On the Nature of the Multidimensional Firm–Bank Exchange

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This work is dedicated to my family and my best friends. Without you, this would not have been possible.
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ABSTRACT

The purpose of this study is to explore the nature of firm–bank exchange. Using a qualitative research method and existing theory, by capturing transaction-based and relationship-based elements, I examine ten firms and eight different bank services important for the exchange between the firms and their banks. The study indicates that the exchange is more complex than previous theories have proclaimed, since the nature of the exchange differs when central elements of different bank services are compared. There are bank services, such as bank account and loans, which have a high degree of both transaction-based and relationship-based elements. Saving and investment are also indicated as consisting of both transaction-based and relationship-based elements. Other services, such as depositing of cash, digital depositing and payments clearly have a higher proportion of transaction-based elements than of relationship-based elements, but depositing of cash differs somewhat from digital depositing regarding some of the elements investigated. The study suggests that advising has a high level of relationship-based elements, while the transaction-based elements are much less evident. For the service exchange of money, both transaction-based and relationship-based elements are present at a level below medium. This demonstrates that firm–bank exchange has a multidimensional nature.

Keywords: Exchange, Firm, Bank, Bank Services, Transaction-based elements, Relationship-based elements.
SAMMANFATTNING


Nyckelord: Utbyte, Företag, Bank, Banktjänster, Transaktionsbaserade element, Relationsbaserade element.
PREFACE

In August 2012 I started the endeavour of writing this licentiate thesis, but the journey began long before that. For as long as I can remember, I have been interested in understanding the logic behind what is taking place in our universe. Besides my own experience and other peoples’ experiences, science has been a guide. Understanding the world and the nature of social life has been central, besides the hard facts that I could come across. However, the theories that I came across did not explain everything, but applying theories to reality makes sense in many cases.

The first university course that I studied was a course in the history of physics that I had a chance to take before I graduated from senior high school. But what has physics has to do with a licentiate thesis in social sciences? The simple answer is that understanding physics gives a better understanding of our reality, not least as it is so influenced by technology and it has become more difficult than ever to distinguish reality from virtual reality.

In 1997 I took my Master of Science in Business Administration. I had decided that I wanted to study market places on the Internet and the exchange that was taking place between firms. This area was novel and underdeveloped. There were a few scholars that had started to study electronic commerce, but few could explain what was taking place in reality. An internet year was said to develop seven times faster than a normal year. One thing that I had realized was that the Internet was going to revolutionize business. The Internet was about to transform how business was conducted and exchanges were made. The Internet could allow businesses to reach a world-wide market in microseconds at a much lower cost than ever before. As the Internet was a network and the exchange that was taking place was essentially transactions, it was logical to combine network theories and transaction cost economics. This was not as simple as I initially thought when considering basic philosophical assumptions.

After having finished my degree, I wanted to get into scientific research, but I had almost no real experience from business, so it felt naïve to try to really understand business as a science with very little hands-on business experience. The knowledge about reality and the action was not taking place at university. In addition, getting an offer as a doctoral student was not easy.
At the beginning of 1998 I got a position as a management consultant trainee for a company with a business idea to integrate banks’ and insurance companies’ mainframe systems with the new Internet applications. I got to work with experienced colleagues with 30 years of experience in IT development at banks. They had worked as senior management consultants and IT architects with considerable experience gained from professional services at IBM and other companies in the financial industry. The vision on this firm was to build the new Internet banks and we did. A little over three years later, I got an offer from Carnegie Investment Bank that I could not resist. I got a role as project manager and I became the link between the IT functions and the front office in the securities department and managed some really interesting projects at that time. It was a great experience, working in the centre of the financial market in Sweden and understanding a business where all the financial transactions were taking place in real time based on the information that the firm had. After a couple of years, the financial market suffered from 9/11 and the IT bubble that had ruptured. There were many lay-offs and in the third round I had to leave the firm with a six-month salary pay-off, since the firm did not make as much money as before and they decided to cut personnel. I had no better alternative than starting my own business as a consultant, so I became an entrepreneur, which was something that I had wanted to do for a long time. I was involved in a few projects, but it was not easy being a consultant with just a few years of experience at that time. After a while I got an assignment for about one year at The Swedish Financial Supervisory Authority, which gave me a broader experience from the authority that was supervising the financial industry.

After some years in Stockholm, I decided to move north closer to my family and I established a jewellery business in Åre, a growing ski resort where I had learned to ski when I was a child. I also started to trade some gold as a supplement to my other business. In some sense, this was like going back to a type of business from which modern banks originated. Sound knowledge about gold prices and trust from customers was essential, but competition became fierce and competing firms that were spending large amounts on marketing campaigns took over the market. Some firms even said that they offered a higher price than the gold price on the spot market, which is very devious, but their customers were unaware of the scam these firms used to attract the customers. However, it was somewhat shocking to see how the market worked at that time and how some firms managed to do business under the regulatory radar.
In 2011 there was a doctoral student appointment at Mid Sweden University and that was how I got my first ticket into the research project that I started 2012. As a researcher in training there are questions that I have to answer in my thesis. One is what my worldview looks like, i.e. how do I look at reality? That is clearly not an easy question and the answer depends on more or less everything.

And then there are the questions of what is science? What is truth? What is right or wrong? What is justice? These are all relevant questions and all them are constructed by words, and words are constructions of signs that give some meaning to us. This is a link that brings knowledge to us and what knowledge is must be defined and structured to give it some meaning. Generally speaking, I would like to say that it is structure that creates knowledge and this was something that Thomas Kuhn realized very clearly.

As an academic of today, to what extent can I rely on ancient or even 20th century philosophy, when these philosophers did not have a chance to experience the reality and technology that we have today? In fact I do not know for sure, but I am confident that (1) reality is a lot different today; and (2) natural science and social science have a strong connection, which means that they could not have evolved without the other scientific discipline.

What is interesting from a scientific perspective is if we assume that our brain is the tool that makes us understand reality, and our brain, with all its cells, is “constructed” of and consists of elementary particles that interact with each other to store information and knowledge in our memories, how is it possible for our brain to really understand something as small as an elementary particle that is used for the interaction and thinking that we do? To solve this using the pure logic of mathematics is impossible as far as my knowledge has taken me. Logically it means that we end up with a circular reference and that is not possible to solve. Nevertheless, this might be an argument for why science is a construction and we have to lean on our own philosophy and the reflections that our brain can make to create our understanding and consciousness.

In this study, my idea is to focus on the exchange between firms and banks. I believe that this is essential when trying to understand economic relations.
ACKNOWLEDGEMENTS

I would like to express my sincere appreciation to the many individuals that throughout this study have given their time and contributed with their knowledge to finalize this thesis.

I am deeply thankful to all the informants that agreed to participate in this study. You shared a lot of information that contributed to this study in a way that I believe is rare.

My supervisors, Professor Martin Johanson and Professor Peter Öhman, have also contributed a great deal to this thesis. Over the course of this project, which started in August 2012, I have received a great deal of advice regarding my research. Occasionally, I know that all of us have felt frustration and some tension. It has not been easy for any of us, but I am very thankful for all the good advice and the time that you have put into this project. Martin, I deeply appreciate your research experience, theoretical skills, commitment and hours of devoted conversations. Peter, your meticulousness and the many hours you have spent reading numerous drafts, identifying linguistic errors and commenting on all the issues that have appeared are beyond compare and your attention has improved the detail and the language tremendously.

A thank-you goes to the Centre for Research on Economic Relations (CER) for financing this study. However, since the project took longer time than expected, I had in the end to rely on a private contribution including private loans to be able to finalize this project.

Associate Professor Sabine Gebert-Person at CER and Uppsala University deserves many thanks for preparing and taking her time as opponent for my thesis during the final “paj” seminar and also for reading the thesis before publishing it. I am also thankful to Associate Professor Heléne Lundberg and Dr Olof Wahlberg for reading early versions of the manuscript and criticizing it during internal seminars. Associate Professor Christer Strandberg also deserves a thank-you for reading the manuscript before publishing this thesis.

I would also like to express my appreciation to all the doctoral students at the Department of Business, Economics and Law at Mid Sweden University in both Sundsvall and Östersund for your friendship and companionship. I have really appreciated this. Alex Rad, Lina Bellman, Stelios Papaioannou and Åsa Yderfält, your advice and support have been generous and I am very grateful for everything you have shared with me. Dr Anna Sörensson, you were the first person that I met
and your welcoming attitude at that first meeting I will never forget. Dr Carin Nordström, thank you for letting me know about the doctoral student position at the Sundsvall Campus.

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Dr Eero Tölö at Bank of Finland and Reza Salim at Mid Sweden University deserve gratitude for taking time to discuss quantum mechanics, giving me a chance to confirm my understanding of modern physics and the physical evidence that is detectable within an exchange, which is an interest of mine.
I want to direct a thank you to Dr Theresa Millar for editing and proofreading the final manuscript and to Örjan Furberg at Nopolo for finalizing the design of the cover in 3D.

Dr Björn Stolt also deserves appreciation for encouragement and moral support during this project.

I would also like to mention the now-deceased Professor Ingemar Ståhl – his lectures about Transaction Cost Economics back in 1996 was the seed that made me start to think about this contribution to knowledge.

Last, but not least, I want to say that I am very thankful to my family and all my friends who have supported me throughout my work on this thesis. I have sacrificed much of our time together and this has not been easy. Nevertheless, many of you have been extremely important during these years when I struggled more than I ever could have imagined when I started this endeavour. You know who you are. Thank you for your friendship and support!

Magnus Norberg
Åre, Östersund, Summer 2016
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## LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CIT</td>
<td>Cash in transit</td>
</tr>
<tr>
<td>CMP</td>
<td>Contemporary Marketing Practices</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
</tr>
<tr>
<td>TCA</td>
<td>Transaction Cost Analysis</td>
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<td>TCE</td>
<td>Transaction Cost Economics</td>
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</tbody>
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1 INTRODUCTION

In this chapter, an overview of firm–bank exchange is introduced, before the purpose and key terms of the study are presented.

1.1 FIRM–BANK EXCHANGE

1.1.1 Bank services and a multidimensional approach

Exchange between firms and banks is central in business (Howcroft et al., 2007; Proença and Castro, 2005; Thunman, 1992; Tyler and Stanley, 2007), but one specific, often forgotten, aspect is that firms usually buy many services, not just one, from banks. Thus, extant research on banks tends to analyse the services one at a time, which implicitly leads to that one service completely reflecting the nature of the exchange and determining how the entire exchange is governed. As a result, these approaches fail to recognize the complexity of most firm–bank exchanges and from this it follows that there is a reason to conduct a study that can fill this research gap. An approach that incorporates several bank services would enable multidimensionality, as various services can be exchanged in different ways. Moreover, a multidimensional approach means that transaction and relationship are not viewed as endpoints on a continuum, but that various transaction-based and relationship-based elements can be more or less prevalent simultaneously in the same exchange.

There are examples of research in various industries with a pluralistic approach where transaction and relationship are not viewed as endpoints on a continuum (e.g. Bradach and Eccles, 1989; Brodie et al., 1997; Carson et al., 2004; Coviello et al., 2000; Lindgreen et al., 2000; Walsh et al., 2004). Worth noting is that research by Carson et al. (2004) and Walsh et al. (2004) has been conducted in the banking sector. Focusing on savings in the retail bank context, Eriksson and Hermansson (2014) and Hermansson (2015) highlighted exchange based on transactions, relationships or a combination of the two, but they viewed transaction and relationship as endpoints on a continuum. Tyler and Stanley (1999a) have called for research where exchange based on both transactions and relationships is taken into account simultaneously, and research on lending has displayed both transaction-based and relationship-based characteristics (e.g. Berger and Udell, 2006; Udell, 2008; Rad et al., 2013). However, to the best of my knowledge, there is no research that has investigated transaction-based and relationship-based exchange between firms and their banks considering a multidimensional approach for several bank services.
In order to analyse the multidimensionality, this study turns to the literature on exchange, transaction-based and relationship-based, and develops a model consisting of established concepts, rather than developing new ones. Accordingly, the contribution of this study comes from combining existing concepts in a specific model and from applying it in the multidimensional firm–bank exchange context.

To understand firm–bank exchange, it is essential to understand the meaning and use of the terms *transaction* and *relationship* in business and marketing studies. These meanings include transaction and relationship as governance modes, as theoretical perspectives, and as different views in banking research.

### 1.1.2 Transaction and relationship as governance modes

Transaction and relationship are normally seen as two distinct governance modes and two end points on a continuum of how firms externally organize economic activities, with a long history going back to the fundamental principles of economics (see Coase, 1937; Commons, 1931; Marshall, 1890; Smith, 1759, 1776). The governance modes can traditionally not be combined in an exchange, as price is the governing mechanism in a transaction and trust fulfils the governing mechanism in a business relationship (Powell, 1990). By analysing the exchange, governance modes can be determined. This is the explicit or implicit focus in marketing disciplines like relationship marketing and business-to-business marketing (Heide, 1994; Ritter, 2007).

Transaction in the market builds on the assumption that firms have perfect information about different alternatives and are able to make rational decisions (Marshall, 1890). The decisions are made autonomously and do not influence any other firm in the market. The transaction is governed by the price mechanism and it reflects the costs for producing a product or a service sold in the market (Coase, 1988a). A market transaction depends on the products being homogeneous and standardized and not differing between producers. They are commodities. This requires that there is a large number of firms in the market; that the firms do not make any relationship-specific investments; and that a change of supplier does not lead to any switching costs (Jackson, 1985). The time of the exchange is not the primary issue, and experience from the past is not incorporated in the logic. Instead, the question is how the transaction is affected by uncertainty (Williamson, 1979, 2013).
Relationship as a governance mode, on the other hand, assumes that uncertainty and heterogeneity prevail in the market; for instance, the suppliers’ products are different. As the firm’s decision-making is characterized by bounded rationality, knowledge and information are something gained through interaction and social contacts, influencing the decisions. Heterogeneity causes the firm to make relationship-specific investments and commitment to specific relationships (Moriarty et al., 1983), and from this it follows that they jointly plan and coordinate their activities, which, in turn, results in interdependence and the firms becoming locked into specific networks (Jackson, 1985). The relationships are long-term, where both past and future influence the decision (Morgan and Hunt, 1994).

1.1.3 Transaction and relationship as theoretical perspectives

The two terms can be said to have given birth to different theoretical perspectives. Before the 1980s the primary research focus was on short-term discrete transactions, while in the 1980s the importance of the relationship was highlighted (James, 1987; Moriarty et al., 1983). At this time, the relationship marketing paradigm started to emerge (Berry, 1983; Brodie et al., 1997; Grönroos, 1994), with a shift towards long-term profits where the relationship became central. Since then exchange based on transactions has largely been ignored in marketing, instead being primarily viewed as based on relationships (Berry, 1983; Dwyer et al., 1987; Grönroos, 1994; Gummesson, 1998, 1987; Morgan and Hunt, 1994) and embedded in the relationship (Uzzi and Lancaster, 2003). The understanding of business exchange has also been influenced by the literature on social exchange (see Blau, 1964/1986; Emerson, 1976; Homans, 1958).

Almost in parallel with the relationship marketing paradigm, Transaction Cost Economics (TCE) was developed (Coase, 1937, 1960; Williamson, 1975), which in business and marketing is often referred to as Transaction Cost Analysis (TCA) (see Anderson, 1985; John and Weitz, 1988; Rindfleisch and Heide, 1997). It assumes that firms have bounded rationality, but also that there is always a possibility that they could behave opportunistically. The idea is that exchanges imply costs, so-called transaction costs, and when the costs reach a certain level, the firm tries to internalize the economic activities. Thus, this perspective explains why firms exist. Viewing costs as something emerging in the market when exchanging resources, and not only as a result of internal processes and production in the firm, leads to point that factors causing or reducing transaction are essential concepts in this theory. Written contracts and regulations are central, as well as other means to enforce firms to fulfil contracts (Coase, 1988a), and this repudiates
the trust, norms and long-term exchange that are central in the relationship marketing perspective.

1.1.4 Transaction and relationship in banking research

A narrower meaning is applied to the use of these two terms in banking research. A peculiar aspect of firm–bank exchange is that the research has given contents and definitions to transaction and relationship in both business and finance literature. Even though both business literature (see Berry and Thompson, 1982; Binks and Ennew, 1997; Durkin et al., 2008; Moriarty et al., 1983; Proença et al., 2010) and finance literature (see Boot, 2000; Boot and Thakor, 2000; Freixas, 2005; Freixas and Rochet, 2008) use these terms, the definitions are somewhat different. There are a range of various concepts used to describe the exchange between firm and bank, such as transaction banking (Moriarty et al., 1983), transactional exchange (Eriksson and Hermansson, 2014), transaction lending (Berger and Udell, 2006; Udell, 2008), transaction-based banking (Dibb and Meadows, 2001; Howcroft et al., 2007), relationship banking (Berry and Thompson, 1982; Boot, 2000; Freixas and Rochet, 2008; Moriarty et al., 1983), relational exchange (Eriksson and Hermansson, 2014), banking relationships (Berger et al., 2008; Tyler and Stanley, 1999b), bank relationships (Degryse and Ongena, 2001; Ibbotson and Moran, 2003), lending relationships (Holland, 1994; Petersen and Rajan, 1994), relationship lending (Berger and Udell, 1995; Rad et al., 2013) and relationship-based banking (Dibb and Meadows, 2001; Howcroft et al., 2007). It is essential to underline that the use of these concepts is not always consistent, especially when comparing business and finance literature. Sometimes these concepts are used synonymously even though the assumptions and their meaning are not exactly the same.

In banking theory based on finance literature (Berger et al., 2008; Boot, 2000; Boot and Thakor, 2000; Degryse and Ongena, 2007, 2001; Udell, 2008) transaction banking and relationship banking are seen as two different orientations or strategies that banks use. Their view is primarily from the bank’s perspective. In business literature (Berry and Thompson, 1982; Howcroft et al., 2007; Moriarty et al., 1983; Proença and Castro, 2005; Turnbull et al., 1996) the view is different, the scholars sometimes putting the banks and sometimes the customers in focus. These different perspectives may lead to contradicting conclusions. One important example comparing the views of this exchange is that business researchers argue that banking has moved from transaction-based banking towards relationship-based banking (Dibb and Meadows, 2001; Howcroft et al., 2007), while financial
economists argue that banking has moved in the opposite direction (Boot, 2000; Sharpe, 1990).

In the 1980s, when scholars started to focus on relationship, finance literature was directed towards lending relationships (Berger and Udell, 1995; James, 1987; Petersen and Rajan, 1994; Sharpe, 1990) and relationship banking (Boot, 2000; Boot and Thakor, 2000). In business literature it emerged out of the relationship marketing paradigm and relationships in banking received attention (Berry and Thompson, 1982; Moriarty et al., 1983). For example, Eriksson (2006) focused on the development of exchange in banking markets and Eriksson and Hermansson (2014) focused on savings in the retail sector, while Rad et al. (2013) included hard and soft information related to bank lending.

1.2 SMEs AND BANK SERVICES

Small and medium-sized enterprises (SMEs) are important for the economy and both firms and banks are of interest when exchanging products and services. In the OECD countries, SMEs account for over 95 per cent of firms. They generate a large share of new jobs and stand for about 60–70 per cent of employment, which corresponds to figures in Sweden (Ekonomifakta.se, 2014; Eurostat, 2014). This makes SMEs particularly interesting to explore. Banks are also important for society and for economic growth (Swedish Bankers’ Association, 2015). This is also the case in Sweden, where bank branch offices influence the regional development of firms (Backman, 2013). Since 2008, and up to the end of 2015, 18 per cent of bank branch offices have closed down in Sweden (Swedish Bankers’ Association, 2016), which influences firm–bank exchange. Instead of a local presence, banks are developing Internet banking services that can be reached 24/7, i.e. 24 hours a day, seven days a week, from distant locations.

Generally, banks offer a wide range of services such depositing, loans, payments, savings, exchange of money, credit card services, letter of credit, overdrafts, deposits accounts, stocks, funds, bonds and different types of advisory services including corporate finance services (Ennew and Waite, 2007; Thunman, 1992; Turnbull and Demades, 1995; Turnbull and Gibbs, 1987; Zineldin, 1995). Even though financing in general has received extensive attention, there is a limited amount of research on specific bank services (Boot, 2000), and newly developed Internet banking services seem not to be considered in the literature.
Among the studies conducted, Turnbull and Demades (1995) demonstrated that financing, foreign trade and exchange services, depositing and money transfer were the most frequently used bank services back in the 1990s. More recently, Freixas and Rochet (2008) have highlighted financing, saving and payments as primary bank functions from a financial point of view.

In practice, bank services are sometimes treated as products and theoretically there is a dichotomization between products and services. Traditionally in the business literature and specifically service marketing, the marketing of products refers to transaction marketing and marketing of services refers to relationship marketing. Relationship marketing stresses that services are different from products. Despite this, some services are tangible, separable, homogenous and durable (Lovelock and Gummesson, 2004), which touches upon the complexities of how to treat bank services.

1.3 MULTIDIMENSIONAL FIRM–BANK EXCHANGE

Several bank services are employed within firm–bank exchange (Moriarty et al., 1983); it is usually not a one-product or a one-service exchange (see Boot, 2000; Freixas and Rochet, 2008; Thunman, 1992; Turnbull and Gibbs, 1987). The various services may take different forms and have different characteristics. Instead of viewing transactions and relationships as mutually exclusive, an exchange is not necessarily based on either transactions or relationships, but rather transaction-based and relationship-based elements co-exist simultaneously. Furthermore, when comparing different bank services, each exchange may indicate different compositions of these elements.

This study identifies several elements, which are established and widely accepted to capture the nature of transaction and relationship. The exchange for different bank services may concern both transaction-based elements such as hard information (Ijiri, 1975; Stein, 2002), digital communication channels (Durkin and O’Donnell, 2005; Proença et al., 2010) and the importance of price (Bradach and Eccles, 1989; Kelly and Coaker, 1976; Kaura et al., 2015); and relationship-based elements such as soft information (Ijiri, 1975; Stein, 2002), personal contacts (O’Donnell et al., 2002; Sonesson, 2007), trust (Howorth and Moro, 2006; Morgan and Hunt, 1994; Tyler and Stanley, 2007) and long-termness (Ganesan, 1994; Gummesson, 1987; Macneil, 1978).
As the aim is to recognize this multidimensionality, the study applies elements reflecting knowledge and information (hard and soft information), ways of communication (digital communication channels and personal contacts), governance mechanism (the importance of price and trust) and temporal orientation (long-termness) in firm–bank exchange. The model makes it possible to gain a realistic picture of how firms and banks exchange services. By choosing these elements, this study leaves out concepts like commitment, interdependence, opportunistic behaviour, norms, idiosyncratic investment, power, etc.

1.4 PURPOSE

There is a call to increase our understanding of firm–bank exchange (Eriksson and Hermansson, 2014; Tyler and Stanley, 1999a; Udell, 2008). The assumption that the exchange is multidimensional in its nature is a prerequisite for this study from a theoretical and practical perspective. Against this background, the purpose of the thesis is to explore the multidimensional nature of firm–bank exchange in terms of various bank services and the co-existence of transaction-based and relationship-based elements.

1.5 KEY TERMS

The key terms of the study are presented below. The definitions are developed further in Chapter 3. The key terms are exchange, firm, bank, bank services, transaction-based elements and relationship-based elements.

*Exchange* – The exchange that takes place between firms and their banks that can include transaction-based and/or relationship-based elements.

*Firm* – A firm is considered as a registered and active business. The firms investigated are SMEs, i.e. firms with 1–250 employees, which includes micro-companies, according to the definition of the European Commission (European Commission, 2014a).

*Bank* – A bank is considered a firm that holds a bank charter and has been authorized to act as a bank and to provide financial services for other firms.
Bank service – A bank service is a part of the exchange that is taking place between the firm and the bank.

Transaction-based elements – These elements include hard information, the importance of price, and takes place via digital communication channels.

Relationship-based elements – These elements include soft information, personal contacts, trust, and long-termness.

1.6 OVERVIEW OF THE THESIS

This thesis consists of seven chapters and the subsequent chapters are organized as follows:

Chapter 2 reviews previous studies on firm–bank exchange in business and finance literature, and identifies research gaps.

Chapter 3 includes a theoretical conceptualization of multidimensional firm–bank exchange and an analytical model of firm–bank exchange.

