# Trust and loyalty in client-bank relationships- a qualitative perspective

**Reputation Institute Conference**

Michael Pirson

mpirson@fas.harvard.edu

23.01.2006

**Abstract:** Using the framework of trust in relationships developed by Lewicki and Bunker (1995) I am analyzing the relationships between customers and their bank. In a comparative qualitative approach differences and similarities of big bank and small bank customers are analyzed with a special focus on dispositions for loyalty. A special focus in the analysis is put on customers that switch from big banks to small banks, their reasons and the stage of their trusting relationships. The framework by Lewicki and Bunker proves useful, while an extension in the understanding of identification based trust is proposed.

Key words: trust, banks, loyalty, customer relationship, clients

Disclaimer:This paper and the data have been presented at a research seminar at Harvard University and should be viewed as work in progress.

## INTRODUCTION

Trust is seen by many authors across disciplines as a basis for successful human interaction. In the business context authors view trust as lubricant or key enabler for cooperation. Trust has been shown to facilitate efficient business transactions (Williamson 1988; Williamson 1993; Noteboom 1996, p.989) and increase customer satisfaction (Dwyer, Schurr et al. 1987; Ganesan 1994; Morgan and Hunt 1994; Doney and Cannon 1997; Geyskens, Steenkamp et al. 1999). Trust also helps organizations reduce the risks associated with opportunism in exchange relationships (Morgan and Hunt 1994; Pavlou 2002). More generally, trust promotes cooperative behavior within organizations and between organizational stakeholder groups such as clients (Hennart 1988; Morgan and Hunt 1994; Noteboom 1996; Parkhe 1998; Lewis 1999; Brower, Schoorman et al. 2000; Child 2001; Chami and Fullenkamp 2002; Boersma, Buckley et al. 2003); as such, trust can also serve as a source of competitive advantage for the organization (Barney and Hansen 1994).

In marketing research and practice a strong focus has been put on relationship marketing in order to fully capture the benefits of customer trust (Morgan and Hunt 1994).

Banks also engage heavily in customer relationship programs with varying success. Reicheld (1996) states that many banks are actually losing money with many customers they are attracting and only manage to keep for a short while. In the following research I shed light on the relationships of customers and their banks with special focus on the trusting aspects of the relationship. I will compare customers of so called “big banks” that are represented nationally or internationally with customers of “small banks” that are only operating locally.

## THE CONCEPT OF TRUST

Trust is seen as a social phenomenon. It functions as a social resource that contributes to social coordination. It is considered a functional substitute for knowledge about other actors under the circumstances of virtual anonymity. Simmel distinguished between personalized and generalized trust and between belief, knowledge-based trust based and

emotion-based trust (Endress, 2002). Schütz stressed the distinction of familiarity (Vertrautheit) and trust (Vertrauen) and Parson developed a view of trust as an attitudinal basis for solidary relationships. Parson saw trust as an enabling device for mechanisms such as money, power, influence and obligations. This definition comes close to what Luhmann later called system trust and Giddens ‘trust in expert systems’. Garfinkel and Goffman shifted the view back from system trust to interpersonal trust. Garfinkel viewed trust as tacit knowledge and Goffman defined trust as reliance on a moral character that is essential for cooperation (Endress 2002).
In contemporary sociological theory there seem to be four dominant approaches to trust: Luhmann with his system-theoretic approach, Coleman and the rational-choice argumentation, Giddens and the structuration theory view as well as Sztompka and the macro-sociological change perspective (Endress, (2002).

Trust is a complex, dynamic social phenomenon that can take on various forms, is multi-leveled (Rousseau, Sitkin et al. 1998; Shockley-Zalabak, Ellis et al. 1999), culturally rooted (Fukuyama 1995; Doney, Cannon et al. 1998; Shockley-Zalabak, Ellis et al. 1999; Ashraf, Bohnet et al. 2004) and multidimensional (Lewis and Weigert 1985; Dasgupta 1988; Lewicki and Bunker 1995; McAllister 1995; Mishra 1996; Tschannen - Moran and Hoy 2000).

Most researchers define trust in terms of positive expectations and a willingness to be vulnerable (Rousseau, Sitkin et al. 1998; Shankar, Urban et al. 2002; Ferrell 2004). Positive expectations are confident beliefs by Party A that Party B will act in a fashion consistent with Party A’s welfare (Barney and Hansen 1994). Mayer, Davis and Schoorman (1995) separate trust from its antecedents and outcomes (Pavlou 2002). Trust is seen as a behavioral outcome based on the evaluation of trustworthiness of an actor (Mayer and Davis 1999). McAllister (1995) distinguishes affect based and cognition based characteristics of trust: (1) Cognition-based characteristics are related to competence and reliability (2), affect or emotion-based characteristics are connected to openness and benevolence (Saparito, Chen et al. 2004). Mayer et al. also underscore the relevance of integrity. Integrity is the perception that the trustee adheres to a set of principles that the trustor finds acceptable. Based on Mishra (1996) and Hoy and Tschannen-Moran (1999) trust here is defined as an act to make oneself vulnerable to another party based on the belief that the other party will behave honest, competent, transparent, reliable and benevolent.

Trust results from interactions that span individuals (Rotter 1971), teams (Bigley and Pearce 1998), organizations (Hosmer 1995) , institutions(Zand 1972) and systems (Giddens 1990; Luhmann 2000).

Trust in organizations is relevant for banks and their relationship with customers. Many banks are aware of the importance of customer relations, but as Reicheld (1996) states very many big organizations fail to effectively establish such relations and reap the loyalty effects. The crisis in private banking is obvious and management experts call it a trust crisis. However some banks manage private banking better than others ( A.T. Kerney 2003). The focus in this paper will lie on the difference in customer attitudes towards big banks and small banks since in general many big banks are having trouble with customer relationships.

