A troublesome emergence: -a marketing primer on Russian retail banking-[i]

SSE/EFI Working Paper Series in Business Administration No 2004:11
September 2004

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Keywords *Transition economy, market construct, competition, consumer loyalty*

Abstract *The transition process of the formerly socialist economies of Eastern Europe dates back more than a decade. Whereas a few countries now entering the European Union experience significant progress some others, most notably the former CIS-countries including Russia, lag behind. Despite the central role of its subject matters for such market development, marketing has conceded ground to economics concerning the understanding of transition economies. This paper attempts to provide a remedy in this regard by presenting the results of a study undertaken in the retail banking sector in Saint Petersburg. Central to the argument is the idea that by looking into both horizontal and vertical market features, here competition and consumer loyalty, marketing provides an analysis where patterns appear which are not evident in conventional neoclassical scrutiny.*

Introduction

Consider two studies undertaken in banking, Bossone (2001) discussing a 'circuit model' of financial services, and Devlin (2001) who analyzes the impact of customer attitudes in such a setting. Whereas Bossone pays most of his attention exclusively on the macro level, not commenting very much on customer-related issues, Devlin pursues his argument very much on the micro-level without really caring much about the overarching market landscape. This either-or inclination is rather typical for the majority of works that is encountered in focused studies, be they found in economics or marketing. Despite their meritorious efforts it is obvious that they deprive themselves of the explanatory power that resides in studies such as that of Baker (1984) where floor factors (in this case the bonds evolving between traders) impact the overarching whole (in this case securities exchange market volatility). Such an integration of market dimensions responds to the call made by Thomas and Soldow (1988, p 72).

> *As is true in other marketing problems, the key… may well be in the complex between horizontal (competitive) and vertical (buyer-seller) relationships. Instead of pursuing an orientation based exclusively on one or the other, researchers probably should examine the relationship between them.*

In this vein it is obvious that marketing is in the position to come forward with explanatory models that are not found in conventional economics analysis. This seems particularly promising when transitional markets are looked into, an area where there have been few if any alternatives to the predominant neoclassical paradigm (confer Åslund 2002). By reinstalling some key notions of marketing in these regimes, such as customer value, competition, and consumer sovereignty (confer Dickinson et al 1986), the discipline shoulders a responsibility which until now is mostly not taken on (confer however Lynn et al 2000 for an exception in this regard). Following the reasoning pursued by The World Bank (2002, pp xv, 3, 45-46, 129) there is good reason to pursue such a scrutiny in the problem-ridden Russian financial sector as its eventual workability is most conducive for how markets and the practice of marketing in general develop in this country. By thus improving the understanding of the market for financial services with the help of new analytical tools overall market development stands to benefit.

In this study some of Saint Petersburg's retail banking market is looked into by the scrutiny of competition and consumer loyalty therein. By turning to some 60 banks and some 600 consumers this endeavor sets out to delineate some initial contours of a multidimensional market analysis that differs tangibly from what most often is experienced in studies of transition economy markets.

After the provision of some fundamental Russian banking characteristics this text discusses how a market can be framed as a composite of competition and consumer loyalty much in the same vein as White (1981) chooses to tackle such an issue. Central to the argument pursued here is that consumer loyalty, in the spirit of Hirschman (1970), can be grasped according to the European Performance Satisfaction Index (EPSI) model and that competition can be measured as a mental construct akin to the reasoning pursued by Porac et al (1989). The study is then presented as regards its design and results that are further discussed and commented upon in the closing session.

Some features of the Russian banking sector

Strolling down Saint Petersburg's Nevsky prospect and embracing the variety of ads, some actually appearing in English, a temporary visitor could possibly infer that the transitional phase of the Russian economy is since long over. After all it is by now more than ten years since the iron curtain came up in order to expose the socialist economies to its market-driven alternative. There are obviously giant differences among these economies as those on the eve of entering the European Union (such as Estonia, Hungary, and Slovenia) display records not heard of by the CIS-countries (including Russia) (EBRD 2002). The conclusion drawn by Gros and Suhrcke (2000) is that is still very relevant to talk about economies in transition as these display characteristics which make them stand out when compared to others with corresponding per capita incomes. Poor workability of the financial sector stands out as one such indicator. Another field of concern is competition, the sine qua non of a market economy. Both policy implementation, market structure concentration ratios and the equality of firms in access to capital, display lots of potentials for improvement (Carlin et al 2001, Vagliasindi 2001). Most intriguing here is however the observation made by Carlin et al (2001, p 21) according to which competition in a transition economy is mostly 'exogenous to the firm'. That is to say, it is less the result of successful company conduct than an outcome of some basic features such as product heterogeneity, technology access et cetera.

Devoid of a well-performing financial sector the resources of any economy are not satisfactorily allocated and the prospects for sustainable growth are in consequence seriously hampered (Anderson et al 1996). Growth per se could thus prevail for some time but unless it is structurally viable it might be illusory in character thus putting in jeopardy some genuine development. In light of contemporary Russian progress it suffices to mention the extent to which this is anchored in the prizing of natural resources and in consequence vulnerable to world market fluctuations. ‘While a sound, efficient financial sector is not sufficient to guarantee long-term growth, long-term growth is difficult to achieve without a sound financial sector’ (The World Bank 2002, p 129). And by any means the Russian financial system, here mirrored through its banking market, has got a long way to go (EBRD 2002).

> *It is clear that the current state of the Russian financial sector is hampering the advancement of the development of the Russian economy as a whole. The constraint of a weak financial sector will become more and more evident as the real economy tries to revive. In comparison to development of many other aspects of the Russian economy, the financial sector has seriously lagged behind. Further delay will not only impede the further development of the economy as a whole; it may undermine the progress that has been made since the 1998 crisis* (The World Bank 2001, pp 45-46).

The main function of banks and their financial sector affiliates is to provide the infrastructure for a monetized economy (payment services, savings mobilization, diversification of risk et cetera). This is mostly lacking in Russia today. Banks do not do banking but an array of other activities associated with the power displayed by government and large corporations, most notably in the energy sector. Some are in fact ‘rent-seeking vehicles’ (Åslund 2002, p 240). The consequence of comparatively few and low deposits and credits (in part stemming from the insufficient protection of both banks and its customers) is that banking as a market is not big, that SMEs suffer from inadequate access to capital, and that whatever operations are undertaken lack rudimentary efficiency. A few things stand out in particular (The World Bank 2001, pp xvi, xx, 3-6, 132, 167, 209, 234, 317, 330, Åslund 2002).