Chapter 4 deals with methodological considerations, i.e. the method used for the study.

Chapter 5 presents the empirical findings.

Chapter 6 concerns the analysis of the empirical findings based on the analytical model developed in Chapter 3.

Chapter 7 presents some concluding remarks.
2 FIRM–BANK EXCHANGE – A LITERATURE REVIEW

This literature review has several objectives. The first objective is to give a brief background to firm–bank exchange by providing a short historical exposé. The second objective is to go through the literature on firm–bank exchange in two research fields, business research¹ and financial economics, and identify how these two fields define and apply the concepts of transactions and relationships and identify similarities and differences. The third, and final, objective is to identify specific research gaps prevailing in the literature.

2.1 A BRIEF BACKGROUND TO FIRM–BANK EXCHANGE

Both business researchers and financial economists study firm–bank exchange. Scholars who study the history of money and banking show that business exchange derives from the technological invention of money, which originally underpinned the development of banks (Chown, 1994; Davies, 1996; Kindleberger, 1993). Usury and the exchange of money have been discussed by philosophers and economists alike for centuries (Deane, 1978) even though the technology was less advanced a few decades ago. To some extent, there is a division between business researchers and financial economists when studying exchange. Coase (1937) shows why transactions are organized within the firm instead of taking place in the open market using the price mechanism. This work stems from institutional economics (Commons 1931) and it is regarded as the introduction of transaction costs into economic analysis (Coase, 1988a). According to Coase (1988b), there is a cost for conducting an exchange, i.e. a transaction cost is the cost of marketing a firm’s services and products.² There is no market exchange where there are no transaction costs (Coase, 1988a). A perfect market does not exist in reality and financial intermediaries, such as banks, exist only because of the existence of transaction costs (Benston and Smith, 1976). This is fundamental when measuring the value of an exchange in terms of money. Accordingly, in the market economy there is an alternative cost for any exchange that takes place.

¹ In this study, business research is an overarching term for management research including accounting and marketing research.
² There is a cost for conducting an exchange (Coase, 1988b). This should not be mixed up with the Coase theorem, where the transaction cost is assumed to be zero, which was introduced by George Stigler to honour Coase.
In banking theory, transactions are central. A seminal paper by Klein (1971) covers a theory of the banking firm and it underlines that banks are administrators of a nation’s payment mechanism and this is a fundamental service that banks deliver to non-banks. Banks play a central role when dealing with financial exchange, but other exchanges are also taking place due to this financial exchange. Klein (1971) contends that scarce resources are utilized in the provision of this service, which means that there is a social cost of utilizing the payment mechanism. Banks must also determine a competitive price to perform the service. This means that prices are essential in banking. Further, a bank is a firm that relates to the rules of a firm, but a bank is also different from an ordinary firm, as the bank is allowed to offer financial means to other firms and firms can also deposit their money at the bank. The bank’s operations are therefore more regulated than ordinary firms’ operations.

Until the 1980s, most economic models for financial markets assumed an environment where financial contracting was frictionless and transaction costs were zero, and where buyers and sellers were perfectly informed. Consequently, there was no asymmetric information. In this world, financial contracting is relatively trivial (Udell, 2008). Theoretically there was not much need for banks as the transaction cost were assumed to be zero (Benston and Smith, 1976). Therefore, the finance literature did not pay attention to relationships between banks and customers before the 1980s and relationship banking was not incorporated in bank theories. The exploration of relationship banking began after this and stems from a formal information-theoretic perspective (Boyd and Prescott, 1986; Diamond, 1984; Rajan, 1992; Sharpe, 1990). A contribution on long-term contractual relationships for loans between banks and customers was made by James (1987), who showed the importance of these relationships when refinancing loans.

Accordingly, banking operations are complex and can vary from a few services, such as granting loans, to a wide service offering to different clients (Freixas and Rochet, 2008). Below there is a somewhat simple definition of what a bank is:

“A bank is an institution whose current operations consist in granting loans and receiving deposits from the public.” (Freixas and Rochet, 2008:1)

Regulators use this definition when they decide whether a financial intermediary shall be considered as a bank, and therefore the financial intermediary in question has to meet the requirement of the prevailing regulation (see Freixas and Rochet, 2008:15).
“In fact, it is practically impossible to study the theory of banking without referring to banking regulation.” (Freixas and Rochet, 2008:305)

A large part of banking theory in the financial economics literature centres around lending, while other bank services are sparsely investigated (Berger, 2014; Kysucky, and Nordén, 2014; Udell, 2008). When it comes to research on bank services, Berger (2014) claims that there is surprisingly little known about the characteristics of banks and firms and their relationships with each other. Even though lending is an important service, there are a number of other services that banks offer to their business clients (Rose and Hudgins, 2012; Thunman, 1992; Turnbull and Demades, 1995). There is, therefore, a need to adopt a broader perspective than only loan services.

According to Freixas and Rochet (2008) and contemporary banking theory, the functions of a bank can be divided into four categories: (1) Offering liquidity and payment services; (2) Transferring assets; (3) Managing risks; and (4) Processing information and monitoring borrowers. Not every bank is required to manage all four functions, but universal banks do (Freixas and Rochet, 2008:2). Large banks with a broad range of services, both retail and wholesale bank services ranging from loans, deposit, money transfer and investment services, are known as universal banks (Berger and Udell, 1995). There are also other financial products available for firms, like warrants, futures and bonds (see Brealey et al., 2011). The review by Boot (2000) on relationship banking touches upon a few services, such as letters of credit, deposits, check clearing and cash management services, besides lending. In finance literature, lending is divided into transaction lending and relationship lending. The conceptual framework of SME finance (Berger and Udell, 2006) includes both transaction lending and relationship lending services, such as financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing, relationship lending and trade credit.

Since the emergence of relationship marketing in the 1980s (Berry and Thompson, 1982; Berry, 1983), business researchers have largely avoided the transaction side of firm–bank exchange. A large part of the business-to-business bank marketing research is based on relationship marketing or network theory (e.g. Dibb and Meadows, 2001; Turnbull and Gibbs, 1987; Tyler and Stanley, 2007, 1999). Nevertheless, few business researchers have employed a plural form of exchange (see Carson et al., 2004; Walsh et al., 2004). However, banks would not exist if there were no transaction costs. As stressed above, there is research on firm–bank

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3 Financial economics literature is hereafter referred to as finance literature.
exchange considering both transactions and relationships in finance literature focusing on lending, but a broader range of services could be investigated considering both transactions and relationships.

2.2 EXCHANGE BETWEEN FIRMS AND BANKS BASED ON TRANSACTIONS AND RELATIONSHIPS

There is a broad range of definitions and ideas of exchange referring to transactions and relationships in the literature. The research on the exchange between banks and customers is extensive and covers research in both business and financial economics. The review below focuses on how research in business and finance literature defines exchange based on transaction and relationship respectively. In order to maintain focus, the review covers articles on exchange between firms and banks and includes searchable terms such as exchange, firm (or SME), bank, transaction and relationship that relate to relationship banking, which is a phenomenon that scholars try to understand when considering the exchange between firms and their banks. Besides the definitions, I attempt to identify the theoretical assumptions and the research approach of the articles. Finally, I summarize the lessons from the review and compare the research streams and definitions found.

2.2.1 Firm–bank exchange in business literature

In business research, long-term relationships between banks and firms have received attention since the 1980s (Eccles and Crane, 1987; Moriarty et al., 1983). Long-term relationships can be seen as being constituted by a number of bonds between the bank and the customer (Thunman, 1992). These bonds can comprise various bank services. Several business scholars cover the exchange between firms and banks (e.g. Howcroft et al., 2007; Moriarty et al., 1983; Silver and Vegholm, 2009; Thunman, 1992; Zineldin, 1995) and since the 1980s the studies focusing on firm–bank exchange have paid attention to the relationships between firms and banks. The studies do not define the exchange based on transaction and relationship in a similar way (see Table 2.1), and even though these terms are central to study and to understand the exchange between firms and banks, the definitions of what is included in the exchange are not particularly clear. By mapping out these terms, it is possible improve the understanding of the differences and similarities.
In the wake of the relationship marketing paradigm, the conceptual paper on “The Management of Corporate Banking Relationships” by Moriarty et al. (1983) argues that there are different strategies that banks employ in the exchange with corporate customers. On the one hand, it is the traditional “transaction banking” (Moriarty et al., 1983:4), which focuses on single transactions between the firm and the bank. According to the authors, this type of exchange is product-driven and the bank’s objective is to make profit on individual transactions. This means that the volume of new business creates more profit, rather than developing the existing clients. On the other hand, “relationship banking” (Moriarty et al., 1983:4), that sometimes appears under different names that the authors use synonymously, such as “corporate banking relationships”, “banking relationship” and “relationship-banking”, focuses on the profitability of the total customer relationship over time. Later research that covers the marketing of bank services to firms; for instance, Turnbull and Gibbs (1987), refer to Moriarty et al. (1983). However, “transaction banking” is neither used by Moriarty et al. (1983), nor by Turnbull and Gibbs (1987), but Turnbull and Gibbs (1987) refer to Moriarty et al. (1983) and talk about “transaction-oriented customers” where the price of the service is more important than a specific bank. Regarding “relationship-oriented customers”, Turnbull and Gibbs (1987) refer to Moriarty et al. (1983), but also to Levitt (1983, 1981) when it comes to relationships between banks and their customers. Further, Moriarty et al. (1983) say that relationship banking emerges from the multiple linkages between the firm and the bank. There is also a strong connection to the personal contacts with the bank. Notably, both Moriarty et al. (1983) and Turnbull and Gibbs (1987), use “relationship banking” and “banking relationships”, but they do not differentiate between these terms.

Thunman’s article on corporate banking services (1992), which builds on an analysis of 15 international firms in Sweden and their exchanges with banks, does not consider “transaction banking” or “transaction marketing” per se. He refers to the term “transaction”, even though the meaning of the term is not explicitly defined. Notably, according to Thunman (1992), transactions can take place over the long term between two parties and one transaction influences the next transaction. Obligations, expectations and interpersonal commitment are created between the parties, which implies that transactions create relationships. This reasoning differs from those who argue that transactions are embedded in relationships (e.g. Uzzi and Lancaster, 2003). On a theoretical level, Thunman (1992) refers to the interaction approach by Håkansson (1982), arguing for five types of bonds (i.e. technical, organizational, knowledge, social and economic bonds) between the bank and the firm. The bonds are more or less related to specific bank services. Thunman (1992) does not elaborate on transaction-based
elements, but the bonds may include such elements, as the author notices that exchange of digital information takes place via IT systems, and the parties employ organizational aspects such as contracts, and economic issues such as price influence the service.

A quantitative study of 300 companies in Sweden (Zineldin, 1995:30) emphasizes “bank–company interactions and relationships” and is theoretically based on Håkansson (1982). It considers transaction as a financial exchange and the author writes about transaction aspects for bank services and refers to an exchange with a start and an end, i.e. a discrete exchange. However, Zineldin (1995) writes about long-term transactions, which refers to relationships. This is somewhat contradictory and the view of relationships between the two parties in that study is stated as “[the] relationship between them is frequently a long-term one, close and involving a complex pattern of interaction between and within each company” (Zineldin, 1995:31). Thus, the definitions are rather unclear, which, in turn, means that transactions and relationships seem to be interrelated.

Ibbotson and Moran’s (2003) mixed method study from Northern Ireland analyses e-banking and SME–bank relationships. Three transaction-related terms – “financial service transactions”, “banking transaction” and “business transaction” – are used. The terms are not defined explicitly, but they relate to a financial exchange via the Internet. The authors refer to Dibb and Meadows (2001) and Moriarty et al. (1983) when using “relationship banking” and they emphasize the close connection to relationship marketing. Two similar terms, “small business–bank relationship” and “SME/bank-relationship” are used in parallel with relationship banking, but no further definition is presented. The authors write that Internet banking leads to contradictions in relationship marketing – as banks develop relationships with firms, Internet banking may lead to a contactless interaction. This implies a potential to improve the knowledge about firm–bank exchange, as relationship marketing is inconsistent with how digital Internet-based exchanges work.

Carson et al. (2004) present a conceptual model combining transaction and relationship marketing. The study is partly based on interviews with retail banking customers including agricultural and industry firms, but it refers neither to “transaction banking” nor to “relationship banking”. Instead, the authors argue that there are, on the one hand, “transactional elements”, including product, price and distribution, and on the other hand, “relational aspects” or elements, such as people, and processes where the exchange takes place over a long term (Carson et al., 2004:436). In another article, Walsh et al. (2004:471), emphasize that typical
characteristics of the “transaction-marketing paradigm” are the focus on single event and discrete exchange. For “relationship-marketing”, primarily based on Grönroos (2004), they argue that the price is of lesser importance and, as in the previous article, people, processes and physical evidence are of importance. The focus is on cooperation and profitability, which are obtained by developing the individual customer relationships. The study does not use terms such as “transaction banking” or “relationship banking”.

A case study by Proença and Castro (2005) focuses on both short- and long-term perspectives in order to understand behaviour and motives in the exchange between banks and firms. They argue for the use of the IMP Group’s approach (Håkansson, 1982). “Transaction banking” stems from transaction marketing (see Grönroos, 1994), and there are two extremes of firms. The “transaction oriented” focuses on price, where short-term benefits are important and where firms prefer to keep a counterpart, such as a bank, at arm’s length. Firms that have a “relational orientation” prefer to deal with fewer banks, and these firms are long-term oriented and exploit cooperation with those banks.

Similar to other business studies, a qualitative study by Howcroft et al. (2007) on small firms’ relationships with banks and on the role of Internet banking refers to relationship marketing. This study writes that “transaction business” is a routine-based exchange and it can take place over the Internet in real time. The article refers to Webster (1992) and Dibb and Meadows (2001) and argues that banking business has shifted from a “transaction-oriented” to a “relationship-oriented” exchange. This statement seems to be inconsistent, as it says that transactions over the Internet have increased, but Howcroft et al. (2007) underline that small businesses have not fully accepted Internet banking, e.g. due to security issues and trust. It seems that the exchanges between firms and banks have a complex nature that relationship marketing is not able to capture.

More recent business research on the exchange between firms and banks is limited. There is some research from a Swedish context. A quantitative study (Vegholm and Silver, 2008), investigates banks’ corporate fairness and the SMEs’ satisfaction with the banks. The authors use the term “transactional interaction”, which in the article corresponds to the banks’ standardized treatment of their customers. This is a result of computerization and the reliance on standardization. They also stress that a transactional interaction makes the customer more distant. The authors also use “relational interaction”, which refers to a close relationship where the firm’s confidence in the bank and its personnel is important. Overall, the bank–SME relationship stems from the bank marketing literature (e.g. Ennew et al., 1990; Lam
and Burton, 2006), but the relationship is not defined explicitly. Later, Silver and Vegholm (2009) try to understand the banks’ relationships with SMEs and how banks adapt their needs, by interviewing both bank and firm representatives to examine the interaction process. The study’s focus is on bank–SME relationships, but it mentions “transaction lending” with reference to the finance literature, such as Berger and Udell (2006), where banks use hard information in the lending process. Further, Silver and Vegholm (2009:616) state that “much of the recent research on the bank–SME relationship concerns the changing pattern of transaction and relationship lending”. Consequently, this means that there are different types of relationships and that both transaction lending and relationship lending are embedded in the bank–SME relationship. This implies that a more general level of exchange includes different elements. Exchange between the two parties is more complex than just being based on the relationship marketing paradigm.

Table 2.1 below covers how the existing business literature discussed above describes or explicitly defines exchange related to transactions and exchange related to relationships.
<table>
<thead>
<tr>
<th>Author/s</th>
<th>Exchange based on transaction</th>
<th>Exchange based on relationship</th>
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<tbody>
<tr>
<td>Moriarty et al. (1983)</td>
<td>Not defined explicitly. However, the objective of transaction banking is profitability of the individual transaction, according to the authors. Further, the strategy focus on the volume of new customers and the marketing is product-driven.</td>
<td>The objective of relationship banking is profitability of the total customer relationship. &quot;In its simplest form relationship banking is a recognition that a bank can increase its earnings by maximizing the profitability of the local customer relationship over time, rather than by seeking to extract the most profit from any individual product or transaction.&quot; (Moriarty et al., 1983:4). Besides “relationship banking”, the authors also use “relationship-banking” and &quot;banking relationships&quot;, which seem to be synonymous terms, but they are not defined explicitly.</td>
</tr>
<tr>
<td>Turnbull and Gibbs (1987)</td>
<td>Not explicitly defined. The authors say that transaction-oriented customers tend to focus on price and quality, rather than the relationship with one bank. Transaction-oriented customers tend have multiple banks.</td>
<td>The exchange based on relationships is not explicitly defined, but different definitions of “banking relationships” (Levitt, 1981) and &quot;relationship banking&quot; (Moriarty et al., 1983) are discussed.</td>
</tr>
<tr>
<td>Thunman (1992)</td>
<td>Not defined. The author says that transactions between two parties will influence the next transaction and create obligations and expectations.</td>
<td>The author says that relationships in banking are characterized by (1) an exchange of different services, (2) both commercial and non-commercial (personal and social) and (3) the exchange is a long-term process (see Thunman, 1992:11).</td>
</tr>
<tr>
<td>Zineldin (1995)</td>
<td>Not explicitly defined, but the author says: “The transaction aspects of banking service concerns all activities that must be performed: first, from the time a meeting of the minds occurs among the parties; second, during the transaction process; and third, after the transaction is completed.” (Zineldin, 1995:33)</td>
<td>Not explicitly defined, but the author says “relationship between buyers and sellers in industrial markets […] are active participants in the market where the relationship between them is frequently a long-term one, close and involving a complex pattern of interaction between and within each company.” (Zineldin, 1995:31).</td>
</tr>
<tr>
<td>Authors</td>
<td>Definition/Reference</td>
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<tr>
<td>Ibbotson and Moran (2003)</td>
<td>Not defined. In the survey, “business transaction” is used and in the article, “financial transaction” is also used. However, there is neither a definition and nor a reference.</td>
<td></td>
</tr>
<tr>
<td>Walsh et al. (2004)</td>
<td>Walsh et al. (2004:471) refer to the following: “In managing a discrete transaction the planning time frame is primarily short term with decision-making focusing on the single sale and realising profitability from current exchanges. This emphasis on the single transaction fits well into the profit-maximisation paradigm […] transaction-marketing management is primarily about the discrete transaction”</td>
<td></td>
</tr>
<tr>
<td>Proença and Castro (2005)</td>
<td>The authors state that “the new approach to the market could be compared to the more traditional vision of transaction marketing (Grönroos, 1994) or to transaction banking (Proença and Castro, 2000)” (Proença and Castro, 2005:533).</td>
<td></td>
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</tbody>
</table>

Not explicitly defined. The authors use “corporate banking relationship” and refer to a range of authors e.g. Ennew et al. (1990), Perrien et al. (1992) and Turnbull and Gibbs (1987). Regarding the firms’ exchange with their banks, the authors are also influenced by Grönroos (1994) and Håkansson (1982).
<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Howcroft et al. (2007)</td>
<td>Not defined explicitly in the article. Refers to Webster (1992) and Dibb and Meadows (2001) regarding the change from transaction-oriented to relationship-oriented banking business.</td>
<td>The authors highlight that relationship banking stems from the principles of relationship marketing that have been adopted by the bank industry, which is particularly common in the high-net-worth and corporate banking markets e.g. Eccles and Crane (1987).</td>
</tr>
<tr>
<td>Vegholm and Silver (2008)</td>
<td>Transactions are discussed and the authors draw parallels to computerization (Chorafas and Steinmann, 1988) and standardization. They also stress that a transactional approach makes the customer more distant.</td>
<td>The exchange based on relationship is not explicitly defined. The authors refer to e.g. Ennew et al. (1990), Lam and Burton (2006) and Perrien et al. (1992), which relate to customer relationship.</td>
</tr>
<tr>
<td>Silver and Vegholm (2009)</td>
<td>No explicit definition. The authors refer to Berger and Udell (2006) and say that transaction lending is primarily reserved for firms with sufficient high-quality hard information, such as financial statements, or collateral.</td>
<td>Not explicitly defined. Refers to the development from marketing theory, e.g. the length of banking relationships is characteristic for businesses with complex long-term relationships, e.g. Gill et al. (2006), and shows different factors that affect trust. Further, the authors emphasize that functional value of personnel and services, as well as emotional value and social value, is of importance in the bank–SME relationship, with reference to Roig et al. (2006).</td>
</tr>
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</table>
2.2.2 Firm–bank exchange in finance literature

Relationships between firms and banks also started to receive attention in finance research in the 1980s (see James, 1987). It was noticed that long-term relationships influence the exchange of financial resources. Since the 1990s there have been a number of studies (see Kysucky and Nordén, 2014) that consider the importance of relationships within the firm–bank exchange, and a range of terms and definitions occurs in the finance literature. Some of the prominent scholars’ most common terms are presented below (see also Table 2.2). These studies are frequently referred to in business literature on the exchange between firms and banks.

In 1990, Sharpe presented a model of customer relationships for bank lending, where transactions and transaction costs are briefly mentioned without any reference or clear definition. The term “lending relationship” is highlighted and refers to the information that banks can gain from a long-term relationship with firms that need finance. Sharpe (1990:1069) writes that “Customer relationships arise between banks and firms because, in the process of lending, a bank learns more than others about its own customers…”. Rajan (1992:1382) relates the transaction-based system to a situation “where many banks bid competitively for each transaction that a firm undertakes”. This means a more market-like type of exchange, where transaction costs determine the informed lender’s choice of finance. The exchange based on relationships refers to the term “reputational equilibrium” (Rajan, 1991), where an implicit contract and/or a long-term exchange is sustained between the firm and the bank. Petersen (1994:5), who studied “lending relationships” stated that “An important dimension of a relationship is its duration”. This notion stems from Diamond (1991). Besides this, Petersen and Rajan (1994) emphasize that the relationship between the firm and the bank can develop through the exchange of multiple products (bank services) and they also find evidence that multiple relationships can increase the price and decrease the availability of credit.

Even though authors like Petersen and Rajan (1994) argue that the exchange can develop through different bank services, most research in finance in this area only concerns loans. Berger and Udell’s (1995:353) study on loans for small businesses refers to "transaction-driven loans", such as equipment loans, mortgages, motor vehicle loans and other spot loans. The authors use the term “relationship lending” for loans driven by relationships and refer to Petersen and Rajan (1994), even though the latter study uses the term “lending relationships”. Since these terms are used synonymously, they are not possible to differentiate. The closest that Smith and Ongena (1998) come to a definition of a transaction is that it is characterized by
a simple and anonymous financial exchange, but they explicitly define a “bank relationship” as “the connection between a bank and customer that goes beyond the execution of simple, anonymous, financial transactions” (Smith and Ongena, 1998:4). Other related terms that occur in their review are “customers relationship”, “relationship-building” and “relationship-intense”, but these are not defined.

In Boot (2000:7), “transaction-oriented banking” is first referred to as “trading”, where transaction-oriented banking focuses on a single transaction, or multiple identical transactions with many customers. A related term, “transaction lending”, refers to arm’s-length finance focusing on a particular transaction rather than a relationship with the customer that is information-intensive (see Boot and Thakor, 2000). In his review, Boot (2000:10) defines “relationship banking as the provision of financial services by a financial intermediary that: (1) invests in obtaining customer-specific information, often proprietary in nature; and (2) evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products”. This is a sharper definition of relationship banking that complements the finance literature according to Boot (2000). Further, Boot (2000:11) states that “the proliferation of transaction-oriented banking (trading) and direct funding available in the financial markets has started to seriously challenge banks’ future as relationship bankers”. This implies that transaction-oriented banking, where price and quantitative measurements are central, has increased its importance for banks.

