Chapter 10

Bank–SME Relationships:
'Poked' by the Recent Changes in the Economic and Technological Environment

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ABSTRACT

The chapter synthesizes extant interdisciplinary literature, by putting together a combination of relationship management theories as well as banking, economics, and finance theories, and blends this with findings from an ethnographic research platform to discuss the critical variables in the development of Bank-SME relationships. In addition, the chapter considers the effect of the recent economic crisis on the Bank-SME relationship. It can be seen that few banks looked inside their relationship with their SME customers as a means of redressing the crisis' effect and this has detrimental effects on their long-term performance. As a consequence, the chapter proposes recommendations so as to reduce the crisis negative impact. Moreover, it highlights that the new developments in the technological environment, i.e. social media, can be used to strengthen the Bank-SME relationship's success and is especially pertinent in such times of financial duress as it can enhance the communication mode of the dyad.

INTRODUCTION

Implicit in the on-going debate on buyer-seller relationships is the understanding that such relationships are context-specific. That is, there is not a one-fits-all type of relationship but instead buyer-seller relationships are a function of a number of parameters such as the nature and the dynamics of the underlying industry and the profiles of the interactive parties. To this end, the present chapter adopts a context-specific approach and discusses the case of Bank-SME relationships.

In so doing, literature from a number of disciplines, such as banking, economics and finance

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and relational studies as well as ethnographic research are utilized. Specifically, interdisciplinary literature is synthesized with insights from an ethnographic platform and direct observation in particular. The ethnographic approach entails the use of 'socially acquired knowledge' (Gill & Johnson, 1997) and observation pertains to the process of recording the behavioral patterns of people, objects and occurrences as they are witnessed, while maintaining a professional distance (Fetterman, 1998; Zikmund, 2003). On the basis of these a conceptual framework is developed. In other words, the chapter applies the said theories in a specific case, which can effectively constitute a concrete example of effective relationship implementation. The specific context was chosen since banking is considered as quite different from other industries and SMEs are seen as the backbone of the world economies.

In addition, since business-to-business relationships develop within a wider environment (Hakansson, 1982; Moller & Halinen, 2000) and any change in this interaction environment potentially influences the underlying dynamics of relationships, the chapter discusses how the recent financial crisis and the increasing use of social media affect the Bank-SME relationship.

Finally, the chapter proposes a number of recommendations aimed at enhancing Bank-SME relationships in today's turbulent times and, as such, it can potentially serve as a reference point for researchers and practitioners alike.

BACKGROUND

"The financing of Small and Medium Enterprises (SMEs) has attracted much attention in recent years" (de la Torre, et al., 2010, p. 2280). This is attributed to a number of reasons:

- SMEs represent the majority of firms in an economy (de la Torre, et al., 2010).
- SMEs are important customers that offer the greatest profit opportunity for banks (Zineldin, 1995).
- Most large companies start as small businesses (de la Torre, et al., 2010).

It therefore follows that banks should invest in building and enhancing the relationship with their SME customers. Such relational efforts would be largely driven by the acknowledgement of the benefits that accrue from relationship building; benefits which are well documented in the literature (Wilson, 1995; Christopher, et al., 2002). Even more so, banking is considered conducive to relationship development (Lovelock, et al., 1999) and relationship banking can yield considerable benefits for both the financial institution and the SME. It should therefore not be surprising that banks perceive SMEs as a core and strategic business and seem well positioned to expand their involvement with them (de la Torre, et al., 2010).

Specifically, financial institutions can reach a competitive advantage through relationship development since relationships ease the collection of customer information, but also by maximizing scale economies in goods and services that gather premium prices through faster reaching distribution channels, such as the social media, Internet, open source software, external networks, etc. In particular, the ease in collecting customer information is especially important since reliable information on SMEs is both rare and costly for banks and as such, relationship banking is often considered as the appropriate lending technique (Baas & Schrooten, 2005). This can in turn lead, on the one hand, to improved customer understanding and loyalty building, and on the other, a strong portfolio of SMEs can help in achieving scale and scope economies, ultimately enhancing long-term profitability (Reichheld & Sasser, 1990).

Similarly, relationships are desirable for SMEs since they are more financially constrained than large firms (Schiffer & Weder, 2001; IADB,