1984) is also reflected in the political ambivalence encountered by such industries through history to the present day. The disregard which the sector received up to the early nineteenth century can be explained to a large extent by the government preoccupation with raising the standard of living of the general public, who were living in poverty. Growing prosperity in the developed economies in the last century has motivated governments to look more carefully at the tertiary sectors of their economies.

Many social and economic services are now provided by the state in Western economies. As this means they are effectively removed from the market mechanism and a common result has been overstaffing, inefficiency and bureaucracy (Normann, 1984). Clearly, such developments only lend support to the perception that services are inherently labour-intensive and low in productivity.

The lack of enthusiasm afforded to services in government circles becomes more serious when there is a downturn in economic fortunes. Cogan describes the introduction of a Selective Employment Tax in the UK in 1966 as a discriminatory measure designed specifically to tax employment in services. The objective was to free labour for the expansion of manufacturing industry as 'it is upon the manufacturing sector that the growth of the economy and its ability to meet competition primarily depend' (UK White Paper, 1966 in Cogan, 1978, p9).

2.2 THE SERVICE INDUSTRY OF TODAY

In attempting to analyse data on service industries which range across time and country boundaries, certain difficulties become immediately apparent. The first of these problems is definitional. The most common definition of services for the purpose of comparison is those activities which are not agriculture and not manufacturing. This tendency has been described as 'residual treatment' by Stigler which has led to 'a promiscuous ensemble of service industries' (Stigler, 1956, p47) and no authoritative consensus exists on the boundary or classification of service industries.

The attempts by many researchers to redefine the service sector and produce a more homogenous grouping have led to the development of many taxonomies and classifications. In particular, the issue of whether to include the services of transport, communications and public utilities became an important question. Several researchers decided not to include these three service activities in their studies of the service sector. The reasons given varied from the fact that they had been studied earlier (Stigler, 1956) to the fact that they depend upon heavy capital equipment and complex technology (Fuchs, 1968) but the end result is that many studies of employment and output in the sector cannot be used for comparative purposes.

Even if comparable figures were available to testify to the exact nature of the growth of the service sector, Normann warns that the trends in the figures can still be deceptive (Normann, 1984). He argues that what we are experiencing is, to some extent, a reorganisation of existing services rather than an emergence of new ones.

This concept is illustrated with the example of the housewife who begins sending her children to a nursery school so she take a job with a cleaning company, who may have the nursery as a client. In other words, service activities which previously were carried on outside the market are moving into the market-place and being measured as part of GNP for the first time. In addition, Normann believes that the growth of the service sector is closely related to the continued growth in productivity in the manufacturing sector, without which 'we cannot afford an increase in the service sector' (Normann, 1984, p1).

Regardless of these definitional problems and limitations, however, the trend remains clear. Services are continuing to account for a larger proportion of output and employment in developed economies.

2.2.1 Employment

The gradual increase in the share of employment accounted for by services in western economies began in the 1950s. By the mid-seventies, service employment accounted for over 50% of employment in the OECD as a whole, while North America continued to experience expansion of the sector to the point where services represented 67% of total employment (OECD, 1989).

The European economies concentrated on rebuilding their infrastructure in the years immediately following the war and began the fifties with the service sector accounting for just over 30% of employment. Since then, however, the service sector in Europe began to exhibit significant and prolonged expansion. By the mid-seventies, the EC as a whole, was on the verge of becoming a 'service economy', with almost 50% of employment generated by the service sector (Fuchs, 1977).

More recent figures show the service sector accounting for 57% of those employed in Ireland, with 15% of the workforce employed in agriculture and 28% employed in manufacturing (CSO, 1989). In the UK in 1989, 67% of those employed worked in service industries (CSO UK, 1989).

Clearly, when the share of employment in service industries increases, the share of agriculture and industry decreases. As Normann has pointed out, however, the development of each of these sectors is interrelated. The increase in agricultural productivity of the last century was in large measure a result of industry developing more efficient farming machinery (Normann, 1984). There also appears to be a high degree of statistical association between industrial employment and services employment, which gives support to the view that service activity is a derivative of industrial activity.

For the period 1951 - 71, service employment regressed on industry employment in Ireland gives the following regression equation:

$$y = 19.75 + 0.75x, \ r = 0.76$$

where y represents the service employment share and x represents the industry employment share (Cogan, 1978, p216). Such correlation can be expected as many infra-structural services such as distribution, communication and transportation stem directly from the manufacture and sale of physical goods.

Employment trends in industry and services in the more developed OECD countries, however, provide evidence of autonomous service growth. Employment in industry in the decade between 1977 and 1987 at best remains steady and generally declines, particularly in the case of the European nations. Services employment, on the other hand, increases steadily in all eight countries over the ten-year period shown (OECD, 1987). This points to a certain level of growth indigenous to services which is not dependent on a corresponding growth in industrial output. The expected growth of the service sector in Ireland to bring the economy to a par with the more developed European economies, may therefore result from a decline in the share of employment held by agriculture rather than by industry.

2.2.2 Output

In the industrialised countries, studies of National Account Statistics indicate that GDP appears to stabilise at 7% from extraction, 27% from manufacturing and 66% from services (Riddle, 1986).

Looking a the service sector's share of Ireland's GDP at constant prices over a nineteen-year period from 1956 to 1975, Cogan notes that the output share of services has fallen slightly from 44% to just over 40%. This occurred during a period when the service sector's share of employment rose from 37.7% to 46.6% (Cogan, 1978, p 48). Despite the difficulties of defining output in service industries and in measuring the productivity of labour and capital inputs, it is clear that productive efficiency in many service industries is poor (Gershuny and Miles, 1983).

As per capita income increases, the primary growth subsector within the service sector is that of business services, such as banking, insurance, accounting and legal services. (Riddle, 1986). Cogan concludes that although financial and professional services are among the fastest growing areas of the Irish economy, they are also among the weakest in terms of productive efficiency (Cogan, 1978). This may, however, be due to an inappropriate measure of output and improvements in quality and range are difficult to quantify. Courtesy and style of performance in relation to customers are examples of characteristics not measured in existing definitions of productivity which are nevertheless essential for the long-term effectiveness of a financial service company (Schneider, 1980).

2.2.3 Conclusion

The service sector has risen from a state of total neglect by almost all business disciplines, to employ the majority of the working population of the industrialised world.

Although to date the dominance of the service sector has manifested itself in terms of employment and not output (Wilson, 1988), this seems set to change. The dual forces of technology and increased competition in many service industries due to deregulation are forcing the service sector to concentrate on productivity issues (Quinn and Gagnon, 1986).

Despite having to borrow and adapt many of its business techniques and practices from the manufacturing sector or simply manage on a contingency basis, the service sector grew and prospered. Its current status is such that all business disciplines are consciously attempting either to encompass the sector in their existing theories or to develop new theories which will have a specific application in the vast and varied business environment of the service sector. This chapter now outlines the application of marketing principles to service industries and concludes that much of what is recommended remains fragmented.

2.3 THE DEVELOPMENT OF SERVICES MARKETING

As has been noted, the impetus for the development of marketing from its inception to the development of the marketing paradigm came from the consumer goods industry. The paradigm therefore required either further articulation to become more relevant to service industries or dismissal as irrelevant to their problems. The following section outlines the differing strands of thought on the applicability of what was becoming traditional marketing to the growing service sector of the western economies.

Reasons for the calls for a new theory are given and five concepts are presented which represent the major contributions to the development of this new theory.

2.3.1 Early Dissenters - the 60's

By 1968 the United States was 'the first nation in the history of the world in which more than half the employed population is not involved in the production of food, clothing, houses, automobiles and other tangible goods' (Fuchs, 1968, p 1). The first article concerned with the marketing of services had, however, only appeared five years earlier.

The existing definition of services of the American Marketing Association was clearly unsatisfactory: 'activities, benefits or satisfactions which are offered for sale, or are provided in connection with the sale of goods'. Regan proposes a more specific definition which includes intangibles such as insurance, tangibles such as housing and transportation as well as intangibles such as delivery which are provide when another commodity or service is purchased (Regan, 1963, p57).

Although his Ph.D was written on the topic of the service market in 1962, it was not until six months after Regan's article that Judd's case for redefining services was first published (Judd, 1964). He proposed a redefinition of services based on what services were not. By defining services as transactions whose object is not a tangible commodity, Judd hoped to encourage greater consideration of such 'non-products' in the marketing literature.

With this began the process of defining services in the marketing literature, which has caused so much confusion and dispute across a range of different disciplines.

In 1966, Rathmell observed the difficulty of segregating goods and services entirely. Using leasing as an example of a transaction involving both a service and a good, he proposed a goods-services continuum (Rathmell, 1966).

All these early proponents of special treatment being accorded to the marketing of services note the growing importance of the service sector and some of the vital differences from products which are not addressed by the traditional marketing theory. It is Rathmell, however, who introduces the need for a conceptual approach as a prerequisite to further study of the sector (Rathmell, 1966). The publication of his book *Marketing in the Service Sector* (Rathmell, 1974) begins this process in a period where services marketing was one of several applied marketing topics to undergo an explosion of interest.

The exponential growth of services marketing literature since the sixties has resulted in an abundance of books and articles on the subject in general as well as vast quantities of material on the problems of specific service industries. By 1970, 70 publications dealing with services marketing had appeared and this figure grew to 650 during the following decade (LeJeune, 1989a). An Annotated Bibliography of the American Marketing Association (Fisk and Tansuhaj, 1985) published in 1985 contained over 2,000 separate English-language publications. The ABI-Inform bibliography program, which contains five years of references from over 800 North American, European, Asian and Australian business journals and which is updated to April 1991, unearthed 10,426 references specific to services marketing.

The authors of the Annotated Bibliography decided to structure the outline around two major headings (Fisk and Tansuhaj, 1985). The first contains those sources which the authors believe to be relevant across services fields and they term these 'conceptual insights'. The second and major section of the literature falls under the heading 'service fields' and covers literature specific to each one of ten services categories. Similarly, Bateson (1977) reviews the literature on services marketing and divides it into literature about services marketing and that for service marketers.

Similarly, the remainder of this chapter will concentrate on the application of marketing to service industries in general before going on to discuss the specific application of marketing to banking in the following chapter.

2.3.2 Unique Aspects of Services

The need for a specialised body of knowledge for service marketing was clearly accepted by the marketing community or the literature would never have become so extensive. The possible need for a body of concepts separate to that of the existing marketing paradigm, however, generated a great deal of debate.

Gronröos believes that 'the development of general theories or frameworks of service marketing seems to have followed two different paths. According to one approach, the service offered by service companies ought to be changed in a more product-like manner, so that existing marketing theories can be applied' (Gronröos, 1980a). Levitt writes of a 'production-line approach to service' (Levitt, 1972) and the 'industrialization of service' (Levitt, 1976). Other authors have written of the '5th P' (Brookes, 1988) or even of the '7th P' (Booms and Bitner, 1982) of services marketing. Such authors seek to maintain the original marketing concept. Even they, however, generally concede the need to adapt the marketing mix for services, mainly due to its neglect of the important "people" element of service transactions.

Several authors do, however, dispute the need for a separate treatment of services in marketing. Some argue that both products and services should be viewed as 'offerings' and that the segregation of the two can prove to be dysfunctional as services have been deterred from applying useful marketing techniques (Wyckham, Fitzroy and Mandry, 1975). Other authors have similarly looked at what the customer is purchasing as a 'bundle of benefits' regardless of its form and deny that strategy formulation should be any different for services (Enis and Roering, 1981).

The arguments proposed in favour of a separate body of thought for services marketing are built around the differences between services and products and the implications of these differences for the real-world application of marketing principles.

Regan summed up in 1963 in one sentence a lot of what writers on services marketing spent the following decade describing: 'the intangibility, perishability, heterogeneity and ubiquity make total comprehension of services difficult' (Regan, 1963, p58). The four characteristics of services which are generally considered to make them unique from products are: intangibility, inseparability of production and consumption, heterogeneity or non-standardisation and perishability. These characteristics are identified by most authors of service marketing literature, who then proceed to explain the unique problems which they pose to service marketers. It then follows that unique strategies are required by these service marketers.

2.3.2.1 Intangibility

In a review of the literature on service marketing problems and strategies, Zeithaml, Parasuraman and Berry, (1985) see the fundamental problem cited by all authors to be intangibility. Bateson sees this to be the critical factor which distinguishes services from products and the root of all of management's problems (Bateson, 1979).

It is generally this characteristic of intangibility which is held to delineate services from products but this again brings up the problems of definition of services outlined earlier in the chapter. A service is rendered by the seller and experienced by the buyer, it cannot be touched, smelt, heard, tasted or seen in advance. But often intangibles are accompanied by 'tangible trappings' (Shostack, 1977) and the reverse can also be the case. Levitt describes 'tangibilizing the intangible' and highlights the intangible nature of many aspects of products such as image (Levitt, 1981). An article in Fortune magazine predicting the business environment of the 1990's urged its readers to 'think of every product you buy or sell as a service..look at what it does, not what it is' (Fortune, 1991).

Recognising that there are very few 'pure' products or services in the marketplace, Shostack proposed a 'scale of marketing entities' on a diagram which went from those products such as salt, which are 'tangible-dominant' to 'intangible-dominant' services such as teaching. Around the mid-point of the continuum are entities such as fast-food, where both tangible and intangible items make up what the customer is buying (Shostack, 1977).

The intangible nature of services is believed to be one of the major obstacles to the direct application of marketing to the service sector. In one of the earlier books on service marketing, Wilson states that 'the more intangible the service, the greater will be the difference in the marketing characteristics of the service' (Wilson, 1972). In-depth interviews with 13 executives of 10 different service organisations conducted in the UK found evidence to support this. Practitioners in service companies were confused as to how to use marketing tools in a service context and the researchers believed that there was a tendency to concentrate on fringe areas of the service package, simply because they are tangible (Rushton and Carson, 1985).

As service researchers continue to investigate the problems that this characteristic of intangibility poses for service marketers, the intangible aspects of products is also coming under closer scrutiny. Levitt claims that 'the product is a promise, a cluster of value expectations of which its non-tangible parts are as integral as its tangible parts' and that product marketers are increasingly stressing the more intangible nature of their offerings (Levitt, 1983). If this is the case, on-going research by service marketing researchers may, eventually, have a significant contribution to make to the field of product marketing.

2.3.2.2 Inseparability

In the following example of four basic channels of distribution, taken from a basic marketing text, it is clear that the one service included is going to require significantly different strategies than the three products, which will be bought from a middle-man rather than directly from the producer.

Figure 2: Four Examples of Basic Channels of Distribution

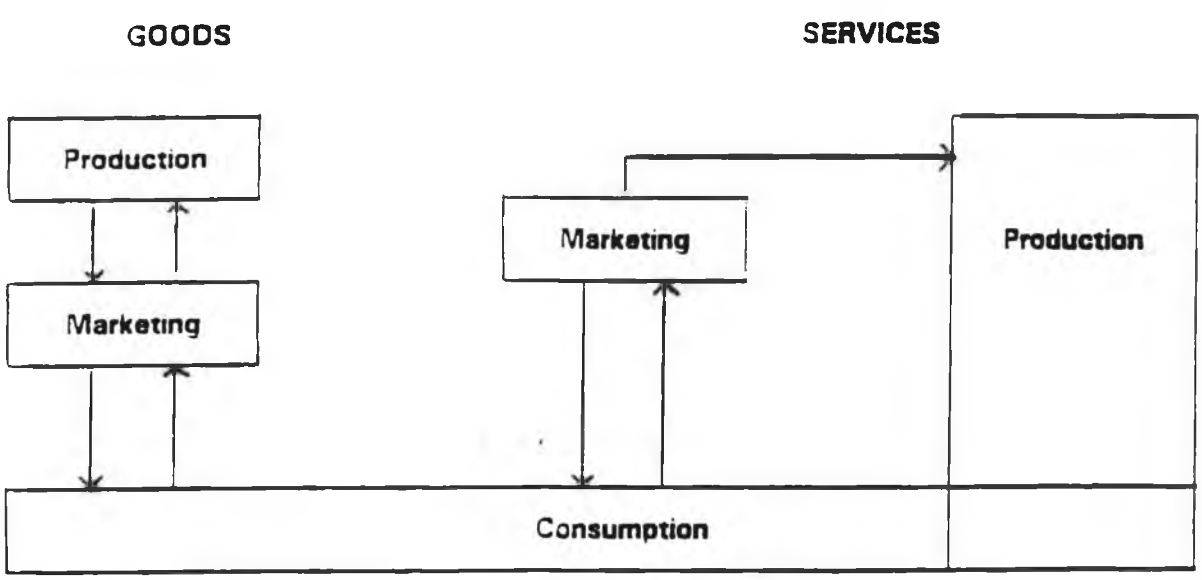
MANUFACTURER OR PRODUCER

CITIBANK	APPLE COMPUTER	DEL MONTE	PROCTOR & GAMBLE
↓	↓	↓	↓
		WHOLESALER	WHOLESALER
		↓	↓
	RETAILER	RETAILER	RETAILER
	↓	↓	↓
CONSUMER	CONSUMER	CONSUMER	CONSUMER

Source: McCarthy and Perrault, 1990, p. 39.

In fact, production of a service occurs at the same time as its consumption and very often, the presence of the consumer is required for the production to occur. This 'forces the buyer into intimate contact with the production process' and focuses attention on the environment in which the service is to be offered and its delivery (Carman and Langeard, 1980, p8). Rathmell's diagrammatic representation of the differing consumption situations of goods and services illustrates that there are two interactions between producer and consumer of services: marketing and production.

Figure 3: Buyer Seller Interface: Goods and Services



(Source: Rathmell, 1974, p.7).

The overlap between production and consumption provides scope for what Gronröos terms 'interactive marketing', a function of services marketing which he believes is quite different to the traditional marketing function (Gronröos, 1980).

3.2.2.3 Heterogeneity

The 'human-intensive' (Rathmell, 1974) nature of many services mean that there is the potential for significant variation in the performance of a service. This applies to both the seller and the buyer of the service. Not only may a buyer come in contact with a number of the seller's employees, who will all be different to one another, an individual employee may behave differently in each service encounter, as may the customer. Standardisation and quality control are subsequently difficult to achieve.

Inconsistency of service quality is a particularly vibrant topic in this age of quality (Ishikawa, 1985). In recent years, many researchers have looked to motivational techniques and organisational behaviour for guidelines on how service employees can be made to operate at high levels of operational efficiency and encouraged to be 'customer conscious'. Levitt deplores this 'humanistic conception of services' and claims it 'paralyses' any attempt to improve service quality. Rather than concentrate on improving the performance of the service providers, Levitt believes service companies should look to technology and systems development. These should obviate the need to depend on employees to perform in a standardised way and will also serve to reduce unit production cost. The 'technocratic hamburger' that is McDonalds fast food empire is Levitt's supreme example (Levitt, 1972) but he believes that his concept of 'industrialization of service' has an application in every service industry (Levitt, 1976).

2.3.2.4 Perishability

Goods are generally produced first and then sold and consumed. As services are produced and consumed simultaneously, they cannot be stored in the way that goods can. As services are, in effect, processes, they will not exist unless demand exists. Service companies can often find themselves, therefore, in a position to supply a service but with no demand or overrun with demand which they are not in a position to supply.

Attempting to balance supply and demand for services is a difficult task which is exacerbated by the impossibility of holding inventory (Sasser, 1976). Suggested strategies usually centre on managing demand by encouraging off-peak use of the service (Lovelock, 1983) or by influencing capacity using technology and adaptive employment procedures (Berry, 1980).

A mail survey of 323 service firms highlighted the main strategies which companies used to deal with demand fluctuations. Indications were that service companies use personnel strategies much more than marketing strategies, particularly during peak demand periods (Berry, Parasuraman and Zeithaml, 1984).

A final characteristic which is sometimes mentioned in the literature as a constraint on the management of services is that of ownership, or rather, lack of ownership of services (Cowell, 1987). In purchasing a service activity or facility, the customer rarely emerges with ownership as is the case when purchasing a good. This characteristic is incorporated into Kotler's alternative definition of services to that of the American Marketing Association: '...any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product' (Kotler, 1982).

2.4 STRATEGIES IN USE BY SERVICE COMPANIES

Much of the literature of the 1970's outlined these characteristics of services and the resulting problems for service marketers. In doing so, most researchers were seeking to justify their claim that services marketing warranted a separate body of concepts to that which prevailed in consumer goods marketing. Empirical work was conducted on both service companies and manufacturing companies for the purposes of comparison. A mail survey of 1,000 firms conducted in 1972, for example, revealed major differences in the marketing practices of the two types of firms. Service companies, in general, appeared to be less marketing-oriented than product firms. The most important finding of the study was that the marketing function was less structured in service companies and there appeared to be little scope for introducing components of the marketing mix (George and Barksdale, 1974).

The study of 323 service companies described in the previous section found that personnel strategies were used more often than marketing strategies in trying to cope with demand fluctuations (Berry et al, 1984). The same survey indicated that service firms lack the marketing skills needed in an era of deregulation, intense competition and expanding markets (Parasuraman, Berry and Zeithaml, 1983).

The confusion apparent among service marketing practitioners in a qualitative study of service executives (Rushton and Carson, 1985) is similar to that expressed by product marketers in earlier years which was described in chapter 1. Service marketers have an additional difficulty in applying the traditional marketing concept due to the unique aspects of services. The fact that so few empirical studies have been conducted on the actual marketing practices of service companies is perhaps an indication of the disparity between marketing theory and marketing practices in the field. Those few studies which have been done certainly point to the existence of such a disparity. The traditional marketing concept does not appear to be applied by marketing executives in service companies. A survey of 36 marketing executives in service companies in the UK found that service marketing managers place great importance on the customer's interaction with the company and its staff (Easingwood and Arnott, 1991).

As the 1980's approached, however, the field of services marketing had not yet come close to proposing an alternative concept and still had 'some serious catching up to do in terms of marketing thought' (Berry, 1980).

2.5 STRATEGIES FOR SERVICE COMPANIES - the 'catching-up' period

Throughout the 70's, as researchers pointed out the unique features of services and the resulting marketing problems, most attempted to suggest a marketing strategy to help overcome these problems. Many of the suggested marketing strategies, therefore, centre on solving particular problems caused by one or more of these unique features. Very often, the suggested strategies for dealing with the issues are variants of successful solutions to similar problems in the area of product marketing.

Examples of such strategies, which aim to solve a particular problem, are Levitt's industrialisation strategy to overcome the problems of heterogeneity (Levitt, 1972, 1976) and Sasser's strategies to match supply and demand in order to cope with the perishable nature of services (Sasser, 1976).

Other researchers took issue with such proposals and argued 'it seems inappropriate to try to change the services - for example, to make them more tangible and impersonal - just in order to be able to apply conventional marketing knowledge' (Gronrõos, 1980, p2). Inevitably, those researchers who believed services to be fundamentally different from products from a marketing point of view sought to develop a theory of service marketing specific to service industries.

Inevitably, these attempts made by individual researchers to develop alternative theories have led to much fragmentation of marketing thought. The remainder of this chapter describes some of the major contributions to emerge from the field of services marketing. These range from specific concerns with distribution and employees to more general theories of organisation and management in service companies. Finally, this chapter examines the research into service quality, which is seen as the most fruitful direction of applied research in the field of services marketing.

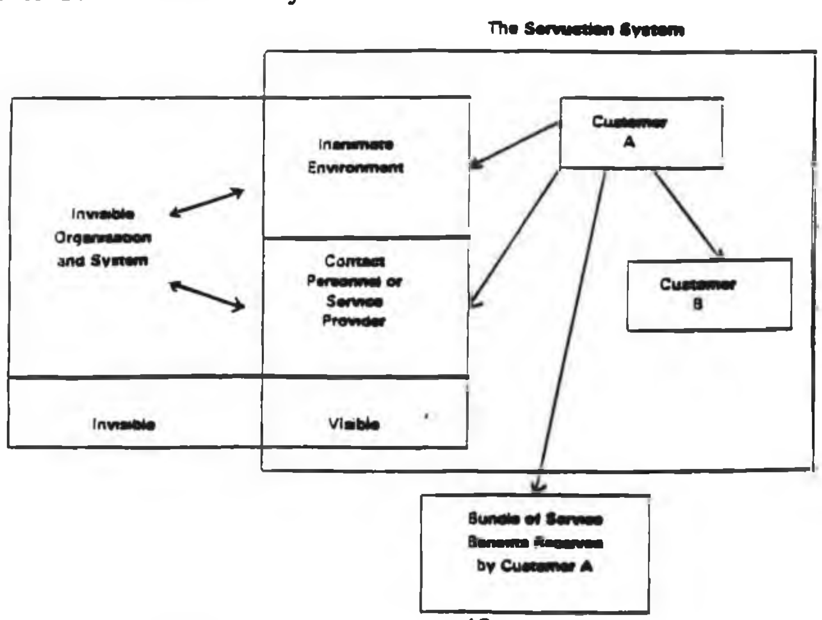
2.5.1 Servuction and other Distribution Strategies

Product marketers have been concerned with the distribution of their output since the earliest days of marketing's development, as was described in section 1.2. The inseparability of the production and consumption of most services, however, means that the service marketer has different distribution problems.

The implications of the resulting interaction of the buyer and the supplier of the service are so significant that traditional descriptions of production and delivery seem inappropriate. For this reason, service marketers indulge in the coining of new phrases to describe the transaction. The 'servuction system' is one such phrase to describe the interaction of the consumer with the visible part of the service firm (Langeard, Bateson, Lovelock and Eiglier, 1981).

As the customer 'experiences' the service, he or she only comes in contact with the visible part of the organisation, which is made up of the environment and the contact personnel or service provider.

Figure 4: The Servuction System Model



(Source: Langeard, et al., 1981).

What this model delineates as the servuction system is essentially the equivalent of the delivery process in product marketing, with some extremely significant differences. A major difference is the presence of the consumer who must also therefore be 'managed'. In a similar vein to Levitt's industrialisation concept, Chase proposes that service providers minimise the customer's contact with the system in order to improve efficiency. By isolating what he describes as the 'technical core', service companies can reduce the level of customer contact. Chase does, however, recognise the limitations of such a strategy for certain high-contact activities, such as teaching and also that even for low contact industries, the contact personnel will continue to play a vital role (Chase, 1978).

Normann also highlights three components of the service delivery system. These are the company's personnel, the client and the supporting technology and physical assets. He believes that it is primarily in the context of this service delivery system that the service company can expect to find its most unique and innovative ideas in order to compete successfully (Normann, 1984).

To deal with these relatively unheard of marketing issues, service marketers looked to alternative disciplines for inspiration. The architectural discipline lends its experience to the development of suitable environments for service consumption, particularly in retail-based service industries (Arnold, 1986). Chase's managing of consumers is based on the industrial engineering approach to work sampling (Chase, 1981).

Shostack likens the dynamic and interrelated elements of service delivery to an organic entity and applies the scientific method of molecular modelling. The model includes both the service and product elements inherent in most service transactions. She further develops the concept to that of 'service blueprinting', which has its roots in time and motion engineering and system and software design. The 'blueprint' of a particular service outlines, in a series of steps, the process which will be followed by the service provider and all possible alternatives and deviations that may arise in dealing with a customer. The process is proposed as a system to help in service design and service management (Shostack, 1982).

Recognising that the service encounter is considered to be the service by the customer, Bitner, Booms and Tertreault apply a technique borrowed from psychology to identify the main causes of satisfactory and unsatisfactory encounters. The 'critical incident technique' was used to analyse almost 700 incidents in three high-contact service industries. Although the focus of the study was specifically on interpersonal factors, the way that employees respond to critical incidents was of such a significant importance that even the researchers themselves were surprised. The results seem to indicate that positive employee reaction towards difficulties encountered by customers can turn an incident which began as a failure of the system into a very satisfying incident for the customer (Bitner et al, 1990).

Clearly, the contact personnel and their behaviour remain one of the most significant aspects of any service. This is acknowledged by all writers on service marketing at some point. To deal with this issue, concepts have been adopted from organisational behaviour, human resource management and a diverse range of social sciences. The significance of the 'human element' of service marketing is such that it is included in detail in all of the proposed theories of service marketing and will thus be considered in all the remaining sections of this chapter.

2.5.2 Strategies to Manage the Boundary-Spanners

The conventional perspective of marketing theories and practices has been outward-looking and focused on the external environment of customers, competitors and markets. Marketing's task was to match corporate resources to the demands of the target audience, within the given environment (Piercy, 1990). In most service companies, the companies employees are one of the most vital resources in meeting customer requirements.

All strategies proposed for service companies deal in a significant way with the human element as for most service firms, customer contact personnel are a major component of what the customer views as the service. Bateson defines them as 'the permeable surface of the organization, interfacing outward with the environment and inward with the organization' (Bateson, 1989). They have the dual role of representing the organisation to the public and collecting information for the organisation. Investing in the company's 'people' in order to enhance their performance has been equated with a consumer goods manufacturer investing in product quality (Berry, 1981).

The importance of 'boundary-spanning' employees was empirically tested by Schneider and Bowen by means of a mail survey of the employees and the customers of a full-service bank. Responses from 142 employees and 968 customers of 28 branches were analysed to test for similarities and discrepancies (Schneider and Bowen, 1985). Results indicate that customer perceptions, attitudes and intentions seem to be affected by what employees experience, both in their specific role of service employees and in their more general role as organisational employees. These results replicate a similar study conducted earlier (Schneider, 1980) and both point to significant implications for service-related and human-resources related organisational practices. In those branches where employees perceive a strong service orientation in their branches, the customers report that they receive superior service (Schneider, 1980). In addition to this important aspect of service delivery, these boundary-spanning employees are a valuable source of market information and act as agents of change whose acceptance and commitment are critical to success in altering any process in the service organisation (Bowen and Schneider, 1985).

Shamir has defined the types of role played by these boundary-spanners as being at some point on a spectrum. At one extreme on the spectrum are those 'subordinate service roles' where the employee meets customers whose purchase decision is entirely discretionary and they are therefore subordinate to both the customer and the organisation. Such jobs as waitering and cleaning are at the bottom of the organisation and correspond to the traditional negative image of services outlined in section 2.2. At the other end of the service employee spectrum are the professionals, who enjoy a far higher status among their clients and within the organisation. The conflicts experienced by the boundary-spanner in relation to the environment and the organisation will vary according to the type of role occupied (Shamir, 1980).

Bateson actually suggests that the service encounter represents a fight for control between the contact personnel, the customer and the organisation (Bateson, 1985). Strategies for managing the boundary-spanning personnel often centre on the concept of internal marketing which views employees as internal customers who should be addressed using the marketing tools traditionally reserved for the external customers. Sasser and Arbeit were the first to suggest that the staff be considered a target audience (Sasser and Arbeit, 1980) and the idea has been developed to one of 'creating service enthusiasts' (Schneider, 1980).

Piercy and Morgan present the internal marketing program as a variation on the external marketing mix complete with a reworking of the '4 P's' (Piercy and Morgan, 1991). Normann points out that although there are occasions when special campaigns are called for, internal marketing should be taking place on a continuous basis in order to maintain standards, encourage productivity, motivate staff to sell and re-sell and ensure commercial success (Normann, 1984).

Contributions from social psychology look more deeply at the interaction between a service provider and a customer in order to come up with more definite recommendations to management on how to manage the service encounter. Role theory when applied to the service encounter postulates that satisfaction will ensue if both parties in the encounter adhere to the role expected of them by the other.

