BANKS AND THEIR CLIENT COMPANIES

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ABSTRACT

Corporate banking has always been an important branch of business for banks in most countries. It logically follows that banks should be keenly interested in understanding the buying behavior of corporate customers so as to compete successfully for a good share of this market. However, there is a marked lack of published research in this particular area. This project is conducted to shed light.

This study consists of two phases: qualitative and quantitative. The qualitative findings suggest that in order to comply with the regulatory environment and protect the interests of different stakeholders, banks take serious steps in evaluating and analyzing their prospective and existing corporate clients. Moreover, banks nowadays place great emphasis on developing and maintaining long-term relationships with their client companies. They understand that it is the bank-customer relationship that differentiates one bank from the others in the minds of the customers. Account officers are trained to be relationship-oriented rather than transaction-oriented.

In addition, the survey results show that the split-banking behavior is quite extensively practised in Hong Kong. However, the relationship between companies and their major bank seems to be very stable. The most widely cited reason for bank switching is related to the bank's operational efficiency. In addition, it is of crucial importance for a bank operating in Hong Kong, serving local corporate clients, to

provide services in an efficient and reliable manner. The bank's account officers must adhere to confidentiality and be in possession of banking expertise and good communication skills. In terms of product strategy, it should place emphasis on foreign exchange services, international fund transfers, and loans. The bank should also be competitive in its interest charges on loans and fee and commission charges. Last but not least, the bank has to promote a positive image of being both efficient and flexible.

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CHAPTER I

INTRODUCTION AND OBJECTIVES

Background of the Study

Although Hong Kong is a small city-state-colony of six million people, it is the third largest financial center in the world and host to an exceedingly large number of banks. In March 1978, just prior to the Hong Kong government's lifting of the 12-year (1966-78) moratorium on the issue of banking licences, there were 74 licensed banks in Hong Kong. Since then many foreign banks came to establish offices in Hong Kong owing to its attraction as an economically vibrant city within the Asia-Pacific region. The open-door policy in China that started in 1979 constituted another factor that caused many foreign banks to set up offices in Hong Kong which could act as a stepping-stone to the enormous China market. Because of the influx of new banks, the number of licensed banks more than doubled in the 15 years between 1978 and 1992. At the end of 1992, there were 164 licensed banks in Hong Kong, 30 of which were locally incorporated. They maintained a total of 1,409 offices in Hong Kong. In addition, there were 148 representative offices of foreign banks (Table 1.1). Table 1.2 shows the country of origin of these authorized institutions.

TABLE 1.1

NUMBER OF AUTHORIZED INSTITUTIONS AND LOCAL REPRESENTATIVE OFFICES
1981 - 1992

Year	Licensed Banks[a]	Restricted Licensed Banks[b]	Deposit-taking Companies[c]	Local Representative Offices[d]
1981	123	-	350	-
1982	131	18	343	117
1983	136	30	319	117
1984	140	33	311	122
1985	143	36	277	134
1986	151	38	254	144
1987	155	35	232	143
1988	160	35	216	152
1989	165	36	202	160
1990	168	46	191	155
1991	163	53	159	152
1992	164	56	147	148

[a] A licensed bank incorporated outside Hong Kong should have total assets in excess of USD16 billion, whereas a licensed bank incorporated in Hong Kong should have a paid-up capital of at least HK$150 million, assets of at least HK$4 billion, and deposits of at least HK$3 billion. It should also have been in the business of taking deposits and granting credits to the public for at least 10 years.

[b] A restricted licensed bank should have a minimum issued and paid-up capital of HK$100 million. It may accept deposits of any maturity from the public, but in amounts of not less than HK$500,000 each.

[c] A deposit-taking company should have a paid-up capital of at least HK$25 million. It is restricted to taking deposits of not less than HK$100,000 with a maturity of at least three months.

[d] A local representative office is set up by a foreign bank as an office in Hong Kong.

Source: Annual Report of Hong Kong Commissioner of Banking, 1993, p. 58.

TABLE 1.2

AUTHORIZED INSTITUTIONS: COUNTRY/REGION OF BENEFICIAL OWNERSHIP

Country/ Region	Licensed Banks					Restricted Licensed Banks					Deposit-taking Companies				
	88	89	90	91	92	88	89	90	91	92	88	89	90	91	92
Asia & Pacific:															
Hong Kong	19	15	15	15	15	4	4	3	3	3	30	25	20	19	18
Australia	4	5	5	4	4	2	2	4	2	2	4	3	2	1	1
China	15	15	15	15	15	1	1	1	1	1	16	16	16	16	16
India	4	4	4	4	4	-	-	-	-	-	4	4	4	4	4
Indonesia	3	3	3	3	3	-	-	1	1	1	16	16	16	15	14
Japan	28	30	31	33	37	6	8	11	12	12	30	29	31	36	35
Malaysia	2	3	2	2	2	1	1	2	2	2	3	4	5	2	2
New Zealand	1	1	1	1	1	-	-	-	-	-	2	1	1	1	-
Pakistan	1	1	1	1	1	-	-	-	-	-	1	1	1	1	1
Philippines	2	2	2	2	2	1	1	1	1	1	7	6	5	5	6
Singapore	4	4	5	5	5	-	-	-	-	1	9	8	8	5	5
South Korea	3	3	3	3	3	-	-	1	2	3	7	9	9	9	8
Thailand	1	1	1	1	1	-	-	1	4	4	9	8	8	4	1
Others	-	-	-	-	-	-	-	-	-	-	2	1	1	1	1
Europe:															
Austria	1	2	2	2	2	-	-	-	-	-	-	-	-	-	-
Belgium	3	3	3	3	3	1	-	-	-	-	6	4	3	2	2
Denmark	-	-	1	2	2	-	-	-	-	-	-	-	-	-	-
France	8	8	8	8	8	1	1	1	1	2	10	10	9	7	6
Germany	8	9	9	8	8	-	-	-	-	-	4	4	2	1	1
Italy	6	7	7	7	7	-	-	-	-	-	-	-	-	-	-
Netherlands	3	3	4	3	3	2	2	2	2	3	3	2	2	1	1
Norway	1	1	1	-	-	-	-	-	-	-	1	1	1	-	-
Ireland	1	1	1	1	-	-	-	-	-	-	-	-	-	-	-
Spain	1	3	3	3	4	-	-	-	-	-	-	-	-	-	-
Sweden	3	3	3	3	3	-	-	-	-	-	-	1	1	-	-
Switzerland	3	3	3	3	3	1	1	1	1	1	1	1	1	-	-
United Kingdom	7	7	7	5	5	8	8	7	7	7	6	5	5	4	4
Others	-	-	-	-	-	-	-	-	-	-	3	2	2	1	1
Middle East:															
Bahrain	1	1	1	1	1	-	-	-	-	-	2	2	2	1	1
Iran	1	1	1	1	1	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	2	1	4	4	3	2	1
North America:															
Canada	6	6	6	6	6	2	2	2	2	2	4	3	3	1	1
United States	20	20	20	18	15	5	5	7	8	8	28	29	26	17	15
Others	-	-	-	-	-	-	-	1	2	2	4	3	4	3	2

Source: Annual Report of Hong Kong Commissioner of Banking, 1993, p. 60.

The total deposit liabilities of all the licensed banks to customers at the end of 1992 were HK$1,449 billion while the total loans and advances of all the licensed banks at the same year were HK$2,331 billion (Table 1.3). Table 1.4 shows the total loans for use in Hong Kong by economic sector.

TABLE 1.3

TOTAL LOANS AND DEPOSITS
BY CATEGORY OF AUTHORIZED INSTITUTION
1988 - 1992

(HK$ bn)

	Total loans & advances				Deposits from customers*			
	HK$	F/Cy	Total	%	HK$	F/Cy	Total	%
1988								
Licensed Banks	359	508	866	90	358	421	779	92
Restricted Licensed Banks	21	16	37	4	10	21	31	4
Deposit-taking Companies	25	34	58	6	23	13	36	4
Total	405	558	962	100	391	455	846	100
1989								
Licensed Banks	474	699	1,173	92	421	516	938	93
Restricted Licensed Banks	24	17	41	3	9	28	37	4
Deposit-taking Companies	27	31	58	5	21	12	33	3
Total	525	747	1,272	100	451	557	1,008	100
1990								
Licensed Banks	543	1,137	1,680	94	489	666	1,155	94
Restricted Licensed Banks	32	16	47	4	11	33	44	3
Deposit-taking Companies	33	29	62	3	20	13	32	3
Total	607	1,182	1,789	100	520	711	1,231	100
1991								
Licensed Banks	644	1,473	2,117	94	580	761	1,311	95
Restricted Licensed Banks	43	19	62	3	10	29	40	3
Deposit-taking Companies	37	28	65	3	14	10	24	2
Total	724	1,520	2,244	100	604	770	1,375	100
1992								
Licensed Banks	720	1,612	2,331	94	661	788	1,449	96
Restricted Licensed Banks	52	22	74	3	12	23	35	2
Deposit-taking Companies	40	24	64	3	11	8	19	1
Total	812	1,657	2,470	100	684	819	1,503	100

**Adjusted for swap transactions*

Source: Annual Report of Hong Kong Commissioner of Banking, 1993, p. 78.

TABLE 1.4

TOTAL LOANS FOR USE IN HONG KONG
BY ECONOMIC SECTOR
1988 - 1992
(HK$ bn)

Sector	1988 HK$	1988 %	1989 HK$	1989 %	1990 HK$	1990 %	1991 HK$	1991 %	1992 HK$	1992 %
Hong Kong's visible trade	57	11	64	10	71	9	83	9	89	9
Manufacturing	39	8	46	7	49	6	55	6	64	6
Transport & transport equipment	23	4	37	6	41	5	51	6	58	6
Building, construction & property development and investment	59	11	96	15	108	14	126	14	142	14
Wholesale and retail trade	60	12	63	10	75	10	81	9	88	9
Financial concerns (other than authorized institutions)	53	10	85	13	105	14	114	13	125	13
Individuals:										
to purchase flats in the Home Ownership Scheme and Private Sector Participation Scheme	9	2	11	2	14	2	19	2	22	2
to purchase other residential property	77	15	99	15	132	17	178	20	203	20
other purposes	48	9	55	8	60	8	75	8	88	9
Others	88	17	92	14	105	14	119	13	120	12
Total (includes loans to finance visible trade)	514	100	648	100	760	100	899	100	999	100

Source: Annual Report of Hong Kong Commissioner of Banking, 1993, p. 80.