## ROLE OF TRUST IN CUSTOMER BANK RELATIONS

In addition to above mentioned distinctions of trust Lewicki and Bunker (1996) developed a trust categorization that differentiates calculus-based trust, knowledge-based trust and identification-based trust. Rousseau, Sitkin et al (1998) developed a similar framework and called it calculative or reputation based trust and relational trust.

### Calculative trust

Following Lewicki and Bunker (1996) calculus based trust is predominant in a first time encounter. Calculus-based trust is “based on rational choice -- characteristic of interactions based upon economic exchange” (Rousseau et al., 1998: 399). Trust emerges when the trustor perceives that the trustee intends to perform an action that is beneficial. The perceived positive intentions in calculus-based trust derive not only from the existence of deterrence but also because of credible information regarding the intentions or competence of another (Barber, 1983). For instance, credible information about the trustee may be provided by others (reputation) or by certification (e.g., a diploma). Such "proof sources" signal that the trustee's claims of trustworthiness are true (Doney et al., this issue).

That is, the trustor believes that the trustee will cooperate because it is in the latter's self-interest to do so due to sanctions or rewards associated with cooperation. Therefore, with calculus-based trust trustors attribute positive intent and behavior to a trustees' self-interested motives (Lewicki & Wietoff, 2000) (Saparito, Chen et al. 2002)

It is a reflected type of trust which is based on a decision. Key for this trust to develop is consistent behaviour. 'You do what you say ' (Lewicki and Bunker 1995). This type of trust is an act of will that has a strategic purpose.

Relationships are based on calculative aspects trust is built on cost benefit analysis

A relationship is not really developed but a transaction or a number of transactions is enabled. Trust is necessary since vulnerability, in the case of the bank money or dependence on the functioning of the banks systems, is displayed but it remains rather low.

For many customers with low levels of interaction a bank will suffice that has a very high level of benefits versus costs. Calculative trust is the basis for customers with low levels of interaction with the bank.

> Hypothesis 1: For customers with low interaction levels calculative trust is the basis for the interactions with their bank.

**Relational trust**

Relational trust arises from social bonds built through repeated interactions (Lewicki and Bunker 1995; Saparito, Chen et al. 2002) That is, relational trust involves trustors' attribution of positive intent and behavior because of trustees'care and concern which arises from emotional bonds and social identification between the parties (Rousseau et al., 1998). Information available to the trustor from within the relationship itself forms the basis of relational trust. Reliability and dependability in previous interactions with the trustor give rise to positive expectations about the trustee's intentions. Emotion enters into the relationship between the parties, because frequent, longer-term interaction leads to the formation of attachments based upon reciprocated interpersonal care and concern (McAllister, 1995). Relational trust/ knowledge based trust more based on affective components such as benevolence, care and integrity.

For banking customers with higher levels of interaction relational trust becomes relevant. This means that beyond simple calculations of costs and benefits emotional aspects as perceived benevolence and caring or customer orientation are of importance.

> Hypothesis 2: For banking customers with a higher level of interaction relational trust components become relevant.

**Identification based trust**

Following Rousseau, Sitkin et. al. (1998) there is a fine line between the existence of a good-faith relationship between parties and the emergence of a shared identity. Two parties may continually cooperate and share information and assets while still believing that the other party is "them" instead of "us." However, there is a tendency for repeated interactions to create expanded resources, including shared information, status, and concern. These expanded resources can, in turn, give rise to a psychological identity (Gaertner, Dovidio, & Bachman, 1996). Identification-based trust also reflects a mutual respect and support of each others motivation. This type of trust is regarded as the highest level of trust. It is intense and highly moral. Actors are able to anticipate each others reactions and know what type of behaviour enables a congenial collaboration. Common goals and shared values are the basis for his relationship. According to Lewicki and Bunker (1995) only few relationships attain this state.

For some banking customers, however, calculative aspects do not play such an important role; they base their choice on values and value congruence. They base their trust on identification with an organization and their actions and are willing to suffer inconveniences.

> Hypothesis 3: Independent of cost benefit analyses or levels of interaction for some customers value congruence is the decisive factor for establishing and maintaining a relationship. In that case identification based trust is the source of the relationship.

## SHOPPING BEHAVIOR AND LOYALTY EFFECTS

Customer loyalty is important to banks and service firms because customer defections "can have more to do with a service company's profits than scale, market share, unit costs, and many other factors usually associated with competitive advantage"(Reicheld and Sasser 1990 p. 105). Banks serving private customers seek to reduce defections by building relationships.

Analogous to Dunkelberg, Garth, and Cox (1984) two factors seem important in private banking relationships. One is a bank's customer orientation, manifested in actions such as helpfulness, information sharing, and flexibility (Berlin and Mester 1998). The other is the degree to which the bank maintains personal relationships with a particular customer (Ring and Van de Ven 1994; Doz 1996).

While it is in banks' self-interest to provide such services in the pursuit of customer loyalty, sociologists have questioned whether relational attributes play a role in these economic transactions (e.g. Uzzi 1999). A traditional economic approach affords no role to trust; it is assumed that business relationships are instrumental and that customers are rationally self-interested (Petersen and Rajan 1994). Proponents of the instrumental argument dismiss much of the sociological research on the grounds that cooperative behaviours based on self-interested calculation are mistakenly attributed to trust (Williamson 1993). Saparito, Chen and Sapienza (2004) however demonstrate the relevance of relational trust in client-bank relationships beyond mere self interest. They argue that customer orientation and personalised relationships generate relational trust that effects a client's intention to switch to alternative banks (Saparito, Chen et al. 2004).