Two European scholars, Degryse and Ongena (2005), put other terms forward, for instance, “transactional loans”, “transactional borrowers” and “transactional firms”. The closest statement that hints at what characterizes “transactional” is the following: “It is possible that no bank in the vicinity of a firm is informed. In other words, the loans we classify as transactional are of this type in general.” (Degryse and Ongena, 2005:253f). This implies that the transactional loans offer no cost advantage to having a close relationship with the borrower for the bank. Whether or not it is an advantage for the borrower is not considered. Regarding exchange based on relationship, the paper uses “lending relationship” and “relationship lending” and refers to Petersen and Rajan (1994, 1995) and Berger and Udell (1995). They also talk about “relationship-building technology” (see Hauswald and Marquez, 2003). As far as I understand, this means that the bank may use technology to acquire customer-specific information. Thus, information technology is used in order to build relationships with the bank’s customers, but from the bank’s point of view.
Over the last decade, several studies have aimed to define the terms used in finance literature. Berger and Udell (2006) argue that the previous framework is oversimplified, and that transaction lending is not a single homogeneous lending technology. The authors show that there are different transaction technologies, for instance, small business credit scoring, factoring and leasing where hard information is important. They also claim that relationship lending largely is based on soft (qualitative) information, which is due to the opacity of firms. However, over time banks are able to collect more information about their borrowers.

In a literature review on commercial lending, Udell (2008) refers to “transactions-based lending”, which depends on hard (quantifiable) information. He underlines that managing the qualitative-based exercise when assessing credit has moved to a quantitative based exercise, which corresponds to Boot’s (2000) observation. In the academic literature, “relationship lending” has a specific meaning compared to how practitioners use it. It is defined as “a type of loan underwriting that primarily depends on proprietary “soft information” about the borrower. Soft information is “qualitative information acquired by the bank over time” Udell (2008:94). Soft information is not easy to transfer, either within or between organizations (Stein, 2002). According to Udell (2008), relationship lending also includes several lending technologies. His review displays different types of lending technologies, where hard and soft information determine the categorization of transaction-based or relationship-based loans. This is also confirmed by Berger and Black (2011), who find that large banks have a comparative advantage in using lending technologies based on hard information. This is known as “transaction-based lending”. “Relationship lending” is primarily based on information gathered over time, where soft information, such as the firm owner’s character or reliability, is captured. Berger and Black (2011) also use the term “banking relationship”, but it is not defined in their study.

Table 2.2 summarises how the finance literature presented above describes or explicitly defines exchange related to transactions and exchange related to relationships.
Table 2.2. Definitions of exchange based on transaction and on relationship in finance literature.

<table>
<thead>
<tr>
<th>Author/s</th>
<th>Exchange based on transaction</th>
<th>Exchange based on relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharpe (1990)</td>
<td>The author uses the term “transaction” in this article and refers to transmitting information. He also refers to transactions costs, but neither of these terms are defined in the article.</td>
<td>The author uses “customer relationship” and “relationship lending”. These terms are not explicitly defined in the article, but the author refers to James (1987) concerning the importance relationships between firms and banks when the firms need finance.</td>
</tr>
<tr>
<td>Rajan (1992)</td>
<td>There is no explicit definition. However, the author relates the transactions-based system to a situation where many banks bid competitively for each transaction that a firm undertakes. He says that transaction costs may entirely determine informed lenders’ choice of finance (see Rajan, 1992:1382).</td>
<td>There is no explicit definition, but the article refers to the term reputational equilibrium (Rajan, 1991), where an implicit contract or relationship is sustained between the bank and the firm. In a sense, the firm's share, “while bargaining within a relationship, is greater than its share in the context of a single project. Relationships thus improve the efficiency of short-term bank contracts.” (Rajan, 1992:1390)</td>
</tr>
<tr>
<td>Petersen and Rajan (1994)</td>
<td>There is no explicit definition in the paper. The word “transaction” is only used once: “these loans are made as part of a broader set of transactions and may not represent the true (relationship-adjusted) cost.” (Petersen and Rajan, 1994:17).</td>
<td>There is no explicit definition. The authors term the ties between the financial institution and the firm as relationships. They say “in theory, relationships can reduce frictions in the flow of capital from potential lenders to borrowers” (Petersen and Rajan, 1994:5). They also state that “An important dimension of a relationship is its duration” (Petersen and Rajan, 1994:5), which is based on Diamond (1991) and “in addition to interaction over time, relationships can be built through interaction over multiple products.” (Petersen and Rajan, 1994:6)</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Definition/Characterization</td>
<td>Notes</td>
</tr>
<tr>
<td>---------------------------------</td>
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<td>----------------------------------------------------------------------</td>
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<tr>
<td>Berger and Udell (1995)</td>
<td>There is no explicit definition. Berger and Udell (1995:353) use “transaction-driven loans – such as mortgages, equipment loans, motor vehicle loans, and other spot loans”.</td>
<td>There is no explicit definition. The authors use relationship lending and refer to e.g. Petersen and Rajan (1994).</td>
</tr>
<tr>
<td>Smith and Ongena (1998)</td>
<td>There is no explicit definition, but “simple” and “anonymous” are used to characterize a transaction.</td>
<td>Relationship banking is not used in this book chapter, but “bank relationship” is defined to be “the connection between a bank and customer that goes beyond the execution of simple, anonymous, financial transactions” (Smith and Ongena, 1998:4). Other related expressions that occur are “customer relationship”, “relationship-building” and “relationship-intense”.</td>
</tr>
<tr>
<td>Boot (2000)</td>
<td>Transaction-oriented banking is first referred to as &quot;trading&quot;, also a reference to Bhattacharya and Thakor (1993). Transaction-oriented banking focuses on a single transaction with a customer, or multiple identical transactions with various customers. For example, transaction lending is viewed as arm’s-length finance focusing on that particular transaction, rather than being aimed at an information-intensive relationship with a customer (Boot and Thakor, 2000).</td>
<td>Boot (2000:10) defines “relationship banking as the provision of financial services by a financial intermediary that: 1. invests in obtaining customer-specific information, often proprietary in nature; and 2. evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products.”</td>
</tr>
<tr>
<td>Degryse and Ongena (2005)</td>
<td>The authors use the terms “transactional loans”, “transactional borrowers” and “transactional firms”. The closest statement that gives a hint on what characterizes “transactional” is the following: “It is possible that no bank in the vicinity of a firm is informed. In other words, the loans we classify as transactional are of this type in general.” (Degryse and Ongena, 2005:253f).</td>
<td>There is no explicit definition, but, the paper uses “lending relationship” and “relationship lending”. The authors refer to Petersen and Rajan (1995, 1994) and also to Berger and Udell (1995) in the paper. They also refer to “relationship-building technology” as used by Hauswald and Marquez (2003).</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Description</td>
<td>Reference</td>
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<tr>
<td>Berger and Udell (2006)</td>
<td>The authors say that the previous framework has been oversimplified and transactions lending is not a single homogeneous lending technology. They show that there are different transaction technologies that have heterogeneous characteristics.</td>
<td>The authors say that relationship lending is based significantly on soft qualitative information that the banks gather about their otherwise little-known firms over the course of a relationship.</td>
</tr>
<tr>
<td>Udell (2008)</td>
<td>Transactions-based lending depends on hard (quantifiable) information. According to the author, this is an alternative to relationship lending.</td>
<td>Relationship lending is described as based on soft (non-quantifiable) information. Financial scholars define “relationship lending as a type of loan underwriting that primarily depends on proprietary ‘soft information’ about the borrower”. Soft information is qualitative information acquired by the bank over time “through multiple interactions with the borrower, often through the provision of multiple financial services (Boot, 2000:4)” (Udell 2008:94). It is also said that soft information cannot be easily transmitted, either within or across organizations (Stein, 2002).</td>
</tr>
<tr>
<td>Berger and Black (2011)</td>
<td>Berger and Black (2011:725) state: “Under the current paradigm, large banks generally have a comparative advantage in using hard-information lending technologies – also known as transactions-based lending.”</td>
<td>The article focuses on “relationship lending”. Relationship lending “which is based primarily on information gathered over the course of a bank–borrower relationship, such as the owner’s character or reliability – is often analysed as a soft-information technology.” (Berger and Black, 2011:725). “Banking relationship” is used, but not explicitly defined.</td>
</tr>
</tbody>
</table>
2.2.3 Lesson from firm–bank exchange in business and finance literature

As this chapter discusses above, both business and finance scholars study exchange between firms and banks, and transactions and relationships are central terms. However, it is striking that many scholars do not present clear and explicit definitions of these terms. Instead, several elements are used to characterize these terms. For transactions, words or descriptions such as anonymous (Smith and Ongena, 1998), arm’s length (Boot, 2000), computerization (Thunman, 1992; Vegholm and Silver, 2008), discrete exchange (Proença and Castro, 2005; Walsh et al., 2004), easy to transfer (Udell, 2006), financial exchange via Internet (Ibbotson and Moran, 2003), hard information (Udell, 2006, Vegholm and Silver, 2008), price (Moriarty et al., 1983; Petersen and Rajan, 1994; Thunman, 1992), product (Carson et al., 2004; Walsh et al., 2004), quantitative (Udell, 2008) and standardization (Vegholm and Silver, 2008) are used. For relationships, words or descriptions such as complex (Silver and Vegholm, 2009; Zineldin, 1995), cooperation (Proença and Castro, 2005), close interaction (Degryse and Ongena, 2005; Zineldin, 1995), long term (Moriarty et al., 1983; Petersen and Rajan, 1994), multiple linkages (Moriarty et al., 1983), multiple services (Boot, 2000), not easy to transfer (Udell, 2008), personal contacts (Moriarty et al., 1983), people (Walsh et al., 2004), soft information (Udell, 2008) and trust (Howcroft et al., 2007) are used.

Many descriptions occur in both business and finance literature, even if not all descriptions reoccur in every study on firm–bank exchange. It is also important to note that definitions and theoretical assumptions are not the same in business and finance literature. Business research more frequently uses qualitative studies, while finance research in general is quantitative. Even if business researchers refer to finance literature, finance scholars seldom refer to business research or apply their definitions. In contrast to the business research, finance research is focused around lending, and finance in general looks from the banks’ perspective and not from the firms’ perspective.

In spite of the division between transaction-based and relationship-based elements, there are inconsistencies. For example, Thunman (1992) mentions that a transaction can be long term, while Petersen and Rajan (1994) show that the lending relationships affect the price. Howcroft et al. (2007) and Ibbotson and Moran (2003) indicate that information technology influences the relationship between firms and banks. This means that the division between the elements is not always clear-cut.

Further, the observation made by financial economists (see Boot, 2000; Sharpe, 1990) that transaction-oriented banking and direct funding have started to
challenge traditional relationship banking is opposed to what business researchers argue, i.e. that banking has moved from transaction-based toward relationship-based business (see Howcroft et al., 2007).

To summarize and point out a few differences between business and finance research on firm–bank exchange, I note the following:

- Business researchers (e.g. Howcroft et al., 2007) argue that the exchange has shifted from transaction-oriented to relationship-oriented.
- Finance researchers (e.g. Boot, 2000; Udell, 2008) argue that the exchange has moved from relationship-oriented to transaction-oriented.
- Business research is often based on a qualitative approach and interpretivism, although there are also quantitative studies.
- Finance research is largely quantitative. Accordingly, qualitative research is uncommon.
- A large part of the business research is conducted in a European context.
- A large part of the finance research is conducted in a US context, although finance research conducted in a European context does exist.

Finally, a broad range of different elements are used to describe firm–bank exchange. The definitions of a transaction or a relationship are not always clear. Since they spring from different research traditions, the assumptions of how the exchange shall be characterized are challenging.

2.3 MULTIDIMENSIONAL EXCHANGE

In business research there is a debate on how to understand the essence of the exchange between firms and scholars have conveyed paradigm shifts when it comes to marketing theory and business exchange (Achrol and Kotler, 2011; Brodie et al., 1997; Grönroos, 1994; Lovelock and Gummesson, 2004). A paradigm shift is a fundamental change in the basic concepts and rules in the scientific discipline that relates to how the world is understood and how knowledge can be captured (Kuhn and Hacking, 2012). Since my study is explorative and focuses on firm–bank exchange, I must omit the in-depth, complex epistemological and ontological debate (e.g. Lakatos and Musgrave, 1970). There are theoretical notions that are relevant to understand when capturing a multidimensional exchange and I aim to
point out a few important issues. A further discussion can be found in contemporary contributions on the multidimensionality in philosophy (Babich and Ginev, 2014).

Basically, there are two main routes to capturing an exchange. One where the transaction is the unit of analysis (e.g. Williamson, 2005) and the other where the relationship is the unit of analysis (e.g. Dyer and Singh, 1998; Storbacka and Nenonen, 2009). These two originate from different research traditions and different philosophical assumptions (Brodie et al., 2008; Heide, 1994). In business research the two routes relate to a market-oriented view and a hierarchal or non-market-oriented view (Eriksson and Hermansson, 2014). They are also associated with different forms of governance (Eriksson and Hermansson, 2014; Heide, 1994; Rindfleisch and Heide, 1997). Traditionally, these two types of control mechanisms govern the dichotomous exchange that does not take place simultaneously. However, Bradach and Eccles (1989) argue for a so called plural form of governance\(^4\) that firms can simultaneously apply to control an exchange. According to Bradach and Eccles (1989), to understand the whole picture, the analytical focus must be moved away from solely individual transactions, to examine elements that influence the exchange.

As Bradach and Eccles (1989) state, the transaction-based elements, such as hard information (Ijiri, 1975), digital communication channels (Laukkanen, 2007; Nielsen, 2002) and the importance of price (Kelly and Coaker, 1976), on the one hand, and the relationship-based elements, such as soft information (Ijiri, 1975), personal contacts (Uzzi and Lancaster, 2003), trust (Tyler and Stanley, 2007) and long-termness (Moriarty et al., 1983), on the other hand, can both be found in the exchange between buyers and sellers. If these elements coexist simultaneously in an exchange, it means that the nature of the exchange is not exclusively transaction-based, or exclusively relationship-based. Instead, the exchange displays multidimensional characteristics. By applying a multidimensional approach, based on the seven elements mentioned above, it is possible to capture the richness and complexity of an exchange for a range of different services that banks offers to firms.

Despite the fact that transaction-based and relationship-based elements are relevant when investigating an exchange (Bradach and Eccles, 1989; Moriarty et al.,

\(^4\) The difference between governance mode and type of exchange is semantical. As I see it, a governance mode is a control mechanism and there are different types of exchanges that relates to a particular control mechanism.
there are a few studies using a multidimensional or plural\(^5\) approach in business research and even fewer studies concerning the exchange between firms and banks. Besides research inspired by Bradach and Eccles (1989), e.g. Mols et al. (2012), the contemporary marketing practices framework (CMP), starting off with Coviello et al. (1997) and Brodie et al. (1997), argues for a “plural approach” to study the exchange. In a literature review from the first decade of CMP (Brodie et al., 2008), there are only a couple of articles that refer to the financial industry.

Yet there are studies that have applied a multidimensional approach. Starting with Bradach and Eccles (1989), their study is based on economic exchange and is organized around three different elements: price, authority and trust. They show how these elements are simultaneously combined in the exchange. The findings are primarily not related to the banking industry, but the authors refer to the ill-balanced relationships that can be found between investment banks and their customers. Hence, the multidimensional approach is also relevant within firm–bank exchange. Another study (Kaufmann and Dant, 1992) considers elements such as price and trust and is based on Macneil (1978). Here the different types of exchange are dichotomous, i.e. the transaction and the relationship are poles on the same continuum, but they argue that the multidimensional approach is an important area of investigation.

Studies based on CMP (Brodie et al., 1997) include price, trust, and long-termness, and touch upon digital communication channels among other elements. They argue for a “plural approach” (Brodie et al., 1997:390) to business-to-business exchange, but they do not attempt to discuss the problems of mixing different philosophies and what basic assumptions they have made, even though some clarifications regarding the philosophies are made later (Brodie et al., 2008; Pels and Saren, 2006). Coviello and Brodie (1998) put forward that a combination of transaction and relationship marketing is necessary in many contexts – not only in marketing, but business research in general. They employ elements such as price, and also digital communication channels, trust and long-termness. A few years later, CMP research put more emphasis on information and communication technologies, although these elements have been considered from the start, and it shows how crucial digital communication channels are in the exchange (Coviello et al., 2001, 2003).

\(^5\) Researchers like Bradach and Eccles (1989) use the term “plural forms”, while Brodie et al. (1997) use the term “plural approach”. Based on the mathematical description, recent philosophical contributions (Babich and Ginev, 2014) and what is being measured or captured, I prefer to use the term “multidimensional exchange”.
Another study that argues for a multidimensional approach, or as the authors (Borum and Christiansen, 2006:213) state, “Several ‘perspectives’ are assumed to be required to reach a sufficient understanding of complex (implementation) processes.” The authors contend that multidimensional perspectives are important to understand complex processes, particularly those that include environments related to digital communication, which often relate to information and communication technologies (ICT). The study derives from political and network perspectives (Aldrich and Wetten, 1981; Cohen et al., 1972; Scott, 1987). There are also other studies that apply different dimensions (e.g. Jonsson and Lindbergh, 2013), but the multidimensionality of transaction-based or relationship-based elements is not explicitly considered.

Thus, few studies address multidimensional exchange and firm–bank exchange has attracted limited attention. To the best of my knowledge there are no studies trying to capture the exchange in the same way as Bradach and Eccles (1989). The early business studies that consider both transaction-based and relationship-based exchange, like Moriarty et al. (1983), view the two types as different strategies, which is not compatible with a multidimensional approach. Thunman’s (1992) study stems from the IMP Research Group (Håkansson, 1982) and analyses service dimensions between banks and firms, but the dimensions are viewed as different aspects of relationships. Even though the author touches upon transaction-based elements and services such as payments, he does not analyse the elements as if they were transaction-based per se, but instead, Thunman (1992:14) talks about different relationships, e.g. “technical bonds […] that employ computerized and technical systems” and “economic bonds” concerning price and transactions between the bank and its customers. Obviously, elements such as digital communication channels and price, which could be seen as transaction-based, are present. Thus, the multidimensionality of the exchange is overlooked in that study. Later, Lindgreen et al. (2000) employ the CMP approach, and touch upon banking. It is published in the same bank marketing journal as Thunman (1992), but the banking content is limited. In fact, the study only once mentions banks and financial information, in relation to the exchange between banks and corporate customers.

Another study (Walsh et al., 2004) also uses CMP, and considers the implementation of a multidimensional approach in banking, but from a bank manager’s perspective in general. Two elements mentioned are price and the long-term exchange. Otherwise, the various services that banks offer their customers are not included in the study. Based on the same CMP approach, Carson et al. (2004) find that exchange between firms and banks is not a balanced relationship. Both
Walsh et al. (2004) and Carson et al. (2004) study one retail bank from the bank’s perspective. They claim that there is a limited amount of research using a multidimensional perspective, and they continue by saying that there is a need to study the exchange from a holistic perspective, but in spite of this, their study does not incorporate multiple bank services. In addition, studies do not take the firm’s perspective. Rad et al. (2013) emphasize hard and soft information when loan officers assess SMEs’ loan applications, but this study concerns a single bank, while Eriksson and Hermansson (2014) develop a model of how banks can consider both transaction and relationship exchange related to saving. Although the latter study considers consumers, services other than saving are neglected. Further, Eriksson and Hermansson (2014) view the exchange on a continuum, and the transaction and the relationship can have an interimistic position.

The last ten years’ business research has not attempted to understand the multidimensional exchange between banks and firms from the firm’s perspective and, based on this observation, I argue that there is a need for research on multidimensional firm–bank exchange. Although existing literature discusses different types of multidimensionality, empirical studies investigate one service at a time. Thus, there is a need to clarify the nature of the richness and complexity of firm–bank exchange. Besides business research, research in finance literature (e.g. Berger and Udell, 2006; Boot, 2000; Kysucky, and Nordén, 2014; Udell, 2008) points towards the multidimensional nature of firm–bank exchange. These authors demonstrate that both transactions and relationships matter in the exchange. However, based on the discussion above, I argue that there are at least three research gaps, which the present study attempts to bridge.

First, most studies tend to view transaction and relationship as the endpoints on a continuum. Accordingly, few studies include both transaction-based and relationship-based elements in the exchange. This also concerns, of course, the exchange between firms and banks. Thus, there is, in general, a dearth of research on pluralistic governance modes (Mols et al., 2012).

Second, there are few studies that embrace and analyse multiple bank services in the exchange between firms and banks. Thunman (1992) is one of few studies that include several services in the exchange, thereby highlighting that it is possible for several services to co-exist and simultaneously be exchanged. Importantly though, Thunman (1992) focuses on the relationships and relationship-based elements. It thereby ignores the transaction-based elements, and it does not take Internet banking and modern information technology into account.
Third, I am not aware of any study that “combines” these two gaps mentioned above, i.e. the dearth of research on pluralistic governance and multiple bank services, in one study and develops a theoretical framework in order to understand multidimensional firm–bank exchange. Thus, to the best of my knowledge, there is no study that aims to fill these voids in order to increase the knowledge on firm–bank exchange.
3 MULTIDIMENSIONAL FIRM–BANK EXCHANGE

This chapter presents the conceptualization of multidimensional firm–bank exchange. After a presentation of the eight bank services, the transaction-based and relationship-based elements are described. The final section advances an analytical model that can be applied to analyse firm–bank exchange for the different bank services.

3.1 THE OUTLINE

In contrast to traditional research on exchange (Emerson, 1976; Macneil, 1980), this study assumes that firm–bank exchange is multidimensional. There are three reasons for this assumption.

First, each bank service has its specific characteristics and they are not always homogeneous and standardized, which means that one service supplied can be mainly transaction-based while another service delivered by the same bank can be mainly relationship-based.

Second, firms usually employ (i.e. buy) more than one service, often several services, from their bank. Each additional heterogeneous service strengthens the multidimensionality.

Third, and finally, in a firm–bank exchange it is common that several heterogeneous services are mixed in varying combinations; as each service is heterogeneous the multidimensionality increases the more services a bank supplies to a specific firm combined with other services.

A model enabling analysis of each service isolated from other bank services performed in terms of transaction-based and relationship-based elements can help to understand the nature of firm–bank exchange. The exchange between a firm and a bank differs from traditional social exchange for mainly two reasons (see Lambe et al., 2001; Macneil, 1980). First, the firm needs to have a bank account through which the financial exchange for multiple bank services takes place bound by regulations. This implies that the bank account and a contact with the bank are necessary for other services to be available as well. Second, even if a firm can limit its exchange to one service – the bank account – the nature of the exchange can be understood by applying transaction-based and relationship-based elements.
The outline below (see Figure 3.1) portrays multidimensional firm–bank exchange, where eight bank services with different characteristics are included. Hard information, digital communication channels and the importance of price are elements that correspond to and reflect one type of exchange – transaction-based exchange – while soft information, personal contacts, trust and long-termness are elements that correspond to and reflect another type of exchange – relationship-based exchange. Accordingly, both transaction-based and relationship-based elements may capture the characteristics of each bank service as well as influencing firm–bank exchange on an aggregated level.

![Figure 3.1. Outline of multidimensional firm–bank exchange regarding bank services, type of exchange, and elements.](image)

### 3.2 BANK SERVICES

It is known that contemporary banks provide a broad range of bank services to their customers (Ennew and Waite, 2007; Thunman, 1992; Turnbull and Demades, 1995). Thunman (1992) investigated the exchange between firms and their banks for multiple bank services which included loans, depositing, payments, savings, exchange of money and advising. Turnbull and Demades (1995) found that loans, bank (deposit) account, payments and exchange of money were the most
important and frequently used bank services for firms. In general, loans have received considerable attention (Berger and Udell, 1995; Kysucky and Nordén, 2014; Udell, 2008), primarily in finance literature, and it is highlighted as an important service for firms (Backman, 2013). Bank services such as depositing have in contemporary literature been divided into two – traditional depositing of cash and digital depositing (Rose and Hudgins, 2012). Bank services such as saving (Eriksson, 2006; Hermansson, 2015) and advising (Eriksson et al., 2009; Söderberg, 2013) have received attention primarily in business literature. With few exceptions (e.g. Thunman 1992), most of these studies have only studied single bank services. The multi-service approach has received little attention despite the fact that firm–bank exchange is formed by a broad range of services. In total, eight important and more or less frequently used bank services are presented and defined below.

### 3.2.1 Bank account

The bank account is central to making a business exchange and there seems to be an interrelation between the bank account and other bank services that have an impact on the firm–bank exchange. In this study the bank account is defined as a bank service where money is stored and shows the firm’s account statement.

The bank account’s relation to other services and its role in the exchange between the firm and the bank seems to be overlooked. Research on attitudes to corporate banking services shows that firms often tend to have bank accounts in several banks at the same time (Turnbull, 1983) and it is stressed that the bank account is important for firms (Turnbull and Demades, 1995). In Sweden, a firm can open a bank account with little or no personal contact with the bank, but there must be contact between the firm and the bank before financial transactions can be made.