The increase in Hong Kong dollar loans appears to have been the result of developments in the local economy. The stock market crash in October 1987 discouraged fund raising through the equity market in favor of bank borrowing. In addition, rising domestic inflation has depressed local interest rates in real terms, providing an incentive for corporations to finance their activities through bank borrowing. For the whole banking sector, increases in Hong Kong dollar loans are funded by corresponding increases in funds from some combination of the following areas: (i) Hong Kong dollar deposits from customers; (ii) Hong Kong dollar negotiable certificates of deposits (NCDs) issued in Hong Kong that are held outside the banking system; and (iii) offshore Hong Kong dollar funds (for the banking sector, the funding of Hong Kong dollar loans through the local interbank market is only possible when Hong Kong dollars are placed in the market by banks outside Hong Kong).

Indeed, Hong Kong's banking sector has grown rapidly over the past decade, enabling the territory to develop further as a major financial center. Besides the greater involvement of East Asian economies in world trade, growing cross-border investment and the international division of labor within East Asia have led to rapid growth in trade within the region. The demand for services to facilitate trade and investment flows has also grown. Such an economically vibrant Asia-Pacific region should provide more opportunities for the local banking sector to grow in the 1990s. The liberalization of financial markets in this region should offer both opportunities and challenges to Hong Kong's banking institutions.

On the mainland scene, China has tightened its foreign exchange controls owing to the excessive imports and declining foreign exchange reserves. This has led to a decrease in the interests of many foreign investors and caused foreign banks to review the viability of their operations in China.

In Hong Kong, many banks had begun to expand their branch network since the early 1980s, hoping to secure a large deposit base as well as more credit business. However, the Hongkong Bank Group (which consists of the Hongkong Bank and the Hang Seng Bank) and the Bank of China Group were so well entrenched in the local market. Those who want to penetrate into this market have to face the Hongkong Bank Group, the Bank of China Group, and the Standard Chartered Bank, which combined now account for more than half of the total number of bank branches in Hong Kong.

In view of the keen competition in the banking business, this calls for the need for banks to better understand the market and their own competitive advantage, and to better organize their resources to compete in the particular segments they choose to be in. Corporate banking has always been an important branch of business for banks in most countries. This logically follows that banks should be keenly interested in understanding the buying behavior of corporate customers so as to compete successfully for a favorable share of this market. This project is conducted to shed light on this important area.

Objectives of the Study

In order to investigate corporate banking behavior in Hong Kong, a survey study covering the following major areas will be conducted among various corporate customers of banking services:

(1) companies' use of banks, split-banking (that is the use of more than one bank), and bank-switching behavior;

(2) criteria used in selecting banks and the selection process;

(3) attributes of banks that are considered desirable by corporate clients in a banking relationship;

(4) awareness and usage of financial services offered by banks and other financial institutions such as insurance companies, stockbrokers, and leasing companies;

(5) differences in banking behavior among different types of companies, such as companies with headquarters in different countries.

Besides focusing on corporate customers and how they select banks, a major issue also will be how banks select and evaluate their prospective and existing customers.

CHAPTER II

RELATIONSHIPS BETWEEN COMPANIES AND THEIR BANKS: FURTHER REMARKS AND LITERATURE REVIEW

Dynamics in the Management of Corporate Banking Relationships

Nowadays many commercial banks are placing increasing emphasis on establishing and maintaining relationships with their principal corporate customers owing to recent changes in competitive and market conditions. New or improved banking products have proliferated as a result of deregulation, technological innovation, and increased competition among banks. Since these factors have shortened the expected "life span" of most banking products, a customer relationship based on the sale of a specific product may be short-lived. It is therefore in the bank's best interests to establish long-term institutional relationships with its customers. Besides, the recent emphasis of commercial banks on relationship banking is also attributable to the declining interest margins (i.e. the difference between the lending rate and the deposit rate) on loans. The entry of foreign banks into the domestic loan markets has increased pressures on interest margins. Due to this increased supply of bank credit, interest margins on loans have narrowed sharply. The reaction by banks to this decline has been to cross-sell (i.e. sell different services to the same customer) noncredit services to generate additional fee income. Moreover, the value of a banking relationship is made more explicit in view of the companies' increasing tendency to concentrate their banking activities among fewer banks. The development of complex cash management systems linked by telecommunications networks makes it advantageous for a firm to concentrate its banking activities at fewer banks. Those banks with the strongest relationships stand the best chance of retaining the customer's business.

In its simplest form, relationship banking is a recognition that the bank can increase its earnings by maximizing the profitability of the total customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction -- in the vernacular to be a "partner," rather than merely a "supplier" of a service. Because most firms purchase many banking products, and do so on a recurring basis, the bank must build and maintain a number of product relationships to reach the full potential of a corporate customer. In some instances, one bank may be able to produce and deliver two products at a lower unit cost than can two banks each producing a single product. Such economies of scope in the production and distribution of banking services make it possible to increase profits when product lines are broadened and more products are sold to each customer. Relationship banking, therefore, emphasizes deeper penetration of the existing customer base.

Over time, initial product linkages often give rise to personal relationships that transcend the sale of individual banking products. This can act as a conduit for the creation of new product relationships as the bank can gain access to information about the firm's business plans and banking product needs, which provides a substantial competitive advantage in selling more of the bank's products to that firm. Such strong and complex relationships involve more than an emphasis on total customer profitability and cross-selling: it includes an acknowledged perception of mutual interdependence between the bank and the customer. In effect, the various personal and product relationships are institutionalized and ideally, these institutionalized relationships will persist for generations. The perceived interdependence of both parties is often based on mutual trust and openness, shared objectives, and a commitment to doing business with each other on a long-term basis. For instance, the Hong Kong and Shanghai Banking Corporation was a key player in creating the Regent International Hotels group, one of the most prestigious hotel groups nowadays. The two groups have paralleled each other in their global development and international recognition for the past ten years. Throughout the period, the Hongkong Bank not only acted as a banker to the Regent, but was also a five percent shareholder in the company.

A study (Teas, Dorsch, and McAlexander, 1988)[1] was conducted to develop and test a new set of operationalizations to measure four important aspects of the long-term relationships between commercial banks and their customers. Commercial customers were found to possess positive attitudes toward long-term bank relationships in which the banks were: responsive to the customers' requests; willing to initiate interactions with their customers; knowledgeable about their customers' business and business needs; and willing to develop close, informal relationships with their customers. It was suggested that banks were in a position to develop long-term

[1]Notes in this chapter are collected in the Bibliography at the end thereof.

relationships with their clients by taking an active interest in the welfare of their customers at all contact levels.

Companies' Bank Selection Behaviors

Because of the intensified competition in the market and the new local regulatory environment such as the increase in bank capital and reserve requirement, banks are developing new and better products as well as services in order to remain competitive and profitable. Many banks are aggressively pursuing product differentiation and market differentiation strategies to develop market niches (Bierce and Ekedahl, 1989). Consequently, besides the newly-established firms, existing firms must also keep on evaluating the banking services they are receiving to see whether their needs are being met. Bierce and Ekedahl (1989) suggested that a comprehensive and objective bank selection process should include the following elements: clearly defined requirements of the cash management program; a consensus on the critical issues such as disbursement services; a comprehensive request for proposal listing the banking requirements and instructions for submitting proposals; and a structured evaluation methodology to assess the qualitative and quantitative aspects of a bank's products and services. Cappello (1989) stated that the banks selected had to provide competent bank employees, ongoing communication between senior level bank executives and company management, and a willingness to work closely with the company when problems arose.

Some empirical studies of consumer behavior for corporate financial services have been done in different nations. The main areas covered by such research include factors affecting the selection of banks, split banking behavior, bank loyalty, usage of financial services, people influencing the decision on bank selection, relationship between banks and their corporate customers, customer perceptions on service quality, and even the required traits of the account officers.

It is very important for the bank marketers to recognize who is responsible for selecting bankers for their companies, and who influences the decision-making process so that they can direct the marketing efforts to the right person or persons. Turnbull (1984) found that in Britain selection of a specific bank was made by either the treasury manager or some other financial officers. Day (1985) found that in the United States, the choice of a bank was often made by the corporate treasurer who made a recommendation to the chief financial officer. In Europe, however, a group of senior financial officers usually jointly made the bank selection (Channon, 1986). Besides those directly responsible for the treasury issues, Rosenblatt, Laroche, and Hochstein (1988) found that in Canada members from the board of directors were also always involved in the decision process. However, it was the corporate treasurer in almost one half of the firms surveyed who was solely responsible for the important decision. It appears that it is crucial for banks or other financial institutions to aggressively develop relationships with upper level managers in the treasury or financial departments.

Concerning the criteria for selecting banks, service quality and quality of the contact person or personnel in general are probably the most frequently mentioned and most important decision criteria. Cost is also an important factor. Of the 30

British companies surveyed, Turnbull (1984) found that quality of services, competitive terms, rapid decision making, and understanding the corporations' needs were among the most important attributes. The last two factors are directly related to the quality of the bank officers. Similar to Turnbull (1984), the Boston Consulting Group (1986), in a study of 690 chief financial officers of Fortune 1,000 companies, found that the most important reasons for dissatisfaction with their current banks were low quality of both service and the personnel serving the account. Consistent with the previous study conducted in Britain, Turnbull and Gibbs (1989) found that quality of service, quality of staff, nature of the relationship with the manager, and price of service were the four most important attributes for selecting banks by the 171 companies surveyed in South Africa. Small, medium, and large companies generally placed the same importance on the attributes. Moreover, Rosenblatt, Laroche, and Hochstein (1988) found that efficiency and reliability of service, responsiveness of contact person, and service delivery were on average the highest rated by the 170 financial managers surveyed in Canada. Five of the top 13 criteria were directly related to the skills of the contact person. This suggests that the working relationship with the account manager may be crucial to corporate satisfaction.