### Trust and Customer Shopping Activity

Trust can be considered a valuable, specialized, and costly to replicate relational asset. Such specialized assets make switching to alternative partners more expensive and less likely(Williamson 1993). Therefore, a client is willing to pay a premium when he/she has confidence that its banking relationship protects own interests and is unwilling to search for another bank. Alternatively, when a client does not have this trust, even under more favorable terms, it is likely to seek another banking partner (Saparito, Chen et al. 2002). Calculus-based trust that relies on mechanisms that guide and align the interests of the involved parties is economically valuable. However, such trust is generally less unique to the specific involved parties (Barney & Hansen, 1994). Therefore, switching costs associated with locating alternative partners where calculus-based trust may arise is a relatively less expensive pursuit. The implication for trust's association with customer's shopping activity is that the more unique it is the more difficult it is to replace(Saparito, Chen et al. 2002).

Exchanges based on calculus-based trust are likely to be terminated once violation occurs, but exchanges characterized by relational trust often are more resilient. (Saparito, Chen et al. 2002). Unmet expectations can be survived when relational trust exists, particularly if parties make an effort to restore a sense of good faith and fair dealing to their interactions (Rousseau, Sitkin et al. 1998).

Saparito. Chen and Sapienza (2004) posit that relational trust leads to a preference to remain in a relationship rather than seek a potentially economically favorable alternative. Wathne, Biong, and Heide (2001) found that close relationships between "boundaryspanning" individuals reduced a bank customer's likelihood of switching to a new entrant into a marketplace. Because of a stronger sense of identification and attachment, customers having greater relational trust in their banks are more likely to be satisfied with the status quo of their relationships (Barnes 1997) and are more likely to resolve emerging problems within the current relationships. Such customers are also less inclined to actively scan the environment, an activity that may generate information that triggers switching.

Barney and Hansen (1994) argue that trust that reflects beliefs, values, and is unique to exchange partners' interaction is a stronger source of competitive advantage. Identification based trust arises from a unique set of values and the special understandings within a relationship, and is not easily transferable to another party (Rousseau et al., 1998). Further, locating alternative exchange partners with regard to personal value congruence requires an investment of time (Barney and Hansen 1994), which creates high switching costs.

Hence calculative trust is basis for a loyalty only as long as self-interests' of both parties are congruent. Relational trust is a stronger basis for loyalty of banking customers and identification based trust provides the highest level of loyalty. Relational and identification based trust are the best protection against defection and switching intentions of clients.

> H4: Calculative trust translates into loyalty as long as self interests of the bank and the client are congruent.
>
> H5: Customers experiencing relational trust with their bank are less likely to switch the bank than customers experiencing calculative trust.
>
> H6: Customers basing their relationship on value congruence (identification) are the most unlikely to switch their bank.

## METHOD AND SAMPLE

For this analysis 12 semi-structured interviews were conducted. The unit of analysis was the relationship between the customer and his bank. Questions therefore centered around the customer relationship with his bank. In a phase format the questions started with the individuals banking history, went to explore the reason for choice of the current bank and continued to explore the current experience and satisfaction levels of the customer. In the end the question about future relationship with the bank was asked. If the topic of trust had not come up during the interview it was asked specifically during a situation that seemed appropriate to the interviewer. The questions about trust were formulated along the lines of "Would you consider your bank trustworthy?" or "What makes you trust your bank?".

The interviews spanned from 20 to 45 minutes, averaging about 30 minutes.

The twelve interview partners were snowball sampled. However, it was paid attention the fact that the sample consisted in equal portions of customers of so called "big banks", as well as customers "small banks". As it turned out 9 interviewees were or had been customers of big banks. 5 of them either had switched to small banks or were in the process of switching to “small banks”.3 interviewees had started out with small banks and had stayed there ever since. There was no incident of an interviewee switching from a small bank to a big bank. This fact could be attributed to low sample size.

## RESULTS

In the following I will present the results according to customer category (big bank, small bank or switcher) and the phases in the relationship.

### Big bank customers

#### *Initial phase*

The four customers that started out being customers with a big bank and will stay with a big bank chose their bank according to convenience reasons mostly. Andrew, a 35 year old doctoral student, was a customer of Bank of America when he was a student in California ten years ago. He rejoined Bank of America, then called Fleet Bank in 2003 when he came back to the US. His prime reason for choosing Fleet Bank was the amount of ATM machines, the proximity of a banking location and the assumed size of the bank. He also chose Fleet Bank more specifically because they offered a special tiered savings program. He remembers being eligible for this special program with the amount of money he had disposable only at Fleet Bank and not at any other bank.

Andrew was not referred to the Bank as such, but had heard of Fleet Bank and knew of Fleet Bank since he had been to Boston many times before. He had been impressed by the amount of offices and ATM Machines and considered the bank one of the largest in the area. The size of the bank reassured him since he counted on reputational risks the bank incurred when ‘messing with too many people’.

Daniel, a 35 year old scientist at a biotech company, chose Bank of America also when it was still Fleet Bank and he depicts his decision to open an account with Fleet as a clear cost-benefit decision. It was the only possibility for him at that time “to avoid additional costs" for his account. Other banks, like Souvereign he recalls, would charge him a monthly fee. As he was completing his post doc he qualified for a free checking and savings account at Fleet.

Karsten, a 30 year old doctoral student, chose Bank of America since he was referred to it by a colleague in the department. He also mentions the central location of the branch, which appealed to him. He also thought that the employees were pretty friendly and service was good. His account opening was processed very fast so he felt really good about it.