- There is an unsound dominance of state-run inefficient banks which is manifest in Sberbank controlling some 75% of retail market deposits and some 30% of aggregate outstanding loans.
- The relative prevalence of foreign banks and the assets hold by them (conducive for progressive sector development) is small in comparison with other transition economies.
- Banks are in general undercapitalized as only 230 out of a total 1300 banks have capital in excess of 150 million rubles which is slightly below the minimum capital requirements of the European Union of 5 million euros.
- The bank market depth, seen as M2[ii]/GDP, is very shallow in Russia (only 22%, in comparison to France's 51%, Hungary's 44%, Poland's 41%, and United States' 61%) meaning that the economy does not really enjoy any financial intermediation.
- Banks make supra-profits as the interest rate spread (lending less deposit rates) is 18% (compared to Hungary's 3% or Poland's 6%).

The World Bank (2001, pp 6-42) identify the lack of trust as the main explanatory parameter. Some measures which could improve this is the proper enforcing of creditor rights and the imposing of sound insolvency practices combined with strengthened supervision and the introduction of a deposit insurance (confer Anderson et al 1996).

As for any emergent economic context it is obvious that in the case of Russia it is macroeonomic reasoning and institutional concern that have been the main spheres of attention (confer Hedlund 2001). Such post-socialist legacy inadvertently de-emphasizes the role of customers and hence, seemingly, the scope for marketing in contributing to an improved market understanding. This fact is nicely commented upon by Åslund (2002, p 6) who observes that '[t]he growth task has involved the liberalization of supply and not the stimulation of demand.' That is to say, just like under central planning the transformation process itself falls short of paying any major interest to marketing issues to the detriment of sound market development. It has simply, mostly, until now been enough to focus supply issues and how demand must be understood is not really an issue save for from a purely sociological angle.

One way of partially overcoming this flaw is presented in this paper where retail banking is discussed from a marketing point of view. This comes by as competition among banks is commented upon not in terms of structural measures such as concentration ratios but in terms of the views actually held by some bankers. And as consumer loyalty is turned to by scrutinizing the opinions of some customers themselves. To be able to bring forward such a multidimensional view it is however first necessary to spend a few words on delineating what it entails when a market is discussed in this vein whereupon the text turns to how competition and loyalty could be framed therein.

The construction of markets

As brought forward by Vernon Smith, in his 2002 Nobel banquet address in the Stockholm City Hall, the market may well be conceived of as 'humanity's most significant creation'. It is, then, as observed by Swedberg (1994, p 257) all the more stunning that this edifice is so poorly understood by economic theory where such an account is to be readily expected. There is plenty of evidence suggesting that market analysis, as understood from within conventional microeconomics, is not very well suited to accommodate the requirements of marketing in this regard (confer Hunt and Morgan 1995). It becomes an 'empty generic conceptualization' (Demsetz 1982, p 6), an 'empirical difficulty' that mostly is not paid any further attention to (Tirole 1995 (1988), pp 12-13). For marketing to make some analytical progress in this field three traditional pillars from within the social sciences can be identified. *Firstly*, the market must be understood as a function of what emerges between people, it is 'a social body; it is the foremost social body' (Mises 1963 (1949)). *Secondly*, such a social body is produced by the intentions and aspirations of the actors, something subsequently informing outright behavior (Berger and Luckmann 1971 (1966)). *Thirdly*, such conduct is a function of the interplay between the buyer and the seller market dimensions much in the vein delineated by Weber (1968 (1922)). Put together this fairly well corresponds to the position taken by White (1981) by means of which supplier interaction structures produce the market under the influence of customers.

White furthers that markets are 'social formations' wherein customers and suppliers can be distinguished by their occupation of different roles in the eyes of others and themselves. Aggregate supply and demand then relate to each other by way of 'transposable role structures'. The producers' market is a set-up of parallel manufacturing roles, each of which is defined as suppliers mirror each other. This is a social construction of a market reality that produces and reproduces its own assumptions. Producer conduct, manifest in market beliefs, is here seen as inspired by a mix of behavioral handrails such as 'imperfect information', 'rational expectations' and 'signaling theory' (White 1981, p 518). Such beliefs are self-fulfilling but neither random nor automatic, but the best deliberate guidance available. What is maybe discerned as a rather tranquil situation does not conceal that this might represent 'intense social pressures to compete for and to sustain a distinct position' (White 1993, p 225) As observed by Swedberg (1987, p 110), '[b]usinessmen act as *if* the market had a stable structure and consequently it gets one'. A market structure then mirrors its own dependencies in retrospect as they are mutually constructed by the producers therein (Leifer and White 1987, pp 89-90, 95-96, 103-104). Producers furthermore do not act directly upon buyers' requests but only indirectly so via their interpretation of competitors that in and by themselves reflect patterns of customer conduct. 'Pressure from the buyer side creates a mirror in which producers see themselves, not consumers' (White 1981, pp 543-544).

The study here underway draws upon these ideas by arguing that a market can be understood as a composite of competition among suppliers and loyalty experienced by consumers in relation to these sellers. Competition and loyalty then become two non-unique proxies that tell about some features of the scrutinized market. Such an analysis does not claim to be exhaustive, nor does it set out to be in any sense better then some of its alternatives. That is to say, this particular market account cannot be privileged at the expense of any others. But it provides an integrated multidimensional marketing view of the market as an alternative to what normally is met within the realms of transition economics thus answering the marketing call made by Thomas and Soldow (1988). Given the explorative character of this work no causal mechanisms that tie competition and loyalty to each other are described here, but some ideas in this direction are provided in the conclusive section of the paper.

The first proxy, competition as a mental construct

The major assumption here is that competitive rivalry can be understood as a mental construct pertaining to the nature of competition, its intensity, and the identity of those who share an interest in such a process. The context is the ‘shared meaning structures’ of a business, as seen in the notion of an ‘industry recipe’, ‘ideas that has a certain potential’ (Spender 1989). There are norms as to how competition ‘should’ work out by means of strategies chosen. A similar notion is that of ‘industrial wisdom’ proposed by Hellgren and Melin (1992). This ‘mental structure … expresses shared beliefs about competitive rules of the game and the structural freedom of action within an industry. In other words, the industrial wisdom is a shared conventional wisdom about appropriate structure and action that is held by most firms in an industry. … [It] gives expression to cognitive characteristics of an industry’ (Hellgren and Melin 1992, p 187). Yet another way of illustrating the competitive context is to see competitive interaction as ‘patterns that, over time, take on prescriptive forces and evolve into rules’ (Thomas and Soldow 1988). Such implicit and negotiated rules are prescriptive in the sense that they serve as guidance for future behavior of actors that simultaneously reshape the rules via their action. This is very much akin to the market view as suggested by White above since there is a dynamic competitive process at hand wherein market rules are jointly constructed and then acted upon.

