

# Is it just culture?

Or is relationship marketing in an international financial centre superior to one in a small market with a domestic focus?

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## **Abstract**

Relationship marketing is today becoming a more important element for the financial service providers, since competition within the market is increasing due to regulations and globalisation. Due to the fact that competition is increasing customer retention is becoming more and more important for the financial service providers. In order for the financial service providers to keep the customers there has to be a certain degree of trust between the actors in the relationship. We believe that there are differences in how relationship marketing is carried out between Hong Kong and Sweden. We base our belief in the fact that Hong Kong is the gateway to Asia, and today is considered to be one of the financial metropolises. Sweden is compared to Hong Kong a very small market with a domestic focus. Further we believe that there are too large differences in culture between the countries.

The purpose with this dissertation is to investigate what causes the differences between strategies of banks in an international financial centre such as Hong Kong, and banks in a smaller market with a domestic focus. Further we wanted to investigate what constitutes a relationship within the financial service industry, and what are the advantages and disadvantages with relationship marketing. In order to answer our research questions we made case studies on Hong Kong and Sweden. Our interview questions related to trust and culture. The interviews were conducted by phone with HSBC which is one of the largest banks in Hong Kong and with marketing financial service tutor Regan Lam. Interviews were also conducted with SEB and Handelsbanken which are two of the largest banks in Sweden. An interview with Barbara Bolt was also made in order to identify the differences in culture between Sweden and Hong Kong. The result of our research was that there are differences between banks' strategies in an international financial centre and a small market with a domestic focus. However, they all can be explained by cultural and environmental factors.

**Keywords:** Relationship marketing, Trust, Financial service, Culture, Hong Kong and Sweden.

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# 1 Introduction

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*Chapter one starts with a description of how we came up with the dissertation and is followed by a discussion of the problem and purpose of our research. Further, there are definitions of the research questions and the limitations we had to adjust to. Finally there is an outline for the dissertation.*

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## **1.1. Background**

When we started to discuss what we wanted to study for our dissertation, we discussed some topics that were taught in a course called “Marketing Financial Services” at the City University of Hong Kong and got the impression that things were done much different in Hong Kong than in Sweden.

First we wanted to examine if it is possible to apply the Hong Kong banks’ marketing techniques in Sweden. However, to be able to investigate if it is possible, we needed to examine if and why there are differences between the two markets, whereupon we decided to investigate why there are differences between the banks’ relationship marketing in Hong Kong and in Sweden.

Financial markets are increasingly affected by the internationalisation process. Asia is becoming the centre for the world’s manufacturing and is of great importance to all organisations today. Hong Kong is the primary gateway to Asia and therefore a centre for financial institutions from all over the world. A typical feature for financial service centres is hyper competition. It forces existing financial service suppliers to come up with new techniques to attract and retain customers.

In a financial centre consumers are customers at several banks at the same time. Hence, banks in financial centres do not focus so much on how to attract new customers anymore, but on customer retention. The impressions one gets from banks in Hong Kong and banks in Sweden are very different, as if Hong Kong banks have other marketing techniques than Swedish banks have.

## **1.2. Problem**

We wanted to understand why there are differences in the relationship marketing techniques between an international financial centre, Hong Kong, and a small market with a domestic focus, Sweden. Just by looking at banks' homepages from the two markets, it is easy to see that there are differences between the marketing techniques. However, we wanted to find out if the differences are caused by cultural factors or environmental factors or if there really are differences between the strategies. To be able to know this, we needed to do case studies of the Hong Kong market and the Swedish market as well as of the two cultures.

## **1.3. Purpose**

The purpose of this dissertation is to investigate what causes the differences between banks' relationship marketing in an international financial centre and banks in a small market with a domestic focus.

## **1.4. Limitations**

We needed to limit our research because of some obvious bottlenecks such as time, money and geographical distance. We were also limited by our scarce experience of conducting researches.

The financial service industry includes banks, financial institutions, insurance suppliers, financial consultants etc. In this research we only focused on the banks. Further, we limited our research to banks in Sweden and Hong Kong. Swedish banks represented banks in a small market with a domestic focus and the Hong Kong banks represented banks in an international financial centre. We only focused on these two markets because of limited time, resources and because we already had some information about these two markets.

Further, we limited our research to investigate the relationship marketing related to credit cards. We chose credit cards since they are homogeneous. Therefore we can explain differences in the relationship marketing by factors in the culture, environment or claim it to be differences in marketing.

## **1.5. Research Questions**

- What constitutes a relationship within the financial service industry?
- What are the advantages and disadvantages with relationship marketing?
- Are there any differences between the relationship marketing used by banks in an international financial centre and a small financial market with a domestic focus?
- If yes, are the differences caused by cultural factors or environmental factors or do the banks use different marketing?

## **1.6. Outline**

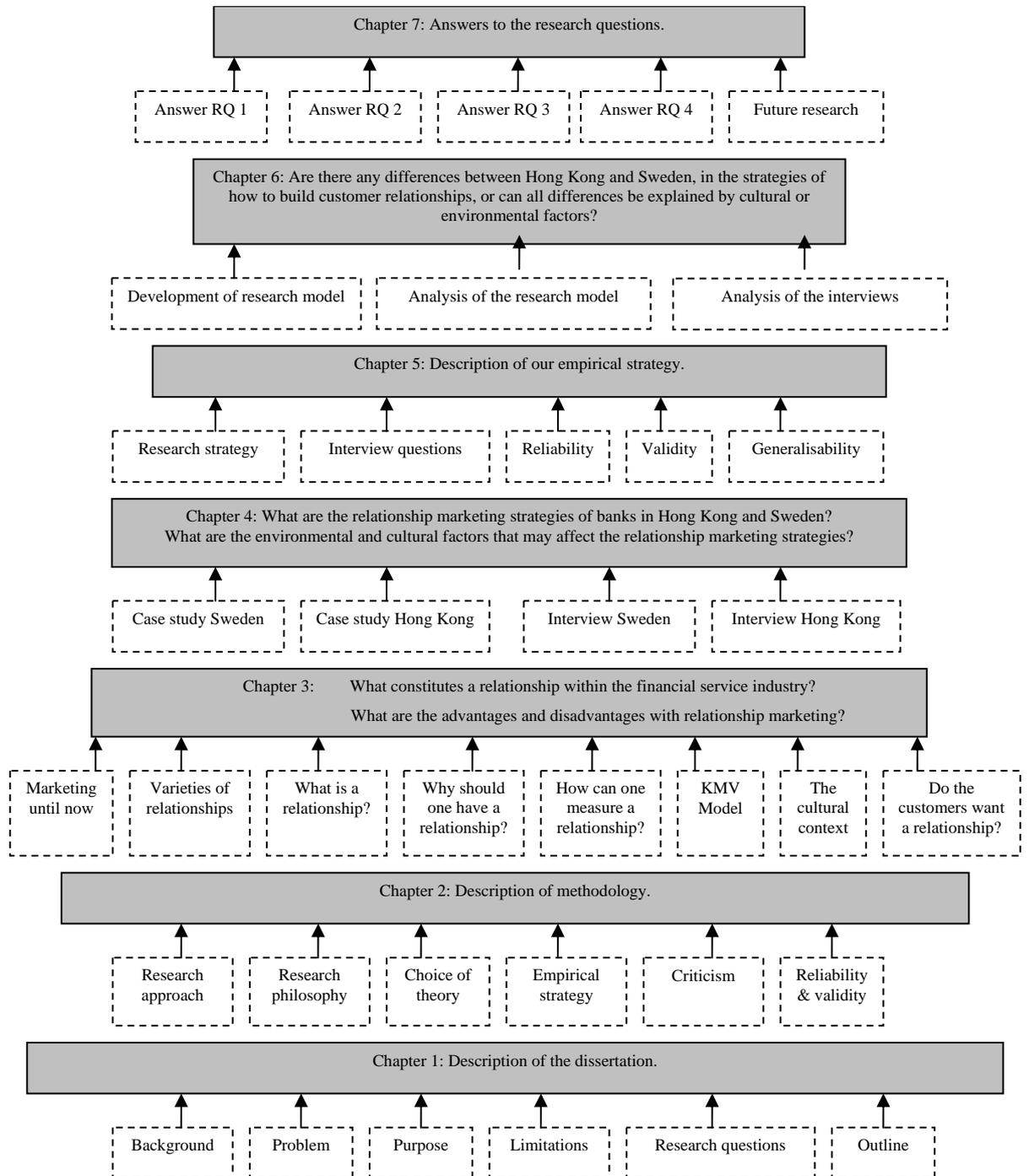
Figure 1.1. shows how this dissertation is structured; the first chapter is presented in the bottom of the model. The outline model shows how each chapter is constructed and what questions every chapter aims to answer.

Chapter 1 describes the background of the dissertation. Further, the problem, purpose and research questions are discussed. Finally, the limitations and outline are presented.

Chapter 2 starts to describe and present our research approach and research philosophy. It is followed by our choice of theories and a brief explanation of our empirical strategy. Further, we present our criticism of the material studied in this dissertation. Finally, a short explanation is given to reliability and validity.

Chapter 3 is our theoretical framework where the theories used to examine our research questions are presented. It starts with a historical review and a presentation of how relationship marketing is related to other aspects of marketing. It describes how relationships are created, the advantages and disadvantages of relationship marketing. Lastly, descriptions of how one can analyse cultures are presented.

## Outline model



**Figure 1.1.**

Chapter 4 presents our case studies of Hong Kong and Sweden. It includes a description of the historical path of financial industries and the current happenings as well. Further, special features of each market are presented.

Chapter 5 describes our empirical method. It presents what obstacles we encountered and how we dealt with these. Further, there are explanations of the interview questions. Finally there is a discussion about this dissertation's validity, reliability and generalisability.

Chapter 6 describes how we came up with our research model and what effects culture might have on it. Further, the interviews are analysed.

Chapter 7 presents our answers to the research questions and a final summary of the dissertation. Finally there are suggestions to future research.

## **2. Method**

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*Chapter two begins with a presentation of different research approaches and the one used in this dissertation. This is followed by a discussion about research philosophy. Then there are brief presentations of our chosen theory, empirical strategy and how we used primary and secondary data. Further, it is a general discussion about reliability and validity. Finally, we present some criticism of our dissertation.*

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### **2.1. Research approach**

This dissertation has a deductive research approach. It means that we tested existing theories. We collected and studied existing theories about relationship marketing, financial services and cultures. Further, we collected data about the markets included in the case studies. From this information we developed our own research model that was used to test if there are any differences between banks' relationship marketing in an international financial centre and a small market with a domestic focus.

### **2.2. Research Philosophy**

There are three different kinds of philosophies. First there is the positivistic philosophy, which aims to generalize quantitative measures and has a scientific view. Further, the researcher is independent from the investigated research subject. Second there is the realistic philosophy, which refers to research where there is a certain scientific connection to how things are done and the researcher is independent. Additionally, the realistic theory states that there are social forces that affecting the subject. Finally there is the interpretivistic philosophy, where the researcher is subjective to the research and the subject cannot be generalised (Saunders, 2003).

We had a realistic philosophy when we did this dissertation; both facts and cultural factors were taken into consideration.

### **2.3. Choice of Theory**

Initially we present how relationship marketing relates to other kinds of marketing theories, such as value adding exchanges (George, 2000),

transaction marketing (Grönroos, 1994), affective and offensive marketing (Harrison, 2000). Then relationship marketing is defined and we present when it is appropriate to use it. Further, we investigated the positive and negative aspects of relationships (2000).

To find out if there are any special conditions one has to adapt to when conducting relationship marketing within the financial service industry, we investigated the nature of services in general and the special features of financial services (Harrison, 2000). Then we present the relationship framework (Holmlund, 1997) and how a relationship can be viewed as a process (Grönroos, 2000 & 1994). Finally we clarify how one can build relationships through interactions (Grönroos, 2000; Peppers & Rogers, 2004), quality (Grönroos, 2000; Rizal & Buttle, 2002; Pepper & Rogers, 2004), loyalty (Reichheld, 1996; Harrison, 2000), commitment (Grönroos, 2000; Gemünden, Ritter & Walter, 1998; Ekelund, 2002) and trust (Grönroos, 2000; Harrison, 2000; Storbacka & Lehtinen, 2000).

At the end of the theoretical framework we present how cultures may affect consumers' behaviour. The most famous and cited theories are presented. First we present Edward T. Hall who was one of the first cultural researchers (Van der Horst, 2003). Secondly we present Hofstede, who is perhaps the most famous researcher within the cultural area (Johansson, 2003). Finally we show the results of Trompenaars and Hampden-Turner (1998).

#### **2.4. Empirical Strategy**

This part will briefly discuss the general strategy, but it will be described in more detail in chapter 5.

Our purpose is to investigate why there are differences between banks' relationship marketing in an international financial centre and in a small market with a domestic focus. To answer this question we needed to collect both secondary and primary data.

### **2.4.1. Secondary data**

There has already been done much research about relationship marketing, so it was not difficult to find relevant information. Instead we found it difficult to limit our reading. Secondary data was collected from books, articles, reports and the Internet. We focused on relationship marketing, financial service marketing, cultural theories and information about Hong Kong and Sweden.

### **2.4.2. Primary data**

To get relevant information about how banks carry out relationship marketing, we needed to conduct in-depth interviews with key persons of major banks in Hong Kong and Sweden. The surveys were conducted with a direct approach; we did not disguise the purpose of the research (Saunders, 2002). To be able to correct possible errors in our interviewing technique, we first intended to do a pilot survey. However, due to lack of time and respondents willing to participate we had to exclude a pilot survey.

Further, we contacted the Swedish trade council to get relevant information about Hong Kong and Sweden and to consult with them how to get in contact with appropriate respondents. Furthermore, we interviewed cultural tutor Barbara Boldt about the culture in Hong Kong and Sweden.

## **2.5. Criticism**

A massive amount of research has been conducted about relationship marketing even if it only been studied since the 80s (Ekelund, 2002). The theories we chose to use in this dissertation are selected from a few researchers, since when we started to look for secondary data, we became overloaded with information. Therefore, we only selected the most cited books and writers that we considered to be most relevant to our subject. We also added information from less known writers and articles that were more up to date. This way we got some inspiration outside the mainstream.

The reason why we used many theories from Grönroos was that he was cited in almost every book we found and is one of the key scientists within service marketing. He has conducted research within this area for a long time and has proven himself to be a specialist of service marketing.

We cited the work of Tina Harrison repeatedly. She specialises in financial service marketing. Her work was recommended by the course tutor of Marketing Financial Services at the City University of Hong Kong, Mr Regan Lam. However, Harrison is stationed in England and most of her research is related to the European market. This may have biased her analysis about how different factors affect markets, actors and services. If the research would include financial markets all over the world, she might have come up with other results.

We show how different factors of relationship marketing are connected in figure 6.1., which has the same structure as the KMV-model (Bengtsson, Persson & Welin, 2004). The KMV model's structure makes it easy to grasp complex connections of several factors. The research model is a part of figure 6.1., but only focuses on how one can affect the trust in a relationship.

## ***2.6. Reliability & Validity***

This section will only explain the meanings of reliability and validity, whereas the reliability and validity of our dissertation will be further discussed in chapter five.

Reliability measures if the results are continuous; a high reliability indicates that if the same survey is conducted at another occasion it will give the same results. Further it measures if it is possible to see how the researchers have reasoned when they came up with their conclusions (Saunders, 2003).

Validity on the other hand measures how well one has succeeded in measuring the thing one intended to measure (Saunders, 2003).

### **3. Theoretical Framework**

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*Chapter three starts with a description of what has happened in the marketing area until now and how relationship marketing is related to other aspects of marketing. This is followed by explanations of why one should invest in relationship marketing and when one can exclude it. Further, this chapter describes how a relationship is constructed and how it should be seen as a process. It explains how one can build relationships through interactions, quality, loyalty, commitment and trust. Finally, the major findings in cultural research are presented.*

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#### **3.1. Marketing until now**

It is difficult to say when marketing was first used. The first problem is to know if it was used with an intention to increase the sales; the second is to find documentation that supports the theory. However, the acts to promote sales have been done since the birth of trade, consciously or not. It can be seen as a relationship building act to talk with the customers in relation to the transaction.

However, the consumer marketing was founded in the 1950s and developed into industrial marketing during the 1960s. The way of doing business in the 1970s was highly influenced by the political environment and therefore emphasised social conscious and non-profit marketing. Service marketing was first mentioned by Leonard Berry in 1983 kept on increasing in popularity during the 1980s. The 1990s was characterised by the development of relationship marketing (Ekelund, 2002).

A growing wealth during the 1950s led to the creation of a middle class and it became common with mass production, distribution and consumption. After World War II the consumer market models used for product marketing were used for the services as well. However, using mass marketing in a service industry is not suitable considering the heterogeneous and intangible features of services. The mismatch gave service industries a bad reputation in the western world (Grönroos, 2000).

### 3.2. Varieties of relationships

Business and relationships can be seen from different perspectives. To understand how relationship marketing is related to other kinds of marketing, this chapter will start by explaining relationship marketing. Further, it presents the opposite transactional marketing and when a relationship focus is necessary.

#### 3.2.1. The relationship spectrum

The main feature of a commercial relationship is the ongoing process of exchanges; value is given and received. Both parties in a relationship gain something from the interaction between them, it can be in terms of information, payment, service delivery etc. According to the relationship spectrum, figure 3.1., one can see the relationship from three aspects.

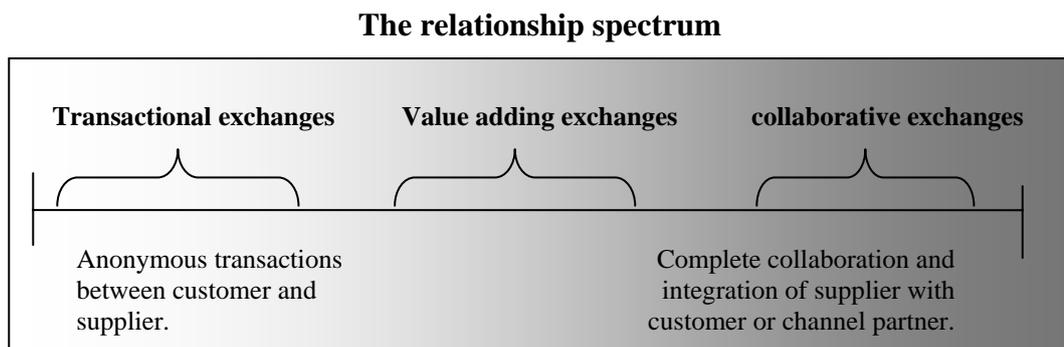


Figure: 3.1.  
Source: George, 2000

The first aspect is to see the relationship as a flow of *transactional exchanges* where the customers are anonymous to the company. For instance, when customers withdraw money from an ATM, then the customers know who the supplier is, but the supplier only knows that a transaction has been made, but does not know which customer made the transaction. Further, both parties focus on the current exchange (George, 2000).

Another view of the relationship spectrum is to see it as *collaborative exchanges* where the interaction is more intimate; the parties exchange information and share beliefs. They know each other and have a mutual commitment which in the long run is beneficial to both parties (George, 2000).

*The value adding exchange* view is a mix of the first two aspects. The focus shifts from customer attraction, to customer retention. The organization develops a deeper understanding for the customers' needs and values. This involves tailoring offers in order to fit the customers' needs (George, 2000).

### 3.2.2. The marketing strategy continuum

The marketing strategy continuum, table 3.1., describes two opposite approaches to marketing, namely transaction marketing and relationship marketing. Relationship marketing focuses on building relationships with customers and transaction marketing stresses timely.

The most suitable marketing approach depends on the market where the enterprise operates. Marketers of consumer packaged goods will probably benefit the most from a transaction approach while firms that operate within the financial sector will more likely choose a relationship oriented approach (Grönroos, 1994).

The time perspective differs between the marketing approaches. Transaction marketing focuses on the single exchange, hence, the time perspective is short. While the time perspective in relationship marketing is longer since the marketer seeks long-term profitability (Grönroos, 1994).

**The strategy continuum**

	<b>Transaction marketing</b>	<b>Relationship marketing</b>
<b>Time perspective</b>	Short term focus	Long term focus
<b>Dominating marketing focus</b>	Marketing mix	Interactive marketing
<b>Price elasticity</b>	Customers tend to be more sensitive to price	Customers tend to be less sensitive about price
<b>Dominating quality dimension</b>	Quality of output	Quality of interactions
<b>Measurement of customer satisfaction</b>	Monitoring market share	Feedback customers
<b>Customer information system</b>	Ad hoc customer satisfaction surveys	Real time customer feedback system
<b>Degree of Interdependency</b>	Low	High

Table: 3.1.

Source: Christian Grönroos (1994).