Hristo chose do his banking with Fleet bank also because he was referred to the bank by friends and because his school had accounts there. He also mentions the ubiquity of ATM machines as a decisive reason. He argues that when going to New York, he can use a branch of the bank and does not need to pay fees.

In conclusion, the amount of ATM machines, the central location of a bank branch, the free checking account and referrals of friends were the main reasons for becoming customer at big banks.

***Experience***

The 6 years Andrew has been customer of Bank of America he has had good experiences with the bank. He qualifies his banking needs as "very simple" and his primary concern that the bank "does not make miscalculations or mess up his balance". And in that regard he is happy with the performance of Bank of America. The simple fact that they have not done anything wrong makes him trust the bank.

Karsten and Hristo have similarly positive experiences given their self declared low intensity banking needs. Karsten only needs to deposit and withdraw money. A simple checking account is enough for him and Bank of America is offering him a good service. He thinks online banking could be better, but his overall experience has been satisfactory. Hristo likes the cooperations Bank of America has with international banks, since he is travelling to Europe often. He views the fee structure as very favourable to him and trusts the bank in general. " I trust that bank, that is why I am keeping my money there."

Daniel's experience differs greatly. He is not sure anymore if he would choose Bank of America (formerly Fleet) again. He cites problems of competence: "the people that I met in the branch were very incompetent and [..] every question that I had I could have answered myself." They made mistakes, misinformed him, double-booked transfers and openly communicated his safe deposit box number while other people were standing around listening. He also feels that "even for small things you have to wait for a long time". He acknowledges that the bank is trying to improve the status quo, shortening waiting times for those wanting to only cash in a check etc. but he "really does not like the waiting". Another incident that made him angry at Bank of America was the pre-processing of a check that cost him an additional fee of 25 dollars plus interest.
In general he does not feel treated well at bank of America. He views himself in a 'minor position' and does not like the power disparity. He also states that he does not trust bank of America due to the many errors and unfair treatment he experienced.

***Future relationship***

Given their positive experience Hristo, Andrew and Karsten are happy with their bank and do not engage in 'shopping' behavior. All three of them describe their current banking needs as very basic. Andrew does not exclude engaging more with bank of America, e.g. when considering taking a loan. He also expects some better treatment from the bank the longer he is staying with them, a kind of loyalty effect. That might be another reason for him to stay with the bank and not shop around.
Karsten actually only uses bank of America for his transactions in the US, while he has other accounts at banks in Switzerland and Germany that he considers to do more business with in the future. Hristo does not exclude engaging more with Bank of America but is also still open for other options as well.
Daniel has a higher involvement relationship with his bank, but is not very satisfied with it. He is considering switching from Bank of America to Citibank, a bank he has had an account with and good experience.

All four big bank customers are displaying very calculative approaches to banking with their bank. A rational choice argument weighing benefits and costs of a decision seems the underlying factor for becoming a client with a big bank. This behavior can well be categorized as behavior based on calculus based trust described by Lewicki and Bunker (1995). As Saparito, Chen and Sapienza (2004) state calculus based trust is of advantage, but does not lead to real loyalty effects. All four customers are not heavily attached to their bank and are open for "better" alternatives in terms of cost benefit analysis. Andrew for example, says if the fee structure changes, meaning if his checking and saving account will not be free anymore (which it won't after he finishes his PhD) he will consider changing the bank. Hristo, when looking for loans, will definitely shop around for the best offer.

**Small bank customers**

***Initial phase***

Carolina, Garth and Anna have started their banking with small banks and have stayed with small local banks ever since. Susanna has been with small banks mostly, and currently does her banking with a small bank again, but had a period where she had a checking account with Wells Fargo, a bank that is regional and of medium size. I still categorize her to be a small bank customer since she has been with small, local banks for most of her time and is currently doing most of her banking with John's Hopkins Federal Credit Union.

Susanna's choice of banking with John's Hopkins Federal Credit Union was driven by convenience and cost-benefit reason, similar to the clients of big banks. The bank office is "right across the street from my work, so it is easy to deal with them". She was referred to the bank by a colleague, who said "it is a good place to get a mortgage from". When Susanna decided to buy a house, the credit union was her first choice to get the mortgage from. She then also decided to do all the rest of her banking there and transferred her funds to the credit union. She also says that she likes the idea of a small, local and personal bank better than a large anonymous bank.

Anna, a 21 year old undergraduate student, chose her bank, a credit union in Ann Arbour, MI since her mother was using the same bank. Her mother referred her, since she had good experiences. Anna specifically states that the bank “is a credit union […] not really a bank”. By that she means that it is not a commercial bank and that “they don’t make profit. It is like a co-op.” She preferred the credit union over commercial banks since “I knew they would not make a profit off of me”. She lists rules about when the bank actually starts to charge interests and the fact that it seemed easier to get a credit card as further reasons for her choice of bank. She also enjoys the benefits of a free checking account.

Even though the cost benefit analysis played a role in the choice, the values of the credit union versus commercial banks seemed to be crucial for her choice. Easy access was not given. She did consciously decide against a commercial bank that provided easier access, because she feels their advertising is misleading.
“Going back to the TCF bank, that’s highly advertised on campus with the students, I feel like they are fooling the students, you know, like making it seem like it’s something it’s not, so that they will get the customers. […]”
She declares that she would not want to have an account with TCF Bank since “they’re very commercial, and, and they seem to play off on peoples ignorance. “
She also highly identifies with the motivation of the credit union to not make money off her.