But how can competition then be made within reach, for instance by an external onlooker? As recalled above, this is very much the subject matter of White who discusses manufacturers mirroring each other, the '[watching of] competition in terms of observables' (White 1981, p 518). One of the first explicit efforts concerning the role of 'perceived competitive structures' for the choice of market strategy is that of Gripsrud and Grønhaug (1985) who inquire into grocery stores in a 'small Norwegian town'. Their findings imply that geographical proximity is a key variable in order to understand competitor perception in this vein (confer Sölvell 1987). More of an overarching industrial focus is the contribution of Easton (1988) who looks into the precise manner in which 'A considers B to be a competitor' and vice versa. The findings disclose a) uncertainty as to the perceived boundaries of an industry following competitor identification and b) asymmetry regarding mutual competitor identifications. By relating traditional industrial organization theory (Porter 1980) that is reformulated via an interpretive social constructionist perspective (Berger and Luckmann 1966) and organizational enactment reasoning (Weick 1979, Smircich and Stubbart 1985) Porac et al (1989) further similar arguments by a 'cognitivist stance on interfirm competition'. Such a stance is manifest in 'human activity as an ongoing input-output cycle in which subjective interpretations of externally situated information become themselves objectified via behavior'. Among the assumptions made is that interpretation is active in the sense that it can be verbalized and thus somehow measured. The resulting enactment processes means that managers 'construct a mental model of the competitive environment' subject to which the organization's own conduct unfolds. An empirical investigation of the Scottish knitwear industry shows that a structural feature such as oligopoly that traditionally is seen as the cause of other events here is reinterpreted as the outcome of enactment processes thus resulting in the construction of 'cognitive oligopolies' (Porac et al 1989, pp 412-413).

A complementary line of inquiry is presented by Bengtsson (1994) and Sölvell and Bengtsson (1997). They launch 'climates of competition', a concept that encompasses both structure and conduct and that result from processes of competitor interaction. Bengtsson (1994, p 179) sees a climate as 'the joint coeval experience of symmetry [of actors] and [active or passive competitive] activity respectively in an industry'. The operational definition thereof is 'the degree of intensity in competition and attitudes towards each other within the industry' (Sölvell and Bengtsson 1997, pp 5, 9). Attitudes include but are not limited to whether competitors see each other as friends or enemies, and whether positions occupied and actions undertaken are accepted by others or not. This notion of climate is the institutional structure subject to which competitive rules (in the Thomas and Soldow 1988 sense of the word) evolve. This is so since the idea of climate encompasses both the 'who-is-my-competitor?' and the 'which-is-the-contextual-atmosphere?' issues.

The second proxy, consumer loyalty as a function of satisfaction

A small but eloquent piece of writing appearing some 30 years ago, Albert Hirschman's (1970) theory of exit-voice, in many respects epitomizes the attention paid during the 1990s to the domain of customer loyalty. Hirschman posits that a dissatisfied customer tends to express her sentiments either by discontinuing buying ('exit') or by complaining openly ('voice'). Whether such a customer resorts to these behaviors or simply stays on with the supplier, thus being loyal, is inter alia a function of the presence of supply market alternatives. In light of the disruptive business impact that customer exit bears with it in a highly competitive environment, Fornell and Wernerfelt (1987, 1988) suggest that defensive marketing directed at making the customer stay with the supplier (the inducement of loyalty by for instance handling of customer complaints) should be a core management concern. That is to say, provided one can accept that 100% customer satisfaction is not achievable, but that this per se does not imply lost customers, it pays off to scrutinize the achievement and maintenance of loyalty.

As observed by Dick and Basu (1994) '[t]he brand loyalty literature contains a plethora of measures' that are 'predominantly operational and devoid of theoretical meaning'. That is to say, behavioral considerations traditionally by far outperform those directed at attitudinal measures and in consequence how the latter inform the former. In their view the degree of customer loyalty is a function of how cognitive, affective, and conative antecedents form the relative brand attitude that is conducive for ongoing customer patronage. Whereas high relative attitude and repeat patronage signifies 'loyalty' (and low attitude and patronage 'no loyalty'), high patronage void of attitude is 'spurious loyalty'. 'Latent loyalty' is when attitude is high and patronage is low. The much-cited contributions by Oliver (ie 1999) are more inclined towards exploring how satisfaction and loyalty are connected thus challenging the intuitive positive causal relationship that should prevail. The prevalence of satisfied defectors is hence what calls for more of managerial attention to loyalty in relation to dissatisfaction, as opposed to mere satisfaction, issues. 'In short, it is time to begin the determined study of loyalty with the same fervor that researchers have devoted to a better understanding of customer satisfaction' (Oliver 1999, p 33). What is found is that 'delivered' satisfaction, 'how did the product or service fulfill its purpose?' is distinct from 'received' loyalty, 'an attained state of enduring preference to the point of determined defense'. Loyalty is hence not a transformed satisfaction but the outcome of satisfaction as 'a seed that requires the nurturance of sun, moisture, and soil nutrients', the latter being equivalent to ‘personal determination and social support’ (Oliver 1999, pp 41-42). An additional way of going at loyalty is to further the understanding of what loyalty is not, what Rowley and Dawes (2000) labels disloyalty. This concept expands upon Dick and Basu’s (1994) framework (the instance of ‘no loyalty’) and can be judged according to its intensity from disengaged, disturbed, and disenchanted, to disruptive disloyalty. Each such intensity level is a function of attitude and behavior that could both be either inertial or negative. When both are inertial, disengaged (the lowest-level) disloyalty results whereas disruptive disloyalty occurs as both are negative. According to these ideas it is only for customers who display this disruptive disloyalty that there is a strong link between dissatisfaction and defection.

Probably the most consistent and eloquent endeavor to measure customer loyalty at a national level and across industries is the European Performance Satisfaction Index. This is a structural model for loyalty measurement that is estimated by PLS (partial least squares) technique. Apart from the value endemic to its history (customer satisfaction is measured in this vein beginning in Sweden in 1989 and in the USA in 1994), Monte Carlo simulations show that the PLS technique applied on this vein (combined with 10-point scales to allow for finer discriminations and drawing on multiple indicators) is relatively robust when considered in light of skew response distributions, multicollinearity and other types of model misspecifications (confer Cassel 2000, Cassel et al 2000, Pan European CSI Report 2002). Its underlying foundations are accounted for in Fornell (1992) and Fornell et al (1996) and start out by posing that there tends to be a positive causal relationship between satisfaction and loyalty but that also complaint management and other customer switching barriers exercise an impact. That is to say, the building of switching barriers (making it costly for the customer to switch) and the increasing of customer satisfaction (making it costly for a competitor to make an inroad) are two parallel facets of a defensive market strategy that builds loyalty. As for the model itself there are three main principles, a) the variable meaning is subject to the context wherein it applies, b) some error degree is endemic to all variable measurement, c) customer satisfaction is a construct that cannot be directly observed. 'The task is thus to specify a reasonably comprehensive system of postpurchase outcomes in which customer satisfaction is a part. Accordingly, the index is specified as a composite latent variable in a system represented by multiple equations where measurement error … is accounted for' (Fornell 1992, p 12).