Management must therefore design the task to facilitate role congruence for both the customer and the service provider. In addition, both parties should have a realistic perception of the role expected of them and what they can expect from the other party in the encounter, which has obvious implications for the organisation's internal and external communication strategies (Solomon, Surprenant, Czepiel and Gutman, 1985).

2.5.3 Organising for Marketing in Service Companies

In a review of developments in organisation theory since the classical management school of the turn of the century, Perrow concludes that much of what has been learned revolves around understanding why organisations differ so much in their behaviour. Many factors have been discovered to account for this variance. These factors range from market forces to competition, legislation, technology and innovation, the nature of the workforce. A further obvious source of variation is the history of the firm and its industry and traditions (Perrow, 1973). The large number of variables may account for the relatively small number of empirical studies on organisational structures across service industries and for the superficial nature of many of the recommendations regarding the organisation of service industries.

In organisations of all types however, both product and service, the classic thesis that 'structure follows strategy' has been replaced with the gradual realisation that in practice 'strategy follows structure' This has been attributed to the fact that, in any given structure, dominant interest will hold power and will set the agenda for decision-making (Piercy, 1990).

The traditional organisational structure, divided along functional lines, does not take account of the inseparable nature of the production and consumption. The marketing function of a service company has a far wider reach than in a typical consumer goods company and an organisational structure with the marketing department separate from all other areas of management and operations can severely limit the successful application of marketing practices. Marketing consultants have been known to recommend to organisations that the central marketing department actually be closed down in order to facilitate the development of a marketing orientation throughout the organisation. (Gronröos, 1983) The logic in such a move is that when a particular section is given responsibility for marketing, other areas of the organisation can relax more easily in the knowledge that someone else is taking care of it.

Gronröos distinguishes between the marketing department, which is an organisational structure responsible for some, but not necessarily all, of the firm's marketing activities and the marketing function. The marketing function consists of all activities which influence the behaviour of the customers and it must control the buyer-seller interactions. Gronröos suggests that this can best be done by giving the responsibility to a 'market co-ordinator' based at top management level. This position would oversee both traditional mass marketing activities such as advertising and personal selling as well as the interactive marketing elements such as personnel (Gronröos, 1982).

Similarly, in their study of four large service organisations at corporate and tactical level, Lovelock, Langeard, Bateson and Eiglier conclude that:

> '..service marketers must develop organisation structures and procedures that establish a better balance between marketing and other management functions - especially operations, than currently exist' (Lovelock et al, 1981).

Blois has found that an organisational matrix developed for goods-manufacturing companies has an application in service companies also (Blois, 1973). The Hayes and Wheelwright model which he uses contends that just as the production process evolves from being disjointed and flexible to a capital-intensive system, the product life-cycle also moves from low-volume, customised goods to high-volume, standardised commodities. Competitive cost-cutting and technology are imposing similar pressures on service industries of all kinds. Blois gives examples of three types of service companies whose strategic responses and their consequences are suggested by the Hayes and Wheelwright model. He concludes that the pressure to achieve economies of scale and the concurrent developments in technology which allow for the customised supply of service to a large number of clients, will eventually mean that 'short channels of distribution and multi-site operations do not represent the only possible organisation structures for service companies' (Blois, 1983, p255).

2.5.4 The Nordic School

In his book *Strategic Management and Marketing in the Service Sector*, Gronröos argues that 'marketing management cannot be separated from the management of other business functions in the same way in service firms as in the consumer goods sector, and ..strategic marketing management, therefore, cannot be treated isolated from strategic management and strategic planning' (Gronröos, 1982, p2). This isolation of marketing management from the other management areas is a feature of the relatively sophisticated management structure which emerged from the industrial revolution and was geared primarily to the production and distribution of tangible goods (Chisnall, 1977). As the implementation problems indicate, however, producers of consumer goods are also experiencing conflict between the organisational structure and the effectiveness of marketing activities, (Piercy, 1990) and it is conceivable that this may be an area where developments in services marketing will eventually be reviewed with interest by non-service companies.

For the purposes of developing a service marketing theory, Gronröos proposes a broad definition of marketing management:

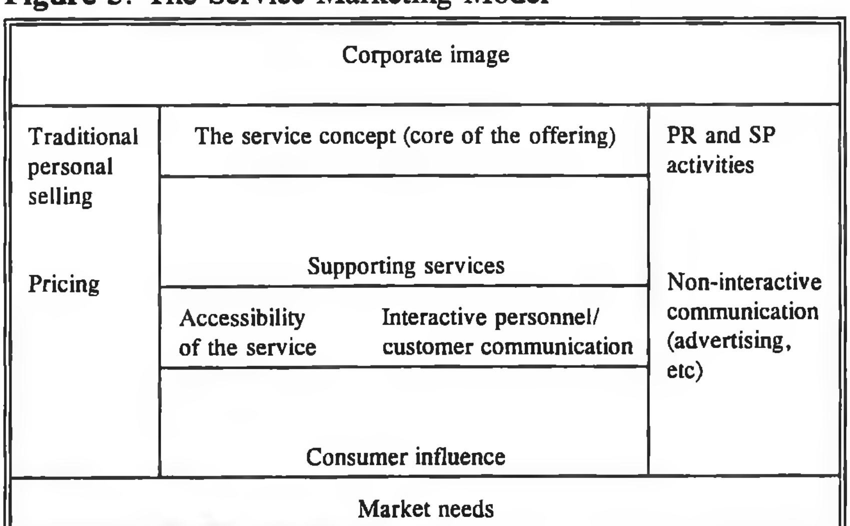
> 'The objective of marketing management is to plan, motivate, and manage all resources of the firm, which have an impact on the firm's customer relations, on carefully selected target markets, both in the short run (first purchase) and in the long run (enduring customer relations), as well as ones which have an impact on the view of the firm and its objects of transaction (corporate image and brand image), which various publics of the firm form, so that the needs and demands of all parties involved (eg the company, customers, share owners, creditors and the society) are satisfied.' (Gronröos, 1982, p32).

The traditional marketing model empowers the marketing function to manage the 4 P's of the marketing mix but Gronröos believes these to be only a part of the service company's 'total marketing function'. The interaction of the buyer and seller during the simultaneous production and consumption of a service also require management. This, Gronröos terms the interactive marketing function (Gronröos, 1980a).

The interactive marketing function consists of four elements. Firstly the accessibility of the service must be such that it is convenient and attractive for the target customers to consume the service. A major element in the interactive marketing function of most services is the customer communication entered into by the service personnel. The contact personnel are critical to the customers' view of the organisation and they often act as salespeople. Another integral part of the service offering are the supporting services, which make the service concrete in the minds of consumers and often serve to differentiate the company from competitors. Finally, the interactive marketing process is highly dependent on the consumer influence. The consumer partakes of the service during its production and is an important source of future word-of-mouth information for potential future customers (Gronröos, 1982).

In Gronröos' service marketing model, these elements of the interactive marketing function are the central means of competition in the marketplace. The basis for planning remains the needs of the target customers and development of the four elements transforms the desired 'service concept' into a concrete service offering. The image of the organisation plays a supporting role, once it is favourably recognised by consumers. Those traditional means of competition, which are typical of the marketing concept of the '4 P's', are relegated to a peripheral role. (Figure 5).

Figure 5: The Service Marketing Model



Source: Gronröos, 1982, p138.

Strategic management of services must avoid the strategic management trap encountered by service firms of the 1970's who reacted to financial problems and increased competition by implementing significant cost control measures. As labour costs are typically high in service companies, this was often the first place management would look to cut costs. The resulting decline in service quality was the beginning of a vicious circle for these service companies, whose staff suffered from the dual impact of an increased workload and unsatisfied customers. Avoiding this trap requires that the company identify what Gronröos terms its 'quality generating resources'. These are the elements of the buyer-seller interaction and cannot be rationalised without a loss in competitiveness. In fact, to compete more effectively, Gronröos recommends that management concentrate on improving these interactions (Gronröos, 1982). This is achieved through both the traditional and the interactive marketing functions. Traditional marketing analysis should allow the company to attract the target customers to its firm and should help to turn these customers' interest into sales. Already, however, the customer is in contact with the company's employees and interactive marketing has begun.

The interactive marketing function becomes increasingly important as the company attempt to build enduring customer relationships and cross sell to existing customers To keep employees motivated and customer-conscious, in order that they implement this process of interactive marketing, Gronröos stresses that a managerial philosophy of internal marketing should exist in the company. To overcome the admitted failure of many such motivational programs, Gronröos introduces the strategic concept to internal marketing. Internal marketing, in attempting to motivate staff to be customer conscious, must exist from a strategic level which requires that support be available from top management directly down to the tactical level of the front-line employees (Gronröos, 1981).

A questionnaire designed to test the validity of Gronröos' concepts of the strategic management trap and the elements of his services marketing model was completed by 219 service sector executives. Few discrepancies emerge from the survey, but as the sample was taken from a group of Swedish executives who had attended a Nordic seminar on services marketing to learn the above concepts, this is hardly unexpected.

While commenting favourably on the book in general, Bernhardt finds fault in this data collection method along with Shostack, who comments that '..the notion of teaching people a set of theories and then constructing a survey that 'proves' their support of these theories is somewhat questionable' (Bernhardt and Shostack, 1983).

2.5.5 Fragmentation of Services Marketing

Clearly, much of what is described in the preceding discussions is a valuable contribution to management decision-making in services marketing. However, the obvious fragmentation of the literature is both confusing to marketing managers attempting to apply services marketing and limiting in the broader application of the theories outside of the normative-micro view of marketing described in chapter 1.

Recommendations pertaining to the marketing of specific products or services are primarily the concerns of marketing executives, however, who look to marketing theory for insight and advice. The generally-accepted techniques of consumer marketing, industrial marketing and services marketing have been described as the first level of abstraction of marketing (Blois, 1974). The higher-level of abstraction is seen by this author as being composed of the theories of buyer behaviour. This concept of buyer behaviour as a core issue in marketing is closely related to Hunt's fundamental explanenda described in chapter 1 and relates closely to the basis of marketing - concern for the customer. Closer investigation of buyer behaviour also allows for development of theoretical propositions which are more easily adapted to a broad range of situations and therefore more likely to contribute to the broadened concept of marketing.

The preceding four research strands provide further insight into how existing marketing knowledge can be adapted to service industries and how some of the unique aspects of services can be handled in a marketing context. An area of research will now be outlined, however, which is centred on the needs and wants of the customer in the service situation. The quality school of management in service industries seems to be the research strand with the most to offer in terms of developing a model of service marketing which improves on the existing state of knowledge and could, in fact, have a contribution to make to marketing thought outside of the area of services.

2.6 THE QUALITY SCHOOL

In the PIMS study of over 2,500 business units, it has been found that 'in the long run, the most important single factor affecting a business unit's performance is the quality of its products and services, relative to those of competitors'. The quality edge has been shown to boost performance in two ways. In the short run, superior quality allows the company to charge a premium price and thus improve profits. Businesses ranking in the top one-third of the PIMS businesses sold products at prices 5-6% higher than those charged by companies in the bottom one-third. In the long run, it is believed that growth in market share which results from the higher quality allows the company to take advantage of economies of scale, thereby reducing costs and further improving profits (Buzzell and Bradley, 1987).

The intangible nature of services means that any definition of quality must incorporate the customer's subjective evaluation of what it is about the service which satisfies them. This may vary significantly from service business to service business and much effort has been expended in search of the dimensions of service quality which apply in all service situations.

In outlining his model of service quality, Gronröos makes something of an understatement when he says 'the quality of a service will be complicated in nature' (Gronröos, 1980a, p6). His own model of quality consists of the two major elements of the technical quality of the service rendered and the process of transferring this service to the consumer, which he terms functional quality. The first is a necessary, but not sufficient condition for satisfaction and functional quality appears to be a very important facet of perceived service, as is the company's image, which is the final element of service quality in the Gronröos' model (Gronröos, 1984). Shostack had criticised both the divisions of service quality in the earlier model and the priority given to functional quality, concluding that the theory is overwhelmingly biased towards services rendered by people (Bernhardt and Shostack, 1983).

The vital importance which is being attached to quality in both products and services since the 1980's has led to many studies to define its essence. Parasuraman and his collegues began a research program to define and measure quality in services with an exploratory study of four service businesses (Parasuraman, Zeithaml and Berry, 1985). In-depth interviews with executives of the service companies and focus group discussions with customers of the services were carried out. The resulting information highlighted a set of key discrepancies or gaps between the perceptions of what constituted quality in the minds of executives and in the minds of their consumers.

The first gap existed when service marketers did not understand what consumers expect from a service. The second gap arose when management experienced difficulty translating their perceptions of the consumers' demands into a service specification and the third arose when what was specified did not translate into actual service delivery. The fourth gap was between what was delivered to the consumer and what had been promised by external communication. These four gaps contribute to the important gap between what the consumer expects from the service and what he or she perceives the service to have delivered. This final gap is more generally seen by the authors as service quality and was subjected to further investigation.

The researchers divided the concept of service quality into ten key determinants, based on the findings of the twelve focus groups with service consumers (Parasuraman et al, 1984). These ten service-quality dimensions were later expanded to 97 items for empirical testing to discover the principal elements of service quality (Parasuraman, Zeithaml and Berry, 1988). A questionnaire testing the consumers' expectations and perceptions regarding the 97 items was administered to a sample of 200 and the results purified using coefficient alpha and factor analysis until a significant 34 item scale emerged. This scale was administered again to a sample of 200 consumers in relation to four service companies. Further purification of the scale led to the emergence of 22 items spread across five dimensions of service quality, which the researchers have termed SERVQUAL.

The five distinct dimensions of SERVQUAL contain facets of all the 10 dimensions in the original quality concept. The five dimensions are:

1. Tangibles: appearance of physical facilities, equipment, personnel and written materials,
2. Reliability: ability to perform the promised service dependably and accurately,
3. Responsiveness: willingness to help customers and provide prompt service,
4. Assurance: knowledge and courtesy of employees and their ability to inspire trust and confidence,
5. Empathy: caring, individualised attention given to customers.

The researchers believe that the scale can aid service providers in measuring the quality of their service over time, relative to the competition, among different customer groups and in understanding which quality dimensions are more relevant in their market (Parasuraman et al, 1988).

The research was further expanded to investigate the relationships between the other four gaps and service quality. Specific aspects of company organisation and behaviour of employees were hypothesised to relate to the marketing information gap, the standards gap, the service performance gap and the communication gap. The proposed model was tested using a series of questionnaires administered to samples of customers, employees and managers of five service companies. The objective of the study was to provide practical insights to service companies for improving service quality and the authors believe that their results suggest that better service can be ensured by:

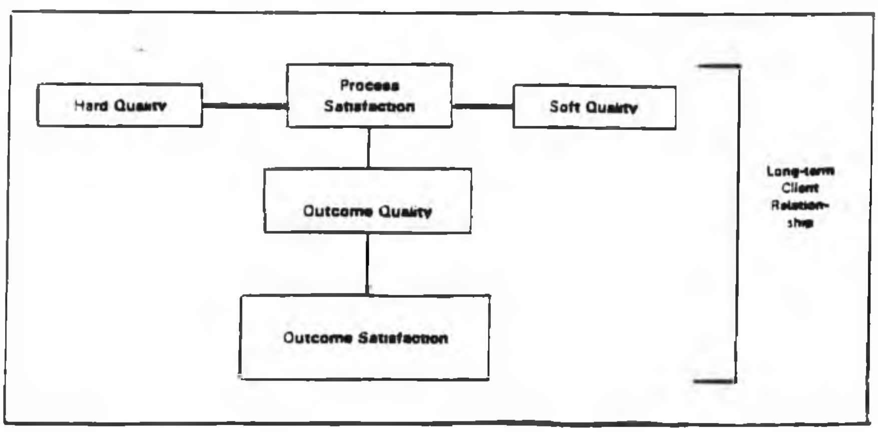
1. interaction between managers and employees,
2. management commitment to resources to implement processes for standardising service tasks and setting performance specifications,
3. teamwork among employees,
4. Good fit between the service roles and the employees and technology assigned to accomplish them,
5. employee flexibility to satisfy consumers,
6. effective communication across functional areas.

(Parasuraman et al, 1990, p1)

The structure of the quality system proposed for service companies in the ISO 9000 standard contains many similar dimensions to the Parasuraman et al model. The International Organization for Standardization (ISO) gives guidance for establishing and implementing a quality system within an organisation. In response to an acknowledged increase in interest in quality management in service industries worldwide, the body is encouraging service companies to manage the quality aspects of their activities more effectively (NSAI, 1990). Applying quality management principles gives companies the opportunity to improve productivity and reduce cost as well as improving service performance and taking advantage of market opportunities. A systematic approach is required to ensure that customers' needs are understood and met and provision made for feedback of customer perceptions. The management of quality therefore requires a structure which incorporates internal and external measures and documentation throughout the service processes. The focal point of the system is envisaged as the interface with the customer, with management, resources and structure to back this up. However, despite the careful outline of the systems involved in ensuring delivery quality, the only guideline given in relation to determining customer needs is the noting of the fact that 'useful approaches include surveys and interviews for the collection of market information' (NSAI, 1990, p7).

The outcome of service quality is clearly envisaged as higher levels of satisfaction among service customers which facilitates the relationship marketing ideal discussed in chapter 1. A more detailed description of how this may occur is given in Figure 6, which is designed to described the service relationship in a business-to-business relationship.

Figure 6 The Role of Satisfaction and Quality in the Long-term Relationship



Source: Szmigin, 1993, p8.

The hard and soft quality in this model correspond to the elements of technical and functional quality in Gronröos' theory of service quality. Both the technical quality of the service rendered and the process of transferring the service impact on the customers' process satisfaction which is the level of satisfaction with the day-to-day working of the relationship. This model of satisfaction is expanded upon by adding the concept of outcome satisfaction, which is seen by the author as that part of customer satisfaction which is outside the control of the two partners in the relationship. Examples are the lawyer who performs well but still loses the client's case or the advertising agency who devise a wonderful campaign which does not achieve company objectives. Within this constraint, however, the seller must strive to manage the process so that the customer's satisfaction with the service is maximised (Szmigin, 1993).

Other developments of the service quality concept involve examining the antecedents of quality and the outcome of service quality. The customers' prior experience with the service was found to affect their quality assessments of a local telephone service and perceived performance levels were found to have a direct effect on quality and value assessments (Bolton and Drew, 1991). A further extension of the service quality model which was tested on consumers of four different service industries found that perceived service quality was an antecedent of customer satisfaction which had the stronger influence on purchase intention (Cronin and Taylor, 1992). A study of 107 professionals using a simulated hotel-stay also provided evidence for the positive effect of favourable service quality perceptions on intended behaviours (Boulding, Kalra, Staelin and Zeithaml, 1993).

2.6 CONCLUSIONS

In an early article on the application of marketing to service industries, it was noted that 'it is ironic that service businesses, which are necessarily in the most direct contact with consumers, seem to be the last to adopt a consumer-oriented marketing concept' (Bessom, 1973, p14).

Many service companies have themselves not traditionally had much need to compete. Regulated industries, public service monopolies or unrestrained growth in demand are some of the reasons why service companies had concerns other than marketing foremost in their mind. For many of these industries, these market conditions are now changing. Market growth has slowed, industries have been deregulated and monopolies broken up. Service practitioners are looking to marketing to address the new issues facing them.

This chapter has described the extension of the original marketing concept to incorporate the concerns of service industries. The research in relation to service quality seems to provide the most promising basis for further development as it relates directly to what must be seen as marketing's primary concern - customer satisfaction. The following two chapters look at the increasing adoption of marketing principles in banking before describing the banking relationship of small businesses to which the above quality concepts are applied and consequently reviewed.

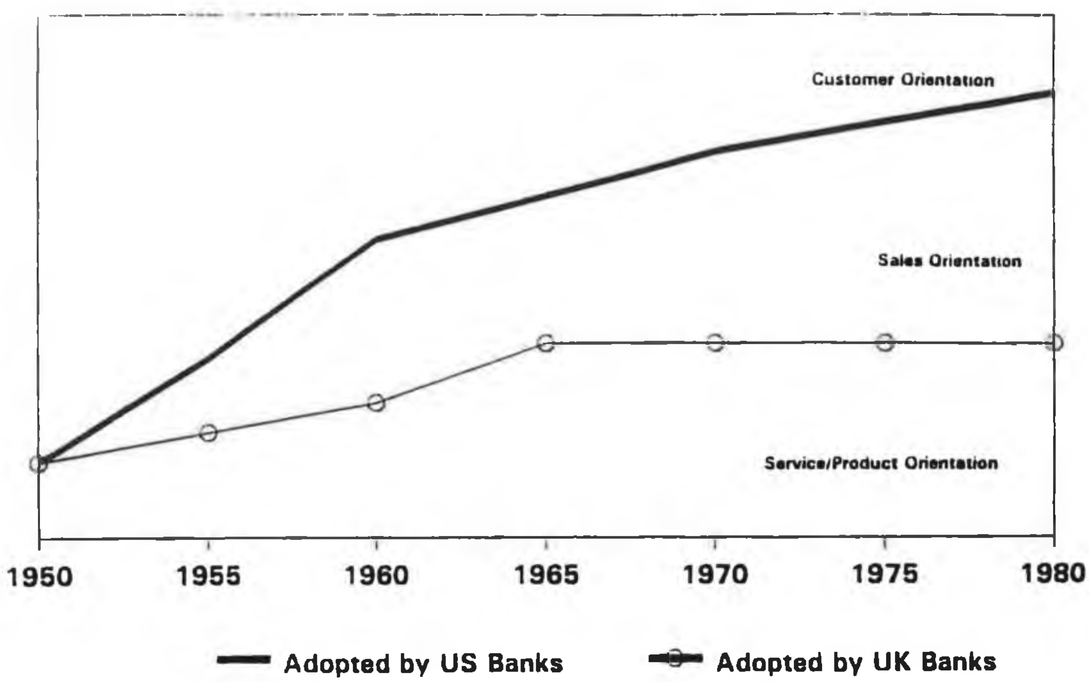
CHAPTER THREE

3.0 BANK MARKETING

While there is no statutory definition of a bank or a banker (Doyle, 1981), there are certain elements of banking common to any institution operating as a bank. Banks exist to satisfy a basic need for safety and convenience among the public, both private and commercial, in their financial dealings and they also serve as a market-place to bring together borrowers and lenders. An additional function common to most banks is their expertise in money matters (Wright, 1984)

In western economies, the financial sector has been experiencing phenomenal growth and banks are the most important single financial sector. This is true not just because of their turnover, profits and levels of employment, but also because of their vital importance to the efficient operation of other spheres of modern economies (Meidan, 1984). For reasons to be outlined in the following chapter, banks have been exhibiting a growing interest in applying marketing techniques and tools. Growing interest in this area should also be of benefit to the economy in general. The expanded concept of marketing discussed in chapter one seeks to maximise the effective operation of exchange relationships to the benefit of both parties. Other economic units, both personal and business customers of banks should therefore benefit from a genuine adoption of the marketing concept by banking organisations.

Figure 7 The Evolution of a Marketing Orientation in US and UK Banks



(Source: Metcalfe, 1980, p.91).

Figure 7 illustrates the evolution of marketing in US and UK banks since the 1950's as seen by one author (Metcalfe, 1980). There is an obvious similarity to the commonly-accepted framework of marketing development devised from that of the Pillsbury Company (Keith, 1960). During a period of Service/Product orientation the efforts of the bank are directed towards providing the best possible services to potential customers. The emphasis during this period is on maximising efficiency and the organisations main focus is internal. As banking markets became more competitive, Metcalfe believes that banks' orientation changed. Increased levels of competition following deregulation led to the development of a sales orientation in UK banks in the 1970's. Tools of marketing are now being used to find out facts about bank markets and to advertise bank services. US banks by this time, however, according to Metcalfe, had reached a stage of customer orientation. Marketing in such organisations performs the task of developing, pricing, promoting and distributing through a planned orientation to the customer and recognises, where possible, target market segments. The author developed these beliefs on the basis of information supplied during personal interviews. There is empirical evidence, however, to support his contention that UK banks had not evolved into marketing oriented organisations by the 1970's. A study of branch management in the large clearing banks in the Coventry area was conducted to ascertain how aware managers were of the marketing concept. It was found that managers believed good services will sell themselves, that increased profits will naturally flow from increased volume, that branch location is the principal determinant of volume and that marketing's task is selling (Watson, 1975). There is less evidence, however, to support the contention that US banks *had* achieved true customer orientation as early as the 1970's. A chairman of the board of the Bank Administration Institute in the US used the example of restricted opening hours from ten to three to highlight the continuing cultural problem to be overcome in banking. He believes that many bankers feel that as customers need their services, they must accept them at the bank's convenience (Dezember, 1983). A national study of bank marketers in the US also found that the most frustrating aspects of their jobs were insufficient top management support and a lack of interdepartmental cooperation (Donnelly and Berry, 1981).

The adoption of otherwise of marketing by banks is taking place in an environment dominated by change. These changes and the subsequent introduction by banks of strategic marketing planning principles and of some of the tools of marketing are now outlined.

3.1 THE CHANGING ENVIRONMENT FOR FINANCIAL SERVICES

Historically, financial services organisation and particularly banks have been slow to adopt the marketing concept. This is particularly true of banking services in UK and Irish markets. Bearing in mind the traditional operating environment of these businesses, this is not very surprising. The banking market has tended to be highly regulated and banks operated in an environment which was not at all competitive in a conventional sense. Up until the 1970's the financial services markets existed in a clearly structured format with particular institutions involved in specific areas of business. Thus banks offered general deposit-taking services to the public as they had historically done, building societies lent money for house purchase, insurance companies provided life cover and insured property and pension funds provided for retirement income. In addition, there were specialised institutions such as the post office which took deposits at favourable interest rates for lending to the government and co-operatively-owned credit unions for short and medium-term consumer lending.

The changes which have occurred primarily in the last twenty years in the financial markets have earned the term 'the financial services revolution' (Bourke and Kinsella, 1988). What has resulted from these changes is a vastly altered environment for banks in terms of who they must consider to be their competition and how they may decide to compete. These changes occurred primarily in three main areas: the legal or regulatory environment for banking, competitive or business changes and technological developments.

3.1.1 Legal Changes

The importance of banking to the overall economy and the instability caused to general economic well-being by a loss of confidence in the banks has led most governments to regulate the ownership and operations of banks quite closely. In general, banks operate under far more legislation than an average commercial concern. The rationale for this regulation is twofold. Firstly, many of the regulations in place served to prevent banks from engaging in overly-speculative or imprudent practices in the hope of higher profits, which would put depositors' funds and the economy's financial system at risk. Secondly, the banking system is one of the tools available for affecting the money supply in a given economy and may thus used to implement the monetary policy of that economy.

Legislation of banking has affected both the strategic choice of business and the tactical running of the business. The Banking Act of 1933 in the US prohibits commercial banks from undertaking investment banking (Davy Kelleher McCarthy 1984). Governments can affect the operation of the bank's core business by legislating for minimum liquidity requirements. This was at thirty percent of total deposit liabilities in the UK up until 1971 and eight percent of this amount was required to be held in cash (Davy Kelleher McCarthy 1984). The decision of US banks on how to deliver their service is directly affected by legislation which prohibits interstate banking.

The first stirring of the deregulation movement have been traced back to the Carter administration in the US (Bourke and Kinsella, 1988). An almost worldwide trend of government disengagement from industry is the result of growing acknowledgment that regulation often does not guarantee the desired result. Increasingly, regulated markets have emerged either as cartel arrangements between major players or as inefficient and sometimes corrupt environments with unsuitable relationships between regulator and regulated. Over time in many industries the costs of regulation began to outweigh the benefits.

With over 14,000 individual banks in the US, efficient and effective regulation of the banking was a daunting task. There is a growing belief in the economic and legal disciplines as well as among policy-makers that efficiency and consumer welfare are best served when markets operate free of regulatory impediments (Bourke and Kinsella, 1988) In the UK, it was not until 1971 that the government abolished credit control regulations and bank rate control, which freed banks to set their own base rates for interest offered on deposits and charged for loans (Wilson, 1986). The unofficial cartel operating in retail banking in Ireland was disbanded in May 1985 and each of the clearing banks was allowed to set independently its own structure of interest rates (McGowan, 1990).

Despite its relatively small size, the Irish financial sector has traditionally been supervised by multiple government agencies. In addition to the Central Bank, certain financial players, such as the state banks, are controlled by the Department of Finance and the insurance companies are monitored by the Department of Industry and Commerce (Kinsella, 1988). The Building Societies Act, 1989 transferred supervisory responsibility for building societies in Ireland to the Central Bank of

Ireland. Previous legislation had restricted the areas of business in which Building Societies could operate to taking funds from the public and making loans on the security of mortgages. Since 1989, building societies can enter many new areas of business. These include the provision of a wide range of financial services including banking, investment and insurance services as well as unsecured loans and non-financial services such as conveyancing and auctioneering. Clearly, banks and building societies are now operating in very similar businesses. The considerable scope for development allowed to the building societies by the 1989 Building Societies Act and the decision that both building societies and banks should be regulated by the Central Bank has offered building societies the long-term potential to become fully-fledged licensed banks. Before this would occur, however, it appears inevitable that certain building societies must consider amalgamating to rationalise their operations in order to compete effectively against the major banking networks (O'Sullivan, 1991).

A further significant legislative change which will increase the level of competition on the Irish financial services market was the 1987 Single European Act which provided for the establishment of a single internal market among the 12 countries of the European Community. In relation to financial services, the Community envisages the principle of *home country control*, to operate within a framework of harmonised standards in each country. The Irish banking system, however, still believes itself to be relatively highly regulated. It feels that the relatively high liquidity ratios demanded by the Central Bank, combined with the bank levy unique to Irish banks and a 43% corporation tax rate will leave them exposed to competition from more favourable environments (Kinsella, 1988). Furthermore in the domestic market, the banks argue that the introduction of Deposit Interest Retention Tax in 1986 has worked to the advantage of life assurance companies and An Post, who can offer DIRT-free savings instruments (O'Sullivan, 1991).

The insurance sector has been reprieved from having to face major international competition by a derogation from the European Community's harmonisation plans to last until the turn of the century. The intervening period is expected to bring radical rationalisation within the insurance industry (Kinsella, 1988).

Overall the changing regulatory environment operating in the Irish financial services market has resulted in increased levels of competition and a desire for rationalisation among all players in the market.

In the UK, the Financial Services Act, 1986 marked a significant move in the regulation of the financial service industry from institution-based regulation to market-based regulation. This act relates specifically to investment business and has two key features to promote competition in the saving industry. These are consistency of treatment between competing types of financial service and the degree of reliance to be placed on self-regulation within a statutory framework. The act established a 'designated agency', the Securities and Investment Board, to oversee all individuals or companies transacting investment business. This is done either directly from the Board or through one of a number of self-regulating organisations or recognised professional bodies. An example of one of these is LAUTRO, the life assurance and unit trust regulatory body, for all organisations or individuals in these investment areas. The members of these organisations decide on their rules and regulations and submit them to the Director of Fair Trading. The emphasis is on self-regulation in the belief that regulation is best undertaken by people with practical experience of the business in question. In addition, any costs of regulating fall on the actual investors through the operation of the regulating bodies who are financed by their members (Ennew, Watkins and Wright, 1990).

3.1.2 Market changes

The growth of the world economy in the decades following the second world war heralded an era of expansion for most industries. This is particularly true for most services industries as was discussed in an earlier section. All industries, including those in the services sector, saw their market structures adapt to accommodate growth initially and then more constrained market conditions after the 1970's. With an in-built requirement for caution and prudence, banking markets experienced these developments later and more slowly than other industries (Bourke and Kinsella, 1988).