“From marketing mix to relationship marketing: Towards a Paradigm shift in marketing”

The interaction process is the most vital part in relationship marketing. While in transaction marketing the core product dominates, which keeps the customers connected to the enterprise. The transaction strategy puts the customers outside the product development process and the customers will not receive added value from the enterprise. Relationship marketing focuses on the customers and the enterprise offers the customers different types of added value, such as technological advantages (Grönroos, 1994).

Price elasticity refers to how sensitive the customers are to the price level. In the transaction based approach the customers tend to be sensitive towards price since they focus only on the core product. The customers do not value the relationship with the company as much as they do in a relationship approach, where price is not as important (Grönroos, 1994).

The monitoring of the product satisfaction stops at the physical exchange of the product according to the transactional approach. While in the relationship oriented approach the satisfaction is measured at several stages in order to investigate how a product can be improved and/or changed to fit the customers' needs (Grönroos, 1994).

Customer information system refers to how the company obtains information about the customers' opinion regarding the product. In a relationship based approach this information is obtained by people within the company and who has numerous interactions with the customers. The situation is different in the transaction approach; the company relies on satisfaction surveys since the personnel do not have any close contact with the customers (Grönroos, 1994).

The level of interdependency between the company and the customers vary between the approaches. The transaction approach has a rather low level of interdependency since nearly all contacts with the customers are related to the product. In relationship marketing the situation is different since the enterprise has a closer contact with the customers. Hence, it responds to feedback from the customers regarding the products. The more the enterprise moves from the

transactional approach to relationship approach, the surrounding factors, such as long term value, expands beyond the core product (Grönroos, 1994).

### **3.2.3. Defensive marketing vs. offensive marketing**

A defensive marketing approach is when one seeks to have a relationship with the customers in order to retain the customers. This is appropriate and very important in a mature and saturated market with intense competition, when the goal is to maximise the profit rather than to increase market share. The opposite is an offensive approach which aims to acquire new customers. This approach is more suitable in a new and growing market (Harrison, 2000).

### **3.3. What is a relationship?**

Relationship marketing is one way of doing marketing and a relational strategy is when an enterprise tries to create and enhance customer relations to be able to maximise the relationship's value (Storbacka, K. & Lehtinen, J.R., 2000). Grönroos defines relationship marketing as marketing that aims to attract, retain and enlarge relationships with other parties so it can become more profitable. However, the relationship needs to be mutual and both parties have to be active (Grönroos, 1994).

Grönroos says that a relationship will be defined differently in various situations. However, he considers the relationship level to be reached when the customers consider that the supplier shares their beliefs and will support and help them when the situations require so (Grönroos, 2000).

Our definition of a relationship is when the customers feel emotionally attached to an organisation, trust it to perform at a certain level and will choose it in front of other options when the surrounding factors allow it.

### **3.4. Why should one look for a relationship?**

The objective with relationship management is long-term profitability. It refers to costs and profits in a long-term perspective, adds value around the core product and creates opportunities to increase the customers' share of wallet. However, to be able to create this, it requires a collected effort throughout the whole organisation and customers who value it. It is not an

easy task. Therefore, it is a good idea to analyze the product, market, customers and organisation, whether they are fit to apply a relational approach or not.

### **3.4.1. Mature markets**

The general trend is that markets get more mature and saturated as time goes by. More products and services enter the market which leads to intense competition, the distance and barriers to foreign markets decrease as the globalisation consequences set in. Thus, the competition gets more intense by each day, technology develops with an increasing speed and companies compete for the customers. The customers on the other hand, neither increase in number nor develop their technological knowledge at the same speed as commercial companies. Therefore, companies need to have relationships with customers if they want them to stay when other actors enter the market.

Special offers, such as low price may attract customers for a short-term period. However, when the offer expires, the customers will probably go for other special offers. Therefore, in a long-term perspective it is not profitable to attract and re-attract customers in this way (Grönroos, 2000).

### **3.4.2. Homogeneous products**

When products are almost identical, customers will more likely have an opportunistic behaviour since they will get the same product wherever they go. Therefore, organisations have to create additional values surrounding the core product in order to retain the customers. If the organisation has relations with its customers and they feel involved with the organisation, it will be a reason for the customers to stay (Storbacka & Lehtinen, 2000).

### **3.4.3. Complex products**

Complex products are more difficult to market. A golden rule of marketing is to market one, or at least as few as possible, key feature/s. So when a product is highly complex and contains several interacting features, it becomes difficult to stress one unique feature. Thus, the company needs to attract the customers in another way to make them take the time necessary to understand the product (Harrison, 2000).

### 3.4.4. Geographical dependence

Within financial service markets, one does not speak as much about customer attraction any more, but rather about customer retention. Services are in general much more dependent on the geographical distance than physical goods. This is because the nature of services; one cannot ship a across the world as one can do with a product. Therefore, a service supplier is more dependent on the consumers nearby.

However, even if it is more difficult to offer services when there is a long distance, globalisation has affected the service industry as well. So when a new company enters one's home market, one needs to be sure that the customers are emotionally attached to the company. Otherwise, the organisation will risk losing its customers to a competitor (Grönroos, 2000).

### 3.5. Do customers want a relationship?

Today most companies seek to have relationships with their customers, but a company cannot truthfully say that they have relationships with their customers unless the customers agree.

**Appropriate categories for relationship marketing**

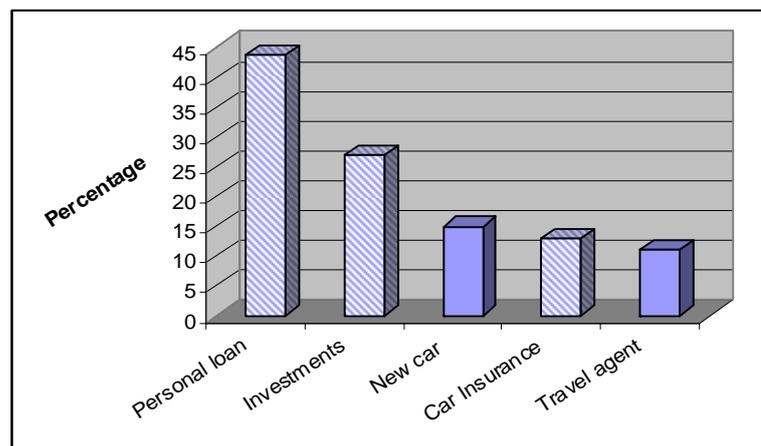


Figure: 3.2.  
Source: Harrison, 2000

According to a research conducted by the Henley Centre in 1994, results showed that the respondents want a relationship with the company if it regards five types of products, see figure 3.2. Three out of five products are financial

products (striped data series), which is promising for a financial service supplier. There are several reasons that explain why it is like this. For instance, financial services concern the customers' wealth and well being and are therefore of great importance to the customers. Hence, the customers want to assure that the service is properly performed. Another reason is that financial services are by tradition a very personal business. Interaction used to be done in a face to face context with the personal banker (Harrison, 2000).

### **3.5.1. Benefits with relationships**

When a relationship is established, the customers provide the enterprise with information and feedback. The customers' feedback is of importance to the company. The company needs the information in order to adapt to the customers' needs (Eriksson & Mattson, 2002).

When the customers contribute with much useful information, they become involved in the production process. The customers can come up with ideas and solutions to a better product. Further, customers' complaints make the enterprise aware of any eventual problems with the service they provide (Eriksson & Mattson, 2002).

There are also some factors that can work against a relationship such as boredom and curiosity. If the customers are bored, they will start looking for other opportunities. The same goes for curiosity; if the customers are curious by nature, they will start looking for other possibilities so satisfy their needs (Grönroos, 2000).

### **3.5.2. Why and when should one not invest in customer relations?**

Some customers do not look for relationships, but are only oriented to find short-term gains. They are attracted to special offers, but as soon as the special offer expires, the customers will go for the next offer. These kinds of customers are difficult to attract by proving the positive effects of a long term relationship (Grönroos, 2000).

### **Four reasons not to have a relationship**

Managers often blame the lack of relationship investments on the customers. They claim that the customers do not want to pay for a better service or relationship. Grönroos mentions four reasons why consumers would not like to pay for an improved relationship with their service provider.

1. The supplier does not show and prove how the customers will benefit from the improved service. In other words, the customers do not understand why they should pay more.
2. The customers do not have knowledge about how the improved service will have positive long-term effects. For instance in the decision making process; less errors will lead to more satisfied personnel, more efficiency and therefore more profitability.
3. The service package is not consumer oriented enough. Hence, the customers do not get offered what they are looking for.
4. The customers do not want any additional services, but only the core service.

### **The effects of uncertainty**

Uncertainty has a negative effect on the willingness to cooperate. In other words, if the customers perceive the situation to be risky, they will not put as much effort into the relationship. Eriksson and Sharma (2002) mention three kinds of uncertainty: *contextual uncertainty*, *relationship uncertainty* and *decision making uncertainty*.

The stability level in the surrounding environment affects the perceived contextual uncertainty. Further, the contextual uncertainty is composed of two variables. First, a more complex environment is perceived to be more risky and uncertain. Second, the unpredictable nature of the environment increases the perceived uncertainty. Constant and fast technological changes and an increasing number of actors on the market are examples that increase the perceived uncertainty.

Relational uncertainty refers to the indefinite future behaviour of the counterpart. It is defined by two parts: the two parties that cooperate probably only share some objectives concerning the relationship and they do not have the same resources to achieve the goals with.

Additionally, the perceived uncertainty is affected by the internal organization, resources and routines of the company; this is called decision making uncertainty. Depending on these factors the decision makers will interpret and evaluate information in a certain way. The more decision makers know about the firm's resources, the more confident they are about the ability to carry out a mission (Eriksson & Deo, 2002).

### **3.6. How to measure a relationship**

It is difficult to measure *when* a relationship is established and *what level* it has reached. There may be signs of an established relationship, but the reason can be something else, such as geographical closeness, technology advantages and high exit barriers (Grönroos, 2000).

From a relationship process view, a relationship starts when exchange of information and services occurs. The service supplier has to be sure to take care of the customers so they feel that the organisation will take care of their interests also between interactions. Grönroos underline the importance of continuing to consider customers as customers also between interactions, even if the customers would buy something from a competitor. Perhaps the company could not supply exactly what the customers needed at the right time or the customers might not have the financial resources needed to buy the service at the moment (Grönroos, 2000).

One way to measure when there is a relationship, is to count the number of transactions that has been made between the customers and the organisation. However, the customers might not go there for the sake of the relationship, but it could be for, e.g. the price. If another company offers the same service at a lower price, the customers may switch supplier. So it might be misleading to measure the relationship only in this way (Grönroos, 2000).

A relationship can also be measured by the outlook of the contract (Grönroos, 2000). For instance within a financial service industry it is not very reliable to say that there is a relationship, just because the customers have three contracts with the bank. It may be contracts about issuing a credit card and two personal accounts, which does not require a high level of emotional attachment. The nature of the service is essential; one has to compare the degree and amount of contracts with what is normal for the industry.

### **3.7. The structure and components of a relationship**

The structure of a relationship has been defined in many ways. In this part we will describe what characterises services and some theories we found helpful to be able to understand the nature of a relationship within a service industry.

#### **3.7.1. What about the financial service?**

Services in general hold four features that separate them from the characteristics of a product. Philip Kotler defines services as performances where the major offering is intangible and the buying party does not end up owning anything (Coulter & Coulter, 2002). A service in general holds four typical features: *intangibility, inseparability, heterogeneity and perishability* (Harrison, 2000).

*Intangibility* means that services are abstract. Therefore it is difficult to make a proper judgement of the service; one cannot see, taste, smell or feel it as one can with a physical product. However, all services are not totally intangible as well as all products are not totally tangible. In a financial service context an example is an internet account; the service is intangible, but it comes with a physical device to be able to log on to the account online.

*Inseparability* means that services are sold, then produced and consumed at the same time; one cannot separate the production from the consumption. For instance when a financial advisor meets with customers, the customers learn how to do investments at the same time as the financial advisor teaches it.

*Heterogeneity* refers to the level of quality and characteristics of services. From a supplier's point of view this limits his opportunities to standardisation and from the customers' aspect it limits the possibility to predict the outcome of the performance. The ability to perform on one constant level or in one specific way is affected by the service's degree of equipment-dependence and people-dependence. When a service is dependent on a high level of people interaction, then the outcome is more likely to vary. The supplier can perform more customisation but it brings an increased risk for the customers to determine the outcome.

*Perishability* means that one cannot keep stocks. Therefore it is impossible for the provider to keep overcapacity in storage for a time when it is better needed. It is a problem in good times as well, when the demand is higher than the supply capacity. The supplier has to turn down customers and because of this they might go to a competitor.

These four characteristics are typical for services in general. However, when it comes to financial services, two more features are discussed: *fiduciary responsibility* and *two-way information flows*.

The financial supplier has a position which includes a great deal of confidence and trust; it has *fiduciary responsibilities*. The financial services in themselves are of great importance to the customers. Therefore the suppliers have a huge responsibility for how the services are performed. Confidence and trust in the financial service supplier is crucial. However, trust is often built on previous experience and therefore customers rely on other factors before they have any experience with the supplier, such as word of mouth, official corporate culture, and size of the financial supplier (associated to stability).

Financial suppliers are known to have great database systems. They have the *two-way information* flow to thank for this. Financial services are not meant to be a one-time-purchase. Even the simplest service, such as a regular account, includes repeated acts. Financial institutes record all these interactions, and if the information is used wisely it can be of great help when managers need to

take decisions. It makes it easier to see trends in consumer behaviour and therefore it makes it easier to customize the services (Harrison, 2000).

### **3.7.2. The relationship seen as a process**

When one produces a physical product, one creates value in the actual product and then sells the final product with all the value collected in the product, to the customers. Therefore the value is transferred when the product is sold; it is transferred through the actual handover. However, when a service is sold, it is only the beginning of building and transferring value to the customers. The value is created throughout the whole process, from the moment when customers are attracted, when the deal is made, when the service is being performed and all the way to the finish line and after-sales service. Every contact or act is a contribution to the relationship, e.g. phone calls, advertisings, deliveries, meetings and corrections of errors (Grönroos, 2000).

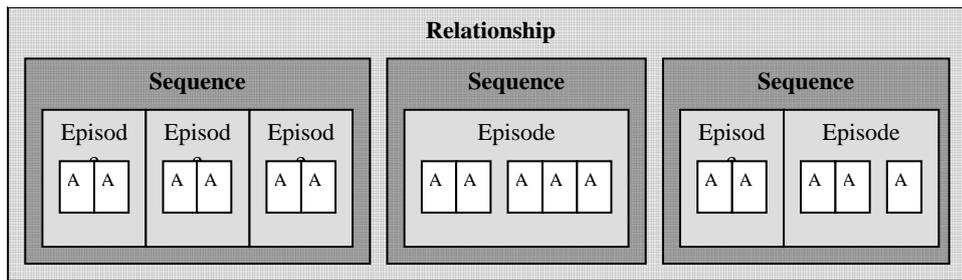
One seeks long-term relationships. If both parties learn how to best interact with each other, they will benefit from it in terms of decreased relationship costs, for instance transaction costs that are connected to their changing service provider (Grönroos, 1994).

### **3.7.3. The relationship framework**

Figure 3.3., *the interaction levels in a relationship*, shows the parts of a relationship and how they affect each other. It is vital to know how a relationship functions in order to know how to use what tools and where they will be most effective. Further, it becomes obvious why one should see a relationship as a process (Holmlund, 1997).

A relationship's smallest elements are called *acts*, e.g. to make a phone call, talk with the customers and send a letter. Several acts create an *episode*, for instance having a meeting with customers include checking one's schedule, calling the customers to arrange an appropriate time, collecting all necessary material and preparing service package if needed.

### The interaction levels in a relationship



A = Act

Figure: 3.3.

Source: Holmlund, 1997. Perceived Quality in Business Relationship

Several interrelated episodes create a *sequence*. A sequence can be defined from different perspectives, e.g. time perspective, product range perspective and project perspective. It can also be a combination of these. For instance, a sequence in the restaurant industry can be, several episodes required to prepare and run a summer menu or arranging a conference on a customer's account. It is not unusual that sequences overlap.

The final level is the actual *relationship* which includes all sequences put together. Sequences can occur with varying intervals, nature, worth, complexity and so on. The reasons for variations are several: season, type of customers, nature of business, common customs in different industries etc (Holmlund, 1997).

### 3.8. How to build a relationship

There are numerous reasons why enterprises should invest in relationships with customers. Profitability is one of the perhaps most easily proven and sought rewards. A relationship is built on trust, commitment and loyalty, but to make the customers feel this way, the service provider has to perform on a very high and homogenous quality level, offer the right product to the right customers and have an active dialogue with the customers.

This part describes how the different features function, what can help to improve a relationship and what consequences there are. First two tools to create relationships will be described: interaction and quality. Then three

desired features of a successfully established relationship will be described: loyalty, commitment and trust.

### **3.8.1. Build relationships through interactions**

The interaction approach within the industrial market was created in Uppsala University during the 1960s, and has then spread to numerous countries (Grönroos, 1994). This way of thinking was introduced in the service sector as well after the 80s. It was necessary because of the bad reputation the service sector got after using physical product marketing strategies on services (Grönroos, 2000).

In order to start a relationship, the customers have to be attracted to the organisation. Customers can be attracted by different things: they can see possible financial profits *financial factors*, or be attracted to use the latest technology *technological factors*, or they can be attracted to the image, *Social factors*. When customers are attracted to the company, they need to start interacting with it in order to start a relationship (Grönroos, 2000). There are interactions of both social and financial kinds (Grönroos, 1994), namely all the transfers of information, goods, services, information, administrative tasks and contacts that exist between two parties (Grönroos, 2000).

Managing customer relationships is not an easy task. One has got to understand the customers in a way that the competitors cannot, in order to gain a competitive advantage. To understand the customers and receive information from them, interaction is necessary. Interaction is beneficial both for the organisation and the customers; it enables the organisation to understand what is valuable for their customers and the customers can easier inform their supplier about their needs. However, since needs change over time, it is necessary to have an iterative interaction with the customers. The supplier has to stay up to date with what the customers need as well as know about the customers' history in order to understand what the customers expect. When the parties get to know each other, interactions and transactions will become more efficient since they have more experience of each other (Peppers & Rogers, 2004).

Before interacting with customers it is important to be sure that both parties have the right means of communication and want to participate in that dialogue. It is important to understand that a dialogue cannot be controlled. It may change their behaviour towards each other in the end, for better or worse. If one examines what has been said and promised to the customers before, it will make the customers feel important to the enterprise (Peppers & Rogers, 2004).

### **3.8.2. Build relationships through quality**

The information society we live in provides consumers with a massive amount of information. It does not only make it difficult for companies to reach the consumers, this also makes the consumers more aware about what options are available to them. Consumers today are more sophisticated, they take more for granted than they did ten years ago (Grönroos, 2000) which results in higher requirements on the companies if they want to keep their customers (Grönroos, 2000; Rizal & Buttle, 2002).

Gummesson's *4Q model*, figure 3.4., shows how to offer quality through design, production, relation and techniques. The model defines relational quality as the customers' perception of the service throughout the whole process. According to the 4Q model one enhances this quality by showing empathy, attention towards the customers and great competence. Nevertheless, services are heterogeneous, so it is difficult for the service supplier to keep a constant quality and performance level. The quality level may depend on who performs the service, what mood they are in etc. When the customers feel confident with the supplier's performance level, they will eventually trust the supplier, in other words, the customers trust the service provider to perform on a certain level (Grönroos, 2000).

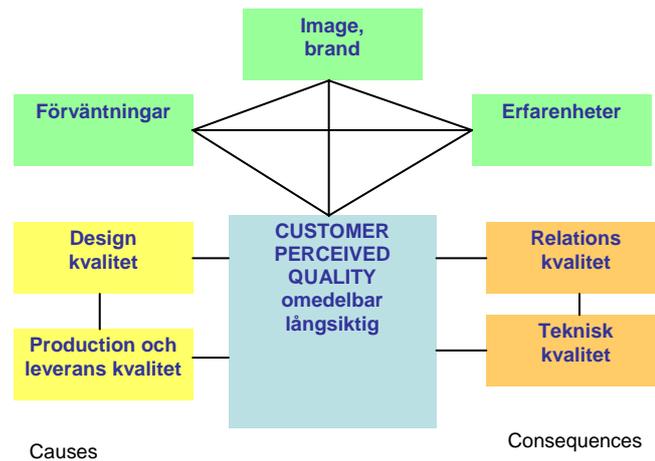


Figure 3.4  
Source: Grönroos, 2000

When the supplier performs an act, episode or sequence, it will add a judgement in the customers' set of experiences regarding the service and supplier. Those experiences will be the foundation to their expectations of the next act, episode and sequence. It is therefore not only vital to make a good first job, but to continue performing on the same quality level. In other words, customers' perception of the service quality depends on the expectations based on their previous experience (Grönroos, 2000).