Study design

To get a first hold on banks in Saint Petersburg the local yellow pages are turned to. Hereby it is learned that there are some 105 banks present in the city. 84 of these are approached as they constitute more than mere small representative offices. In each bank an officer in charge of working with individual clients-consumers is targeted for face-to-face interviews by means of a standardized questionnaire that also embraces items in areas not pertaining to competition (thus not discussed here). Only one respondent per bank is chosen. The total number of questionnaires collected is 58, one of which is taken away as it proved to be a respondent for a bank already turned to. The number of banks that for one reason or the other refuses to provide information is 19 and those that for other reasons do not submit information is 7. Thus, the response rate is 57/84=68%. Respondents are visited during the months of November and December 2002. Four main questions are posed to each banker in the area of competition. The generation of items are foremost inspired by Rosch (1975) and Easton (1988) as appearing in Liljenberg (1999).

1. What is the level of competition in your area of banking?

   (respondents are asked to provide a rating on a scale ranging from 1; ‘very low’ to 7; ‘very high’)

2. How has this level of competition developed in the recent 18-month period?

   (respondents are asked to provide a rating on a scale ranging from 1; ‘became much lower’ to 7; ‘became much higher’)

3. Which banks are your direct competitors, and what is the level of competition?

   (respondents are asked to provide names of banks and in conjunction therewith a rating on a scale ranging from 1; ‘very low’ to 7; ‘very high’ pertaining to each individual competitor)[iii]

4. How would you characterize competition in your area of banking?

   (respondents are asked to pick one of the following alternatives; as ‘cooperation’?/as ‘coexistence’?/as ‘struggle’?/as ‘conflict’?/as ‘collusion’?/ as ‘other’)

The loyalty data is gathered by means of standardized interview surveys as part of an ongoing effort to scrutinize customer satisfaction in various product markets subject to the European Performance Satisfaction Index system (confer the Pan European CSI Report 2002). Nine out of nineteen districts in Greater Saint Petersburg are randomly chosen by means of the PPS (probability proportional to size) method; Centralny, Vasileostrovsky, Frunsensky, Kirovsky, Primorsky, Vyborgsky, Krasnogvardeysky, Pushkinsky, and Kurortny. In each district four to six starting points are chosen at random whereupon each interviewer’s itinerary is strictly determined. Every third household on the way of each interviewer is subject to a visit. If nobody opens the door when an interviewer calls the doorbell the interviewer is supposed to come back two more times before the household is left out. About 40 professional interviewers are hired and trained for the project including nine team leaders who are responsible for supervision, coordination and quality control. The fieldwork is undertaken between September 9 and November 12 2002 and runs in two periods[iv]. The aim is to collect 250 questionnaires from each consumer category that considers a particular major bank as their main bank. This goal is only met for Bank Petrovsky and Sberbank. The reason for this sampling bias is found when the age distribution of respondents is investigated. Respondents turn out to be rather mature and these two banks offer special services for retired people who mostly receive their pensions via either of them. This fact explains why about 70% of Bank Petrovsky customers and some 50% of Sperbank clients in the survey are people above 50 years of age. What is more, some 70% of them are female. See further Appendix B.

take in Table I

The response rate for the overall European Performance Satisfaction Index survey thus undertaken in Saint Petersburg, turning also to other industries such as beer and telephony, is 39%. This is rather low in comparison to similar studies undertaken earlier and is most likely subject to an unfortunate overlap with the ongoing national census that renders people less apt to be respondents. Because of deficiencies in the data gathering procedure it is not possible to reveal the response rate for retail banking in particular.

The European Performance Satisfaction Index is a standardized structural model that builds upon linear relations between seven main constructs (Pan European CSI Report 2002) as displayed by the figure below.

take in Figure 1

The model sets out to provide causal relationships between multi-item constructs, thus seen as latent variables, and is hence made up of a number of structural equations. A fully saturated alternative, estimations of all possible relations between the constructs, would have been an alternative but following extensive testing it was decided to opt for a semi-saturated alternative thus embracing the links as found in the illustration. As commented upon earlier the model, drawing on PLS-technique, displays relative robustness which is highly important specially when preconditions are difficult as seen in skew response distributions, something present in this study. PLS implies that every structural equation is solved and average levels of each latent variable is then estimated inclusive of error margins. In addition to robustness, reliability and predictive power are crucial to the model design. Every construct is furthermore measured by at least three items that should pertain to different but important aspects of that construct. An item requires the respondent to state on a scale 1-10 her rate of (ie) satisfaction in that particular area. As a case in point the three items directly related to satisfaction, measured as a customer satisfaction index, pertains to a) the overall satisfaction, b) expectations fulfillment, and c) closeness to the ideal offer. The latent variable loyalty is represented by a) intention to buy again and b) intention to recommend the offer to others [v]. A more detailed discussion concerning this standard model's statistical properties is found in Cassel et al (2000). The questionnaire is duplicated in Appendix A where also the composition of the seven latent variables are found.

In addition to questions pertaining to the EPSI-model, the survey also includes a few questions that relates the respondent's bank alternatives and the estimated ease of switch from one bank to the other. These questions, involving also Likert scales, are inspired by a similar study undertaken by the Swedish Competition Authority (2001). Because of shortcomings in the data gathering process the number of observations used (varying from 330 to 602 that imply quotas between 54% and 99% as reported in Appendix C) in relation to the number of observations made (608) differ from the EPSI-related questions (where this quota is 93% as 565 observations are used out of 608 made).

The particular study of retail banking in Saint Petersburg here undertaken suffers from some weaknesses that should be commented upon already now.

- language; no back-translation from Russian to English is undertaken
- low response rate and data gathering flaws in part attributable to the consensus overlap (ie a few questions are not usable as intended since answers are not provided in an adequate manner)
- a striking gender-age skewness implying a bias towards elderly women which by no means reflect the population of Saint Petersburg (statistically conceived of)[[vi]]
- the data on loyalty and bank alternatives/ease of switch differs in quality as response rates are not accounted for in an identical manner

Had this not been an exploratory study featuring some data about Russia not displayed before there is good reason to believe that the data gathering shortcomings endemic to this effort would have made it of no significant use. As a primer of Russian retail banking, pertaining mostly to one particular consumer segment, it still seems to be able to play a role once these serious shortcomings are not forgotten and conclusions made are seen in light hereof.

Results

The pre-existing knowledge in the field of Russian banking as reported by the The World Bank (2002) and EBRD (2002) lays bare a rather plain figure where banks still do not fulfil the role of financial intermediation as experienced in mature markets. This is seen in the shallow penetration of banking in general and by the extent to which Russians still resort to barter, something thus reflecting the lack of trust endemic to the resulting non-monetary system (confer Commander and Mumssen 1998). As for competition this means that rivalry occurs in manners not experienced elsewhere if at all. Consider as a case in point the strong ties which prevail between banks and some major organizations, something rendering most difficult the capital access by SMEs in need of resources for expansion. In that case competition, much like in Japan (confer Gerlach 1992) is on the verge of network participation. In such an 'alliance capitalism' the role of social ties for competitiveness is huge to the detriment of the creative progress of the sector. The traditional structural measures of competition among Russian banks tells (as reported by the The World Bank 2002 and EBRD 2002) about a sector where the number of suppliers is huge (as oftentimes alluded to by those who want to exaggerate the Russian development) but where concentration rates stand out even more thus implying poor prerequisites for rivalry, however conceived of. That is but one of the reasons why more of foreign penetration in the sector is asked for.