Rosenblatt, Laroche and Hochstein (1988) also found that the most important traits of clients' account managers were knowledge of banks' services, ability to access required information, and knowledge of the business of their client companies. Surprisingly, expertise in financial management was not considered to be an important attribute of clients' account managers. This probably suggested that treasury officers did not use bankers as consultants on financial matters, but rather depended on them for their knowledge of the various services and products that could benefit the corporate financial manager. Thus the authors concluded that the only successful strategy for survival was to continue to satisfy a need, which could only be achieved by fully understanding market requirements and by training all personnel, at all levels, to provide high quality service and information.

Many firms use more than one bank. By doing so, they are constantly assured of the best rates available in the market. Besides, they can benefit from the different expertise of different banks as well as a higher level of efficiency and service quality which is not available from the lead bank. Furthermore, risk can be minimized through diversification of financial institutions. Turnbull (1983), investigating the relationship between medium-sized British companies and their banking habits, and Rosenblatt, Laroche, and Hochstein (1988) found that most companies relied on a single bank for the majority of their financial services. Turnbull (1983) also established that the size of a company was directly related to the number of banks used and this was replicated in the study in South Africa (Turnbull and Gibbs, 1989). The Boston Consulting Group (1986) found that most respondents would buy cash management and operating services from their lead banks, and corporate finance and investment banking services from specialist banks. The responses were consistent with Turnbull's conclusion that main banks were best at providing traditional banking services (Turnbull, 1983). Rosenblatt, Laroche, and Hochstein (1988) indicated consistent results. Respondents disagreed that the companies would consider using a one-stop banking center for banking, trust and insurance needs.

An issue that is closely related to the split banking relationship is bank loyalty. Turnbull (1983, 1984), Turnbull and Gibbs (1989), and Rosenblatt, Laroche, and Hochstein (1988) all found that companies exercised a high degree of loyalty towards their lead commercial bank in order to ensure that they were offered the best possible rates. Turnbull and Gibbs (1989) concluded that the long-term goal of relationship banking for most banks was to be the lead bank for the corporate customers. Since many banks have split banking arrangements with a number of different banks, under such intense competitive conditions it is crucial for a bank to obtain a position of distinction as a lead bank in order to gain a greater share of a customer's business.

Satisfied customers are known to engage in positive word-of-mouth (WOM). In a survey with 325 owners of medium-sized businesses in the United States, File and Prince (1992) found that positive WOM was a crucial construct in the information search process of business owners considering financial services. Other factors playing an important role in bank selection decision included a consideration of product features, convenience, image, price, confidentiality, and safety. The results suggested that WOM should no longer be considered as the promotional vehicle of last resort. Positive WOM behavior on the part of customers should be proactively encouraged by bank marketers. The clear implication for financial service marketers is to constantly improve quality and seek customer feedback.

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CHAPTER III

METHODOLOGY

Qualitative Study

The initial phase of the research was a qualitative study in which detailed interviews were conducted with selected people engaged in the field of corporate banking. We had personal interviews with Mr. Tsui Kam-wah, Senior Sub-Manager of Bills Department of the Wing Lung Bank as well as two credit officers and one general manager of three representative banks in Hong Kong who wanted to remain anonymous in this project report. All the questions in the questionnaire (Appendix 1) were open-ended in order to collect more in-depth information. From these interviews, we got a preliminary understanding of what they perceived to be the important criteria in selecting their client companies. A general picture of the client analysis and evaluation as well as the banking relationship was acquired. These interviews proved to be very useful in the development of questionnaire for the quantitative study that followed ... a study focused on <u>clients</u>, but derived from insights from the literature and from the <u>banker</u> interviews cited above.

Quantitative Study

Questionnaire Design

In the quantitative phase of the research study, a mail questionnaire was used as the vehicle to solicit information from different types of companies (including companies of different sizes, companies operating in different industries, and companies with capital dominated by different countries). As all of the respondents were expected to know English, the questionnaire was only prepared in English. All of the questions were structured (close-ended). Multiple-choice type answers were provided for each question, and only a check was required to indicate an answer. It was believed that such form of questionnaire would also increase the response rate.

The questionnaire (Appendix 2) was divided into two sections. The questions in Section I were used to solicit company information which was for classification purposes. Questions were also asked on the companies' selection and usage of banks, split-banking, and bank-switching behavior. The usage of services offered by other financial institutions such as insurance companies, stockbrokers, and leasing companies was also covered.

In Section II, respondent companies were asked to rate the importance of different bank attributes in selecting their major bank on a six-point scale. The bank attributes were classified into 12 types as follows:

(1) Bank's reputation

(2) Bank's country of ownership

(3) Bank's size

(4) Bank's financial strength

(5) Bank's operational efficiency

(6) Reliability of bank's service

(7) Convenience of bank's location

(8) Bank's image

(9) Lending policy

(10) Product quality

(11) Account officers

(12) Pricing factors

At the end of the questionnaire, respondents were asked to express any additional comments concerning the criteria for choosing their major bank in Hong Kong. In addition, they were asked to give any comments about the questionnaire. An optional section was also prepared for the respondents to fill in their company name and address if they would like the summary statistics of our research.

Population and Sampling

The questionnaires were mailed to the companies' directors of finance. Five hundred companies were selected at random from the Hong Kong General Chamber of Commerce Membership List 1993. A covering letter (Appendix 3) was sent along with the questionnaire to explain the objectives and process of the research study. It also served to assure the respondents that any information provided would be kept strictly confidential. The respondents could also exhibit their desire to have the summary statistics of our research at the very end of the questionnaire. Furthermore, seven days after the questionnaires were mailed, a reminder was issued to each of the randomly selected respondents in order to enhance the response rate which is normally quite low for a mail survey, especially for those conducted among busy executives. By the closing date, a total of 125 completed questionnaires were received. 15 questionnaires were undelivered owing to the changes in office addresses. This represents a response rate of 26%, encouraging for such a cold mail survey.

Data Processing

The data obtained from these close-ended questionnaires were then coded. The computer package $SPSS^x$ was used to process the data and provide the needed statistical measures.

CHAPTER IV

FINDINGS AND ANALYSIS: QUALITATIVE STUDY

The focus of this chapter is on the side of banks. Based on the information acquired from our interviews with different bankers as well as the literature review about banking, we are going to examine how banks evaluate and analyze their prospective and existing corporate clients and how they maintain relationships with their clients. Since the revenue earned by granting credits (including trade finance, overdraft account, working capital facilities, short- or long-term commercial loans, etc.) contributes the major portion of income of a bank's corporate banking division, the discussion in this chapter will mainly focus on the credit process with emphasis being placed on credit analysis.

Initial Screening

The lending process starts when a company approaches an account officer and presents a credit application. The account officer will first assess whether the credit application falls within the bank's preferred credit risk and target market. Some banks may not wish to grant credits to certain industries with unpredictable or unstable cash flows such as entertainment industries. Some banks, especially those of relatively small sizes, are quite reluctant to grant loans for financing property development projects because the Hong Kong property market is perceived to be too volatile and risky. Sometimes a loan application is refused because the loan is so large that it will make the bank's loan portfolio fail to meet the capital adequacy ratio set by the Basle Agreement. (Hong Kong, being a member of the International Central Banking Group based in Basle, Switzerland, has to follow the agreement to increase the ratio of the size of a bank's capital to its loan from six to eight percent in 1989.) Under such circumstances, the bank may refer the company to the finance company, which is a sister company established for the purpose of accepting loans that licensed banks are not allowed to accept. Or a loan application is rejected because the transaction size is too small that the bank finds it is not justified to accept the transaction, especially if the bank has no previous transaction with the company and thus does not have any track record of the company. In all these cases, the credit applications will be screened out without going through the credit assessment process.

Moreover, in order to reduce their risk exposure, banks have preference for some kinds of credit. Banks welcome credit applications for productive purposes such as trading financing and business expansion, which can generate cash as the source of repayment. Credits for which refinancing or sale of assets rather than cash flows form the only sources of repayment are generally not acceptable to banks. Banks also prefer short-term risk exposure such as fluctuating working capital facilities and trade finance that can generally be repaid within one business trading cycle. They also do not accept loans for speculative purposes.

Credit Analysis

Credit analysis is essential to a bank because lending safety based on security only is not acceptable to the bank. Less financially sound potential borrowers are more likely to provide misleading or distorted information regarding the value of their collateral. This is why the credit assessment process includes the valuation of collateral quality. Moreover, when a company goes insolvent or even bankrupt, the collateral assigned by the company may not be of the same value as when the credit was granted. Thus banks have to look at the customer's capacity and willingness to repay. The safety of banks' exposure cannot be guaranteed by the security itself but by extensive information search as well as careful and thorough credit analysis.

In essence, the objective of bank credit risk assessment is to determine if its exposure can be repaid through proven cash flows. Therefore, all information relevant to the company's ability to generate enough and timely cash flows for making repayment and the willingness of the client to make repayment has to be collected. It is the responsibility of the account officer to collect information from the prospective client and other sources to support the analysis process. His task is to accurately determine a customer's financial requirements after thorough analysis. The applicant company is requested to submit all information relevant to the determination of its credibility and repaying ability. Past and projected financial statements including balance sheets, profit and loss statements, statements of cash flows, business plans and supporting documentation proving the reality of the business plan, and other relevant reports such as analysis of the economic environment, industrial environment, descriptions and valuations of collateral, are collected. All this information will be reviewed by the credit analysts.