There are three kinds of expectations. Each has its own effect on customers' total expectations. Customers have *fuzzy expectations* when they have a mission for the service provider to take care of, but they do not have any clear picture of how it should be done. Customers may also have *explicit expectations*; they have an idea about how the problem should be solved. The third kind of expectations is *implicit expectations* which are the ones taken for granted by customers (Grönroos, 2000)

The level of quality and customer satisfaction is vital when the customers decide if they will re-purchase or recommend the service. Grönroos (2000) shows a diagram how the level of satisfaction is related to the level of re-purchase intent and willingness to recommend the service, figure 3.5.. It shows that customers are only willing to re-purchase and recommend the service when they are *very* satisfied. It is not enough for customers to be simply satisfied.

### Willingness to re-purchase

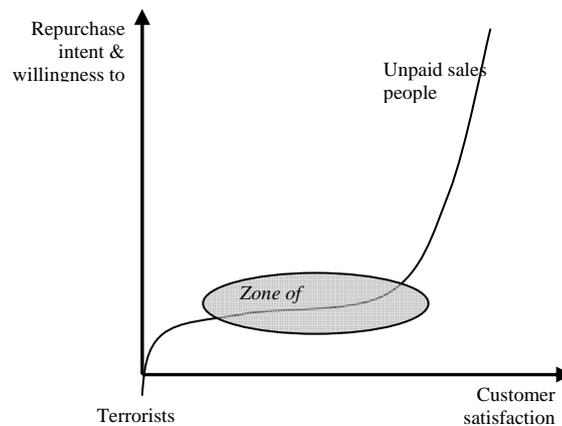


Figure: 3.5.  
Source: Grönroos, 2000

Figure 3.5. shows that the relation between the willingness to re-purchase/recommend the service and satisfaction is far from linear. The research showed that customers will spread positive recommendations if they are very satisfied (Grönroos, 2000).

When customers are pleased with the relationship with the financial supplier, it is more likely that they will buy additional services from the supplier. If the customers buy into the cross-selling actions, it will lead to an increased share of wallet (Harrison, 2000).

In order to make customers satisfied, the supplier has to ensure that the customers get the product that will fit their needs. Relationships are built with customers, not segments of the market (Peppers & Rogers, 2004). Needs change over time and the customers have other values than the enterprise. All information the enterprise obtains from and about the customers helps the enterprise to create a better picture of what the customers need and value (Kotler, 2004). As a result of this the enterprise must engage in different interactions, remember the customers' background and make sure to offer the right kind of service to the right customers (Peppers & Rogers, 2004).

Customisation makes it easier to fit the customers varying needs and is profitable in two ways: customization reduces speculative manufacturing and inventory costs. These cost reductions are the main reasons why companies consider mass-customisation. When one serves the customers what they want, the entire transaction becomes streamlined. This is not only valuable for the customers, but also cost efficient for the company (Peppers & Rogers, 2004).

### **The relation between quality and efficiency**

From the manager's point of view, improved service quality is often turned down because higher service quality is thought to lower the efficiency level although this reasoning is not correct. A higher level of quality leads to less errors and therefore less resources spent on correcting them. Especially a service provider should be careful to keep the service on a high level from the beginning. If one invests the amount spent on correcting errors, in quality improvement, not only will errors be decreasing, personnel and customers become more satisfied, but this kind of improvement will be noticed by the consumers (Grönroos, 2000).

### **3.8.3. Build relationships through loyalty**

Loyalty is the source to profitability according to *The Loyalty Effect Model* which is the result of one of the biggest researches ever conducted within the relationship marketing area. One conclusion made from it is that service providers profit from investing in the relations with their customers. It shows how attraction costs on average are five to six times higher than retention costs (Reichheld, 1996).

The research also showed that the income from the first transaction will normally not cover the costs for attraction. Customers who stay with the provider do not only keep on buying the first service, but start to buy more kinds of services (*revenue growth*). The longer time customers stay with the service provider, the more they know about each other, hence all transactions go more smoothly and fewer problems arise (*cost savings*). When customers are very satisfied with the service, they may recommend the service provider and therefore function as free sales people (*referrals*). When customers

become loyal and stay with the service provider for a long time, they feel comfortable with their relation, know what they get and might even develop a customized interaction routine or system. Therefore the provider does not have to present special offers to keep them, but rather sets higher prices to be able to customize the services even more (*Premium Price*) (Reichheld, 1996).

There are two different kinds of loyalty, behavioural loyalty and attitudinal loyalty. The first one means that the customers' behaviour seems loyal. Perhaps the customers go to the supplier because it is the only bank in the area. If the customers stay with a supplier because of the second kind of loyalty, they stay because they like the image, are satisfied and have positive opinions about the supplier in general; they are emotionally attached to the supplier (Harrison, 2000).

Customers can also have a loyal behaviour without really knowing why. For instance the complexity of financial services makes it difficult to compare which bank offers the best service. Then when one has chosen a certain bank, it does not feel compelling to go through another search process again, but one stays with the selected bank (Harrison, 2000).

#### **3.8.4. Build relationships through commitment**

One of the cornerstones of a relationship is commitment. It means that the parties must be motivated to do business with each other in order for them to have a relationship. Otherwise, if no efforts will be made to start and continue a relationship, it will fizzle out (Grönroos, 2000).

Trust and commitment are two variables that are very closely linked to each other, and trust is a strong contributor to establish commitment (Rogers & Peppers, 2004). A reason for customers to be committed to an enterprise may be that the enterprise has proven to the customers to be trustworthy and has shown that it can deliver the service in time. A high degree of commitment leads to a stronger relationship (Grönroos, 2000). The degree of commitment also represents the attitude the customers hold towards the enterprise. In

addition it shows to what extent the customers are willing to sacrifice in order to maintain the relationship (Gemünden, Ritter & Walter, 1998).

Researchers divide commitment into two different types: *Calculative* and *affective*. Calculative commitment is seen from a financial perspective and refers to the costs of changing suppliers. The more it costs to change supplier, the more motivated are the customers to continue the relationship. Affective commitment on the other hand, refers to the emotional attachment two parties hold towards each other (Ekelund, 2002).

### **3.8.5. Build relationships through trust**

Trust can be defined as a person's expectations of how another person will act in a certain situation. If the trusted party fails to live up to the expectations, it will be a disappointment to the other. Trust is an emotion the customers hold towards a company and is one of the emotional elements of a relationship (Grönroos, 2000).

A relationship based on trust makes both the customers and the company comfortable in continuing the interaction with each other. It is not an element that comes with the relationship instantly, but comes with time, experience and also depends on the general level of trust within the culture. It brings great advantages to the relationship, although it is not an absolute requirement for there to be a relationship. Customers may remain in a relationship only because there is no other suitable alternative. It is, however, obvious that trust makes the relationship stronger and contributes to a long term relationship (Grönroos, 2000).

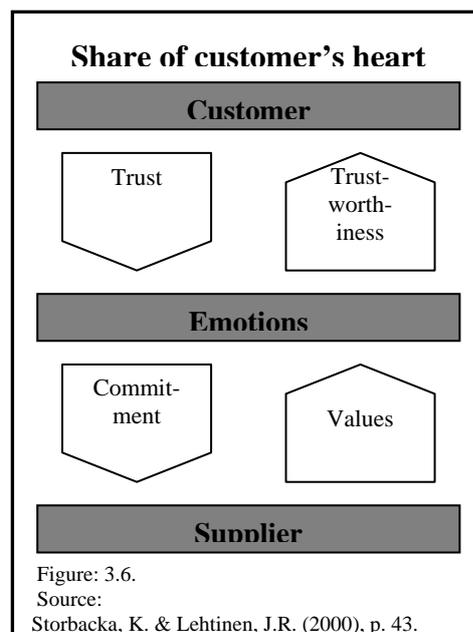
One talks about four kinds of trust; *Generalised trust* concerns the general trust people normally have at the beginning of a relationship according to the social norms of the local culture. *System trust* is the trust that comes with legislation, industry norms and contracts. It is not based on a feeling or emotions, but based on a promise. *Personality-based trust* refers to the trust you feel for the actual person you are dealing with; the personal chemistry is

vital in this aspect. *Process-based trust* is built over time and is based on experience (Grönroos, 2000).

### **Trust works both ways**

The degree of trust is an essential factor that decides what level the relationship will reach. It works both ways, for instance the requirements a bank demands in order to approve a loan application and from the customers' point of view it could be regarding investments, it is necessary that the customers trust the bank to look after their interests (Harrison, 2000).

Storbacka and Lehtinen (2000) show how mutual trust will enhance the relationship between the supplier and its customers. Figure 3.6. shows how shared and continuing values are an important if there should be any trust.



When the corporate values are visual, the customers will be able to decide whether they can identify with the values or not. If they do, they will gain trust for the supplier and therefore show commitment. Trust will add depth to the relation; both parties want to be sure that they will not be betrayed or disappointed. One way to avoid negative outcomes is to have *contractual safeguards*, but there are no contracts that will be able to cover all situations. So, when one party express its goals and intentions, the other party can decide

whether they share the same values or not. If they do, it will be easier to reach agreements.

### **What decides the level of trust?**

If the customers trust the financial service supplier or not, depends on different factors. For instance the perceived risk level; if there is a situation when the customers will take a high-risk decision and the outcome will be dependent on the supplier's performance, the customers must trust the supplier the supplier. An attempt to build trust is to have contractual safeguards, e.g. guarantees of outcome (Harrison, 2000).

There are laws that help the customers to have a certain outcome. For example customer protection laws, industrial organisations working for the consumer and contractual safeguards. However, the final example is not a common option for financial institutions since there are many factors suppliers cannot control; hence cannot guarantee any outcomes (Harrison, 2000).

The customers have to feel confident with the other party and with the expectations. One gets confidence for another through positive previous experience or through positive word-of-mouth or through a corporate culture that the customers can identify with. If the customers know that the organisation has a reputation to take the customers' opinions into consideration, the customers feel more secure. The corporate culture has to state very clearly the values of the organisation (Harrison, 2000).

### **3.9. The KMV model**

*The Key Mediating Variable* model (KMV model), figure 3.7., focuses on the trust and commitment in a relationship. There are five major factors affecting commitment and trust: relationship termination, relationship benefits, shared values, communication and opportunistic behaviour. These affect trust and commitment in different ways which will be explained later in this chapter. Trust and commitment have five effects in their turn: acquiescence, propensity to leave, cooperation, functional conflict, and uncertainty. The KMV model determines that trust is a strong contributor to the level of relationship

commitment. It shows what areas should be stressed if one wants to invest in a relationship (Bengtsson, Persson & Welin, 2004).

*Relationship termination costs:* This factor refers to the costs that arise if the relationship is terminated. Termination costs may function as a positive contributor to the relationship. If the termination costs are high, it will be beneficial for the customer to stay with the counterpart (Bengtsson, Persson & Welin, 2004).

*Relationship benefits:* Actors that deliver value to the counterpart will be appreciated and considered valuable. The counterpart will be more committed in return to make the relationship work (Bengtsson, Persson & Welin, 2004).

### The KMV model

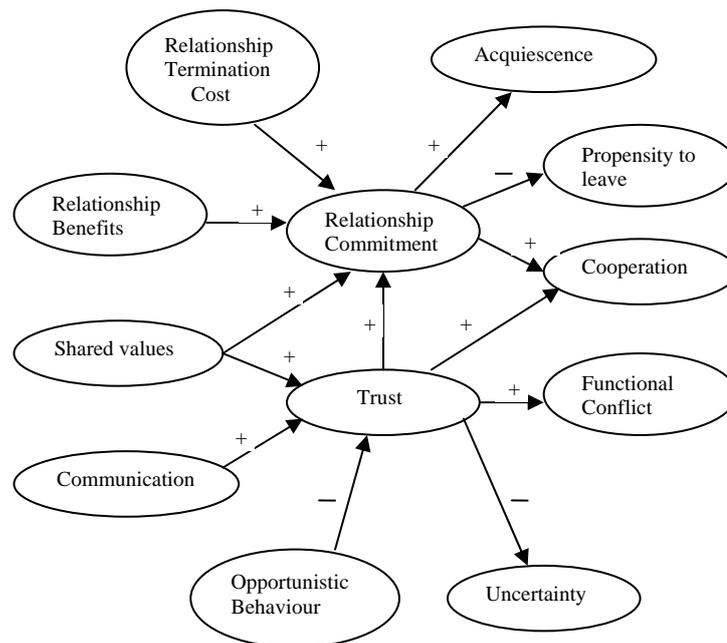


Figure: 3.7.  
Source: Bengtsson, Persson & Welin, 2004

*Shared values:* This variable explains to what extent the actors share the same values. If both parties share the same values, the result will be that both are more committed to the relationship and willing to invest in it (Bengtsson, Persson & Welin, 2004).

*Communication:* The communication process can be formal and informal. Formal refers to face-to-face interaction and informal refers to sharing information between each other through other communication channels, e.g. e-mail and telephone (Bengtsson, Persson & Welin, 2004).

*Opportunistic behaviour:* This factor refers to sudden changes in the behaviour on an actor. Sudden changes in the behaviour may be an effect of bad publicity. Opportunistic behaviour results in decreased commitment to the relationship (Bengtsson, Persson & Welin, 2004).

There are five dependent variables in the KMV model, the effects of trust and commitment. The factors are acquiescence, propensity to leave, cooperation, functional conflict and uncertainty and explanations to these follow:

*Acquiescence:* Is defined as to what degree one actor accepts the actions taken by the other party. Commitment in a relationship has a positive effect on acquiescence. Trust indirectly affects acquiescence through commitment (Bengtsson, Persson & Welin, 2004).

*Propensity to leave:* A low degree of commitment to the relationship is directly affecting an actors' propensity to leave. Why stay in a relationship where one of the actors is less committed than the other? A mutual commitment to the relationship will lower the propensity to leave the relationship (Bengtsson, Persson & Welin, 2004).

*Cooperation:* Both commitment and trust has an effect on the willingness to cooperate. A committed actor will also cooperate with the other actor in order for them to reach their goals. The cooperation process may come in terms of information, feedback and willingness to compromise (Bengtsson, Persson & Welin, 2004).

*Functional conflict:* This refers to when a disagreement between two actors is solved in a friendly way. Trust make the actors believe that they are both

willing to take each other's interests into consideration when they need to solve a conflict. Therefore they will not get aroused when a conflict arises, but work for a good solution for to both parties (Bengtsson, Persson & Welin, 2004).

*Decision-making uncertainty:* This factor shows to what extent the actor has enough information to make decisions, and to what extents he can predict the outcome of these decisions. Trust in the counterpart, decreases the decision making uncertainty (Bengtsson, Persson & Welin, 2004).

The only problem with the KMV model is that it only explains what may be the outcome to commitment and trust. The KMV does not explain how you might measure the relationship when it has been established (Bengtsson, Persson & Welin, 2004).

### **3.10. Summary**

Even though relationship marketing has not been studied for a very long time, there is a massive amount of research done in the area. The major researchers of relationship marketing and financial service marketing are mentioned in this chapter.

One can say that relationship marketing is the opposite of transactional marketing which is shown in the relationship spectrum (George, 2000) and the marketing strategy continuum (Grönroos, 1994). It is more suitable when markets are mature (Grönroos, 2000), the products are homogenous (Storbacka & Lehtinen, 2000) and/or complex and when the supplier is dependent on the customers in a certain geographical area (Grönroos, 2000).

Relationship marketing comes with many advantages if it is conducted successfully. However, if the customers are not inclined to have a relationship as well, the relationship marketing will not have a great impact. Research has shown that customers prefer to have relationships with the supplier when it

comes to personal loans, investments, new car, car insurance and travel agency (Harrison, 2000).

Services in general are intangible, inseparable, heterogeneous and perishable. However, financial services hold two additional features: fiduciary responsibility and two-way information flows (Harrison, 2000). These additional characteristics promote building of relationships.

Further, one needs to recognise that a relationship is a process (Grönroos, 1994 & 2000) and it consists of several smaller parts that are connected with each other (Holmlund, 1997). One can build relationships through interactions (Grönroos, 1994 & 2000; Peppers & Rogers, 2004) and quality (Grönroos, 2000; Rizal & Buttle, 2002; Peppers & Rogers, 2004). Loyalty (Reichheld 1996; Harrison, 2000), commitment (Grönroos, 2000; Gemünden, Ritter & Walter, 1998; Ekelund 2002; Bengtsson, Persson & Welin, 2004) and trust (Grönroos, 2000; Storbacka & Lehtinen, 2000; Bengtsson, Persson & Welin, 2004) are all desired features of an emotional relationship with the customer. They results are very favourable, e.g. referrals (Grönroos, 2000) and increased customer profitability (Reichheld, 1996).

Long term rewards can be achieved through customer orientation, interaction and a constant high quality. It cannot be stressed enough how important it is to have a constant high level of the quality. As one can see in the relationship framework model (Holmlund, 1997), the performance in each act, episode and sequence is related to the total perception of the relationship and future expectations. However, it is important that the supplier does not see the relationship as terminated if, e.g. one sequence results in a failure. The total perception of the relationship may still be quite intact.

### ***3.11. The cultural context***

Culture is something that concerns everyone, perhaps it is the reason why it has been done so much research in the area. However, in this part we will go through the most significant researchers and their conclusions. Typical for this research area is how one defines different aspects of a culture on a scale

between two polar extremes. This part will explain the major findings from the most famous experts of culture.

Some of the first researchers to establish specific differences between cultures are Kluckhohn and Strodtbeck (1950s) and Edward T. Hall (1950s). They are not cited as often as Hofstede (1970s-1980s) and Trompenaars (1980s-1990s), but they established differences that are still valid today. Geert Hofstede's research and conclusions are probably the most famous ones. They are cited in almost every business book that has a section on international business. Hofstede got his insights when he worked as a psychiatrist for IBM and made a survey on the employees' values, in all IBM offices and branches. When he got the results he saw patterns, the values were connected to the cultural background. His findings were collected and written in his first published book; *Culture's consequences* (1980).

### **3.11.1. What is culture?**

In order to analyse culture, one first needs to know what culture is. Here follows some definitions:

“...a set of basic assumptions – shared solutions to universal problems of external adaptation (how to survive) and internal integration (how to stay together) – which have evolved over time and are handed down from one generation to the next.”

- Edgar Schein (interview with Boldt 2005).

“Culture is the collective programming of the mind which distinguishes one culture from another.”

- Geert Hofstede, 1980 (interview with Boldt 2005).

“How things are done around here”

- Ouchi & Johnson, 1978 (interview with Boldt 2005)

When one investigates whether it is possible or not to use a certain marketing approach in another culture, one has to investigate what differs and how it will affect the reception of the marketing. One has to adapt the marketing to the

assumptions, norms and values of the local culture (Trompenaars & Hampden-Turner, 1998).

### **3.11.2. The different cultural extremes:**

It is obvious that culture affects our way to behave. This section will discuss how one can divide cultures in terms of different aspects and through this distinguish different features.

Edward T. Hall discovered how people in different cultures deal with assignments in a monochronic or polychronic way, how some are offended if another come closer than 50 cm and how some tend to speak with their whole body whilst others hardly move their arms even if they are furious (Van der Horst, 2005).

#### **Monochronic versus polychronic behaviour**

People in a monochronic culture prefer to deal with things one by one, prefer when the time is planned out in advance; they have a linear approach to life. Polychronic behaviour on the other hand stress interaction, relationships and freedom (Van der Horst, 2005).

#### **Low versus high context communication**

Communication styles divided into low or high context differ when it comes down to what one party expects the counterpart to know. In a high context communication, much is taken for granted and much is expressed in body language, tone of voice and some history is taken for granted. In a low context communication everything needs to be spoken out loud, nothing is taken for granted. Monochronic cultures tend to have a low context communication, as well as polychronic cultures tend to communicate in a high context (Van der Horst, 2005).

#### **Close versus distant space**

This refers to two aspects; how close another person can come before one starts to interfere with one's personal space, and to what gradient people prefer to consider things to be their personal things. A culture where people prefer distant space, the physical distance between two persons who talks is preferred to be wider, people have a tendency to label stuff and prefer to have

a personal space or area where they can be all by themselves. People who prefer a close space between each other do not tend to label things as their own, but prefer sharing and exchange (Van der Horst, 2005).

Hofstede mentions five dimensions; four was defined in his first survey; *high versus low power distance, individualism versus collectivism, masculinity versus feminine* and *high versus low uncertainty avoidance*. Later, together with Michael Bond he included a fifth dimension; *long versus short time orientation* (Johansson, 2003).

### **Power distance**

This aspect refers to whether people in a certain culture considers some persons to be entitled to more power than others because of a certain age, position etc. For instance it differs between countries how much power a teacher has over the students and if some specific roles in the family comes with more authority. In cultures where it is a high power distance, it is easy to find hierarchal structured organisations; titles have great meanings and come with a certain power, whereas in cultures characterised by low power distance, one puts emphasis on equality between, e.g. genders, ages and organisations are often flat (Johansson, 2003)

### **Individualism versus collectivism**

In an individualistic society everyone takes care of themselves and the individual gains are more important than the gains of a certain group. The individual is expected to stand on its own and also be able to get individually rewarded. In a culture featured by collectivism, the group is more important than the individual. It is important to be a part of a group, it offers a strong commitment and the issue is to be inside or outside different groups (Johansson, 2003).