A bank account is necessary for the performance of financial transactions between a firm and its bank, at least in Sweden, and opening a bank account precedes the use of other bank services. It is not possible to access and perform Internet banking services without a bank account, and firms need a bank account to make a payment unless all the payments are made with cash. This implies that bonds are established, both social and technological, between the firm and the bank in order to make payments, and that the exchange may include both transaction-based and relationship-based elements.

There are different types of exchange that take place and there are different channels the firm can use to reach the bank to conduct services via the bank.
account. Depending on the bank, the firms may use bank accounts for payments and deposits. Rose and Hudgins (2012) describe different types of bank accounts, such as transaction accounts and saving accounts, which are employed for different purposes. When a firm makes a payment, deposit or saves money and gets interest, a bank account is necessary. Two bank accounts can have different interest rates depending on the number of financial transactions and the flexibility to access the liquidity.

The bank delivers information to the firm via the bank account and the bank account information enables the firm to control its cash flow. By using Internet banking, the firm can access and check the account statement 24/7, which can be seen as a separate bank service. In that case, the service requires that the customer has access to a computer and the exchange take place via digital communication channels.

Via the bank account the firm can identify where the payments come from and to whom payments are delivered. This is opposed to the traditional view of a transaction (see Macneil, 1980) where that exchange is assumed to be anonymous. Electronic financial transactions are not completed until both parties, metaphorically speaking, have shaken hands electronically (see Gray, 1980). The financial transactions between two separate bank accounts are recorded and they have to be traceable to make a reversible and secure exchange. The account information is stored in relational databases where links between the bank accounts are established (Bernstein, 2009; Connolly and Begg, 2009).

3.2.2 Loan

Loans play a key role in the development of our society. In this study loan is defined as a bank service used when firms need to borrow money from the bank.

Bank loans are an important source of finance for firms (Berger and Udell, 1998), and are heavily researched. There are different types of loans and credits, such as unsecured and secured loans, that have different terms and conditions (Ennew and Waite, 2007). James (1987), Petersen and Rajan (2002, 1994) and Berger and Udell (1995) highlight the importance of lending relationships for firms, while Bharath et al. (2011) study lending relationships and contract terms. Different lending technologies have been identified and examined (Berger and Black, 2011; Berger and Udell, 2006; Taketa and Udell, 2007; Udell, 2008) and it has been asserted that technological innovation has altered the lending process. However, there is still
little empirical evidence on the link between technology and lending (Udell, forthcoming). There is research on bank loan officers’ assessments of their corporate bank customers (Rad et al., 2013; Silver, 2001; Uchida et al., 2012), and Uzzi and Lancaster (2003) demonstrate the importance of relationships when transferring knowledge between loan managers and their clients. Literature reviews on relationship lending in finance have also been conducted by Elyasiani and Goldberg (2004) and by Kysucky and Nordén (2014).

Although banking regulations underline that banks are allowed to make remittances and to receive deposits from their customers (Swedish Act 2004:297, 2004), banks may develop different loan policies and firms’ loan applications are assessed by bank loan officers using technologies or methods based on both hard information and soft information (Berger and Udell, 2006; Rad et al., 2013; Udell, 2008). In non-metropolitan areas it is argued that credit risk assessments rely more on qualitative information (Silver, 2001). An important aspect of loans is the interest rate (i.e. the price of the loan). It is argued that firms with close social relations with their lenders receive lower interest rates (Uzzi, 1999). Thus, the interest rate can affect the exchange between the firm and the bank. A relatively high interest rate may influence the firm to change to a bank that offers a lower-cost loan because the firm thereby saves money.

3.2.3 Depositing of cash

Freixas and Rochet (2008) emphasize depositing of cash as one of the main functions of a bank. The depositing service can be divided into different subservices that firms use (Rose and Hudgins, 2012), but the business literature on depositing is scarce. In this study depositing of cash is defined as a bank service when cash is deposited in the firm’s bank account.

Firms that receive cash, e.g. retail firms, must deposit their cash somewhere. Deposit is sometimes referred to as transaction deposits, payments deposits or demand deposits. Traditionally, firms have deposited cash at their local bank branch office, but there are alternatives to cash depositing services such as electronic depositing. When firms deposit cash at the bank the deposited money immediately changes the account balance and the firm can access the liquidity at the bank. However, some banks these days do not accept cash deposits, and firms may have to turn to cash in transit service providers (CIT) to deposit cash. In such cases, it may take longer before the money is deposited in a firm’s bank account. The process of depositing of cash may also be different from supplier to supplier,
with different price strategies for example. Further, the bank account where the money is deposited can be both interest-rate-bearing and non-interest-rate-bearing. In practice, cash depositing services are a regulated bank service (Rose and Hudgins, 2012).

### 3.2.4 Digital depositing

Digital depositing is an alternative to depositing of cash, where information technology is used and money has become electronic, as highlighted by Rose and Hudgins (2012). In this study the digital depositing is defined as a bank service where electronic money is deposited in a firm’s bank account.

Digital depositing is different from cash depositing, as electronic money is transferred via payment cards to the firm’s bank account via a secure line over the Internet, while cash is delivered in its physical form to the bank. The electronic money that is transferred may be made available almost instantly to the firm’s deposit account at the bank, but normally card payments take a day before they are deposited. Digital depositing is to some extent similar to electronic payments. For these services money is transferred digitally, enabled by information technology. When a customer of a retail firm uses payment cards or credit cards the money is automatically transferred to the firm’s bank account and banks may charge a fee, i.e. there is a cost for the service. In practice, depositing services are regulated bank services (Swedish Act 2004:297, 2004).

### 3.2.5 Exchange of money

Thunman (1992) has noted that exchange of money is an important service for firms, but little is known about how this is managed by SMEs. In this study the exchange of money is defined as a bank service used when firms need desk change.

When SMEs exchange money in cash, it is different from the money exchange that large corporations and banks perform on the spot market (Rose and Hudgins, 2012). Exchange of money is particularly important for retail firms that need desk change for their daily operations. A small retail firm may prefer to visit a bank branch office to exchange money, but if the bank branch office does not accept cash, the firm has to turn to other service providers. In Sweden this service may be performed by the bank or by the CIT service providers that act as a financial intermediary instead of the bank. Larger retail firms may prefer CIT service
providers to handle their cash, as banks do not offer money pick-up services. For small firms it can become problematic if they cannot exchange money at the bank office, and, moreover, it can cost more money or take more time for the firm to use another service provider (Lundberg et al., 2014). Firms may also have to switch to other payment means that may cost more money. Instead of cash, digital money can be used, and in this case the exchange may be less problematic. However, if firms are forced to change to an unknown service provider, this implies that the firms have to establish a new business relationship with the CIT service provider or with another bank. Thus, the cost may increase, which affects the exchange between the firm and the bank.

### 3.2.6 Payment

Transfer of money from one bank account to another is a fundamental bank service (Freixas et al., 2008; Freixas and Rochet, 2008). In this study payment is defined as a bank service used when firms need to transfer money.

A payment is a transfer of money and it can be performed electronically (Rose and Hudgins, 2012). Payments can be performed in a more or less automated way. They can be programmed to take place at a certain date or be made manually. Most business-to-business payments are made via Internet banking, but there are firms (mostly small ones) that make a considerable part of their payments with cash (Lundberg et al., 2014). When firms buy goods or services, they receive an invoice. When the firm pays the invoice, the balance on the firm’s bank account is changed. When firms sell products and services they send an invoice to the customer. The customer pays the invoice to the supplying firm, which receives the money and the account balance is changed.

It normally takes up to a working day to transfer money between two firms, but some payments can be transferred more quickly, while other payments may take more time before they are completed and the money is in the receiver’s bank account. Various banks may have different solutions that they offer to their customers. Some user interfaces may have a better design with better usability and better functions that save time for the firms using them. Some payments may cost money and some payments may take more time to perform (Lundberg et al., 2014). This may influence a firm’s judgment of the service exchange that takes place between the firm and their bank.
3.2.7 Saving and investment

Banks offer different saving solutions to their customers (Rose and Hudgins, 2012). There are studies conducted on saving concerning consumers (Eriksson and Hermansson, 2014; Hermansson, 2015; Oxenstierna, 2014), but the research on SMEs’ saving behaviour is more limited. In this study saving and investment is defined as a single bank service used when firms have excess money.

Firms and their banks have to use classic principles of finance to determine a present value (PV) or a future value (FV) of their savings and investments. The capital asset pricing model (CAPM) is also central to determining efficient allocation of capital (Brealey et al., 2011; Gruber and Ross, 1978; Sharpe, 1964). However, there is always a level of risk that this model does not account for and that cannot be eliminated completely in real life situations. Investigating alternatives to allocate capital when making savings and investments may take time and may cost money. How an SME firm manages its working capital is found to be important (García-Teruel and Martínez-Solano, 2007; Yazdanfar and Öhman, 2014). Firms should invest the money where it generates the best return for them (Brealey et al., 2011). Firms can make a variety of investments, but small firms normally have limited capital to invest, and limited time and knowledge (Peel and Wilson, 1996; Walker and Petty, 1978). Saving and investment could be divided into two different bank services, but these services are related since saving is a form of investment. For a firm to make financial investments, it needs capital to spare, and a surplus of money to invest in financial products. Therefore saving and investment refer to the excess capital that the firm can use as an investment for future purposes.

3.2.8 Advising

Research shows that advising is important for firms, but sometimes firms have overly high expectations of their bank’s advice (Eriksson, 2006). In this study advising is defined as a bank service where the firm receives information from a bank officer personally or from a bank officer that is known to the firm representative.

There are various forms of advising that banks offer (Oxenstierna, 2014). The advisory service concerns financial planning and is related to the other services that banks offer (Rydén, 2001). Advising can be about anything from opening or closing a bank account to technical problems regarding how to access the bank account over the Internet. The advice can also be related to other services and
issues such as the duration of a loan, type of amortizing, how to deposit money and where, or saving and investments that the firm would like to make. Some bank services may require more advice than other bank services. Accordingly, advising is a complex matter and can concern a broad range of issues for the services that a bank offers.

When a bank gives advice to customers there is a risk of misunderstandings (Eriksson et al., 2009). This risk is perceived as lower when customers receive advice straight from their personal advisor and therefore the issue of proximity should not be neglected. Lundahl and Silver (2005) stress that it is difficult to measure the outcome of the advice in terms of money for banks and Söderberg (2013) shows how advising affects the bank customer’s willingness to take risks in relation to the subject of the advice. Advising for firms is different compared to advising for consumers, as the regulations are not the same, but the connection with the bank and the advice that firms receive influence those firms. Advising can take place at the bank or at the firm’s office, if the bank officer is able to visit the customer. Another option is that firms receive advice over the phone or via videoconferencing. This can be a scheduled meeting between the firm representative and a bank employee, but it can also be on a more ad hoc basis. Firms may need different advice depending on the situation, and different firms may prefer different channels for accessing advisory services.

3.3 CONCEPTUALIZING MULTIDIMENSIONAL FIRM–BANK EXCHANGE

The multidimensionality of firm–bank exchange comes first from the fact that several services can be exchanged, and, secondly, from the fact that the exchange can be analysed in terms of transaction and relationship, and related elements (see Table 3.1.). These elements have been applied to explain exchange between firms and banks (see Berger and Udell, 2006; Ennew and Waite, 2007; Petersen and Rajan, 2002). There may be other elements that influence the exchange that are more or less important for the exchange.

Traditionally, the literature contends that the role of knowledge and information is a key dimension to how exchange is performed (Ijiri, 1975; Stein, 2002). A transaction entails hard information, which is easily codified and less costly to transfer, while a relationship is characterized by tacit knowledge and soft information. Soft information tends to be difficult to interpret. I therefore conclude that the concept of hard information is a transaction-based element (cf. Demski et
al., 2006; Petersen and Rajan, 2002) whereas soft information reflects the relationship in an exchange (cf. Polanyi, 1958; Uzzi, 2000).

Table 3.1. Transaction-based elements and relationship-based elements.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
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<tbody>
<tr>
<td>Knowledge and information</td>
<td>Hard information</td>
<td>Soft information</td>
</tr>
<tr>
<td>Ways of communication</td>
<td>Digital communication channels</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Governance mechanism</td>
<td>Importance of price</td>
<td>Trust</td>
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<td>Temporal orientation</td>
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<td>Long-termness</td>
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The transferability of information over the Internet leads, in turn, to reduced need for face-to-face interaction and the development of personal and social contacts is less prevalent. Consequently, an exchange embedded in social contacts reflects the relationship-based element of the exchange (Uzzi and Lancaster, 2003), while a transaction is usually characterized by the firms being faceless and where action and decision are made autonomously of other firms in the market. As hard information is normally transmitted between the firm and the bank through communication channels such as the Internet (Cerf and Kahn, 1974), digital communication channels can be viewed as a transaction-based element (see Petersen and Rajan, 2002). A corresponding concept reflects the way soft information is normally transmitted and shared via personal contacts. Thus, personal contacts can be viewed as a relationship-based element (see Uzzi, 1999).

A third dimension concerns the mechanism governing the exchange (Smelser et al., 2005; Williamson, 2005b). The literature on transaction and relationship pays considerable attention to the role of price and trust and both these concepts carry information about and determine why a customer decides to buy a product or
service from a supplier. In this case, I deal with how important price is perceived to be in the exchange (cf. Kelly and Coaker, 1976), and in terms of this concept I have a broader perspective, as I have included the perceived costs related to the exchange as a component in the concept. Trust, on the other hand, reflects the perceived good will, reliability, honesty and competence of the partner in the exchange, and is difficult to quantify in monetary terms (see Howorth and Moro, 2006; Morgan and Hunt, 1994).

A fourth and final dimension is the temporal orientation of the exchange. The degree of long-termness can be a result of the commitment the firm and the bank have made (Ganesan, 1994; Moriarty et al., 1983), which, in turn, reflects the sacrifices made. As investments of resources are relationship-specific, they tend to lose value when transferred to other exchanges. Thus, a model aiming to capture multidimensionality needs to include the concept of long-termness. In the literature on transaction, the temporal orientation – short-term or long-term – is in general missing and I therefore decided not to include any temporal orientation in the transaction-based elements. In light of this reasoning and the elements put forward, I maintain that the multidimensionality of the exchange can be analysed by observing to what extent these elements are present in the exchange.

3.3.1 Transaction-based elements

Transaction-based exchange is fundamentally based on the traditional understanding of economics and marketing that has been established since the early 20th century. However, marketing scholars seem to have a flawed approach to the world of transactions, since there has been a move from an economic rational perspective towards a behavioural perspective, where marketing has taken much inspiration from sociology (Hadjikhani and LaPlaca, 2013). These are two different streams where the assumptions are clearly not the same, and this issue underlines the complexity associated with defining transaction-based exchange. As mentioned, in this study transaction-based exchange focuses on the elements hard information, digital communication channels and importance of price. These elements are to some extent interrelated, which means that they tend to influence each other, as will be demonstrated below.

3.3.1.1 Hard information

Hard information is a concept that stems from accounting (Ijiri, 1975) and it has been given attention in business and finance research to improve the
understanding of firm–bank exchange (see Petersen, 2004; Stein, 2002; Udell, 2008). It is related to the tangible type of exchange (Bagozzi, 1975) that is concrete, easy to measure and easy to transfer. In these types of exchanges the input and output are generally based on quantitative information. It refers to figures, verifiable and undisputable facts, well-defined and/or well-specified information (Ijiri, 1975). Hard information is easy to transfer between organizations and via IT systems with little risk of transformation of the data. Originally Ijiri explains it in the following way: “The lack of room for disputes over a measure may be expressed as the hardness of the measure. A ‘hard’ measure is one constructed in such a way that it is difficult for people to disagree.” Ijiri (1975:36).

This implies that hard information concerns common agreements. Mutual interests are therefore of importance. Contracts and other forms of legal commitments are also related to hard information, according to Ijiri (1975). Also related to hard information are formal documentation and numbers, such as the balance of the bank account or the amount of money that is being transferred from one account to another. Thus, hard information tends to be explicit, objective and not context-specific, which means that hard information is seldom the cause for misunderstanding, as it is difficult to interpret in more than one way.

Petersen (2004) argues in line with Ijiri (1975) and Stein (2002) that hard information is generally in the form of numbers and is easy to transfer. Text and documentation is normally also easy to transfer, even though there is a discussion as to whether or not text should be considered as hard information (Petersen, 2004). In this study, text and documentation is regarded as hard information, if it is static and can be stored. The type of information has to do with its ability to be transferred, verified, interpreted and measured (Agarwal and Hauswald, 2010). For example, information including the financial exchange between the firm and the bank is bound by systematic rules that Leibnitz (1734) developed to translate text and numbers into binary data that can be transferred digitally. Quantitative information such as financial ratios, financial statements, collaterals (Nilsson and Öhman, 2012; Berger and Black, 2011) and credit history (Buch et al., 2014) are described as hard information. It is emphasized that defining and translating text into digital information is a way of hardening information. Similarly, when the first use of money and accounting took place, being able to measure a value could be seen as an act of hardening of information.

Digital information should be seen as hard information as numbers construct it, and it can be translated from numbers to text and vice versa using Bits (a Bit is constructed of and defined by only two numbers, 0 or 1). In this way text can be
transferred digitally. In turn, this corresponds to the increased dependence on information technology, which can be driven by quantitative hard information.

### 3.3.1.2 Digital communication channels

Information technologies have become important in banking and there are bank customers who prefer digital communication channels (Chorafas and Steinmann, 1988; Laukkanen, 2007; Mishra and Singh, 2015; Takieddine and Sun, 2015; Vegholm and Silver, 2008). The ability to transfer information through digital communication channels such as the Internet must be available, using devices such as computers and smart phones. The Internet is a typical digital communication channel where numbers can be transferred. When transferring information in a computer system, i.e. via digital communication channels, principles of law are used to secure the transfer (see Gray, 1980). Consequently, before the exchange is considered complete, the sender and the receiver create a systematized “handshake” to confirm that the information package has been transferred successfully.

Digital communication channels can be employed in addition to traditional off-line bank services (Takieddine and Sun, 2015) for a range of bank services, such as transferring money to a bank account. When firms pay their invoices to another firm, it is normally done via the Internet and the same counts for electronic deposits. Some researchers argue that there is a move towards more transaction-oriented banks, where digital communication channels are used and risks are assessed based on the lenders’ financial statements (Boot, 2000; Sharpe, 1990). Digital communication channels have helped the user to receive more information (Petersen and Rajan, 2002) and the services can be delivered 24/7 (Takieddine and Sun, 2015), but such communication is different from close, personal, face-to-face communication (Dibb and Meadows, 2001; Howcroft et al., 2007).

### 3.3.1.3 Importance of price

The importance of price can be traced back to the origins of money and accounting when early societies learned to put a quantitative value on the exchange of goods (Davies, 1996). The importance of price matters in economic exchanges such as business-to-business exchange (Kelly and Coaker, 1976), which can be applied to the exchange of money between firms and banks. When these parties exchange services no one wishes to lose money. In the firms’ exchange with their banks, the price is important when they calculate the financial result. For a service that is free, price is not relevant (Lundberg et al., 2014), but for expensive and frequently used
bank services it may be the opposite. It can also be argued that price may be less important for bank services that are essential for firms, and more important for services that are not as essential. Accordingly, the importance of price is related to both the actual price and the cost for any bank service that is priced. In this study the importance of price is used as an overall term for a transaction-based exchange where price and cost is included. The importance of price may change over time. For example, if a firm needs money for an investment, the interest rate may not be that important, but when the firm has to amortize the loan the interest rate can decrease the value of the investment.

The price that a firm pays for a bank service has an impact on the firm’s revenues. It is a determinant of the marketing mix that is not under the control of the marketing function (Ennew and Waite, 2007). Webster (1992) argues that when talking about prices, costs and transactions, people and social processes are not important. Instead, the price is what is important. When exchanging information, price corresponds to a cost (Alchian and Demsetz, 1972; Eriksson and Hermansson, 2014) and therefore the importance of price seems to be related to the cost that the firm bears for a service. What is central is how important the price or the cost of the bank service is for firms when they conduct the exchange. Accordingly, the cost for a service and the price relating to a specific service, as well as the firm’s perception and attitude towards the price that they pay or that the bank offers, all matter.

3.3.2 Relationship-based elements

Although scholars from different research traditions such as business, finance and sociology have recognized the importance of relationships between firm and bank (James, 1987; Moriarty et al., 1983; Uzzi, 1999), these traditions seem to fall short in capturing the firm–bank exchange of services that do not have the same nature. There are bank services that are valuable for firms, but not always easy to put a price on, and as a result depend on other, relationship-based, elements. As mentioned, in this study relationship-based exchange rests upon four elements: soft information, personal contacts, trust, and long-termness. These concepts relate to each other, as will be demonstrated below.

3.3.2.1 Soft information

Soft information stems from tacit knowledge that is non-codifiable (Petersen and Rajan, 2002; Polanyi, 1958). It is difficult to quantify, measure, write down, verbalize, store and transfer. This means that firms that are dependent on soft
information can be affected negatively when the distance to the bank increases. Stein (2002) says that banks depending on soft information from their clients are better off using a decentralized structure with local bank branch offices. Therefore, soft information is more likely to be beneficial for firms that have close contact with their bank compared to firms that are more distant from their banks. In contrast to hard information, soft information is more difficult to verify, it is not well defined and it invites disagreement. Soft information can be illustrated as having a high degree of complexity. Stein (2002) picked up Ijiri’s concept of soft measure, which was originally explained in the following way: “A ‘soft’ measure is one that can easily be pushed in one direction or the other. […] For example goodwill is a soft measure.” Ijiri (1975:36).

Soft information may lead to different opinions between the parties involved, since it is highly subjective (Uchida, 2011). In general, soft information is undefined and some kind of judgment may be needed. Financial advice is a typical service where soft information is considered an important element. According to Petersen and Rajan (2002) and Nilsson and Öhman (2012) it is normally not possible to obtain soft information via technological devices. It therefore concerns information that is usually exchanged from person to person, and captured via face-to-face communication rather than via documentation and digital information.

3.3.2.2 Personal contacts

Personal contacts are related to a social exchange and concern primarily face-to-face exchange (Homans, 1958). In banking, personal contacts are important (Uzzi, 1999; Uzzi and Lancaster, 2003); for instance, when opening a bank account firms might need to visit the bank and meet a relationship manager. When firms need finance, they have to contact the bank and discuss the loan. However, firms might not have to visit the bank to receive a loan. Asking for a loan can be done over the phone, and forms and contracts can be sent by mail. It may also be possible to ask for a loan without personal contact, and in that case the bank granting the loan has to rely on information that can be drawn from other meetings or documentation. That would imply that a loan is less relationship-based if it takes place without personal meetings.

For services like payments, personal contacts may not be important for firms, but there can still be contact between the firm and the bank when payments are made (Bergendahl and Lindblom, 2007). Phone calls to a bank employee are considered as personal contacts, but the information that is exchanged over the phone is less relationship-based compared to a face-to-face meeting. Furthermore, the process of
an exchange regarding loans may not be exactly the same for all banks, as various financial decision-makers in firms may have different attitudes (Turnbull, 1983).

3.3.2.3 Trust
Trust is considered as a governing mechanism in the exchange (Bradach and Eccles, 1989), but there are various meanings and definitions of trust in different scientific disciplines, including sociology (Axelrod, 1984), economics (Williamson, 1993), e-commerce (Ratnasingham, 1998), and marketing (Moorman et al., 1993; Morgan and Hunt, 1994; Mukherjee and Nath, 2003; Tyler and Stanley, 2007). It is said that trust occurs in the absence of rational reflection (McLeod, 2014), and it is an important variable related to exchange (Lambe et al., 2001). Moorman et al. (1993:82) have defined trust as: “willingness to rely on an exchange partner in whom one has confidence”.

A similar view on trust is described by Morgan and Hunt (1994), referring to the exchange and confidence in a partner’s reliability and integrity. Further, reliability (Dwyer et al., 1987), confidence, cooperation, commitment (Morgan and Hunt, 1994), benevolence, and credibility are characteristics of trust. The importance of trust for bank customers is emphasized in bank marketing research (Chemingui and Lallouna, 2013; Hoffmann and Birnbrich, 2012; Söderberg et al., 2014). Within business markets, trust reduces risk and uncertainty (Tyler and Stanley, 2007). Further, the relationship between two business actors is argued to be a function of mutual dependence and trust in one another (Ganesan, 1994).