Besides collecting such quantitative information, the account officer also has to make the assessment based on some subjective evaluation criteria. The account officer has to give his comments and ratings on the character, background, and "track record" of the applicant, that is the owner of the business or the person in charge of the financial management in the company, in order to make sure that the applicant has all the trappings of honesty and seems unqualifiedly willing to repay the loan.

Moreover, the account officer has to evaluate the management quality of the client company to make sure that the company is managed in the right direction with ensured future profitability and thus has the repayment ability. The evaluation is based on such factors as management experience, knowledge in their specialized area, operational skills, financial skills, administration skills, adaptability, strategic planning ability, ability to respond to competition or downturn in business cycle, attitudes toward risk, etc. Account officers have to give their ratings based on their interviews with the clients, visits to the company's offices, outlets or plants. For an existing client, an account officer is required to make visits to the client regularly.

Additional information is collected from the competitors, suppliers, and customers of the company. Moreover, if the company is the associate of a particular commercial chamber, the account officer can acquire information regarding the company from the chamber. Another important source of information is the other banks which have transactions with the company. Letters are sent to these banks to obtain the credit records of the company. Credit ratings are also available in some agencies providing credit evaluation services, such as Dun & Bradstreet. However, not many banks employ the services of such agencies. After collecting and analyzing all the relevant information, the account officer has to write up a credit proposal stating his analysis of the applicant company as well as recommendations concerning whether the bank should accept the loan application.

Many banks have used their past credit records to develop statistical models for computing credit risk as an additional input to the lending decisions. The sophisticated computer systems available today have helped to relieve the burden of the credit risk analysts. These models are used to compute the probability of company insolvency, determine the risk classification of a certain loan, and the change in the bank's risk exposure after accepting a certain loan etc. Banks may build separate scoring models for each individual industry in which loans are made.

Granting Credit

After the stage of credit analysis, banks have to draw up their conclusion of granting the credit or not. The decision is usually made by senior management based on the reports submitted by the account officer and credit analyst. If the application is accepted, the bank starts to negotiate with its client in terms of the amount of credit granted, the repayment schedule, the amount and types of collateral required, interest rate and fees, and other conditions to be listed on the documentations. Pricing is affected by such factors as size of transaction, risk grading, and the bank's cost of funds. Interest spread and fee reductions are sometimes possible when a client, especially a client with long-term relationships or frequent transactions with the bank, challenges the bank manager or account officer.

Credit Monitoring and Control

The next major process of the whole commercial lending process is the monitoring and control stage in which banks monitor the performance of the clients to ensure the repayment of funds. During the stage of credit assessment, a bank has to project the future performance of the client company to determine whether to accept the credit application or not, and the terms in the loan documentation if accepting the application. During the monitoring stage, the bank has to monitor the performance of the client company to verify the risk classification made before credit approval and see whether the terms need adjustments to reflect any change in situations. Thus the considerations made during the monitoring process are basically the same as those made during the credit assessment process.

In order to keep track of the business performance of the clients and whether the clients operate as stated in the business plans submitted, account officers are requested to make regular visits to their clients' offices or plants to verify the information provided by the clients and the judgments they have made regarding their client companies. They are also requested to make irregular contacts through telephone or face-to-face meetings with their clients to collect more updated information.

When the client companies get into trouble, relationship banking requires monitoring workout situations such as debt restructuring, or, in case of loan defaults, monitoring the process of attempting to recover charged-off credits.

<u>How Do Banks Develop and Maintain Relationships with Clients?</u>

Banks nowadays place great emphasis on developing and maintaining long-term relationships with their client companies. They understand that it is the bank-customer relationship that differentiates one bank from the others in the minds of the customers. If one wanted to give it a name, such a relationship could be regarded as a "special service not available from other banks." In order to enhance the quality of such service, account officers are trained to be relationship-oriented rather than transaction-oriented.

From our interviews, the impression arises that for the Chinese banks, the account officers are less aggressive in approaching the prospective companies. No quota is assigned to the account officers. These banks believe that setting quota may cause the account officers to recommend the acceptance of certain loan applications at the expense of the risk borne by banks. Since the account officers do not have to develop new clients to meet any quota, making cold calls is not a common behavior among them. Most of their business is through referral by the existing corporate clients. However, the account officers of a new branch may make cold calls in order to establish the market. On the other hand, for the foreign banks and some large local banks, the account officers are often more aggressive. Cold calls are made frequently to seek out more business.

Besides, account officers are requested to make visits and calls to their clients regularly. They are even required to make visits to the clients' operations outside Hong Kong. Actually such connections have to be continued even after the closing of transactions. An account officer has to develop a full understanding of the business operations and financial status of his client companies so that he can work as a problem solver whenever his clients have problems in their financial aspect. In order to be able to identify their problems and determine the exact credit requirements promptly, it is necessary for the account officers to keep constant contact with their client companies in order to keep track of the companies themselves as well as the industrial environment. Thus an account officer is responsible for collecting financial statements and business plans from their client companies each year.

Companies operating in different industries have different financial needs. For instance, manufacturing companies tend to require more long-term credits to finance their expansion in production capacity, whereas trading companies require more trade finance. In order to help the accounts officers develop expertise in serving clients of a particular industry, some banks have assigned their account officers to different units serving different industry groups. By developing in-depth knowledge of a particular industry, the account officer is in a better position to evaluate the profitability and performance of a certain client by comparing it with the industry norms and analyzing its position relative to the other companies in the industry.

By developing understanding in the clients' business, financial structures, industrial environment, and knowledge in all the financial products that the clients may use, the account officers can become the banking consultant of their clients. Relationship is maintained as the clients rely more and more on the account officers as their banking consultant who can answer any query and give advice regarding anything relating to the transactions with banks.

Banks usually give pricing privileges to the clients with long-term relationships in terms of lower fees and a narrower interest spread. Account officers are given some discretion to determine the service fees charged to their clients. Actually not much time and effort is consumed to provide services to the loyal clients with proven track records and default risk of these companies is also minimal. Thus it follows logically that the pricing privileges are given to them. Long-term relationships can thus be maintained because these companies may not be able to get the same privileges if they switch to other banks.

CHAPTER V

FINDINGS AND ANALYSIS: QUANTITATIVE STUDY

The Research Sample

As shown in Appendix 4, 53% of the respondent companies reported that their headquarters were located in Hong Kong, with the remaining companies having their headquarters in foreign countries. Therefore our results may be treated as a heterogeneous combination of international attitudes. Respondent companies whose headquarters were located outside Hong Kong had their headquarters in various countries. The United States came first, with 23% of the respondent companies being based there. The next were United Kingdom (7%) and Germany (4%). Besides, Australia, Canada, and Japan were named by the remaining respondents as their respective headquarters. No respondent company had its headquarters in the PRC or Taiwan.

As shown in Appendix 5, the industries in which the respondent companies were principally engaged were quite diverse. Trading/Shipping was the industry in which the largest proportion (25%) of respondent companies were engaged. The next were Retail/Wholesale with 16% and Chemical/Pharmaceutical/Petroleum with 12%. Some respondent companies were principally engaged in more than one industry.

Moreover, as shown in Appendix 6, the numbers of permanent employees of the respondent companies were quite varied: 45% of respondent companies employed less than 50 employees; 38% of them had between 51 to 400 employees; 17% had over 400 employees.

As shown in Appendix 7, the years of establishment of respondent companies were much varied. The largest proportion (18%) of respondent companies had their years of establishment revolve between six to ten years. Furthermore, only about one-third (30%) of them had their ownership in the form of a family business as indicated in Appendix 8.

Bank Selection

As seen from Appendix 9, out of the 79 multinational corporations, 39 (49%) of them stated that the responsibility for selecting the major banker for their Hong Kong company was primarily a local (Hong Kong) office responsibility. 26 (33%) of them indicated that the responsibility was a shared responsibility between the Hong Kong office as well as the home office. Only 14 (18%) of the multinational corporations stated that the responsibility was primarily a home office responsibility. This reflected that most of the decisions of selecting banks in Hong Kong were either made solely by the Hong Kong office or by the Hong Kong office with some parent influence.

As shown in Appendix 10, nearly one-third (33%) of the respondent companies reported that the board of directors had the responsibility for selecting their major bank in Hong Kong. Also about one-third (31%) of them stated that the chief financial officer had the responsibility. The next came the company owner with 25% of respondent companies and chief executive officer/general manager with 22%. Some respondent companies had the responsibility rest on more than one specific group.

Moreover, Appendix 11 exhibits another very important point. Over half (51%) of the respondent companies stated that their business partners acted as an information source in their selection of major bank. The next came the Friends/Relatives (24%) and the Consultants/Advisors (21%) respectively. This reflected that companies indeed placed heavy reliance on the information acquired from various groups of people in their major bank selection rather than relying on such second-hand data as newspapers, journals, government publications, and bank advertisements. People's word-of-mouth and views towards different banks thus seemed to assume crucial importance in the companies' bank selection process.

Bank Usage

From Appendix 12, it is shown that the Hongkong and Shanghai Banking Corporation (also known as the Hongkong Bank) was the most popular bank used by the respondent companies as their major bank (46%). It was followed by Citibank (10%), the Hang Seng Bank (6%), and the Standard Chartered Bank (5%) respectively. It is not surprising to note that although the Hongkong Bank Group only consisted of two banks (i.e. the Hongkong Bank and the Hang Seng Bank), it was used as the major bank by more than half (52%) of the respondent companies.

Indeed, the Hongkong bank, the Hang Seng Bank, and the Standard Chartered Bank are the three banks with the greatest market share in Hong Kong. Moreover, these three banks and the Bank of China Group now account for over half of the total number of bank branches in Hong Kong. One point that should also be mentioned is since 23% of the respondent companies had their headquarters in the United States (see Appendix 4), it is thus not surprising to find that Citibank, the largest financial institution in the United States, ranked second on the major bank list. Another interesting point to note is that the foreign banks were cited as the major banks by 36% of the respondent companies. In addition, only 6% of the respondent companies used the Bank of China group banks as their major banks. This seemed to be inconsistent with the belief that the Bank of China Group was well entrenched in the local market. Furthermore, apart from the top four banks on the major bank list, 27 other banks were named by the respondent companies as their major banks.

