Explaining the Duration of a Relationship: an Investigation in Commercial Baking

Jean Perrien, University of Quebec at Montreal, Canada
Line Ricard, HEC Montreal, Canada
Catherine Landry, University of Moncton

This paper explores the duration of relationships between banks and commercial customers. An empirical investigation reveals that the past does not predict the future and that trust is the major explaining factor.

Introduction

Since the mid-eighties relationship marketing has been the focus of an impressive body of literature, especially in services and especially in (e.g. Perrien & Ricard 1995 Reichheld & Aspinall 1994). To achieve some profitable growth, banks have been emphasizing a relationship strategy. Among the two main banking arenas : retail and commercial, it is in the field of banking to organizations (i.e. commercial banking)that it gained a major interest(e.g. Moriarty, Kimball & Gay 1983). At the core of the relationship concept, there is the notion of loyalty : the duration of a relationship warrants its effectiveness.

The purpose of this research is to investigate this notion of duration of a relationship. More precisely it aims at understanding what influences the duration of a relationship in the commercial banking market.

Conceptual Framework

Duration means time. In a relationship one may look at the past (for how long did a relationship last ?) or the future (is the customer willing to continue the relationship ?). Because both have some obvious value for our investigation, they are part of our conceptual framework. Indeed, investigating the causal link between the past and the future may provide some interesting information. By definition, a relationship entails the involvement of a seller and a buyer. To explain the duration of a relationship we focused on endogenous variables of this interactive process, the value of which has been advocated in the literature, namely trust, conflicts, power and satisfaction ((Crosby, Evans & Cowles 1990, Doney & Canon 1997, Frazier et al. 1988, Goodwin 1986, Reichheld & Aspinall 1994) as well as some characteristics of the bank (e.g. customer orientation, account manager knowledge...) and of the customer (e.g. financial position...).

Methodology

306 executives in charge of relationships with banks in the Montreal (Canada) area acted as respondents (mail survey, 942 companies were solicited), the sample did not differ significantly from the population on descriptive statistics (i.e. type of business, size,...). 52.5% of respondents were presidents, 12% were VP finances, 32.2% were treasurers (3.3% : other).

Duration of the relationship was assessed in terms of probability to keep on doing business with the leading bank in the forthcoming two years. Explaining constructs of duration resulted in reliability coefficients ranging from 0.56 to 0.92. CFAs were conducted to secure the validity of constructs, they proved our measures of constructs to be valid.

Results

A stepwise regression analysis was conducted with expected duration acting as criteria and trust, conflict, power, satisfaction and past duration as predictors. Hypotheses underlying a regression model (linearity, normality of distributions... were assessed, conditions were met). The resulting model was (standardized coefficients) : duration = 0.37 trust -0.21 conflict + 0.17 satisfaction, R square = 0.42, F = 72, p = 0.001. Power and past duration were not significant. Trust, the leading explaining factor was mainly the outcome of account managers' knowledge and expertise as indicated by another regression analysis.

Discussion

First of all, our results indicate that the past does not predict the future: expected duration of a relationship is not dependent on the number of years the relationship has been going on. Secondly, the key role of trust has to be emphasized and challenges satisfaction as a measure of the external effectiveness of a relationship strategy.