The results obtained in the small scrutiny here undertaken for banking in Saint Petersburg could nevertheless prove interesting as they are in the position to display some micro features of the overall situation as delineated above.

take in Table II

When asked about the level of competition bankers indicate that it is found in the upper quartile on the scale of judgement adhered to. Following the classical reasoning by Dean (1954) this should hardly come as a surprise as businesses in general prefer to characterize their own realm of activity as competitive. If this would not be so, how should their own performance be judged? Such a result nevertheless stands out in sharp contrast to the poor level of competition as indicated at the outset of this section. And this applies also if one goes beyond the mere traditional structural measures. The biased character of these responses are foreshadowed as some bankers tell about the level of competition experienced if they consider some particular banks that they see as their main competitors. In this case competition seems to be less thus indicating that daily reality might be slightly different from when the overall impression is called for. What is maybe more interesting is that there seems to be things happening with how competition is perceived. That is to say, respondents (this time even more unanimous) seem to indicate that competition has increased substantially during the last eighteen months or so. If this impression is valid it corresponds to some progressive institutional steps taken as reported by EBRD (2002). Among other things this involves the coming into being of a pension reform, the discussion of a deposit insurance and a more reform-minded management at the Central Bank of Russia. In judging these signs one should however be wary as high reform volatility is endemic to the Russian reality where progress and setbacks are intertwined in an intriguing pattern often mirroring high level political considerations (confer Hedlund 2001, Åslund 2002).

take in Table III

As the essence of competition is reached out for by asking respondents how they characterize it in terms of other words that could be associated therewith, the outcome contradicts the first results reported here but confirms the overall situation of the sector. If someone tells that competition prevails a lot one would expect such a respondent to put considerable weight on words that denote harsh rivalry such as ‘struggle’ and ‘conflict’ in the survey here undertaken. But that does not occur. Instead it is ‘cooperation’ and ‘coexistence’ that some 4/5 of the respondents consider as mostly characterizing the experienced competition. True, as posited by Rosch (1975), these kind of semantic categories are not clear-cut to work with but they nevertheless allow some indicative findings as they represent how words and their meanings are mentally organized following one’s own personal experience. Had the results of this scrutiny been more inclined towards ‘struggle’ and ‘conflict’ it is obvious that the credibility of the initial results reported here on the level of competition would have been higher.

Whereas competition among banks pertains to the horizontal market dimension, the results as reported below relate the vertical market interface as revealed by how consumers view their bank contacts. ‘Banks’ here refer to two defined banks, Sberbank and Petrovsky bank and one residual category. As described earlier the consumers in this survey consist mostly of females above 50 years of age, something obviously impacting the potential to make any inferences beyond this customer category.

take in Table IV

In contrast to the results obtained for the competition proxies those that mirror consumer loyalty can be compared to what is arrived at elsewhere. In Table IV the scores arrived at for retail banking in Sweden 2002 are replicated. Despite some major differences as regards the data gathering (sample characteristics et cetera) the Swedish data nevertheless could act as a sounding board against which some of the Russian figures can be judged. As learned from the table the majority of Russians seem to be more loyal than the Swedes although this mostly pertains to Sberbank. These Sberbank customers also seem slightly more satisfied than Swedes, something which is not valid for other Russian consumers. The other constructs point at Russian banks having a higher image value whereas Swedes have higher expectations. Perceived qualities do not differ a lot but Russians seem to outperform the Swedes when it comes to perceived value. As regards the relations among the three Russian bank categories Sberbank easily outperforms the others in all the categories whereas the relation between Petrovsky and Others is more ambiguous even though the former's customers come out as more loyal. Russians are hence more inclined towards an appreciative stance to their banks than Swedes who display more of expectations. When pondering a second upon these findings, and assuming that age and gender bias do not have a decisive impact (which they, it must be recognized, very well could have), one major interpretation comes to mind. Russian banks *are* doing better in their customers' eyes than what Swedish banks do. But. In light of prevailing knowledge it seems feasible to posit that this inheres in the low level of market maturity. Consumers are hence not enough educated to make statements that are on par with those provided by their Swedish equivalents. This is probably in particular salient in such an area as banking due to its high degree of complexity (confer Devlin 1998, 2001). The Russian tradition is never to challenge the establishment and it might be that this impacts how honest one is when disclosing consumer attitudes. This argument implying that Western customers are in general more discriminating with higher expectations is much in line with the reasoning of Lynn et al (2000) reporting on banking in Slovenia. Consumer evaluation of banks is then very much a function of culture, something reported also by Athanassopoulos et al (2001).

When so turning to the questions found outside the EPSI-model and relating alternative banks, the following main findings appear in Appendix C.

- Availability and employer's selection of bank are by far the two most important reasons for choosing a particular bank.
- Nine out of ten consumers never switched banks and eight out of ten do not have any alternative bank relations.
- To switch banks does not seem worth the efforts, in particular as people are happy with their present bank and thus do not desire to switch.

In comparison to a similar study conducted in Sweden (The Swedish Competition Authority 2001) it is obvious that the role of the employer for the choice of banks is much more important in Russia. Russians are further even more inert than Swedes when it comes to switching banks and they are less likely to have alternative bank relations. To be satisfied with the bank at hand implying no desire to switch characterizes both countries. An alternative explanation observed by Colgate and Lang (2001) is that risk perception constitutes an additional factor that impedes switch. In their empirical scrutiny these authors furthermore identify apathy (banks are the same, and too much efforts are required to switch) as a decisive factor for staying on with the same bank. Both these seem most relevant for the immature Russian context as laid bare here.

Discussion

This paper sets out to contribute in two major areas. By providing a marketing account of some aspects of Russian retail banking, an unconventional empirical insight is provided that sheds light on some elements endemic to the ongoing process of transition. By bringing forward a multidimensional market perspective some new conceptual ground is also installed. Such a thick market scrutiny, here the consideration in parallel of competition and consumer loyalty, stands out in relation to conventional macro-induced analyses. In the ensuing part these issues are scrutinized.

Assuming that competition can be understood as in part subject to the unfolding relation between consumers and their suppliers a few key concerns of conventional neoclassical analysis are dispensed with. It is then not foremost the number of sellers and/or the homogeneity of the goods at stake that matter but the micro-foundations of how buyers and sellers tie together in the marketplace. Such foundations could either promote or hamper competition (Liljenberg 2001). One alternative in the latter realm as pursued by new institutional economics is to use the notion of asset specificity (Williamson 1987), the implication of which is that '[c]ompetition loses some of its disciplining force because transactor-specific assets suffer a reduction in their value if new transactors are turned to in substitution for those for whom the assets were designed' (Demsetz 1992, p 25). Another option that centers on the promotion of competition emanating from within Austrian economics is to conceive of customers as entrepreneurs who manage to differentiate between sellers via their buying efforts (Kirzner 1973).