The easing of regulatory requirements outlined earlier, however, has quickened the pace of change in financial markets and the last two decades have seen major changes in the banking markets of many western economies. Deregulation has allowed two main developments which seem curious if not contradictory. Banks have begun moving outside their traditional business of banking while other non-banking organisations have attempted to move into the conventional banking business. Thus, for example, banks moved quickly into the mortgage markets in Ireland and the UK once restrictions were removed gaining twenty and twenty-five percent of the market respectively (Bourke and Kinsella, 1988). Building societies have similarly sought to diversify into areas traditionally associated with the clearing banks, by offering accounts with cash cards and chequebooks, for example (Ennew et al, 1990).

Another market change which has had a significant impact on the structure of banking is that of disintermediation, whereby banks are by-passed in the chain of supply linking users and suppliers of funds. To a large degree, this process has been occurring on capital markets through securitisation, which is highly developed in London and New York. Large corporations are issuing commercial paper directly onto the short-term paper markets and thus obtaining finance without recourse to a bank. Those who buy the paper see it as a substitute to putting their money in a bank. The changing attitude towards risk is highlighted by the emergence of junk bonds in the US capital markets in the 1980's which offer higher yield in return to higher risk for the investor (Bourke and Kinsella, 1988). The increased by-passing of banks in the corporate market as well as the pressure on margins due to international competition has led many banks to look more closely at the potential of the retail market for maintaining or increasing profitability. Disintermediation has also occurred in this end of the market in the US where broking houses offer access to money market funds directly to the consumer, who can actually draw off the high-yielding account using a credit card (Bourke and Kinsella, 1988).

Another major market development which threatens to change the structure of financial service markets in the future is the entry of competition from non-financial corporations. Foremost among these are retailers, who have the advantage of a large customer base and a long tradition of service and granting credit to customers. An important example is Sears Roebuck in the US, who is the largest issuer of plastic cards in America through their Discover credit card, through which customers can also avail of savings accounts, mortgages, stock brokerage, real estate and insurance (Worthington, 1988). In the UK in 1987, Marks and Spencers acquired licensed deposit-taker status from the Bank of England (Worthington, 1988), they have their own card and credit facility and have recently launched a unit trust.

3.1.3 Technology

The emergence of large-scale manufacturing companies in the United States has been traced back to the technological breakthroughs which enabled them to increase production at declining costs. Firms who achieved such breakthroughs early gained a decisive competitive edge and achieved significant market shares which they held for a long time (Chandler, 1977). In the financial services industry, the computer is taking the place of the mass-production line in revolutionising the workplace and the market. The growing application of information technology in financial services is clearly linked to its declining costs. Between the mid-1960's and 1980, computing costs declined at an average annual rate of 25%, communications costs at a rate of 11% and memory costs at a rate of 40% (Kaufman, 1983).

The effect of technology on financial services has three main aspects (Bourke and Kinsella, 1988). Firstly, it allows existing institutions to deliver services more cost effectively. These developments have occurred in the aspects of the service which is invisible to the consumer such as the inter-bank clearing systems for payments as well as in the increased use by consumers of paperless means of payment such as standing orders or direct debits. Secondly, technology allows for the development of new services. The most obvious example of this is the range of services now available on automatic teller machines, which can now be used for payment of bills and other services. Further developments in the area of electronic funds transfer at point of sale (EFTPOS) are a continuation of this trend. Thirdly, technology also potentially facilitates the entry of new competitors into the financial services marketplace. Through the technology of home banking, for example, competitors with a small presence on the market can develop a significant customer base.

The importance that technology has attained in banking can be seen from the budgets which it is allocated. The average UK bank devotes around 15% of total non-interest operating costs to technology. This amounted to £3.9 billion in 1989. More indicative of its growing importance, perhaps is the fact that annual growth in spending on technology in UK banks between 1985 and 1990 was 21%. This surpassed growth in net income of 18% for the same time frame (Axson, 1992).

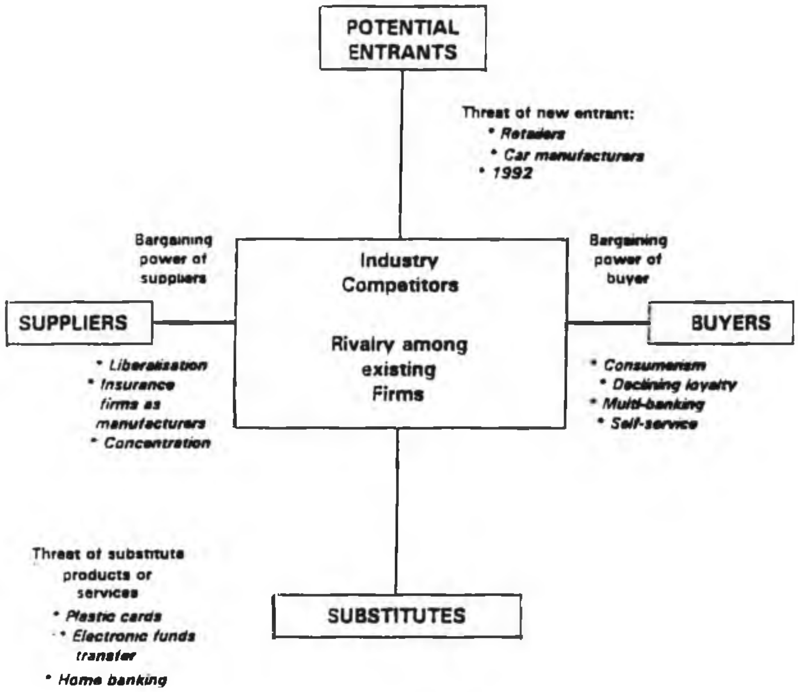
While the growing importance of technology in banks in terms of spending is without doubt, many institutions are anxious about the effectiveness of their spending on technology. With respect to transaction volume in the UK, automated systems have only managed to keep pace with volume growth and have not yet managed to reduce paper transactions in real terms (Axson, 1992). Merill Lynch in the US set up a productivity task force to reduce the $165 million which they were spending annually on systems applications and development. In addition, the merchant bank was spending $15 million on technology training for its staff (Koerner, 1990).

In addition to cost control, technological developments are also potentially valuable in the contribution they can make to a company's customer knowledge. Customer databases developed for operational reasons are being adapted to provide information for the marketing information systems which many banks are developing. This aspect of technology is discussed in a later section.

3.1.4 The New Competitive Structure

Sir Leon Brittan, Vice President of the European Commission is quoted as saying that 'our categorisation of financial service activities under the headings 'banking', 'investment services' and 'insurance' is becoming increasingly artificial (Fagan, 1991). The strategic pressures now facing banks in the marketplace have been modelled on Porter's model.

Figure 8 Model of Strategic Pressures



Source: Farrance, 1993, p3

The existing players in the financial services marketplace are moving into one another's markets as regulatory barriers come down and each tries to take advantage of the opportunities of cross-selling to existing customers and adding value to their existing networks. Hence, banks have found themselves facing direct competition from building societies, who are expanding their product range (Edgett and Thwaites, 1990). The Abbey National in the UK took advantage of the Building Societies Act, 1986 to convert to plc status and has since been developing into a full-service banking organisation (Ennew et al, 1990). The Post Office network in the UK also operates a banking service through its National Girobank and is anxious to exploit the potential of its large network. The banks have similarly attempted to make inroads into businesses where they did not traditionally compete. Many banks have ventured into the life assurance market, for example, to exploit the cross-selling opportunities to existing customers (Fagan, 1991). Another significant move taken by most banks in the new competitive environment has been to move into the market for house-mortgages, which was traditionally the secure market of the building societies.

The threat of completely new entrants into the market and substitute products is also on-going, with the developments in technology outlined earlier, allowing access to the banks' market-base at a relatively lower cost than that incurred by the branch network. In addition, the completion of the internal market for financial services within the European Community has already begun reshaping the European market with a number of continental banks involved in alliances, mergers or acquisitions as well as strategic linkages within and across national boundaries (Gardner, 1992). Banks are experiencing further competitive pressures from the increasing sophistication of their customers who to an extent are both the suppliers and buyers of their product, money. The overall picture is one where many banks have had to emerge from a complacent position in a stable market to deal with intensifying pressures to become and remain competitive in a rapidly-changing market.

3.2 STRATEGIC MARKET PLANNING

One of the major developments outlined in the discussion of marketing and its place in business was the incorporation of a strategic planning element. This development adapts marketing thought to take into consideration the changing environment of the firm and to consider its own potential strengths in a given marketplace. Strategic planning has become an important ingredient in the process by which banks have adapted to their new environment. Strategic market planning evolved with the aim of maximising the company's allocation of resources among different areas of business. In planning for the future of any business, managers are attempting to plot the course which will locate the business in a particular position in the market in a given time period. The position chosen depends on a number of factors internal and external to the business. In theory, therefore, strategic market planning is a management process that leads to the development of a clear purpose or mission, objectives and strategies for the entire organisation. The output of the process should be a clarity of purpose and direction which translates into concrete plans to direct business to the desired position at some chosen point in the future. In reality, however, very many businesses have found the process time-consuming and frustrating. Academic research has reflected this difficulty and it has been noted that about half of the published studies on the area support the link between planning and performance and half fail to do so (Santalainen and Spencer, 1990)

One bank did achieve significant success in its implementation of a comprehensive strategic planning program and has the results to prove it (Santalainen and Spencer, 1990). The Savings Bank Group of Finland (Skopbank) began the program entitled Results Management in 1979 with a three-year pre-planning period. The need for management commitment was acknowledged and the program was introduced at management level in 1984 and three years later at employee level. The process begins with senior managers developing a consensus on the direction the company will take, its 'vision' and how it intends to move in that direction, its values or 'will-state'. From these are developed broad mission statements which are translated into more concrete 'business ideas'. Strategic goals are then specified for a three to five-year time period. Both competitive strategies and internal resource strategies are devised to achieve these goals and these are translated into specific key results which the organisation is expected to have achieved at specific points in time. Employee commitment was fostered by allowing employees themselves decide how to achieve the results expected of them, once they are clear on how these results will be measured. In addition, employees develop with their supervisors their own key results not just as they relate to the organisational goals but also in relation to their own personal career and life plans. The bank believes this ensures creativity and participation throughout the organisation. The success of the program is clear from the success achieved by Skopbank in increasing its market share of both the deposits and credits business from 28% to 30% between 1978 and 1989. In addition, management believe they have created an organisational structure and culture which is highly responsive to the rapid changes in the deregulated banking industry (Santalainen and Spencer, 1990).

A strategic market plan generally involves four sets of related decisions:

1. Defining the business,
2. Determining the mission of the business,
3. Formulating functional strategies,
4. Budgeting (Abell and Hammond, 1979, p9-10).

Prerequisites to planning of this form are careful analyses of the opportunities available in the marketplace and the company's capability to take advantage of these opportunities. Analysing market opportunities involves careful consideration of the market's customers, competitors, environmental influences and overall market trends.

In addition, some form of internal audit must be conducted to evaluate the company's potential to take advantage of the opportunities on the marketplace. Company characteristics must be considered objectively to highlight strengths and weaknesses both in the financial and other areas.

3.2.1 Business Definition

These two forms of situational analysis are essential components of any planning system and should be conducted before the planners can confidently state the business in which the company sees itself operating for the future. Several factors play a major role in a company's choice of business. The company's history is foremost among these. Thus, for example, Crédit Agricole of France retains strong links with its farming depositors (Channon, 1986). The corporate business may also be largely determined by what has been called the company's 'driving force' (Donnelly, Berry and Thompson, 1985, p32) or its 'distinctive competencies' (Ennew, Watkins and Wright, 1990, p63) which may emerge from the company's history or which may be consciously developed. The driving force should ideally be the customer and the company's business decisions should constantly be striving to serve them better. Other concerns such as products, technologies, production processes or natural resources can also play a large part in determining the company's business direction. Alternatively, a particular method of sale or distribution may affect a company's priorities as may a desire simply to achieve a certain size or level of profitability.

In defining the business, planners are deciding which customers the company is going to serve and how they are going to serve them? At this point, it is also common to consider the different types of customers that may exist and how differences between customers may affect the company's operations. Clearly, marketing has a role to play here. This role involves both 'interpreting' the information from the marketplace (Chisnall, 1989) and ensuring that customer orientation remains the driving force behind the choices of which markets to serve and how. Quoting a retired chairman of Citicorp, Donnelly et al (1985) clearly show the potential for the marketing function in this respect:

> 'If we want to formulate plans that will be successful in tomorrow's world, we should study who has tended to be right more times than not in thinking about tomorrow...it was often the marketer who most clearly foresaw future business opportunities, rather than the technicians, the scientists, and the general managers...it makes good sense, because marketing people are constantly striving to find out what people want and then to look for ways to satisfy these needs.' (Donnelly, Berry and Thompson, 1985, p19)

3.2.2 Defining the Mission of the Business

Deciding on the role which the company will play in this business is the next step in strategic market planning. This involves setting clear, unambiguous objectives for the desired performance in terms which are measurable. Attainable expectations are made concrete for each business in which the company has decided to operate. Depending on the business, these are outlined in terms such as sales growth, market share, return on investment, net income or others. Once again, marketing has a vital role to play in supplying the market information, both quantitative and qualitative, on which to base these objectives.

3.2.3 Formulate Functional Strategies and Budget

From these objectives, another level of planning emerges, which revolves around functional strategies. As a specialised function of management, the marketing objectives of the company will now be formalised and developed into detailed tactical plans, for which budgets will be allocated. At this point, it is critical that all planning for all aspects of the business be co-ordinated. It is here that marketing has another vital role to play for as 'marketing is not just a business function. It is a consolidating view of the entire business process.' (Levitt, 1974 in Chisnall, 1989, p5.) Chisnall (1989) terms this marketing management's role as 'integrator', co-ordinating marketing plans with all other business activities and interfacing with other specialised functions of management such as finance, personnel, R&D, production and purchasing.

At this point in the strategic market planning process, most companies are actively using the principles and tools of marketing. New to the concept of intense competition, banks have only begun relatively recently to acquire marketing knowledge and to practise marketing in their business. The tools of marketing adopted by banks to date are described in the following sections. The fragmentation of service marketing thought described in chapter 2 is further evidenced by the lack of a single commonly-accepted marketing concept adopted in banking. Banks have instead concentrated on adopting techniques which address their overriding concerns of customer segmentation, delivery channels, staff, organisational structures and service offerings.

3.3 MARKET SEGMENTATION

Market segmentation is the technique used to identify sub-markets within the total market and its origins have been traced to the 1950's and the attempts to adjust product and marketing effort to consumer requirements (Schauerman, 1990). In market segmentation, the total heterogeneous market for a product or service is divided into several segments, each of which tends to be homogeneous in all significant aspects. Management then selects one or more of these segments as the organisation's target market. Finally, a separate marketing mix is developed for each segment in this target market (Stanton, 1984). Segmentation has been described as 'one of the most fundamental and dominant concepts of modern marketing' (Wind, 1978). Within the area of bank marketing, it has been suggested that segmentation will be a driving force behind most other strategic and operating decisions (Taylor and Bergiel, 1984). In response to a survey of the Bank Marketing Association, 145 US financiers agreed that segmentation was a very important issue for them (Chill and Sheperdson, 1990). This is not surprising in a mature market where there is evidence of market saturation as segmentation and differentiation strategies are common behaviours among companies in such markets.

In the process of segmentation, management is identifying characteristics of consumers which will cause them to respond favourably to the company's product or service. These characteristics are the bases for segmenting the market and they can be of two main types: customer-related or situation-related (McCarthy and Perreault, 1990).

Usually customer related segmentation variables centre on geographic location and other demographic characteristics of potential customers. A demographic variable commonly used in banking is age and banks often devise different campaigns aimed specifically at the younger market for example. In the UK in 1983/84, NatWest aimed a very successful campaign at young savers using the appeal of a piggy bank promotion which generated over 300,000 accounts in less than three months (Andrew, 1985). Car insurance targeted specifically at women, who are statistically safer drivers than men, is an example of segmenting a market on the basis of sex. Obviously in banking, income is another potential indicator of consumers' banking requirements and habits and many banking strategies divide up the market on this basis. In particular, the affluent or 'high-net-worth' consumer is a common target market. A US bank, for example, have an 'integrated financial management account for the upscale customer' entitled the 'Circle of Green' (Mintz, 1983). There is evidence of heavy competition in this market segment, however, in a US survey of financial institutions which found that all saw top-income consumers as a priority segment (Brooks, 1989). The family life cycle stage is another important consideration for consumer banking markets and recently interest has focused on the relative importance of the role of husband and wife in joint-decisions such as mortgages to determine the best approach (Gupta and Torkzadeh, 1988).

An emerging and more complex form of segmentation is on the basis of the psychographic characteristics of consumers. This attempts to go beyond simple demographic data on consumers and understand the impact of psychological variances among consumers affect their lifestyle values and consumption patterns. Midland

Bank in the UK have used such techniques to develop a family of 'lifestyle' bank accounts branded Vector, Orchard and Meridian (Axson, 1992).

The second major form of market segmentation is situation related. The important variables here involve the customers interaction with some aspect of the company's product or service. Groups of customers may be distinguished from one another on the basis of benefits sought from the banking service. A need for convenience is a characteristic which commonly distinguishes certain bank customers. In the UK, the National Girobank conducted research which found evidence of differentiation among customers whose primary concern was convenience and those who sought a service orientation (Mathews and Watt, 1986) Clearly, these two groups of consumers will be interested in and attracted to different services and appeals from the company. The pattern of usage of a bank services is another potentially useful basis for segmentation. Single-institution users of banks have thus been contrasted with multi-institution users to investigate important differences (Taylor and Bergiel, 1984). Interestingly, it has also been shown that customers who show a particular usage pattern for a new banking service may be the best prospects for the adoption of new innovations. This was studied by comparing the responses to statements of almost 700 consumers in the US, one half of whom were categorised as 'ATM-prone' (Stanley and Moschis, 1983).

Segmentation, however, is rarely as straightforward as choosing a single variable and basing a marketing strategy around that characteristic. Simply knowing that groups of consumers are different ages, for example, is not usually sufficient to devise a suitable and effective campaign aimed at different age categories. While it is important that chosen segments be internally homogenous and different from one another, it is also necessary that they be substantial in order to be profitable and operational in terms of contributing to marketing strategy decisions. To achieve all this, it is common to find segments which are bases on more than any one single variable. A large study of over 1,000 US consumers, for example, developed six 'clusters' of bank customer, which were then described in terms of demographics, financial attitudes, banking habits, media habits and importance factors in choosing a bank (Robertson and Bellenger, 1977).

The traditional segmentation bases for the corporate banking market have been location, industry type and company size or some combination of these. While these bases do provide some information on the usage by corporate customers of certain financial services or institutions, they are less than ideal as bases for market segmentation. It has been pointed out that they do not explain purchase motivations and thus fail to help banks understand more fully the financial decision-making units within purchasing organisations (Schauerman, 1990). As with retail banking, increased competition in the corporate banking market has encouraged banks to look more carefully at their target customer groups and new, more relevant bases for segmentation are being sought. Schauerman (1990) suggests that banks look at the business strategy of their corporate customers with a view to segmentation and, ultimately, the development of more effective marketing strategies. The author defines business strategy as being concerned with how a company chooses to compete within a particular market. This choice of skills and competencies by a business and the relative importance of certain functions within the business which result will, the author believes, affect the type and amount of financial resources needed by the business. To illustrate the point, Schauerman uses the example of a company which corresponds to the profile of the "prospector" company in the Miles and Snow typology of business strategy. Such a company adopts an aggressive, growth-oriented position in its broadly-defined markets and is contrasted with a company, who would be described by the Miles and Snow typology as adopting a conservative "defender" strategy. The author hypothesises that companies differing in such a way in relation to their chosen business strategy will also exhibit differences in their responses to marketing stimuli, with defender businesses, for example, being more price-sensitive. Awareness of such differing strategies and their consequences in relation to the marketing of bank services could thus be exploited in segmenting the corporate market.

Although the proposed segmentation base of business strategy has yet to be operationalised, it is clear that a closer consideration of the original aims and objectives of the business customer in his or her own market is a valuable step towards customer-consciousness and the development of more meaningful segmentation bases than those currently being used.

3.4 CHANGING DELIVERY CHANNELS

Delivery of the traditional bank services of collecting retail deposits, money transmission and lending has for many years been successfully achieved through the branch networks of the clearing banks. Not only did the branch serve as a distribution channel but the obvious bank presence usually in a prominent urban location served as effective communication link. While physical distribution is not an issue in banking, the service nature of the business requires careful evaluation of the means by which the customer comes in contact with the business. In the US since the easing of restrictions on inter-state banking, branches are being opened and much work has been done on the development of spatial models to predict the best location for new branches (Meidan, 1984 and Kimball and Gregor, 1989).

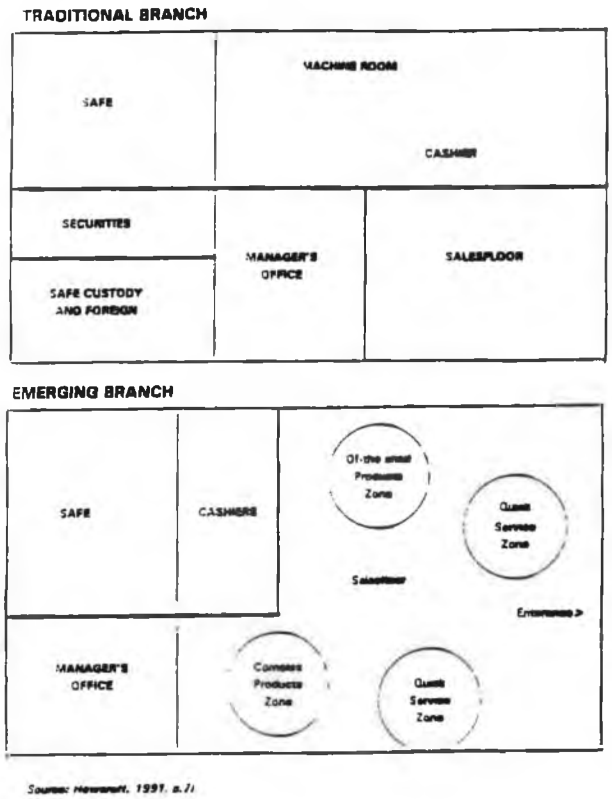
Both in Ireland and the UK, a series of bank mergers resulted in a comprehensive and large branch network. The UK still has approximately 15,000 bank branches, which equates to one for every 4,000 people (Axson, 1992). With over 600 bank branches in the Irish Republic (see Section 4.2), the Irish ratio is one branch for roughly 5,500 people. These branch networks represent a substantial cost to the banks and their continued existence in their present form has come under increasing scrutiny. This is happening for a number of reasons. The technological developments described in the earlier section have facilitated the emergence of new channels of distribution for financial services. In addition, the new competition also outlined is not operating from the branch system, such as that which exists in banking. The building societies are commonly cited as examples to illustrate the deficiencies of the clearing bank branches, particularly in terms of style and operating efficiency. Ironically, in the UK, the building societies have been increasing their presence in the marketplace by building up their branch networks. Between 1983 and 1988, they increased their total network from 6,6643 to 6,962, while the banks were reducing theirs (Howcroft, 1990).

A disadvantage inherent in a branch network as a distribution is its passive nature. This requires that consumers be induced into them in order to purchase the services of the bank and come in contact with bank staff. The traditional inducement was the payments system and developments such as ATMs, telephone banking and home banking now mean that the consumer's presence at the branch is no longer required for consumption of the service. New competition into the financial services arena is using this development and thus avoiding costly investment in a substantial physical presence in the marketplace. One primary banking delivery channel poised to threaten the position of banks in the US is the Trintex joint venture of CBS, IBM and Sears (Brooks, 1989).

Another disadvantage of the current network is its static nature, which makes it inflexible and relatively slow to adapt to market conditions. It is also less than ideal for the distribution of the more complex financial products recently being offered by banks which require a more personalised explanation and delivery to customers. Banks who have moved into the insurance business have often, therefore, recruited a direct sales force for the purpose. Specially trained 'life consultants' are used by the TSB Group in the UK, for example, to sell life assurance and pensions. The prospects or leads for the consultants are generated through the bank branch staff from their daily encounters with staff. Others, however, such as the Deutsche Bank in Germany and Crédit Agricole in France, have decided to concentrate on relatively simple savings type products in their new assurance business in order to sell them effectively through existing branch staff (Fagan, 1990/91)

A lot has become expected of the traditional branch in the more competitive environment following deregulation. Retail outlets in banks are the places where not only the selling of services takes place, but usually also the administration and processing work. Barclays Bank in the UK estimates that 80 per cent of staff time is spent on administration and 20 per cent on selling (Fagan, 1990/91). This is reflected in the typical layout of a bank branch with most of the floor space taken up behind the counter for the bank staff to carry out their administration duties away from customers. The idea of branches actually operating as retailing and marketing centres is obviously very attractive both for customers and bank management. Zoning is the term used to the describe the designation of floor space in branches for specific banking branches. Management's desire to reduce costs and the desire of many customers for convenience means that a high-tech self-service area is typically located near the entrance of the branch. Easily conducted services, called 'off-the-shelf' products, are provided in an open-plan, face-to-face environment. A private part of the branch is allocated for a personal approach to the sale of more complex products, such as mortgages (Howcroft, 1991). In certain key branches, this exercise can result in an entirely new branch layout, as shown in Figure 9. The basic concepts of zoning are, however, to be found in many bank branches on a less dramatic scale.

Figure 9 Zoning of Branch Layout



A more fundamental change is also taking place in the delivery channels of banks. This process, entitled 'hub-and-spoke' banking is a new structure for the logistics of delivering the banking services to the consumer. This is a system whereby selected key branches continue to provide the traditional full range of bank services, while others are designated selective services dependent upon location and proximity to key branches (Howcroft, 1990). A key feature is the centralisation of the processing function and the further cost reduction of focusing specialised management skills in key branches. In addition to concerns which are more operational in nature than customer-oriented, it is believed by banks that they are simultaneously focusing specific skills and products on target customer groups. Hub-and-spoke branching also has its critics, however.

One author believes that the overall drive for automation and centralised control, combined with the introduction of new delivery channels, has meant that the branch manager has been by-passed and that banks will consequently find themselves bereft of their most effective competitive weapon (Axson, 1992).

3.5 THE STAFF

The same author describes the branch manager as 'a sophisticated, flexible and responsive technology which could offer tailored service at the local level' (Axson, 1992, p35.). He further outlines the qualities of the branch manager as typically being a respected member of the community, possessing close personal relationships with key customers and being capable of matching bank products to customer needs, giving exceptional service to valued customers while ensuring acceptable quality to less-valued but nonetheless important customers. The traditional branch manager was able to base key lending decisions on personal knowledge of customer circumstances. When allowed sufficient flexibility, he was able to respond quickly to problem situations, such as refunding charges to valued customers or making instant decisions on overdraft extension (Axson, 1992).

Other authors believe that when banks hire specialists who are treated differently and more highly visible than existing employees, they introduce organisational stress. Lending specialists for middle-market companies are an example of top executives pulling business out of branches to allocate to a special lending group. Branch managers become apprehensive not just because of unfair treatment but also about their future in the organisation (Crane and Eccles, 1987).

It is suggested that the quality of management at branch level is the most important single factor that will separate high and low performance bank branches in the years ahead (Deng, Moutinho and Meidan, 1991). Chief executives of US banks were surveyed to identify the behaviours of effective branch managers and seven emerged. These were the ability to share power, to foster and sustain a readiness for change, to develop individual talent as well as teams and teamwork, to devise and implement organisational policy, to create and sustain a strategy-producing culture and to devise and implement overall bank strategy (Donnelly, Gibson and Skinner, 1988). A longitudinal study conducted in 1977 and 1987 of bank executives found that while human skills were considered most important for effective administration in the earlier study, conceptual skills had become more important by 1987. The study was investigating Katz's model of the technical, human and conceptual skills of administration and the later findings place banking more in line with industry in general than the previous study. The authors believe this is due to the growth in competition in the banking area (Wheelen and Charles, 1989).

When Canadian branch managers were surveyed about what they saw as important considerations in the face of new market trends, five concerns emerged. Foremost among these was improving the quality of customer service, along with motivation of staff, effective relationships with customers, staff and management training and generation of new business (Deng et al, 1991). Managers of bigger branches laid more emphasis on strategy development and, interestingly, female managers rated customer-orientation as more important than their male counterparts.

The importance of customer-contact employees has been highlighted in the discussion of services literature. The branch staff in banks are very significant part-time marketers and the moments-of-truth described in the earlier section as an important input into perceived quality service are most commonly with branch staff.

In banking, several studies have specifically shown the importance of employees experiences in determining customer perceptions, attitudes and intentions. In a survey of 263 employees and 1,657 customers of 23 bank branches in the US, a high correlation ($r = .67$, $p < .01$) was found between employee views of the general level of quality offered and customer views of service received. Where the employees viewed their own branch as emphasising an enthusiastic orientation to service, customers tended to perceive good overall quality. Similarly, customers noted good service in branches where employees rated their manager highly as a manager and where there was good support for personnel and equipment (Schneider, Parkington and Buxton, 1980). Furthermore, when employees describe their branch as one in which the manager emphasises customer service, customers specifically report that the tellers are courteous, competent, staffing levels are adequate, the staffing level is adequate, with low turnover and positive work attitudes and that the branch is administered well. Interestingly, employees in the 23 branches described themselves more as enthusiasts and less as bureaucrats than they believe management is. Evidence was also found to support the intuitively logical hypothesis that the larger this discrepancy, the more negative feelings are experienced by employees towards their job, which the authors describe as 'role stress' (Parkington and Schneider, 1979). A replication of this study with 142 employees and 968 customers of 28 branches found further evidence to support the relationship between branch employees' and branch customers' service perceptions and attitudes. In addition, customer turnover intentions were found to be correlated with employees' attitude to service and quality and, similarly, there was a correlation between employees' perceptions of customers' attitude regarding the level of service quality at branch level and employees' intentions to leave (Schneider and Bowen, 1985).

Marketing in banks, therefore, must give serious consideration to the task of dispersing the marketing concept throughout all levels of management and employees.