Trust does not necessarily refer to trust in the bank or a person. Trust may also refer to a product, a service or a system (Bunduchi, 2008; Yap et al., 2010). Trust may be more important for certain bank services than for others. Trust may also play different roles for different firms and it may also play different roles at different stages in an exchange. Deception may cause larger problems for a vulnerable firm dependent on a particular bank compared to firms not dependent on a specific bank. When a firm needs a particular service on a certain occasion, it may be essential to that firm to have access to the service. Before opening a bank account, trustworthiness may be important for firms. In the initial stage of a relationship trust is less developed, because it takes time to build trust and strong relationships. Research has shown that trustworthy suppliers are extremely important (Frazier et al., 1988; Möllering, 2002).

It is known that trust is essential when a bank is granting a loan to a firm (Hernández-Cánovas and Martínez-Solano, 2010). Few banks are willing to lend
money to a firm with poor or no collateral or if the bank’s risk of losing money is high. However, trust may not be that important for the firm when borrowing money. When a firm needs money for an investment, it may be more important to get the money than needing to trust the bank. When a firm deposits money at a bank, they expect their money to be safe and so trust is of importance. If the firm does not trust a specific bank, then other more trustworthy alternatives would be considered. For a service such as payments, firms would need to know where the money goes and that the service is secure, otherwise the bank would not be trustworthy. When firms receive advice from the banks, the advice needs to be trustworthy as well. To understand when a firm relies on an exchange partner, and when it does not, is difficult. In this study trust is defined as the reliability of an exchange partner including the reliability of the tools used for the exchange. Concerning an exchange with people, it includes elements such as reliance, benevolence, cooperation and commitment.

### 3.3.2.4 Long-termness

Exchange can develop over time (Webster, 1992) and bank services that take place on a single occasion are different from bank services that take place more frequently (Moriarty et al., 1983). The measure of time is important for capturing long-termness, which is measured chronologically. Certain types of exchange, such as a payment, have a clear start and a clear endpoint, while other types of exchange, such as having a bank account, do not end until the firm dissolves or switches to another bank. Even though a single payment may be conducted in a limited period of time, payments may take place repeatedly over a longer period of time, which influences the time horizon. To some extent long-termness is a subjective concept (Jönsson, 1999). For example, if an electronic payment takes days to complete, it can be perceived as taking a longer time than expected. What should be stressed is that during a longer period of time there is a chance or risk that the condition of the current state could change and during that time other, more attractive, alternatives may appear.

Positive incidents can strengthen the exchange over a period of time, while negative incidents can worsen a situation (Lewicki et al., 2006). Even if incidents are small and hard to detect, they can influence the bank customer in a long-term perspective (Olsen, 1992). For certain business exchanges where the stakes are high, the negotiation may take a longer period of time to complete. This may imply that it is difficult to end an exchange with the bank if it is business-critical for the firm. Selecting a bank may therefore be an important process. There are bank services that progress over a long period of time, such as bank loans (James, 1987;
Uzzi and Lancaster, 2003), while payments may be completed quickly. For a firm that is offered a loan with a relatively high interest rate, it may take a relatively longer time to amortize the loan. Thus, comparing what conditions other banks offer can be beneficial. When a firm accepts a loan there might be a legal commitment that is difficult to break. Long-term contracts can create legal bonds and obligations between the firm and the bank. In this study long-termness refers to the long-term perspective of the exchange between the firm and the bank.

### 3.4 ANALYTICAL MODEL OF FIRM–BANK EXCHANGE

As argued above, multidimensional firm–bank exchange outlines three elements that indicate a transaction-based exchange and four elements that can be used to indicate a relationship-based exchange. If the elements appear frequently and extensively when performing a certain bank service, this would indicate a higher level, than if the elements appear less frequently and less extensively. The various degrees of transaction-based and relationship-based elements from low to high can be combined in a matrix with four cells. If, for instance, the transaction-based elements are high, it does not exclude the possibility that the relationship-based elements are high as well. The matrix is therefore constructed of a horizontal line that displays the transaction-based elements (from low to high) and a vertical line that displays the relationship-based elements (from low to high). This is illustrated in Figure 3.2 below.

The bank services plotted in Cell I display lower levels of both transaction-based and relationship-based elements. The bank services plotted in Cell II display a higher level of transaction-based elements and a lower level of relationship-based elements, while the services plotted in Cell III display the inverse relationship. The bank services plotted in Cell IV display higher levels of both transaction-based and relationship-based elements.
Figure 3.2. Matrix of firm–bank exchange.

In summary, bank services can display different levels of transaction-based and relationship-based elements. The matrix visualizes the model, and each service can theoretically be plotted anywhere in the matrix. The more extensively distributed the services are in the matrix, the more multidimensional the firm–bank exchange is. On the other hand, if the analysis demonstrates that the services are plotted close to each other in the matrix, or even in only one cell, the exchange would be characterized as mono-dimensional.
4 METHOD

This chapter begins with an overview of the research process before turning to the philosophical and methodological assumptions behind the study. It further explains the research strategy, including research approach, sampling, data collection and data analysis, and discusses the verifiability of the research. The chapter concludes with limitations and ethical considerations.

4.1 THE RESEARCH PROCESS – AN OVERVIEW

This research project began in August 2012. I was inspired by business research and social sciences guidelines in Bryman and Bell (2011), Denscombe (2007), Saunders et al. (2012) and other sources that I have read and principally they are mentioned in this chapter. The main parts of the research process are presented in Table 4.1. It gives a brief overview of the research area and selection of topic, and continues with research philosophy including ontology, epistemology, axiology and methodology. This covers my philosophical stance, which is based on social constructionism and reflexive methodology. The research strategy section includes the exploratory qualitative method, the abductive research approach, sampling, data collection, and data analysis. The findings are presented in Chapter 5.

<table>
<thead>
<tr>
<th>Research area and topic</th>
<th>Study of the exchange between SMEs and banks in two locations in the county of Västernorrland, Sweden.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area of research</td>
<td>Study of the exchange between SMEs and banks in two locations in the county of Västernorrland, Sweden.</td>
</tr>
<tr>
<td>Selection of research topic</td>
<td>The multidimensional exchange between SMEs and their banks, including various bank services and transaction-based and relationship-based elements.</td>
</tr>
</tbody>
</table>
## Research philosophy

<table>
<thead>
<tr>
<th>Ontology</th>
<th>Subjective and socially constructed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epistemology</td>
<td>Subjective meanings and social phenomena. Focus upon details of situation and a reality behind these details.</td>
</tr>
<tr>
<td>Axiology</td>
<td>Value-bound, where the researcher cannot be separated from what is researched.</td>
</tr>
<tr>
<td>Methodology</td>
<td>Reflexive methodology.</td>
</tr>
</tbody>
</table>

## Research strategy

| Research method | Exploratory qualitative method. |
| Research approach | Abductive research approach based on interpretivism. |
| Sampling | Purposive heterogeneous sampling. |
| Data collection | Interview with ten informants representing one firm each (Firms A–J); documentation on banks’ web pages; collection of secondary data on the firms and follow-up questions with two informants (Firms E and F). |
| Data analysis | Categorization of data, theoretical comparisons, and interpretation of meanings of data. |
| Presentation of findings | Report on the actual research problem to make a theoretical contribution on the service exchange between SMEs and their banks. |
4.2 RESEARCH AREA AND TOPIC

The area of research concerns the exchange between SMEs and banks in two locations in Västernorrland, Sweden. The study investigates the exchange between SMEs and their banks from a multidimensional point of view, exploring transaction- and relationship-based elements of eight bank services. In the beginning of the research project, I observed that the existing research on business exchange could not fully capture the nature of the firm–bank exchange. Some theories seemed to rely more on transaction-based exchange, while others relied more on relationship-based exchange. The exchange between firms and their banks also seemed to be influenced by their location and by IT, i.e. firms outside the metropolitan areas were influenced differently than firms in metropolitan areas.

4.3 RESEARCH PHILOSOPHY

In line with Denzin and Lincoln (2011) and Creswell (2013), the research philosophy section includes ontology, epistemology, axiology and methodology. These stances create the research framework that underpins the development of knowledge. Since I agree with Alvesson and Sköldberg (2008) that ontology and the epistemology are critical for good social science, these have been emphasized in this study. I address the assumptions below.

4.3.1 Ontology

On the metaphysical level, my philosophical view relies on Kuhnian beliefs (see Kuhn and Hacking, 2012). The research was conducted by a qualitative interview study, so enabling me to collect detailed information and to understand the informants from their point of view, an approach which is supported by Berger and Luckmann (1991/1966) and Creswell (2013). This aspect of ontology is referred to as subjectivism and the success of this position is attributed to Descartes (Scruton, 2004). By putting all beliefs in doubt, one can doubt that there is an objective reality and objective truth. Therefore, by minimizing doubt, this study aims to justify knowledge. The relation to knowledge shows the inseparability of ontology from epistemology.

This study relies on social constructionism (Saunders et al., 2012), which views reality as socially constructed and therefore meaning that the research cannot be
completely objective. This study relies on my interpretations and the interpreted “reality” must be seen through different perspectives. Per se, this also makes it difficult to understand the informants fully. However, through close interaction with informants and by collecting detailed information, the ability to understand reality increases. The argument that it is not possible to accomplish objectivity is also supported by other researchers (e.g. Myrdal, 1969; Wittgenstein, 1978). Nevertheless, objectivity is an important issue in research (Bryman and Bell, 2011; Denscombe, 2010, 2002; Denscombe and Larson, 2004; Myrdal, 1969; Saunders et al., 2012) and therefore a degree of self-examination has been undertaken by conducting reflections during the research and also by highlighting those reflections in the text.

4.3.2 Epistemology

Epistemology, the study of knowledge, concerns how acceptable knowledge can be constituted (Saunders et al., 2012). The original concept of knowledge was presented by Plato as “justified true belief” (Fine, 2003). In this study I do not intend to go into complex philosophical issues like the “Gettier problem” on justified true belief (Turri, 2012), as it demands too much time and few business researchers pay attention to these problems. However, a discussion of the complexity of multidimensionality on a high philosophical plane can be found in Babich and Ginev (2014). In line with Descartes’ research, one must aim to decrease doubt to justify knowledge, which I have tried to do. A useful argument by Glasersfeld (1991) posits that what is central about knowledge is that it shows its value by its functionality. Alvesson and Sköldberg (2006) argue that knowledge must be evaluated by what it enables to be accomplished. To understand subjective evidence, it is necessary to decrease the distance to the informants (Alvesson and Sköldberg 2006, Creswell 2007), which also supports the gaining of knowledge by conducting interviews on site with informants.

The study has an interpretivist perspective⁶ where close interaction with the informants is essential to understand them from their point of view. Since the work of Berger and Luckmann (1991/1966), different lines on social constructionism have arisen (Hacking, 1999; Wikipedia, 2014b), but interpretivism can be seen as an

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⁶ Saunders et al. (2012) say that social constructionism views reality as socially constructed and that the informants place different interpretations on the situations they are in. Originally, social constructionism stems from the work of Berger and Luckmann (1991/1966).
umbrella term for these (Denscombe, 2010). The complexity of this matter would require a single investigation just to frame the epistemology in detail, but that is not the focus of this study. However, Searle (1996) uses weak and strong social construction to distinguish the different types that can be applied to different philosophical positions. The position of weak social construction posits that there are brute facts that cannot be explained and that is a position that I hold. In line with Alvesson and Sköldberg (2008), this study agrees that social constructionism is a rich and multi-branched philosophy that gives many options, but at the same time there are issues to be cautious about. For example, the empirical data from the study is not statistically represented and it cannot be objective. Alvesson and Sköldberg (2008) highlight a reflexive methodology with an abductive approach to forming knowledge, which goes hand in hand with the social constructionist stance. Last, but not least, according to my knowledge, no similar study has been conducted, confirming that there are reasons to believe that new and valuable knowledge can be generated from this study.

4.3.3 Axiology

Axiology, the study of value, concerns morals, ethics and aesthetics (Patel and Davidson, 2011). According to Creswell (2013), the axiological question considers how the researcher implements the assumptions in practice. In this study, it is naïve to think that my personal values play no part. This means that this study is value-bound. To avoid or minimize the value-based problems, I have used self-critical reflections throughout the study in line with the reflexive methodology (see Alvesson and Sköldberg, 2008). I have also considered the ethical standards of Gustafsson et al. (2006). The methods and the standards that I applied are presented later in this chapter. At the end of this chapter, I discuss the ethical issues in more detail to highlight and reflect on my personal background and influences related to this study.

4.3.4 Methodology

On the basis of the ontological, epistemological and axiological assumptions, the reflexive methodology applied in this study is in line with the assumptions described above (see Alvesson and Sköldberg, 2008). This explorative and qualitative study was based on interpretivism where reflexive methodology was applied. The reflexive methodology aims to deal with subjectivism from an interpretivist perspective (Alvesson and Sköldberg, 2008). I argue that it is
particularly important to make good judgments and that the critical self-reflection can inform the readers when and where the critical aspects of the research occur. Reflexivity is critical thinking about one’s subjective influence on research, such as values and choices and how they affect the findings. This aims to help the reader to better judge the quality of the research (Bailey, 2007) and therefore the reflexive methodology is well suited to deal with subjectivism. As explained below by two influential books on business research methods, there are different definitions of reflexive research. Saunders et al. (2012:608) say that reflexivity is:

“Self examination and evaluation of attitudes, beliefs, reaction to data, findings and interactions with those who take part in the research to overcome barriers to interpretation and gain greater insights.”

Bryman and Bell (2011:731) define reflexivity as follows:

“A term used in research methodology to refer to a reflectiveness among social researchers about the implications for knowledge of the social world they generate of their methods, values, biases, decisions, and mere presence in the very situations they investigate.”

The definitions are not conflicting, but there are differences. However, both definitions are considered. There are certainly other definitions and methodologies that can be applied to this study and one methodology is not necessarily better than another; they just have different strengths and weaknesses. As shown, the reflexive methodology corresponds to the philosophical assumptions and the methodology is applicable for redefining and reinterpreting concepts and theory (Alvesson and Sköldberg, 2008), which is suitable for this study.

As indicated previously, there is a need to better understand the exchange between SMEs and their banks because the literature review shows that there are contradictory views on this matter. As the reflexive approach is well suited for critical investigations, this is another reason to apply the reflexive methodology to this research. On one hand this methodology is complex and on the other hand it is flexible. Alvesson and Sköldberg (2008) argue that four different dimensions of interpretations can be applied: the empirical dimension, i.e. (1) the contact with informants; (2) understanding of interpretation (from my understanding – how to use interpretation as a research tool); (3) awareness of politic-ideological context (how the informants may influence the researcher and how the reviewer may influence the research); and (4) management of the authority and representation that both the researcher and the researched can carry with them. Note that the
balance of the application of these four dimensions of interpretation depends on the research and the researcher.

The reflexive methodology is more time-consuming and requires the generation of more text than other research does (Alvesson and Sköldberg, 2008). It makes it more suitable for qualitative research projects, like this one, that embrace different types of exchange and that are more complex than short, well-defined research projects that have a narrower perspective. During the research process I have critically reflected upon philosophical and methodological issues. Some of the philosophical issues are of an abstract character that could not be answered and therefore it was necessary to omit the most abstract issues, including quantum events as an exchange (Cramer, 1986; Faye, 2014).

During the study, I critically reviewed different theoretical perspectives and I focused on the exchange that was empirically investigated. In some cases the reflexive methodology was vague and did not give the guidance that an inexperienced researcher under training might need. The methodology allowed a high degree of flexibility that could be difficult to understand for researchers used to strict methods with little flexibility. In this study, knowledge and theory were developed based on abductive reasoning. The key to this type of research is to understand the informants from their point of view (Saunders et al., 2012). This was enabled by visiting the firms and asking semi-structured questions of a limited number of informants to get thick descriptions (see Geertz, 1992/1973) on the firms’ exchanges with their banks.

4.4 RESEARCH STRATEGY

4.4.1 The exploratory qualitative method

This study aims to understand the multidimensional nature of firm–bank exchange and so employed an exploratory qualitative interview study. This strategy gives a rich understanding of real-life situations and is appropriate when exploring more complex phenomena (see Denscombe, 2007) such as multidimensional firm–bank exchange. Besides the firms and the bank services studied, elements of the transaction-based and relationship-based exchange were conceptualized based on

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7 My interpretation is that the awareness of these different so-called “kvadrohermeneutic” levels is essential, but they should not be followed strictly. In the end it is the researcher’s awareness that is important (see Alvesson and Sköldberg, 2008).
the collected data. During the study, I compared different services for the firms in order to identify patterns, such as outliers and similarities, which have been used in other qualitative studies (see Eisenhardt and Graebner 2007). The key terms were based on and identified in previous studies.

4.4.2 The abductive research approach

Abductive reasoning or abduction was applied in this study. It is an appropriate approach for qualitative studies and common in business research (Alvesson and Sköldberg, 2008; Järvensivu and Törnroos, 2010; Saunders et al., 2012). It involved the collection of data to explore a phenomenon, identifying themes and explaining patterns to generate or to modify existing theory subsequently tested during the research process. The approach involved a mix of deductive theory testing and inductive theory development. It was characterized by successively modifying a theoretical framework when new findings and theoretical insights were gained during the research process in line with Dubois and Gadde (2002). Van Maanen et al. (2007) state that abduction starts with an observation of a surprising fact and they argue that some theories can account for what is observed better than others. In this case, the project started with more than one surprising fact. From my experience, in reality, both the transaction-based exchange and the relationship-based exchange matters within the business exchange, but theory treats business exchange differently from what I have experienced in the business world. Business research has also to a large extent ignored the impact that technology and specifically the Internet have on firm–bank exchange. Therefore it has been particularly difficult to decide which theory was best suited to observe and capture the exchange between firms and banks, as there are theories from different fields of economics and management, such as accounting, sociology and marketing, that could explain parts of the exchange.

From the start of this research project, the process moved back and forth between theory and empirical data. By using existing knowledge and frameworks, abduction can find theoretical patterns (Alvesson and Sköldberg 2011). In line with Patel and Davidson (2011), I argue that it was necessary to be open-minded in this process and not exclude alternative interpretations, to avoid the risk of being coloured by pre-understanding and anticipation. Abductive reasoning does not provide absolute guarantees about its correctness as it is fallible, but inspired by Descartes, this study attempted to free itself from doubts. The abduction should be validated by a renewed application of the theory and this was an iterative process during this study. To confirm preliminary findings, I went back to the informants
with new questions because the abductive research approach involved the development of theory on firm–bank exchange. I describe the research approach below and how knowledge was developed during the study.

### 4.4.3 Theoretical framing

Before the project started, I became interested in the theoretical issues around TCE and the importance of relationships within the marketing tradition when technological development seems to challenge both these theories. When the project started, I observed that many bank branch offices had closed down due to the new technologies that make bank services available via electronic devices more-or-less 24/7, which increases the distance to the bank branch office. During the investigation, I identified that the exchange between the firms and their banks was different depending on the bank service that was in focus, and therefore the investigation changed direction and the study of bank branch offices was put aside. Based on the theoretical framework, this study showed that the type of service that was conducted influenced the characteristics of that exchange.

What I did not fully understood from the start were the different assumptions that affect the theories. One thing I discovered was the limited amount of research that deals with both the perspectives I was interested in. However, during the literature review I found a chapter in Eriksson (2006:83ff), where both business transactions and relationships were applied to bank marketing theory, which was in line with the ideas that I had in mind. That chapter was used as a theoretical inspiration. In bank marketing theory the exchanges are generally viewed from the two different perspectives. Applying relationship marketing and bank marketing theory would in this case be considered as a subjective decision and it is therefore particularly important to highlight why one would use one perspective before another. From a distant perspective, one could argue that maybe both firms and banks can save money when bank branch offices are closed down due to advances in information technology, and financial transactions can become cheaper and create a surplus for both parties. However, when looking from a closer perspective, the firm–bank exchange seems to influence the firms in different ways.

As addressed in Chapters 2 and 3, firm–bank exchanges have different characteristics and can be described using bank services. Which underlying elements were important, and how to conduct the study, were issues that were critical to decide on. In 2014, I went back to theory and saw that the exchanges between the firm and the bank were conducted via several different bank services.
Throughout the research project, I have been trying to contrast different theories intellectually concerning exchange, i.e. the history of money, economics, sociology, marketing, information technology, accounting, mathematics and even modern physics\(^8\) as applied to perform the electronic transactions. There were mainly two reasons for this, first to understand the nature of the firm–bank exchange and second to ground the philosophical assumptions as deeply as possible. The different perspectives can be related to both the qualitative and the quantitative world. The divide between different types of exchange can also be seen as transactions vs. relationships, hard information vs. soft information, digital communication vs. personal contacts, importance of price vs. trust. During the process, the study also moved back and forth between theories on governance mode and different types of exchange in marketing, economics and sociology, as well as the theories on bank marketing and finance that deal with firms’ exchanges with banks. The desire to be as objective as possible made it difficult to make a definite choice. When taking the final steps at a later stage of the study I had to rely on my own beliefs and the philosophical assumptions. The theories and previous experience made it apparent that firm–bank exchange takes place via different bank services (Thunman 1992) and that the bank services may have different characteristics.

I had assumed before the interviews were conducted that the distance to the bank would matter to the firms, as they would have to travel to another bank branch office and there were services that could not be performed at a distance. Some services are based on IT, while other services are conducted via personal contacts and face-to-face communication. After conducting the initial interviews, some informants said that they never or seldom visited the bank office, and that the bank offices that were closed down were not primarily used by these firms to conduct the exchange with the bank. Even though many bank services could be performed via the Internet and over the phone, there is research that argues that distance does sometimes matter (see Degryse and Ongena, 2005; Petersen and Rajan, 2002), but maybe it does not as much as before. However, I had to move back to theory during the process and rephrase some questions. Eriksson and Hermansson (2014:289) convey an interimistic middle ground between “transactional and relational exchange”, and the theoretical framework is primarily based on bank

\(^8\) Without our knowledge in modern physics, computers would not exist. Going that deep into the theories and the understanding of electronic transactions digresses too far from the social sciences that are the focus here. Therefore, most of these theories were dropped and left outside this study; even if the firm–bank or the bank–firm exchange takes place via computers, the focus relates to social science.
marketing in order to understand the firm–bank exchange. For transaction-based exchange, I have, as mentioned, used the following elements to operationalize the research: hard information, digital communication channels, and importance of price. For the relationship-based exchange I have used soft information, personal contacts, trust, and long-termness.9

As a part of the research process, I have searched articles and books and carried out literature studies within the selected research topic. The literature review took place on different occasions and the process can be described as iterative. When the literature review was conducted, keywords were used in the searches: Exchange, Firm, Bank, Transaction, Relationship, IT and Distance. On different occasions during the research process different searches were conducted, including Boolean searches with combinations containing some or all of the keywords. This created a shorter list of papers that was easy to handle. The searches were primarily done in Primo and included different database sources such as JSTORE, Emerald, Elsevier, Web of Science and EBSCO. Some of the smaller journals were limited in terms of access to older articles, for example, Irish Marketing Review before 2000 and Sloan Management Review before 1996. Therefore, I had to order these articles manually. During the database search, for example, when searching on “relationship banking”, Web of Science resulted in 106 hits, while Primo resulted in 1813 hits and Google Scholar 8670 hits on the same date (2014-05-16). The database searches were also made on different occasions to identify changes in the databases from time to time. For example, a search two years later (20016-08-06) showed an increase of about 40 per cent when counting the number of hits.

I also collected a list of the most important articles, and created a table with almost 30 articles to analyse transaction and relationship banking. Most of them related to firm–bank relationships. Based on the literature I identified important keywords and issues that were used when creating the interview guide. Besides searching in databases, I looked at the reference lists of articles and books, including bibliographies, where I found additional literature. To get a better understanding of this research field I have also been corresponding with experts in banking.

9 To simplify and since time is relative, nothing is left on the table after a transaction is conducted and measured. Therefore there are no transaction-based element that corresponds to long-termness.
4.4.4 Sampling

The sampling method used is non-probability purposive sampling by actively selecting participants who had the ability to answer the interview questions. I tried to find heterogeneous companies as recommended by Saunders et al. (2012) to get a broad representation. The underlying premise of heterogeneous sampling, which is a type of purposive sampling, is that the patterns that emerge are likely to be of particular interest and value, representing key themes (Saunders and Lewis, 2012).