Carolina and Garth, a married couple, both 30 years are banking with an alternative Federal Credit union “cause we’re hippies.” Carolina refers to the bank as a hippie bank, that was referred to them by their hippie friends. The main reason for choosing the bank is that it is local of nature, “it is locally run and they kinda do local services…”.Both like the fact that their dollar stays local, supports local business with loans and is not anonymous “like Walmart”. They also refer to how the bank started “in the 70’s with a guy and a shoebox”. They identify with their bank because it is small and personal. They mistrust larger banks or companies: “Big things worry us”. Also the community services the bank offers, like classes for local people etc. are highly appreciated. Even though they are not clear about what it means to be with a federal credit union “it seems like a nice thing to have”. In addition to the shared values, they appreciate the quick loan service that they use to pay for there cars and house installations. In their mind political and convenience reasons led them to bank with the alternative federal credit union.

***Experience***

Susanna originally started with the credit union out of pragmatic reasons and did not have a value based reason to bank 'local' as Carolina and Garth did.  But over the time she admits the local aspect of the bank has become more important to her. She now has similarly positive feelings towards the local bank, since it is more responsible. She also perceives her bank as very personal and appreciates the fact that she can always go to see a teller. "And you're actually seeing someone that you can talk to." In one specific incident she recalls that the tellers solved a problem for her right on the spot, by making some phone calls to another bank that had caused the problem. So Susanna feels that the bank personally cares and delivers a good service to her. These are signs of an affective based trust relationship.

Anna has been with her credit union for two years and is happy with her banking experience. She has had no problems and the additional services offered through online banking solidify her positive view of the bank. All her problems and issues have been resolved in a timely fashion so that she has no complaints about the reliability. She also appreciates the off-hours service offered by her bank. She still trusts her bank, since it is providing reliable and competent service. She still identifies with the values of her bank and compared to other banks she feels her bank is more trustworthy since it has a higher cause than just profit.

In contrast Carolina and Garth had some problems with their bank. Their ATM cards got "screwed up" and other little things happen on a continuous basis. They are still happy with their bank since the problems got resolved in a timely fashion: "The people you're dealing with are right there, and not, you know someplace far away." However there is one personal advisor that seems to continually be a source of hassle: "she is a sucker". When thinking about changing the bank they argue that the "good things" still outweigh the costs of switching. "…and banking is not something that you shop around for in the same way, ‘cause it’s like once you’ve made your decision you’re kinda stuck with it, ‘cause there’s a certain amount of energy involved in switching banks. […] so, you try and make your decision and then stop thinking about it.” The personal service and the communal values the bank represent continue to be of utmost importance to them. They also jokingly add that leaving their credit union would mean they would get thrown out of their town (Ithaca). There seems to be some social pressure to be politically correct and stay with a bank that at times does not provide such great service.

***Future relationship***

Susanna is happy with her bank and has learned to appreciate it more over the time. She wants to remain a client, but might need to change the bank in case she will change her job. This might be the case in summer.

Anna wants to stay with her bank since she is very satisfied with it. But similar to Susanna she does not know whether she will stay in the area. If she does she will definitely stay with the bank and not shop around. If she does have to move she will be looking for a similar banking arrangement and try to keep the current account.

Carolina and Garth will definitely not shop around for other banks, due to their community involvement, the shared values and the social pressure. They would only leave the current credit union in the case of a “real big screw up” and then change to another local credit union.

The small bank customers are displaying very affective and emotion-based approaches to banking. Susanna started out rather calculative but seems to develop an emotional bond with her local bank. Anna clearly identifies with her bank’s values as Carolina and Garth do. They are willing to forgive mistakes and do not immediately think about switching banks. With these shared values a higher degree of loyalty is achieved. According to Rousseau, Sitkin et al. (1998) a strong relationship has been established. Following Lewicki and Bunker, the trust level could be categorized as identification based trust, since a high level of value congruency is displayed. Even when facing bigger problems with the bank shopping behavior is non existent.

**Switchers**

***Initial Phase***

Agnes started with Bank of America, when it was still Fleet bank, because they were the only one's close by. She remembers them being listed in a campus guide and describes her situation as "I was basically stuck with that (bank)". Only after her decision to bank with Bank of America did she find out about other banks she recalls.

Mario had an account with Bank of America since he had been employed by Bank of America for a year. Two accounts came with the package of signing the employment contract. He describes his two main decision criteria for choosing a bank as being convenience and reputation. Bank of America was very convenient for him at that point, he says.

Diana and Simon, a married couple in the early 60ies, chose Fleet Bank in the late 80ies since they had a good mortgage rate then. But they changed to a regional bank (Bank of Boston), because they moved from Vermont to Boston. Diana recalls very bad experiences with Fleet Bank. "…if you were like one day late with your payment, they would call you up on the telephone and the computer would harangue you about it and threaten you that they were gonna take your house away… if you didn't make your payments on time. They also apparently reported us to some credit rating service, so that my credit rating is now all out of whack, because, …you know it claims that I've been late in my payments. So I, I've had trouble."

So when they heard that their local Bank (Bank of Boston) would be taken over by Fleet Bank in the late 90ies they immediately looked for another bank. The decision criteria were presence in workplace and home location as well as personal contact. They both liked the idea of a small local bank for the personal approach, the direct service and the local aspects of supporting the community nearby. When setting up their account in a local bank it took them a long time, though which upset them in the beginning. They found out however, that due to the takeover many clients were leaving Fleet Bank and moving to regional banks, so there was a backlog. That reassured them in their decision and confirmed their view of Fleet bank as impersonal bank only interested in commercial customers. The personal contact and the quality of the service offered by the local bank, were therefore key to choosing the local bank.