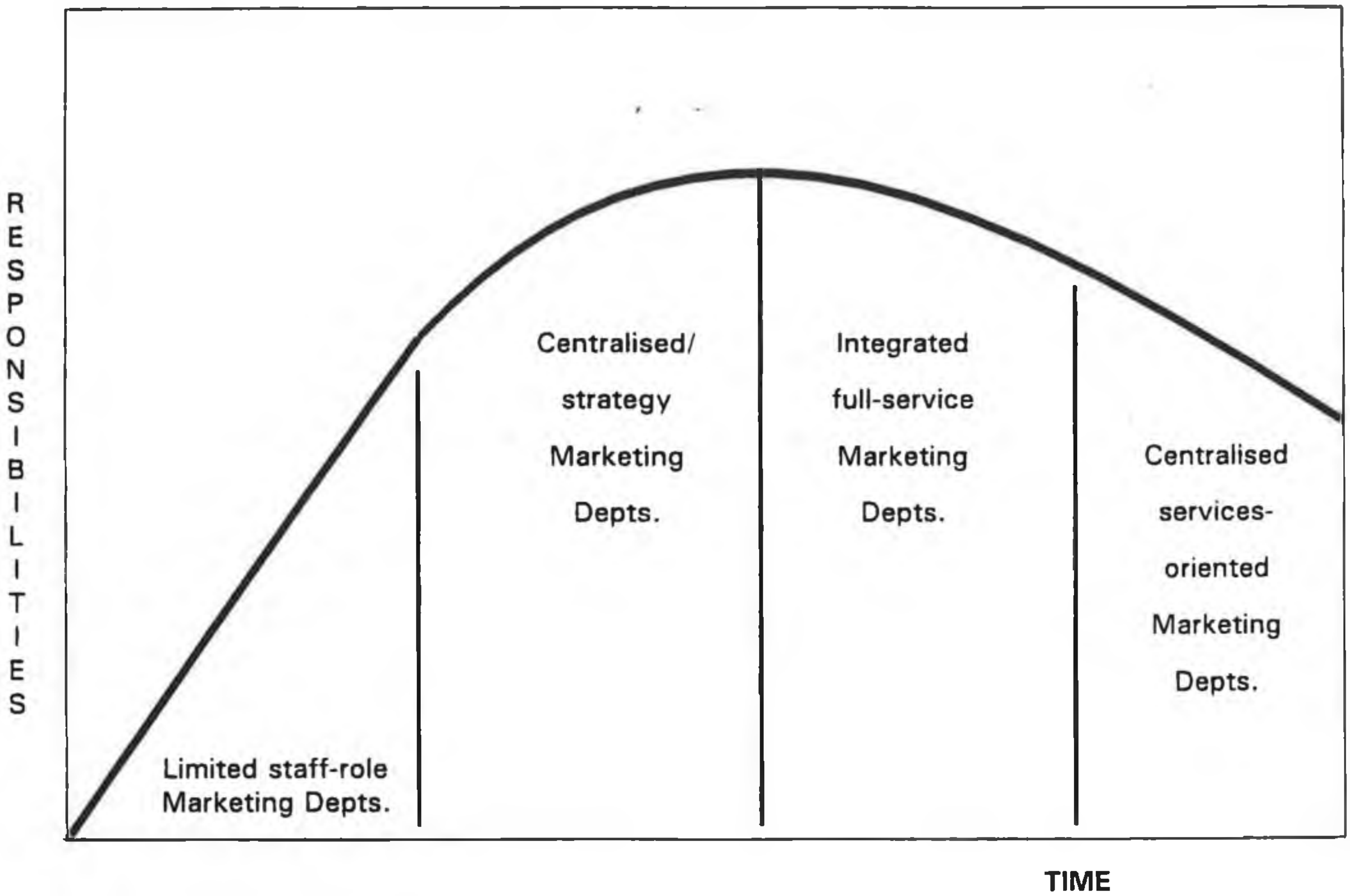
Kotler quotes the chief executive of Australian Airlines, who believes 'a successful service company must first sell the job to employees before it can sell its services to customers' (Kotler, 1988). The ability of functional marketing executives in banks to accomplish this, however, is dependent on the organisational structures of the bank.

3.6 THE ORGANISATION

A postal survey on the formal organisation of marketing was returned by 126 top financial services companies in the UK. The questionnaire asked respondents for the level of responsibility allocated to the chief marketing executive in respect of nineteen marketing activities. To investigate the importance of this, respondents were also asked to describe the effectiveness of fourteen marketing components. Four distinct forms of marketing departmentation emerged from factor analysis and clustering of the financial service organisation on the basis of chief marketing executive responsibility. There was some evidence to suggest that the marketing effectiveness of the departments as measured by the fourteen statements was higher when the chief marketing executive had higher levels of responsibility (Piercy and Morgan, 1990).

From the descriptive data on the four clusters, the authors hypothesise an evolutionary pattern of marketing organisation in financial services companies (Piercy and Morgan, 1989). Their analysis sees marketing in financial organisations as starting out from a marketing department with a limited staff role, with low levels of responsibility in the key areas of distribution and corporate strategy. The marketing department then emerges with more responsibility for services, product and pricing policy and corporate strategy. At this stage marketing is a powerful department limited mainly by not having responsibility in the branch network. When marketing then assumes a high level of responsibility for distribution it is an integrated full-service marketing department and is at its peak of responsibility. These departments had a median age of five years and had the greatest staff numbers of the sample. The final developmental stage is seen as one of a centralised services-oriented marketing department, found in more established departments. These departments score highly on marketing services but have little responsibility for corporate strategy, product and pricing policy and distribution. This final evolutionary stage seems illogical and indeed contradictory to the departments evolving up to this point. While the existence of different types of marketing departments is to be expected given the evolutionary nature of organisations responding to changing markets, this model does not seem intuitively correct.

Figure 10 Marketing Organisation in Financial Services Companies



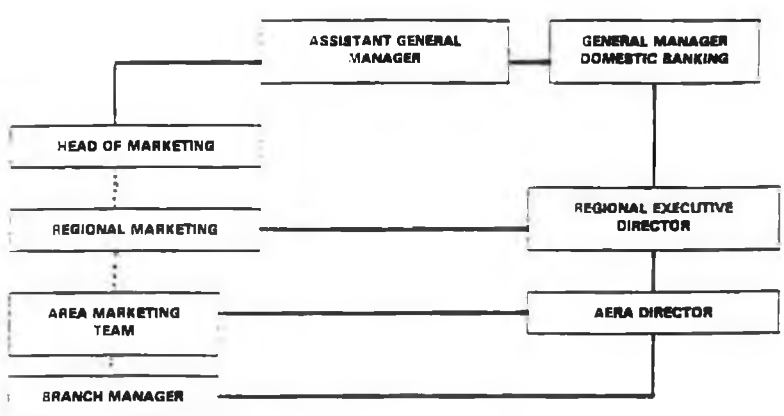
(Source: Piercy & Morgan, 1989, p.9)

Banks are somewhat over-represented in the final cluster where marketing has limited responsibility - 22% of this group were banks compared with 14% of respondents. This would accord with other studies which found marketing to be a relatively-recently adopted discipline in banks (Hooley and Mann, 1988).

Banks are, however, becoming increasingly aware of the importance of branch staff in implementing marketing initiatives and in developing a corporate culture of customer orientation. In the US banks are using their branch managers to go a step beyond the sales culture and become marketing managers in their own right. Both managers and branch staff are involved in developing marketing strategies for their branch, in an attempt to make marketing more targeted and profitable. The move away from pure sales targets allows managers to concentrate on what services best suit the customers' needs (American Bankers Association, 1990). More recently, three UK clearing banks have now decided to make their branch managers the salespeople for their own financial products (Deng et al, 1991).

An example of the existing reporting structure of marketing personnel of a UK clearing bank show the advantage inherent in these attempts at decentralisation of marketing activity. In each major region of the major UK bank in question, the regional marketing department can examine its own customer profile and needs and identify its major competitor. Realistic plans can then be set to achieve the desired market share and profit in each region (Andrew, 1985).

Figure 11 Reporting structure of UK Bank



Source: Andrew, 1985, p.21)

Even within the formal marketing structure of banks, it has been noted that marketing has often been generally excluded from senior management. In addition, marketing has not usually been seen as a favoured route to a senior management job (Donnelly and Berry, 1981).

The new organisation required to make banks truly marketing oriented involved two separate structures, in the eyes of one author with a background in banking. One centralised and highly capital intensive processing 'factory' will serve managers with processing, communications and standard information at the lowest possible cost. Its priorities will be efficiency. The second structure will be dedicated to relationship management (Axson, 1992). The current hierarchial and transaction-based structures in retail banking are not suitable to providing outstanding levels of service quality. On the contrary, in fact, managing customer relationships demands that customer contact employees can operate in a cross-organisational framework to deal with the customer's entire financial needs. Much effort is being expended by banks to break down information systems so the necessary customer data is at least available. A major investment in training and educating staff is also required, however, to reorient employees from essentially clerical, transaction-based activities to true relationship banking.

These considerations become more important in light of the desired synergy from assimilating new financial services such as insurance into banking organisations (Fagan, 1990/91)

3.7 THE PRODUCT

In the '4P's' model of the marketing mix described in an earlier section, product is generally considered the central component around which the elements of price, promotion and distribution are built. Defining the 'product' is immediately difficult when one talks of services, due to the inherently intangible nature of services. However, many tangible products also have aspects beyond what can actually be physically seen or touched. Kotler (1986) distinguishes the 'augmented' aspect of the product from its core function and physical attributes. The distinction has been described as that which makes one product more acceptable than a competitor's, despite both products being physically identical (Chisnall, 1989).

Using the Porter classification, Ennew et al (1990) suggest that a cost-competitive advantage would be represented by a narrow range of products, and a differentiation competitive advantage by a wide range of products. They go on to classify strategies according to competitive scope. Banks are seen as having a broadly based strategy which entails broad market coverage and building societies are described as focus players who concentrate on market niches.

The concept of relationship marketing involves maximising opportunities to cross-sell to existing customers. The need to compete can also be an incentive to extend the product range in order to attract new customers or match the competitor's offering. In banking, product innovation is unlikely to lead to any significant amount of differentiation due to the nature of the banking service, which is basically a commodity. Banks have therefore sought to establish competitive advantage by packaging products to suit a group of customer needs. A study of 145 US bankers found that all could claim to have at least one packaged product aimed at a specific target market (Brentani and Cooper, 1992).

It is somewhat confusing that simultaneously with the increased use of packaged products, banks are also pursuing a policy of 'unbundling' of services in order to ensure 'transparency' of pricing and avoid cross-subsidisation (Pollock, 1985).

The proliferation of new products as well as the confusing product decisions, suggest the need for a new product development strategy in banks. A study of 109 US banks, however, suggest that such strategies are not commonly in use (Bowers, 1987).
The importance of co-ordination of product issues is further underlined by the experience of Barclays Bank in the UK with their new debit card, the Connect card. In failing to co-ordinate the product development with retailers, whose participation was vital to adoption by the bank customers' of the new card, the planned launch could not go ahead as scheduled and was delayed for two years (Worthington, 1988).

3.8 THE QUALITY

There is little doubt about the desirability of being the supplier in a market differentiated on the basis of quality. In relation to customer service, the Strategic Planning Institute examined those companies rated by their customers as above-average and found that they generally charged 9% more than average and increased market share at a rate of 6% per annum. In comparison, other companies lost market share and achieved a return on sales of 1% compared to the above-average companies' return of 12% (Buzzell and Bradley, 1987). In the field of financial services, quality is more difficult to define and quantify than in manufacturing industries, but it is no less important.

In the initial development of the SERVQUAL scale for actually measuring consumer perceptions of service quality, banking was one of the five services categories, about each of which forty consumers were questioned. In this study, the five proposed dimensions of service quality; tangibles, reliability, responsiveness, assurance and empathy, were found in customers' evaluation of the service they receive from their bank (Parasuraman et al, 1985). Lewis (1991) questioned 424 bank customers in the US and the UK on their expectations and perceptions regarding 39 criteria which included items from the five SERVQUAL dimensions. Both expectations and perceptions were found to be rated highly in both markets and gaps were found in terms of the physical facilities, contact staff and responsiveness. 94% of the UK sample was satisfied with overall service and 64% of UK bank customers believed that service had improved in the last five years. These satisfaction levels were significantly lower among the US respondents, however.

The potential for further development of the quality concept in banking is obvious. Banks typify the service company which is only recently facing true market-forces after decades of operating in a stable non-threatening environment. The quest to be the quality supplier of a service by definition focuses attention on the customer and consequently encourages the developments described in this chapter to co-ordinate delivery channels, staff, organisational structures and product offerings tailored to customer needs. It is believed, therefore, that further application of the concept of service quality to banking will concurrently address many of the specific issues which marketing must address to be successfully applied to the banking industry. The following chapters describe the research setting in which this will be attempted.

CHAPTER FOUR

4.0 THE RESEARCH SETTING: BANKING TO SMALL BUSINESS IN IRELAND

4.1 INTRODUCTION

This chapter begins by describing the banking market in Ireland and the development of a marketing orientation by Irish banks in the last 10 years. The next section describes the importance of small firms in Ireland and current attempts to further economic development with a strategy of selective promotion of indigenous industry. The vital importance of finance to the small firm is then outlined to give the context in which their relationship with their banks must be considered. The relationship is then presented from the perspective of both parties and as a model incorporating the interaction of the two. Finally, the research objectives and the research hypotheses are described.

4.2 THE BANKING MARKET IN IRELAND

The four associated banks in Ireland are banks which are licensed by the Central Bank and supply the full spectrum of deposit and lending services as well as controlling the money transmission system. In other countries, these banks may be known as retail or clearing banks (Bourke and Kinsella, 1988). There are four associated banks who dominate the Irish retail banking market. Two of the four, Allied Irish Banks and Bank of Ireland, have a significantly larger market presence than the other two, the Ulster Bank and National Irish Bank.

	Pre-tax Profit (m) (yr. ending 1.4.92)	Assets	No of Branches
Allied Irish Bank	£171.6 (9 months)	£10,787 m	231
Bank of Ireland	£ 76.8	£ 9,524 m	280
Ulster Bank	£ 57.8	£ 2,787 m	71
National Irish Bank	£ 12.8	£ 966 m	46

Source: Annual Reports

This market structure began to emerge from a series of bank mergers in the 1960s. AIB was formed in 1966 as a result of a merger of the Munster and Leinster Bank, the Royal Bank and the Provincial Bank. Bank of Ireland acquired the Hibernian Bank in 1968 and the Irish branches of the National Bank in 1966. The Ulster Bank had been a subsidiary of a UK clearing bank since 1917 and became part of a wider clearing group in 1968 when its parent amalgamated with another UK clearer to form the National Westminster Group (McGowan, 1990). The National Irish Bank's origins can be traced to the take-over in 1965 of the Northern Banking Company by the British clearing bank, the Midland Bank who then integrated it with the Belfast Banking Company. Subsequently, in 1986, the Midland bank established separate subsidiaries of the Northern Bank for the Republic and Northern Ireland and sold both to the major retail-oriented National Australian Bank (McGowan, 1990). The bank was relaunched in the Republic as the National Irish Bank in April, 1988[1].

4.3 THE ADOPTION OF MARKETING TECHNIQUES BY IRISH BANKS

In 1980, a major study involving personal interviews with the top marketing executives and forty interviews with managers at branch level across the four associated banks concluded that banks have failed to adopt a marketing orientation (Metcalfe, 1980). The banks were specifically found lacking in 8 areas:

1. Emphasis was mainly on their three main activities of lending, deposit-taking and money-transmission, rather than on customer wants.
2. Services were being produced as they had been since instigation with no analysis of changing customers needs.
3. Organisational structures, career-banking recruitment policies and the focus on internal relations indicated an internal company orientation rather than an external customer one.

[1]Marketing Communication, Vol 7, 1990.

4. The emphasis was on the sellers' needs rather than the buyers as was evidenced by their advertising efforts to increase deposits during the then-inflationary period in order to increase their resource base.
5. There was little evidence of profit planning in their pricing policies.
6. A short-run orientation was apparent in the poor communication of the banks' corporate plans to branch managers and the subordinate role of marketing planning.
7. There was no sophisticated market segmentation strategy.
8. No marketing planning system was being implemented.

The overall impression is one of banks who conform more closely to the profile of a product or sales oriented organisation than that of a vibrant customer-oriented marketing force. Since then, as described in chapter 3, much has changed to make banking markets more competitive and hence more market-focused. Certain strengths evidenced by the Irish clearing banks before the study described above should not be forgotten however.

The Irish clearing banks had shown themselves to be quite adept at competing with the wave of North American and European banks who established themselves in Ireland between 1965 and 1975. By establishing subsidiaries to operate outside the cartel and through the series of mergers described earlier, they maintained their share of the banking market and managed to increase it in the latter half of the 1980s (McGowan, 1990).

4.3.1 Developments in markets and products

The last decade has also seen the two major Irish clearing banks involved in diversification into new businesses and new markets. Both banks acquired interests in stockbroking companies, when AIB purchased Goodbody stockbrokers for £20 million in 1989[2] and Bank of Ireland purchased a stake in J&E Davy in 1988[3]. AIB also acquired 100% control of First Maryland Bancorp in the US in 1988 and expanded its presence in Northern Ireland by purchasing the Trustee Savings Bank operations in the North in 1991[4]. Bank of Ireland purchased the First New Hampshire Bank in the US in 1988 and planned to increase its presence in the UK market through retail branch openings and through its two UK acquisitions, the BIHM mortgages company and the BCT consumer finance company. The bank also expressed an interest in acquiring a UK building society[5]. The international downturn in the property markets, however, left both banks extremely exposed to bad debts in some of their overseas operations. Deep recession in the east coast of the US resulted in the Bank of Ireland's US operation reporting an annual loss of £60 million in February 1991 followed by a £25.6 million loss in the nine months to April 1993.

The difficulties encountered by the Irish banks in expanding abroad has to a certain extent refocused attention on the relatively profitable domestic market. Competition in this market is increasing as the non-associated corporate banks, the unlicensed banks such as the building societies and state-owned banks and credit unions and the non-banks such as insurance companies all seek to expand their business. Consequently, all players in the market are looking to new products and new approaches to the consumer to win market share.

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[2]The Irish Times, 18 June 1991.
[3]Business and Finance, 2 April 1988.
[4]The Irish Times, 3 May 1991.
[5]The Irish Times, 28 February 1991.

Personal retail banking in Ireland has seen a virtual explosion of new products with one trade survey measuring the result of the proliferation at 260 different products[6]. New delivery channels have also been developed to cater for varying customer needs with ATM networks now installed nationwide for convenience of access to deposit funds. Bank of Ireland have achieved considerable success with their telephone banking service. Launched in November 1991, this service called Premier Banking has approved an above-average proportion of its loans to female customers[7] From October 1991, AIB account holders have had the option of completing their banking transactions on the home-based Minitel system which utilises the telephone line[8]. Both large banks have also responded to the inevitable aging or 'greying' of the population with the introduction by Bank of Ireland of the Golden Years package for people of retirement age and AIB's One-to-One banking for the more technology-adverse older customer, who can thus continue to receive a more personal banking service. Both banks also moved into the life-insurance business to maximise cross-selling opportunities established at branch level. Bank of Ireland was first to launch Lifetime insurance and AIB's life assurance subsidiary, which was launched in June 1991, contributed £2.6 million to group profits in the nine months to December 1991[9].

A measure of the increasingly intense competition for retail business was provided when both the Bank of Ireland and AIB launched an interest-bearing current account on the same day and both accused the other of bringing forward their intended launch

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[6]Finance, February/March 1990.
[7]Sunday Business Post, 12 April 1992.
[8]The Irish Times, 18 October 1991.
[9]The Irish Times, 3 March 1993.

in order not to be beaten to the market-place[10]. The most pro-active stance in the market-place, however, has been assumed by the smallest player, the National Irish Bank. In relaunching the bank with a new name, a new logo and a new corporate identity, the bank introduced a new range of retail products which were innovatively priced. Their mortgage product came with an option to defer payment for a six-month period and their credit cards were offered at interest rates 10% below those of the other banks. National Irish Bank's products were also advertised innovatively using humorous radio ads[11]. The National Irish Bank are anxious to establish a larger presence in the market. They made an unsuccessful bid for the Trustee Savings Bank operation in the Republic of Ireland and are still on the acquisition trail with the backing of their parent company[12].

4.3.2 Strategic Planning Initiatives

The above changes were emerging from banking organisations who were reacting to turbulent times by reevaluating their approach to the market. AIB has a long-term marketing action program, MAP, which it is hoped will guide the organisation and its staff towards its stated mission 'to be the premier Irish financial services organisation capable of competing worldwide by consistently delivering high-quality service on a competitive basis to our customers in Ireland and throughout the world'[13]. The plan is circulated to staff with emphasis laid on employee development and methods to achieve professionalism. In recognition of the vital role which staff training will play in achieving quality, £6 million per annum is allocated

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[10] The Sunday Tribune, 3 June 1990.
[11] Marketing Communication, Vol. 7, 1990.
[12] Business and Finance, 13 July 1989.
[13] Management, 36, May/June, 1989.

for this purpose. Alongside this initiative, AIB undertook a group-wide suggestion programme entitled Superthought and a marketing effectiveness program from which the One-to-One senior service evolved. AIB also conducted a review of their corporate structure, which resulted in a significant investment to relaunch their corporate identity in their three major markets: domestic banking, international and corporate business[14]. Bank of Ireland's group mission includes a determination to 'distinguish ourselves from the competition through the innovativeness, efficiency and quality of the service with which we satisfy customers' needs'[15]. Within eighteen months of being taken over by the National Australia Bank, each staff member of NIB had encountered the parent company's CARE program, which is designed to emphasise that "Customers Are Really Everything"[16]. Ulster Bank used consultants Arthur Anderson to reorganise their business units in order to take account of future market trends. Ulster Banks profits in the Republic of Ireland are mostly from investment and industrial banking and they are actively considering linkages and joint ventures to overcome the serious limitations imposed by the lack of an extensive branch network[17].

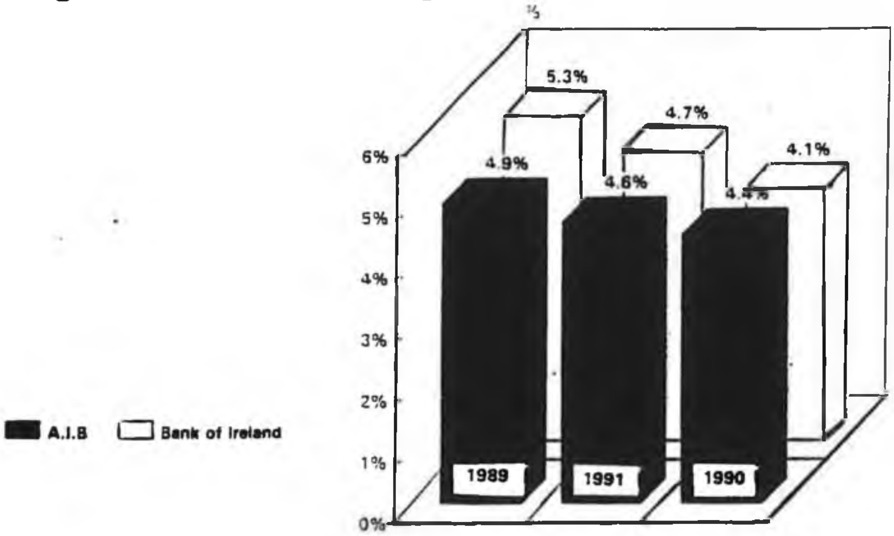
4.3.3 Future Concerns

Major concerns of the associated banks' retail operations for the foreseeable future will be increasing pressure on net interest rates and the consequent need for price restructuring and general rationalisation. Net interest margins represent the difference between what a bank receives in interest for lending and what it pays out in interest

[14]AIB Annual Report, 1990.
[15]The Irish Times, 29 December 1988.
[16]Management, November, 1989.
[17]Business and Finance, 13 July 1989.

on deposits. Margins or 'spreads' are falling with increasing levels of competition for both lending and deposit business and increasing sophistication of customers in seeking more profitable forms of investment and less costly forms of lending[18].

Figure 12 Net Interest Margins



Source: Finance, 5(9), 1992.

The drive towards competitiveness has made the banks look carefully at the cost of staff and an attractive deal to encourage voluntary severance and early retirement was agreed the main union for banking employees, the IBOA. The IBOA members also voted to allow the banks to recruit a new level of employee at a lower grade[19]. The IBOA represents employees from all four banks and has traditionally been in a very powerful bargaining position. Almost 6,000 of AIB's staff of 7,000 were IBOA members in 1992, for example[20]. An IBOA strike in 1971 closed the entire branch banking system for months. In April 1992, the union again called its members out

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[18]Finance, 5(9), 1992.
[19]The Irish Times, 15 October 1990.
[20]The Irish Times, 17 March 1992.

on strike in disagreement over pay awards to compensate employees for handling new operations such as life assurance. Since returning to work, the banks have reached agreement with the unions for longer opening hours, which is something the union had resisted for a long time.

Future significant competitive forces in the domestic retail market include the building societies, the post-office savings bank, the newly-formed TSB Bank and the 'third banking force' which has been proposed as a support for indigenous industry. The possibility of a merged ICC and ACC must be seen as a future possible competitor.

4.4 SMALL FIRMS IN IRELAND

4.4.1 Definition of Small Firms

It is very difficult to find an adequate definition of a small firm in terms of employment or assets, turnover, output or any other arbitrary single quantity. In particular in dealing with more than one sector of the economy, no all encompassing definition would be suitable. This is evidenced by the wide and varied definition of the small firm sector used by the Bolton Committee in the UK in its major investigation of small firms in 1971.

Table 2 Definition of Small Firms

Industry	Statistical definition
Manufacturing	200 employees or less
Retailing	turnover £50,000 pa or less (1963 prices)
Wholesale trades	turnover £200,000 pa or less (1963 prices)
Construction	25 employees or less
Mining/quarrying	25 employees or less
Motor trades	turnover £100,000 pa or less (1963 prices)
Miscellaneous services	turnover £50,000 pa or less (1963 prices)
Road transport	5 vehicles or less
Catering	All except multiples and brewery managed public houses

Source: Bolton, 1978.

The committee found that the most useful generic definition is one which emphasis those characteristics of small firms which might be expected to make their performance and their problems different from those of larger firms. Three main characteristics were thus taken into account. Firstly, a small firm is one that has a relatively small share of its market. A second essential characteristic of a small firm is that it is managed by its owners or part owners in a personalised way. This distinguishes it from firms managed through a formalised management structure with separate functions being managed by specialists. Thirdly, a small firm is independent in the sense that it does not form part of a larger enterprise, which can form part of a financial umbrella. Hence, the owner-manager should be free from outside control in taking his or her principal decisions, except where this freedom is limited by obligations to outside financial institutions (Bolton, 1971).

To compensate for the difficulties of obtaining firms with these characteristics in advance of any study, the definition has generally been operationalised using number of employees or turnover. It is common to discuss small business in the UK in terms of companies with fewer than 200 employees (McKibben and Gutman, 1986), while the US often employs a more detailed breakdown which describes firms with under twenty employees as very small, firms with 20 to 99 employees as small and firms with 100 to 499 as medium-sized (SBA, 1992). In the European context, a new framework has emerged which distinguishes between firms employing less than 10 employees, who are called micro enterprises and firms employing between ten and 99 employees, who are small enterprises. Firms employing between 100 and 499 employees are medium enterprises (EIM, 1993). The definition used by the Industrial Development Authority is that of firms with less than fifty employees. As this state agency is the primary source of quality information on small firms in Ireland, this is the operational definition which will be used in this study.

4.4.2 Importance of Small Firms in Ireland

Ireland is not alone in pursuing basic economic objectives of high employment, increasing living standards and equitable income distribution, both personally and spatially. Ireland is additionally burdened in its task, however, because of its growing workforce, its lack of a manufacturing tradition, its peripheral location and its relatively low standard of living (O'Farrell, 1986).

Table 3 Number and Size of Manufacturing Firms in Ireland

Manufacturing Industries (NACE 1 to 4 less NACE 11, 13, 16, 16, 21, 23)	No. of Cos.	% of Cos.	No of Emps.	% of Emp.
Less than 50 employees (incl.O)	3,751	80%	54,257	29%
50 to 99 employees.	431	9%	29,882	16%
100 to 499 employees.	387	8%	75,722	40%
> 500 and 63 non-attributable.	100	2%	29,923	16%
Total	4,669	100%	189,784	100%

Source: compiled from Census of Industrial Production, 1989, p. 64.

The 1989 Census of Industrial Production counted 4,669 manufacturing industries, of which over 80% employed less than fifty people. Industrial establishments employing between fifty and ninety-nine people accounted for a further 9% of the total. Forty-five percent of total employment in manufacturing industry is in companies with less than one hundred employees. Both gross and net output per person engaged tends to increase as the number of people employed increases, apart from the smallest category of less than five employees, where the figure is slightly above that of the next few sub-categories. Firms employing less than 100 employees produce 34% of the gross output of manufacturing industries.

However, the contribution of small firms to output is low. Moreover, the small industry sector continues to rely heavily on the domestic market and average employment per enterprise is below ten (Review of Industrial Performance, 1986). The potential of the sector, however, is seen in the scope of these small companies to provide 'a seedbed of industrial enterprises from which larger internationally-trading industries can evolve' (Review of Industrial Performance, 1990, p.8.).

The early emphasis of industrial policy in Ireland was on attracting foreign investment who were grant-aided or otherwise assisted by a number of state agencies to set up manufacturing plants. A more broad-based approach was adopted in the late 1960's when the Small Industry programme was begun to aid indigenous industry (O'Farrell, 1986). It is now becoming accepted that attracting foreign multinationals is but one component of a developing country's economic strategy and that

> 'if industrial policy is to be successful in helping to generate a competitive industrial structure which can sustain long-term employment growth and improved living standards, the focus instead must shift decisively to indigenous companies' (Celadon, 1992, p.67.)

In order to qualify for assistance under state small industry programmes, firms must be manufacturing establishments employing less than 50 people and to have a written down value of fixed assets not exceeding £50,000 (O'Farrell, 1986). Small industry can avail of grants for investments in fixed assets swell as employment grants or direct subsidies for each full-time job created. The amount of the subsidy depends on the branch of industry concerned. Furthermore, the small industry sector can avail of training grants for its employees. The main vehicle for distribution of these grants is the Industrial Development Authority, which has responsibility for development of industry outside of the mid-west region, which is under the authority of Chignon Development. An idea of the relative emphasis of each type of direct assistance can be obtained from the breakdown of the IDA's expenditure. Of total funding, some 80% is for expansion of existing companies rather than start-ups (NEST, 1984).

Table 4 IDA Capital Expenditure (1990): Small Business (£000)

Fixed Assets	5,345
Employment	5,351
Training	1,072
Leasing Grants	962
Equity Share Holding	25

Total	12,755

Source:IDA Annual Report, 1990.

Future strategy, however, is moving away from the provision of cash grants for indigenous industry to use of equity. With Ireland supplying more grants to industry than any other EC country, an unhealthy industrial climate was believed to have developed, which was termed a 'grant culture' (Moriarty, 1993, p.55.). Such a dependency on the state for support is not conducive to developing the enterprise, initiative and innovation needed for indigenous industry to be the future engine for growth. Steps have been taken to avoid this. Both the maximum employment grant for 'lower quality projects' and the fixed asset grant rate have been reduced (Review of Industrial Policy, 1990).

The Enterprise Development Program was begun to stimulate entrepreneurship among executives from industry by encouraging them to start their own business in the high growth sectors of the economy, in particular in areas of high technology. The state accepts up to 60% of the risks attached to such new ventures through direct grants and guarantees on the company's borrowing. This has facilitated these companies, however, in obtaining a far higher level of debt than is normal at an early stage of development. EDP companies have been found to have four times as much debt as equity (NEST, 1984) and many have been obliged to engage in low technology manufacturing and assembly to generate sufficient cash flow to service bank debt.

4.4.3 Growth Firms

The Telesis Consultants' report (NEST, 1982) recommended the development of a carefully selected number of indigenous firms producing traded goods in enterprises large enough to penetrate world markets with the principal focus on 'complex factor cost businesses', where the key competitive cost elements are likely to be such factors as skill levels, design, applications engineering, innovation, marketing and distribution, rather than in low wages or transport cost. Outside of food, however, Ireland has no more than a dozen indigenous firms in traded industries employing more than 500 people and half of these are in decline (O'Farrell, 1986).