As regards the second most important bank, the most popular bank cited by the respondent companies was again the Hongkong Bank (32%). The next came the Standard Chartered Bank (9%) and Citibank (7%). These three banks were used by nearly half (48%) of the respondent companies as their second most important banks. Furthermore, apart from the top four banks on the second most important bank list, the number of other banks named was 30, which was greater than the comparable figure on the major bank list.

With regard to the third most important bank, the most widely cited bank was still the Hongkong Bank. However, its dominance was relatively weak here as only

15% of the respondent companies quoted it as their third most important bank, compared with 46% on the major bank list and 32% on the second most important bank list. In addition to the top four banks on the third most important bank list, 24 other banks were mentioned by the respondent companies as their third most important bank.

From the above findings, it seems that companies tend to use some very large banks such as the Hongkong Bank, the Hang Seng Bank, the Standard Chartered Bank, and Citibank as their major banks. It is not surprising to see such results since these very large banks have established extensive networks in the local market and the companies may thus find these banks in a better position to be their major suppliers of financial services. However, the dominance of these very large banks such as the Hongkong Bank and the Hang Seng Bank declined substantially on the less important bank lists and more other banks apart from the very large banks were also named by the respondent companies on those lists. This reflects that companies may prefer to use some smaller banks not to meet their major financial service needs but to supplement their major banks. These smaller banks may also be more efficient in providing certain specialized financial services to the companies.

Split Banking

From Appendix 13, we can acquire a general picture about the degree of split-banking behavior of the respondent companies. Only 14% of the respondent companies used one single bank, while more than half (52%) of the respondents used between two to five banks. This reflected that the split-banking behavior was quite extensively practised in Hong Kong. However, it should also be mentioned that there was only a very small proportion (6%) of the respondent companies using more than 11 banks.

Besides, as shown in Appendix 14, the most widely cited reason for employing more than one bank was that certain banks offered a higher level of efficiency for particular services. In addition, ensuring that the company was offered the best possible rates and the company philosophy of "don't put all your eggs in one basket" were some other important reasons for the split-banking behavior of the respondent companies.

Bank Switching

Although the split-banking behavior was quite extensively practised in Hong Kong, the relationship between companies and their major bank seemed to be very stable. As revealed in Appendix 15, nearly one-third (33%) of the respondent companies had worked with their major bank for more than 20 years. An even greater proportion (45%) of the respondent companies had worked with their major bank for six to twenty years. Only 5% of the respondent companies had worked with their major bank for only one to two years. Therefore, the respondent companies were in general loyal to their selected major bank and did not switch frequently.

As shown in Appendix 16, the most widely cited reason for switching the major bank was related to the bank's operational efficiency. The company's wish to expand borrowing facilities, the quality of bank's service products, and pricing factors were some other common reasons stated by the respondent companies for switching their major bank. From these findings, it seemed that a situation under which a company might change its major bank was either where the company was dissatisfied with the bank's operational efficiency or the quality of service products, or the company desired to expand borrowing facilities. Pricing factors also carried substantial weight.

Perceived Importance of Bank Attributes in Major Bank Selection

Appendix 17 provides a general picture concerning the companies' perceived importance of bank attributes in selecting their major bank. The bank attributes were divided into twelve categories which were derived from various previous research studies. Each attribute was rated by the respondent companies on a six-point scale. A score of "1" represented the least important factor; and the degree of importance increased in ascending order with "6" as the most important factor.

Basic Bank Attributes

This section discusses the basic features of a bank, including the bank's reputation, country of ownership, size, financial strength, operational efficiency, reliability of service, and convenience of location. By looking at their mean scores, the top four most important basic bank attributes were as follows: reliability of service (5.52), operational efficiency (5.48), financial strength (5.47), and reputation (5.31). The bank's country of ownership (3.75) was regarded as the least important among the basic bank attributes.

Reliability of service and operational efficiency were the most crucial basic bank attributes perceived by the respondent companies in their major bank selection. This reflects that a desirable bank should provide service to its clients not only reliably but also in an efficient manner. Both reliability and efficiency contribute to quality service. It follows that it is of great importance for a bank serving local corporate clients to provide high quality service which can exhibit reliability and efficiency simultaneously. Besides, the bank's financial strength and reputation were perceived as quite important factors by the companies in their major bank selection. This makes good sense since a bank has to possess favorable financial strength and sound reputation before it can deal in different service such as providing loans and receiving deposits. However, the bank's country of ownership was viewed as the least important basic bank attribute. One possible explanation is that so far as a bank is international, it can help take care of financial matters for its corporate clients in any country.

Bank's Image

With regard to the bank's image, the respondent companies perceived that the bank's image of being efficient (5.31) and flexible (5.07) was more important than being friendly (4.69) and innovative (4.49). This reflects that companies tend to place greater emphasis on the quality of bank service in such aspects as efficiency and flexibility rather than on the banking staff's attitude like friendliness. Moreover, the bank's image of being innovative also carried relatively low importance. One possible explanation is that many companies use their major bank as the supplier of some basic financial service while they may use some other less important banks to meet their special financial needs. As a result, in selecting their major bank, companies may pay greater attention on considering whether a particular bank is viewed as efficient and flexible rather than if the bank is perceived to be offering new service products to the market frequently.

Lending Policy

This section discusses the attributes concerning the bank's lending policy. They included the aggressive lending policy, the amount of collateral required, and the amount of financial information required, which received very close scores of 4.11, 4.07, and 4.05 respectively. The respondent companies appeared to perceive all these three attributes to be fairly important in their major bank selection. Aggressive lending policy ranked slightly more important than the other two elements. This follows that it may be of advantage for a bank operation in Hong Kong serving corporate clients to pursue an aggressive lending policy, which may be associated with better services and lower prices.

Product Quality

This section discusses the elements concerning product quality. A larger degree of variation among the responses was seen here. Foreign exchange services (4.65), international fund transfers (4.55), and loans (4.45) were perceived to be the top three important service products in the companies' major bank selection. It should be noted that nearly one-fourth (25%) of the respondent companies were engaged in the trading/shipping industry (see Appendix 5) and they might therefore put more emphasis on the foreign exchange services and international fund transfers in their major bank selection. Even for those companies engaging in some other industries like retail/wholesale or textiles/garment, it was indeed a common phenomenon for them to do business with foreign partners within this global market. Thus it is not surprising to see that foreign exchange services and international fund transfers ranked high among the different service products. Furthermore, loans also assume relatively high importance in the companies' major bank selection. This also makes good sense since companies very often need funds for different purposes such as expansion and the replacement of machinery. Therefore, while the companies select their major bank, they would show relatively high concern to the loan aspect with a view to receiving better loan service as and when the need for loans arises.

On the other hand, one interesting point to note is that insurance (2.39) and trust (2.95) were regarded as the two least important service products. This may be explained with regard to the practical situation in Hong Kong. In Hong Kong, insurance services are readily available from specialized insurance companies and trust services are more commonly associated with the legal profession. Very often, banks can offer this service with only little competitive advantage over those specialized firms, and so this may explain why the banks were not perceived by the respondents as an important supplier of such service.

Account Officers

This section discusses the importance of attributes concerning account officers, who act as a bridge between the bank and its clients. Confidentiality was perceived to be the most important attribute, receiving a mean score of 5.47. The next came the banking expertise (4.96), good overall skills in communication (4.87), and the ability to deliver what was proposed (4.85). This follows that it is of importance for account officers to adhere to confidentiality and carrying out their promises. They also need to be equipped with adequate banking knowledge and good communication skills. Knowledge of firm's business (4.80), the power to make decisions on the spot (4.75), and knowledge of firm's financial position (4.73) were some other important attributes. This makes good sense since only when the account officers are familiar with their client company's business and financial position can they make decisions on the spot.

Pricing Factors

This section discusses the importance of pricing factors in the companies' major bank selection. All the pricing factors received a quite high score and this reflected that the respondent companies were very price-conscious in selecting their major bank. Besides, since commissions and fees, interest charged on loans, and other service charges form the major costs of banking services, it is not surprising to find that they were the top three important pricing factors which received the scores of 5.13, 5.06, and 4.90 respectively.

Usage of Financial Institutions Other Than Banks

Appendix 18 shows the respondent companies' usage of financial institutions other than banks in Hong Kong. The most widely used financial institutions were insurance companies, which were employed by over half (54%) of the respondent companies. This seemed to be consistent with the above findings that insurance was perceived as the least important service product in the companies' major bank selection. Many companies might choose some specialized financial institutions as their suppliers of insurance service. The next came the leasing/hire-purchase companies with 22% and the financial companies with 13%. It should be mentioned that leasing/hire-purchase are not very popular in Hong Kong owing to the very high implicit interest rates of leasing/hire-purchase financing compared with other forms of financing. On the other hand, government/quasi-government agencies were the least used, as reported by only 1% of the respondent companies.

Other Findings

We have also conducted cross-tabulation tests to examine whether some company characteristics such as the location of headquarters and form of ownership have significant associations with their banking behaviors. These associations may have some implications for the bank strategies.