The minimum sample size recommended by Saunders et al. (2012) is 5–25 when conducting semi-structured in-depth interviews. To identify the sample firms within the research context, I used a database on firms called Allabolag.se (2014). The database includes firms registered at the Swedish Companies Registration Office and the Swedish Taxation Authority. The firms were selected primarily based on differences in turnover and belonging to different industries. The sample includes firms of different ages, different number of employees, with different bank relations and of different legal forms. At each of the two locations chosen there were a couple of hundred active firms, but only 15 firms with a turnover higher than 10 million SEK. This made it difficult to sample firms in a broad range of industries. Ideally, the sample could have been somewhat broader. All the firms in the sample represent SMEs. According to the European Commission’s definition, SMEs are firms with fewer than 250 employees, or with a maximum turnover of 50 million Euros, or a balance sheet of a maximum of 43 million Euros.

I tried to identify firms that I believed would be able to give interesting data on firm–bank exchange. As I did not know in advance if a firm would yield the most interesting data, I selected firms in a sparsely populated area where the bank branch office had closed down, and in a few cases firms that I suspected to be dependent on cash services, or that might be dependent on the local bank branch office. I also selected firms that I believed were not dependent on cash services but could be dependent on the local bank branch office, e.g. firms representing capital-intensive industries that could need financing. As cash management problems were mentioned both in the news (P4, 2012) and during interviews, attention was paid towards different retail firms that are cash-intense, but not to the exclusion of other firms. An objective was to find firms with different banks, but I was not able to ask about this before the interviews. To get data from firms that operated in the city, I did an interview with a firm in the city of Sundsvall that was not included in the study. I was also recommended to talk to a firm in the same industry as another firm that already represented a relatively large retail store in the sample, even though it had not been my intention at the beginning. However, this interview added interesting input and made it possible to compare the collected
information on firms in the same industry. It also underlined that there were
differences within the same industry. There was one firm with a turnover of more
than 10 million SEK that was invited to participate in the study to give a broader
representation, but the firm owner was too busy to be able to participate.

The firms eventually included in the sample represented four industries – retail,
food production, transportation and construction. These firms had bank relations
with three of the four largest Swedish banks, and one firm had bank relations with
a government-controlled bank, which is a loan institute for firms. The research
focus was refined during the research process and the sampling process was
iterative as well. Moreover, the sampling and the data collection were conducted
simultaneously during the research project. Table 4.2 below shows the ten firms
selected from two different locations where bank branch offices had closed down.

Table 4.2. Investigated firms.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Year started</th>
<th>Employees</th>
<th>Industry</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm A</td>
<td>1995</td>
<td>12</td>
<td>Retail</td>
<td>39M SEK</td>
</tr>
<tr>
<td>Firm B</td>
<td>1994</td>
<td>26</td>
<td>Food industry</td>
<td>145M SEK</td>
</tr>
<tr>
<td>Firm C</td>
<td>2010</td>
<td>1</td>
<td>Restaurant</td>
<td>1M SEK</td>
</tr>
<tr>
<td>Firm D</td>
<td>2010&lt;sup&gt;10&lt;/sup&gt;</td>
<td>6</td>
<td>Transport</td>
<td>4.7M SEK</td>
</tr>
<tr>
<td>Firm E</td>
<td>2003&lt;sup&gt;11&lt;/sup&gt;</td>
<td>1</td>
<td>Retail</td>
<td>2.3M SEK</td>
</tr>
<tr>
<td>Firm F</td>
<td>1995</td>
<td>1</td>
<td>Retail</td>
<td>3.1M SEK</td>
</tr>
<tr>
<td>Location 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm G</td>
<td>2005</td>
<td>16</td>
<td>Construction</td>
<td>15M SEK</td>
</tr>
<tr>
<td>Firm H</td>
<td>1944</td>
<td>2</td>
<td>Retail/Hardware</td>
<td>2.9M SEK</td>
</tr>
<tr>
<td>Firm I</td>
<td>2012</td>
<td>12</td>
<td>Retail</td>
<td>31M SEK</td>
</tr>
<tr>
<td>Firm J</td>
<td>2006&lt;sup&gt;12&lt;/sup&gt;</td>
<td>5</td>
<td>Retail/Petrol</td>
<td>27M SEK</td>
</tr>
</tbody>
</table>

<sup>10</sup> According to the database Allabolag.se (2014).
<sup>11</sup> According to the owner, this sole proprietor firm started in 2003, and was later converted
to a limited company.
<sup>12</sup> The firm was established 1986 (Allabolag.se, 2014), but it was taken over by the present
owners and their parent company, an investment firm, that was established 2006.
Where personal contacts and trust may be important for firms to use bank services, it is implicit that distance can matter if the services cannot be replaced with better alternatives. However, if those services could be satisfactory if performed using digital communication technology, then distance would not matter. The selected firms were from two locations with fewer than 5000 inhabitants. At location 1, the last bank closed down two years before the study started. The situation at location 2 was somewhat different, since there was still one bank branch office left. This would make it possible to compare firm–bank exchanges at two different locations, with the difference highlighted above. Both locations were in thinly populated\textsuperscript{13} areas in the county of Västernorrland in Sweden, at least 30 km from the nearest commercial centre. Six firms were interviewed at location 1 and four firms at location 2.

The aim of the study was not to get a statistically valid representation of the population at the time, because the purpose did not justify such a choice. I identified a few interesting firms where the need for bank services was thought to be varied and the representatives could have different opinions about the importance of their distance to the bank. More firms could have been approached in the study, but were not due to the extra time that would have been needed to enlarge the sample. Another limitation is that the study investigates just a couple of the individual exchanges between firms and banks.

Due to the limited amount of medium-sized firms, the sample firms were not as varied as they could have been. As described above, a list of firms at the actual locations where bank branch offices has been closed was prepared and this information was taken from a business database\textsuperscript{14} ("Business data in Sweden,” 2014). At location 1, none of the firms were less than 30 km from their bank office since the local branch had closed down, and instead they had their corporate relationship manager in the nearest city. At location 2, three firms used the local bank branch office and their corporate bank relationship manager was local. The selected firms are somewhat heterogeneous and I have tried to look for critical issues when conducting the research. I also spoke to the local business officer in one of the communities, as this person could have acted as a door opener to make contact with the SMEs. However, in the end, contact for appointments was made

\textsuperscript{13} A thinly populated area is defined as a location with more than 100 inhabitants per square kilometre and a maximum of 50,000 inhabitants in an urban centre (European Commission, 2014b).

\textsuperscript{14} Allabolag.se has data collected from the Swedish Companies Registration Office – Bolagsverket.
with cold calls or the informants were visited and asked on spot if they could participate. Regarding the bank contacts, I got in touch with these via a personal network and recommendations from others.

4.4.5 Data collection

4.4.5.1 The data collection process
Data were collected primarily from interviews with firm informants, but also from the business database (“Business data in Sweden,” 2014), industry reports (“The Banks’ Importance,” 2015), information from banks, and news from the media (Dagens Industri, 2012). The first interview was conducted in autumn 2012 and the most intensive data collecting took place during 2013. According to the Personal Data Act in Sweden (PUL 1998:204), it is necessary to get permission if the data is personally sensitive and if it is possible that the data in some respect could be sensitive in the context of the research. Before the interviews took place I asked for the consent of every informant to participate and if they wanted to be anonymous. Two of the firms, Firm E and Firm I, wanted to be anonymous and therefore all the firms have fictitious names. Two follow-up interviews were conducted, with Firm E and Firm F, to confirm that these informants had not changed their opinions and to ensure that I had understood the answers correctly.

One of the bank informants decided to withdraw the information that was collected during the interview, realizing that the opinions were too sensitive. It was interesting research material, but to comply with good research practices (see Gustafsson et al., 2006), the interview was excluded. However, I managed to conduct an interview with another bank branch manager that gave similar information, particularly on how the banks view relationships with their customers.

4.4.5.2 Bank services and the nature of the exchange
To understand the exchange between firms and their banks, I studied literature on banks and bank services that firms use (e.g. Eriksson, 2006; Freixas et al., 2008; Freixas and Rochet, 2008; Howcroft et al., 2007; Thunman, 1992; Turnbull and Demades, 1995). However, since research on bank services is limited, I also visited banks’ websites to find what services they offered to SMEs. Looking at the websites of the five largest banks in Sweden, there were a wide set of services. Many new or relatively new services are being offered, such as Internet banking solutions, bank access via smart phone, Swish (a mobile payment service) and e-bookkeeping.
services to mention a few, but in general their coverage was limited in the bank service literature. Also, when looking at the legislative texts regarding banks and financial institutions, I noted that new regulations have been implemented more recently for e-payments and financial advice (Finansinspektionen, 2014) which to some extent could have rendered previous literature out of date.

According to bank representatives, the number of services that a large universal bank in Sweden offers run into the hundreds and can exceed 1000 services or “products”, depending on how these bank services are defined. For example, a loan can include a number of loan-related services and the case is similar for bank services such as saving and advising (see Turnbull and Demades, 1995). The services can also be performed via the bank branch office and via the Internet, which to some extent can be seen as different services.

At the beginning of the study I had not decided what bank services to study specifically, but I assumed that some bank services were performed via the bank branch office, while other were performed via the Internet. The focus from the beginning was not the eight bank services presented in Chapter 3. Instead the focus was the exchange between the firm and the bank. How the eight bank services were selected is described below and in Table 4.3.

According to Turnbull and Demades (1995) loans are the most important bank service for firms and therefore interesting to include in the investigation. Turnbull and Demades (1995) have also found that the bank account, depositing, payments and exchange of money are important bank services for firms. Further, there are studies arguing that saving and advising (see Eriksson, 2006; Hermansson, 2015) are more or less important bank services. Furthermore, firms’ handling of cash is a service that is being replaced by digital depositing (see Lundberg et al., 2014; Rose and Hudgins, 2012).

Empirical findings also confirmed that these bank services were important and in most cases they were frequently used by the firms.

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15 Sometimes the bank representatives refer to “products” and not “services” offered, which is in line with established views on services (see Grönroos, 1990; Shostack, 1977).
Table 4.3. How the bank services were selected.

<table>
<thead>
<tr>
<th>Bank service</th>
<th>How the bank services were selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account</td>
<td>Identified by Turnbull and Demades (1995) and also by Takieddine and Sun (2015) as one of the most important bank services.</td>
</tr>
<tr>
<td>Loan</td>
<td>Broadly supported in the literature as a traditional bank service (e.g. Berger and Udell, 2006; Turnbull and Demades, 1995).</td>
</tr>
<tr>
<td>Depositing of cash</td>
<td>Supported by literature (Lundberg et al., 2014; Rose and Hudgins, 2012). Six retail firms in the sample also indicated its importance.</td>
</tr>
<tr>
<td>Digital depositing</td>
<td>Indicated by Rose and Hudgins (2012) as an important bank service. The importance was also implied by Firms A, B, C, D, E, F, H, I and J.</td>
</tr>
<tr>
<td>Exchange of money</td>
<td>Mentioned in the literature (e.g. Rose and Hudgins, 2012; Turnbull and Demades, 1995) as essential. The retail firms in the sample also indicated its importance.</td>
</tr>
<tr>
<td>Payment</td>
<td>Indicated by the literature (e.g. Bergendahl and Lindblom, 2007; Freixas et al., 2008; Thunman, 1992; Turnbull and Demades, 1995) as important.</td>
</tr>
<tr>
<td>Advising</td>
<td>Identified by Eriksson (2006) and Söderberg (2013) as an important bank service.</td>
</tr>
</tbody>
</table>

Even though the literature gave support in most cases when selecting the bank services, some adjustments had to be made based on the interviews. Some literature highlighted foreign exchange (Thunman, 1992; Turnbull and Demades, 1995).
rather than desk change, while the retail firm representatives highlighted desk change. As a result, desk change was considered as exchange of money. Foreign exchange was not important for most of the firms in the sample, which may be due to limited international trade among the firms. Concerning saving, investments were included because stocks and other types of financial investments can be seen as a type of saving. It also gave this particular service a broader definition.

During the interviews with the informants just under 30 bank services were mentioned (see Appendix 1), but a large number of them were only mentioned by one or two firms and they were not pointed out in the literature as particularly important bank services. Table 4.4 shows the eight bank services (see rows in the table), and the three transaction-based and the four relationship-based elements (see columns in the table). The elements were used to capture and analyse the multidimensional firm–bank exchange.

Table 4.4. Investigated bank services and nature of exchange.

<table>
<thead>
<tr>
<th>Bank services</th>
<th>Nature of exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Transaction-based</td>
</tr>
<tr>
<td></td>
<td>Relationship-based</td>
</tr>
<tr>
<td>Bank services</td>
<td>elements</td>
</tr>
<tr>
<td></td>
<td>elements</td>
</tr>
<tr>
<td>Bank account</td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td></td>
</tr>
<tr>
<td>Depositing of cash</td>
<td></td>
</tr>
<tr>
<td>Digital depositing</td>
<td></td>
</tr>
<tr>
<td>Exchange of money</td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td></td>
</tr>
<tr>
<td>Saving and investment</td>
<td></td>
</tr>
<tr>
<td>Advising</td>
<td></td>
</tr>
</tbody>
</table>
4.4.5.3 Constructing the interview guide
A semi-structured interview guide was constructed based on themes related to firm–bank exchange and the transaction-based and relationship-based elements. The interview guide did not cover all elements explicitly, but the theme focus was the transaction-based and relationship-based exchange. The theme and the questions were partly identified during the first phase of the literature review (see Appendices 2 and 3 for the list of questions). I primarily used the paper by Thunman (1992) and the book chapter by Eriksson and Hermansson (2006) to formulate the interview questions. The book by Freixas et al. (2008) and the paper by Petersen and Rajan (2002) were also useful in this respect. For the second interview with the informants, the interview guide was updated with inspiration from Eriksson et al. (2009), Uzzi and Lancaster (2003) and Williamson (2013).

4.4.5.4 The interviews
Before the interviews took place I told the informants that I was a PhD student from Mid Sweden University conducting research about SMEs in thinly populated areas. I also asked for the consent of the informants to participate. I had prepared a letter of consent, but I never used it.

I revealed as little as possible about the study to avoid the informants being influenced by the research topic. I explained that I was going to reveal the purpose of the research after the interview and that the informants would have the opportunity to withdraw from participating in the study. During the interviews I tried to give room to the informants to speak freely and time to think when it was quiet. One thing that could have influenced the interviews with Firm A and Firm D was that the informants received more information about the study than those later on did. Revealing more information about the research made the informants more willing to speak, as they were more trusting and knew what experiences to share. After I booked the interview with Firm D, I decided not to reveal the research topic in advance. During the remaining interviews, I avoided mentioning that I was studying bank services and it became somewhat more difficult as the informants became more suspicious about the study. The interviews also took a longer time to finish because the informants did not want to speak as openly as I was hoping for.

The advantage was that I did not affect the informants in the same way as for the first three interviews. From my point of view, I believe that the data would have been thicker if I could have been completely open from the start, but there could have been a minor impact on reliability. However, from my experience, I am confident that this did not affect the conclusions of the study.
All interviews representing the eight SMEs were recorded with a digital recorder. During the interviews, I used the interview guide that I had created, but asked the questions somewhat differently, and I also added some questions that came up during the process. I also took notes during the interviews. Afterwards I saved the media files to the local disk on my laptop, and I saved a copy that only I had access to on the University’s server. A setback was that the digital recorder broke when travelling, but as far as I know, no important data were lost.

All interviews with the informants were transcribed, but not straight away. Some interviews were transcribed several months after they had taken place. For the first interview, several days were spent with the transcription to make it as accurate as possible. After this first interview, I decided to transcribe the text in a simpler form as all the small details and nuances of the spoken language could not be translated to English. To get a first draft in English, the initial translation was done with help from Google Translate. This draft was later edited to improve accuracy. I tried to keep colloquial to minimize misrepresentation of the quotes. Due to the broken recorder, I had to use the computer’s standard media player to listen to the recording when transcribing that particular interview. The date of the interviews, the informant’s position in each firm, the industry it is in and the length of the interview are presented in Table 4.5.

### Table 4.5. Interviews with informants.

<table>
<thead>
<tr>
<th>Date</th>
<th>Firm</th>
<th>Informant</th>
<th>Industry</th>
<th>Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-03-26</td>
<td>A</td>
<td>CEO</td>
<td>Retail/Food</td>
<td>70 min</td>
</tr>
<tr>
<td>2013-04-25</td>
<td>B</td>
<td>CEO</td>
<td>Food production</td>
<td>30 min</td>
</tr>
<tr>
<td>2013-04-25</td>
<td>C</td>
<td>CEO</td>
<td>Transport</td>
<td>~60 min</td>
</tr>
<tr>
<td>2013-04-15</td>
<td>D</td>
<td>CEO</td>
<td>Restaurant</td>
<td>25 min</td>
</tr>
<tr>
<td>2013-04-15</td>
<td>E</td>
<td>CEO</td>
<td>Retail</td>
<td>41 min</td>
</tr>
<tr>
<td>2013-10-02</td>
<td>F</td>
<td>CEO</td>
<td>Retail/Food</td>
<td>45 min</td>
</tr>
<tr>
<td>2013-10-02</td>
<td>G</td>
<td>CEO</td>
<td>Construction</td>
<td>50 min</td>
</tr>
<tr>
<td>2013-11-29</td>
<td>H</td>
<td>CEO</td>
<td>Retail/Hardware</td>
<td>~30 min</td>
</tr>
<tr>
<td>2014-01-14</td>
<td>I</td>
<td>CEO</td>
<td>Retail</td>
<td>75 min</td>
</tr>
<tr>
<td>2013-12-18</td>
<td>J</td>
<td>Managing Partner</td>
<td>Retail/Petrol</td>
<td>45 min</td>
</tr>
</tbody>
</table>

16 Follow-up interview.
17 Follow-up interview.
All the interviews were conducted face-to-face and if possible they were conducted at the firms’ offices. Firm C did not have its own office, so that specific interview was held at a local restaurant. The interview with Firm I was also held at a local restaurant at the request of the informant.

Besides the interviews with the informants, five other interviews were conducted, three with bank representatives and two with other specialists. The interview with Bank A was conducted in order to get ideas for the research and to understand whether the preliminary research focus was interesting for the banking industry. The interview with Specialist A was conducted to gain in-depth information on location 2. The interview with Specialist B was conducted to better understand the firms at a third location, but this part of the research project was not continued. The interviews with Bank B and Bank C were conducted to gain information on the exchange between the firm and the bank from the banks’ perspective. These interviews were not used in the data analysis since the study is focusing on the firms’ perspective. The additional interviews are presented in Table 4.6 and all of them were carried out face-to-face, except for the interview with Bank C.

Table 4.6. Other interviews.

<table>
<thead>
<tr>
<th>Date</th>
<th>Firm</th>
<th>Informant</th>
<th>Industry</th>
<th>Length</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-09-24</td>
<td>Bank A</td>
<td>Relationship manager</td>
<td>Bank</td>
<td>~30 min</td>
</tr>
<tr>
<td></td>
<td>Excluded</td>
<td>Business project manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-04-25</td>
<td>Specialist A</td>
<td>Excluded</td>
<td>Business centre</td>
<td>30 min</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CEO/Country manager</td>
<td>Industry sales</td>
<td>65 min</td>
</tr>
<tr>
<td>2013-10-07</td>
<td>Specialist B</td>
<td>Excluded</td>
<td>Branch office manager</td>
<td>30 min</td>
</tr>
<tr>
<td>2014-02-24</td>
<td>Bank B</td>
<td>Excluded</td>
<td>Branch office manager</td>
<td>30 min</td>
</tr>
<tr>
<td>2014-11-12</td>
<td>Bank C</td>
<td>Excluded</td>
<td>Branch office manager</td>
<td>30 min</td>
</tr>
</tbody>
</table>

In addition to the interviews presented in Table 4.6, I contacted authorities and organizations such as the Swedish Financial Supervisory Authority (Finansinspektionen) regarding the legal framework for banks, the Swedish Taxation Authority (Skatteverket) regarding legal requirements on firms, and the
Swedish Bankers’ Association (Bankföreningen) regarding their reports on banks, to mention some of the correspondence undertaken.

4.4.6 Data analysis

The data analysis can be divided into two different parts – one part where the basic analysis and coding was carried out and another part after the exchange had been broken down into categories (bank services) and sub-categories (elements and indicators respectively) that enabled me to position the services in the matrix (i.e. the analysis model presented in Chapter 3).

In line with phenomenographical analysis, for the first part of my analysis I started by applying four different steps to the analytical process (see Patel and Davidson, 2011). These were: 1) get familiar with the data to find and establish a holistic impression of them; 2) identify differences and similarities in the data; 3) categorize different views from the interviews; and 4) study the substructure and interpretation of the data.

As a complement to Patel and Davidson (2011) I had to consult other literature such as Denscombe (2010), Creswell (2013), Denzin and Lincoln (2011) and Miles et al., (2014) on qualitative data analysis, from where I collected a more detailed method to map out categories and the important elements of the exchange. In line with the advice by Miles et al., (2014) this process was an ongoing iterative process, taking place during the first three steps of the analysis.

I first went over the transcribed text to get an overview of the data regarding the exchange between the firm and the bank. From there I started the coding process to identify interesting information that could be used for theory development. During the coding I marked words and phrases that were related to the exchange that seemed important for the firms and that appeared frequently in the text.

During the second step of the analysis I used the search tool in Microsoft Word to identify sentences that included certain keywords such as transaction, relationship, trust, price, distance, loan, service, advising, bank account, sav,18 payment, money, time, cost, tech, interaction and exchange in the transcribed material. A few weak spots were identified, which made me realize that I had to return to theory and conduct

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18 The shortened word “sav” was used to include different expressions and meanings that correspond to saving such as both “save” and “saving”.

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follow-up interviews to confirm how to interpret the answers and fill in blank spaces.

For the third step the different services were categorized and different subcategories were identified that corresponded to the definitions of transaction-based and relationship-based elements (i.e. hard information, digital communication channels, and importance of price vs. soft information, personal contacts, trust, and long-termness).

In the fourth step, which also started the second part of the analysis, the different types of exchanges were plotted in the analysis model. This was done in order to position the firm–bank exchange for each service. To assess the level of the exchange for each bank service, a classification scheme was developed and used where the transaction-based elements and the relationship-based elements could be classified as low, medium or high (see Table 4.7). All elements are included in the classification scheme, and together the three elements to the left in the table represent the aggregate of transaction-based elements for each bank service. The same holds for the four elements to the right, which form the aggregate of relationship-based elements.

Table 4.7. Classification scheme.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>---</td>
<td>---</td>
<td>Soft information</td>
</tr>
<tr>
<td></td>
<td>Digital communication channels</td>
<td>---</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Importance of price</td>
<td>---</td>
<td>---</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>---</td>
<td>Long-termness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transaction-based elements (total)</th>
<th>Relationship-based elements (total)</th>
</tr>
</thead>
</table>

75
The different elements, e.g. hard information, that have been conceptualized and the indicators that correspond to hard information, e.g. the use of written documentation, were captured and used to assess the nature of the exchange. To assess the exchange, the elements were identified using indicators that corresponded to a specific element. For example, informants who mentioned or highlighted a condition such as a high cost for one service indicated the presence of the element *importance of price*. Similarly, *long-termness* was observed and determined using time-related indicators. If a service was indicated as taking place repeatedly at a certain frequency over an undetermined period of time, then it corresponded to long-termness. The elements were given similar weight, but some minor qualitative adjustments were made based on how the data were interpreted. In short, a low level meant that there were no indicators or only one indicator that represented the element observed for half or fewer than half of the informants. If at least two indicators were observed for a majority of the firms, or if one indicator were observed for all the firms, it generated a high level of the type of exchange represented. This means that the breadth of the indicators of each element was observed, but also how frequently the indicators appeared and how many informants indicated the presence of a particular element.

The outcomes for transaction-based and relationship-based elements respectively could be low, low/medium, medium/low, medium, medium/high, high/medium or high, depending on the analyses and interpretations made for each element. For example, if one of the transaction-based elements is considered to be high, another one medium, and the third one low, then the outcome for transaction-based elements in total is considered to be medium. Further, if two of the relationship-based elements are considered to be high, and the remaining two are considered to be medium, then the outcome for relationship-based elements in total is considered to be medium/high. The outcomes for transaction-based and relationship-based elements for each bank service then decides the position in the matrix presented in Chapter 6 that characterizes the multidimensionality of the exchange.