A new objective for policy on small industry emphasises the need for selectivity which gives priority to initiatives targeted at converting small companies into larger internationally-traded enterprises. It was recommended that the strategy for industrial promotion be further focused on fostering 'industrial clusters' around niches of national competitive advantage (Celadon, 1992).

In addition, for Irish companies who are believed to have exceptional growth potential, a special alternative package of supports is available in return for which State equity is usually sought. Exceptional growth potential is defined as the capability to reach employment levels of over fifty people and/or turnover levels of £5 million.

The IDA have identified about 150 manufacturing companies in Ireland which have this potential to grow. Of these, fifty are termed 'non-developmental' as their owners or managers are not interested in growth. The orientation of these firms is towards small steady profits without major investment or risks. The efforts of the IDA will be geared towards the 100 firms who are prepared to take risks to increase market share and embark on plans aimed at long-term growth[21].

There is evidence to support the merits of a policy of 'picking winners', should it prove to be feasible. Data was analysed on a sample of 636 UK companies for a ten-year period from the Companies House. Only 24 companies employed more than fifty employees within five years of incorporation and these 'fast growth' companies were looked at separately. Not only was the median employment-growth exhibited twice that of the other companies but the sample experienced a 17% failure rate over the ten years, compared to a 40% failure rate for the entire sample (Storey, Keasey, Watson and Wynarezyk, 1987). A replication of this study with twenty Irish fast-growth firms and twenty matched firms found that compared to the control group, fast-growth firms employed almost four times as many people, had a larger share of their domestic market and were more export-oriented (Kinsella and Mulvenna, 1992).

4.5 Small Firms and Finance

All firms need finance to run their businesses, to pay their staff, to purchase raw materials on a day-to-day basis and to purchase capital equipment and invest in other tangible and non-tangible assets on a long-term basis. For smaller firms, running a successful business usually means winning new orders, which can often require relatively large increases in production. This involves financing the variable factors of production such as labour and overheads until the customer pays for the order and may require

[21]The Irish Times, 14 August 1991.

investment in fixed assets such a new piece of machinery or larger plant. Funding for these activities can be long, medium or short term depending on the date of repayment.

Long term finance refers to loans repayable over periods in excess of seven years. These can include equity, term loans and leasing arrangements. It has been pointed out that banks should not be considered as major suppliers of long term funds since the bulk of their funds come from short term deposits and current accounts (NEST, 1984). Traditionally it has been the life assurance companies and pension funds, whose sources of funds are long term, that have been willing to lend money for long periods of time. However, institutional investors have not tended to contribute to the small firm sector. For small firms, equity is usually in the form of partners capital, representing ownership of the company's assets. Outside individuals and institutions can buy shares and invest in a company in the hope that the company's value will rise due to profitability. In Ireland, the Business Expansion Scheme offers tax allowances to investors in new issues of shares of non-listed industrial companies and selected service companies.

Medium term finance is repayable over a one to seven year period and is used primarily to finance buildings, plant and equipment and vehicles. Term loans were introduced in 1972 by the Irish banks as a source of finance for working capital (NEST, 1984). Leasing and hire purchase arrangements can also be considered a form of long term finance, although they may not appear as liabilities on the company's balance sheet. Often medium term finance is needed for the purchase of fixed assets. Fixed assets in a manufacturing company consist primarily of the company's land and buildings and its machinery, plant and equipment. The incentives offered by the IDA in providing a percentage of the cost of fixed assets described above have provided a margin of security for banks as they have meant that a bank can receive 100% security while only providing the remaining proportion of the cost (NEST, 1984). Use of such grants is being reduced, however, as was noted earlier.

Short term finance is usually used to provide the firm with working capital and consists primarily of bank loans and overdrafts, which can be recalled at very little notice. Trade credit supplies Irish firms with the finance needed to balance 29% of their trade debt in the short term. In Ireland the average collection period for payments is 77 days compared to 51 days in the UK (NEST, 1984). Where a shortfall occurs, bank overdraft is the major source of finance for short term credit. As is shown in table 5, the financing needs of small businesses who experience growth vary throughout the lifetime of the business, as do the potential problem areas.

Table 5 Financial Life Cycle of the Firm

Traditional view of the financial life cycle of the firm.		
Stage	Source of Finance	Potential Problems
Inception	Owner's resources	Under-capitalisation
Growth I	As above plus: retained profits, trade credit, bank loans and overdrafts, hire purchase, leasing	'Overtrading', liquidity crises
Growth II	As above plus: longer term finance from financial institutions, eg ICFC	Finance gap?
Growth III	As above plus: New Issue Market	Loss of control
Maturity	All sources available	Maintaining ROI
Decline	Withdrawal of finance, Firm taken over Liquidation	Falling ROI

Source: Ray and Hutchinson, 1983.

In its formative stages, the small firm must rely heavily on personal savings, trade credit and bank overdrafts. During its period of rapid growth, internal financing will become an important source of meeting its financing requirements along with trade credit. At this point working capital management is very important and, with limited funds available, liquidity is crucial. In many small firms, however, the owner-manager is lacking in the managerial training and financial experience to predict their working capital needs (Weston and Copeland, 1988). Once a small firm has a record with a bank, it is more likely to obtain banks loans for medium-term financing. If it has the potential for really strong growth, the firm may also be able to attract equity from a venture capital company.

The debate as to the difficulties encountered by small firms in obtaining the necessary finance for conducting their business has been considered by three government committees in the UK. One committee in the 1930s proposed the existence of what became known as the Macmillan gap, defined as the inability of small and medium sized businesses to obtain 'long dated capital...even when reasonable security was offered' (Macmillan Report, 1931, p173)

The Bolton Committee of 1971 surveyed over 2,000 small businesses and recognised that financial institutions are crucial to the financing of small businesses. The committee concluded that there was 'no body of legitimate demand significant enough to require changes in the market' (Bolton, 1971, p188). The most serious weakness in the market for funds was seen to be on the demand side which manifested itself as an information gap. Consequently, a small business advisory bureau was established.

In 1979, however, the Wilson Committee concluded from submissions that not all viable small firms were able to obtain suitable funds. Insufficient equity meant small firms relied too much on loan finance. Banks were dominant in supplying finance although they concentrated on medium term funding and long term overdrafts. A loan guarantee scheme was set up in 1981 whereby the government guarantees 80% of loans and receives a premium on the loan of between 2.5% and 5%. Initial large losses led to a reduction of the portion of loans guaranteed and small businesses were reluctant to pay the premium. In addition, banks were wary of the scheme and lending volumes have remained low (Barkham, 1989).

In Ireland the 1983 NEST Report in the Role of the Financial System in Financing the Traded Sectors examined the financial data held by two associated banks on 400 indigenous Irish companies. Following 107 interviews with representatives of relevant institutions and in-depth interviews with CEOs or financial directors of 50 companies they concluded that 'in general, there is not a shortage of debt finance for industry. In many cases, there has been an excessive reliance on this form of finance.' (NEST, 1983, p.32).

Table 6 Capital Structure of Irish Industry

Capital Structure of Irish Industry						
Category	Irish 20-49	Irish 50-249	Irish 250+	Foreign 20-99	Foreign 100+	All
Share Capital and Reserves	62.7	65.0	64.9	66.0	68.1	64.8
Borrowings-within 1 year	8.6	12.6	10.1	6.9	8.5	9.5
Borrowings- over 1 year	20.4	12.7	14.4	14.3	9.6	15.4
Government Grants	6.8	7.4	5.7	7.1	6.9	7.0
Other	1.5	2.3	4.9	5.7	6.9	3.3
Total	100	100	100	100	100	100

Source: Review of Industrial Performance, 1990

Table 6 shows that borrowings account for almost 30% of capital for smaller Irish companies. This is a larger figure than for larger firms and for foreign firms and the terms and conditions for this borrowing must also be considered. Clearly, any investigation of the relationship between banks and small firms in Ireland must consider the role of banks in supplying finance to small firms. In particular, small firms who have a desire to grow must have access to funds and banks have traditionally been the main source of funds to small firms. The effectiveness of the relationship between the banking system and the small firms in the economy who have the ability and the desire to expand is, therefore, an issue of public swell as commercial concern.

4.6 BANKING TO SMALL FIRMS IN IRELAND

4.6.1 Banks and Industry - the Background

As early as the seventeenth century, the role of banker was adopted in Ireland by goldsmiths, coin exchangers and merchants located in Dublin and other major ports (McGowan, 1990). These early banks operated by giving credit to merchants to purchase produce from farmers for export. The farmers paid their rent to the landlords using the credit notes. The landlords then exchanged the credit notes for the produce which the merchants had used to pay the banks back for their original borrowings.

The main concern of these early banks was to facilitate the transfer of agricultural produce for the benefit of the land-owning classes. A number of banks who had begun to support the growing merchant classes collapsed in the middle of the eighteenth century. As a result, legislation was introduced in 1756 which excluded merchants involved in foreign trade from engaging in the business of banking. McGowan (1990) sees this division between banking and commerce as one which caused banks to concentrate too strongly on the landed gentry and to rely too much on land as security and consequently left the banking industry lacking in a dynamic commercial influence.

The current banking system in Ireland has been described as one of two specifically British institutions inherited by the Free State in the economic sphere (Lee, 1989). Both this and the other inheritance, the trade union movement, would, in Lee's opinion, come to affect Ireland's economic growth. The Irish banking system is modelled on the British system of joint stock banking, which dates from the 1800s when bank stockholders were responsible for the full amount of the banks' liabilities. Since 1879, the principle of limited liability has been extended to include banks (McGowan, 1990).

An alternative form of banking which has not emerged to any great extent with the British or Irish banking system is industrial banking. It has been defined as comprising of both a banking process and a banking concept (Yao-Su Hu, 1984). The process of industrial banking involves the provision of long-term finance to firms in the industrial and commercial sectors. This finance can be long and medium-term debt or some combination of these with equity in order to suit the needs of the enterprise. This can be in addition to the short-term loans which have traditionally been supplied by commercial and merchant banks. Industrial banking, however, also encompasses a concept or what Yao-Su Hu (1984 p17) described as 'a sense of purpose, a perceived mission, and an institutional culture or a set of attitudes' which involves a sense of responsibility toward the performance of industry and, more concretely, an ability to understand the problems of industry. This is achieved by employing people with industrial experience who can develop close links with industry and accept risks which financiers with no experience in industry would reject.

Samuels (1984) believes that these differing approaches to industry-lending result, in turn, from the differing patterns of development of the different European economies. British industry was comparatively wealthy during industrialisation and was largely able to depend on private finance. Banks maintained an arms-length relationship with industry. By contrast, Samuels cites Germany as a country where the corporate sector was strongly reliant on the banks during its period of industrialisation. German banks therefore developed a tradition of close relationships with borrowing firms. Samuels contends that German banks are much more willing to lend to small business than banks in the UK and that they adopted a speculative policy of financing industry.

There is, however, some evidence that financial institutions are adapting to the changing requirements of industry with many of them now incorporating the positive features of both systems. The dichotomy between the bank-based systems of Germany and Japan and the market-based systems of the US and the UK is becoming less relevant. In traditional market-based systems, the arm's-length relationship between commercial banks and industry was complemented by the development of merchant banks as well as institutional investors and securities and stockbroking firms. These institutions, however, serve mainly large companies. In bank-based systems, the relationship between banks and industry is much closer and is evidenced mainly by the frequency of contact and consultation between the two parties. This form of relationship is at its most intense in Japan but even here, the securities markets have become very active (Vittas, 1986).

Recent representations of associations of small firms in Ireland and the UK have highlighted that difficulties still remain in the relationship between small firms and their banks, who are their most important source of finance. The small firms' view and the banks' view will now be presented and, finally, a model is proposed from which hypotheses are developed relating to the quality of bank services to small firms.

4.6.2 Small Firms' View of Banks

The current vision of small business as the future of Irish industry has focused interest on the environment for small business. One extremely important factor for small business is seen to be the availability, form and cost of finance and the banking environment generally. That three government committees in the UK have considered the issue is testimony to the level of concern which prevails there. Respondents to a survey of over 6,000 members of the Forum of Private Business in the UK perceived the quality of bank service to have declined. A joint Bank of England/Treasury study was carried out into the relationship between banks and small business. The net effect of their report has been the introduction of codes of conduct by clearing banks to encourage the development of 'best practice' in dealing with small business customers[22].

An Irish Finance Minister did at one point caution the major banks that he would be 'sorely disappointed in any indication..that Irish banks were pursuing excessively cautious lending policies...to recoup losses on overseas business at the expense of the local

[22]The Sunday Times, 9 June 1991.

economy'[23]. Despite this, little concrete evidence exists on the state of the relationship between small businesses and their banks.

A survey conducted by the Small Firms Association in 1989 presents the views of 293 firms, 190 of whom are manufacturing firms who are members of the Association. Their top three concerns with their banks were the amount of collateral (30%), the interest rate charged (21%) and the availability and amount of credit (17%). Customers were asked to rate eleven features of bank service as very important, important or unimportant and banks performance on each feature as good, acceptable or poor. Banks' attainment of customer requirements was gauged using a matrix which allocated higher points to features which were rated more important by customers and on which banks were judged to be performing well. Banks appear to have been rated poorly on their knowledge of the small business customer's industry and market and on their provision of useful suggestions and advice as well as on being the 'cheapest money available'. They were judged to have performed well in relation to their knowledge of the customer and the firm, their provision of a wide range of services and in the easy access to the loan officer. The report of the survey is critical of the standard interest rate charged to smaller firms with no allowance taken of profitability, income-stream, risk or track record of the small business in question. The authors believe this to be unique in an OECD country (SFA, 1989a). A further report compared these findings with similar studies in the UK and the US, which were also conducted by small firm representative bodies, and found much higher interest rates over base in Ireland and average collateral-to-loan ratios at least twice as high in Ireland as in other countries (SFA, 1989b)

[23]The Irish Times, 23 October 1991.

Manufacturing firms, in particular, are concerned with collateral requirements and 80% of them had to provide some form of collateral for lending purposes. Almost half of firms were required to give some element of personal collateral and in 60% of cases, the value of the collateral provision required was twice the size of the loan (SFA, 1989a).

Overall, small firms in the survey saw an improvement in terms of services offered, capability of staff and accessibility of account manager and view the lending criteria as more lenient. 80% had not changed banks in the last five years, mainly because they were satisfied with the existing service. Another postal survey of 153 companies found that 57% were fairly satisfied with the general level of service they received from their bank and a further 27% were very satisfied. Efficient service and having a good relationship with the bank manager were consistently ranked the top two qualities in terms of importance in bank service. 44% of respondents found that banking services were becoming more impersonal (Hannaway, 1987).

4.6.3 The Banks' View of Small Firms

In a series of personal interviews, the four marketing executives for small business were asked about the importance of the sector to their bank. Each one estimated that lending to small business represented approximately 40% of non-government bank lending. The executives found it more difficult to define what a small customer was and, despite its importance, the small business sector was best delineated as consisting of those customers who were not personal, corporate or agricultural. The operational definition used most commonly was a firm with less than 100 employees (Hannaway, 1987).

Trade reports have put the proportion of lending accounted for by small businesses at 50% for Bank of Ireland and 40% for AIB[24]. Like its parent company, NIB sees itself primarily interested in personal customers and small business[25]. The TSB Bank, which emerged from the merger of the Cork and Limerick Savings Bank and the TSB Dublin, has traditionally only served the personal market but it also anticipates a growing involvement in owner-managed businesses[26]. The state-backed financial service for industrial projects, ICC, also sees itself as 'being at the very top in service delivery to corporates - particularly small and medium sized enterprises'[27]. Clearly, the banks are going to have to deal with dissatisfaction among small business customers and to understand if the problem is really limited to what one top bank executive described as 'the image problem' of Irish banks among the small business community[28].

In defense of the banks' servicing of small business clients, it has been pointed out that:

> 'the banking needs of small firms are inherently difficult to meet because of the heterogenous nature of the business population, the high risk of business failure, the lack of systematic accounting and other information and the relative high transaction costs for processing small loans and other individually tailored services' (Bannock, 1987 in Kinsella, 1991, p.27).

In a speech to members of the Small Firms Association in 1991, the Chief Executive of Bank of Ireland proposed that their current lending to small business which amounted to £720 million was evidence of the extent of their commitment to the sector[29]. AIB defended a downturn in lending to small business in 1991 as a consequence of fewer

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[24]Finance, 5(9), 1991
[25]Management, November, 1989.
[26]Finance, 6(6), 1992.
[27]Finance, 6(5), 1992.
[28]Pat Molloy, *Credit, Banks and Small Industry,* 3rd Dublin Small Firms Conference, 13 April, 1991.
[29]Pat Molloy, *Credit , Banks and Small Industry,* 3rd Dublin Small Firms Conference, 13 April, 1991.

applications for loans rather than a conscious restriction of credit facilities. The proportion of loan applications refused for that year thus remained at 10%[30].

In relation to the cost of loans, it was pointed out by the Bank of Ireland Chief Executive that one third of small businesses were found to have access to AAA rates in the Review of Industrial Performance of 1990. This should, however, be seen in the context of the review, which also noted that three quarters of large Irish firms accessed these lower rates (Review of Industrial Performance, 1990). An earlier study also found that smaller indigenous firms obtained finance on less favourable terms than did larger firms (NEST, 1984). The interest rate differential between the average monthly AA rate charged to most small businesses and the AAA rates for overdrafts and term loans of one year or less have, however, remained relatively constant in recent years, as is shown in the table below.

Table 7 Interest Rate Differential

	1987	1988	1989	1990	1991
AA/AAA Differential	2.37	2.54	2.30	2.39	2.17

Source: Irish Bankers' Federation

This premium on lending to small business is somewhat higher than in France, Germany, Spain, Portugal and the Netherlands and well above similar margins in the UK, Denmark and Belgium (Kinsella, 1991). The premium on lending to small business is there to cover what the banks see as the higher risk of failure and the resulting higher bad debt

[30]The Irish Times, 22 November 1991.

exposure for this sector. To remain viable, banks must ensure that 98% of loans are good. 60% of the banks' annual loan losses are from loans of less than £25,000, many of which the Irish Bankers' Federation claim are made to small business.

Banks also look for security on lending to small business, which the Irish Bankers' Federation see as ensuring the commitment of the borrower. Personal security is sought from between 30% and 40% of small business borrowers with only 5% ever being called in[31]. It has been suggested that banks are substituting higher interest rates and collateral requirements for the time, effort and cost which would be involved in gathering full information on individual lending prospects. Full information-gathering is deemed uneconomic because of the relatively small nature of the return (Barkham, 1989).

Falling margins between lending and deposit rates mean that banks are no longer subsidising costly money-transmission services and have begun engaging in 'transparent' charging for these services. Banks have reacted to criticism of these increased charges or fees by comparing them with the higher fees charged in the UK and Germany and by suggesting processes by which small businesses can minimise their current account fees.

Banks have also had to defend their practices in relation to small business use of invoice discounting which they insist is suggested to customers only when it is 'wholly appropriate' and not with a view to generating additional fee-income. The Irish Banks Information Service also rejected claims that loan applications have become conditional

[31]The Irish Times, 3 February 1993.

on the small business owner's purchase of the bank's life assurance, for which the branch managers have annual sales targets[32].

In delivering the services to small businesses, all four banking groups now have specialised small business units and Bank of Ireland have established 'business units' where the small business customer is in direct contact with the ultimate decision-maker. As evidence of continuing decentralisation of decision-making, AIB claim that 70% of loan applications by volume are decided at branch level[33]. Using government-backed funds, new special lending units have been established in the banks to advance funds to high risk ventures with good potential. Applicants are not required to give personal security. 10% of small businesses from these units have failed compared to 2% of companies who receive loans through normal banking channels. Only 1% of loans to the small business sector are through special lending units and one in four applications is refused. In general, 85% of applications for increased borrowing made by small and medium sized industry through the branch network are accepted[34].

Apart from this recognition of the differing financing needs of certain subgroup of small firms, which is government-sponsored, there is no indication of any segmentation of the small business market by Irish banks. Segmentation of the small business market would appear to be a progressive move on the part of the banking organisation towards more careful evaluation of small business finance proposals. Small firms representatives would ideally like to see each financial proposal submitted to the banks being judged, priced and

[32]The Irish Times, 14 March 1993.
[33]The Irish Times, 22 November 1991.
[34]The Irish Times, 3 February 1991.

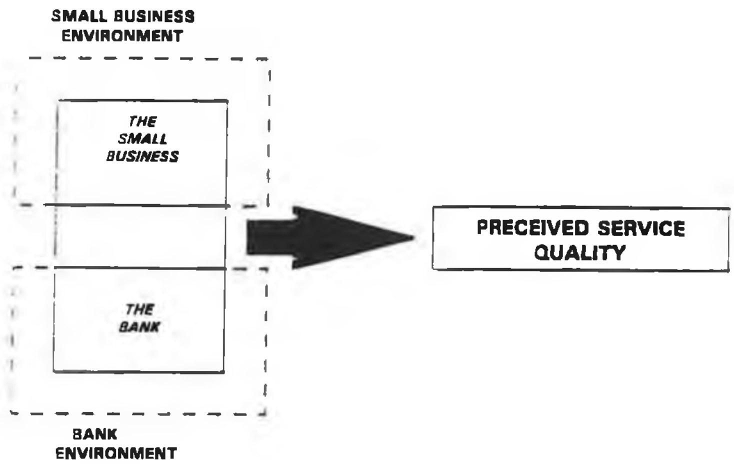
delivered on its own merits and are extremely unhappy with the blanket coverage currently being afforded to the sector in terms of availability and cost of finance. The enthusiastic adoption of the concept of segmentation in the banks' consumer markets previously described indicates that segmentation is a worthwhile undertaking for banks. The development of a viable marketing strategy for the small business sector would clearly benefit from further investigation of the possibility of segmentation.

4.7 QUALITY OF RELATIONSHIP OF BANKS WITH SMALL FIRMS

4.7.1 Proposed Model

The proposed model of the relationship of banks with small firms is based on the most basic concept of relationship marketing, which is the customer interaction with the organisation in the service process. Similar to Bateson' interaction diagram (see Figure 3), both consumer and supplier are graphically illustrated by boxes which overlap to represent their interaction. The interaction of both marketing players is influenced by factors outside of their relationship, which also nevertheless impinge on the outcome of the relationship. Examples of such factors include the competitive market pressures facing banks and the growth rate of a small firm which directly influencing the amount and type of finance and financial services which it requires. The outcome of the interaction is termed perceived service quality and is the attitude, either positive or negative of the small business customer regarding the service they receive from their bank.

Figure 13 Proposed Model of Bank/Small Firm Relationship



4.7.2 Research Objectives and Hypotheses

The main objectives of the research are twofold. The first objective is to extend the existing theories regarding service quality to include service quality in a new setting. The setting is different to the original quality studies as it is examining a relationship between a banking organisation and a group of customers who are not typical consumers. Despite delivery of the service to small firms through the retail network, banks have recognised that small firm customers have different needs and have taken steps to cater for them. Small firms, therefore, represent a good test of the service quality model proposed by Parasuraman et al (1988) as a generic measure of service quality across service settings. The service quality literature will benefit from investigation of the existence of the five dimensions of service quality proposed by the SERVQUAL model in a non-consumer setting. The hypothesis developed to test this research objective is thus:

Hypothesis 1: Service quality in relation to banking to small firms is a multi-dimensional construct.

The second objective of the research relates more closely to the perception of service quality as it relates to the different type of small business consumer. Banks have enthusiastically adopted the segmentation concept as it relates to their consumer business and have successfully refined their market strategies to suit market segments with defined market characteristics. Adoption of similar techniques in the small business sector should also serve to improve subsequent strategies and improve the banks relationship with small business. The homogenous approach to the small business sector which is currently used by banks is hypothesised to give greater satisfaction to those small business segments to which it is most suited. Subsequently, firms for whom the present market-aggregation strategy is not suited will exhibit lower levels of satisfaction with the banking service.

Hypothesis 2: Differing levels of satisfaction with their banking relationship indicate different segments within the small business market.

Each objective is chosen and pursued in a manner which it is hoped will provide maximum insight into the workings of the relationship between banks and small firms in Ireland. The outcome of the research, it is hoped, will also be twofold. A closer look at the satisfaction levels of different types of small firms will provide bank manager with market knowledge which, with further applied research, could provide the basis for future strategic decisions relating to this sector. Insight into the differences in financing requirements of small firms could also prove useful to policy-makers who are anxious to create an environment which fosters enterprise. With this in mind the sample of small firms chosen for primary research was specially designed to include small firms who are believed to have definite growth potential.

The second major outcome of the research relates to the development of a generic model of service quality. The convergence of the dimensions of service quality which emerge from this research setting with those of the SERVQUAL would add to the growing recognition of the instrument's application. Lack of dimensionality or the emergence of unique dimensions of service quality would indicate the non-generic nature of service quality across different service settings or the need for further refinement of the quality model for application in a non-consumer setting.

The following chapter describes in detail the methodology which was followed in pursuit of the above objectives and chapter 6 outlines the results. The acceptance or otherwise of the two hypotheses is discussed in the concluding chapter.

CHAPTER FIVE

5.0 RESEARCH METHODOLOGY

5.1 METHODOLOGY IN MARKETING

Marketing has always borrowed and continues to borrow content, data, techniques and concepts from a diverse array of sources. These cover business disciplines such as economics and law, social and behavioural sciences such as sociology and psychology as well as methodological sciences such as mathematics and statistics.

It is little wonder, therefore, that it has been noted that 'marketing...has no recognised central theoretical basis (Halbert, 1965, p9) and that much research in marketing remains scattered and fragmented (Anderson, 1983).

In reviewing the development of research in marketing, Desphande (1983) notes that theory construction has been neglected in favour of adapting the methodologies of other disciplines and concentration on methods of data collection, analysis and presentation.

The dominant research philosophy in marketing has until recently been that of logical empiricism. This view of how a science progresses begins with the researchers' untainted observation of reality. From this image of real world structure, the researcher generates an a priori model of the process to be investigated. Hypotheses derived from the model are tested empirically. The science progresses through the accumulation of multiple confirming instances under a wide variety of circumstances and conditions.

The dominance of this philosophical approach has been attributed to marketing's tendency to borrow research methods from economics and psychology (Desphande, 1983).

The methodology favoured by adherents to logical empiricism is the inductive statistical method which aids justification of scientific theory through the accumulation of large volumes of confirmatory data. The classic example is cited by Anderson (1983) of the PIMS studies. By observing the 'reality' of a large number of corporations, conclusions are drawn such as the positive relationship between market share and return on investments. This becomes a universal statement and allows for a normative prescription for business strategy.

As with the natural sciences, theories based on a finite number of observations will always be subject to measurement error. Much time and effort has been spent, therefore, on developing tests of reliability and validity of empirical work conducted in the social science field. One insurmountable difficulty that has been highlighted with an inductive methodology is the fact that 'what a man sees depends both upon what he looks at and also upon what his previous visual and conceptual experience has taught him to see' (Kuhn, 1970, p. 113). In other words, empirical observations are always interpreted in the context of a priori knowledge.

In response to the demise of the logical empiricist approach, philosophers of science have looked to other approaches to the development of theory and, usually, to other methodologies. A polemical position to the logical-empirical theorists is taken by those known variously as 'idealists' (Desphande, 1983, p.102), 'naturalistic' (Hunt, 1991) and 'relativist' (Anderson, 1983). These researchers are at the polar opposite of the scale to quantitative researchers as they believe that research into social phenomena is inherently subjective and must be undertaken from the actor's frame of reference.

Derived mainly from the anthropological tradition, this approach relies heavily on qualitative data, holistic analysis and detailed description derived from close contact with the targets of study. The techniques appropriate to such a phenomelogical approach are in-depth, open-ended interviewing and personal observation in an attempt to generate 'rich' or 'deep' data.

Clearly, most research, including that undertaken by researchers in marketing, falls somewhere between these two polar extremes. One tendency, however, in recent years has been a build-up of criticism towards the heavy emphasis traditionally laid on empirical validation in marketing. Wind (1979) notes that 'an examination of the marketing literature of the last decade suggests a predominance of empirical studies with small samples and limited generalisability and considerable number of methodological papers and very few conceptual papers proposing new concepts or theories' (Wind, 1979, p.6)

Desphande (1983) notes the irony in the widespread use of focus groups by industry, while it is only in the last decade that academic researchers have treated the technique with anything more than a superficial discussion. With undoubted acceptance among marketing practitioners, qualitative methodologies will continue to spread as they become more sophisticated and reliable.

Academe's response has been to recognise the advantages of triangulating methods in marketing. Researchers are being encouraged to engage in 'critical pluralism' (Hunt, 1991) and to borrow sources, methods and research from both research traditions. The first step in this direction has been a growing acceptance of the importance of the relatively-neglected qualitative research paradigm. Clearly, researchers in marketing must be aware of the advantages and limitations of both research methods in order to choose the appropriate mix.

It is commonly accepted, however, that qualitative techniques are best employed to contribute to theory building while quantitative methods tend to be more appropriate once a developed theory has been conceptualised and needs empirical validation or support to test its application. Undoubtedly this on-going 'rapprochement' between the major research traditions (Hunt, 1991) can only serve to improve the value of research in all areas of marketing.

The research to be undertaken in relation to the quality of relationships between small firms in Ireland and their banks evolved through both deductive and inductive phases as outlined in Table 8. Until stage three of the research is reached, in which specific primary research objectives are developed, the objectives of the research are less precise and centre on gaining insight into the market situation in order to achieve a meaningful survey design.

Table 8 Overview of Methodology

Overview of Methodology				
		Data Source	Data Source	Objectives
Deductive Stage	Stage 1	In-depth interviews with marketing managers of four major banks.	Secondary data collection of studies of banking to small firms.	To determine feasible research parameters.
	Stage 2	Interviews with 8 branch managers across four banking groups, stratified for banking group, geographic location on an urban v. rural level.	Information-collection on 80 companies earmarked for growth by IDA and on 80 other companies, matched for location, size, activity and age.	To collect primary and secondary data to develop a model of the banking relationship of small firms in Ireland.
Inductive Stage	Stage 3	Development of a model of the banking relationship of small firms in Ireland which incorporates the primary data collected in Stage 2 as well as input from marketing literature. The theoretical aspect spans the concepts of traditional marketing principles and more recent theories of: service quality (SERVQUAL) boundary role ambiguity (Schneider) relationship marketing (Nordic)		Model used in construction of questionnaire to test the perceptions of small business owners in relation to the quality of the banking relationship of small business in Ireland.
	Stage 4	The questionnaire is administered to a matched sample of 'IDA growth-companies' and 'non-IDA companies' and a related questionnaire is completed by bank managers to test the hypotheses: H1: Service quality in relation to banking to small firms is a multi-dimensional construct. H2: Differing levels of satisfaction with their relationship indicate different segments within the small business market.		To determine the applicability of recent service marketing theories to the small business banking market in Ireland. To assess the future determinants of success for banks in the small business market in Ireland.

5.2 PRELIMINARY RESEARCH

The first stage of the research into the small business banking market in Ireland was a series of interviews with the marketing managers of the major banks and with representatives of organisations, who have a major concern with small business. This stage of the research was termed preliminary research.

5.2.1 Objectives of preliminary research

The objectives of the preliminary research were twofold. Firstly, it was necessary to define the parameters, within which it would be feasible to conduct a primary investigation of the market. Many organisations had engaged in such research but the results are often not published or available outside the organisations. Meeting with individuals involved in such work gave some access to the knowledge gained from the conduct of the research in terms of the methodologies used and the problems encountered. Secondly, it was also desirable to ensure the co-operation of the major banking organisations for future research intentions. The bank branch manager is a key player in the relationship between small businesses and banks. and access to branch managers is obtained only with the agreement of the banks. Therefore, the four major clearing banks were approached for a meeting with a view to arranging the incorporation of branch management into the study.