It is found that the location of a firm's headquarters has significant association with the position of the person(s) responsible for selecting the major bank in a company with p-value (0.0072) less than the significance level of 0.05 (Appendix 19). For the local companies, the owners of the companies have major influencing power over the decision of major bank selection. For almost one-third of the respondent companies with headquarters in Hong Kong (20 out of 66), the owner solely takes the responsibility. Also about one-fourth of them (17 out of 66), the board of directors, actually a group of owners, make the decision. Occasionally the owners or the board of directors make decisions together with other experts in the companies such as the chief financial officers. Very few firms report that the management in charge of the financial departments are given the autonomy to make their choices. The fact that the owners have major influence on the major bank decision is probably because many respondent local companies are of relatively smaller size and thus the owners also have to be responsible for managing the financial resources for the companies. For the American/Canadian companies, the influence of the owners or the board of directors is almost negligible. Chief financial directors, corporate treasurers, and chief executive officers are given autonomy to select banks. For the European companies, each party seems to have some influence on the major bank selection.

The results of the cross-tabulations test ("chi-square" test) also show that the location of a company's headquarters is significantly associated with its choice of major bank (Appendix 20). Almost 70% of the Hong Kong respondent companies (45 out of 66) select the Hongkong Bank Group (consisting of Hongkong Bank and Hang Seng Bank) or the other local banks as their major bank. For the American/Canadian companies, more than half of them (18 out of 31) selected American/Canadian banks as their major bank. The European companies surveyed also tended to use European banks. Although the results of the survey show that the respondents generally do not consider bank's country of ownership as an important criterion for selecting the major bank, some factors can still contribute to the tendency for the multinational companies and their mother companies to use the banks of the mother countries. For instance, top management in the Hong Kong offices have more confidence and knowledge of the banks being used by the head offices.

Using the banks also used by the head offices may help achieve higher efficiency in some services such as fund transfers.

CHAPTER VI

RECOMMENDATIONS

Product Development

As revealed from the research findings above, foreign exchange services, international fund transfers, and loans were perceived to be the top three important service products in the companies' major bank selection. This follows that efficiency in the foreign exchange operations and fund transfers constitutes one of the success factors for a bank serving corporate clients in Hong Kong. It should be noted that the speed of these operations is greatly affected by technology. Computerization and telecommunications are indeed essential for fast operations. A bank which serves corporate clients should employ the most advanced computer technology and communications network so long as it is justified by cost-benefit considerations.

Loans were also perceived to be important by the respondent companies in their major bank selection. As such, it is of advantage for banks to enjoy a stable source of funds for loans. In Hong Kong, one source of funds is through inter-bank borrowing. Therefore, it is recommended that banks serving corporate clients should develop a strong correspondent network among different banks.

Last but not least, the respondent companies appeared to perceive all the attributes of the bank's lending policy to be fairly important in their major bank selection. This follows that it is of advantage for a bank operating in Hong Kong, serving corporate clients, to pursue an aggressive lending policy, which is often associated with better services and lower prices.

Improving the Performance of Account Officers

The account officer is a critical link between the bank and its client companies. As shown from the research findings above, confidentiality was perceived to be the most important attribute of account officers in the companies' major bank selection. As such, it is essential for banks to address the issue of confidentiality seriously in their training program. The exact type of client's information that should be kept confidential needs to be conveyed to the account officers so that they know clearly what should not be disclosed.

Banking expertise and good overall communication skills were ranked as second and third important attributes of account officers respectively. This indeed sheds light on the banks' training program since although the account officers may already be equipped with some financial and marketing knowledge, the banks still need to help the account officers acquire knowledge about the bank operations as well as different service products. Moreover, the communication skills of account officers should be further polished as account officers require different skills in communicating with different types of clients, such as clients engaging in different industries.

The banks should also implement a training program for account officers that focuses on such verbal and behavioral responses that clients interpret as being responsive to their needs, quickly following up on requests and problems, and maintaining an open and effective working relationship. This involves identifying which verbal and behavioral responses are associated with these characteristics and then training account officers to exhibit these responses. For instance, if clients define responsiveness in terms of frequent visits and anticipating problems their clients might experience in credit areas, account officers must be trained to exhibit these responses.

In addition, cross-training account officers between several industries and companies is essential. This makes a smooth transition for an account officer who moves from industry to industry as well as from company to company. It also ensures a smooth transition for the company when a change in account officer is necessary.

Furthermore, a reward system that can stimulate longevity of the account officers should be implemented. This does not only encourage them to improve their understanding of the client companies' business and industry but also improve the account officers' ability to speak for the bank in representing their clients' credit needs.

Marketing Strategies

As seen from the above findings, most of the decisions of selecting the major bank in Hong Kong were either made solely by the Hong Kong office or by the Hong Kong office with some parent influence. As such, marketing efforts directed towards the Hong Kong office are more important. It should however be noted that marketing should also be implemented at the headquarters level for some multinational corporations. The point is that all the marketing efforts should be well coordinated and integrated in order to achieve the best results.

As mentioned above, the groups of people on which the responsibility of selecting the major bank rests are diverse. Different companies have different people responsible for selecting their major bank, which include the board of directors, chief financial officer, the company owner, etc. In some companies the responsibility rests on more than one specific group. As such, the banks serving corporate clients should carefully identify each company's decision-making unit (DMU) which is responsible for selecting the major bank, at which the marketing efforts should be directed. One point to note is that in contemplating the DMU, it is important to include the people who do not actually make the decision, but who have a strong influence. A senior dealer, for instance, may not have a say in the major bank decision itself, but if he expresses doubt or concern, this will color the ultimate verdict.

In addition, people's word-of-mouth towards different banks seems to assume crucial importance in the companies' major bank selection process. The only way to generate positive word-of-mouth is to generate satisfied customers. Satisfaction can be generated by increasing the actual participation of client companies in the service delivery process. By participation, we mean the behavior that the client companies engage in when they define and specify the service they seek. Actually, bank marketers really need to be concerned with controlling the quality of the interaction between the bank and its client companies through ongoing management of the relationship. One important point to note is that participation of the client companies not only leads to higher customer satisfaction and thus better word-of-mouth, it can also open up additional opportunities for cross-selling additional services. By creating higher levels of satisfaction, the profitability levels of a broader base of clients companies can be achieved with efficient cross-selling.

Bank's Image

As seen from the above findings, the banks serving corporate clients in Hong Kong should promote a positive image of being both efficient and flexible, and of course live up to that image in their performance. Besides, since foreign exchange services and international fund transfers are perceived to be more important among the different service products in the companies' major bank selection, the banks' capabilities in providing reliable and efficient services in these areas should be emphasized in their promotion materials. Indeed, reliability of service and operational efficiency were the most crucial basic bank attributes perceived by the respondent companies in their major bank selection. Conveying to the companies that the banks are both reliable and efficient is therefore essential. However, it is of more importance that the banks really provide high quality service which can exhibit reliability and efficiency simultaneously.

Pricing Strategies

Pricing factors were perceived by the respondent companies to be quite important in their major bank selection. As such, companies are very price-conscious in selecting their major bank. Pricing strategies are therefore of crucial importance. In Hong Kong, there is nearly perfect information within the banking industry. Every bank knows the pricing strategies of its competitors. Therefore, the banks should offer competitive terms to their corporate clients. They should be competitive in their interest charges on loans and fee and commission charges.

Besides, greater discounts should be given to large corporate clients in order to attract more large corporate customers in the competitive market. Such narrower spreads (favorable rates) are largely offered at any event, and the attractiveness of such large corporate customers to a bank is not difficult to understand. They offer the possibility of high volume sales and thus economies of scale and wider margins; they offer good opportunities for business expansion through the sale of incremental services or from corporate expansion; they provide an impressive reference point which may influence others in their adoption of new services and innovations; and they can be a valuable source of marketing research information -- especially concerning competitive activity and the possible future needs of customers.

In addition, banks should not neglect smaller companies, especially those with much growth potential. This is because this segment is relatively less fought-over compared with that of the large companies. We recommend that account officers should identify those smaller companies which have sound prospects. This of course requires much good judgment on the part of the account officers. In order to capitalize on the opportunities arising in that segment of smaller companies with favorable growth potential, account officers should maintain close relationships with them and seek to play a consultancy role in such areas as business expansion, provision of relevant economic and industry information, etc. Very often, the business operations of smaller companies are less complex, and account officers may indeed find it easier to become the real "business partner" of those smaller companies. Once the relationships have been established, banks should be able to acquire more and more business from those smaller companies as they expand.

Accountant's Role in the Banking Relationships

The role of the accountant is often neglected in the banking relationships. The accountant who makes it his business to know the policy, lending rules, and capital adequacy requirements etc. of the bank can play a very important role on behalf of the company in dealing with the bank. Besides acting as a financial reporter by providing the bank with the complete client financial information, the accountant should also educate the company about the ways of doing and needs of the bank. The accountant, as a banking consultant, should gain insights into the internal bank policies, management rules, banking techniques, and, in particular, the objectives and psychology of the bank managers and account officers. Moreover, since the accountant is the one who knows the best about the composition of assets and debts of the company, he should be able to assist the company in identifying the assets for collateral and managing the debt position. Furthermore, in order to increase the company's chance of obtaining finance at the best possible terms, the accountant should calculate relevant financial ratios and provide notes and explanations with a view to reducing the lender's perceived risk towards the loan requests. This move can prevent the bank from rejecting the loan application based on the ratios calculated with its own ratio definitions and ignoring some industry or company specific factors that make the company ratios not seem so well.

Understanding that account officers are also credit risk takers, the accountant should "comfort" them -- "hold their hands" -- by providing accurate, prompt, and full information that can reduce the financial risk that the bank is about to take. The accountant should provide on a regular basis all the financial statements and supplementary data that the bank needs to assess the ability of making repayment. In addition, since the bank needs to look at all the cash flows inherent in a credit scenario, it has to assess the prospects of the client, the projected economic and industry conditions over the foreseeable future, and the impact of economic cycles on the client. Thus the accountant should identify the company's projected cash flows, together with for all related entities that can possibly impact negatively on the situation. Detailed information which reflects the nature of the cash flows, their timing and volume, and any risk that threatens them should be attached to the cash flows projected.

After granting the loans, the bank needs to monitor the borrower's business performance and repayment progress. Therefore, the accountant should prepare budget/variance reports to the bank together with explanations of the variances so as to relieve the account officers' worries about the client's ability to repay the loans.