### **Masculinity versus femininity**

This dimension separates the cultures if the gender is strongly related to a certain role or not. Masculine cultures include clear roles of female and male,; one seeks material gains and focuses on performance. In feminine cultures one emphasises the well being, gender roles are not as clearly separated and equality is a virtue. Depending on what culture a market is characterised by, it

is crucial how one treats the customers. In a masculine society profits are most important, while in a feminine culture social consciousness is expected to be higher (Johansson, 2003).

### **Uncertainty avoidance**

The uncertainty avoidance dimensions separate the cultures where uncertainty is accepted from those where one tries to prevent it. People within a culture characterised by high uncertainty avoidance tend to show their emotions, rules are appreciated and there is a distinct sense of what is right and wrong. Low uncertainty avoidance cultures are interested in the unknown, rules are associated with something negative and they tend to classify tasks in order to how urgent they are. If one should try to build a relation in a high uncertainty avoidance culture, it is most likely that the customers will require some guarantees, perhaps a contract promising that certain measurements will be made in different situations (Johansson, 2003).

### **Confucian Dynamism**

The last dimension of Hofstede considers whether it is common in a culture to have a long or short time orientation. Cultures that stress long term orientation is characterised by status, continuance and image, and short term oriented cultures are characterised by respect to traditions. They allow nature to have its path and are focused on behaving properly (Johansson, 2003).

In Trompenaars & Hampden-Turner's book "*Riding the waves of culture – Understanding cultural Diversity in business*" the depth of culture is compared with the layers of an onion, figure 3.8..

## The layers of culture

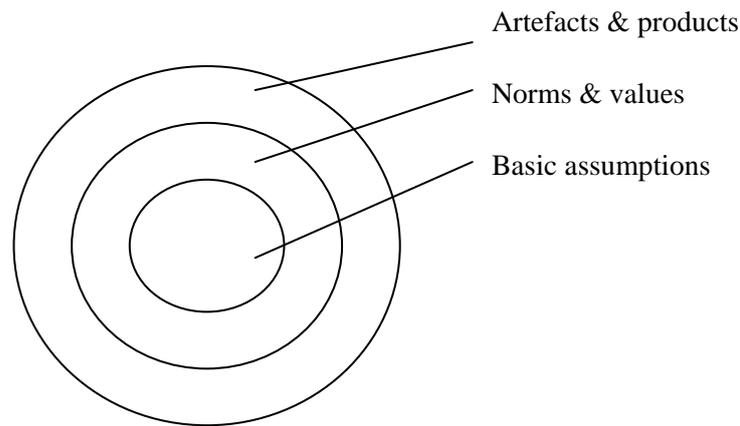


Figure: 3.8.  
Source: Trompenaars & Hampden-Turner, 1998

The different layers are defined as '*artefacts and products*' (visual), '*norms and values*' (rules considering what an appropriate behaviour is and what the population of a culture considers to be right or wrong and '*basic assumptions*' (according to these the individual analyses its environment). The basic assumptions are unconscious. The outer layer is visual and easier to discover than the other layers. The inner layer is difficult to change since the individual is more or less unconscious about it.

Trompenaars defined some dimensions as well. He means that these dimensions are a part of the basic assumption and therefore characterise the culture in question. Some are almost the same as Hofstede's dimensions. Therefore the following part will describe the ones that Hofstede does not mention (Trompenaars & Hampden-Turner, 1998).

### Relationship to nature

Trompenaars speaks about how people relate to nature in terms of *control*, *harmony* and *constraint*. First, when a culture relates to nature with control, it believes that it can and should master nature. Second, when one lives in harmony with nature, one believes that one should keep on developing, but with respect to nature's needs. Finally, when a culture has a constrained relation to nature, the people live totally according to it and will never interfere with its course (Trompenaars & Hampden-Turner, 1998).

### **Universalism versus particularism**

In a universal culture one assumes that there is one right way to act, while in a particular culture one considers and evaluates each situation by its own. In a business context this affects one's expectations on how a relationship shall function. For instance, in a universal culture it is important for an employee to follow the general customer policy and give the exact same treatment to all the customers, but in a bank placed in a particular culture more emphasis will be put into the certain relationship customers have with the bank, no matter the general customer context (Trompenaars & Hampden-Turner, 1998).

### **Achievement versus ascription**

Achievement and ascription are related to, respectively, *doing* and *being*. They refer to whether persons fight to get power (achievement) or are given power (ascription). In a doing society one performance decides what power one gets, while in a being society one is offered power depending on factors such as age and gender (Trompenaars & Hampden-Turner, 1998). An example can be when persons start at a new working place: in an achievement culture, people will probably not get much responsibility or advantages in the beginning, but will have to prove to the management that they can handle the responsibility. However, in an ascription culture, responsibilities and advantages will be given to new employees at the beginning because they have a certain age and working history.

### **Neutral versus affective**

Neutral and affective is also called instrumental and expressive communication, respectively. It categorises culture into groups according to whether the people have an emotional behaviour or not. Affective cultures tend to use more body language, people show their emotions openly and one has to read between the lines to get the whole message. In a neutral culture, thoughts are expressed, but described with words rather than with a tone of voice etc (Trompenaars & Hampden-Turner, 1998).

## **4. Case study: Hong Kong versus Sweden**

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*To understand how external factors may affect banks' strategies, this part begins with a description of the current trends in the financial markets. It will explain how environmental factors may affect the financial suppliers and the customers, followed by definitions of the two markets. Further, the Hong Kong and Swedish markets will be presented in two separate parts; presenting some historical facts, how the customer protection functions, how income is distributed, the current marketing strategies and the characteristics of the local culture.*

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### **4.1 Trends in the financial service markets**

30 years ago the financial service markets were characterized by regulations and restrictions. Strict legislation was meant to protect national markets from competition. The financial sector was strictly controlled until the 1980s when less controlled markets took off into the liberalisation and globalisation process. The customers became more sophisticated, mobile and experienced, whereupon the financial sector had to adapt. Deregulations and liberalisation in the financial service market led to several acquisitions, mergers and re-positioning of institutions; the boundaries between financial institutions became unclear and soon they were all able to offer the same kind of products. Today the financial service industry is experiencing the globalisations process and the competition comes from all parts of the world. It became difficult for the suppliers to offer a unique service since everyone offers almost the same services. Therefore it is now essential for the company to connect with the customers on an emotional level (Harrison, 2000).

Financial services have earlier been considered to need a close relationship between the supplier and customers because of their complex nature. The simplest transaction was thought to require a face-to-face meeting to be sure that the sender and receiver were correct. It has always been like this until the 1980s. The banks became obligated to show their financial deceleration and book-keeping to the public and then the economical thinking entered the financial sector as well. The banks decreased the number of branches to lower

the costs, but the situation became unbearable for the city branches. The visiting pressure became too much and they needed to have alternative ways to communicate with their customers. ATMs became one solution to be able to receive simple with-drawl errands outside the restricted opening times. Another solution was telephone and mail banking and eventually also internet banking (Harrison, 2000).

#### **4.1.1. Trends among the suppliers**

When financial services were first introduced, the market consisted of hundreds of banks. Each bank had only one or a few branches since it was difficult to communicate over far distances. Throughout the years the financial service market has become more concentrated and consolidation is a fact even today. The reasons are many, first of all: it is possible. Today we have the technique and resources to be able to cope with long distances. The market is not as regulated anymore. It has resulted in possibilities for new entrants, compete with price, manage with fewer investments and outsource redundant processes. Acquire other banks is also a way to gain market shares and therefore market power. It will also enable cost savings since one will reduce the risk of duplication (Harrison, 2000).

Because of deregulations financial services are also supplied by non-financial institutes. When it is possible to offer all kinds of services product bundling, also known as cross-selling strategies, becomes a common technique to increase the share of wallet as well as a way to retain the customers. It is not only profitable to the supplier; it limits the search process for the customers as well (Harrison, 2000).

#### **4.1.2. Trends among customers**

Along with a changing environment, the consumers change as well. Table 4.1. shows what major trends affect the financial service customers right now.

<b>Trends among customers</b>		
<b>1980's</b>		<b>2000</b>
Young	➔	Older
Male dominated	➔	Increased importance of women
Earned wealth	➔	Inherited wealth
Loyalty/inertia	➔	Cynicism/mobility
Self interest	➔	Social conscience
<i>Table: 4.1.</i>		
<i>Source: Harrison, 2000</i>		

The average consumer is older and more mature. This depends mostly on the changes in the population's age structure. What this mean in financial terms is more or less that fewer people will have to support retired people.

The number of females interested in the financial sector increases, perhaps because of the number of working women has increased rapidly, especially since the 1980s. The most changing segment is working women with children below five years of age. This segment has increased from 37 percent in 1984 to 52 percent in 1994 and it is believed to be even higher today (Harrison, 2000).

The source of income has changed too. Temporary employments, part time jobs and self employment are more common today. This is important because wealth is one of the major factors that decide the demand for financial service. Much wealth is inherited today, normally the heritage arrives in a persons most profitable years, around their forties.

Customers become more mobile, they switch supplier more often. They switch more because they know more. The customers are also less loyal today because the banks themselves encourage it; when a bank tries to attract new customers, they encourage the customers to switch bank (Harrison, 2000).

Consumers are more conscious today; they want to know that their investments are done properly, both in a financial and ethical sense (Harrison, 2000).

As shown in table 4.1, customers change over time. Therefore, the supplier has to re-evaluate the customers repeatedly in order to offer them services that fit their current need. An example is attraction offers for students, e.g. a free internet bank account. However, when the students are finished at school and have a proper income, they will probably not care as much about prices anymore, but are interested in investment counselling instead (Harrison, 2000).

## **4.2. Environmental analysis**

To be able to compare a financial centre such as Hong Kong and a small market with a domestic focus such as Sweden, we need to find out what differences there are between their surrounding environments. This section explains the surrounding environments of the two markets (Harrison, 2000).

### **4.2.1. The socio-economic environment**

The demand for financial services is related to the socio-economic environment in many ways. But perhaps the most important one is personal income and wealth. Personal income, especially disposable income (salary, contributions and drawn taxes), has a great impact on how much people save, how much they are able to pay/raise loans, credits and their attitude towards investments and risk taking.

Personal wealth is returns of investments, savings and wealth associated to property. This is related to the personal income since the attitude toward savings and investments are based on ones personal income. It is of importance to know how the wealth is distributed. Wealth is still very unequally distributed; it is often proportions such as the top 20 percent own 80 percent of the total wealth. This can be shown in a Lorenz diagram which will be displayed later in the case studies (Harrison, 2000).

Segmentation is when one divides one's customers in certain clusters based on different features e.g. geography, income, gender, occupation, political

opinion and their needs or values to the enterprise. The segmentation process makes the enterprise reach their customers more successfully. Segmentation by income is an important variable for financial supplier organisations. The income is one of the key features determining the demand for financial services. With a certain income, one can also expect that the requirements for a better service are to expect (Kotler, 2004)

#### **4.2.2. The regulatory environment**

Changes in the regulatory environment have a great impact on the financial service market. If one compares today's liberal and international synchronised attitude, to the protective and controlling attitude that ruled during the 1980s, it is not difficult to understand why the financial industry has expanded as it has. Even if the trend in general is deregulation, governments have also added some regulations such as actions to protect the consumers, promote competition etc. Deregulations have an increasing effect on the efficiency and economic profits within the financial service industry. Although, governments have to consider other aspects as well, e.g. protections of consumers, prevention of fraud, uphold confidence in the domestic financial market, and therefore also add some regulatory laws. Deregulations do not only make it easier for financial service supplier to offer products in new ways, it also enables non-financial institutions to offer financial products, in other words, new entrants, competition, will come from more directions (Harrison, 2000).

#### **Supervision of suppliers**

The supervising authorities in Sweden and Hong Kong function more or less the same way. They both act in interest for the consumers, set ethical and legal guidelines, promote efficiency and competition (Hong Kong Monetary Authority, 2005) (Finansinspektionen, 2005).

The Hong Kong Monetary Authority (HKMA) supervises the financial service provides in Hong Kong. Financial service providers in Hong Kong are obliged to follow the recommendations set by HKMA and conduct their businesses according to the banking ordinance. This is necessary in order to keep the

market as efficient and stable as possible and to keep their reputation of being the financial centre of the world (Hong Kong Monetary Authority, 2005).

Finansinspektionen (FI) is the Swedish financial supervisory authority and is mainly financed by governmental subsidy. The Swedish supervision authority promotes financial stability more than competition, as oppose to Hong Kong supervision authority (Finansinspektionen, 2005).

### **Consumer protection**

The consumer protection is the same in both countries. Both The Consumer Agency (Sweden) and The Consumer Council (Hong Kong) makes tests on regular basis on the products and services which are provided in the market. These tests are conducted in order to make sure that no product or service provided in the market is dangerous to the consumers. However the information which we have received about the consumer council in Hong Kong does not inform how the council engages in disputes between the consumers and the suppliers of goods or services. The fact which says both countries test the products lowers the uncertainty for the consumer in their choice of supplier (The consumer council, 2005) (Konsumentverket, 2005).

### **Credit card contracts**

The credit card contracts in both countries have approximated the same structure. The responsibility the cardholders have is the same. However there are some differences which are worth mention. Credit cards in Sweden are only provided after the bank has received credit reports of the customers (§2A SEB, 2005). This credit report is a way of knowing if the customers' credit is valid or not. Further, there are differences in the termination of the account. In Sweden credit card holders must notify the bank one month in advance for the termination of the credit card (§14A SEB, 2005), compared to Hong Kong where the card holders may terminate the account at any time (§7 BEA, 2005).

The cardholders in Sweden are also not allowed to use the credit card to pay instalments to a merchant (§3.5 SEB, 2005) compared to Hong Kong, where the applicants are allowed to do so. If the card holders loses their credit card

the card holders must notify all merchants of the fact their credit card is lost in order for the merchant to hold any instalments the customers may have with the merchant (§1.5 BEA, 2005).

The bank may also send newsletters to the cardholders in Hong Kong, but the bank has not any responsibility of the contents of the newsletters (§12.5 BEA, 2005). Paragraphs concerning the information which the bank sends to the customers are not to be found in the Swedish credit card agreement.

The main difference however between the contracts in Sweden and Hong Kong is the fact which says, banks in Hong Kong does not take any responsibility regarding the customers' purchases (§1.5 BEA, 2005).

#### **4.2.3. The technological environment**

The first role technology had for the financial service business was to automate the back-office routines, e.g. keep customer records and transactions records. This is beneficial for cost-reductions as well as reducing human errors. In other words the technology increased both the efficiency and quality.

Financial service suppliers could also offer their consumers more products and more comfortable solutions when the computerisation had its breakthrough. It has also enabled easier access to customers. When the banks introduced the ATM, it was a way for the banks to compensate for their limited opening times. This became a success and soon banks introduced other services through ATMs, such as bank statements and balance enquiries (Harrison, 2000).

Nowadays the use of technology is integrated with the every day use of financial services. Technology makes it easier to offer good customer service. Lately consumers use telephone and internet banking on a regular basis. More advanced technology makes it easier for the marketers to reach the consumers, for example by advanced database management. So far the financial supplier's administration systems have been structured according to products and accounts, not according to customers. Advanced technology decreases the

demand for cash and gives the banks new opportunities to offer services in a new way (Harrison, 2000).

### **4.3. Definition of the Hong Kong and Swedish market**

Hong Kong is taken as an example of an international financial centre and Sweden as a less attractive market for global actors. This part aims to define the two markets and prove why they are taken as examples.

Hong Kong is listed number 1 as the most economical free country. Sweden is ranked as number 14 but is still labelled as a free market. Hong Kong is said to be a free market without any barriers. Both Hong Kong and Sweden are liberated markets. However, Hong Kong has been working for a free market for a longer time than Sweden and therefore it has been an option for international actors for a longer time (The Heritage Foundation *2005 index of economical freedom*, 2005).

A free market, with low entry barriers, is attractive for organisations since it lowers the introduction costs when organisations enter a new market. Hong Kong only has a few entry barriers, some requirements of investments, and therefore many international organisations are represented in Hong Kong (The Heritage Foundation. *2005 index of economical freedom*, 2005). Table 4.2. shows in numbers how intense the competition is in Sweden and Hong Kong and where the competition comes from (domestic or international).

Hong Kong is seen by the world as a financial centre, and has the highest concentration of banks in the world (Hong Kong Monetary Authority, 2005). The reason why the number of foreign banks is so high in Hong Kong is because it is an international trade centre with the world's biggest container-port terminal (Clifford, 2002); the international companies that operate in Hong Kong are more likely to feel secure to deal with banks from their home market than with a Hong Kong or Chinese bank.

<b>Market features</b>		
	<b>Sweden features</b>	<b>Hong Kong features</b>
Market structure	Centralised	Fragmented
Number of native banks	15 (Bankföreningen, 2003)	31 (WorldRoom.com, 1999)
Numbers of foreign banks	22 (Bankföreningen , 2003)	141 (WorldRoom.com, 1999)
Total number of banks	37	172
Population	9.0 million in 2004 (The World Bank Group, 2005)	6.8 million in 2004 (The World Bank Group, 2005)
Geographical area (square km)	450 000	1 092
People/square km	(9 000 000/450 000 =) 20	(6 800 000/1 092 =) 6227
Persons/bank	(9 000 000/37 =) 243 243	(6 800 000/172 =) 39 535

*Table: 4.2.*

According to the figures in table 4.2., there is a higher concentration of people in Hong Kong as well. It will be easier to reach a higher number of people if one advertises in Hong Kong than in Sweden since you have to cope with the distance in Sweden. It is obvious that it is a higher competition in Hong Kong as well when one considers the average number of people per bank; banks in Hong Kong need to work harder to get a large customer base.

Based on these facts we can define Hong Kong as an international financial centre and Sweden as a small financial market with domestic focus.

#### **4.4. Case study: Hong Kong**

##### **4.4.1. How did Hong Kong become the gateway to Asia**

To truly understand why the Hong Kong market functions as it does, why it became an international and financial centre one needs to understand the

environment around Hong Kong as well. Hong Kong is geographically perfect placed, close to China and the rest of the Asian-Pacific region (WorldRoom.com, 2005). Hong Kong became the gateway for western companies to enter Asia and especially China. Even today foreign banks are not allowed to offer the same range of services as the native banks in mainland China. Foreign banks usually keep a represent office there as a start-up counselling and for the future possibility to open up a local branch as soon as the legal system and government will allow it (Project China, 2003).

Since 1994 it has been possible for foreign banks to enter the Chinese market. However, there are different rules for banking activities in the different provinces. The bottom line was that foreign banks were only allowed to offer investment counselling, except in Shanghai where they were allowed to have a currency operation in 1994. This helped Shanghai to become the financial centre on mainland China (Project China, 2003).

One reason why the Chinese banks easily compete with the foreign ones is that the native banks are able to offer non-performance loans with some help from the government. Non-performance loans are loans where the loan takers do not have to pay any interest on their loans and neither do they have to have any financial securities. However, because of the big amount of non-performing loans (estimated to be 24-50% of all loans in China), the equity market has to function efficiently. It will be difficult to keep attracting foreign direct investment (FDI) since the non economical thinking in state owned enterprises (SOE:s) make them go bankrupt. Private owned companies then replace the SOE:s, but with fewer employees to do the same things, since they have to think in an economical way. Therefore the unemployment rate will raise which results in a decreasing input of FDI and a further downturn in the economy (Project China, 2003). Due to an inefficient, almost non functioning well-fare system in China, Chinese people do not rely on it, but depend on their savings in banks. The Chinese people tend to have much contact and dependence of banks (Project China, 2003).

In 2004 foreign banks were allowed to have local currency operations with corporations and by late 2005 they are allowed to do business with private customers as well. This liberalisation is a consequence of the agreement China had to sign in order to be a part of the World Trade Organisation (WTO). But restrictions have been added by China. China demands a large amount of investment before any foreign bank is allowed to open up in China. It is done to protect the local banks from competition (Project China, 2003).

#### **4.4.2. Guanxi**

Relationship marketing is the primary element used in the Hong Kong banking sector. This is because the Asian banks in general do not rely on information and decision tools to analyse their external environment. Instead they gather their information through informal channels and personal relationships with their customers. The information the enterprises receives is interpreted in face to face discussions which results in longer decision making process if one compares it to the western world (Adamson, Chan & Handford, 2003).

Relationships of the Chinese culture are based on Guanxi. Guanxi is a well known term in China and Hong Kong. It is referred to personal relations that are just used for business errands as well as personal errands. Guanxi and relationship marketing have similar elements; both are concerned with managing relationships and interactions. The difference is how the relationships are built. Relationships in Guanxi is built through visits, gifts etc. In relationship marketing the relationship is built through interactions, trust, commitment etc. (Choi & Gilbert, 2003).