5.2.3 Conduct of preliminary research

With the four clearing banks, the first approach was made to the marketing departments. Meetings were arranged with the marketing manager for small business in each of the two large banks and with the marketing manager in the two smaller banks. At these interviews, it was first necessary to interest the interviewees in the research study. For this purpose, the body of research into the area which had been collected so far was summarised and outlined at the start of the interview with the potential for replicating certain aspects of it suggested. The marketing managers for small business in the two bigger banks were quick to point out the difficulties in obtaining what they would consider objective research in the area in Ireland and expressed an interest in facilitating such a study. Particular topics of interest to each manager were also sought as further enticement to participate. Finally, each manager was asked if branch managers of their banks could be used as sources of information and under what conditions. It became immediately apparent that the concerns of the marketing managers of the larger banks were very different from those of the smaller banks. This was seen as an inevitable consequence of their different market positions and the responsibilities of the individuals. The two large banks between them supply over 80% of the small business market in Ireland and it was decided to limit further study to these two. In this way, the banking relationships of small businesses in Ireland would be adequately covered without further complication of the issues by the differing approaches of the two smaller banks to this market.

In addition, at the preliminary stages of the research, a number of interviews were conducted with small business representatives of a number of organisations, who had already conducted primary research involving small businesses. The purpose of these interviews was to impose realistic limits on the research parameters, with input from sources who had already conducted research on the same target population.

The following bodies were therefore contacted for an interview to discuss previous primary research they had conducted on the small business population.

> 1. Industrial Development Authority - the IDA is the state-sponsored body responsible for the development of industry in Ireland.
> 2. Small Firms Association - the SFA is a voluntary organisation which is part of the Irish Business and Employers Confederation and whose purpose is to represent the interests of its small business members.
> 3. Industrial Credit Corporation - the ICC is a state-sponsored body which specialises in the provision of financial services to the business community.
> 4. Chambers of Commerce of Ireland - the CCI is the national association to which all chambers of commerce in Ireland are affiliated. The chambers represent the interests of their members at local level.

5.2.3 Outcome of preliminary research

The preliminary research yielded three specific outcomes. Firstly, the decision was taken to limit the study to the consideration of the banking relationship of small manufacturing firms in Ireland. This decision was made on the recommendation of the representative of the ICC and the CCI. The rationale for recommending that the study be so limited was the diversity which would inevitably be encountered between manufacturing and service firms. The service sector of the small business market consists mainly of retailers, whose concerns are significantly different to non-retailers. Both these interviewees had themselves been involved in primary research of the small business sector so their advice was accepted as sound. The banks' response to this delimitation of the study was one of resignation that this was probably a wise move although they would like to see the study possibly replicated for retailers, should it prove worthwhile. Within the manufacturing sector, both marketing managers expressed interest in the development of a meaningful bases for segmentation.

The banks supplied the second specific outcome of the preliminary research in agreeing to limited access to their branch managers. The agreed format was that the questions to be asked of managers be agreed in advance with head-office, that the questions be asked in a one-to-one interview which would not be taped and that the results of the interviews be compiled on an individual bank basis and not be available to the other banks. In addition, it was stressed that interview numbers and length be kept to a minimum. It was agreed with both managers to hold interviews with a branch manager in a Dublin branch, in a large town or city outside Dublin and in a smaller town. This, it was believed, would cover the experiences of managers whose experiences with small firms may vary because of the location of the branch from which they operate.

Finally, the IDA representative stressed the importance of the characteristics of the firms themselves in determining the outcome of the banking relationship. As finance is one of the major constraints encountered by small business, the organisation would be interested in any study which would provide greater insight into the situation. The IDA's database of small firms in Ireland was therefore available for consideration in choosing the population of small firms to be studied.

5.3 INTERVIEWS WITH BRANCH MANAGERS

The interviews with the branch managers took between one and a half and two hours. The list of topics to be covered was agreed in advance with the marketing managers and covered four major areas. A copy of the questionnaire used to direct the interviews is included in Appendix I.

Firstly, managers were questioned on the nature of the small business sector in their branch. Specifically, managers were asked how the sector and, in particular manufacturing, contributed to the branch's performance, the breakdown of the sector by activity, the turnover of business accounts in the branch and why this may occur. Managers were also asked how much time they personally spent dealing with the small business sector and what form this usually took.

The second stage of interviewing moved on to investigate the servicing of the small firm account. Managers were asked what were the main services required and how satisfied they believed their customers to be in terms of range and cost. The managers were also asked to assess their branch's competitive position and to describe their relationship with other small business partners such as the IDA or accountants.

The third section of the interview covered the branch managers' relationship with their own banking organisation. Specific questions asked covered the manager's satisfaction with guidelines handed down from head-office in relation to small business and with the opportunity to relay information about this sector to decision-makers at head-office level. In addition, managers were questioned on their relationship with other divisions and departments and on their assessment of the relevance of the organisations' stated business mission in their dealings with small business.

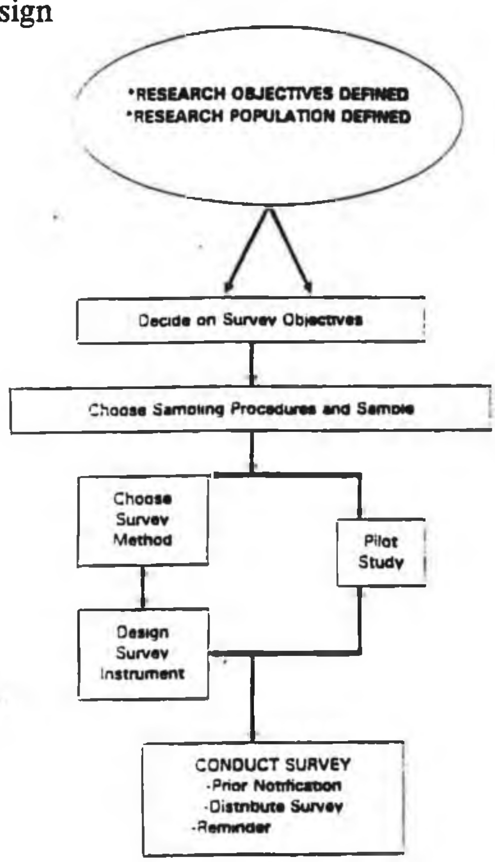
The fourth section of the interview questioned the managers on their own confidence in dealing with the demands of small business customers. Their level of knowledge about their customers was discussed as was the possibility or desirability of improvement in this area. The insights gained were used in the development of the questionnaire for the small business survey and in interpretation of the results.

5.4 THE SMALL BUSINESS SURVEY

5.4.1 The objectives of the survey

The specific objectives of the survey are to investigate the multi-dimensionality of service quality in the banking relationship of small firms in Ireland and to seek differences in service perception which result from the homogenous serving of a market in which different firms have differing needs. With the more demanding needs of growth firms in mind, this second objective determined the choice of sample in order to ensure representation of growth firms. The survey design is outlined in Figure 14.

Figure 14 Survey Design



5.4.2 The sample

The first group of small firms was a list of 67 manufacturing firms chosen by IDA personnel to participate in their business development program. They were chosen by the IDA personnel as they were believed to have high potential for growth, particularly export growth.

These 67 companies were then matched with another group of 67 firms chosen from the Kompass directory. Matched-pair design of research samples has moved beyond its original field of application in the medical science and is being used increasingly in industrial surveys (Peck, 1985). Ray and Hutchinson (1983) matched 33 rapidly growing small businesses with 33 non-rapidly growing in their longitudinal comparative study. A similar matching was conducted to compare small firms in Ireland and the south of England (O'Farrell and Hitchens, 1989). In matching firms it is important to choose carefully the characteristics by which a firm will be chosen to ensure that differences which do emerge relate to the subject under consideration and not to other variables. This requirement must be balanced with the need to find sufficient firms in each category. The criteria for selecting the matched companies in this sample was that they be located in the same region, operate in the same manufacturing activity and be of a similar size and age to a company in the group chosen by the IDA.

5.4.3 The survey method

A major step in research design is the choice of survey method. The three commonly-accepted alternatives for information-gathering are personal contact, telephone and postal questionnaire. Each method has advantages and disadvantages and the most suitable method is dependent on a number of factors.

Low response rates to mail surveys is perhaps one of the most significant drawbacks of this survey technique. With a low response rate, the likelihood exists that the non-respondents differ significantly from the respondents. This would be an obvious potential source of bias in any consequent analysis. Fowler comments that 'mail survey of the general population, without appropriate follow-up procedures, generally yields a response-rate of 30%' (Fowler, 1984, p.67). This would also seem to be about the maximum to be anticipated in a mail survey of small businesses. The Centre for Small and Medium sized Enterprises in Warwick Business School '..obtain a 30% response rate on the West Midlands Business Survey, but rates of between 5% and 20% are the 'norm' on postal surveys'.[1] A mail survey of 13,000 companies from a list of exporters compiled by a direct mail house elicited a response rate of 13.5%, which the authors claim is 'remarkably high for a survey of this type' (Bannock, 1989, p.5.).

In general, response rates to mail surveys are closely related to 'the nature of the survey, the interest of the subject of the survey to the population sampled, the composition of the sample and the presentation of the questionnaire' (Chisnall, 1975,

[1] Professor David Storey, in correspondence with the author, 4. June 1993.

p. 162). In addition, over 600 studies have looked at the impact of various ways of increasing the response rate to mail surveys (Murphy, Daly and Dalenberg, 1991).

There appear to be three major methods of influencing the response rates to mail questionnaires. Before postage, preliminary notification is believed to increase response rates. In a survey of 481 freight forwarders, half of the subjects were notified by postcard that the survey would be arriving and the response rate for this group was 28%, compared to 20% for the control group who were not notified in advance (Murphy et al, 1991). Attempts to increase the response rate which are undertaken by the researcher at the time of distribution of the questionnaire are known as concurrent techniques. A variety of such techniques have been investigated and include such considerations as the colour of the paper used, use of gifts and sponsorship. While the efficacy of many of these methods is still subject to debate, it was decided that several of these techniques would be applied in the survey of small business. The lack of identification with the purpose of a study has been cited as one of the most important reasons in explaining the non-response of a mail survey (Chisnall, 1984). A covering letter was therefore included with the survey to explain the source of the questionnaire and the objectives of the survey. The importance of the small firms' sector to the economy was stressed as was the importance of the respondent's contribution to the survey. Respondents were also invited to request a copy of the results should they be interested as further encouragement to stimulate their interest in the topic. In addition, the importance of confidentiality was acknowledged and absolute discretion assured. Finally, the letter was printed on official notepaper of the University to enhance further its professional appearance.

Second mailings of questionnaires to respondents who have not replied have also been shown to increase the response rate (Moser and Kalton, 1971) as there is the possibility that the initial questionnaire was mislaid or put aside and forgotten by respondents who were prepared to return it. In the follow-up letter to non-respondents, the concurrent techniques described above were repeated. An additional attempt was made to increase the level of interest in the study by indicating the percentage of replies which had been received to date.

In addition to proven and accepted methods of maximising response rates, it has also been shown that 'an imaginative approach is needed by researchers when designing methods of collecting data' (Chisnall, 1986, p.165). It was therefore decided to experiment with an unusual and apparently novel method of collecting the data required. The subjects of the survey were all small businesses and, on investigation, it emerged that almost all of the sample had a fax number listed in a current fax directory. This method of distributing the questionnaire seemed to provide another method for increasing the attention paid by respondents to the survey. Rather than arriving with the rest of the mail on the managing director's desk, the questionnaire could arrive when it would not have to compete with other demands for the attention of the respondent. In addition, the relative novelty of the fax for this purpose sets it apart from similar studies of small business and adds an element of immediacy to the study. It was hoped that using this technique would ensure an adequate response rate. The returned questionnaires could then be analysed as representative of the sample.

5.4.4 The survey instrument

A questionnaire has been defined as a 'method of obtaining specific information about a defined problem so that the data, after analysis and interpretation, result in a better appreciation of the problem' (Chisnall, 1986, p.104).

The design of a successful questionnaire is a difficult and time-consuming process which requires considerable preliminary investigation. It involves 'selecting the questions needed to meet the research objective, testing them to make sure they can be asked and answered as planned, then putting them into a form to maximise the ease with which respondents.....can do their jobs' (Fowler, 1984, p.99).

The questionnaire for this survey contains two types of inquiry. For analysis purposes, one section of the questionnaire required factual data on the respondents. In line with recommendations on questionnaire design, these were for the most part closed questions.

The main focus of investigation is on the respondents' attitudes towards the service they receive from their banks. An attitude has been defined as 'an enduring organisation of cognitive, affective and behavioural components and processes with respect to some aspect of the individual's world (Tull and Hawkins, 1984, p.295.). More generally, attitudes are usually viewed as an enduring disposition to respond in a given manner to various aspects of the world. Attitudes are generally believed to be composed of the three elements included in the definition.

In measuring an attitude, a series of beliefs is held to be more accurate than a single belief as an indicator of a person's true attitude (Parasuraman, 1986). Extreme care must be taken, however, to ensure that any series of measurements taken to measure an attitude is both reliable and valid. These issues in relation to the scales used in the small business questionnaire will be discussed later in the chapter.

The Likert scale was used to request the respondent's degree of agreement or disagreement with each of a series of statements. In line with what has generally been found to be adequate, a five-point scale was used (Moser and Kalton, 1971). Particularly in view of the target respondents for the survey, it was felt that a seven-point scale would be excessive and may serve to exasperate managing directors and thus reduce the response rate.

The twenty-one proposed components of service in the scales to measure expectations and perceptions were drawn from the earlier stages of the research. In particular, the five dimensions which are contained in SERVQUAL and are proposed to measure customers' perceptions of service quality were included. However, a previous replication of the scale which was conducted in four different service settings noted that exact duplication was not necessary and items were modified where necessary (Carman, 1990). The purpose of the current study involves use of the scale with a small business sample who are quite different to the consumers used in the original test in which the scale was developed. Hence, much care was taken to incorporate the finding of the previous studies of small business banking customers in adapting the scales to measure expectations and perceptions. Finally, the insights gained from the interviews with the bank managers outlined earlier provided yet more input into the questionnaire design.

Table 9 Development of the Questionnaire

Item	SERVQUAL Dimension	Other
Physically appealing	Tangibles: physical facilities.	Only branch seen as important.
Convenient location	Responsiveness: willingness to help customers and provide prompt service.	Location and accessibility believed to be important to small business clients by branch managers and Holland (1989)
Adequate parking		
No need to queue		
Convenient operating hours		
Do things when they promise	Reliability: dependability and accuracy	Smith (1989) found accuracy, reliability and speed to be the most important factors to small business.
Prompt service		
Say exactly when services will be performed		
Trust bank manager	Assurance: knowledge and ability to inspire trust.	Bank managers believe that small business see them as a source of advice and an additional financial advisor.
Bank manager has authority		
Predict working capital		
Not changed very often		
Source of information/advice		
Understands business	Empathy: individualised, caring attention given to customers.	Binks et al (1989) found mismatch wrt knowledge of business/industry. File et al (1991) found community service important.
Understands industry		
Visits in premises		
Involved in community		
Reliable source of credit	General debate on availability of finance.	Binks et al (1989) small businesses want cheap loans
Affordable source of credit		
Adequate support from head-office		Branch managers' difficulties.
Personal guarantees		SFA,FPB reports.

As is recommended, several negative items were included in the list of statements to force the respondent to consider each item carefully, rather than to respond automatically to them all in the same way (Moser and Kalton, 1971).

A further scale was devised separately to measure overall satisfaction with the banking service. Rather than measure satisfaction with a single statement a number of statements were used to cover satisfaction with range, cost and value for money as well as with the branch manager and the overall relationship. One statement also covered the respondent's desire to move the business to another bank. As this may be closely linked to the competitive situation in the market-place, a number of statements were included to see the extent to which the respondents saw themselves as having a choice of suppliers.

The final section of the questionnaire sought details on the characteristics of the firm and the respondent. Such information was vital to the research objectives and respondents were further assured at this section that the information would be treated confidentially and would only appear in aggregate form. All respondents attempted to complete the questionnaire fully.

5.4.5 The pilot test

Bearing in mind both the difficulty in securing an adequate response rate to mail survey and the complex questionnaire construction, a pilot test was conducted at an early stage in the survey design. This is particularly important for self-administered questionnaires as there is nobody present to clear up any ambiguities. It has been suggested that

> 'besides checking on the clarity of the instructions and explanations, pilot studies can also be used to investigate on an experimental basis different approaches to gaining the co-operation of respondents; various types of covering letters, different formats for the questionnaire, and other forms of inducement to respond can be tried out' (Moser and Kalton, 1971, p.264.)

The objective of the pilot testing of this survey was twofold. The subject matter of the questionnaire could be considered to be sensitive information as it relates primarily to the small firms' relationship with their banks. It was vital, therefore, to be certain in advance that the companies would be prepared to give the desired information. It is also particularly important that self-administered questionnaires be tested as the subjects will be completing them without the guidance of the interviewers. The second objective in testing the questionnaire was to examine the possibility of distributing the questionnaire by fax. With this in mind, the six companies who were chosen for the pilot test were divided into three groups of two and each group was approached in a different way concerning the survey.

In each group of two, one of the companies was from the IDA list of firms on the company development program and one from the list of matched companies not on the program. The first two companies were notified by mail that the questionnaire was being sent to them and the questionnaire was then mailed later in the week with a covering letter. The other two groups received the questionnaire by fax. The two companies in the second group were first notified of the survey by mail, then they were contacted by phone in order to obtain their permission to fax the survey, which was given. The two companies in the third group were simply contacted by phone and, when they agreed to accept the survey, the questionnaire was faxed to them.

The pilot study was conducted for the purpose of choosing the best survey method and the best survey instrument and the results of the study of six companies provided insight into both these areas. The questionnaire was returned by all four companies who had received it by fax. However, neither of the two companies who were sent the questionnaire by mail returned it. This difference in the response to the pilot survey clearly favoured the use of fax as the distribution method. The fact that those companies who received no pre-notification in the mail of the survey returned the questionnaire also indicated that a phone call in advance should suffice to ensure a good response rate.

All companies who returned the questionnaire completed it in full. Two of the companies who expressed an interest in the results of the survey were subsequently contacted and the respondent was asked if the structure or content of the questionnaire posed any problems. Neither respondent experienced any difficulty with the semantics or sequence of the questions, nor did they express any concern over the information being sought. One of the respondents, however, was adamant that the physical length of the questionnaire at five pages was excessive and wasted too much fax paper which was extremely expensive. This valid point was addressed by reducing the size of the questionnaire using a desk-top publishing package which arranged the same number of questions in two pages. The questionnaire was then faxed several times in-house to ensure it remained legible in its smaller form.

5.4.6 The response

The sampling frame consisted of a total of 134 companies, 67 of which were from an IDA list of companies on the company development program and 67 of which were matched companies. A total of 14 companies could not be contacted at the most recent telephone numbers available for them. They were assumed to have gone out of business in the meantime or to have moved and changed business names. All one hundred and twenty companies were contacted by phone and agreement was obtained for the faxing of the questionnaire. It was usually necessary to explain the origin and purpose of the study but only in a minority of cases was it possible to speak directly with the intended respondent. The role of the receptionist or secretary in fielding requests to speak with the managing director is well-known and the person in this role is often termed the 'gatekeeper'. The person in this role never hesitated, however, to agree to accept a fax to be passed on to the managing director.

In only two cases did the person on the phone refuse to accept the questionnaire. Both were the managing director of the company and both declined to participate saying simply they had no interest in filling it out despite assurances that it was very brief and straight-forward. The effective sample for the survey amounted to 118 companies. The intention to fax the questionnaire was a facilitating tool which enabled the person on the phone to agree to one step in the process without giving an absolute commitment to the completion of the survey. However, it appeared that the arrival of the fax ensured its receipt by the intended respondent and a very satisfactory response rate was achieved.

Eighty three companies returned the questionnaires and, interestingly, almost half of the initial faxes were mailed back. The fact that most questionnaires received back were on the original fax paper may provide some evidence of why this occurred. It is clearly more convenient from a clerical point of view to post back the questionnaire than to make a copy which can then be faxed. The process of faxing can also be time-consuming, as was apparent during the faxing of over one hundred questionnaires.

The overall response rate to the survey worked out at 62% of the initial sample of 134 companies, or 70% of the 118 companies who actually received the questionnaire by fax.

Population/Sample	IDA	other	Total
Population	67	67	134
less non-contactable	6	8	14
less refusals	0	2	2
Effective Sample	61	57	118
<u>Replies</u>			
by fax:	18	13	31
by post:	19	12	32
second mailing:	8	13	21
<u>Total Replies</u>	45	38	83
Replies as a percentage of effective sample:	74%	67%	70%
Replies as a percentage of initial sample:	67%	57%	62%

Within two weeks of the initial faxing of questionnaires, a reminder letter was posted to those companies who had not replied. Another copy of the questionnaire was included as was a postage-paid addressed envelope to facilitate its return. As expected this contributed further to the response rate, with a further twenty-one companies returning the questionnaire at this stage. This amounts to 25% of total replies received or a 33% increase on replies up to the second mailing.

The very high response rate could have been obtained as a result of a number of factors. One possible explanation is that target respondents could have a very high level of interest in the subject of the questionnaire. However, a UK questionnaire on the subject of small firms and their relationship with their clearing banks which was distributed by mail achieved a response rate of 18% which the authors describe as relatively high (Cowling, Samuels and Sugden, 1991). A survey conducted by the Small Firms Association of its members in Ireland asking them about their relationship with their banks achieved a response rate of 38% (SFA, 1989). Interest in the topic is, therefore, unlikely to have been the sole reason for the successful response rate.

The second mailing increased the response rate from 54% to 70% of the effective sample and must also be considered a positive influence. In addition, the relatively higher response rate from the companies who are part of the IDA company development program indicates the choice of sample may also have had an effect. Even considering all these factors, however, it appears that the use of the fax for distribution of the questionnaire has proved a successful experiment in improving the low response rate of small firms to surveys.

5.5 CHARACTERISTICS OF SAMPLE

5.5.1 Description of sample

Of the 83 companies in the survey, nine manufacturing activities were specifically represented. The largest single manufacturing group was engineering and metal goods, which accounted for 36% of the sample. The next largest group consisted of firms operating in the textiles, clothing and footwear sector who made up 16% of the respondents. Food, drink and tobacco firms accounted for 12% of respondents and firms in the plastics industry for 18%. Pharmaceutical or chemical firms accounted for 6% of replies and firms who did not classify themselves as any of these amounted to 5% of the total, or four firms. Finally, two respondents operated in the electronics industry.

Manufacturing Industry	No of Cos	% of Sample
Engineering	30	36
Textile, Clothing and Footwear	13	16
Food, Drink and Tobacco	10	12
Plastics	7	8
Pharmaceutical/Chemical	5	6
Services	5	6
Furniture	4	5
Other	4	5
Paper and Printing	3	4
Electronics	2	2
Total	83	100

Firms were asked to give the age of their company and the results were compiled into five groups for analysis. 13% of the sample companies were founded in the last eight years, since 1985. 29% were founded between nine and thirteen years ago, between 1980 and 1985. 26% were founded between 1975 and 1979 and 13% between 1970 and

1974. Finally 19% of respondents manage companies which were founded before 1970 and are twenty-three or more years in operation.

Company age	% of sample
<8 yrs old	13
between 8-20	50
over 20	32
Not given	5
Total	100

Only one company in the sample employs less than ten employees. 19% employ between ten and nineteen employees. 32% employ between twenty and twenty-nine employees while 12% employ between thirty and thirty-nine. 21% are firms with between forty and forty-nine employees and 14% employ more than 50 employees.

Employee Numbers	% of sample
<20	20
21-50	66
>50	14
Total	100

Only one company describes its market as new, while 45% of the companies who responded say their markets as growing. 35% of companies said the market in which they operate is mature and 18% said they operated in a market which was in decline.

Description of market	% of sample
New/Growing	46
Mature	36
In decline	18

The major market of the largest group of companies was primarily Ireland, with 41% choosing this option. 31% described their major market as primarily overseas. A further 28% saw their market as Ireland, but with growing overseas markets.

Major market	% of sample
Primarily Ireland	41
Primarily overseas	31
Ireland, growing overseas	28

46% of the sample companies employ more than they did one year ago, while the remaining 54% employ the same or less. 58% of companies reported that their turnover had increased relative to one year ago and the turnover of the remaining 42% was either stable or declining. Finally 47% of respondents expect to employ more in the coming twelve months and 53% do not.

Statement	% Yes	% Not yes
Employ more than previous year	46	54
Turnover more than previous year	58	42
Expect to employ more in coming year	47	53

5.5.2 Respondents' Profile

Of the 85 respondents to the survey, 41% were founders of the firms and 21% were co-founders. 16% purchased the firm, 11% were employed as manager from within the company and 11% were employed from outside the firm as manager.

Background in firm	% of sample
Founder/Co-founder	62
Purchaser of firm	16
Employed from within	11
Employed from outside	11

Only 7% of these respondents described their understanding of the financial aspects of the business as fair, while 57% saw it as good. A further 35% described their understanding of this aspect of business as excellent.

Description of understanding of financial aspects of business	%
Excellent	35
Good/Fair	64

5.5.3 External concerns

When asked which individuals had a significant input into the major financial decisions of the firm, only 11% of responding managers excluded themselves. 46% of respondents claimed that they alone have a significant input, while 13% said that themselves as managers and an internal financial executive had this input. A further 24% stated that they and an external accountant or auditor were the individuals with a significant input into financial decisions for the business and only 5% stated that they and their bank manager had an input.

Major input into financial decisions	%
Manager alone	46
Manager and internal financial executive	13
Manager and external accountant	24
Manager and bank manager	5
Other	11

In answer to the question, 'Can your company afford the current cost of additional working capital for business expansion?', 44% said yes and 56% said no. In the previous question, respondents were asked 'What do you consider to be the single most significant constraint to expansion?'. The responses were unprompted, seventy three companies responded and the replies were collated into five categories.

	Response Given By
1. Finance related	47%
2. Market related	26%
3. Environment related	18%
4. Internal difficulty	6%

Of the thirty six companies who cited finance as the major constraint on their business, seven companies specifically mentioned the difficulty of raising working capital. The other companies described the problem as "lack of money", "finance" or simply "money". Only two companies specifically targeted their bank as the reason for their difficulties in obtaining finance.

Market-related factors centred mainly on the effects of the recession, the general downturn in the economy and the limited size of the domestic market. Environment-related was the term chosen to describe factors which are generally outside the control of the individual small firm. These were mainly changing technology and a small number of firms mentioned "location" as a constraint to expansion. Finally, the few firms who saw the major constraint as internal highlighted the difficulty in obtaining suitable personnel as the major problem.

When asked from which state-sponsored bodies they had received assistance, 35% replied none, 19% had received assistance from one and 46% had received assistance from more than one of the bodies listed.

5.5.4 Banking characteristics

Of the 85 companies in the sample, the main account of 45% was held in Bank of Ireland. AIB had 38% of the accounts of the sample while Ulster Bank had 10% and National Irish Bank had 5%. Two companies held their main bank accounts in non-commercial banks such as TSB or ICC.

Main account held in:	% of sample
Bank of Ireland	45
Allied Irish Bank	38
Ulster Bank	10
National Irish Bank	5
Other	2

62% of the sample had never changed banks and of the 37% who had, 43% had done so in the last three years and 57% had done so more than three years ago. Only 17% of firms replying to the survey had received an unsolicited visit from a competing bank and 26% of firms use services other than routine banking services. These were primarily foreign-currency transactions and payment arrangements in other countries.

Question	% Yes	% No
Not changed banks	62	37
Received unsolicited visit from competing bank	17	83
Afford current cost of working capital	44	56

Just less than half of the respondents, 44%, replied that they could afford the current cost of additional working capital while 56% replied that they could not.

5.5.5 Choice of Sample Groups

Three of the above questions were control questions which were included in the questionnaire to examine the validity of the assumption that the IDA would successfully choose 'growth companies' above 'non-growth' companies. Companies were asked:

a. if they employed more people than twelve months ago,

b. if they planned to employ more people in the next twelve months and

c. if the company's turnover had increased in the last twelve months.

In answer to each of the above questions, a higher proportion of the sample of companies in the IDA's Development Programme did consistently respond positively. For example, 67% of these companies said their turnover had risen in the last twelve months, compared to 47% of the other companies. When asked if they expected to employ more people in the next twelve months, 53% of companies on the Business Development Programme said yes, while 37% of the other companies expected to increase employment. Forty nine percent of firms chosen by the IDA employed more people than one year ago and 42% of the other firms did. (See Table for summary).

Almost half of the companies not chosen by the IDA described their market as primarily Ireland, while only 36% of IDA companies operated mainly on the domestic market. Of the other IDA companies, one third described their market as primarily overseas. This was the case with 29% of non-IDA companies. Finally, 31% of IDA companies saw their market as "Ireland, with growing overseas markets" and only 23.7% of the other group saw their markets as this. When asked if the company could afford the current cost of additional working capital, more companies in the IDA group responded affirmatively. Forty seven percent of them said yes and 41% of the other group of companies said yes.

Summary of IDA Business Development Companies (BDP Cos) v Other Companies

Statements in questionnaire	BDP Cos	non-BDP Cos
Turnover increased in last 12 months**	67%	47%
Employ more people in next 12 months*	53%	37%
Employ more people than 12 months ago	49%	47%
Major market = Ireland	36%	50%
Major market = Overseas	34%	29%
Major market = Ireland, with growing overseas	31%	24%
Can afford current cost of additional working capital	47%	41%

Z-test for significant difference of proportions: ** $p < .01$, * $p < .1$

5.6 VALIDITY OF SURVEY INSTRUMENT

The scales which were devised to measure the respondents' expectations, perceptions and evaluation of the banking service they receive were devised for specific application to the small business market. Before proceeding to interpret the results of the survey, it is necessary to confirm that the scales are reliable measures these three constructs. Co-efficient alpha indicates the extent to which scale items are consistent or represent a common construct as reflected by the intercorrelations between the items.

Scale	alpha
Measure of expectations	.6741
Measures of perceptions	.8547
Difference scale	.8369
Measure of evaluation	.7600

These values are somewhat lower than the values of .80 to .93 obtained by Parasuraman et al in their original 1988 study to develop the SERVQUAL scale on which the perceptions and expectations scale were based. However, replication studies carried out since then, which have adapted the scale to different settings have accepted similar alpha values. For example, Babakus and Boller (1991) studied customers of a utility company and used an adapted version of SERVQUAL with co-efficient alphas of .67 to .83. Similarly, Carman (1990) who replicated the study across four different settings reports a mean co-efficient alpha of .75.