Moreover, the bank should be informed of any modifications in business plans. Submitting detailed, prompt, and well prepared information in a frankly way to its bank is of great importance to a company because this can show to the bank that the company is running in a systematic manner, sensitive and responsive to the external environment, and confident of the future performance even though the current business performance is adversely affected by some negative external environmental factors.

CHAPTER VII

CONCLUSION

Corporate banking has always been an important branch of business for banks in most countries. In view of the keen competition in the corporate banking business, this calls for the need for banks to better understand the corporate banking behavior in such areas as bank usage, split banking, bank switching, and usage of financial institutions other than banks. Besides, it is extremely important for banks to understand the companies' criteria used in selecting banks and their selection process as well as the attributes of banks that are considered desirable by corporate clients in a banking relationship, which in turn can lead to a larger market share.

APPENDIX 1

QUESTIONNAIRE FOR BANKERS

1. How does your bank define its target market?
2. How does your bank approach its prospective corporate clients?
3. Does your bank have any preference to certain kinds of credit facilities?
4. How does your bank evaluate and analyze its prospective and existing corporate clients?
5. What factors does your bank consider in determining the terms of credit?
6. How does your bank monitor its corporate clients after credit approval?
7. How does your bank maintain relationships with its corporate clients?
8. What are the role and responsibilities of the account officers?

APPENDIX 2

QUESTIONNAIRE FOR CLIENT COMPANIES

Section I: Company Information

Please give your answer by checking the appropriate box.

1. How long has your company been established in Hong Kong? About ________ years.

2. Which industry(ies) is your Hong Kong company principally engaged in? *Please check all that apply.*

   ☐ Agriculture/Fishing/Mining
   ☐ Food/Beverage/Tobacco
   ☐ Construction/Properties
   ☐ Financial services
   ☐ Retail/Wholesale
   ☐ Trading/Shipping
   ☐ Restaurants/Hotels
   ☐ Textiles/Garment
   ☐ Heavy machinery manufacturing
   ☐ Electronics/Electrical
   ☐ Chemical/Pharmaceutical/Petroleum
   ☐ Communications
   ☐ Utilities/Transportation
   Others (please specify) ________________________________

3. Where is your company's headquarters located?

   ☐ Hong Kong
   ☐ Japan
   ☐ PRC
   ☐ Taiwan
   ☐ Australia/New Zealand
   ☐ United States
   ☐ Canada
   ☐ United Kingdom
   ☐ Germany
   Others (please specify) ________________

4. Who has(have) the responsibility for selecting the major banker for your Hong Kong company? *Please check all that apply.*

   ☐ Owner of the company
   ☐ Chief financial officer
   ☐ Corporate treasurer
   ☐ Division managers
   ☐ Chief executive officer/General manager
   ☐ Group of senior financial officers
   ☐ Board of directors
   Others (please specify) ________________
   ____

5. Is this responsibility *(Please check one)*

   ☐ Primarily a home office responsibility (for multinational corporations)
   ☐ Primarily a local (Hong Kong) office responsibility (for multinational corporations)
   ☐ Shared responsibility (for multinational corporations)
   ☐ Local (Hong Kong) (not multinational corporations)
   Others (please explain) ________________________________
   ____

Which of the following source(s) does your company use in selecting your major banker? *Please check all that apply.*

☐ Newspapers
☐ Radio news
☐ TV news
☐ Books/Magazines
☐ Government publications
☐ Trade journals
☐ Business partners
☐ Friends/Relatives
☐ Consultants/Advisors
☐ Seminars
☐ Salespeople
☐ Advertisements

Others (please specify) ______________________________

The number of banks that your Hong Kong company is currently employing is _____.

The most important bank (major bank) is (name): ______________________,

The second important bank (if any) is (name): ______________________,

The third important bank (if any) is (name): ______________________.

If your Hong Kong company is now employing more than one bank, what is(are) the reason(s) for using more than one bank? *Please check all that apply.*

☐ Ensure that your company is offered the best possible rates
☐ Company philosophy of "don't put all your eggs in one basket"
☐ Certain banks have specialist skills
☐ Certain banks offer a higher level of efficiency for particular services

Others (please specify) ______________________________
____
____

How long has the major banker mentioned above been working with your Hong Kong company?

☐ 1 to 2 years
☐ 3 to 5 years
☐ 6 to 8 years
☐ 9 to 11 years
☐ 12 to 15 years
☐ 16 to 20 years
☐ More than 20 years

(If your Hong Kong company has not switched its major banker in the past 3 years, please skip to Question 11.) What is(are) the factor(s) for switching your major banker? *Please check all that apply.*

☐ Change of corporate ownership
☐ Change of nature of business
☐ Change of geographical scope of business
☐ Change of management
☐ Company's wish to expand borrowing facilities
☐ Quality of bank's service products
☐ Variety of bank's service products
☐ Pricing factors
☐ Quality of account officers
☐ Bank's innovativeness
☐ Bank's operational efficiency
☐ Convenience of bank's location

Others (please specify) ______________________________
____

11. Which of the following financial institution(s) is your company <u>also</u> using now? *Please check all that apply.*

- ☐ Insurance companies
- ☐ Financial companies
- ☐ Stockbrokers
- ☐ Foreign exchange and money brokers
- ☐ Leasing/Hire-purchase companies
- ☐ Government/Quasi-government agencies (e.g. Export Credit Insurance Corporation)

Others (please specify) ______________________________
____

12. Is your company's ownership in the form of a family business?

☐ Yes ☐ No

13. What is the number of permanent employees working in your Hong Kong company?

- ☐ 1 to 50
- ☐ 51 to 100
- ☐ 101 to 200
- ☐ 201 to 400
- ☐ 401 to 700
- ☐ 701 to 1000
- ☐ More than 1000

14. The annual turnover (revenue) of your Hong Kong company last year is about
☐ HK$ or ☐ US$ ____________________.

<u>Section II: Importance Rating of Bank Attributes in Selecting Your Major Banker</u>

In selecting your major banker in Hong Kong, how important are the following factors? A score of <u>"1"</u> represents the <u>least important factor</u>; and the degree of importance increases in ascending order with <u>"6"</u> as the <u>most important factor</u>. Please indicate your answer by circling the appropriate number.

	Least <u>important</u>					Most <u>important</u>
Bank's reputation	1	2	3	4	5	6
Bank's country of ownership	1	2	3	4	5	6
Bank's size	1	2	3	4	5	6
Bank's financial strength	1	2	3	4	5	6
Bank's operational efficiency	1	2	3	4	5	6
Reliability of bank's service	1	2	3	4	5	6
Convenience of bank's location	1	2	3	4	5	6
Bank's image						
Innovative	1	2	3	4	5	6
Friendly	1	2	3	4	5	6
Flexible	1	2	3	4	5	6
Efficient	1	2	3	4	5	6

	Least important					Most important
Lending policy						
Aggressive lending policy	1	2	3	4	5	6
Amount of collateral required	1	2	3	4	5	6
Amount of financial information required	1	2	3	4	5	6
Product quality						
Loans	1	2	3	4	5	6
Foreign exchange services	1	2	3	4	5	6
Import/export financing	1	2	3	4	5	6
International fund transfers	1	2	3	4	5	6
Trust services	1	2	3	4	5	6
Insurance services	1	2	3	4	5	6
Deposits	1	2	3	4	5	6
Market information services	1	2	3	4	5	6
Financial advisory services	1	2	3	4	5	6
Investment services	1	2	3	4	5	6
Cash management services	1	2	3	4	5	6
Exchange rate forecast services	1	2	3	4	5	6
Account officers						
Banking expertise	1	2	3	4	5	6
Power to make decisions on the spot	1	2	3	4	5	6
Knowledge of your firm's business	1	2	3	4	5	6
Knowledge of your firm's financial status	1	2	3	4	5	6
Good overall skills in communication	1	2	3	4	5	6
Ability to communicate in non-technical language	1	2	3	4	5	6
Ability to deliver what is proposed	1	2	3	4	5	6
Good academic background	1	2	3	4	5	6
Keeping regular contact with your firm	1	2	3	4	5	6
Confidentiality	1	2	3	4	5	6
Pricing factors						
Interest charged on loans	1	2	3	4	5	6
Commissions and fees	1	2	3	4	5	6
Other service charges	1	2	3	4	5	6
Interest paid on deposits	1	2	3	4	5	6
Foreign exchange spread	1	2	3	4	5	6

Do you have any additional comments concerning your company's criteria for choosing its major banker in Hong Kong?

____

____

____

____

Do you have any other comments about this questionnaire?

- Thank you very much for your cooperation -

Optional (If you'd like the summary statistics of our research)

Company ______

Address ______

Send summary to ______

AGAIN.....MANY MANY THANKS!

APPENDIX 3

COVERING LETTER

Dear Director of Finance,

We are two final-year MBA students at The Chinese University of Hong Kong and are now working on our project as a partial fulfillment of graduation requirement. The supervisor of our project is Dr. Neil Bruce Holbert (Senior Lecturer, Department of Marketing) and our research topic is the relationship between companies and their banks. Since there is a marked lack of research on corporate banking, this project is conducted to shed light.

Could you please take just a few minutes to answer this questionnaire. Because our sample of companies is necessarily limited in size, each response is greatly valued. All information will be used for academic purposes only, and be kept strictly confidential. If you'd like the summary statistics of our research, please indicate your name and address at the very end of the questionnaire.

We really appreciate your help very much as your views are indeed important to the accomplishment of our project. Would you please send back this questionnaire **no later than February 25, 1994**. Please put the completed questionnaire into the self-addressed stamped envelope enclosed and mail it back to us. If you have any queries, please feel free to contact Louisa (at XXX-XXXX) or May (at XXX-XXXX). Again many many thanks!

With sincere thanks,

Fok Yin Mei, May

Leung Suk Yee, Louisa

Encl.