***Experience***

Mario was a "happy customer" with Bank of America, even though he was not much involved with the bank. When he quit his job, he also moved his accounts from Bank of America to a regional bank that his new employer already had an established relation with. So he considered it very convenient to dovetail his accounts with his employers bank. Keeping his account at Bank of America, even though it had an office close by was not a real option for him. It would have been "..convenient in the sense that there is one also nearby, ..but not convenient in the sense that there is already an established relationship …" He did not consider the fact of having worked there for a year as enough of a relationship building experience with Bank of America.

Diana and Simon are very happy with their local bank. Simon does not often go there directly to take advantage of the personal relationships, but Diana does. Diana is very happy with the quality of service she is receiving. Reflecting on her prior experience with other banks she remembers being a client of Bank of America in California. She describes her experience with "I don't know, it was just a bank.  (…)it was not a bad experience." With her current bank she is more emotionally connected, as she points out that she just likes the idea of a small bank better.

Agnes is in general not satisfied with her experience at Bank of America. She does not trust the bank on "a local level" anymore due to several bad experiences. The customer service she experienced as bad. The bank did not communicate the merger with the customers directly only through newspapers. When she wanted to set up an additional savings account, a setup she had had in Germany and Switzerland before, procedures were very cumbersome. When she wants to do any transaction directly she always has to present her passport, which she does not carry around usually and never had to show before when doing simple banking transactions. She has a feeling of being a small "fish in the pond". She complains about the anonymity and the impersonal treatment.  Similary to Daniel, she complains about the power disparity and an unfair treatment. “.. they, really they force you into online banking, even though it sometimes takes longer. It takes them five business days. Uh, and on an… from the day you submit your, um, invoice or your payment till it’s transferred to the company that you wanna pay. And, and so it’s kind of a pain. If you do that before the weekend, it could take you a whole week. And, um, paper, um, checks are, um, quicker.”

As an example for the low trustworthiness of the bank she cites an incident “when a guy was installing little cameras in a, in a booth where you can get your money at the ATM machine. So, and he collected all the, all the, uh, all the pins from, from like a thousand people. And they (*the bank* MP)didn’t re-recognize that.” Due to this incident and others she considers the bank as negligent, and not customer oriented. She also considers the bank ATM booths as unsafe. “And you can also, when you step into one of those little rooms, it smells like hell because people are basically staying there over night. So it’s not a safe place to go there at night and get money. I would never do that here. And, um, and then they, it’s also, like at, my street from example, we have one ATM machine, and when there are more than two people in the room, I don’t feel safe. Everyone can, can see my pin number, they can see what’s on my account, like how much money I would take out of the ATM. So, I don’t think that they are doing a very good job actually making the customer feel, um, comfortable.”
She attributes the unresponsive behavior of the bank to the market power of the bank “and they can just decide whatever they want, and they do.” Her trust in the bank therefore has considerably decreased over time.

***Future relationship***

With all her negative experiences Agnes heavily considers switching to a small local bank. The local credit union seems more attractive since it is more personal and offers special conditions: “they have special rates for University employees, and you can be a lifetime member, (..) and it’s an easier transfer of money, and then also they have the direct deposit things. And they make special offers for University employees. For, for example, I can get a loan if I wanna buy a house. It's easier because they already know that I have an established, um, record of income insurance, and they have experts, and they have a very fair exchange with the University." She is willing to incur the negative consequences of switching, such as the lower amount of ATM machines and the fact that you have to pay at ATM machines of other banks for the sake of a fairer and more personal exchange.

Mario, enjoys the benefits of the established relationship his current employer has with the local bank and does not think about switching. Simon and Diana both are satisfied with their banking experience at the small local bank and would only switch if they were to move again.

All "switchers" display a calculative approach to banking, but value the quality of a relationship over convenience reasons. Affective trust elements, such as good care and demonstrating concern by offering good customer service are very important for this group. A good relationship based on affective trust leads them to stay loyal to their bank. It is interesting to note that many small banks seem to offer this good relationship, but big banks do fail to do so.

## DISCUSSION

Three big bank customers that stayed with big banks in our sample reported rather low involvement with the bank. They are happy with their bank, but their loyalty is also rather low. They do not refrain from shopping behavior, once their needs change or banking conditions change. Their relationship with the bank seems primarily based on calculative, cost benefit oriented deliberations. In that sense hypothesis 1 is supported. Customers with low levels of interaction mainly base their relationship with a bank on calculative, competence-oriented considerations (Number of ATM's, proximity of office, free account).

The four interviewees that switched from big banks to small banks mainly switched because the relationship with the bank did not seem satisfactory. They did not feel cared about, the bank seemed impersonal and personal needs were not adequately catered to. In this case the affective, caring and benevolent aspects were very important and decisive to ending the relationship. The purely technical aspects and mere calculative considerations such as number of ATM's or free accounts did not play a role anymore. In fact the role of the relationship was weighed more heavily in the decision to switch the bank.

Even Daniel, who wants to switch from big bank A to big bank B does so because his needs are not taken care of enough. All these cases demonstrated the importance of relational trust (Rousseau, Sitkin et al. 1998) for loyalty. All of these customers had higher levels of interaction than the group of big bank customers. In that sense hypothesis 2 receives support. Banking customers with a higher level of interaction with the bank do base their relationship on affective elements, such as care and benevolence as well as integrity and fairness.