One purpose of devising a scale is to obtain a combined rating, which is then treated as a measure of attitude toward the subject of the scale (Parasuraman, 1986). The item-to-total correlation of each item in the scale is further evidence of the scales validity. The evaluation scale was devised with no previous validity measures and certain items exhibited a very low item-to-total correlation. This is not unexpected as there was little prior evidence of the specific items which made up an attitude of satisfaction in the context of small business and their banks. Following deletion of items with low item-to-total correlations, a scale was devised with nine items and a co-efficient alpha of .9048. The items retained in the scale were:

EV1 I am satisfied with the banking service I receive from my bank
EV5 I am happy with the range of services at my bank
EV7 I am happy with the cost of banking at my bank
EV8 I have a close working relationship with my bank
EV9 The bank I deal with has the interests of my firm at heart
EV10 I have a constructive relationship with my bank
EV11 My bank has a good image
EV12 My bank manager does a good job
EV18 The service I get from my bank is good value for money

5.7 SUMMARY

This chapter has outlined the research methodology used throughout the entire research procedure. The methodology began with an deductive examination of the market setting for the research using semi-structured interviews with experts and a series of structured interviews with branch managers. The primary research study which involved a survey of small firms was described in detail and the results in terms of the response rate and the characteristics of the sample were also included in this chapter. Finally, the validity of the scales included in the questionnaire was tested and a new scale developed to measure overall service satisfaction. The next chapter describes the results of the survey in detail.

CHAPTER SIX

6.0 RESULTS

6.1 INTRODUCTION

This chapter presents the results of the survey of 83 manufacturing companies. The general results in terms of expectations, perceptions and evaluation of the banking service are presented and differences between two groups of small firms are examined. The scale of items measuring perceptions of bank service is factor analysed to examine if service quality in this context is a multi-dimensional construct. The factors which emerge are examined for their correlation with overall satisfaction and with the small firms' desire to move their business. Finally, a cluster analysis is conducted to investigate if groups of small firms exist who rate their banks differently. The clusters which emerge are examined for meaningful characteristics.

6.2 GENERAL RESULTS

6.2.1 Expectations and Perceptions

Over 90% of the sample agreed with the following evaluation statements:

Banks should provide small business with a reliable source of credit.
Small businesses should be able to trust their bank manager.
When banks promise to do something by a certain time, they should do it.
Banks should provide small business with an affordable source of credit.
Bank managers and staff should get adequate support from head-office to do their jobs well.

Mean scores on expectation statements consistently rose above 4.0, which indicates relatively high expectations on a scale of 1 to 5. The negative statements included in the list, however, did not score as highly and had standard deviations which indicated that the respondent may have been confused. The implications of this issue are discussed later in the chapter.

The statement regarding perception of bank service which was agreed to by the highest proportion of the sample agreed related to the firm receiving prompt service from the banks. Almost 60% of firms agreed this was the case. The statements to which only 10% small firms agreed were:

My bank manager is an important source of financial information and advice.
My bank manager can predict the working capital requirement of my business.

Mean scores for statements regarding perception were centred around three with a significant standard deviation for many of the statements. This fact indicated that the intended attempt at segmentation may prove worthwhile.

6.2.3 Evaluation of Bank Service

The percentages of firms who agreed or strongly agreed with four of the evaluation statements are:

I am satisfied with the service I receive from my bank	52%
I have a constructive relationship with my bank	47%
I have a close working relationship with my bank	51%
My bank manager does a good job	51%

Similarly, almost half the firms believe that their bank has a good image. Only 19% of respondents believed that their bank has the interests of their firm at heart and 38% disagreed. In each case, roughly one third of respondents circled three, indicating that they neither agreed nor disagreed with the statements.

Fewer firms had no opinion on the statements relating to the cost of banking. Only six percent of the sample agreed to the statement 'I am happy with the cost of banking at my bank', while 82% disagreed. Also, only 13% of firms agreed that the banking service that they receive is good value for money.

Twenty percent of respondents agreed that they would like to move their business to another bank; of these, nine percent simply agreeing and 11 percent agreeing strongly. Twenty six percent express no intention and 53% disagree. In fact, 37% of firms in the sample had changed their bank at some time and almost half of this group (44%) had done so in the last three years.

6.3 DIFFERING EVALUATIONS

The two groups chosen initially exhibited no significant differences in their evaluation of banking services. However, a comparison of those firms who stated that they had increased their number of employees in the last twelve months with those who had not showed some interesting differences. Thirty eight companies had employed more people and 45 companies had not. Overall, those firms who had employed more people appeared to evaluate their banks higher. This can be seen from a comparison of the mean values given by each of the two groups in Table 10.

Table 10 Comparison of means of Companies who had employed more people in last 12 months v Those who had not

Statement	Mean of Cos with more Emp	Mean of other Cos	t value
I am satisfied with the banking service I receive	3.47	2.93	2.19*
I have a constructive relationship with my bank	3.58	3.11	1.99*
I have a close relationship with my bank	3.74	3.11	2.50*
My bank manager does a good job	3.82	3.15	2.82**
I am happy with the cost of banking at my bank	2.03	1.49	2.74**

Significance levels: * = $p < .05$, ** = $p < .01$

The differing levels of satisfaction with the banking service could be the outcome of any number of factors. It could be that the banks treat small business customers who are relatively successful (i.e. increasing employment) in a different manner to those who are not. This possibility was considered further by examining how both groups of customers responded to the section of the questionnaire which asked them to give their perceptions of a number of specific elements of the banking service.

Should the bank be treating successful small businesses differently, it would be reasonable to expect that differences would emerge in their perceptions of their bank along these lines. This was not the case. In this study, no significant differences were found between small businesses who had hired more employees in the last year and those who had not, in so far as they perceived individual aspects of the service they received from their bank. They still, however, tend to score more positively statements which give approval to their bank's overall performance. Assuming that all relevant items were included in the list of statements concerning the bank service, this suggests that the cause of the difference is not the banks' response to their success in employing more people. The question raised by these results is whether firms who are achieving success in the form of increasing employment are judging their banks less harshly than firms who are not. It is not conclusive that this is the case and the results do indicate that the proposed segmentation is potentially worthwhile in highlighting differences between firms who perceive the banks' service differently.

6.4 THE DIMENSIONS OF SERVICE QUALITY

6.4.1 Use of Difference Scores

In the original development of the five SERVQUAL dimensions of service, Parasuraman et al (1988) concentrated on the difference scores of their subjects. These scores were obtained by subtracting each score on perception of service received from each expectation score. The use of difference scores was based on the findings of qualitative research which found that consumers' perception of service quality stems from a comparison of what they feel service firms should offer with the perceptions of the performance of firms providing the services. In their refinement of the SERVQUAL scale, the authors again used these difference scores but note in their discussion of the scale's validity that 'the appropriateness of analyzing gap scores remain(s) unresolved' (Parasuraman et al, 1991, p.441). The usefulness of the SERVQUAL method had indeed been called into question on a number of grounds.

The use of difference scores in consumer research in general has been criticised. Despite its intuitive appeal in many areas, measuring a construct using difference scores has been shown to be methodologically flawed. The difficulties in using such methods has proved contentious to social science researchers for some time (Cronbach and Furby, 1970) and difference score analysis has been described as an area where 'doing 'what comes naturally' is almost certain to lead one astray' (Cohen and Cohen, 1983). A summary of the potential problems with difference scores in consumer research is that they:

> (1) are typically less reliable than other measures,
> (2) may appear to demonstrate discriminant validity when this conclusion is not warranted,
> (3) may be only spuriously correlated to other measures since they typically do not discriminate from at least one of their components, and
> (4) may exhibit variance restriction
> (Peter, Churchill and Brown, 1993, p.661).

Particular problems with the operationalisation of the service quality construct using the differences in scores between expectations and perceptions have also been highlighted. The psychological impact of asking consumers what they desire before asking them what they receive means that the desired level scores will seldom fall below the existing level scores. Hence, the difference scores will be dominated by the scores on existing level of service (Babakus and Boller, 1992). The relevance of the expectations scores are therefore called into question. The authors of the SERVQUAL scale examined the association between the difference scores and a separate measure of overall quality rating to assess the scale's convergent validity. Babakus and Boller repeated this and, in addition, tested the association between the straightforward perception scores and the overall evaluation. The correlations between the SERVQUAL scores and the overall ratings emerged as weaker versions of the correlations obtained by use of the perceptions scores alone. This procedure was repeated using the scores obtained in the survey of small business by correlating both the total difference score and the total perception score with the total score on the evaluation scale. The perception score proved to more highly correlated. In terms of providing a suitable measure of the construct of overall service quality, the perceptions of the respondents seem to be more suitable.

Scales	Pearson correlation coefficient
Difference scale	.6169*
Perception scale	.8038*

*$p < .001$

Making a similar point, Carman (1990) concludes that 'certainly the difference between expectation and perception should not be factor analyzed' (p.48). Hence further analysis of the survey conducted of small firms will concentrate primarily on the perception scores.

The original SERVQUAL measure was further undermined by an analysis of the effects of wording on the emergence of the five service dimensions. It was noted that two dimensions consisted entirely of negatively worded items and a replication of the study found that the dimensions which emerged could largely be explained based on the use of negative or positive wording (Babakus and Boller, 1992). The use of negative wording in the survey conducted of small firms also proved problematic. In particular with the expectations statements, the standard deviations of negatively worded items were relatively large. The mean standard deviation of the negatively-worded statements was 1.1785 compared to a mean standard deviation of .8621 for the positively-worded statements. Clearly, respondents were confused by the concept of agreeing or disagreeing with negative statements of expectation. In their subsequent refinement of the scale, Parasuraman et al (1991) removed all negatively worded items from their questionnaire.

6.4.2 Factor Analysis

Factor analysis is a technique used to reduce the number of variables for metric-scaled data on a large number of variables. The data are reduced to a smaller number of variables, called factors, which capture as much information as possible from the original data set. The factors are constructed by seeking high interrelationships among the original variables. The scales used in the small business questionnaire contain a large number of variables which are correlated with each other. In this situation, factor analysis provides a more parsimonious set of factors with little loss of information (Parasuraman, 1986). Principal components analysis was therefore conducted on the 21 variables of perception of bank service. Repeating the methods used by Parasuraman et al (1988), the analysis was constrained *a priori* to five factors and the variables were subjected to an oblique rotation to allow for anticipated intercorrelations among the dimensions.

6.4.3 Results of Factor Analysis

The five factors which emerged are not the same as the five dimensions of the SERVQUAL model, but nevertheless present interesting insight into the way in which bank service quality is perceived by the sample of small businesses.

The factor loading for each item is the Pearson correlation coefficient between the item and the factor. The square of the factor loadings represents the percentage of the factor which is explained by the item in question. The sum of these values is the eigenvalue for the factor and due to the *a priori* constraint to five dimensions, the above analysis extracted five factors with eigenvalues greater than one. The percentage of variance for each factor represents the extent to which a reduced set of factors is able to reflect the data on each original variable (Parasuraman, 1986).

Table 11 Factor Analysis: Perceptions of Bank Services

Item	Description	Loading
Factor 1		
1.	When my bank promises to do something by a certain time, they do it.	.84942
9.	I receive prompt service from my bank.	.82878
2.	I trust my bank manager.	.75107
8.	My bank tells me exactly when services will be performed.	.70695
Factor 2		
6.	My bank is located conveniently.	.80467
5.	My bank is physically appealing.	.71271
7.	There is adequate parking at my bank.	.44304
Factor 3		
14.	My bank manager can predict the working capital requirements of my business.	.82610
12.	My bank manager visits me in my premises.	.69573
15.	My bank manager understands my business.	.69491
16.	My bank manager understands the industry in which I operate.	.59666
13.	The bank I deal with is involved in the community.	.48948
Factor 4		
11.	I find my bank's opening hours convenient.	.70701
10.	My bank manager has authority to make decisions which affect my business.	.65050
3.	My bank manager and staff get adequate support from head-office.	.46513
Factor 5		
18.	My bank has demanded personal guarantees as collateral for lending to my business.	-.83196

The five factors which emerge from this analysis account for almost 63% of the variance in all 21 original variables, which suggests that the factor analysis has been quite effective.

Table 12 Eigenvalues of Factors

Factor	Eigenvalue	% of var
1	7.05599	33.6
2	1.87284	8.9
3	1.64010	7.8
4	1.31480	6.3
5	1.27288	6.1

The items which make up each factor can thus be examined more closely for the purposes of interpretation. Factor 1 is made up of four items. Three of these items are the statements chosen to represent the dimension of reliability of SERVQUAL. The fourth item is the statement "I trust my bank manager", which could also be considered an element of reliability. This factor is therefore interpreted to be the representation of reliability of the bank in providing services to small firms. The significantly high eigenvalue for this factor indicates its primary importance in small firms overall perceptions of the banking service they receive. How firms perceive their bank in relation to performance of the tasks required seems to be a very strong element of how they perceive their bank's service overall.

Factor 2 is made up of three statements, one of which is an item relating to the physical appearance of the branch or the tangible element of SERVQUAL. The other two items concern branch location and parking. The tangible elements of banking such as the appearance of the branch and bank personnel and bank stationary have been found in earlier studies to be particularly unimportant to small business (Smith, 1989). However, if convenience considerations such as location and parking were taken to be tangible elements of banking, then the concept cannot be so easily dismissed in relation to small firms.

Factor 3 is made up of five statements presented to represent the assurance and empathy dimensions of SERVQUAL. The four items with the strongest factor loadings all refer to abilities or actions of the bank manager. The fifth item relates to the bank's involvement in the community which, at local level, is primarily maintained by the branch manger. Thus this factor can be considered to refer specifically to the branch manager.

Factor 4 contains three statements with separate origins. The statement concerning opening hours was originally conceived as a responsiveness item from the SERVQUAL scale. The statement regarding the bank manager's authority came from the assurance dimension of SERVQUAL and the statement relating to head-office support was one which emerged from the discussions with branch managers. The connection between these three items could conceivably relate to the customer's view of the bank's central decision-making unit in relation to the branch which they use. The bank manager's authority to make decisions and the support received from head-office clearly connect on this basis. The banks' opening hours, however, are identical across all branches and the level of dissatisfaction with these could be seen to be directed at top decision-makers, who are not located in the branches.

The final factor consists of the one statement regarding personal guarantees which was included as a statement unique to this situation. The factor loading is significant and to understand the relevance of this statement to the rest of the analysis, the correlations between the factors was examined.

Table 13 Factor Correlations: Perceptions' Scale

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Factor 1	1.0000				
Factor 2	0.10159	1.0000			
Factor 3	0.37162	0.15047	1.0000		
Factor 4	-0.05233	-0.00871	0.01857	1.0000	
Factor 5	0.27442	0.03057	0.20230	0.00626	1.0000

The correlations between all five factors is quite low, indicating that they are in fact measuring separate aspects of the small firms' perceptions of the service they receive from their banks.

6.5 PERCEPTION AND EVALUATION

Overall scores on perception were found to be statistically related to the scores on the evaluation scale, which measures overall satisfaction. The relative association of each of the five factors with overall service quality was also investigated by correlating the scores on each factor with the statements contained in the evaluation scale. Table 14 outline the results of these correlations.

Table 14 Pearson correlation coefficients of factors with evaluative statements.

Scale/Statement	Fac 1	Fac 2	Fac 3	Fac 4	Fac 5	Total Perception
Total: evaluation scale	.7747**	.2596*	.5982**	.4895**	not sig	.8038**
I would like to move my business to another bank	.3473**	not sig	.4013**	not sig	not sig	.3569**

* $p < .01$, ** $p < .001$

The results in Table 14 would suggest that overall satisfaction in the eyes of small business is most closely related to the banks' reliability in carrying out their task promptly and efficiently. The bank manager is the next most related aspect of the banking service to overall satisfaction. The head-office behaviour as manifested in opening hours and support for branches is also somewhat related to small business satisfaction. Least important of those factors which are related to overall satisfaction are the tangible elements of the bank service and the requirement for personal guarantees seems unrelated.

Interestingly, the relationship between the small businesses' perception of their bank manager appears most strongly related to their desire to move their business. The reliability of the bank was also related to this statement but less strongly. To investigate this relationship further, the correlation was examined between the statement concerning moving the business and the statement "I have had experience of more satisfactory bank managers" and the two statements were found to be related ($r = .4439$, $p < .001$). This appears to confirm the importance of the bank manager in maintaining the small business relationship.

Finally, a multiple regression was conducted to examine the association of the score on the evaluation scale with the five factors and the results are presented in Table 15.

Table 15 Regression analyses of factors and overall evaluation scores

Independent Variables	B	SE B	Beta	T-value
Factor 1: reliability	1.1648	.1779	.5834	6.547***
Factor 2: tangibles	-.1865	.2256	-.0642	-.847
Factor 3: bank manager	.4286	.1454	.2526	2.948*
Factor 4: head-office	.4489	.2420	.1551	1.851
Factor 5: guarantees	-.1284	.3510	-.0270	-.366
Constant	2.5077	2.8824		.870

*p < .01m ***p < .0001

The adjusted R^2 was .61971 which is higher than the scores of between .28 and .52 obtained by Parasuraman et al (1988) for their regression of the original SERVQUAL dimensions. This regression provides evidence of the ability of the small firms' score on the two factors of reliability and bank manager to explain the variation in their overall satisfaction with the service as measured by the evaluation scale.

6.6 CLUSTER ANALYSIS

Cluster analysis is used by both academic researchers and marketing applications researchers to develop empirical groupings of persons, products, or occasions which may provide further insight into the matter under investigation. The technique of cluster analysis groups subjects in such a way as to maximise the intergroup distance and minimise the intra-group distance in relation to their metric scores on a number of items (Robertson and Bellinger, 1977). It is commonly used in market segmentation as it is designed to identify groups of subjects who share common characteristics. It was used in this analysis to look for commonalities among small business perceptions of the banking service. This would allow for further investigation of the relatively high standard deviations of the scores on these variables and may suggest a segmentation basis which would prove viable as a marketing tool.

In order to avoid redundancies in intercorrelated variables, cluster analysis should be preceded by factor analysis (Mathews and Watt, 1986). The cluster analysis was therefore performed on the four factors derived from factor analysis of the perception scale which were correlated with satisfaction. The analysis was performed using Ward's method, as was used in a similar clustering study of bank selection (Mathews and Watt, 1986). The algorithm used in Ward's method seeks to minimise average distance within the cluster and was found to outperform other methods in eight out of ten empirical comparisons of various alternatives (Punj and Stewart, 1983).

Three clusters emerged which contained seventy of the 83 sample companies. Thirteen companies did not appear related to any of the three clusters in terms of the variables used to determine the clusters. The largest of the clusters contained 30 companies while the other two clusters each contained twenty companies. The clusters were examined more closely in terms of their scores on the five factors to determine their potential characteristics.

	Mean Score			
Factor	Sample	Cluster 1	Cluster 2	Cluster 3
	(n=83)	(n=20)	(n=30)	(n=20)
1: reliability	14.0759	17.1000	14.7667	9.9000
2: tangibles	9.9494	11.2500	10.1222	8.7500
3: bank manager	14.1852	19.2500	13.5333	10.0000
4: head-office	7.8701	9.7000	7.8000	6.1000

Evidently, the three clusters represent three levels of agreement with the perception statements. Cluster one, consisting of twenty companies, consistently scored their banks highest on all four factors. In contrast, cluster three consistently scored their banks lower on each factor, while the thirty companies in cluster two represent the average perception of bank service by the small firms in the sample. The clusters were consequently examined more closely on how they answered the remainder of the questionnaire, with a view to creating a profile of each cluster.

6.6.1 Description of Clusters

Cluster 1: The meaningful relationship

Firms in this cluster are more satisfied than average with the banking service they receive from their bank. This is evident in their higher-than-average scoring of banks on all 21 statements regarding perception of bank service. Consequently, the mean rating for these companies of their banks on the evaluation total is almost 32 compared to a sample mean of just 26. Comparison of their scoring on the evaluation statements with the mean show this group to differ from the sample in the following ways:

-happier with range of services available from bank,
-more inclined to see their bank as having the interests of their firm at heart,
-more likely to describe their relationship with their bank as constructive,
-more likely to see their bank as having a good image,
-more likely to say their bank manager does a good job,
-less likely to want to move their business to another bank.

It is also interesting to look at the characteristics of firms in these clusters. The small business customers who appear to be having meaningful relationships with their banks exhibit a number of interesting differences from the average responses in the survey and these are presented in Table 16.

Table 16 Characteristics of Cluster 1 Companies.

Characteristic	Position of cluster 1 firms relative to overall sample
Description of market	Above average 'growing', below average 'mature' or 'in decline'.
Age and size	More companies <20 employees, fewer >20 employees. More companies <20 years, fewer >20 years.
Emps and turnover	More likely to have increased employees and turnover. More likely to plan to increase employee numbers.
Major market	More likely to see Ireland as major market.
State-agencies used	More likely to have used state support agencies.
Background of manager	Less likely to be founder of company, more likely to be employed from outside.
Financial understanding	More likely to describe as 'excellent'.
Use of expert fin advice	More likely to use external financial advisors.
On business development program	More likely to be chosen by IDA for business development program.

Cluster 2: The mainstream relationship.

The thirty companies in this cluster represented the mean perceptions and evaluations of the sample of small firms in the survey. Closer analysis of their perceptions of the bank service they receive thus gives an insight into the average situation for the sample. In general, the banks achieved a mean score greater than three for the statements in the perception scale. This indicates that these small businesses are in overall agreement with the statements that the banks provide prompt service, are well-located and that bank managers are trustworthy. There are, however, some notable exceptions to this positive perception of bank service. The statements where the level of disagreement outweighs the level of agreement are outlined overleaf:

Statement	Mean Score Cluster 1
I don't have to queue for service at my bank.	2.9000
There is adequate parking at my bank.	2.9000
My bank manager has authority to make all decisions which affect my business.	1.8000
I find my bank's opening hours convenient.	2.7667
My bank manager visits me in my premises.	2.4000
My bank is involved in the community.	2.6670
My bank manager can predict the working capital requirements of my business.	2.0700
My bank manager understands my business...	2.8000
..and the industry in which I operate.	2.7007
My bank manager is an important source of financial information and advice.	2.1667

These firms tended to give their banks a mean score above three in the evaluation statements, which is a positive reflection on their level of satisfaction with the service they receive. The two statements with which there was least agreement were those relating to cost of services and value for money and none of the three clusters evaluated their banks above three on these two statements.

Statement	Mean Score Cluster 2
I am happy with the cost of banking at my bank.	1.7000
The service I get from my bank is good value for money.	2.3330

This cluster does not differ from the average described in the previous chapter in relation to the characteristics of the firms, their owners or their banking behaviour. However, an interesting finding emerged when the distribution of the sample was examined in terms of the companies who were on the IDA's business development program. While 45 out of a total sample of 83 (54%) are from the IDA's program, 20 out of these thirty companies are (67%).

Cluster 3: The unsatisfactory relationship

The twenty companies in this cluster consistently rate their banks lower than average in both their perception and their evaluation of the service they receive. Among the entire 21 perception statements and the nineteen evaluation statements, the banks receive a mean rating above three on only two statements. In fact, these firms only give their banks a positive rating in relation to physical appeal and good location, and the mean scores for these two attributes are only 3.1500 and 3.3000 respectively. Clearly, the relationship between the banks and these firms is unsatisfactory from the customer's point of view. On closer examination, these companies did not differ from average in terms of size, age or manufacturing activity. A number of interesting differences did, however, emerge.

Table 17 Characteristics of Cluster 3 Companies

Characteristic	Position of Cluster 3 firms relative to overall sample
Description of market.	Less likely than average to be in 'mature' market, more likely than average to be in a 'declining' market.
Major market.	More likely to be exporters.
Most significant constraint on expansion.	More likely to see finance as major constraint, less likely to mention external concerns.
Afford cost of working capital.	Less likely to agree, more likely to disagree.
Visit from competing bank.	Less likely to have been approached.
Background of manager.	More likely to be founders or co-founders.
Understanding of financial aspects.	Less likely to rate as excellent.
Advice of outside experts.	Own judgement alone used less than average.

6.7 SUMMARY

This chapter has presented the results of the banking survey of 83 small manufacturing firms which was conducted to test the dimensionality of service quality and to investigate the possibility of segmentation of the small business market. The general level of agreement to the statements in the survey regarding small firms' expectations, perceptions and evaluations of the banking service were reviewed. Differing evaluations were found between firms who had employed more people in the last year and those who had not but perceptions between these two groups did not differ significantly.

In light of the psychometric drawbacks of using difference scores, the perception scale was used for factor analysis to test for dimensionality. Five factors did emerge which were different from the dimensions of the model which the survey was replicating. The two main factors which emerged from the small firms' perception of quality of the banking service they receive were the reliability of bank service and the bank manager's performance. Both of these elements were found to be significantly correlated to overall satisfaction with the service. Both were also related to the small firms' desire to move their business to another bank.

Finally, a cluster analysis was done to identify groups of firms who perceive banks in the same way and the characteristics of these firms were described. The cluster analysis was done with a view to identifying differences which may contribute to banking strategies for this sector.

The following chapter describes the implications of the above results in terms of the research hypotheses and, in a broader sense, in terms of the development of a theory of service quality.

CHAPTER SEVEN

7.0 DISCUSSION

7.1 INTRODUCTION

Discussion of the results begins with a review of the original objectives of the research and the specific hypotheses to be tested. The results which bear on these hypotheses are also reviewed and the consequences in terms of acceptance or otherwise of the hypotheses are discussed. In each case the implications for the banks' relationship with small businesses is discussed. From these considerations, a revised model of the bank/small business relationship is proposed. Finally, the research findings are considered in the broader context of services marketing. Throughout the chapter, it is pointed out where further research seems warranted.

7.1.1 Research Objectives and Hypotheses Reviewed

The first objective of the research related to the concept of the quality of banking services as perceived by small firms. The review of service marketing literature showed this to be a valuable direction for further development of marketing theory in relation to service industries. The SERVQUAL model had been proposed as a generic model of service quality and postulated that service quality for consumers consisted of five dimensions (Parasuraman et al, 1988). The application of the concept to the small firm sector of the banking market was used to test the concept in a new setting. The particular research setting was chosen for a number of reasons. The developing concept of relationship marketing revolves around the creation, maintenance and development of customer relationships. The relationship between small firms in Ireland and their bank has been shown to be important to both parties, as well as to the economy in general. Little reliable primary research exists to date on small firms as banking customers. In addition, the importance of the small firm sector to Ireland's future economic growth means that further research into their banking relationships should also provide additional valuable insight in the broader economic field.

This importance of small firms was also part of the second objective of the primary research undertaken. Policy makers are anxious to promote growth firms and to provide them with a fertile environment for growth. A significant part of this environment will be the banking services and the finance facilities available to them. Small firm finance and banking needs were seen to vary according to their own performance and development. Although the associated banks have recognised small firms as a customer group which is distinct within the retail market and although they have all implemented differentiation and segmentation strategies within the retail consumer market, no bank has a segmentation strategy within the small business market. It was thus supposed that groups of small firms with differing relationships with their banks would emerge from the small firm survey. It was hoped that groups of firms would emerge from this investigation which would eventually facilitate the development of more effective marketing strategies by banks in this sector.

The two hypotheses which emerged from the above objectives were as follows:

Hypothesis 1: Service quality in relation to banking to small firms is a multi-dimensional construct.

Hypothesis 2: Differing levels of satisfaction with their banking relationship indicate different segments within the small business segment.

7.1.2 Review of Research Findings

The perceptions of small firms of the service they receive from banks does appear to be a multi-dimensional construct. Evidence of this emerges from the factor analysis of the twenty-one statements concerning different aspects of the banking service. The first hypothesis is thus accepted. However, the five dimensions which would be expected to emerge according to the SERVQUAL model did not appear from the analysis. The five factors which emerged did, however, indicate some interesting dimensions which make up small businesses' perception of their banks. The factors appeared to consist of reliability, tangible/convenience elements, the bank manager, the head-office behaviours and the requirement for personal guarantees. All of these dimensions except the final aspect concerning personal guarantees were correlated with overall evaluation of the service, as measured by a scale of evaluative statements. Regression analysis showed that the reliability factor was a strong explanatory variable in small businesses' overall evaluation of their banks ($t = 6.55$, $p < .0001$). The bank manager was the only other factor to exert a significant influence on overall satisfaction ($t = 2.95$, $p < .01$).

The cluster analysis of the small firms on the basis of their perceptions of their bank resulted in three clusters. Closer examination of the pattern of responses indicated that the groups of companies could be viewed as companies who viewed their relationship with their bank as either meaningful, mainstream or unsatisfactory. Of the eighty-three companies who responded to the survey, seventy companies could be assigned to a cluster and the three groups exhibited differing evaluations of the banking service they receive. The existence of a group of companies whose perception of the banking service was better than average as well as a group of companies whose perception was lower is evidence that a homogenous strategy for the small business banking market is less than entirely satisfactory from the point of view of meeting the needs of the entire market of small manufacturing firms.

7.2 ACCEPTANCE/REJECTION OF HYPOTHESES

In light of the results summarised above, it was considered possible to accept both hypotheses. Therefore, the research conducted on the sample of small manufacturing firms in Ireland confirmed that service quality in relation to banking is a multi-dimensional construct and that different segments exist with the small business market in terms of their levels of satisfaction with their banking relationship.

In deciding that both hypotheses were acceptable, however, a number of issues emerged which will now be discussed. These will now be discussed as they relate to the areas of service quality and market segmentation and the insights gained will then be incorporated into the model of the bank/small business relationship, which was proposed at the end of chapter 4.

7.3 THE QUALITY OF SERVICE

7.3.1 The Hypothesis

The emergence of five elements from the factor analysis and the correlation of four of these elements with the separate measure of overall evaluation indicate the dimensionality of the service quality construct. The results obtained in the small business survey, however, suggest that developing a generic model which outlines the specific elements of service quality in all settings is over-ambitious. Dimensions do exist but those which emerged must be viewed as different to the SERVQUAL model. The two dimensions which proved most valuable in terms of their correlation with overall service quality and their power in explaining variation in overall satisfaction were the reliability of the bank service (r = .78, $p < .0001$) and the bank manager's performance (r = .60, $p < .0001$).

The reliability factor in servicing small firm accounts for the most significant variation in the level of satisfaction of the firms as measured by their overall evaluation of the bank (t = 6.55, $p < .0001$). This indicates that the core service required by small businesses from their banks is that services be performed promptly and efficiently. Ensuring that the performance of these tasks meets customer requirements must thus be the first step in any quality program. Marketing has an important role to play in ensuring that the customers' requirements for reliability are clearly understood and prioritised by the organisation. Qualitative research can aid in pinpointing the areas which are currently causing concern. In particular, focus groups sessions, where small businesses discuss the issues which concern them among their peers would be valuable in this regard. In terms of correcting inefficiencies, use of the critical incident technique, described in chapter 2, could also aid in discovering what customers would like to see bank staff doing to ensure consistent reliability in the service process (Bitner, Booms and Tertreault, 1990).

The importance of the bank manager must also not be neglected, however, as it did have an impact on overall evaluation of the service. Of particular importance in this regard was the finding that the small businesses' perception of their bank manager appears most strongly related to their desire to move their business (r = .80, $p < .001$). In addition, the statement by firms that they had experience of more satisfactory bank managers was significantly correlated with a desire to move the business (r = .44, $p < .001$).

Although they did not feature on the regression of evaluation with the factors, both the tangibles and the head-office dimension were also found to be correlated with the service evaluation (r = .26, $p < .01$ and r = .49, $p < .01$, respectively). The final factor, which was the demand or otherwise for personal guarantees from the small business, is a factor of the relationship between banks and small business which is quite unique. The implications of these findings will be discussed in section 7.3.3.

7.3.2 The Importance of Service Quality

The strong correlation between the firms' overall perception of the quality of the banking service they receive with their overall evaluation of the banking relationship (r = .80, $p < .001$) is evidence of the potential usefulness of measuring quality. In addition, there is a significant relationship between the overall perception and the desire to move bank (r = .36, $p < .001$). Both these findings support the attempts which have been undertaken to extend the scope of quality research to behavioral intentions of service customers.