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19 A higher level of transaction-based elements, implies that transaction-based exchange is more prominent. The same counts for relationship-based elements and relationship-based exchange. Hence, if both types are present, then it indicates a multidimensional exchange.
4.5 VERIFIABILITY OF THE RESEARCH

4.5.1 Validity

Validity is a crucial aspect of research (Dey, 1993; Lincoln and Guba, 1985). Lincoln and Guba (1985) developed four criteria for judging qualitative research that have been applied to varying extents in this study. These criteria include (1) establishing credibility to increase the confidence of the findings, (2) transferability to show that the findings are widely applicable and not only among the samples, (3) dependability to show that the findings are sustained and can be repeated, and (4) confirmability to avoid researcher bias and interests that could affect the research. In this study, I applied techniques such as persistent observation, triangulation, thick description, follow-up interviews, peer reviews from other researchers, decision support and a reflexive approach, all of which are recommended by Lincoln and Guba (1985). I used a number of different strategies to confirm that the informants had answered honestly. For example, some questions were asked more than once to see if the informants gave the same answer. In cases where answers were unclear or could be perceived differently, I asked the informants for clarification during the interview. In two cases when I realized after the interview that the answers could be interpreted differently or that there was a possibility that the questions and/or answers could have been misinterpreted, follow-up interviews were conducted several months after the first interviews. The answers from the follow-up interviews largely corresponded to the answers from the first interviews. During the interviews, I asked some questions to which the answers were already known, just to check whether the informant had exaggerated or not told the truth.

I double-checked company information with other data sources. There was a mismatch concerning turnover for one firm because value-added tax (VAT) was included in the turnover stated by Firm B. However, the mismatch was too small to affect the result in general. Information on start date did not match fully for every firm. For Firm E it was believed this was because the firm has changed corporate form during the period when the entrepreneur had managed the business and this was not shown in the corporate databases. The mismatch in the actual cases should not affect the results.

A strength of qualitative studies is the direct contact with the source. Sometimes I asked the informants to elaborate and explain their answers so I could gain a better understanding. The interviews were recorded and transcribed. One of the informants was also given the opportunity to read the transcribed text from the
interview to make sure that the answers were interpreted correctly and were not felt by the informant to be sensitive. There were a few weaknesses; things that if conducted differently would have strengthened the validity of the research. One of these weaknesses, albeit a minor one, was the fact that when booking one of the first interviews, the informant of Firm D was told what the interview focus was in advance. Comparing the answers of Firm D with the other interviews did not reveal any validity problems. The advantage, however, was that the informant was more confident when they knew the research focus in advance and therefore revealed more interesting answers much more quickly. Another weakness was that during interviews, especially with Firm A and Firm H, the informants were interrupted several times by customers who had to be taken care of. However, this was also an advantage, since I was given time to think about the interview questions. What should also be noted is that during the first interview with Firm A, Professor Martin Johanson participated to support and secure the quality of the interview.

4.5.2 Reliability

One reliability aspect is the ability to repeat the study with the same result. This is not possible as this was a qualitative interview study. The knowledge held by me and the informants during the time of the interviews could not be reconstructed fully, were the study to be repeated. It is impossible to get the same answers and exactly the same result. In line with the advice of Denscombe (2007), the reader should be able to follow the audit trail for the research path, including key decisions taken from start to finish. In this chapter, the research path has been mapped out and the most important decisions and outcomes have been explained. A short and complementary description of the key decisions is presented below. One of the main issues relates to the theoretical framework. To view the exchanges from both a transaction-based point of view and a relationship-based point of view has been difficult, but it was possible, since I managed to analyse the data by using the different elements and indicators that represented different characteristics of the exchange.

The research focus was selected to fit that of CER (Centre for Research on Economic Relations) and the founders of the research centre. This had an impact on the research area and the subject to some extent, but it did not influence the research process. Another decision was to incorporate and analyse transaction-based and relationship-based elements of bank services, as neither transactions nor relationships can be ignored in banking. One key decision taken during the study
was the number of hours spent conducting the study and turning issues inside out. Another key decision related to the theoretical framework. During the research process, I neglected concepts, elements and input that could have been valuable, but I had to narrow the focus and limit the study.

4.6 LIMITATIONS OF THE STUDY

There are limitations of this study that need to be pointed out. The limitations primarily concerned three aspects: the sample, the data collection and the data analysis.

First, the sample size of the study was limited to ten firms, which makes it difficult to generalize and transfer the result to other contexts. The sample only represents a limited range of firms in terms of size, location and industry; these firms were located only in the county of Västernorrland in Sweden, where six firms were selected from one location and four firms from a second. The firms represented a handful of different industries and a majority of the firms of the sample were retail firms. In general the retail firms in the sample may be dependent on cash and therefore have different demands than firms in general. As the sampled firms were located outside the metropolitan areas, it is likely that they had different preferences to metropolitan firms regarding the exchanges between the firm and the bank. A larger sample from other industries at other locations could therefore have given more confidence in the results. Another weakness related to the sample is that data were collected from firm representatives only, while exchange concerns both the firm and the bank. Since banks and their employees are not permitted to disclose sensitive information about their clients according to bank secrecy and bank legislation, the sampling was limited to the firms. Further, the access to data from the bank representatives was in general restricted due to decisions taken by the bank representatives that were approached. It would have been beneficial to include “firm-specific” data from bank representatives, but since this was not possible the focus of this study was the firms’ perspectives. Interpretation of the results of the study must therefore be based on these limitations.

Second, the data collection consisted of interviews made with the firms’ CEOs and, in one case, with a managing partner. More interviews and more follow-up questions with the informants could have been carried out to increase the confidence and receive more detail. Time constraints did not permit additional interviews at the firms. This limitation implies that the data collected sometimes lack richness, as there is a trade-off between making several interviews at a small
number of firms or just one or two interviews at a larger number of firms. As I strive to achieve heterogeneity among the sampled firms, I decided to approach a larger number of firms but conduct a small number of interviews at each firm. In addition, other firm representatives such as the firms’ CFOs could have been interviewed. However, most firms did not have a CFO; instead the CEO had that responsibility. Another limitation related to the data collection is that only eight bank services were included. There are other bank services that firms use, but the selected bank services represented a number of important and frequently used bank services. Finally, the data were collected between 2012 and 2014; it is possible that the result could have been somewhat different if the data had been collected during a different period of time.

Third, as this was a study consisting of qualitative data, the analysis was based on interpretations; thus, both the questions and the answers had to be interpreted and there was a risk of misunderstandings. When observing the exchange various elements were used, but there might be other elements that can capture multidimensional exchange besides the ones that are included in this study. A major limitation of the study is that I interpreted qualitative data, and then transformed them into quantitative data, as the aim of analysis was to specify to what extent each service was characterized by low/medium/high degrees of transaction-based and relationship-based elements. This step in the analysis consisted of my interpretation of the data, and here one has to be cautious about drawing far-reaching conclusions. One must remember that the results are tentative, and could be a point of departure for additional data collection and analysis. However, what stands out is that the characteristics of firm–bank exchange are clearly different from one bank service to another, with different levels of transaction-based and relationship-based exchange. An issue related to the interpretation of the data is that the informants have different background knowledge and a bank service may mean different things to different informants. In cases where I referred to a certain exchange between the firm and the bank, the informant’s answers could in a few cases refer to a more general exchange between the firm and the bank and not only the service that I was referring to and was intending to observe. Further, in some cases the informants had different knowledge of what characterized a certain bank service and, moreover, they had experiences from different banks. As the interviews were conducted in Swedish and the answers translated into English, the act of translation is a further limitation.
4.7 RESEARCH ETHICS, PERSONAL BACKGROUND AND INFLUENCES

The research has not been tested ethically, although the basic standards of CUDOS (Communalism, Universalism, disinterestedness and Open scepticism) (Gustafsson et al. 2006) have been considered. The main concern was the political influence from others, including founders. Although it is difficult to say how much it influenced the research, I was aware of this issue and I tried to minimize the impact and be open about it. Further, in line with the codes of ethics within qualitative research (Denzin and Lincoln, 2011) informed consent, privacy and confidentiality, accuracy, and foreclosure of deception have all been applied in this research.

As a former business owner, I sympathize with the SMEs that are influenced by the banks’ relative lack of interest and attention to small firms. As I have worked on both sides, I argue that I was able to view the reality from both perspectives and the main issue, I believe, was who had the right to make the money. In the exchange both firms and banks are legally bound and I think that it is fair to say the banks are in a better position than the SMEs, yet without the customers, banks would not exist. In the end, this is a political issue and one must be careful with power.

It is not possible for me to avoid being influenced by my earlier experiences. For the reader it is therefore important to understand how the background of the researcher could influence the study. Giving a brief background gives some support to the reader when interpreting this research. In 1997, I graduated from Lund University with a Master of Business Administration and prior to that I gained a degree in construction engineering from Mid Sweden University. Since the early 1990s I have been interested in information technology, as well as having an interest in physics, philosophy, financial markets and human behaviour. I had wanted to undertake research at that time, but realized that I needed practical experience to understand what business is about.

For more or less ten years, I worked as a management consultant and project manager in the financial sector, where I mainly worked with IT-related issues and business development. I developed new Internet services for the largest Swedish banks, insurance companies, investment banks and brokers. I also worked at the Swedish Financial Supervisory Authority for almost a year as a consultant, and later I managed a business in a thinly populated area for several years. These experiences have certainly had an influence on this research.
5. RESULTS FROM THE STUDY

This chapter presents the empirical findings divided into separate subchapters based on the eight bank services. Each subchapter includes tables and quotations, and ends with an analysis of the empirical data.

5.1 BANK ACCOUNT

5.1.1 Firm–bank exchange

In order to be able to conduct financial transactions, the firms needed a bank account, at least when the exchange was to be conducted via Internet banking. The bank account was fundamental to firm–bank exchange in different ways and without it, such exchange would be limited. The bank account was a prerequisite for other services where money was exchanged.

“When we could deposit the money at the bank, then our money showed up straight away in our bank account... We use Swedbank’s service for those customers who pay by card in the store. The money that is paid with a payment card is in our bank account the next day. There we don’t have a personal relationship; the money is transferred electronically. This service costs some money though.”

(CEO, Firm J)

“Before [...] we went there and pressed a button and the money was in the bank account.”

(CEO, Firm F)

“...if you need to borrow money, they know who you are, how it looks on the bank account and so on.”

(CEO, Firm I)

All firms had a bank and a bank account (see Table 5.1). A financial transaction between the firm and the bank could take place on a single occasion, but since the firm kept the bank account over a long period, the exchange therefore had long-term characteristics. The financial exchange and the services were largely carried out via digital communication channels, as money is transferred digitally, stored
and kept safe in the banks’ databases. The length of the exchange and the use of Internet banking are shown in Table 5.1 below.

Table 5.1. Bank account and use of Internet banking.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Year20</th>
<th>Has a bank account</th>
<th>Uses Internet banking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Location 1</td>
<td></td>
</tr>
<tr>
<td>Firm A</td>
<td>1995</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm B</td>
<td>2002</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm C</td>
<td>2010</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm D</td>
<td>2010</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm E</td>
<td>2003</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm F</td>
<td>1995</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Location 2</td>
<td></td>
</tr>
<tr>
<td>Firm G</td>
<td>2005</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm H</td>
<td>1998</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm I</td>
<td>2012</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm J</td>
<td>2006</td>
<td>Yes since start</td>
<td>Yes</td>
</tr>
</tbody>
</table>

When firms became customers of a bank, they opened a bank account and signed an agreement with that bank. Opening a bank account for the first time required a personal meeting with some banks, while other banks initially required an application via the web. According to the large Swedish banks (Swedbank, 2014; Handelsbanken, 2014; Nordea, 2014; SEB, 2014), personal meetings were mandatory for firms opening a bank account. The CEO of Firm E, who experienced the start of a company and then splitting it up and then starting a new separate company, explained that it took a lot of time to start a new firm. Instead of terminating a leasing contract, since it was difficult to transfer the contract to another firm, the CEO decided that it was better to start a new firm. Therefore, the CEO had to request a new organization number, which further implied that the new firm had to open a new bank account.

20 Some businesses have been in operation for a longer period than stated above, but the year used is the year collected from Allabolag.se (2014).
“It was easy to start a company, but it was cumbersome when I had to split up my business from our original company.”

(CEO, Firm E)

Thus, Firm E needed a new organization number and a new bank account. As the partner kept the original organization number, mainly due to a leasing contract that was needed for the other partner’s business, that partner also kept the bank account. Therefore, the leasing contract created a link between the original firm’s organization number and the bank account.21

The CEO of Firm A revealed that when he started the firm 21 years ago, the branch office of Nordea was next door, but operated at that time as Nordbanken. The CEO had not had an engagement with Nordea before, but had banked privately elsewhere, but as Nordea had a bank branch office in the same building he chose them as the firm’s bank.

“I chose the bank as they were my neighbours here at that time, even though this branch office did not serve business clients. Business clients were directed to the city instead. I did not speak that much to the bank at that time either.”

(CEO, Firm A)

The closeness to the bank influenced the selection of the bank. Among a majority of the firms, an earlier engagement with a bank seemed otherwise to be a strong reason for opening a bank account with them. The CEO of Firm A said that he had a good relationship with his bank, even though he underlined that he “never” visited the bank. He could call his personal contact at the bank and use the Internet. When the CEO of Firm E opened a bank account, the local bank branch office was visited as the CEO had a private engagement with that bank, but the CEO was directed to another office that managed business clients. At this time, the so-called corporate relationship manager was not from the region and was new at his position, and more importantly, he did not believe in the business idea that the CEO had. Consequently, the CEO had to find another bank. Because there was no other bank in the region, he turned to the second closest bank, which was located 30 km away. The CEO knew some of the personnel at that bank, and the bank manager believed in the business idea, which meant that the business could start up.

21 This is applied in banking and common for all relational databases (Connolly and Begg, 2009).
“Of course it would have been better for me if I could have stayed as a customer at the local bank, but when they said no, I closed down all my private engagement with them. It was not fun. Both I and my parents had been customers of the bank and we had always managed everything flawlessly, but the corporate relationship manager was a young man that had been taught […] he did not know me at all.”

(CEO, Firm E)

Previous exchanges could be an important factor in the selection of a corporate bank. At Firm B, the CEO did not have a previous engagement with the selected bank before he started his business; the start of the firm–bank exchange was because Firm B received a loan from the local bank. In several cases, the bank’s IT services were relevant for firms when changing bank. This included opening a bank account at another bank. As the firms stayed with the same bank for many years, the bank account was a long-term engagement. The CEO of Firm I gave an example of what happened a few years ago, when the firm opened its store. The firm appreciated this and the CEO remembered that event:

“When we started the firm, the bank manager came by with a flower for us.”

(CEO, Firm I)

The CEO of Firm D did not get a personal contact at his bank when he opened a bank account, but said it would be good to have a relationship manager at the bank. The lack of a relationship manager seemed to be due to the size of the firm and this bank’s strategy. Firm G had a bank account and had signed an agreement to use new bank services, and the bank visited the firm regularly – there were bank personnel who paid the firm a visit in order to meet the CEO a couple of times every year. The CEO of Firm H visited the bank more frequently, a couple of times every month.

“I usually visit the bank a couple of times every month to exchange money. If I have a question, then I can ask it when I visit the bank.”

(CEO, Firm H)

5.1.2 Characteristics of the bank account

Transaction-based elements such as hard information, digital communication channels and importance of price are present together with relationship-based
elements such as soft information, personal contacts, trust and long-termness to different degrees, which is summarized in Table 5.2.

The data demonstrate that the bank account provides information on the account balance (Firm A) and the contracts that are linked to the bank account. Thus, in the bank account hard information is stored and made accessible for both the firm and the bank. As mentioned, all the firms used Internet banking, a digital communication channel, and a majority of the firms used Internet banking as a way to access bank account information. The importance of price for exchanges related to the bank account was reflected by Firm J’s experience that there was a cost for transferring money to the bank account. Firm H mentioned that there was a cost for opening a bank account.

The relationship-based element, such as soft information, was underpinned by the complexity of the exchange that Firm E described. Firm E and Firm F both confirmed that they had disagreements with their banks. A majority of the firms revealed that personal contacts between the firms and their banks were common. Trust in the bank was critical when firms opened a bank account, and trust was developed based on the activities that banks undertook, such as the good will that one bank showed by giving a flower to Firm I when this firm opened their bank account. All the firms had a long-term perspective on the exchange and all of them except Firm B expressed that they have had the same bank since the start of the firm. Even though Firm B had changed bank, the exchange was long term. As shown in Table 5.2, there are differences between the firms regarding the elements, and also some smaller differences depending on location.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm A</td>
<td>• Digital communication channels had become more important than the branch office.</td>
<td>• The firm had kept the same bank since start, i.e. the exchange was long term.</td>
</tr>
<tr>
<td>Firm B</td>
<td>• The firm needed IT services to conduct banking services.</td>
<td>• The exchange was long term.</td>
</tr>
<tr>
<td>Firm C</td>
<td>• Internet banking services were useful for the firm.</td>
<td>• The CEO did not want to change bank (long-termness).</td>
</tr>
<tr>
<td>Firm</td>
<td>Remarks</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>• Transfer money via the firm’s bank account (hard information).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The CEO did not have a personal contact at the bank, but it would be beneficial.</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>• Internet banking services were used to conduct banking services.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The CEO did not reach agreement with the bank he banked privately with when starting the firm and therefore the CEO did not open the bank account there (soft information).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The situation was complex when the CEO had to close a bank account and open a new one (soft information).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Personal contacts with bank personnel were important.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The exchange took place over a long term, i.e. since the CEO started the new firm.</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>• The firm had an issue with the bank, due to the fact that the bank branch office closed down.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The firm’s exchange with the bank was long term.</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>• Seldom went to the bank and the closing down of the bank office did not matter.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Bank personnel visited the firm once or twice a year.</td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>• Visited the bank more often before Internet banking became available.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Visited the bank branch office personally when the CEO wanted information.</td>
<td></td>
</tr>
</tbody>
</table>

**Location 2**

<table>
<thead>
<tr>
<th>Firm G</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Bank personnel visited the firm once or twice a year.</td>
</tr>
<tr>
<td></td>
<td>• Used the bank since the start, i.e. a long-term exchange.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm H</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Visited the bank branch office personally when the CEO wanted information.</td>
</tr>
</tbody>
</table>
| Firm I | • Had the same bank since the start, i.e. the exchange with the bank is long term.  
|        | • Trust in the bank was developed when the firm received a flower from the bank.  |
| Firm J | • Digital communication channels were used to transfer money to the bank account.  
|        | • There was a cost to transfer money electronically.  
|        | • Personal contact with the bank.  
|        | • Could visit the bank even after office hours.  |

The bank account is fundamental for firm–bank exchange. The information exchanged via the bank account is accountable and calculative. This can be referred to as verifiable hard information. Further, through the bank account the firm makes a contractual long-term commitment to a particular bank. I interpret these observations as a coexistence of transaction-based and relationship-based elements, but as the bank account is the start of a financial exchange, it may also affect other types of exchanges of services between the firm and the bank. The bank account is necessary for financial exchanges to take place and the exchanges between the firm and the bank relating to other services also depend on whether or not a firm has a bank account.

### 5.2 LOAN

#### 5.2.1 Firm–bank exchange

The firms had experience of loans or services related to financing, but not all firms had bank loans. The firms’ experiences of loans represented different lending institutions and services, such as business loans, checking credit, leasing and client financing. These could be on both the long and short term. Besides the exchange of information, such as the amount of the debt, price-related information, written terms, and contract of the loan, there was also extensive social interaction in relation to the loans. Further, check account balance and transfer of money were present in the exchange. Firm A did not have any loans, but the CEO was satisfied with the bank and did not have any intention of changing bank, even if he could
have a bank anywhere. There had been times when he needed loans, e.g. when he had made large investments. When the firm installed an ATM at the store it was difficult to forecast the cash flow and he had to use a checking credit.

“The only time when I need to use the checking credit is when I need to make investments like last time when I borrowed 3-4 million SEK… When we installed the ATM, there were some problems, as we had to load the ATM with money, then I needed to use a checking credit and I had to check the balance more often until we were in line with the balance… I am pleased with my bank, as I can just call my bank contact if I need to borrow three million (SEK). Then I send in the form and receive the money… If I want to borrow money, or make a financial investment, or do something, I have my bank contact.”

(CEO, Firm A)

The CEO for Firm A stated that he had a good relationship with the bank and that this mattered when applying for a loan, but also that the journey distance did not matter to him, even if it initially had done when he established the firm and selected the bank. He had an established relationship with the bank, which provided enough credibility for him to obtain a loan without visiting the bank office – the relationship with the bank was important when borrowing money, even if the contacts with the bank were not face-to-face. Firm B, on the other hand, would not exist without the first bank loan it received.

“I have had this business for quite a while. I started in 1993 and if the bank had not lent money, then there would not have been any development here. It was a courageous bank manager here who thought that the business idea was decent and lent money. Without that, it would not have been anything. This was totally crucial for us.”

(CEO, Firm B)

The access to capital was reported to be more difficult in areas with low population outside the cities.

“To make the bank invest outside the big cities is insanely difficult.”

(CEO, Firm B)

The difficulties in receiving a bank loan when based far away from cities was dependent on a risk associated with finding alternative tenants for real estate properties, and the bank’s willingness to lend out money was less when the
collateral was less. The interest rates were important, as Firm B had large loans and higher interest rates increased the costs for the firm. They had received loans from different banks.

“You have to be alert and change bank if there are better terms at other banks. We have large loans, so the level of the interest rate is important.”
(CEO, Firm B)

For Firm C it was important they received the loan at the start of the company. The loan was used to finance the take-over of a working business. The two partners invested some of their own money, but according to the CEO it was easier than expected to obtain the loan. One reason for this could be that they took over a business with a good track record and the two partners were also private clients at the bank. On other occasions, the firm borrowed money for new vehicles. The loan application ran smoothly and the CEO negotiated by telephone. The information that the bank requested was the firm’s financial statement and what type of car was needed. The CEO received a loan offer from the car dealer, but the interest rate was 1.5 per cent higher than the rate the bank offered.

“Of course, we do negotiate the interest rate with the bank... If you have a good relationship with the bank, it matters. The interest rate is negotiable. Absolutely. If they believe in us and we sign up...”
(CEO, Firm C)

The exchange and prior contacts influenced the interest rate, according to the CEO.

“It was the financial statement that he needed and what car it was... It was done over the phone in the afternoon. Then it was done. Pretty fantastic [...] I called him and asked if he could give us a better interest rate and he said of course. He decreased the interest rate by about 1.5%”
(CEO, Firm C)

Negotiating the interest rate over the phone and the fact that the bank could decrease the interest rate indicate that the long-term relationship and prior knowledge about the client might have influenced the price. Time was regarded as critical when applying for a loan.

“Yes, absolutely. Especially when we change car and we need a loan.”
(CEO, Firm C)
The CEO of Firm D, which was a micro-enterprise that started in 2010, did not have a personal advisor at the bank, but would have appreciated it if he had.

“I don’t have that kind of contact, but it would be good to have someone at the bank that I could go to, for example if I need a loan. Then I would know who I should talk to.”

(CEO, Firm D)

The CEO of Firm D mentioned that it was difficult to get loans at the bank he used. Instead, he went to ALMI and received a loan from them. ALMI is a government-owned organization that can take more risk than a traditional bank when granting loans. Close personal contacts had an impact on obtaining loans in the start-up phase. The journey distance to the bank was not important for small issues that could be solved over the phone or by mail, but for larger, more important issues including during the start-up phase, when the firm needed financing, the bank’s location was crucial. Evidence from the other firms points in the same direction, even though there is a difference of almost 20 years between the firms’ establishment dates. During the start-up phase, when the firms lacked an established and strong firm–bank exchange, personal contacts were important. Firm E did not have the same bank as Firm D, but the CEO had access to a relationship manager at the firm’s bank. At the time when Firm E started, the CEO first went to the nearest bank, which also was the CEO’s private bank, and applied for a loan. It was rejected. When applying for the loan the CEO did not know the corporate relationship manager at the bank, who was located at a different site. As the CEO did not receive the small loan, Firm E had to find financing from alternative sources. The CEO spoke to other banks and applied for the loan at the second nearest bank, where the CEO had personal contacts. That bank granted the loan.