The identification with the big banks seems low. The high number of switching clients confirms the low level of commitment and loyalty. In our sample only customers of big banks switched to small banks, no small bank customer switched to a big bank. Four customers of small banks however highly identified with their bank. They stayed very loyal and showed no intention of switching banks even when faced with problems. These customers identified with the goals and values of their bank and did so even before they were customers. They in fact became clients of this bank because of the perceived values. Therefore it can be said that identification based trust can exist from the outset of a relationship. It does not necessarily evolve over time as Rousseau, Sitkin et al. (1998) and Lewicki and Bunker (1995) posit. The identification depends on value congruence and not on any cost-benefit consideration. Hypothesis 3 is supported in so far value congruence does seem a relevant factor for identification building. The relationship based on identification seems to be the most stable, since even relational problems did not lead to shopping behavior.

Hypothesis 4, 5 and 6 also received support. The calculative trust translated into loyalty as long as self interests of the bank and the customer were aligned. The four switchers are a good example of how calculative considerations were not enough to keep a customer satisfied and loyal. Once relational trust had been established switching behavior is observed less often. The four switchers are currently not engaging in shopping behavior, since they are happy with their banking relationship. The customers that based their relationship on value congruence however disposed of the least shopping behavior. Even when faced with problems that could have resulted in switching behavior in calculative or plain relational trust settings, the customers were sure to stay loyal to their bank.

Another interesting finding is that calculative, relational and identification based trust do not necessarily evolve sequentially. Lewicki and Bunker (1996) suggest that identification based trust develops based on many past interactions. Rousseau, Sitkin et al. (1998) argue that a shared identity evolves from a long common history. In this analysis one could see that identification based trust existed from the start of a relationship. Referral, reputational information and other third party sources enabled customers to evaluate value congruence. This view is different from the current view, which only views identification based trust as a consequence of a long history of interactions based on knowledge based trust (Lewicki and Bunker, 1996).
An additional finding is the relevance of referrals. Many customers (7 out of 12), became customers only after they had been referred to the bank by a trusted source. This is interesting in the context of acquisition strategies.

Another interesting pattern seems to be that big banks seem very successful at attracting customers, but not very successful at keeping them (according to our sample). Small banks however manage a relationship much better than the bigger banks. The transformation of calculative trust into relational trust is a big challenge for the big banks. Small banks even manage to create identification with their customers.

**Practical implications**

Managers of big banks need to understand the importance of relationship building better. They can learn from small banks especially when identification building is concerned. It is very important for management to analyze the reasons for the common switching behavior. The lack of loyalty costs a lot of money, since new clients have to be acquired.

Looking at the signaling effects of advertising can be a good start for the analysis. It seems that many big banks encourage customers to establish a merely calculative approach with them. Small banks focus much more on the relational aspects and seem to succeed better at reaping the benefits of loyalty. As Reicheld (1995) states a paradigm shift in the thinking of many sales managers is required to establish the trust required for a long lasting mutually beneficial client-bank relationship.

**Limitations of study**

This study is limited in many ways. First the sample size is rather small to derive generalizable conclusions about big bank or small bank customers. Second, the sample composition leaves an analytical gap, since no switchers from small banks to big banks were included. The analysis can well benefit from other data sources, such as survey data and secondary data bases on the banking industry to better triangulate the findings. Further research on the levels of trust and loyalty should include cross sectoral perspective. To understand the type of trust a customer develops relationships to other firms in different sectors should be analyzed. The view from common day shopping behavior in a supermarket and the relationship with investment goods, such as cars would be an interesting complementary analysis.

## BIBLIOGRAPHY


Ashraf, N., I. Bohnet, et al. (2004). "Is Trust a Bad Investment?*."

Barnes, J. G. (1997). "Closeness, strength, and satisfaction: Examining the nature of the relationship between providers of financial services and their retail customers." Psychology and Marketing **14**: 765-790.

Barney, J. B. and M. H. Hansen (1994). "Trustworthiness as a source of competitive advantage." Strategic Management Journal **15**: 175-190.

Berlin, M. and L. J. Mester (1998). "On the profitability and cost of relationship lending." Journal of Banking and Finance **22**: 873-898.

Bigley, G. A. and J. L. Pearce (1998). "Straining for shared meaning in organization science: Problems of trust and distrust." Academy of Management Review **23**(3): 405-422.

Boersma, M. F., P. J. Buckley, et al. (2003). "Trust in international joint venture relationships." Journal of Business Research(56): pp. 1031-1042.

Brower, H. H., F. D. Schoorman, et al. (2000). "A model of relational leadership: the integration of trust and leader-member exchange." Leadership quarterly **11**(2).

Chami, R. and C. Fullenkamp (2002). "Trust and efficiency." Journal of Banking & Finance(26): pp. 1785 -1809.

Child, J. (2001). "Trust-The Fundamental Bond in Global Collaboration." Organizational Dynamics **29**(4): pp. 274-288.

Dasgupta, P. (1988). Trust as a commodity. Trust. D. G. Gambetta. New York, Basil Blackwell**:** 49-72.

Doney, P. M. and J. P. Cannon (1997). "An examination of the nature of trust in buyer-seller relationships." Journal of Marketing **61**: pp. 35-51.

Doney, P. M., J. P. Cannon, et al. (1998). "Understanding the influence of national culture on the development of trust." Academy of Management Journal **23**(3): 601-620.

Doz, Y. L. (1996). "The evolution of cooperation in strategic alliances: Initial conditions or learning processes." Strategic Management Journal **17**: 55--83.

Dunkelberg, W., J. Garth, et al. (1984). "Small business and the value of bank-customer relationships." Journal of Bank Research **14**(5): 248-258.

Dwyer, F. R., P. H. Schurr, et al. (1987). "Developing buyer-seller relationships." Journal of Marketing **51**(2): 11-27.

Endress, M. (2002). Vertrauen. Bielefeld.