#### **4.4.3. Lorenz curve and GDP/ capita**

Gross domestic product (GDP) is the value of a country's total consumption of products and services. Hong Kong's GDP per capita was calculated to US\$ 34 200 in 2004 (CIA Fact book, 2005). GDP per capita is only an average measurement of the GDP distribution; it does not show *how* the wealth is divided. In order to show this, one can use the Lorenz curve, a graph showing the income distribution between people in a country. If the graph is straight, it means everyone has the same income and it is equally distributed. In other

words, if the line is not straight, the income is unequally distributed. The X axle represents the income and the Y axle the population. The graph over Hong Kong, figure 4.1., shows that the income of Hong Kong is unequally distributed. There is a sudden rise in the final part of the graph, which indicates unequally distributed income (National Encyclopaedia, 2005).

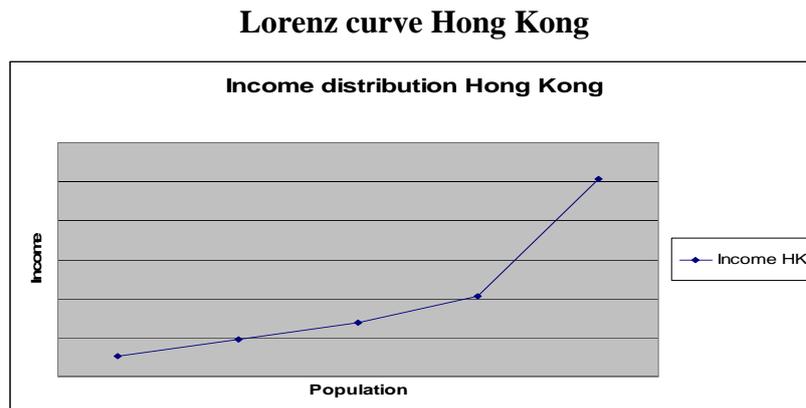


Figure: 4.1.

Source: World Bank Group, 2005

#### 4.4.4. Relationship marketing

Through interviews with bank managers in HSBC and Heng Seng Bank we found out that the current strategies is on how to build trust around credit cards. This part will describe our findings from the interviews; we only present the parts where the Hong Kong banks' strategies differ from the Swedish banks since we find it unnecessary to present the parts where they are similar. For more information about the strategies, including the similarities, summaries of the interviews are attached to the appendix 2-3.

#### Interaction

Interaction is helpful for both parties in a relationship; it becomes a bridge between them to provide each other with knowledge. One result that comes with interactions is trust. To build trust the customers need to feel that they get what they want from the supplier and that the supplier treats them right. When banks in Hong Kong meet their customers they address their customers as Sir/Ms/Mrs (interview Degeer, 2005; Interview Lam, 2005).

Traditionally banks use letter, telephone and face-to-face meetings to interact with their customers (interview Degeer, 2005; Interview Lam, 2005). The Internet has become a part of customers' life in Hong Kong, but the unstable environment and huge problems with immaterial rights has given the Internet a low credibility and therefore only insensitive information is sent though the internet (interview Degeer, 2005).

### **Quality of service**

Technology has been vital in order to improve their services in terms of speed, customization, decrease of errors etc. However, new technology can be seen as an enhancing value factor or as a risk (Harrison, 2000). In Hong Kong, new technology is considered to be a possibility to enhance value, but rarely before it has been tested properly in reality (interview Degeer, 2005; Interview Lam, 2005). Especially when it comes to new techniques related to payment methods (interview Lam, 2005).

When customers experience problems with their credit cards, they contact different stations depending on what kind of customers they are. If they are premium customers, they turn to their own personal banker (interview Degeer, 2005). If they are ordinary customers, they turn to a general hotline (interview Degeer, 2005; Interview Lam, 2005).

### **Shared Values**

Some banks in Hong Kong may have an official political opinion, but not a religious one (interview Lam, 2005).

### **Opportunistic behaviour**

Banks in general can notice if there has been bad publicity, especially if the publicity regards a problem that has already had its impact and when it comes to what extent the customers use their services (interview Degeer, 2005).

### **Level of cultural trust**

If consumers who are already customers apply for an additional service in Hong Kong, they will probably not go through the same kind of procedures,

as a new customer will (interview Lam, 2005; Interview Degeer, 2005). However, it varies depending on the nature of the service (interview Degeer, 2005).

### **Personal Chemistry**

When a banker has had a meeting with customers, it is common to document what was said during the meeting (interview Lam, 2005). When it comes to premium customers, everything is documented since a higher level of service is required and a personal relation is favourable. However, when it comes to general customers, only the basic and necessary information is documented (interview Degeer, 2005).

### **Time**

Some privileged credit cards hold extra favourable features, which require extra attention from the banks. To be able to become a card holder of these privileged credit cards, customers might need a recommendation from already existing card holders (interview Degeer, 2005; Interview Lam, 2005). An increasing number of banks use this kind of system in Hong Kong (interview Lam, 2005)

### **4.4.5. Hong Kong culture**

This part aims to describe what characterize the culture of Hong Kong. One can see how it relates to every extreme pole in the value grid (appendix 6).

#### **Relation toward external factors**

In terms of relation to nature the people of Hong Kong's attitude is quite close to the *harmony* view. They want to live a developing life, but take the laws of nature into consideration so they will not interfere with it. They tend to have quite high *uncertainty avoidance*. They do not prefer to take risks, but feel comfortable when they can rely on rules that tell them what to do. Hong Kong is seen as an *achievement/doing* society. People have to prove their worth to the superiors and will be given treatment according to their performance. They will most likely base their decisions on *feelings*. They consider the facts, but if the feelings do not concur with the facts laid out in front of them, the decision will probably be based on the feelings (interview Boldt, 2005).

**Relation towards internal factors:**

Hong Kong is not an extreme culture of any kind when it comes to a *masculinity* and *femininity*, although, it is leaning slightly more towards a masculine society. One can interpret this as if they do not consider that one is bound to a certain role because of their gender, but value performance even if they do not believe that it can be to the costs of total unhappiness (interview Boldt, 2005).

The culture in Hong Kong is very *collective*. It is very important to be a part of a group and one identifies with it. People prefer to do things as a group, share responsibilities and rewards. The organisations in Hong Kong are normally *hierarchal*, so managers have great power of their employees; there are probably titles to every position and some system for privileged customers and employees. The Hong Kong culture is a *particular* culture, it means that people evaluate every situation for every person and think of an answer that might be the right answer and they will make adjustments from the general rule according to the situation. They do not mind to stay *close* to each other or to share things, but feel comfortable when they can share things with each other (interview Boldt, 2005).

They are believed to be a mix of *monochronic* and *polychronic*. They are just in the middle between the two extremes. They do prefer to have things planned out, but also stress the importance of interaction. Communication between people in Hong Kong tends to be of *high context*. This means that they take some information, stories etc. for granted. They use body language and their tone of voice to communicate in addition to just using words. They are ranked almost the same on the instrumental-expressive scale which is natural since that scale measure almost the same factors. However, it also includes that people in expressive cultures are more open about their feelings (interview Boldt, 2005).

## **4.5. Case study: Sweden**

### **4.5.1. Banking in Sweden**

The financial actors in Sweden are primarily banks and insurance enterprises. There are four major banks: Handelsbanken, SEB, Nordea and Föreningssparbanken, which primarily controls the market. These banks offer a wide range of financial services to their customers. They got these leading positions by engaging in mergers and acquisitions (Konkurrensverket, 2002).

Before the 1980s it was not possible for foreign actors to enter the Swedish financial market due to very strict regulations in the financial industry. After the 1980s these regulations abolished and foreign actors began to enter the Swedish market. However, the financial crisis which occurred in the beginning of 1990s when Sweden had a weak economic development, led to many of the foreign actors left the market. The financial market today has recovered and the foreign actors have once again begun to enter the Swedish financial market mainly to serve corporate clients (Konkurrensverket, 2002).

Also after the financial crisis a development of niche banks begun. The establishment of niche banks has primarily been done by insurance companies, and lately also supermarkets, offering their customers loans at low interest rates (Konkurrensverket, 2002).

The niche banks has decreased the *big four's* (Handelsbanken, SEB, Nordea and Föreningssparbanken) market shares, but the Swedish financial market is still today controlled by the big four, and the oligopolistic structure of the market remains (Konkurrensverket, 2002).

### **4.5.2. Lorenz curve and GDP per capita**

Sweden's GDP per capita was 2004 calculated to the amount of \$29,544. In order to show how the income is distributed in Sweden we chose the Lorenz curve (National Encyclopaedia, 2005). The Lorenz curve is presented below and will be compared to Hong Kong's curve in chapter 6.

## Lorenz curve Sweden

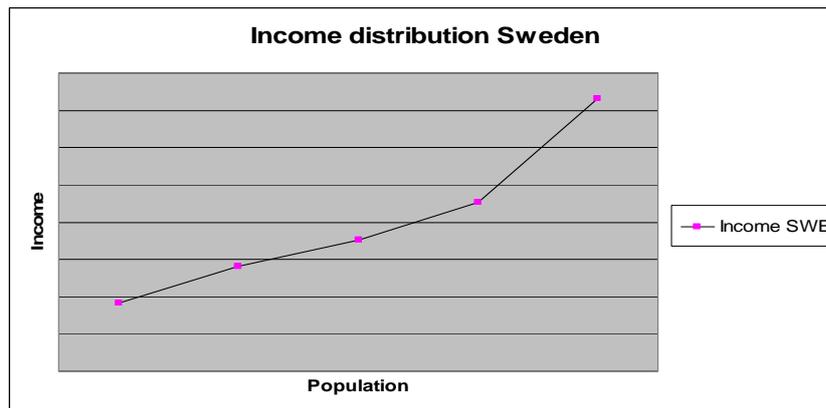


Figure: 4.2.

Source: World Bank Group 2005

### 4.5.3. Relationship marketing

We interviewed banks managers in two of the biggest banks in Sweden, SEB and Handelsbanken. We found out that their current trust building strategies are around credit cards. This part presents how they differ from the banks in Hong Kong. For more information about the strategies, the summary of the interviews is attached to the appendix 2 - 5.

#### Interaction

Interaction is helpful for both parties in a relationship; it becomes a bridge between them to provide each other with knowledge about each other. One result of interaction is trust. When banks meet with their customers they generally refer to them with the customers' first name (interview Wrangå, 2005; Interview Torstenson, 2005).

Traditionally banks use telephone, letter and face-to-face meetings to interact with their customers. However, as the Internet has become a big part of customers' every day life, it is being used as one the most common interaction channel today (interview Wrangå, 2005; Interview Torstenson, 2005). SEB has a common internet platform for all SEB's customers (interview Torstenson, 2005), but every branch of Handelsbanken is responsible for building their own homepages (interview Wrangå, 2005).

### **Quality of service**

According to Torstenson (2005) technology is in general seen as a value enhancing factor in Sweden, but one still has to consider and take action against eventual risks. Although, Wrangå (2005) means that it is a question of age; younger people are more used to new technology and therefore feel more comfortable to use it.

If the customers feel that they have any problems, they turn to their local bank office (interview Wrangå, 2005) or call a general hot line (interview Torstenson, 2005).

### **Shared Values**

No banks in Sweden have a neither political nor religious opinion (interview Wrangå, 2005; interview Torstenson, 2005).

### **Opportunistic behaviour**

Customers in Sweden are not very sensitive to bad publicity about their banks (interview, Torstenson 2005; interview Wrangå, 2005), especially not when the bank has a strong brand (interview Torstenson, 2005). When customers change bank, it is a matter of changed needs. The existing bank cannot offer the service the customers need for the moment (interview Wrangå, 2005)

### **Level of cultural trust**

If existing customers apply for another service, it has to go through the same controls as new customers (interview Torstenson, 2005), especially if it is a matter of getting a credit with the bank (interview Wrangå, 2005).

### **Personal Chemistry**

The only information documented and entered into a system, is information required by law, all financial advices have to be entered (interview Wrangå, 2005). Additionally SEB enters information about what advertising campaigns have been sent to the customers.

## **Time**

There is no such thing as a network for privileged customers where one has to be recommended in order to get a hold of the information (interview Wrangå, 2005; interview Torstenson, 2005)

### **4.5.4. Swedish culture**

This part aims to describe what characterize the Swedish culture. One can see how it relates to every extreme pole in the value grid appendix 6.

#### **Relation towards external factors:**

In terms of relations to nature the Swedish people are in the middle between *harmony* and control attitude. It reflects in their behaviour that they believe they shall and can control the nature to some extent, but also try to take the laws of nature into consideration. Swedish people are quite *neutral* towards *uncertainty*. They do not embrace nor fear it. They will not consider rules as something bad, but not feel comfortable if rules control and constrict their every action. Sweden has an *ascription/being* culture. The Swedish system is constructed in a way that people will get responsibilities and advantages according to descriptive information such as age, living area and gender. Swedes prefer to base their decisions on *facts*. So even if they have some positive feelings concerning a certain issue, but some figures show negative results, they will still prefer to base their decisions on facts and therefore base their decision based on those (interview Boldt, 2005).

#### **Relation towards internal factors:**

Sweden is considered to be a very *feminine* culture; there are no clear differences between genders, they are considered to be highly equal and it is important to live a happy life. Swedish people are very *individualistic*, although not an extreme. It means that it is considered a sure thing to be able to take care of one self, have personal responsibilities and getting rewarded for ones personal achievements. Swedish organisations are normally flat; the *power distance* is quite *low*. It is easy for customers to get in contact with managers and the organisations treat the customers as equals (interview Boldt, 2005).

Sweden is a *universal* culture, this affect people in two ways; there is often a perception that there is one right way to do things, one right answer and there rarely do exceptions. They prefer *distant space* which implies that they like to have some space between themselves and the other person they speak to; they are concerned to be able to label things as theirs. Swedish people are most comfortable when things are planned out in advance and when they are focused on one thing at the time. In other words they are *monochronic* people (interview Boldt, 2005).

Swedes are used to speak in a *low context*; they show their emotions, thoughts and history in words. They may have some body language, but it is mostly unconscious. When one say that they are instrumental/neutral, it is related to low context. It includes the same signs more or less, but also adds that people in instrumental cultures do not mention their personal emotions as much (interview Boldt, 2005).

## **5. Empirical method**

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*Chapter five begins with a presentation about how we performed our case studies and the problems related to collecting primary data. Further, there is a discussion about our interview questions which was asked to the banks of Sweden and Hong Kong. We will also present our train of thought when we developed our interview questions. This is followed by a discussion about reliability, validity and finally generalisability.*

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### **5.1. Research strategy**

The purpose with this dissertation was to find out, what causes the differences between the relationship marketing of banks in an international financial centre and banks in a smaller market with a domestic focus. Since we got our inspiration from the perceived differences between the marketing from financial suppliers in Hong Kong and Sweden, we decided to use these as our cases.

In order to make the work load manageable for the period of time, we had to limit our selves to only examine the relationship marketing of banks. Further, in order to be able to compare the marketing strategies, we had to focus on one product type. We chose to ask our respondents about the marketing around credit cards since this product is in a mature state (Harrison, 2000) and also quite homogeneous compared to other financial services, e.g. investment counselling. Hence, the suppliers need an emotional attachment to keep the customers. It is convenient when the product is homogeneous also because if we would find differences, they would be due to culture, environment or just be differences in marketing, and not due to differences in the product. So, all the interview questions regarded the relationship marketing acts concerning credit cards. We used mainly fax, phone, and e-mail as channels to gain primary data due to long distances and limited budget.

A case study on both Hong Kong and Sweden was conducted; primary and secondary data was collected to gain a wider understanding about the countries. E-mails were sent to both trade councils in Sweden and Hong Kong

to gain information. The trade council in Hong Kong provided us with much information about the financial market in Hong Kong and advised us to visit the homepage of Hong Kong association of banks where we searched for answers about the financial market. The Swedish trade council could not answer our questions. Nevertheless, our questions were forwarded to The Swedish banking association to gain answers about how the financial service market is functioning, but neither the Swedish banking association did provide us with answers.

We meant to gain primary data about the strategies through interviews with key persons in banks of both Hong Kong and Sweden. This turned out to be more difficult than anticipated. Fax and e-mails were sent to almost 190 banks in Hong Kong, only eight of them answered. Unfortunately they replied that they were not able to participate due to lack of time. The rest did not answer at all. So we called the major banks in China, hoping that some of them would participate, but all of them turned us down. So we contacted HSBC which is one of the largest banks in Hong Kong and has a local office in Sweden, and asked them if they could help us to get knowledge about the Hong Kong market. After some correspondence we got in touch with Jan-Carl Degeer, CEO for the Nordic region of HSBC and with experience of the Hong Kong market. We also contacted Mr Regan Lam, tutoring marketing financial services at the City University of Hong Kong. He answered our questions as well, in general terms for all banks in Hong Kong.

There were some problems as well to reach key persons within the Swedish banks. Mostly because it was difficult to get them to get back to us, but several phone calls and interviews paid off and we got two interviews with SEB and Handelsbanken which are two of the largest banks in Sweden. The results from the interviews were used in our case studies about Hong Kong and Sweden.

We conducted an interview with Barbara Bolt, lector in skills for international management at LIUC, a university in Italy, for our cultural study on Hong Kong and Sweden. This interview helped us to identify where Hong Kong and

Sweden differs in culture, which is presented in the value grid. As an American, she is independent from both cultures.

Since we intended to compare relationship marketing acts concerning financial services, in this case limited to credit cards, we needed to contact suppliers of these. We had an idea to conduct interviews with American express in both Hong Kong and Sweden in order to gain information about credit cards, but this also became a problem since all information were classified. Therefore a different approach was chosen. The credit card contract in Sweden was collected from the SEB's local office and we thought it would be easy to print a credit card contract form the banks homepages in Hong Kong, but it was not. After various attempts a credit card contract was obtained from the homepage of Bank of East Asia. The credit card contracts were used to identify similarities and differences and are presented in the case studies.

Secondary data were also collected in order to compare Hong Kong and Sweden. The main channel we used to collect secondary data was internet. We gathered information about Finansinspektionen (Finansinspektionen, 2005) and Hong Kong Monetary authority (Hong Kong Monetary Authority, 2005) in order to see how the supervision of financial service providers differs. However, first we were not sure that the Hong Kong Monetary authority was the authority which controls the supervision of the financial service providers, therefore an e-mail were sent to Joakim Resare at Handelsbanken in Sweden. Joakim has in the past worked in Hong Kong and we were quite sure that he could provide us with an answer, and he did. Joakim Resare confirmed the fact that Hong Kong Monetary Authority (Hong Kong Monetary Authority, 2005) was the supervising authority of the financial service providers in Hong Kong.

Further, we wanted to compare how Hong Kong and Sweden protects the customers. In Hong Kong it is the consumer council who protects the interests of the consumers, and in Sweden it is the consumer agency that looks after the consumers' interest. This information was also gathered from internet.

Secondary data were also collected first in order to understand why Hong Kong function as it does, why it became an international financial centre. The answers were gathered by reading “*The dragon takes off- a report on emerging China* (Project China, 2003).

A report (konkurrent analys, 2002) was also used in order to gain answers to what competitors exist in the Swedish financial market, and what competition exists in the Swedish financial market.

In order to gain information about the prosperity in Hong Kong and Sweden we gathered statistics about GDP, GDP/ capita and GDP growth (CIA Fact book, 2005). However, since GDP is only measuring the prosperity and is equal distributed among the population we wanted to investigate how the individual prosperity is. Therefore we used Lorenz curves (National Encyclopaedia, 2005) to provide us with answers.

## **5.2. Interview Questions**

Interviews were conducted in order to gain answers to our research questions, but also to identify the differences in the relationship marketing between Hong Kong and Sweden. The interview questions were structured according to our research model (figure 6.3) and to the different extremes of culture. In this part the interview questions are presented and an explanation to our train of thought when developing our interview questions is explained. All questions were developed with consideration to the marketing activities around a credit card. The respondents were informed that all questions referred to marketing around credit cards.

### *1. How do banks normally address their customers when they talk to them?*

This question was asked in order to gain answers to how the bank address their customers in the beginning of the interaction. If the answer indicates that titles such as Mr, Mrs, Ms and Sir etc. is used, this shows that the bank has a high level of Power distance (Johansson, 2003) in culture, and if titles are not used, this indicates a low level of Power distance. We also wanted to find out

if they used titles according to the customers' professions. If so it would indicate how they segmented customers and perhaps some segments were more interesting for the banks.

2. *Through what channels do the Banks usually communicate with their customers?*

The answer to this question shows what channel the bank uses to communicate with their customers. The channel a bank may use is telephone, the Internet, personal meetings, fax and letters. The bank may answer that they use all communication channels available, or the answer might be they use all channels except Internet. If the answer shows the bank do not use internet, the reason might be that the bank sees internet as a risky channel to communicate since valuable information may be revealed by unauthorized persons. The answer to this question also answers if the bank has high or low quality of service. If the bank has low quality of service where the bank uses one or few channels to communicate with their customers, increases the mobility rate of the customers.