But what now if consumer loyalty is turned to? How could this concept tie to competition? How could the two proxies for Russian retail banking here looked into not only be considered in parallel but also somehow associated to the benefit of market process understanding?

Studies of consumer loyalty with few if any exceptions do not pay attention to how the supply market is impacted thereby, for instance in terms of competition. The obvious reason is that such studies are fully preoccupied with loyalty per se and any implications thereof for the whole market is simply beyond the scope of analysis (confer the argument at the outset of this paper relating Bossone 2001 and Devlin 2001 respectively). The essence of loyalty seems to be the prevalence of both a favorable attitude towards a certain source of supply (implying future intents) and de facto repeated buying as patronage (Dick and Basu 1994). In the EPSI-model (Cassel et al 2000) loyalty is seen as intentions to buy again and to make recommendation to others (de factor patronage reflecting the past is hence not relevant), a function of satisfaction that in its turn stems from perceived supplier image, customer expectations and perceptions of overall customer value provided, product quality and service quality. This complex way of getting at loyalty can hence be seen as responding to the call made by Oliver (1999) according to which satisfaction is indeed a composite construct that does not merely spill over, but eventually transforms into, loyalty in an intriguing process. But nowhere, it seems, does loyalty connect to competition.

take in Figure 2

To cut this Gordian knot there are two pieces of the sword. The first is general and relates market openness and the second is made up of the parameters that constitute a defensive market strategy. Following the classical argument made by Weber (1968 (1922)) concerning how market opportunities (read: competition) do not prevail as commercial relationships are closed by appropriation it can be argued that a high degree of loyalty seals the market off. Loyalty impedes competition as there is a negative causal relation between them. The reason (as explained by Swedberg 1998, pp 35, 39) is that parties to such closed relationships ‘monopolize economic opportunities by excluding others from them’. As a consumer is very loyal to a supplier it means other suppliers are not given a chance to enter into a relationship with this consumer. So loyalty is akin to the agency of staying as exercised by the consumer, something only indirectly affected by the supplier. The second piece of the sword is provided by Fornell (1992) as he argues that loyalty cannot be looked at in isolation but only together with switching barriers, the other component of a defensive strategy. Switching barriers then embody the agency of not leaving as induced by the supplier and only indirectly subject to the customer's discretion. These two facets of a defensive market strategy, loyalty (induced by the supplier but ultimately expressed by the consumer) and (supplier-led) switch impediment, hence impact competition negatively. The causal relation between loyalty and competition cannot be scrutinized unless also switch is included.

These insights can be put together as appearing in Figure 2. Whereas appropriation and openness signify impediment and promotion of competition respectively, the other two cases display more of ambiguity. In the case of inertia it is mostly the consumer herself that chooses to stay on in a particular relationship whereas tie-in means that the supplier somehow is in the position to exercise such impact. Loyalty programs is here a typical aspect of tie-in whereas favorable social attitudes held towards a service provider embodies inertia.

In this study of Russian retail banking there is an a priori knowledge of weak competition among banks. The results arrived at here point in two directions, a somewhat high general level of competition contradicted by less thereof when pondered upon in light of some de facto competitors. This contradictory impression is strengthened as it is learned that 'cooperation' and 'coexistence' is more akin to competition in respondents' eyes than either 'struggle' or 'conflict'. Together with the result that competition allegedly has increased substantially during the last few years a qualified hypothesis is that the prevalence of competition is, to say the least, ambiguous. It is hard to grasp by the means usually adhered to, but does it mean competition really does not prevail? Such an impression corresponds to similar results obtained elsewhere concerning economies in transition in general and Russia in particular (confer Tompson 2000, Carlin et al 2001, Vagliasindi 2001).

Reported levels of loyalty display levels at least on par with those that pertain for corresponding Swedish data on retail banking. This is somewhat similar to the results in Johnson et al (1999) reporting that in the Russian organizational market companies are not very likely to take on a new supplier at the expense of the incumbent if given this opportunity following the prospect of a 10% price-cut for a particular goods. Switching of banks is not really an issue since banks are too similar and it requires substantial efforts. Hence switch is not very salient. Lack of information about banks does not seem to be a switch barrier and the same holds for available alternatives that do prevail even though four out of five customers do not entertain any alternative bank relations. On a direct question respondents allege that switch barriers do not prevail. The validity of this opinion can be challenged by resorting to the reasons for choosing a particular bank. Here one out of four claims that the employer is the major agent of choice and in those cases it is obvious that there prevails another impediment to switch. With this in mind it however seems as if switch barriers are hardly substantial. High loyalty and low barriers means spurious market openness via inertia in the analytical scheme here provided. This would imply that even though the market is not fully appropriated, neither is it very open. Such a conclusion should be qualified in light of a) the nature of retail banking which is complex for the consumer to grasp, b) the age and gender bias of the sample where this particular customer category is probably more inert than some others (confer Devlin 2001).

What is more intriguing to look into is however the manner in which this particular transitional context impacts the outcome. In comparison to Swedes the Russians in this survey display more of loyalty and less of expectations towards their banks. As argued above loyalty is context and culture dependent. There is then reason to believe that this loyalty is immature in the guise of apathy as identified by Colgate and Lang (2001). Such apathy-induced loyalty (there is simply no idea to switch) mirrors a most passive consumer thus void of market impact mostly due to self-imposed mental constraints. If this is true it means that there is a huge potential in imbuing a different kind of consumption spirit into the Russian consumer collective, a creative spirit which most likely would exercise a tangible impact on market conditions. That is to say, by looking deeper into consumer behavior in this regard much could be learned about the prerequisites for sound market development. And as regards competition that until now is mostly exogenous to the market process, subject to structural fundamentals, it can be made an endogenous market parameter by bringing in the consumer and her potential creative impact. This way of reasoning holds particular promise as such a marketing-inspired initiative constitutes a sound complementary alternative to the mostly institutional reasoning as pursued mainly by EBRD (2002) and The World Bank (2002). In this vein marketing is furthermore in the position to reoccupy some ground that hitherto has been conceded to economics in the realm of market analysis.