Ferrell, O. C. (2004). "Business ethics and customer stakeholders." Academy of Management Executive **18**(2): 126-129.

Fukuyama, F. (1995). Trust- The social virtues and the creation of prosperity. New York, New York, Simon & Schuster Inc.

Ganesan, S. (1994). "Determinants of long-term orientation in buyer-seller relationships." Journal of Marketing(April): 1-19.

Geyskens, I., J.-B. E. M. Steenkamp, et al. (1999). "A meta-analysis of satisfaction in marketing channel relationships." Journal of Marketing Research **36**(May): 223-238.

Giddens, A. (1990). The Consequences of Modernity. Stanford / CA, Stanford University Press.

Hennart, J. (1988). "A transaction cost theory of equity joint ventures." Strategic Management Journal .(9): pp. 361– 374.

Hosmer, L. (1995). "Trust: The connection link between organizational theory and philosophical ethics." Academy of Management Review **20**: 379-403.

Lewicki, R. J. and B. B. Bunker (1995). Trust in relationships: A model of trust development and decline. Conflict, Cooperation, and Justice. B. B. Bunker and J. Z. Rubin. San Francisco, CA, Jossey- Bass**:** pp. 133-173.

Lewicki, R. J. and B. B. Bunker (1996). Developing and maintaining trust in work relationships. Trust in organizations: Frontiers of theory and research. R. M. Kramer and T. R. Tyler. Thousand Oaks, CA,, Sage Publications, Inc.**:** pp. 114-139.

Lewis, D. J. and A. Weigert (1985). "Trust as a social reality." Social Forces **63**(4): pp. 967-985.

Lewis, J. D. (1999). Trusted Partners- How companies build mutual trust and win together. New York, Simon & Schuster Inc.

Luhmann, N. (2000). Vertrauen: ein Mechanismus zur Reduktion sozialer Komplexität. Stuttgart, Lucius& Lucius.

Mayer, R. C. and J. H. Davis (1999). "The Effect of the Performance Appraisal System on Trust for Management: A Field Quasi-Experiment." Journal of Applied Psychology **84**(1): 123-136.

Mayer, R. C., J. H. Davis, et al. (1995). "An integrative Model of organizational trust." Academy of Management Review.

McAllister, D. J. (1995). "Affect- and Cognition-Based Trust as Foundations for Interpersonal Cooperation in Organizations." Academy of Management Journal **38**(1): 24-59.

Mishra, A. K. (1996). Organizational responses to crisis: The centrality of trust. Trust in Organizations: Frontiers of Theory and Research. R. M. Kramer & T. R. Tyler (Eds). Thousand Oaks, CA, Sage**:** 261-287.

Morgan, R. M. and S. D. Hunt (1994). "The commitment-trust theory of relationship marketing." Journal of Marketing(58): pp. 20-38.

Noteboom, B. (1996). "Trust, opportunism and governance: a process and control model." Organizational Studies **17**(6): pp. 985– 1010.

Parkhe, A. (1998). "Understanding Trust in International Alliances." Journal of World Business **33**(3): pp.219-240.

Pavlou, P. A. (2002). "Institution-based trust in interorganizational exchange relationships: the role of online B2B marketplaces on trust formation." Journal of Strategic Information Systems **11**: 215-243.

Petersen, M. and R. Rajan (1994). "The benefits of firmcreditor relationships: Evidence from small business data." Journal of Finance **49**: 3-37.

Reicheld, F. (1996). The Loyalty Effect, Harvard Business School Press.

Reicheld, F. and W. E. Sasser (1990). "Zero defections: Quality comes to services." Harvard Business Review **68**(5): 105-111.

Ring, P. S. and A. H. Van de Ven (1994). "Developmental processes of cooperative interorganizational relationships." Academy of Management Review **19**: 90-118.

Rotter, J. B. (1971). "Generalized expectancies for interpersonal trust." American Psychologist(26): pp. 443-452.

Rousseau, D. M., S. B. Sitkin, et al. (1998). "Not so different after all: A cross-discipline view of trust." Academy of Management Review **23**(3): 393-405.

Saparito, P., C. Chen, et al. (2002). The central role of calculus-based trust and relational trust in bank-small firm relationships. Academy of Management.

Saparito, P. A., C. Chen, et al. (2004). "The role of relational trust in bank-small firm relationships." Academy of Management Journal **47**(3): 400-410.

Shankar, V., G. L. Urban, et al. (2002). "Online trust: a stakeholder perspective, concepts, implications, and future directions." Journal of Strategic Information Systems **11**: 325-344.

Shockley-Zalabak, P., K. Ellis, et al. (1999). Measuring Organizational Trust -Trust and Distrust across cultures -The Organizational Trust Index, IABC Research Foundation.

Tschannen - Moran, M. and W. K. Hoy (2000). "A Multidisciplinary Analysis of the Nature, Meaning and Measurement of Trust,." Review of Educational Research **70**(4): pp. 547-593.

Uzzi, B. (1999). "Embeddedness in the making of financial capital: How social relations and networks benefit firms seeking financing." American Sociological Review **64**: 481-505.

Wathne, K., H. Biong, et al. (2001). "Choice of supplier in embedded markets: relationship and marketing program effects." Journal of Marketing **65**: 54-66.

Williamson, O. E. (1988). "Corporate Finance and Corporate Governance." Journal of Finance **XLIII**(3): pp.567-91.

Williamson, O. E. (1993). "Calculativeness, trust, and economic organization." Journal of Law and Economics **36**(1): pp. 453-486.

Zand, D. (1972). "Trust and Managerial Problem Solving." Administrative Science Quarterly: 229.