3. *How often does the bank normally send account statements to their customers?*

This question answers to what extent the bank is communicating with their customers; the degree of service the bank is providing to their customers and if there is a high or low context culture (Van der Horst, 2005). If the answer to this question is that the bank sends out account statements on a regular basis it shows they are concerned about the quality of service, they are providing to their customers and that there is a high context culture.

4. *Do the banks normally send some information together with the account statements?*

This question was asked to the banks in order to identify how the bank attracts the customers to other services which are provided by the bank. If the answer is yes, one way of attracting customers to new offers is to send out information along with the bank statements.

5. *How often does the bank normally measure the customer satisfaction on a regular basis?*

This question answers if the customer satisfaction is measured on a regular basis and if the bank is concerned with the quality of service which the bank is providing to the customers. It is important for the bank to measure this in order for them to decrease the mobility rate through opportunistic behaviour. If the bank do not measure customer satisfaction the mobility rate is probably increasing since the bank has no idea if they are serving the customers needs at best way possible.

6. *If the customers have any problems or questions regarding their credit card, who do they contact?*

This question also measures the quality of service the bank is providing to their customers. If the bank has a high quality of service the customers may contact their salesman at the bank when he has a problem with his credit card. The higher level of quality of service, the more trust is generated to the service provider by the customers.

7. *Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?*

This question was asked in order to establish the banks perception to new technology. If the bank do not use internet, this for example indicates the bank sees new technology as risky. New technology may also be used to improve the quality of service the bank is providing to their customers.

8. *How is corporate culture normally transferred to the customers?*

This question relates to the cultural level of trust. The customers may choose the bank if the bank and the customer shares the same values in culture. When banks and customers share values, the level of trust increases. In addition, it may help the customers in their choice of service provider.

9. *Do the banks normally or sometimes have a political or religious official opinion?*

The reason for asking this question was the same as above: we wanted to have an additional question to identify if the corporate culture were transferred to the customers.

*10. How is the customer base normally segmented?*

This question answers how efficient the bank is in providing the right kind of services to the right segment of the market. If the answer is yes the bank is very concerned about serving the right customers with the right service to fit their needs.

*11. If customers no longer want to use the credit card of the bank, what are the normal procedures to end the service?*

The question was asked how you might go about when you no longer want to use your credit card. If the process is very complicated this may lead to opportunistic behaviour and the customers will change their behaviour towards the bank.

*12. If bad news is published in the newspapers, in TV or any other media: do the customers normally change their behaviour?*

This question was asked in order to establish how sensitive the customers are in the different countries. If the bank answer that they are very sensitive to bad publicity, this indicates the degree of opportunistic behaviour among the customers is very high, and the fact that the customers change banks often.

*13. What are the normal procedures a consumer has to go through in order to get a normal credit card?*

The question was asked to establish how complicated it is for customers to receive a credit card. If the answer reveals the processes is very complicated this indicates a very low level of trust for the customers and the fact that the bank is very concerned that the service might be abused by the customer.

*14. If already existing customers would like to buy another service within the same bank, will the customers normally have to go through the same procedures as new customers?*

This question was used to establish the degree of trust existing in the relationship. If the customers have to go through the same procedures, as new customers will, the degree of trust in the relationship is low. The answer will also indicate that the bank does not want to engage in risky business with any customers, well known or not.

*15. Is there normally any system that will address a certain kind of banker to customers?*

This question answers if there is any personal chemistry in the relationship to the customers. If the customers receive a certain banker, personal chemistry may be established. Personal Chemistry is one of the variables which create trust to the service provider.

*16. Is information documented into a database when a banker has had some contact with the customer?*

The intention with this question is to show how well the bank is informed about the customers. If the bank answers yes to this question, it shows they are very interested to know more about the customers in order to serve his needs in the best possible way. A database may also be used to bring service quality to the relationship, in the sense that when the customers return to the bank, the bank already knows what the customers expect from the bank. This question also answers if the bank is operating in an individualistic or collectivistic society (Johansson, 2003). If the interactions are documented in a database, the bank is operating in an individualistic society and vice versa.

*17. If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?*

This question is connected to personal chemistry, which is important to the customers. If the answer is yes, personal chemistry will create trust to the service provider and it may be important for the customers to talk to a banker which shares the same values.

*18. Is there any "system" or "club" of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?*

The intention with this question was to find out if time experience in the bank plays an important role. If the answer is yes, time experience within the bank makes a difference. Time experience creates knowledge about the customers, the bank knows very well who the customers are. This will also generate trust to the relationship between the actors.

*19. If a credit card is stolen, what responsibilities do the banks normally take?*

This question relates to contractual safeguards, and what responsibilities the bank takes when a credit card is stolen. The question also shows the risk level of having a credit card. If the bank takes much responsibility when a credit card is stolen the risk level is lower for the customers and vice versa.

*20. When a bank issues credit cards to customers, does the banker have a discussion with the customers about what risks are connected with a credit card? Do they explain more clearly what is said in the contract?*

This question answers if the bank operates in a universalistic or particularistic culture (Trompenaars & Hampden-Turned, 1998). In a particularistic culture the contracts is customized and in a universalistic culture the contracts are generally structured. If the bank explains the contract it will lower the risk level for the customers. A lower risk level generates more trust to the service provider.

*21. At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?*

This question is asked in order for us to answer to what extent the bank is focusing on attracting new customers. If the answer to this question will be that the bank is focusing most of their marketing effort on keeping their customers, this will show that the bank has realized the fact that the level of competition is increasing and customer retention is becoming a more important element in their marketing.

### **5.3. Reliability**

Reliability in this case means if the result of our research will be the same in the future, and if the same research is made by the same researchers or others, will the result be the same? (Saunders, 2003).

Reliability according to us depends on the time frame when the research is conducted. If the research is conducted within a month or a year, the results will probably reflect the findings in this dissertation. Our research investigates the differences between Hong Kong which is a financial centre and Sweden which is a small market with a domestic focus. However, if there in the future should be the same research conducted between a financial centre and a small market, not Hong Kong and Sweden, we are not sure the results would be the same.

The findings in this dissertation are based on culture, and culture is likely to be the same in the future in Hong Kong and Sweden. In addition to the time aspect is the fact that Hong Kong today is a financial centre and gateway to Asia and Sweden is a small market compared to Hong Kong, and will continue to be so even in the future.

The degree of reliability in this dissertation is assessed to be high based on the fact that this dissertation is based on variables which are unlikely to change such as culture and trust.

### **5.4. Validity**

Validity is measuring if our findings really reflect our purpose with this dissertation (Saunders, 2003). It is our opinion that the degree of validity in this dissertation is average, based on the fact discussed before that there were some problems connected to the interviews and the fact that we only interviewed one bank in Hong Kong. This, since it was very difficult to establish any contact with the banks in Hong Kong. The validity would of course be higher if more banks agreed to participate in our research.

But the fact that we managed to interview the largest bank in Hong Kong; it is our assessment this was enough to draw conclusions, is however satisfying. Interviews were also performed with the two largest banks in Sweden and by comparing the answers differences could be identified.

### **5.5. Generalisability**

In this dissertation the focus was on banks situated in Hong Kong and Sweden. The fact that interviews was conducted with the two largest banks in Sweden (SEB and Handelsbanken), it can be assumed that a generalisation within the Swedish banks can be made; even if there had been interviews with all the banks in Sweden the answers would probably be the same.

It is however not possible to make the same generalisation to the banks in Hong Kong since there are many banks that operates within this financial centre. We can therefore not be sure the results of interviewing more banks in Hong Kong will generate the same answers. Are our findings applicable in other countries or sectors? We believe our findings are applicable to other countries as well as sectors but we cannot really be sure since there are many variables to consider when a research like ours is conducted, and these variables must be taken in consideration when performing similar research.

## 6. Analysis

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*Our research model is based on all the theories we have studied in the theoretical framework. Chapter 6 will start with a description of how we came up with our research model and how each factor affects the trust in a relationship. In the second part of this chapter we compare our findings to our research model. The findings consist of primary and secondary data about the markets, culture and the banks' trust building strategies.*

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### **6.1. Development of research model**

The main part of our theoretical framework presents how one can create relationships through interaction, quality, loyalty, commitment and trust in a financial service industry. We used the KMV model (Bengtsson, Persson, & Welin, 2004) as a template to develop our own model that summarizes the information about how to build a relationship, see figure 6.1. It illustrates what factors contribute a relationship (input) and what consequences there are from interaction, quality, loyalty, commitment and trust (output).

If one wants to evaluate how much one contributes to a relationship, one can examine how many inputs of those mentioned in figure 6.1. exist in the current relationship. If only a few of these factors exist, the supplier might need to investigate why it is like this and if it might be profitable to invest more in relationship marketing.

However, figure 6.1. is far too extensive to examine in a dissertation at this level. Therefore this dissertation is limited to only examine trust, which is the founding and conditional factor in order for there to be a relationship at all.

## Causes to and consequences of a relationship

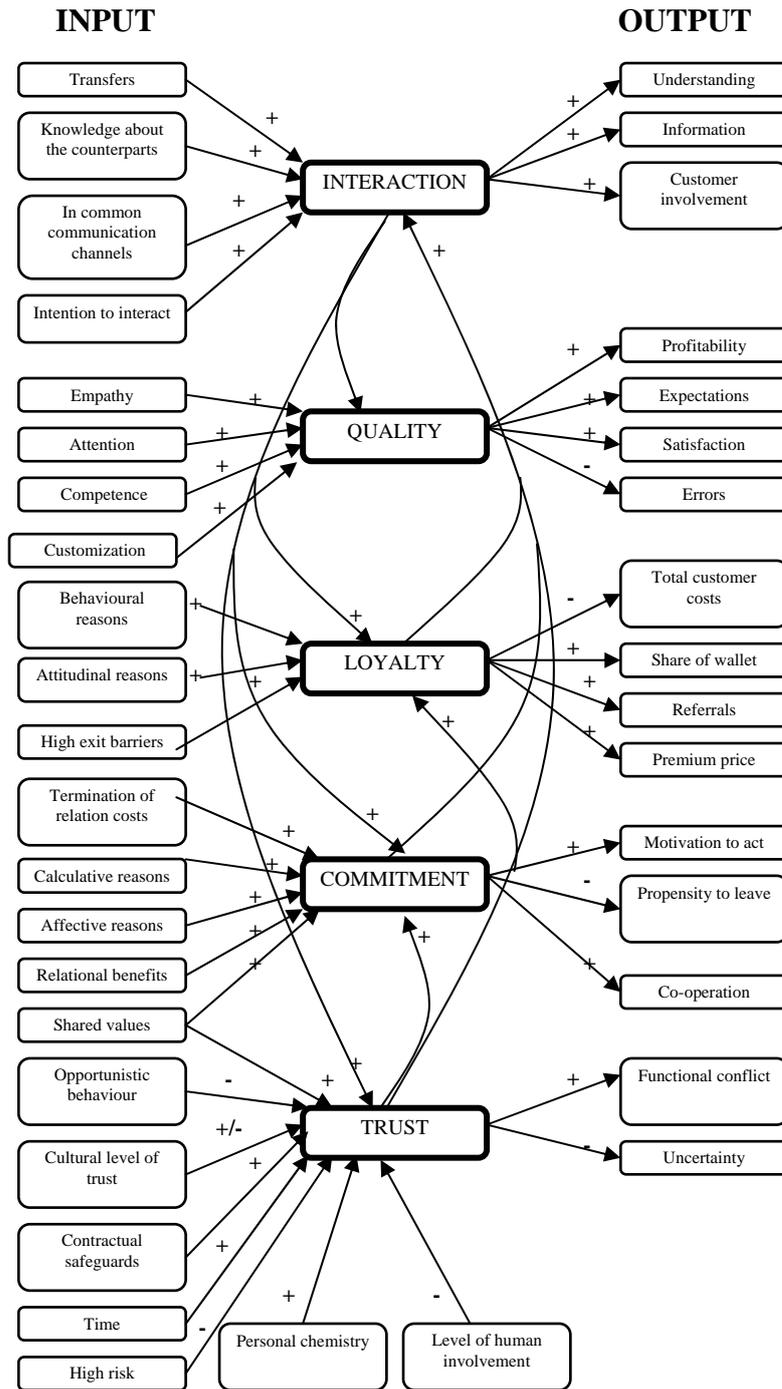


Figure: 6.1.

We consider trust to be the most vital factor since if one does not have trust in a relationship one will not feel the desire to be loyal or committed either. It does not mean that one only needs trust in order to build a successful

relationship, but it means that without trust the other factors will not set in. Figure 6.2. shows why.

### The exchange hierarchy

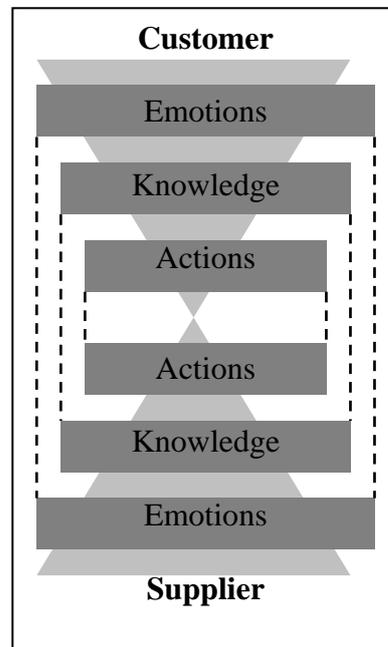


Figure: 6.2.  
Source: Storbacka, K. & Lehtinen. J.R.. (2000)

Figure 3.5. shows how trust is necessary in order to establish an emotional attachment. It represents the emotional connection between the customers and the supplier in Figure 6.2. If the emotional connection does not exist, the relationship will not proceed to the next level according to figure 6.2. When an emotional attachment exists, the customers seek knowledge about the service in question in order to take a decision and take action. Trust works as something like a condition on whether there will be a relationship or not (Storbacka & Lehtinen, 2000).

Figure 6.3. is our research model used to analyse how banks build trust which is a part of figure 6.1. This dissertation is limited to only research what the banks put into the relationship in terms of trust. One can examine how they take care of the outcomes of trust as well, since it is vital for organisations to take care of the gained trust. However, we have only focused to find out what

banks do to build trust with their customers. Hence we only examined how the input factors of our research model are used in the banks' relationship marketing. Explanations of each input factor in the research model follow below.

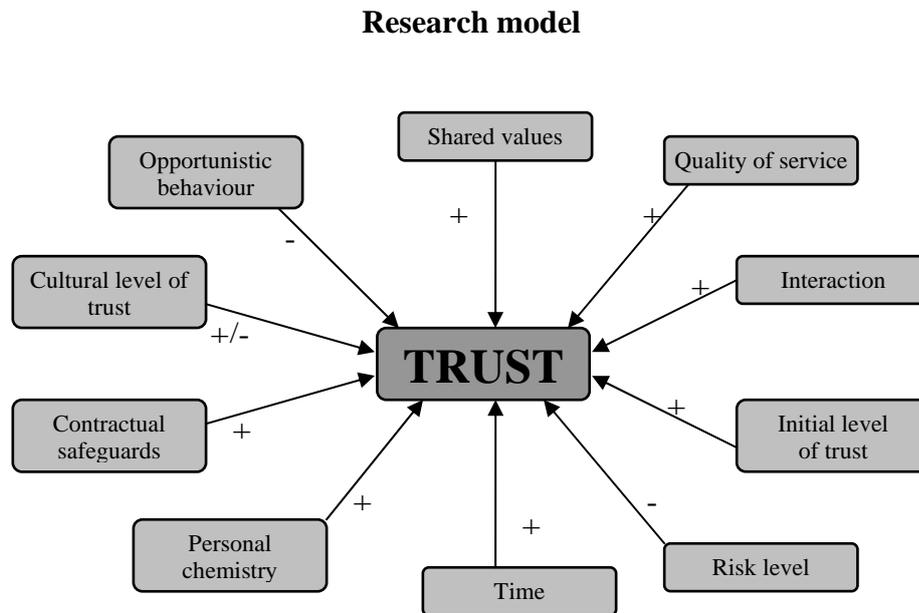


Figure: 6.3.

*Interaction* between the supplier and the customers may vary in terms of how often it take place, through what communication channels, what information is shared, how is it stored, what information is stored, is the information available to the customers or not etc. The more interaction there is between two parties, the more trust will be generated since they will get to know each other. Still, there can be some cultural aspects of this. For instance people in a high context culture tend to want more personal interaction and value feelings and intuition. The surrounding environment can affect the interaction as well. There can be legal restrictions about how some deals have to be done or if there are long geographical distances, it may be an explanation to why a great deal of the communication is done through telephone or internet.

*Quality of service* means that a constant high quality results in trust, since the customers will know what they get. They trust and expect the supplier to perform at a certain level. However, customers needs change over time. Therefore, the supplier needs to stay updated with the customers' current needs and expectations.

When the customers and the supplier have *shared values* and the customers believe in the corporate culture, they can identify themselves with the supplier. When the customers get the feeling that they desire the same objectives and they will trust them. For example a bank can have the policy to never invest in companies that buy oil from the Arabic states. If this is an important issue to the customers, they will trust the supplier to take care of their interests. In other words, the more values they share, the more will the customers trust the supplier.

*Opportunistic behaviour* makes it difficult to calculate the future behaviour of the counterpart. If a bank tends to be opportunistic, the customers will not know what to expect and therefore they will not trust the supplier. Thus, an opportunistic behaviour results in less trust.

The general *level of trust* varies between cultures. We needed to take this into consideration when we analysed the trust building strategies. The general level of trust varies between cultures. Several identification controls may be normal in a "low trust culture", but an offence in a "high trust culture". In other words, a high cultural level of trust gives a higher level of trust in the relationship. Thus, a low cultural level of trust gives a lower level of trust.

There are legal, industrial praxis and customer specific *contractual safeguards*. If a comparison between two markets is made, one needs to investigate the legal safeguards and the ones that are common for the industry. Some safeguards may not be added to the contract voluntarily, but are compulsory according to the local law or industrial praxis. If the customers have many contractual safeguards, they will feel more secure and therefore trust the

supplier more. In a culture where people tend to avoid uncertainty, these kinds of measures are popular.

*Personal chemistry* refers to the chemistry between the customers and their personal banker. This is not anything one can really control, but it depends on the two actors' personalities. If there is positive personal chemistry between the customers and the banker, they will automatically feel more trust for each other. In cultures where personal relationships are highly valued, this is extra important and beneficial if there happen to be a positive personal chemistry.

Trust comes with *time* and with time comes experience. Hence, interacting parties will know more about each other as time goes by and when they know what to expect, they start to trust each other. However, this may vary between cultures. In collective cultures, it will take a longer time to be accepted and trusted.

A high perceived *risk level* influences the trust level in a negative way. The higher perceived risk level, the more trust is needed in the relationship. If it is a high uncertainty avoiding culture, more trust is needed than in a low uncertainty avoiding culture. An environment with many of e.g. technological or governmental changes is perceived to be risky and therefore affects the trust negatively.

The *initial level of trust* refers to the trust the customers feel when they first approach the supplier. The more complex products, the more customers look for other signs of reliability. Characteristics such as the size of the company may indicate stability and therefore gain trust. This would be a typical situation in a culture valuing facts. The customers may also have heard from a colleague that a certain bank has good relations with the customers. This is more valuable in a culture valuing feelings.

The consequences of trust in a relationship are beneficial for both parties. When both parties trust each other, they are willing to *share private information* with each other. They are also more willing to *cooperate*, make

adjustments and meet half way in order to reach an agreement. The perceived *uncertainty* will decrease with trust since trust implies security. It takes time and effort to gain trust and since both parties have invested resources into the relationship, they will try to make it *long-term*. The longer a relationship is, the more *profitable* it gets. Customers that trust the supplier are in general satisfied customers, they will more likely *recommend* the supplier to other consumers. It is also possible for the supplier to take advantage of the situation and use the gained trust in one area to introduce other services. Therefore trust opens up *cross-selling opportunities*.

### **6.1.1. The cultural effect on the research model**

The reason why we include a cultural aspect of the research questions is that we need to investigate if the differences between the two markets' general relationship strategies is a result of cultural differences, or if there are in fact differences in the strategy and to how to approach the customers. Since there is a difference in culture we need to understand what the differences is in Hong Kong and Sweden. As mentioned in this chapter the variations of culture depends on where the enterprise is situated, therefore the business strategy has to be adapted to the local culture. This is important since many customers want to be in relationships where the actors share the same values in culture. Similar to the fact that enterprises have to adapt their strategies to the local culture, is that the personnel of the enterprises which are involved with relationships have to adapt to the customers.