APPENDIX 4

COMPANIES' HEADQUARTERS

Headquarters	Number of Respondent Companies	Frequency (%) (n=125)
Hong Kong	66	53
Japan	2	2
PRC	0	-
Taiwan	0	-
Australia/New Zealand	3	2
United States	29	23
Canada	2	2
United Kingdom	9	7
Germany	5	4
Others	9	7
TOTAL	125	100

APPENDIX 5

INDUSTRIES IN WHICH COMPANIES WERE PRINCIPALLY ENGAGED

Industry	**Number of Respondent Companies**	**Frequency (%) (n=125)**
Agriculture/Fishing/Mining	1	1
Food/Beverage/Tobacco	7	6
Construction/Properties	5	4
Financial Services	7	6
Retail/Wholesale	20	16
Trading/Shipping	31	25
Restaurants/Hotels	2	2
Textiles/Garment	13	10
Heavy Machinery Manufacturing	1	1
Electronics/Electrical	10	8
Chemical/Pharmaceutical/Petroleum	15	12
Communications	6	5
Utilities/Transportation	2	2
Others	34	27

APPENDIX 6

COMPANIES' NUMBER OF PERMANENT EMPLOYEES

No. of Permanent Employees	Number of Respondent Companies	Frequency (%) (n=125)
1 - 50	56	45
51 - 100	11	9
101 - 200	22	17
201 - 400	15	12
401 - 700	8	6
701 - 1,000	6	5
> 1,000	7	6
TOTAL	125	100

APPENDIX 7

COMPANIES' YEARS OF ESTABLISHMENT

Years of Establishment	Number of Respondent Companies	Frequency (%) (n=125)
1-5	17	14
6-10	22	18
11-15	12	10
16-20	15	12
21-25	14	11
25-30	17	14
31-34	12	10
41-50	7	5
51-100	7	5
Missing	2	1
TOTAL	125	100

APPENDIX 8

COMPANIES' FORM OF OWNERSHIP

Form of Ownership	Number of Respondent Companies	Frequency (%) (n=125)
Family Business	37	30
Not Family Business	85	68
Missing	3	2
TOTAL	125	100

APPENDIX 9

THE RESPONSIBILITY OF SELECTING THE MAJOR BANK IS ...

	Number of Respondent Companies	Frequency (%) (n=125)
Primarily a Home Office Responsibility (for multinational corporations)	14	11
Primarily a Local (Hong Kong) Office Responsibility (for multinational corporations)	39	31
Shared Responsibility (for multinational corporations)	26	21
Local (Hong Kong) Office (not multinational corporations)	40	32
Others	6	5
TOTAL	125	100

APPENDIX 10

WHO ARE RESPONSIBLE FOR SELECTING THE MAJOR BANK?

Position in the Company	Number of Respondent Companies	Frequency (%) (n=125)
Company Owner	31	25
Chief Financial Officer	39	31
Corporate Treasurer	17	14
Division Managers	8	6
Chief Executive Officer/General Manager	28	22
Group of Senior Financial Officers	6	5
Board of Directors	41	33
Others	9	7

APPENDIX 11

INFORMATION SOURCES USED IN SELECTING THE MAJOR BANK

Information Source	**Number of Respondent Companies**	**Frequency (%) (n=125)**
Newspapers	2	2
Radio News	0	-
TV News	1	1
Books/Magazines	1	1
Government Publications	2	2
Trade Journals	5	4
Business Partners	64	51
Friends/Relatives	30	24
Consultants/Advisors	26	21
Seminars	0	-
Salespeople	8	6
Advertisements	7	6
Others	36	29

APPENDIX 12

BANKS EMPLOYED BY COMPANIES*

Used as Major Bank	Number of Companies	%	Used as Second Important Bank	Number of Companies	%	Used as Third Important Bank	Number of Companies	%
Hongkong Bank	55	46	Hongkong Bank	31	32	Hongkong Bank	9	15
Citibank	12	10	Standard Chartered	11	9	Bank of China	7	12
Hang Seng	7	6	Citibank	9	7	Standard Chartered	7	12
Standard Chartered	6	5	BNP	4	3	Citibank	6	10
Bank of America	4	3	Deutsche Bank AG	4	3	Sin Hua	3	5
Bank of East Asia	3	3	Bank of China	2	2	Wing On	2	3
Kwong On	3	3	Chase	2	2	Bank of America	2	3
Sin Hua	3	3	Chekiang First	2	2	Chase	2	3
Dao Heng	2	2	Chemical	2	2	Belgian Bank	2	3
ABN	2	2	Hang Seng	2	2			
BNP	2	2	First Pacific	2	2			
Chase	2	2	Nanyang Commercial	2	2			
Chemical	2	2	Shanghai Commercial	2	2			

* *Only banks that were used by more respondent companies are listed*

APPENDIX 13

NUMBER OF BANKS USED BY COMPANIES

Number of Banks Used	Number of Respondent Companies	Frequency (%) (n=125)
1	18	14
2	28	22
3	21	17
4	7	6
5	9	7
6 - 10	10	8
11 - 20	3	2
21 - 30	2	2
> 30	3	2
Missing	24	20
TOTAL	125	100

APPENDIX 14

REASONS FOR USING MORE THAN ONE BANK

Reason	Number of Respondent Companies	Frequency (%) (n=125)
Ensure that company is offered the best possible rates	54	43
Company philosophy of "don't put all your eggs in one basket"	54	43
Certain banks have specialist skills	51	41
Certain banks offer a higher level of efficiency for particular services	62	50
Others	11	9

APPENDIX 15

HOW LONG COMPANIES HAVE WORKED WITH THEIR MAJOR BANK?

Number of Years	Number of Respondent Companies	Frequency (%) (n=125)
1 - 2	6	5
3 - 5	20	16
6 - 8	13	10
9 - 11	17	14
12 - 15	16	13
16 - 20	10	8
> 20	41	33
Missing	2	2
TOTAL	125	100

APPENDIX 16

FACTORS FOR SWITCHING THE MAJOR BANK

Factor	Number of Respondent Companies	Frequency (%) (n=24*)
Change of Corporate Ownership	3	13
Change of Nature of Business	0	-
Change of Geographical Scope of Business	1	4
Change of Management	4	17
Company's Wish to Expand Borrowing Facilities	10	42
Quality of Bank's Service Products	10	42
Variety of Bank's Service Products	7	29
Pricing Factors	10	42
Quality of Account Officers	7	29
Bank's Innovativeness	2	8
Bank's Operational Efficiency	14	58
Convenience of Bank's Location	6	25
Others	1	4

* *Only 24 banks in our sample have switched their major bank in the past three years.*

APPENDIX 17

IMPORTANCE OF BANK ATTRIBUTES IN MAJOR BANK SELECTION

	Mean
Bank's Reputation	5.31
Bank's Country of Ownership	3.75
Bank's Size	4.63
Bank's Financial Strength	5.47
Bank's Operational Efficiency	5.48
Reliability of Bank's Service	5.52
Convenience of Bank's Location	4.20
Bank's Image	
Innovative	4.49
Friendly	4.69
Flexible	5.07
Efficient	5.31
Lending Policy	
Aggressive Lending Policy	4.11
Amount of Collateral Required	4.07
Amount of Financial Information Required	4.05
Product Quality	
Loans	4.45
Foreign Exchange Services	4.65
Import/Export Financing	4.10
International Fund Transfers	4.55
Trust Services	2.95
Insurance Services	2.39
Deposits	4.04
Market Information Services	3.63
Financial Advisory Services	3.76
Investment Services	3.21
Cash Management Services	3.97
Exchange Rate Forecast Services	3.17

	Mean
Account Officers	
Banking Expertise	4.96
Power to Make Decisions on the Spot	4.75
Knowledge of Firm's Business	4.80
Knowledge of Firm's Financial Position	4.73
Good Overall Skills in Communication	4.87
Ability to Communicate in Non-technical Language	4.35
Ability to Deliver What is Proposed	4.85
Good Academic Background	3.73
Keeping Regular Contact with Firm	4.57
Confidentiality	5.47
Pricing Factors	
Interest Charged on Loans	5.06
Commissions and Fees	5.13
Other Service Charges	4.90
Interest Paid on Deposits	4.74
Foreign Exchange Spread	4.73

APPENDIX 18

FINANCIAL INSTITUTIONS OTHER THAN BANKS USED BY COMPANIES

Financial Institutions	Number of Respondent Companies	Frequency (%) (n=125)
Insurance Companies	67	54
Financial Companies	16	13
Stockbrokers	8	6
Foreign Exchange and Money Brokers	10	8
Leasing/Hire-purchase Companies	28	22
Government/Quasi-government Agencies (e.g. Export Credit Insurance Corporation)	1	1
Others	3	2

APPENDIX 19

CROSS TABULATION: LOCATION OF HEADQUARTERS BY WHO SELECTS THE MAJOR BANK?

		Who Selects the Major Bank?							
		Owner	Chief Financial Officer	Corporate Treasurer	Division Manager	Chief Executive Officer	Group of Financial Officers	Board of Directors	Combination*
Location of Headquarters	Hong Kong	20	5			4	1	17	19
	Japan					1			1
	US/Canada		7	4	2	4	3	1	10
	UK		2			1		3	2
	Other European countries	1	1	1		2		4	2
	Others		1			1			1

* *Some companies rest the responsibility on more than one specific group.*

APPENDIX 20

CROSS TABULATION: LOCATION OF HEADQUARTERS BY MAJOR BANK

		Major Bank						
		Hongkong Bank Group*	Other Local Banks	Bank of China Group	Japanese Banks	US/Canadian Banks	UK Banks	Other European Banks
Location of Headquarters	Hong Kong	36	9	5	1	4	5	5
	Japan	1				1		
	US/Canada	12		1		18		
	UK	8	1					2
	Other European Countries	2				1	1	6
	Others	2						

* *Hongkong Bank Group consists of Hongkong Bank and Hang Seng Bank.*