7.3.3 The Implications

The acceptance of the hypotheses that the quality of the banking service in relation to small firms is a multi-dimensional construct confirms that the direction of research in services marketing is a valuable contribution to the understanding of the service customer. The two most important elements in banking to small firms, however, are not the same as those which have emerged from previous research in consumer bank marketing. In the present research setting the two most important dimensions appear to be reliability of service and the performance of the bank manager. These, in fact, could be seen to relate to the two dimensions of service quality proposed by Gronroös (1980) which are technical quality and functional quality. These two elements have also been termed 'hard' and 'soft' quality (Szmigin, 1993).

Reliability must be considered a major element of the technical or 'hard' quality of the service rendered by banks to small business. Similarly, the process of transferring this service to the customer, which is termed functional or 'soft' quality, is determined to a large degree by the behaviour and attitude of the individual bank manager. In terms of their ability to explain overall evaluation, reliability is a far more important element. The heightened importance attributed to functional quality within the model has been criticised, as has the bias towards services rendered by people (Bernhardt and Shostack, 1983). These results would appear to vindicate that criticism and focus attention on the vital importance on the part of the banks of ensuring that services rendered to small businesses are reliable, prompt and efficient.

This has implications for the role of marketing in the banking organisation and the importance of the 'interface' of marketing activities with the operational element in supplying small business with the desired level of functional quality. In particular, the capability of the marketing function to collect information on the needs and wants of customers will prove to be increasingly important as financial markets become more competitive and strategic decisions must be made on the allocation of scarce resources.

In this research, for example, the branch location was found to be the most important item (loading = .81) in the tangible area of banking for small business.

The importance of the bank manager similarly focuses attention on the role to be played by marketing within the personnel field in banking, even at the more senior levels of branch management. Branch managers are undoubtedly the most significant customer-contact personnel in relation to small business. The role of the bank manager has been described as one which began with the manager being primarily an administrator and, with increasing competition, altered to force the manager to operate as a salesman and which is gradually adapting to see the manager as a marketer for the banking organisation (Turnbull and Wootton, 1980). The manager will still play an important operational role in managing the branch, however, and it is vital the developments in operations management and technology ensure that this is achieved with maximum efficiency. In addition, it is equally important that the manager be given support to play the role required of him or her by the branch's customers. The first requirement for ensuring this occurs is adequate information on the needs of the branch's customers and this will be dealt with in the following section. The above recommendations are all achievable in the short term, however, and the research suggests further steps which could be taken in the medium and long term.

In the medium term, marketing has a potentially valuable role to play in educating customer-contact employees of the marketing concept and its consequences. The use of marketing training courses for managers has had questionable results in terms of achieving a marketing orientation, but this may perhaps have been due to the original unfocused nature of some of the courses (Turnbull and Wootton, 1980). More recent courses, which have received more ready acceptance among branch managers themselves, have been very focused on specific market needs. One such course, which was devised jointly with Manchester Business School, involves Lloyd's managers in a two-day course specialising on the financial needs of small businesses and their perceptions of the banking service they receive and goes on to examine the typical behaviours and perceptions of the managers themselves. Further insight into the relationship is gained when participants engage in role-playing, with each manager actually takes on the role of director of a fictitious, and usually troubled, small business[1].

In the long term, the recruitment and career development of staff is also an area where marketing has a clear role to play in light of the findings of this research. Customer needs in the small business market must be matched by the professional capabilities and the personal characteristics of the bank staff member who is such an important aspect of the small business' assessment of the quality of the service and, notably, the customer's desire to move their business. In particular, the development of small business centres provides an opportunity to place the most suitable personnel in positions where they will best serve the organisation. This career-management of staff has been seen to be most effective, when it is co-ordinated with the strategic goals of the organisation and the long-term goals of the individuals involved, as was seen with the example of the Finnish bank in chapter 3 (Santalainen and Spencer, 1990).

[1]The Financial Times, 6 June 1989.

A further dimension of service quality where the capabilities of the marketing department are ultimately valuable is in the area of head-office image. The image of the service organisation has been termed a third element of service quality (Gronroös, 1980). In this research, items did appear to emerge which refer to head-office behaviour and policy on opening hours which could be construed to represent the overall image of the bank as an organisation, as distinct from the individuals in the customer's branch. The traditional marketing skills in promoting a favourable image of the organisation and its staff through the channels of advertising, promotion, public relations and sales promotion, should be used to address this issue. The small business owner/manager is a sophisticated customer, however, and in this study was prepared to accept that their bank had a good image (50% agreed) without necessarily being happy with the service they themselves receive (only 42%). An effective way to communicate with small business, which has more credibility than advertising, is the use of small business seminars (Bannock and Doran, 1990). The topic of the seminar should be something of interest to small business and, where possible, their advisors, such as accountants. This allows for the possibility of 'networking' with other related players in the relationship (Prince, 1990). In this study, outside advisors were used by 25% of the sample in making financial decisions, and a further 13% of companies had an internal accountant, who played a role in the company's financial decisions. Indeed, the accountancy profession has been suggested as a go-between in the relationship between banks and small business (Holland, 1988) and as a separate target market for banks to gain access to new small business accounts (Prince, 1990).

Finally, the requirement by banks for personal guarantees from small business people must also be considered as an element of the banking relationship. While 72% of companies in this survey agreed that banks should not demand such guarantees from their small business customers, 55% of the respondents agreed that their bank had actually demanded personal guarantees. The lack of correlation of this item with satisfaction and desire to move the business could be related to the fact that the practice is common across the banking community in Ireland. The figures above suggest a market gap, which may provide an opening for an organisation attempting to enter the small business banking market in the Republic of Ireland. Conceivably, such an organisation would be an overseas bank or financial services provider with experience of the industrial banking practices, not in evidence to date in Ireland. The relatively small size of the market would be a deterrent to the entry of such a competitor but it is conceivable that working from perhaps a UK base, such an operation could identify and target the most profitable segments of the small business market.

Preventative action of such a scenario could take two forms. Firstly, the delivery of a quality service by existing suppliers makes the decision by a small business to change banks less attractive. The element of personal guarantees as part of service quality must be considered in the long term. Banks in the Republic of Ireland are now on the learning curve of lending without security by virtue of the specialised small business units described in chapter 4. This experience should be utilised as a valuable information source to reexamine existing practices, with which customers are unhappy, in light of increasing competitive moves. Secondly, the small business market must be examined more closely by banks for significant differences which may form the basis of a segmented strategy for small business. This concern is dealt with in the following section.

7.4 SEGMENTATION OF THE SMALL BUSINESS MARKET

7.4.1 The Hypothesis

The emergence of three groups from the cluster analysis of the small firms' perceptions of their banks indicated that the hypothesis predicting the existence of distinct groups of small firm banking relationships could be accepted. The fact that small firms exhibit differing levels of agreement with the statements concerning their perceptions of the bank service has been shown. It is also interesting, however, to examine the nature of the differences and, in particular, to question the reason for the differences in perception and the subsequent differences in satisfaction.

7.4.2 The Implications

The existence of differing groups of small firms on the basis of their perception of the banking service is evidence of the potential for segmenting the small business market. The objective of such a segmentation would be to identify groups of firms, with whom the bank would have different forms of relationships. The form of relationship would be determined by the needs of the small business customer and could change over time as the small business' needs change.

There is evidence from the cluster analysis that such groups exist and it is first necessary to examine why this is the case. As was suggested in chapter 6, the differing perceptions may be a consequence of the owner/manager's response to the firm's performance or, alternatively, it may be a result of the way in which these firms are treated by their banks as a consequence of the business' performance. This is a difficult question to answer based on respondents' perceptions, which are by definition subjective. One statement where something approaching objective evidence of the behaviour of banks may be obtained is the statement which says 'my bank manager visits me in my premises'. The mean score for the twenty companies in the 'unsatisfactory relationship' cluster was only 1.75, while the mean score for the other 63 companies was 3.02 (t = -3.83, $p < .001$). There would thus appear to be evidence, albeit weak, that certain firms are treated differently by their banks and are consequently less satisfied with their banking service. It is not clear whether this is a matter of policy on the part of the banks in question or whether it reflects the behaviour of the individual bank managers. Further research specifically targeted on this area is required to judge this.

The fact that 20 companies whose performance is relatively good perceive their bank service more positively than average also makes this group worthy of closer inspection for the purposes of identifying elements of excellent service. The greatest difference between the perceptions of the twenty companies in the 'meaningful relationship' cluster and the average for the sample is in factor 3, which consists of statements relating to the small business owners' perceptions of the bank manager. The companies in the 'meaningful relationship' cluster score a mean value of 19.25, while the mean score for the remaining 63 companies was 15.5323 (t = -7.99, $p < .001$). Clearly, the behaviour of the bank manager is an important element in creating a banking service, with which small businesses will be satisfied. The characteristics of these firms and their managers, however, are also worthy of closer inspection.

A broad profile of the firms themselves would describe them as growing companies, both in terms of employees and turnover. They are operating in growth markets and are likely contenders for inclusion in the IDA Business Development Program. They were founded in the last 20 years and they currently employ less than 20 employees. Interestingly, they operate primarily in Ireland. One reason why this is so may relate to the recession which was having a negative effect on the performance of many exporters, as their overseas customers' priorities became more cost-based. Conversely, firms who had concentrated on the domestic market were in a good position to compete on cost and were not as directly affected by the recession as exporters. The managers of these companies have often been employed from outside the company and they have a high level of understanding of the financial aspects of the business. They also make use of additional outside advice and state-sponsored agencies. This company profile suggests a company which is well-managed and which has potential for further development.

It is interesting that these companies perceive the branch managers of their banks so favourably. With little evidence of strategic targeting of different types of companies, branch managers seem to have successfully built solid relationships with firms who are likely to continue to be valuable clients. Such successful relationships should be the subject of a focused research effort to determine the part played by both parties in order to replicate it where possible. The capabilities of the small firm manager and the positive direction of the business are likely to have complemented the relationship. The role of outside advisors and state agencies is also a potentially lucrative research topic to develop credible and positive channels of communication with these businesses.

7.4.3 Relationship Banking

Segmenting the small business banking market on a relationship basis would be the first step in the development of a relationship banking strategy. This would be similar forms of segmentation described in chapter 3, which were termed situation-related. Segmentation by banks of industrial markets on the basis of variables such as turnover and activity have not proved very enlightening (Roach, 1989). Segmentation strategies must result in groups of companies towards which marketing strategies can be directed. The results of this survey suggest that the thrust of a meaningful marketing strategy directed at small firms could be centred on the relationship which the bank has with the small firm.

The implications of the segmentation can then be assessed in terms of the elements of quality outlined earlier in the chapter. For all relationships, the core level of technical quality will be required to surpass a certain level for businesses to be satisfied. Even in this regard, however, it is possible that a certain group of firms are going to be more demanding and less easily satisfied. Identification of these firms and their owners will allow for closer examination of why this may be the case. Indeed, improved knowledge of the other party by each of the two parties involved in the relationship is the first step in improving their interaction. Through small business seminars and more focused communication efforts, a bank should be able to improve its image among all its small business clients.

The major element of the functional side of service quality in relation to small business is the bank manager. The bank manager will be the person in the organisation with the greatest first-hand knowledge of the small business customer. Bank managers will also be responsible for implementing many of the steps taken to develop the small firm relationship. Segmentation proposals and the strategies devised to capitalise on them should thus be developed in association with bank managers. Strategic planning for this segment of the market should consequently prove more effective and valuable to the bank.

Relationship banking envisages the building and maintaining of constructive relationships with small business clients. This is done by first understanding the important aspects which contribute to service quality for different groups of firms. Based on the current research, groups of firms should emerge who require different types of relationships. One group of firms will be the mainstream group and the level of technical and functional service required by them will be the average for the market. Another group of firms are currently very happy with the service they receive. Their businesses are doing well and these relationships should be fostered and built upon. They should also be studied to see if any elements can be replicated to improve other relationships. The final group of firms is not happy with their banking relationship. They do not appear to be getting the same level of service from their bank as other firms and this issue needs further investigation. If it is so, the cause must be sought as it is damaging to the bank's image in the small business marketplace. These firms are not in as close or constructive a relationship with their bank as they would like. Qualitative analysis of these problem relationships would give further insight and begin the process of turning these relationships around. If it emerges that these firms are judging their banks more harshly in light of their own business worries, the bank can offer the firm additional support in terms of advice and information.

The small business centres which currently form part of the Irish banks' strategy towards the small business market are the ideal vehicle for such intensive relationship building. The branch managers have shown themselves to be adept at maintaining a high level of satisfaction among small firm owners whose businesses are doing well. The strategic planning skills of the banks have been developed over the past decades in the area of consumer marketing and servicing of large corporate accounts. These skills can prove equally successful in the small business market, once the potential differences among customer groups are clearly understood in advance of making specific plans and once the relationships envisaged match the capabilities of the bank and its staff.

More generally, the relationship between the bank and their small business clients must be clearly understood as the first step in making strategic decisions, which can then be translated into concrete marketing proposals. The proposed model of the relationship is now described.

7.5 REVISED MODEL OF THE BANK/SMALL BUSINESS RELATIONSHIP

The revised model of the bank/small business relationship contains elements from the investigation of service quality in banking and from the discussion of possible segmentation bases.

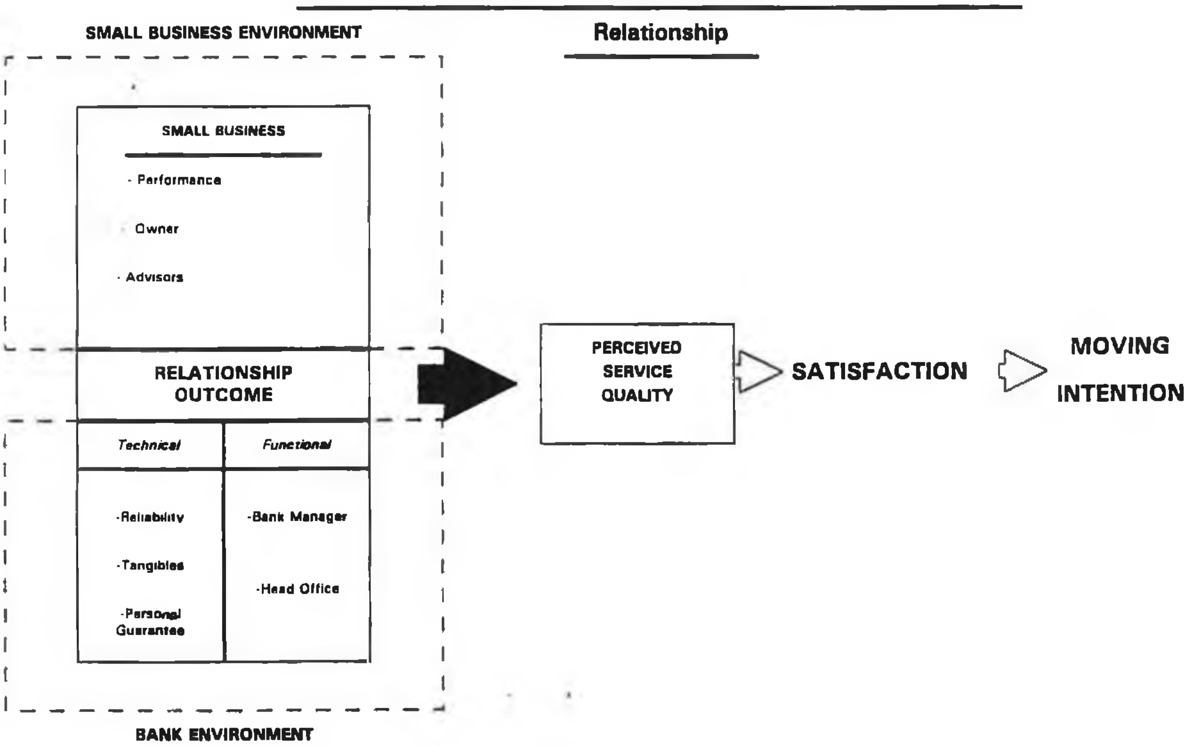
The box representing the bank's role in the relationship is split in two to represent the 'hard' and 'soft' or the technical and functional aspects of quality which were found to exist in the perception of bank quality of the sample of small manufacturing businesses in the survey. Reliability is included as the major element of technical quality and the tangible elements are also included as elements of technical quality. So too is the use of personal guarantees as the demand, or otherwise, of such guarantees is an integral and objectively measurable part of the banking package on offer to small firms. The functional quality of the banking service offered to small firms is seen as primarily dependent on the branch manager. Head-office policy and support for the manager were also found to impact on this aspect of quality which relates to how the service is delivered to small business, so this is also included here.

The cluster analysis provided indications of aspects of the small firms which may be related to their relationship with their banks. These are the performance of the business itself, the characteristics of the owner and the use of outside advisors. Both parties are operating in environments which contain elements largely outside their control, which are represented by the broken line.

All these elements are viewed as interacting to produce the relationship outcome which is represented by the overlap of the two boxes. The term relationship outcome is derived from the concept of outcome quality, which was used in chapter 2 to describe the part of customer satisfaction which includes the process of service delivery as well as aspects of the relationship which are outside the control of the parties involved (Szmigin, 1993). In the present research, the emergence of three distinct clusters which relate to satisfaction with the relationship indicates the different types of relationships which may exist between small manufacturing firms and their banks.

The perceived service quality is represented as the result of the outcome relationship and it is this which provided the core of the research which was conducted into the banking market to small manufacturing business in the Republic of Ireland. The research contributed to a clearer picture of the antecedents of perceived service quality in terms of both parties involved in the relationship. In addition, the results indicate that perceived service quality affects satisfaction with the service in general and the small firms' desire to move their business. This is represented by the continuation of the arrows from the box containing perceived service quality to satisfaction and moving intention.

Figure 15: Revised Model of the Bank/Small Business Relationship



7.6 THE BROADER CONTEXT - SERVICES MARKETING

The outcome of the research undertaken must be viewed in both an applied and a general context. Within the inevitable constraints of this type of primary research, the research project undertaken has contributed to a clearer understanding of the relationship between banks and small manufacturing firms in the Republic of Ireland. The potential benefits to banks of understanding the relative importance of the different elements of service quality in relation to small firms have been described. In addition, the emergence of relationship segments from the current sample suggest the use of such segmentation as a foundation for the development of a bank marketing strategy for small business.

In the more general context of services marketing, the research sought to acquire some understanding of the concept of quality as it relates to service. The dimensions of service quality which emerge from the present study and the relative importance of each one provide guidance for the optimal allocation of resources and for maximising customer satisfaction. The pursuit of the dimensions of service quality is thus seen as a potentially valuable aid in the development of strategic plans by service companies. In addition, the development of groups of firms who differ in their satisfaction with their banking relationship is a process which could prove valuable to other industries and organisations who are involved in long-term interactions with their customers. Such classification facilitates the development of targeted strategies by management, who will also have gained a deeper insight into the workings of their relationship with their customers.

The process of segmenting companies on the basis of their relationship with the firm also has value beyond the level of applied research, where specific customers of specific service companies are asked to describe their relationship. Conducting such research across a number of different service industries should enable service marketing to develop a greater understanding of the behaviour of the service customer within a service relationship. Service marketing would thus be able to offer the practitioner meaningful classifications of service relationships and how they are best maintained. Such a development would clearly have an application in the ever growing-number of industries, of all types, who are concerned with developing long-term relationships with their customers. This concept of developing relationship profiles would conceivably be of value not just to commercial service companies, but also to manufacturing firms, both consumer and industrial, as well as to non-profit organisations. Services marketing research would thus have a significant contribution to make to the overall body of marketing knowledge.

7.7 CONCLUSION

The preceding discussion has moved from reviewing the research objectives and hypotheses and the research results to a detailed discussion of the implications of the findings. Both hypotheses were accepted and the quality of the banking service received by small firms was found to be a multi-dimensional concept. In addition, groups of firms were found who exhibited differing levels of satisfaction with their banking relationship.

The dimensions of quality in the bank/small business relationship were described and related to two main aspects of quality. Technical quality results from the provision of a reliable and efficient service to small business in an attractive and convenient location. In addition, it appears that the requirement of banks for personal guarantees to lend to small business effects the small businesses' perception of the quality of the service. Functional quality is maintained in the relationship primarily by the branch manager and also, to an extent, by the customers' perceptions of the overall banking organisation. The relative importance of each of these dimensions was discussed and the consequences for the banks' marketing strategies outlined. The consequences for the marketing of bank services are of significance both to the specific sector of banking and in a more general sense.

In the short term, the results reflect the need for ensuring reliability and efficiency as a priority in relation to the small firms' sector of the banking market. In the medium term, staff training and development will address the core area of functional quality. The results show the importance of a significant interface between marketing and the operational and personnel elements of the organisation. In the long term, the quality dimensions should form part of the strategic planning process. Along with significant input from the managers at branch level, information on the existence and relative importance of quality dimensions should enable strategic decision-makers in banks to develop relationship marketing strategies, which will enable them to attract and maintain small business customers in an increasingly competitive market.

The second element of the results show that these relationships will be of different types. The firm's performance, the financial expertise of the owner/manager and the use of outside experts will all impact on the firm's relationship with their bank. The variations in the small firm characteristics will affect how the relationship is best instigated and maintained in order to build a long-term, profitable interaction for both parties. Further investigation by individual banks of such relationship groupings could form the basis of a segmentation strategy to improve the effectiveness of the bank's marketing campaigns.

The relationship which emerges from the above analysis consists of the two parties and the outcome. The bank supplies the service, with all its dimensions. The small firm's requirements of the service vary according to its individual characteristics, which may also vary over time. The outcome of the interaction of these factors was termed the relationship outcome. Three main types of relationships were uncovered by the research. These reflected the levels of satisfaction of the small firm with the banking service they receive. One group of companies perceived the service more favourably than the second 'average' group, and the third group perceived the service more unfavourably.

The outcome of the relationship in terms of perceived service quality was found to affect satisfaction and to be related to the small firms' desire to move their business to another bank. The antecedents and the outcome of perceived service quality were presented in the form of a model of the bank/small firm relationship.

Finally, the value of the research was reviewed. The research was seen as significant both in terms of its potential application in the marketing of bank services to small firms and, in a more general sense, in terms of its contribution to services marketing. The development of a model of service relationships which is valid across a number of setting was proposed. Such a model would have the potential to make a valuable contribution to current marketing theory.

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APPENDICES

APPENDIX I

BRANCH MANAGER QUESTIONNAIRE

Relationship with Head-Office

1. Do you feel you can adequately fulfil the stated Business Mission of your bank in your dealings with small manufacturing firms?

2. Are you satisfied with your level of autonomy in dealing with small firms?

3. How comfortable are you with guidelines from Head-Office concerning new strategies, products and procedures for dealing with small firm accounts?

4. What opportunity do you have to relay your experiences and opinions of banking to small firms to decision-makers at head-office level?

5. Do you have a clearly-defined working relationship with other divisions and departments within your bank?

Personal Experience with Small Firms

1. How much of your time is spent on dealings with small manufacturing firms?

2. Do you agree that much of your contact with small firms is with existing customers, takes place in your office and is at the customer's request?

3. Do you feel sufficiently qualified and informed to cope with the demands of a small business customer?

4. Have you much opportunity to keep abreast of developments in the economic and regulatory environment of small firms?

5. Apart from its financial position, how much do you normally know about the products and markets of a small firm customer?

6. Could your bank provide any additional back-up or training to overcome any shortcomings in any of these areas?

Classification Information

a. Branch Location.
b. Length of time in present position?
c. Age (to be assessed in terms of younger v. older).
d. Interviewer's assessment of manager's personal interest in the small manufacturing firms in the region.

Extent of Contact with Small Firms

1. How significant is the contribution of small manufacturing firms to your branch's performance?

2. Could you broadly classify your small business customers according to:
   - activity within manufacturing sector?
   - size?

3. In the last two years, how many new start-up companies have opened accounts with your branch?

4. Each year, on average, how many existing small manufacturing firms would switch to your branch?

5. In your professional opinion, what are the main reasons that a small manufacturing firm chooses your branch?

Servicing a Small Firm Account

1. What are the main services required by small manufacturing firms from your branch?

2. How satisfied are your existing small firm customers with the services you offer in terms of:
   - range?
   - cost?

3. In your experience, what makes customers want to change their banks?

4. Have you experience of the competition's service being superior to that offered by your bank?

5. Does the relationship between a small firm and a state development authority have any effect on your servicing of a small firm account?

APPENDIX II

SMALL BUSINESS QUESTIONNAIRE

BANKING QUESTIONNAIRE

DUBLIN CITY UNIVERSITY

- EXPECTATIONS OF BANK SERVICE -

ase tick whichever point on the scale best approximates your attitude to each of the following statements:

	STRONGLY AGREE 1	2	3	4	STRONGLY DISAGREE 5
When banks promise to do something by a certain time, they should do it	1	2	3	4	5
Small businesses should be able to trust their bank manager.	1	2	3	4	5
Bank managers and staff should get adequate support from their head-office to do their jobs well.	1	2	3	4	5
Small business customers should not have to queue in their bank.	1	2	3	4	5
Banks should be physically appealing.	1	2	3	4	5
Banks should be located conveniently.	1	2	3	4	5
Banks should have adequate parking.	1	2	3	4	5
Banks shouldn't be expected to tell small businesses exactly when services will be performed.	1	2	3	4	5
It is not realistic for small businesses to expect prompt service from bank managers.	1	2	3	4	5
Bank managers should have the authority to make decisions which affect their clients' business.	1	2	3	4	5
Banks shouldn't be expected to have operating hours convenient to all their customers.	1	2	3	4	5
Bank managers should visit small businesses in their premises.	1	2	3	4	5
Banks should be involved in their communities.	1	2	3	4	5
It is unrealistic to expect bank managers to predict the working capital requirement of individual small businesses.	1	2	3	4	5
Banks shouldn't change their branch managers very often.	1	2	3	4	5
Bank managers should understand their clients' businesses.	1	2	3	4	5
Bank managers should understand the small business client's industry.	1	2	3	4	5
Banks shouldn't demand personal guarantees as collateral for business lending.	1	2	3	4	5
Banks should provide small business with a reliable source of credit.	1	2	3	4	5
Banks should provide small business with an affordable source of credit.	1	2	3	4	5
Bank managers should be an important source of financial information and advice.	1	2	3	4	5

- PERCEPTIONS OF BANK SERVICE -

ase tick whichever point on the scale best approximates your attitude to the following statements:

	STRONGLY AGREE 1	2	3	4	STRONGLY DISAGREE 5
When my bank promises to do something by a certain time, they do it.	1	2	3	4	5
I trust my bank manager.	1	2	3	4	5
My bank manager and staff get adequate support from their head-office.	1	2	3	4	5
I don't have to queue for service in my bank.	1	2	3	4	5
My bank branch is physically appealing.	1	2	3	4	5
My bank is located conveniently.	1	2	3	4	5
There is adequate parking at my bank branch.	1	2	3	4	5
My bank tells me exactly when services will be performed.	1	2	3	4	5
I receive prompt service from my bank.	1	2	3	4	5
My bank manager has authority to make all decisions which affect my business.	1	2	3	4	5
I find my bank's operating hours convenient.	1	2	3	4	5
My bank manager visits me in my premises.	1	2	3	4	5
The bank I deal with is involved in the community.	1	2	3	4	5
My bank manager can predict the working capital requirement of my business.	1	2	3	4	5
The branch manager in my bank is not changed very often.	1	2	3	4	5
My bank manager understands my business.	1	2	3	4	5
My bank manager understands the industry in which I operate.	1	2	3	4	5
My bank has demanded personal guarantees as collateral for lending to my business.	1	2	3	4	5
My bank provides my business with a reliable source of credit.	1	2	3	4	5
My bank provides my business with an affordable source of credit.	1	2	3	4	5
My bank manager is an important source of financial information and advice.	1	2	3	4	5

- OVERALL EVALUATION -

ease tick whichever point on the scale best approximates your attitude to the following statements:

	STRONGLY AGREE 1	2	3	4	STRONGLY DISAGREE 5
I am satisfied with the banking service I receive from my bank.	1	2	3	4	5
My bank is no worse than any other bank.	1	2	3	4	5
My bank is no better than any other bank.	1	2	3	4	5
All banks offer the same level of quality.	1	2	3	4	5
I am happy with the range of services offered by my bank.	1	2	3	4	5
My bank sells services I don't require.	1	2	3	4	5
I am happy with the cost of banking at my bank.	1	2	3	4	5
I have a close working relationship with my bank.	1	2	3	4	5
The bank I deal with has the interests of my firm at heart.	1	2	3	4	5
I have a constructive relationship with my bank.	1	2	3	4	5
My bank has a good image.	1	2	3	4	5
My bank manager does a good job.	1	2	3	4	5
My bank manager has proved efficient at some times and not others.	1	2	3	4	5
I have had experience of less satisfactory bank managers.	1	2	3	4	5
I have had experience of more satisfactory bank managers.	1	2	3	4	5
All banks offer the same level of service.	1	2	3	4	5
All banks charge the same for their services.	1	2	3	4	5
The service I get from my bank is good value for money.	1	2	3	4	5
I would like to move my business to another bank.	1	2	3	4	5

- CHARACTERISTICS OF FIRM AND RESPONDENT -

he following information will be treated with the strictest confidence and will appear only in aggregate form.

ı which industrial sector does your firm operate?
Food, drink & tobacco ☐ Engineering & metal goods ☐ Textiles, leather, clothing, footware ☐ Paper & printing ☐
Services ☐ Other (please specify...)

ow would you describe the industry in which you operate?
New ☐ Growing ☐ Mature ☐ In decline ☐

ow many years is your firm in operation? .... How many people does your firm employ?............

Do you employ	MORE ☐	or	LESS ☐	people than you did 12 months ago?
Are you expecting to employ	MORE ☐	or	LESS ☐	workers in the next 12 months?
Have you	MORE ☐	or	LESS ☐	turnover than 12 months ago?

ow would you describe your company's major markets?
Primarily Ireland ☐ Primarily overseas markets ☐ Ireland, with growing overseas markets ☐

rom which state sponsored bodies have you received assistance from the following in the past 12 months?
IDA ☐ Shannon Development ☐ An Bord Trachtala ☐ Udaras na Gaeltachta ☐ Eolas ☐ FÁS ☐

hat do you consider to be the single most significant constraint to expansion? ....

an your company afford the current cost of additional working capital for business expansion?	Yes ☐	No ☐
ave you received an unsolicited visit from an official of a competing bank?	Yes ☐	No ☐
ave you ever changed banks ?	Yes ☐	No ☐
yes, what year did this occur?	....	

'ith which bank do you currently have your main business account ?
AIB ☐ Bank of Ireland ☐ NIB ☐ Ulster Bank ☐ ICC ☐ Other .... (please specify)

part from routine banking services, what other services, if any, do you use from your bank? ....

'hat is your background as manager in the firm?
Founder ☐ Co-founder ☐ Purchaser of existing firm ☐ Employed from within firm ☐ Employed from outside firm ☐

ow would you describe your understanding of the financial aspects of your business?
Excellent ☐ Good ☐ Fair ☐ Poor ☐

'hich of the following has a significant input into the major financial decisions of your business?
Yourself ☐ Internal financial executive. ☐ External accountant/auditor ☐ Bank manager ☐ Solicitor ☐