The difficulty with the study of culture in this dissertation is to understand that certain facts which seem not as important for us is of great importance for the population of Hong Kong. This may very well affect the outcome of this dissertation. For example in Hong Kong they use titles, this may not be of any great importance for us but it makes a huge difference in Hong Kong. The usage of titles in Hong Kong is a sign for respect for the other actor. The different dimensions mentioned in the text will be used when we analyse our results from our interviews with key persons from banks in Hong Kong and Sweden. This is in order for us to pinpoint the differences, and see if the

culture is the reason why the marketing technique used in Hong Kong cannot be applied in Sweden.

**Relation towards external factors:**

When it comes to the relationship to nature, people of Hong Kong and Swedish differ to some extent. The Swedish people believe that they are entitled and can control nature to some extent, but they still show some consideration towards nature. The biggest difference is perhaps in the way people lead their life. Hong Kong people want to “communicate” with nature and have a spiritual relation to it so to speak, while Swedish people do not consider this as much. This may affect the way financial service customers accept consequences of external factors. E.g. if the general interest rate of the major markets in the world raises and the bank therefore raise their own interest, in Hong Kong where they believe more that they cannot control nature, this would be accepted and the customers will not worry about it. However, in a country such as Sweden, the customers might get a bit irritated with this. Swedish banks might have to add a clause about they are entitled to change the conditions if the world market changes.

Sweden does not fear uncertainty as much as Hong Kong, but is quite neutral. The level of uncertainty avoidance can affect the strategy to build trust in several ways. In order to control opportunistic behaviour, one might be punished with high exit barrier in a culture with high uncertainty avoidance. The contractual safeguards tend to be more detailed in an uncertainty avoiding culture than in a culture with low avoidance. Considering the fiduciary responsibility of the financial service supplier, the uncertainty avoidance might affect the level of trust in the relation, compared to other kind of products.

The attitudes towards responsibilities and advantages vary between Hong Kong and Sweden. Since Hong Kong is an achievement and doing society, they tend to let the subordinates prove to the decision makers what they can do. In Sweden however, they would give them power, possibilities and payment according to factors such as age. This affects the trust model in the

initial level of trust part. When two parties start to interact, they would have to prove their worth to each other in an achievement culture.

Whether people base their decisions on feelings or facts will determine their attitude towards a supplier. If they value the feelings, they will probably choose the supplier who can offer a contact that they have a good personal chemistry with. The supplier should in that case focus on a wide range of personalities amongst their personnel and make sure that the customers are pleased with the contact. In a culture where facts are preferred, perhaps one should focus to get personnel with some kind of academy recognition and with the diploma framed on the wall.

**Relation towards internal factors:**

Hong Kong culture holds a mix between masculine and feminine features while Sweden is a feminine extreme. This does not affect the strategy to build trust very much more than it can be valuable to have an apparent social responsibility since feminine cultures tend to value this.

There are also differences when it comes to Swedish and Hong Kong people's degree of individualism. Swedish people have a tendency to be much more individualistic than people from Hong Kong. People who belong to a collective culture identify to the groups they belong to, therefore the corporate culture and image of the company might be vital since the customers need to be able to identify with it.

Sweden and Hong Kong are more or less opposites when it comes to power distance; Swedish organisations are normally very flat and Hong Kong organisations are in general very hierarchal. This affect the way people approach each other as well. In a very hierarchal society, one takes for granted that some special privileges come with a certain age, gender or position. If this is taken into consideration in a strategy, the company will probably have a special privilege club, perhaps some system where "special people only will meet special employees' and it will not be very easy to meet with the company hot shots. In a flat organisation on the other hand, the only reason a

powerful manager will chose not to speak to customers due to lack of time or that their assignments do not include those kinds of tasks. There will probably not be any special treatment of a special group of customers because of their gender, age or title.

Swedish and Hong Kong are opposites when it comes to universalism and particularism as well. Hong Kong, particular culture and will customise every deal and solution according to the environment, involved parties and time while in Sweden one would have a general policy and stick to it as long as possible. This may affect the way contractual safeguards are written; in a particular culture two contracts will not look the same and in a universal culture there will most likely be one standard contract that is used for all customers. Customers in a particular culture might want different bankers for different situations as well, e.g. one for pension planning and one for loan planning. Opportunistic behaviour might be more common in a particular culture since the customers will re-evaluate the situation from time to time and adjust their choice of banks according to it.

There is a difference between Hong Kong people and Swedish people when it comes to space as well. It can affect the strategy on how to build trust a little bit. People from close-distance cultures feel secure to share things; therefore they will probably feel more secure to share information as well.

Sweden is an extreme monochronic culture and Hong Kong is a mix between the two extremes. Both cultures feel comfortable to have their path planned out, but Hong Kong culture emphasise interaction more than Swedish culture. This might affect customers buying behaviour, e.g. monochronic customers will probably be more comfortable to buy one service at the time, while polychronic customers might not mind to take advantage of a cross-selling opportunity. How the banker acts during the meetings or interactions might vary as well. It is seen as an impolite act to answer the phone during a meeting in a monochronic culture, but in a polychronic culture this can be totally normal.

Since Hong Kong people speak in high context and belong to a bit expressive culture, they take some history for granted. We believe that this might affect the interaction with the customers; customers in Hong Kong will take for granted that their banker knows about their banking history. Banks in Hong Kong should therefore have some kind of system to keep track of customers' history. Sweden on the other hand is featured with low context communication and neutral/instrumental communication. We think that banks might use some kind of information storage system, but not as extensive.

## **6.2. Analysis of the research model**

This part will analyse the results of the case studies and compare it to our research model. The analysis will examine one input-factor of the research model at a time and examine if the differences is due to cultural or environmental factors or if it is indeed a different strategy on how to build trust.

### **6.2.1. Differences in interaction**

We wanted to find out how the banks address their customers to find out on what level they try to connect with them. If the banks refer to the customers in terms of their profession, it would show that they try to connect with them at a work-based level. It would show that the banks are interested in the customers both at a personal level and a professional level. Banks in Hong Kong address their customers with titles such as Mr/Ms/Mrs while banks in Sweden address their customers with their first name. This however can be explained by the differences in cultures. Hong Kong has a culture with a high power distance, which means that they value and tend to use titles when they speak to each other.

Banks in Sweden use the Internet in a wider extent than banks in Hong Kong, especially when it comes to sensitive information. Swedish banks use internet accounts as a safe channel to deliver sensitive information, while in Hong Kong banks are more likely to use regular mail or face-to-face meetings. This is an adjustment to the local environment though. Hong Kong is featured with rapid changes in technology which increase the perceived uncertainty. Additionally, Hong Kong and the rest of Asia are suffering from immaterial

rights problems which add to the uncertainty, especially on the internet. All together, this leads to low level of trust for the internet and services related to it. In Sweden on the other hand, we do not experience the same kind of uncertainties and internet banking has become a bigger part of the Swedish consumer's life.

### **6.2.2. Differences in quality of service**

Technology has played a vital part for banks when it has come to product development, both in terms of quality and efficiency. When we asked what role technology plays for banks in Sweden and Hong Kong, we found out that Hong Kong banks see technology as a possibility to enhance value of a service. However, they have great respect for the risks it brings, especially when it comes to technology related to payments. Swedish banks tend to see it as a value enhancing factor. The different attitudes can be related to the higher contextual uncertainty in Hong Kong. Additionally, Hong Kong culture is more uncertainty avoiding than Swedish culture, therefore they will try to choose the safe option, which might be to meet with the banker in person.

It is vital for a supplier to offer a constant level of quality, especially for financial service because of the fiduciary responsibility. The banks need to adjust to the customers' needs at all time. We asked what kind of system the banks used to take care of complaints in Hong Kong and Sweden and the systems were much alike. However, the procedure to report a problem with a credit card varied. In Sweden all customers should turn to an enquiry hotline and report the problem, while in Hong Kong the customers were divided into premium and general customer segments, where they went through different procedures. The general customers called an enquiry hotline, just as in Sweden, but the premium customers contact their personal banker. We can relate these features to both cultural and environmental factors. Hong Kong is an achieving culture, where performance is rewarded with benefits. Hence, customers who bring much business to the bank will get more and personal service. Personal service in its turn is valued in Hong Kong as well, since it is a collectivistic culture. It is possible to relate it to the income distribution as

well. Hong Kong has a less even distribution than Sweden, in other words, fewer people in Hong Kong holds a bigger percentage of the total GDP.

### Comparison of Lorenz curves

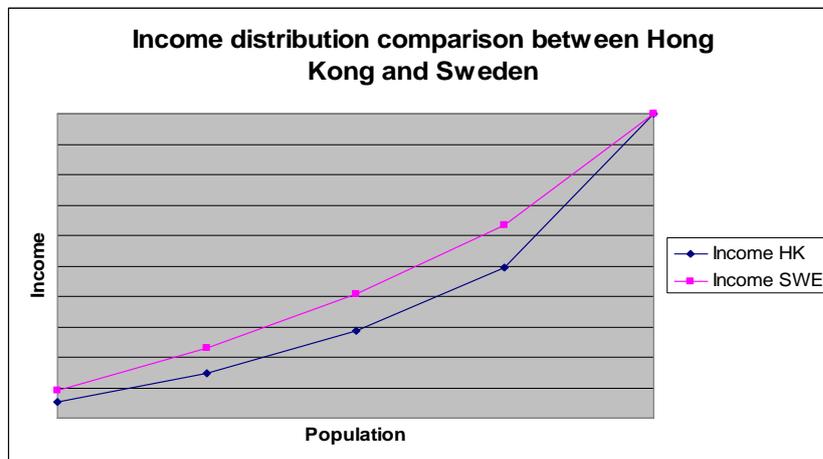


Figure: 6.4.

Source: World Bank Group, 2005

As figure 6.4. shows, the income distribution in Sweden is more equal than in Hong Kong. This indicates that it is more beneficial for the banks to give extra attention, only to the more privileged customers. Hence, Hong Kong banks have special treatments to premium customers.

### 6.2.3. Differences in shared values

When two parties share values, they get the feeling that they can trust the counterpart to act in a certain way in different situations. So, an official image which the customers can relate to is beneficial for the supplier. We tried to investigate how banks in Sweden and Hong Kong connect to their customers, transfer their image and if they try to identify with certain segments. The strategies turned out to be very similar except when it came to whether they have an official political opinion. Banks in Hong Kong might have an official political opinion, even if all Hong Kong banks do not have it. Since Hong Kong is a collective culture, it is important for Hong Kong people to be able to identify with a group. An official political opinion may attract people with the same beliefs. In other words, we can relate this difference to cultural differences.

#### **6.2.4. Differences in opportunistic behaviour**

Opportunistic behaviour has a negative effect on trust. Therefore it should be in the banks interests to prevent it. We asked the banks how they try to prevent opportunistic behaviour through contractual safeguards and how they perceived the level of opportunism among their customers. There was a difference in the contracts between Swedish and Hong Kong banks; in Sweden the customers have to notify the bank one month in advance in order to quit their credit card. Banks in Hong Kong are more protective about themselves and quick measures in termination will prevent fraud which is common in Hong Kong. Swedish banks on the other hand value to do all the right procedures instead. This can be related to universalism, that one should always do it the correct way without any exceptions. Hong Kong banks have to deal with some more opportunistic behaviour, if there is bad publicity as well. There are several other banks for the consumers to pick from if they do not think that their current bank live up to the standards. On the contrary, the financial market in Sweden is more or less controlled by the big four banks and there are not many options for the consumers if they want to change bank. That is to say, this difference can be explained by environmental factors; there are many more banks to choose from in Hong Kong.

#### **6.2.5. Differences in cultural level of trust**

The level of trust varies between cultures, and the result of the questions in this area can of course be explained by the culture. We asked the banks if they have the same control procedures when already existing customers apply for an additional service, compared to if new customers would apply for the same service. Banks in Hong Kong do not perform the same procedures; already existing customers will have a shortened process of approval. While in Sweden all customers go through the same controls. This can be related to the particularistic characteristic of Hong Kong culture; each situation should be evaluated as a unique situation and therefore exclude all redundant procedures.

#### **6.2.6. Differences in personal chemistry**

A personal chemistry between the customers and the banker is of great importance for the level of trust, but extremely difficult to control. We examined if there were any special systems or routines used by the banks to

promote personal chemistry in some way, e.g. a system where features of the banker and the customers were compared and matched. However, no system like this was to be found. Nevertheless, banks in Hong Kong document more information about their customers than banks in Sweden. Hong Kong banks have two different approaches; one for general customers and one for the premium customers. Only the necessary information is documented concerning the general customers, but an extensive report is documented from each meeting with premium customers. In Sweden however, only the legally necessary information is documented and sometime some offerings too. The differences are related to the relational focus in Hong Kong culture. It is highly valued to feel that there is a personal connection as well as a professional, especially according to Guanxi.

#### **6.2.7. Differences in time**

With time comes experience and we wanted to find out if the banks used their existing customers' experience to attract other valuable customers. We asked them if there is any recommendation network where customers need to be recruited in order to become a member. This is common in Hong Kong, while in Sweden there is not such thing. The collective nature of Hong Kong culture is easy to relate to this feature; it is important for collective cultures to be a part of a group that the individual can identify with. To be a part of a privileged club or network add to the status of the individual which is attractive for people in an achieving culture as Hong Kong. Sweden has a culture featured by ascription, which implies that one gets responsibilities with other characteristics than achievements, such as age. It is also a feminine culture, so it stresses equality.

### **6.3. Summary**

We have constructed our own research model to investigate the components of trust in relationship marketing, based on already existing models within the relationship marketing area. It is constructed as the KMV model since we think that it gives a good view of how factors are connected and affect each other.

We based our questions on the causing factors, the input, of our research model to find out how banks build trust according to our research model. This was cross examined with the cultural and environmental factors we found in our case study. Our conclusions will be presented in chapter 7 where we answer our research questions.

## 7. Conclusions

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*Chapter seven presents the answers to the research questions mentioned in chapter one. A summary of the dissertation is followed by a discussion about future research.*

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### **7.1. RQ 1**

#### **What constitutes a relationship within the financial service industry?**

We did not find any specific features of relationships in a financial service industry, but we will describe how a relationship is constructed in general. A relationship can be seen from different perspectives, for instance as a flow of transactional exchanges, value adding exchanges and collaborative exchanges (George, 2000). Depending on from what aspect one looks at a relationship, this question will be answered differently. We have chosen to see the relationship as a process as Grönroos (1994) where the relationship is constructed by acts, episodes and sequences. All parts put together results in a relationship.

According to the process and interaction approach to relationship marketing, one considers all interactions and transactions as a contributions to the relationship as long as both parties in the relationship have the intention to interact. Further, the quality of the relationship can be improved by adding empathy, attention towards the customers, competence and customization (Grönroos, 2000)

Loyalty is the created through interaction and quality as mentioned earlier (Grönroos, 2000). Furthermore, actors with behavioural and attitudinal reasons (Harrison, 2000) and high exit barriers promote loyalty as well (Reichheld, 1996).

Commitment is promoted by high termination of relationship costs, calculative reasons, relational benefits, shared values and it is also indirectly affected by increased trust and interaction in a positive way (Rogers & peppers, 2004; Bengtsson, Persson & Welin, 2004).

Trust is the most vital factor in a relationship (Storbacka & Lehtinen, 2000). It is gained through shared values, interaction (Bengtsson, Persson & Welin, 2004), a high cultural level of trust, contractual safeguards, time and personal chemistry (Harrison, 2000). Factors like a low cultural level of trust, high human involvement (Harrison, 2000) and opportunistic behaviour (Bengtsson, Persson & Welin, 2004) decrease the level of trust in a relationship. Trust is extra essential in relation to financial services since these kinds of services are of great value to the customers and therefore the supplier holds a fiduciary responsibility (Harrison, 2000).

## **7.2. RQ 2**

### **What are the advantages and disadvantages with relationship marketing?**

Relationship marketing is beneficial for several reasons, but some markets are more suited for the relationship approach than others. For instance, it is suitable when the industry is in a mature stage (Grönroos, 2000), and the products are homogeneous (Storbacka & Lehtinen, 2000) and complex (Harrison, 2000) and when the supplier is geographically dependent (Grönroos, 2000).

Interaction in a relationship will benefit both parties in terms of understanding, information and involvement (Grönroos, 2000). Interaction has beneficial effects on the key features: quality, loyalty, commitment and trust. When a relationship is established, the customers will be a part of the development process and will help the organisation to improve its services (Eriksson & Mattson, 2002)

A high and constant quality will result in increased profitability, high expectations, satisfaction and a decreasing number of errors. It has indirect beneficial effects on interaction, loyalty, commitment and trust as well (Grönroos, 2000).

Loyalty results in decreasing total customer costs, increasing share of wallet, referrals and possibility to have premium prices on the loyal customers' services (Reichheld, 1996).

The effects of commitment in a relationship are increased motivation to act, more cooperation and a decreasing effect on the propensity to leave (Rogers & Peppers, 2004; Bengtsson, Persson & Welin, 2004).

Trust decreases the uncertainty level and increases the cooperation, functional conflict, commitment (Bengtsson, Persson & Welin, 2004), loyalty and willingness to interact (Grönroos, 2000).

There are no disadvantages with relationship marketing, although there are challenges. It requires a collective and great effort throughout the whole organisation in order to perform successful relationship marketing. However, if the customers get bored or curious, it does not matter how good the services are, but they will try out other options. There are also times when relationship marketing is not beneficial, for instance when the customers are not interested in additional services. It is also proved that efficiency does not lack from improved quality as many managers believe (Grönroos, 2000).

### **7.3. RQ 3**

**Are there any differences between the relationship marketing used by banks in an international financial centre and a small financial market with a domestic focus?**

A relationship is constituted by interaction, quality, loyalty, commitment and trust. However, we found that trust is the determining factor to whether there will be a relationship or not. According to our definition of a relationship, one needs an emotional attachment for there to be a relationship and according to Storbacka and Lehtinen (2000) trust is the conditional factor for the customers to want a relationship. Hence, we have based this dissertation on research in how banks in Hong Kong and Sweden build trust.

## Differences in marketing surrounding credit cards

Input factor	Hong Kong	Sweden
Interaction	Address the customers with titles	Address customers with their first name
Risk level	New technology is considered to bring risks	New technology is considered to bring value
General level of trust	Existing customers have a shortened approval process.	Existing customers have the same approval process as new customers
Personal chemistry	An extensive documentation process for premium customers	Only the necessary process for all customers.
Initial level of trust	Referral system for privileged credit cards	No referral system for any credit card.

Table: 7.1.

We investigated how the banks used the input factors of our research model and we found some differences. First difference was how they address their customers. Banks in Hong Kong use titles such as Mr/Mrs/Ms while banks in Sweden address the customers with their first name.

Further, banks in Hong Kong and Sweden communicate with the customers through different channels. Swedish banks are more comfortable with the use of internet than banks in Hong Kong are.

Technology is valued a bit different in Hong Kong than in Sweden; it is considered to bring risks in Hong Kong, while in Sweden it is considered to add value to the relationship and be a great opportunity for development.

Already existing customers in Hong Kong do not have to go through all the same procedures as new customers if they apply for a new product. In Sweden on the other hand, existing customers have to go through the same procedures as new customers.

An extensive report is filled out after a meeting with premier customers in Hong Kong. However, the general customers do not get the same attention, but only the most necessary information is documented. In Sweden only the most necessary information is documented among all customers.

Finally, there are some recommendation networks in Hong Kong where the customers need to be recruited in order to use some special privileged credit cards, while in Sweden these kinds of networks do not exist.

#### **7.4. RQ 4**

**If yes, are the differences caused by cultural factors or environmental factors or do the banks use different strategies?**

All the differences that we discovered can be explained by cultural and/or environmental factors. The reason why banks in Hong Kong address their customers with titles can be explained by the high power distance in the Hong Kong culture. Further, the lower contextual uncertainty in Sweden explains the extensive use of the Internet and the positive attitude towards it in Sweden. Additionally, Hong Kong culture tends to avoid uncertainty more than Swedish culture. New technology brings risks according to Hong Kong banks. This attitude is caused by the uncertain environment combined with a high uncertainty avoidance in Hong Kong.

When there is a problem with credit cards, all customers in Sweden call a general hotline, while in Hong Kong there are different processes depending on if the customers are premium customers or not. The income is not as equally distributed in Hong Kong as in Sweden. Hence, there is a greater focus on high income customers in Hong Kong. Further, Hong Kong people tend to value relationships more than Swedish people do, so it is vital for the Hong Kong banks to show interest and respect for the valuable customers.

When existing customers apply for an additional service within the bank in Hong Kong, they do not have to go through the same controls as new

customers go through. This can be explained by the particular feature of Hong Kong culture, each situation is analysed individually.

Premier customers in Hong Kong are offered a more personal service than in Sweden. It is important to have Guanxi in a relationship in Hong Kong and in order to make the premium customers satisfied, the bank needs to make them trust that the relationship will be tended to and be featured by Guanxi. In Sweden, equal treatment is more valued. Hence, all customers get the same service. Sweden is not a relationship oriented culture, so it is not as important for Swedish banks to use a well-developed database system to keep track of personal relationships with the customers. The same features explain why there is a recommendation network in Hong Kong and not in Sweden.