Appendix A, Questionnaire and construct formulation

Non-verbatim questionnaire summary

Q1; Which is your bank (the one with which you have had the most frequent contacts during the last year)?
Q3; Considering all your experience of your bank, how satisfied are you?
Q4; Think about the general image of your bank. How do you find it perceived and rated in terms of
a) being a reliable bank?
b) providing excellent customer service?
c) offering good value for money to the customers?
d) being professional, state-of-the-art banking company?
Q5; Now I ask you to think about your expectations of your bank…
a) on the banking services offered?
b) on customer service?
c) on your overall expectations considering all aspects that you find important to be fulfilled by a bank
Q6; To what degree do you consider that your bank fulfils all your expectations?
Q7; Now I will ask a few questions about your current experience of the quality of services and functions offered by your bank…
a) of the banking products offered?
b) of the personal service and advice offered by the personnel?
c) of the availability of services from your bank?
d) of the reliability and accuracy?
Q8; Consider the products and service you have access to from your bank. How do you value this in relation to the costs …
a) for the banking products offered?
b) for the services offered?
c) for the advice offered by the personnel?
d) for the reliability and accuracy?
e) for additional technical functions offered?
f) for the overall value of the products and services at your bank?
Q10; If you would choose bank today, how likely is it that you would choose your bank?
Q14; How likely is it that you would recommend your bank to friends and colleagues
Q16; Imagine a banking company which is perfect in all respects. How close to this ideal do you consider your bank to be?

Construct composition
IMAGE (Q4)
CUSTOMER EXPECTATIONS (Q5)
PERCEIVED PRODUCT QUALITY (Q7a, d)
PERCEIVED SERVICE QUALITY (Q7b,c)
PERCEIVED VALUE (Q8)
CUSTOMER SATISFACTION INDEX (Q3, Q6, Q16)
CUSTOMER LOYALTY (Q10, Q14)

Appendix B, Distribution of gender and age in the survey

take in Table BI

take in Table BII

Appendix C, Responses concerning alternative banks

take in Table CI

take in Table CII

take in Table CIII

take in Table CIV

take in Table CV

take in Table CVI

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Figures

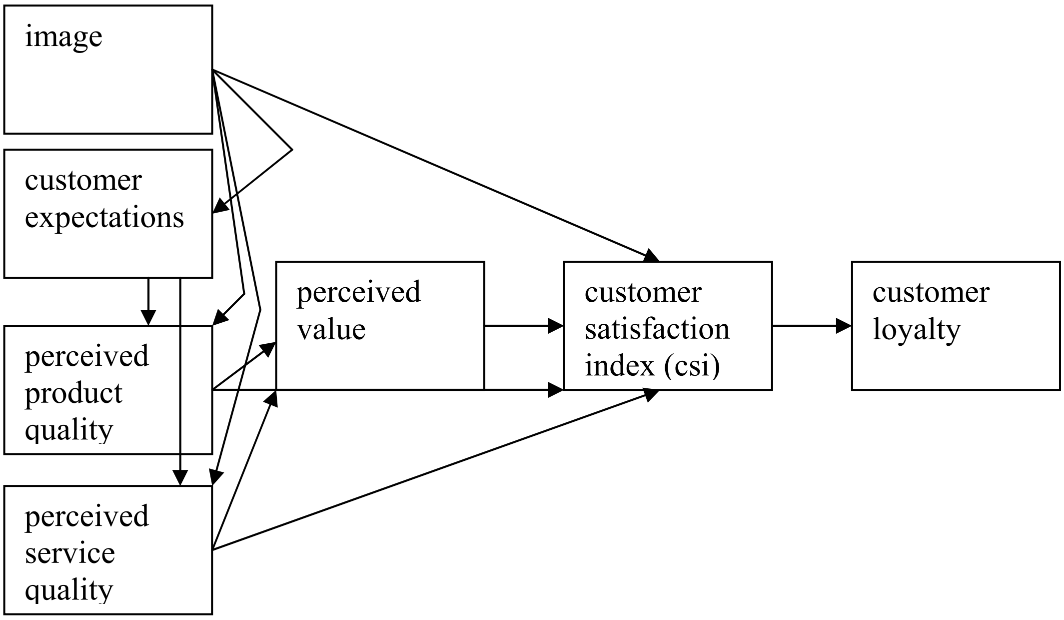

Figure 1; The EPSI model

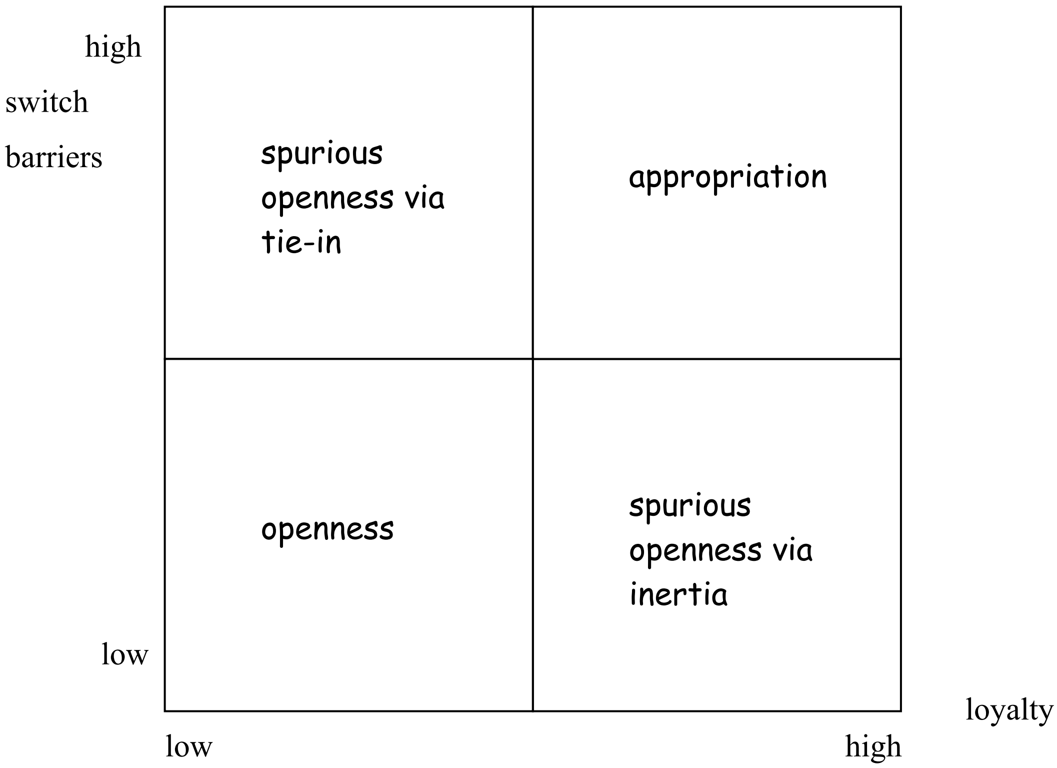

Figure 2; The market competition impact of loyalty

Tables

MAIN BANK	NUMBER OF OBSERVATIONS USED/MADE
Bank Petrovsky	246/271
Sberbank	236/251
Other bank	83/86
Σ	565/608 (92.9%)

Table I; The banks generated by respondents as their 'main bank'

ITEM	MEAN (1-7)
level of competition	5.53 (n=57)
development of competition level	5.51 (n=57)
level of competition from competitor No1	4.49 (n=57)
level of competition from competitor No2	4.55 (n=29)
level of competition from competitor No3	4.05 (n=21)

Table II; How much competition?[vii]

ITEM (n=56)	ABSOLUTE NUMBER
competition can be characterized as 'cooperation'	25
competition can be characterized as 'coexistence'	22
competition can be characterized as 'struggle'	9
competition can be characterized as 'conflict'	0
competition can be characterized as 'collusion'	0

Table III; What is competition?