### ***7.5. Summary of the dissertation***

The purpose with this dissertation was to investigate what causes the differences between banks' relationship marketing in an international financial centre and banks in a smaller market with a domestic focus. Further we wanted to investigate what constitutes a relationship within the financial service industry, and what the advantages and disadvantages are with relationship marketing.

Customer relationships consist of interaction, quality loyalty, commitment and trust and today these key factors are more vital than ever to emphasise. It is essential because competition within the financial sector is increasing due to globalisation and deregulations. Relationship marketing comes with many advantages if it is conducted successfully. However, if the customers are not inclined to have a relationship as well, the relationship marketing will not have the intended impact. Research has shown that customers prefer to have relationships with the supplier when it comes to personal loans, investments, new cars, car insurances and with travel agencies (Harrison, 2000). Relationships can be created in different ways. According to the process and interaction aspect of a relationship one considers all transfers, interactions and transactions as contributions to the relationship as long as both parties have the intention to interact (Grönroos, 2000). We have also examined the cultural

factors. The major researchers, Edvard T. Hall, Hofstede and Trompenaars are presented.

We used the KMV model (Bengtsson, Persson & Welin, 2004) as a template to develop our own model that summarizes the information about how to build a relationship. We based our research model on trust since we consider it to be the most vital factor. It does not mean that one only needs trust in order to build a successful relationship, but it means that without trust the other factors will not set in.

In order to gain a wider understanding about Hong Kong and Sweden we made two case studies by interviewing banks and a cultural tutor. The interview questions were developed and based on our research model. The interviews showed some differences in the relationship marketing, such as banks in Hong Kong uses titles when they address the customers while banks in Sweden use the customers' first names. However, all differences between the banks' relationship marketing can be explained by external factors.

### ***7.6. Future research***

This dissertation focused on finding strategic differences between banks' relationship marketing an international financial centre and a small market with a domestic focus. According to our findings there are no differences, but everything dues to cultural or environmental differences.

There has been done a massive amount of research about relationship marketing. Nevertheless, we would like to do more research on how one could develop a system which would match the bankers' features with the customers' features.

We would also like to conduct some more research including other markets which could be defined as international financial centres, for instance London and New York, and small domestic markets, such as Estonia. Further, it would be interesting to conduct the same research on other financial services.

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Telephone interview, November 9<sup>th</sup> 2005. With Jan Torstensson, Group chief of service markets at SEB, Sweden

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## 9. Appendix

### Appendix 1 - The Questions

- X. The questions are written in a normal style.  
*The text in italics is written to clarify what kind of answer we look for.*
- x. Then there is some space to write the answer.
- 
1. How do banks normally address their customers when they talk to them?  
*Do they address them as “Sir, Ms, Miss, and Mr” or perhaps also by their profession: “Dr, Professor, and Teacher”?*
    - a. Answer:
  2. Through what channels do the Banks usually communicate with their customers? *Example: Telephone, the Internet, personal meetings, fax and letters.*
    - a. Answer:
  3. How often do the Hong Kong Banks normally send account statements, list of transactions to their customers?  
*Monthly? Weekly?*
    - a. Answer:
  4. Do the banks normally send any information together with the account statements?  
*For example: general information about changes in the bank, new offers, offers directed specially to that customer.*
    - a. Answer:
  5. How often do banks normally measure the customer satisfaction on a regular basis?  
*Every second year? Yearly? Monthly? Weekly?*
    - a. Answer:
  6. If the customers have any problems or questions regarding their credit card, who do they contact?  
*Example: they call their bank man, they call a hotline, they send an e-mail, they file a report on the internet, they call their personal banker or they meet with their personal banker.*
    - a. Answer:
  7. When a problem is reported, what is the general policy?  
*How a long time is accepted before the problem should be solved? Are there any systems where the reported problems are dealt with to prevent any similar problems?*
    - a. Answer:

8. Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?
  - a. Answer:
  
9. How is corporate culture normally transferred to the customers?
 

*Through advertising campaigns? Through seminars? Through PR actions? Through the meetings with each customer?*

  - a. Answer:
  
10. Do the banks normally have an official political or religious opinion?
  - a. Answer:
  
11. How is the customer base normally segmented?
 

*Example: By income, gender, living area, profession, level of education, number of children, age or any other variables.*

  - a. Answer:
  
12. If a customer no longer wants to use the credit card of the bank, what are the normal procedures to end the service?
 

*Do they have to meet with the banker? Pay a fee? Sign a paper? Write a report?*

  - a. Answer:
  
13. If bad news are published in the newspapers, on TV or any other media: do the customers normally change their behaviour?
 

*Perhaps they change to another bank?*

  - a. Answer:
  
14. What are the normal procedures a consumer has to go through in order to get a normal credit card?
 

*Do the banks investigate what income the customer has according to the employer or according to official sources? Is it easier to get a credit card if one has a higher level of education?*

  - a. Answer:
  
15. If an already existing customer would like to buy another service within the same bank, will the customer normally have to go through the same procedures as a new customer?
  - a. Answer:
  
16. Is there normally any system that will address a certain kind of banker to a customer?
 

*For example: women with a certain level of income get a female banker with a similar income, a male doctor will get a banker who used to be a sales person in the pharmaceutical industry.*

  - a. Answer:
  
17. Is information documented into a database when a banker has had some contact with the customer?

*If yes, to what level? Do they document that they made a phone call and a conclusion from it?*

a. Answer:

18. If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?

a. Answer:

19. Is there any “system” or “club” of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?

*Example: American Express has a platinum credit card and if a customer wants to get one of these, they have to be recommended by a member.*

a. Answer:

20. If a credit card is stolen, what responsibilities do the banks normally take?

*Example: if the thief has withdrawn money or bought something.*

a. Answer:

21. When a bank issues a credit card to a customer, does the banker have a discussion with the customer about the risks connected with a credit card? Do they explain more clearly what is said in the contract?

a. Answer:

22. At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?

a. Answer:

23. Finally: Could you please send us an example of what a traditional credit card contract looks like?

*We will use this to compare a Swedish contract to investigate what differences there are.*

a. Answer:

## **Appendix 2 – Interview with Regan Lam**

Interview with Regan Lam for City University of Hong Kong, November 21st 2005 (Tutor in Financial Service Marketing)

1. Q: How do banks normally address their customers when they talk to them?  
A: *Mr, Miss*
2. Q: Through what channels do the Banks usually communicate with their customers?  
A: *Telephone, letters, internet*
3. Q: How often do the Hong Kong Banks normally send account statements, list of transactions to their customers?  
A: *Monthly*
4. Q: Do the banks normally send any information together with the account statements?  
A: *Yes. They do it frequently.*
5. Q: How often do banks normally measure the customer satisfaction on a regular basis?  
A: *Depends, but generally half yearly and yearly is quite common.*
6. Q: If the customers have any problems or questions regarding their credit card, who do they contact?  
A: *Calling hotline and going to the bank branch*  
  
Q: When a problem is reported, what is the general policy?  
A: *Every bank will have their separate service pledge strategy. They will always have higher priority on handling loss cards or any security matters quicker.*
7. Q: Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?  
A: *It depends on what the technique about, e.g. regarding to payment method; it might be a new risk before full acceptance of the feature*
8. Q: How is corporate culture normally transferred to the customers?  
A: *Ads & PR.*
9. Q: Do the banks normally have an official political or religious opinion?  
A: *Sometimes on political, not religious.*
10. Q: How is the customer base normally segmented?  
A: *Demo, psycho, geo, behaviour (e.g. usage), or even techno graphic*

*(acceptance on technology)*

11. Q: If a customer no longer wants to use the credit card of the bank, what are the normal procedures to end the service?  
A: *Calling the hotline and/or sign a paper.*
12. Q: If bad news are published in the newspapers, on TV or any other media: do the customers normally change their behaviour?  
A: *No comment.*
13. Q: What are the normal procedures a consumer has to go through in order to get a normal credit card?  
A: *Obtain income proof, tax return put and residential address proofs.*
14. Q: If an already existing customer would like to buy another service within the same bank, will the customer normally have to go through the same procedures as a new customer?  
A: *Usually will be shortened procedures.*
15. Q: Is there normally any system that will address a certain kind of banker to a customer?  
A: *As far as I know, no such specific arrangement.*
16. Q: Is information documented into a database when a banker has had some contact with the customer?  
A: *Yes...*
17. Q: If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?  
A: *No.*
18. Q: Is there any "system" or "club" of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?  
A: *Yes, getting common in HK.*
19. Q: If a credit card is stolen, what responsibilities do the banks normally take?  
A: *Not capable to answer. It depends on various factors.*
20. Q: When a bank issues a credit card to a customer, does the banker have a discussion with the customer about the risks connected with a credit card? Do they explain more clearly what is said in the contract?  
A: *Yes, the risks are explained in written. However, it needs to be a face-to-face meeting if the customer needs a credit card.*
21. Q: At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?  
A: *It will be explained in black-and-white (in paper, not verbal).*

22. Q: At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?  
A: *As far as I know, varies from (ex: 30-50% and new: 30-80%)*

### **Appendix 3 – Interview with Jan-Carl Degeer**

Interview with Jan-Carl Degeer for HSBC, November 7<sup>th</sup> 2005 (Title: CEO Nordic region)

1. Q: How do banks normally address their customers when they talk to them?  
A: *It is a mix of Sir/Mrs/ms. If the banks know the professional title, they will use it in speech and written format. Banks rarely use customer's first name. It only happens if they have gotten to know each other on a personal level.*
  
2. Q: Through what channels do the Banks usually communicate with their customers?  
A: *It depends on how sensitive the information is. The internet is rarely used to send sensitive information since one in general has a low level of confidence in the Internet*
  
3. Q: How often do the Hong Kong Banks normally send account statements, list of transactions to their customers?  
A: *Monthly*
  
4. Q: Do the banks normally send any information together with the account statements?  
A: *Probably yes.*
  
5. Q: How often do banks normally measure the customer satisfaction on a regular basis?  
A: *Regularly, but I'm not sure about how often.*
  
6. Q: If the customers have any problems or questions regarding their credit card, who do they contact?  
A: *It depends on the situation. If the customers are travelling, then they will probably call the hotline, but if they are at home they will probably call the personal banker. If it is premier customers, then they will call their personal banker since they require a higher degree of service.*
  
7. Q: When a problem is reported, what is the general policy?  
A: *Complaints are always taken care of as soon as possible and the banks are obligated to act as soon as they can.*
  
8. Q: Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?  
A: *It is considered to bring some risks. Banks are afraid to have anything to do with fraud or that the accounts or cards will be used in relation to any criminal act. As a bank in Hong Kong, one puts a lot of emphasis into the relation with the customer. The banks want to know who the customer is. If HSBC is unsure of the customer, they will rather deny the customer a service, than to put their reputation in*

*danger or risk that their services will be used in relation to any illegal activity. HSBC, together with Heng Seng Bank, feels extra responsibility since it holds the accounts of a big part of the Hong Kong market. HSBC are rather safe than sorry. It also prevents HSBC to be mentioned in the press in negative a context.*

9. Q: How is corporate culture normally transferred to the customers?  
A: *It's difficult to say. HSBC makes a lot of campaigns to convince that they are the right bank – in every market. Their global campaign is that they are the world's local bank.*
10. Q: Do the banks normally have an official political or religious opinion?  
A: *Not HSBC.*
11. Q: How is the customer base normally segmented?  
A: *I don't know in detail.*
12. Q: If a customer no longer wants to use the credit card of the bank, what are the normal procedures to end the service?  
A: *I don't know.*
13. Q: If bad news are published in the newspapers, on TV or any other media: do the customers normally change their behaviour?  
A: *HSBC has the policy to never risk their reputation.*
14. Q: What are the normal procedures a consumer has to go through in order to get a normal credit card?  
A: *I don't know.*
15. Q: If an already existing customer would like to buy another service within the same bank, will the customer normally have to go through the same procedures as a new customer?  
A: *I don't believe that they do.*
16. Q: Is there normally any system that will address a certain kind of banker to a customer?  
A: *Depends on the customers' income and what kind of size the customers bring.*
17. Q: Is information documented into a database when a banker has had some contact with the customer?  
A: *When it comes to premier customer, all conversations etc. are documented since they require a higher level of service. In relation to general customers, only the most essential is documented from each conversation. The objective is to give a service that everyone feel pleased with.*
18. Q: If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?

*A: Yes, since it is very important that the bank knows the customers. The risk to be exposed to fraud and that the service is used in relation to illegal activities is too high, so the bank wants to know who the customer is. It is not likely that a bank will approve of any new service if the bank has not been in contact with the new customer, face-to-face. A personal meeting makes it easier for the bank to meet the customers' requirements as well.*

19. Q: Is there any “system” or “club” of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?

*A: Sure, to become a new customer for some services, one needs to be recommended.*

20. Q: If a credit card is stolen, what responsibilities do the banks normally take?

*A: If the customers can prove that there have been illegal activities from other parties, the bank will help the customer. But the customers have to take their responsibilities and block the card if something has gone wrong. If there were to be any dramatically large amounts being purchased with the card, the bank will automatically ensure that the card is in the right possession.*

21. Q: When a bank issues a credit card to a customer, does the banker have a discussion with the customer about the risks connected with a credit card? Do they explain more clearly what is said in the contract?

*A: Yes, the risks are explained in written. However, it needs to be a face-to-face meeting if the customer needs a credit card.*

22. Q: At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?

*A: I don't know.*

## **Appendix 4 – Interview with Lena Wrangå**

Interview with Lena Wrangå for Handelsbanken, October 18th 2005 (Title: Office manager)

1. Q: How do banks normally address their customers when they talk to them?  
A: *Familiar customers are addressed with their first name while unfamiliar customers are addressed as You...*
2. Q: Through what channels do the Banks usually communicate with their customers?  
A: *Traditionally by phone, letter or personal meetings. Although customers tend to use the Internet more and more. We are presenting our offers and information on our webpage as well. Every branch within Handelsbanken has its own homepage and is responsible for it.*
3. Q: How often do the Hong Kong Banks normally send account statements, list of transactions to their customers?  
A: *Normally six times a year if the customer wants to. Many customers have asked to cancel this service though; they chose to view it on the Internet instead.*
4. Q: Do the banks normally send any information together with the account statements?  
A: *We send general offers with account statements and invoices.*
5. Q: How often do banks normally measure the customer satisfaction on a regular basis?  
A: *There is a large survey conducted each year. It is done for all of Handelsbanken. Further, there are regularly surveys for the local branches.*
6. Q: If the customers have any problems or questions regarding their credit card, who do they contact?  
A: *They phone their office.*
7. Q: When a problem is reported, what is the general policy?  
A: *Complaints are taken care of within the office it is related to. If there are any financial requirements, the requirement needs to be handed in, in written. The policy is that the complaint should be taken care of as soon as possible. The customers should be notified when and how the errand will be taken care of. If they are not satisfied, they should turn to the general requirement centre.*
8. Q: Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?  
A: *Some find it more risky than others; we find it to be related to the age.*

9. Q: How is corporate culture normally transferred to the customers?  
A: *We try to show it through how we work.*
10. Q: Do the banks normally have an official political or religious opinion?  
A: *No.*
11. Q: How is the customer base normally segmented?  
A: *They are segmented according to what kind of service they want.*
12. Q: If a customer no longer wants to use the credit card of the bank, what are the normal procedures to end the service?  
A: *To terminate the credit card, one can hand it in to the closest branch within Handelsbanken or send it cut into pieces with a written requirement of termination.*
13. Q: If bad news are published in the newspapers, on TV or any other media: do the customers normally change their behaviour?  
A: *It is not common that customers change bank. If they do, it is because of changed needs or that the bank cannot provide them with the service they need in that specific situation. Very few do it for the sake of the price.*
14. Q: What are the normal procedures a consumer has to go through in order to get a normal credit card?  
A: *Customers have to visit the bank to show their identification card and a credit check will be conducted. The customers have to have some kind of income.*
15. Q: If an already existing customer would like to buy another service within the same bank, will the customer normally have to go through the same procedures as a new customer?  
A: *If the service has to do with credits, yes.*
16. Q: Is there normally any system that will address a certain kind of banker to a customer?  
A: *Only according to private or commercial customer types.*
17. Q: Is information documented into a database when a banker has had some contact with the customer?  
A: *No, only the legally necessary things as investments counselling and we file it for 100 years.*
18. Q: If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?  
A: *Yes, a personal meeting is needed to be sure of the identification.*
19. Q: Is there any “system” or “club” of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?

A: *No.*

20. Q: If a credit card is stolen, what responsibilities do the banks normally take?

A: *As long as the customer has not acted reckless, the banks take responsibility for losses.*

21. Q: When a bank issues a credit card to a customer, does the banker have a discussion with the customer about the risks connected with a credit card? Do they explain more clearly what is said in the contract?

A: *In written and about how the card should be used and what costs may arise.*

22. Q: At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?

A: *Since it is financially profitable to invest in customer retention, 80% is invested in them, hence 20% in the customer attraction.*

## **Appendix 5 – Interview with Jan Torstenson**

Interview with Jan Torstenson for SEB, November 9<sup>th</sup> 2005 (Title: Group chief of service markets)

1. Q: How do banks normally address their customers when they talk to them?  
A: *By their first name...*
2. Q: Through what channels do the Banks usually communicate with their customers?  
A: *The Internet is used to a great extent today in terms of payments, so it is appropriate to transfer information through the Internet. If the customer wants a personal meeting, it can be arranged, but SEB tries to prove that all channels are equally good.*
3. Q: How often do the Hong Kong Banks normally send account statements, list of transactions to their customers?  
A: *Monthly. The customers may also cancel it and view it on the internet so the customer will not be forced with information.*
4. Q: Do the banks normally send any information together with the account statements?  
A: *Only general offers, but directly to any segments.*
5. Q: How often do banks normally measure the customer satisfaction on a regular basis?  
A: *one larger survey is conducted once a year. Then there are smaller surveys conducted within smaller segments or channels every month, all through the year.*
6. Q: If the customers have any problems or questions regarding their credit card, who do they contact?  
A: *It depends on what the problem is. If the card is stolen, one has to call the hotline. Otherwise one can send in complaints or questions through the internet account. Of course it is possible to contact the bank through a face-to-face contact, although it is not common.*
7. Q: When a problem is reported, what is the general policy?  
A: *They should be fixed as soon as possible. Then the problem is investigated if the bank can prevent it in the future if the problem lays with the bank.*
8. Q: Is new technique generally seen as something valuable amongst the customers or is new technique more seen as a new risk/danger?  
A: *SEB sees new technique as something value adding. Of course the risks have to be taken into consideration. The customers view it as value adding as well.*

9. Q: How is corporate culture normally transferred to the customers?  
A: *Through good performance and performance at a constant level.*
10. Q: Do the banks normally have an official political or religious opinion?  
A: *No, but SEB will be ready to have a political discussion if it is necessary. .*
11. Q: How is the customer base normally segmented?  
A: *They are segmented according to life style, income and needs.*
12. Q: If a customer no longer wants to use the credit card of the bank, what are the normal procedures to end the service?  
A: *The customers cut the card into pieces and send it to the bank. There are some papers that need to be signed.*
13. Q: If bad news are published in the newspapers, on TV or any other media: do the customers normally change their behaviour?  
A: *Not if one has a strong brand, especially if it is only small mistakes.*
14. Q: What are the normal procedures a consumer has to go through in order to get a normal credit card?  
A: *We check if the customer has misbehaved in the past, but foremost on the possibility to raise and pay credits.*
15. Q: If an already existing customer would like to buy another service within the same bank, will the customer normally have to go through the same procedures as a new customer?  
A: *Yes.*
16. Q: Is there normally any system that will address a certain kind of banker to a customer?  
A: *Only according to the area where the customers live if they want to.*
17. Q: Is information documented into a database when a banker has had some contact with the customer?  
A: *No. Only the information legally necessary and information about what previous offers have been presented to the customer.*
18. Q: If a new consumer wants to get a credit card, do they have to have a personal meeting with a banker in order to get one?  
A: *No. All channels are ok.*
19. Q: Is there any “system” or “club” of a certain privileged credit card where one needs to be recommended in order to get a credit card of this kind?  
A: *No.*
20. Q: If a credit card is stolen, what responsibilities do the banks normally take?

*A: If the customers have acted reckless, then the responsibility belongs to the customers, otherwise SEB helps the customers to cover losses.*

21. Q: When a bank issues a credit card to a customer, does the banker have a discussion with the customer about the risks connected with a credit card? Do they explain more clearly what is said in the contract?

*A: SEB gives the information in written to the customer.*

22. Q: At an average, how many percent of the marketing efforts are focused on existing customers versus new customers?

*A: I don't know, perhaps around 50/50.*

## ***Appendix 6 – Values grid China - Sweden***