CONSTRUCT (0-100, error margin at 95% ci)	RUSSIA (n=565)	SWEDEN total (n=3701)
image	Sberbank 77.86 (em 1.86) Petrovsky 73.10 (em 2.21) Other 74.56 (em 3.69)	67.58 (em 0.52)
customer expectations	Sberbank 73.26 (em 2.19) Petrovsky 68.94 (em 2.37) Other 71.38 (em 3.75)	77 (em 0.51)
perceived product quality	Sberbank 76.06 (em 2.13) Petrovsky 73.08 (em 2.47) Other 71.03 (em 4.34)	74.98 (em 0.46)
perceived service quality	Sberbank 73.01 (em 2.33) Petrovsky 71.82 (em 2.42) Other 75.25 (em 3.52)	72.38 (em 0.59)
perceived value	Sberbank 74.42 (em 1.82) Petrovsky 72.07 (em 2.04) Other 72.54 (em 3.32)	67.29 (em 0.54)
customer satisfaction	Sberbank 70.12 (em 2.12) Petrovsky 67.00 (em 2.30) Other 68.69 (em 3.83)	68.22 (em 0.56)
customer loyalty	Sberbank 79.08 (em 2.24) Petrovsky 76.41 (em 2.00) Other 74.21 (em 4.22)	75.28 (em 0.85)

Table IV; Construct values for the three Russian bank categories

BANK	Female	male	Σ
1.Bank Petrovsky	195	50	246
2. Sperbank	162	74	236
3. Other bank	33	50	83
Σ	390 (69.1%)	174 (30.9%)	565

Table BI; Gender distribution for the consumer loyalty study among banks

BANK	age <29	age 30-39	age 40-49	age>50	Σ
1.Bank Petrovsky	13	18	30	185 (32.7%)	246
2. Sperbank	34	39	39	124 (21.9%)	236
3. Other bank	29	22	19	13 (2.3%)	83
Σ	76	79	88	322	565

Table BII; Age distribution for the consumer loyalty study among banks

REASON FOR CHOOSING BANK (n=583/608=95.9%)	FREQUENCY	PERCENT
variety of services	24	3.9
number of atms	5	0.8
advice from friends	26	4.3
the choice of the employer	154	25.3
price level	4	0.7
availability	188	30.9
reliability	76	12.5
other	106	17.4

Table CI; Reasons for choosing a bank

SWITCHING OF BANKS (n=585/608=96.2%)	FREQUENCY	PERCENT
I did switch banks	17	2.8
I tried to switch banks but did not do it	5	0.8
I consider the opportunity to switch banks	14	2.3
I did not switch banks	549	90.3

Table CII; Switching banks

NUMBER OF BANK ALTERNATIVES (n=330/608=54.3%)	FREQUENCY	PERCENT
1	156	25.7
2	102	16.8
3	49	8.1
>3	23	3.8
no experience	1	0.2

Table CIII; Alternative banks

ALTERNATIVE BANK RELATIONS (n=602/608=99.0%)	FREQUENCY	PERCENT
Yes	107	17.6
No	495	81.4

Table CIV; Alternative bank relations

OBSTACLES TO SWITCHING BANKS (n=389/608=64.0%)	FREQUENCY	PERCENT
yes, insurmountable obstacles	36	5.9
yes, but the obstacles are not major	57	9.4
no, there are no obstacles to switch banks	296	48.7

Table CV; Switching obstacles

STATEMENT	I absolutely agree	I partly agree	I partly disagree	I absolutely disagree
it is not possible to find information on banks (n=395/608=65.0%)	65	102	92	136
there is no point in switching banks as all of them are the same (n=566/608=93.0%)	269	190	63	44
my employer makes the choice of bank for me (n=493/608=81.1%)	129	51	29	284
banks are not interested in clients with mid-level income (n=493/608=81.1%)	92	127	73	201
Switching to another bank is not worth the efforts (n=531/608=87.3 %)	300	159	36	36
I am happy with my bank and do not want to switch to another one (n=594/608=97.7%)	266	249	49	30
it is very easy to find information on banks (n=406/608=66.8%)	125	117	82	82
I do not like when my income level is checked when switching to another bank (n=441/608=72.5%)	204	97	40	100

Table CVI; Statements about information and switching of banks

Endnotes

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[i]The authors are indebted to Associate Professor Claes Cassel for invaluable support in the working out of the empirical part of this text.

[ii]money supply as checkable deposits, currency held by the public and liquid deposits

[iii]Because of deficiencies in the process of data gathering the first part of this question is withdrawn from the study as several respondents do not manage to provide names of individual banks. Instead generic categories such as ‘medium-sized banks’ or ‘Moscow-based’ banks were provided to the detriment of the study as originally intended.

[iv]In relation to the original plans this is a delay which causes an overlap with the federal census and thereby impacts the response rate in a negative manner.

[v]For a similar multidimensional approach to customer satisfaction see Athanassopoulos et al (2001).

[vi]To accommodate this weakness a poststratification procedure would have been an alternative. Eventually it was decided not to undertake this step since the proper survey population is not Saint Petersburg citizens but consumers of retailing services. The particular methodology of the field work entails that qualified respondents are approached, no matter of the gender or age. But here elderly ladies are obviously more qualified. Why? Does it reflect that interviewers tend to meet people who do not work in the during daytime? It turns out that men are less willing to answer, maybe because they normally come home really late after some harsh working conditions. As a Living Condition Index is conducted in parallel, something could be learned from there. In this study the proportions female/males are 52%/48% which more or less corresponds to the population of citizens in Saint Petersburg. As regards the EPSI-data in general (whereof retail banking thus is a part) it is obviously so that different proportions in terms of age and gender appear for the various products. For the scrutiny of beer there are 62% males, but for general retail and school services they make up only about 20% of the sample. Why is that? Because men are more likely to ‘active in beer’ than ‘active in general retail and school services’. So, what about banks? As is shown by the results most respondents receive credit cards issued by banks but distributed via their employer. And those who receive such cards tend to work in relatively mature/slightly bigger companies. That is to say, men really do not seem to use bank retailing thus reflecting its relative immaturity in Russia.

[vii]As commented upon when the study design is discussed the question concerning competitor identity is withdrawn from the study since respondents instead of individual banks mostly provided generic categories such as ‘medium-sized banks’, ‘Moscow-based’ or similar. This clearly puts in jeopardy the value of the three last items of this table. Still they are kept as it is considered that they provide a healthy ‘hands-on’ alternative to the two first questions that merely discuss competition levels in general.