“It was somewhat baffled when I was going to buy this building; it was not much money that I wanted to borrow. I had banked with Swedbank (formerly Föreningssparbanken) for many years myself. Mum and Dad had the same bank and Swedbank had a branch office here at that time. So I went to the bank and talked to the corporate relationship manager. There was a young guy who had not been here for so long. He did not believe in this business idea and the loan application got rejected. It was not even 100,000 SEK that I wanted to borrow… He did not believe in the business idea. I went to

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22 ALMI is a Swedish government-owned organization that offers funding to firms to whom banks normally would not offer loans.
Handelsbanken. I had heard that they would be good. I have received great feedback from them all the way. They’ve changed managers too, but that’s not been a problem. They have been very accommodating and I have taken care of my business well all the years as well so there have not been any problems. I still have a great contact with them.”

(CEO, Firm E)

The CEO gave a detailed description of the loan application process, including when the Swedbank rejected the application, and when Handelsbanken reacted positively.

“It is not easy to go to the bank. It is not fun […] I think it was among the worst things, when I had done so much work to finish the business plan. It is not just to start up a store... You’re supposed to write the business plan for the next two years, and I had to rewrite it many times before they were satisfied with the plan at ‘New entrepreneurs’ where I went to start up my business. But then I came to my own bank and got a no and got rejected. I cannot say what I said to the manager when I went out from there, but it felt pretty bad, I lost the personal drive as well as I had put so much energy into my business plan, and I got slammed. It was not fun. Now I think that it is even tougher […] I went to a bank in the city but I don’t think that they returned the application... Now I don’t have that much to do with them as I haven’t needed to borrow money, but it is important, absolutely. If I need to borrow money it is good to have a good relationship there – that they know me and primarily that I have been taking care of my business and have a good connection with them. I think that it is very good.”

(CEO, Firm E)

Trust was important for Firm E and a small local bank was more familiar and was preferred over the advantages that large bank offices in the city could offer. Initially it was more important to receive the loan and there was less focus on the cost of the loan. Even if the CEO of Firm E did not talk to the bank more than occasionally, having a good connection with the bank was perceived to be beneficial and the quality of the bank services was more important than the price. The CEO of Firm F was concerned that the last bank branch office closed down at location 1 because it meant he sometimes had to go to Sundsvall, the largest city in the region.

“I mean, like it was here before, the bank personnel had good personal knowledge, they knew whether you could borrow money, if you were going to
buy something. They knew if you had taken care of your businesses and were not in a muddle, then it was not a problem (to borrow money). Now you have to go to Sundsvall, the board must have a meeting and I don’t know what.”

(CEO, Firm F)

At location 2, there was still a bank office, but when Firm G’s branch office closed, Firm G was not affected, as the firm did not have any loans at the time.

“If you are going to borrow money I think definitely it is good with relationships. It’s not an ATM where you go and fetch money. If you want to borrow money, it is probably good with relationships and mutual trust.”

(CEO, Firm G)

Firm G explained that it sometimes utilized bank guarantee services. It was a different service compared to loans, but they had similarities. When the firm needed a bank guarantee it was important that the process was quick, but instead of visiting the bank to sign the papers, the agreement had to be sent by mail and that could take one or two days extra to complete. Before the guarantee was signed and completed, there was some paperwork that the firm needed to take care of. As there was no branch office nearby, the CEO had to wait for the necessary document to come by mail, which meant that the construction project could not start until the bank guarantee was settled. On the other hand, it would not have been possible to settle a bank guarantee without a previous exchange among the contracting parties. For Firm I the cost of the loans was high. The CEO did not have full information on the amount, but it was important that the bank had competitive interest rates. For the firm, having trust in the bank and having personal contacts were both important. This concerned not only the loan service, but also the bank in general.

“I do not know if I would collect the information online that way. If you are thinking of interest rates or the like, then you call and ask. At least I do so. That is something that one wants to negotiate, if there is the interest we’re talking about.”

(CEO, Firm I)

The same CEO underlined that personal contacts with the bank were instrumental when applying for a loan.

“If you have a good relationship with the bank… if you need to borrow money, they know who you are, how things look in the bank account and so
on. You gain trust. If you stay within what is normal, there is no problem. If 
you get to know each other... the bank becomes a good sounding board... who 
can tell you to stop a little, take it easy. That is also reassuring to me. If you 
want to make a big investment, then it is good to discuss the alternatives. 
Have you thought this through properly? Maybe you should take it one more 
lap? How have you thought about this? How do you finance it? And so on.”
(CEO, Firm I)

For Firm J’s representative and partner, the personal relationships were 
particularly important when making investments and when settling a loan. The 
journey distance from the bank was important. It would not be appealing to have a 
bank located more than 30-40 km away, although the firm had considered 
borrowing money from a bank located in Stockholm, about 500 km away.

“Yes. We want to get the best offer... We have to blame ourselves that we 
have not investigated the alternatives. We have only asked our current bank. 
We have been talking about comparing the interest rates at other banks to see 
if we can get lower interest rates. We have favoured our local bank, but we 
want to get better interest rates... But then it is important to have a good 
relationship with the bank in a small place like this.”
(CEO, Firm J)

A problem was that with only one bank it was difficult to compare the conditions 
for loans. Fewer banks meant fewer alternatives and less competition, which 
increased the cost for the service.

“It would have been better if there were two local banks instead of one. It is 
better as we would be able to negotiate with both.”
(CEO, Firm J)

The firm could have gone to a bank in Sundsvall to negotiate, but they had not 
done that and the risk was that the current bank would close down and that would 
not be beneficial, as the firm performed other services such as depositing cash and 
money exchange at the bank. The firm had read its contracts, but did not 
remember all the terms of the agreements in detail.

“Yes, we have control of all the contracts. There is a contract for each loan. 
We keep the contacts in binders. We read the contracts before we signed 
them, but after that we have not looked at the contracts. Maybe it is good to 
read them again. We went through the contracts when we sat there. It is good
to know the terms, but it is not possible to remember the terms. Anyway, the interest rates we know.”
(CEO, Firm J)

As the firm did not remember the terms in the contracts, it implied that the bank was treating the firm fairly. However, the need to check interest rates and other contractual details suggests that the firm did not get the best price. In a sense this shows that the exchange was a little strained when it came to trust. The construction of a checking credit where the firm paid interest rates and fees to be able to use more liquidity than the firm had was closely related to a bank loan.

“When mentioning the price, it is important for the checking credit. There the price is important. The more checking credit used, the higher the cost of the interest.”
(CEO, Firm J)

5.2.2 Characteristics of the loan

Loan services consist of both transaction-based and relationship-based elements, as presented in Table 5.3. The transaction-based elements are evident in these exchanges. Hard information is present in the majority of firm–bank exchanges, which is a manifestation of the fact that contracts, forms and other formal documentation are necessary to obtain a loan from the bank. For example, the CEOs of Firm A and Firm E mentioned that they sent in documentation and made a formal application. The CEO of Firm C underlined the financial statements that the bank requested before the firm received credit. The representatives of Firm G and Firm J mentioned that signed contracts were important for bank loans. The signed contracts were needed to confirm and settle the bank guarantees that Firm G used. Digital communication channels were not central to the loan exchange, but they seemed to have been useful for at least one firm in order to receive a loan remotely once documents were received. Even though digital communication channels were not central to the loan exchange, the firms were able to check information on loans and to compare interest rates on the Internet. A majority of the firms emphasized that the price of the loan was important. The CEO of Firm B said that the level of the interest rate was central to the decision. They had previously changed bank in order to reduce the interest rate. Other examples are the CEO of Firm C, who claimed that the interest rate was negotiable, and Firm J’s managing partner, who admitted that it would be beneficial to compare interest rates between banks.
The CEO of Firm I emphasized the importance of qualitative information when applying for a loan, while Firm B’s CEO underlined the difficulties of obtaining a loan for firms outside the metropolitan areas. The CEO of Firm E remembered that there were disagreements with the bank when they applied for a loan for the first time. A majority of the firms highlighted personal contacts as critical when applying for and receiving loans from the bank and that the firms had to contact their bank personally when they needed a loan. The CEO of Firm C said that they could call the bank when they needed a loan and that personal contacts were important for the firm. Even though Firm D did not have a personal contact at their bank, the CEO argued that it would have been beneficial. Firm F emphasized that it was easier to borrow money if one had personal contacts at the bank. The CEO representing Firm J said that personal contacts with the bank were valuable and several firms claimed that trust influenced the exchange of this service. The perceived trust that the bank manager had in the CEO of Firm B was essential when the firm started and received the first loan. According to the CEO of Firm G, mutual trust was needed and the managing partner of Firm J agreed that the importance of trust could not be discounted. The CEO of Firm I had the opinion that the bank manager could be a good sounding board to restrain the firm’s appetite for risk, in order to manage the repayment of loans. The CEO indicated that this could make the bank trustworthy. Long-termness is present in several of the firms’ loan exchanges. It is a natural characteristic of loans, as they normally have to be repaid over time. However, not all firms with loans stated that the exchange was long term, but Firm A, Firm G and Firm J emphasized a long-term view on the exchange. Unlike the other firms, for Firm B long-termness was not as salient, as they had changed bank once when the firm obtained a loan with better interest rates at another bank.

Table 5.3. Loan characteristics.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
</table>
| Firm A | • Necesssary to fill out a form and send in documentation to receive a loan (hard information).  
• Conducted the loan application remotely.  
• Checked the credit level via Internet (digital communication channels). | • The CEO was satisfied with his bank.  
• Based on a long-term engagement with the bank and did not change bank.  
• Could call the bank contact to obtain a loan. |
Firm B  • The level of the interest rate was central (price was important).
• Trust was central when obtaining a loan.
• Even though the firm had changed banks, there was a long-term perspective when applying for a bank loan.

Firm C  • Price of the loan was important.
• Financial statement was needed to receive the car loan (hard information).
• The firm believed that the long-term exchange and personal contact with the bank was important, which may affect the price of the loan.
• The firm was loyal to the same bank for each loan (long-termness).

Firm D  • A personal contact would be beneficial.

Firm E  • A business plan was required to apply for a loan (hard information).
• Went to a bank where the CEO had contacts previously.
• The CEO had a good personal connection with the bank.
• Proximity and familiarity were appreciated.
• Quality of the service was important (soft information).

Firm F  • The personal connection with the bank personnel was important, as it made it easier to borrow money.
• A personal contact was valuable to maintain trust, which was easier locally.

Firm G  • Contracts had to be signed to use bank guarantees, i.e. to receive a loan (hard information).
• Contracts were distributed via mail (digital communication channels).
• Long-termness was important when asking for loans.
• A previous exchange with the bank was necessary to get a bank guarantee (long-termness).
| Firm I | • Interest rates were important, as the costs for the loans were high (importance of price). |
| Firm J | • Contract was needed for loans (hard information). • Price was important for checking credit. |

- The personal contact and trust in the bank were crucial, e.g. as a sounding board when discussing an investment.
- Talk to the bank when information was needed, rather than searched for the information online (personal contact).
- A long-term exchange was beneficial when applying for a loan.
- The bank gained trust in the firm by looking at the firms’ bank account.
- Trust and personal contact were valuable, not only for the loan service, but for other financial services that the bank took care of.
- The CEO felt that he needed to read through the signed contracts again (trust).

The firms had experience of different aspects of loans and a majority of the firms reveal that both transaction-based and relationship-based elements prevailed in the exchange. Only the representative of Firm H did not mention the loan service, as the firm did not have any loans, but the bank offered credit to their customers for buying products.

### 5.3 DEPOSITING OF CASH

#### 5.3.1 Firm–bank exchange

The firms were not offered the facility to deposit cash at their banks. Instead, they had to use cash in transit (CIT) services to deposit cash, i.e. physical money. Therefore, it took time for the physical money to reach the bank account of the corporate customer. It was mainly the retail firms that needed to deposit cash and they deposited it at a drop box, from where the CIT service provider collected the physical money once a week, so it took time before the money reached the bank account. The depositing of cash was costly for firms that received cash. The firms
used the liquidity in their daily business in order to make payments on time. When bank branches did not accept cash deposits, the exchange became more troublesome. When the bank branch office at location 1 closed down, the personal contacts with this bank branch office also ceased.

“It was like day and night. Before, we could walk to the bank, deposit, exchange money and fix everything, it was as smooth as ever. We did not have to have large amounts of money here, as it was easy to get rid of the cash. We went there and pressed a button and the money was in the bank account. Now it happens, the worst example, when I deposit quite a sum of money […] and I need the money to pay Svenska Spel (otherwise I can lose them) […] it took nine days before I had the money in my bank account from the day when I dropped the cash in the deposit box. It took nine working days before I had the money in my bank account. It is not acceptable; it is horrible. Nine days, you know.”
(CEO, Firm F)

The CEO at Firm F blamed the problems on the bank.

“Of course it was a problem. Clearly. The banks don’t care about us as small businesses. They do not care about us at all […] I deposited cash every day […] From my point of view, what has become most cumbersome is the handling of cash. It’s a hassle.”
(CEO, Firm F)

Previously there had been no fees when depositing cash, but the banks started to charge money for the depositing of cash. When the CIT service company took over the service, the cost increased.

“Nokas (a CIT company) that I think is the largest one, bought Securitas […] I am currently signing an agreement with them, so I can get rid of the money, but it is of course at a much greater cost. The banks makes billions in profits and they let us small retailers provide cash.”
(CEO, Firm F)

A grocery store had invested in an ATM in order to be able to recycle cash, which was profitable. As it had removed the need for paying a considerable amount of money to the bank or for CIT services when depositing cash, the ATM had been a profitable investment.
“Yes, you could say that. I use the cash for the ATM and then I don’t have to buy money. Thus, it costs us money to buy money from Loomis, it is a fixed cost per month and it is a cost per stack of money of 20 SEK, 50 SEK and 100 SEK and for every tube with coins. So the more money I buy from them, the more it costs me.”

(CEO, Firm A)

For firms in location 1, where there was no bank office, the firms had to go to a location 30 km away to deposit cash. The deposited money was only collected once a week and a CIT service provider collected the money.

“We pay for cash management. We have to go to the deposit box in ‘X’ to deposit cash.”

(CEO, Firm C)

The CEO of Firm D explained that cash in the area was limited. There was no ATM there, only the one at the grocery store and it closed early. There was no bank either, where the firm could deposit money. This meant that the CEO solved this problem, as the cash received was used to pay for goods and the CEO’s salary.

“I think that it is good (that customers pays with a debit card), as I don’t have to bring money and deposit cash at the bank […] and I can avoid the going back and forth.”

(CEO, Firm D)

The CEO of Firm E drove back and forth once a week to deposit cash. The drive took about an hour and the costs for fuel for the car to go there were high. The only reason for going back and forth was to deposit money and attend to banking matters. The CEO referred to the depositing of cash thus:

“I usually go there once every week […] it is for banking matters. Yes, it is only for that.”

(CEO, Firm E)

The situation meant that over 40 hours were spent in the car every year and more than 5000 SEK in car expenses, just to deposit cash.23 This is not a negligible cost for

23 The cost that the taxation authority use for accounting cost of driving is 1,85 (Skatteverket, 20150211) SEK per kilometre and a driving a distance of 60 kilometres every week of the
a small firm. For firms at location 2 the situation was different, but still the cost of depositing cash was palpable and was troublesome as it took time before the money reached the bank account. Proximity to the bank was important and the firms did not want to lose this.

“Earlier, we deposited cash more often. Now, we avoid depositing cash as it costs money every time we do it. We don’t deposit every day; we store it. We have to pay for depositing daily cash; it costs extra. All fees at the bank have become more expensive.”
(CEO, Firm E)

Firm I used a CIT service provider to deposit the daily cash. Until recently, they had no alternatives to the CIT service provider and changing to an alternative CIT service provider was a risk. Confidence and trust did matter.

“After what happened with Panaxia\textsuperscript{24}, I feel confident with Loomis actually. I would probably not just switch to an entirely new CIT service provider. I would not do that, absolutely not. I do not dare to do this. Although it would be cheaper, I would not change.”
(CEO, Firm I)

Another example showing that trust and confidence in the bank influenced the depositing of cash is as follows:

“Yes, it is a matter of trust absolutely. It would feel weird to hand over money to a company you do not know anything about.”
(CEO, Firm I)

For Firm I, 30 per cent of the turnover was cash on the average sales on 2,700,000 SEK per month, but this varied. The CEO believed that cash was still important as a payment method, although more often used in rural or sparsely populated areas than in cities.

\textsuperscript{24} Panaxia (Wikipedia, 2014a) was a large CIT service provider in Sweden that went bankrupt due to financial irregularities where Panaxia used firms’ daily cash deposits to cover debts that Panaxia had to their bank. This bankruptcy meant many of Panaxia’s customers lost a substantial amount of money.
“If we did not accept cash in the store, you mean? I believe that customers here including many of the elderly who still use cash, some have both cards and cash, but some only have cash, would probably be very disappointed in us. They would be very disappointed and think we had betrayed them. I would not say that it would not be possible, but it is not something that I would do. Absolutely not.”

(CEO, Firm I)

For that reason, it was problematic for the firm to stop accepting cash by switching from cash to electronic payment methods, as many customers were dependent on cash as a payment method. The CEO of Firm A in particular expressed this opinion, and the CEO of Firm I also shared this view. The latter CEO also believed that the transition from cash to electronic payment first happened in cities and later in less populated areas. The CEO of Firm J, a retail firm, described the situation in the following way:

“Cash costs money for us to handle… Now we send the money via Loomis. Previously we could go to the bank on our own and deposit cash, but that is not possible any longer. The cash is now deposited once every week. That is not good. It takes a while before it is in the bank account. The money needs to circulate […] Earlier a single deposit cost about 50 SEK when we went to the bank. Now it is more expensive when we use Loomis; it is twice as much for every bag. When we were able to deposit the cash in the bank, then the money was in the account straight away.”

(CEO, Firm J)

This meant the money went into the bank account once a week and it could be a large amount. Previously, Firm J had access to the money straight away but now there was a time delay today before the money was in the bank account. Not having access to the money instantly meant a risk of not receiving the money when it was needed. There was also a risk of not receiving the money at all if the cash was in transit. This was something to be considered. Direct exchange between the bank and the firm that deposited cash via a CIT service provider was common among the firms for reasons other than the depositing of cash. If the money disappeared, the firm could not blame the bank as the agreement was with the CIT service provider. Altogether, this meant that trust was important when depositing cash, but it was not the faith in the banks that mattered. The importance of trust had moved from the bank to the CIT service provider.
5.3.2 Characteristics of depositing of cash

Depositing cash primarily concerns retail firms and even if they visit the bank to deposit money, the money is deposited in a deposit box that is controlled by the CIT service provider. Table 5.4 summarizes the presence of different elements in cash depositing for locations 1 and 2.

Related to depositing of cash, a formal agreement between Firm F and the CIT service provider that delivered the money to the bank regulated the exchange. Thus, to some extent hard information was present, while the firms simultaneously used digital communication channels, e.g. when checking that the money had been deposited via Internet banking. The importance of price was also present to some extent, as cash depositing was something that many contemporary banks in Sweden have ceased to deal with and where CIT service companies take care of the supply of cash. This CIT service cost money for the firms that deposited cash and the service had become more expensive with another financial intermediary involved. Retail chains like ICA, which held a bank certificate, could recycle the cash via their own ATMs. The consequence was that the exchange between the firm and the bank as a provider of cash-depositing services had been disassembled.

Table 5.4. Depositing of cash characteristics.

<table>
<thead>
<tr>
<th>Depositing of cash</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>• Agreement signed with the CIT service provider (hard information).&lt;br&gt;• The cost of handling cash was substantial, which mattered for the retail firms that deposit cash (importance of price).</td>
<td></td>
</tr>
<tr>
<td>Location 2</td>
<td>• The cost of handling cash was important and non-negligible (importance of price).</td>
<td>• Trust influenced the exchange for one firm. The trust was related to the risk of not receiving the deposited money.</td>
</tr>
</tbody>
</table>

ICA is a retail chain that holds a bank charter, but they only offer bank services to private retail customers and not to other SMEs.
I contend that the relationship-based elements are weak in depositing of cash. Some firms were not happy that the bank had stopped providing this service. The banks could previously deposit money at the local branch office, but since the banks did not offer this service any longer, the personal contacts were abandoned. This service no longer involved a face-to-face communication with the bank and the closeness and contacts with the bank ceased. As the bank branch office did not directly handle cash deposits, the character of this exchange changed. For business-to-business firms, who did not serve consumers, this was not an issue. One firm claimed that trust in the CIT was relevant, as the firm did not want the risk of losing money. It could take over a week before the firms had access to the liquidity in their bank account and could use the financial asset. This tended to cause tension between the firm and the bank since this delay was frustrating for Firm F. It did not promote trust. The liquidity problem was especially troublesome for start-up firms or small firms that needed liquidity. In this particular case, for this particular service, direct exchange with the bank was limited. The depositor should be able to make withdraws immediately, but that was not possible when the money could not be accessed from the firm’s bank account, as the CIT had taken over the bank’s role for this service. As the banks did not offer cash depositing and had also closed branch offices, a consequence was that no or few personal contacts took place for this service. If the deposited money reached the firm’s bank account, dependence on the bank re-emerged, but overall, depositing cash did not result in a direct exchange with the bank. When the exchange was directed via CIT service providers, it affected the long-term exchange with the bank. To some extent firms revealed that the depositing of cash was replaced by digital depositing, while depositing of cash continued via the CIT service provider and back to the bank.

5.4 DIGITAL DEPOSITING

5.4.1 Firm–bank exchange

An alternative to depositing of cash is digital depositing, which is a form of transaction depositing where electronic money is deposited. There are different ways to transfer cash and digital money to the bank. When a firm receives a third-party payment via an electronic debit or credit card, the money should reach the firm’s account the day after the payment. In this case, the depositing takes place automatically with a short delay of less than 24 hours by the card acquirer. With electronic money, the depositing process is systematized and digital depositing can take place automatically without human involvement. The electronic money the firms received via card payments was normally transferred automatically when
the card acquirer, e.g. BABS, runs a daily batch. The digital money was transferred from one bank account to another and reached the firms’ bank accounts within 24 hours. According to the retail firms that received card payments, the cost for this was high.

“I think that it is expensive […] Well, first, they do take a certain percentage on the turnover. They want us to use card payments. They don’t want us to use money anymore and at the same time they charge us when our customers are using their card. Now I do not remember how much it is exactly that we pay, but it is about one per cent.”

(CEO, Firm C)

“Much cheaper transaction fees would be good, when the customers pay with their cards for example.”

(CEO, Firm D)

The firm representatives would have preferred that the fees for card payments were lower, but felt it was worth maintaining their existing bank relationship unless the fees were much lower at another bank. If another bank could offer much lower fees for the card, acquiring it could be a good reason to change bank. This view was not common among the firms, however, and it was not common to change bank either. The CEOs of Firms E, F, H, I and J had the same opinions about the fees that the bank charged for card acquiring services. For some firms the card transaction fees exceeded the fees for depositing cash, but to deposit cash at the bank was no longer an alternative. The firms had no alternative but to resign themselves to the decisions of the banks.

“Something that costs a lot of money is card payment. There is a drawback; it is expensive for us small business owners. First, you pay for the card reader, then you have to pay for the connection, then you pay for each card transaction, then you pay the bank for the amount. So it’s a lot of money that goes to that part. I said to the bank after a year that it is expensive and then the bank said that I have to put the expenses on the goods by raising the price on the products. I have to raise the price of the merchandise instead. There is another small business owner, a hairdresser; she has removed her credit card reader because it was too expensive, so now she sends the people over to me to make withdrawals here. The kiosk has no credit card reader either; instead the

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26 BABS is the largest card acquirer in Sweden. The service is owned and operated by Swedbank.
customer goes to the grocery store. There is a big cost for the payment card solution, but you must have it today […] It’s great with cards in one way because then I get money in the bank account quickly so I will not have to deposit the money myself. So yes, I hand out the extra money to the extent that I can.”
(CEO, Firm E)

By letting some customers withdraw money with help of the card reader and hand out cash, the CEO did not have to drive one hour back and forth to deposit the cash as often. The law has limited such actions, however. Even if it had been done with good intentions, there are restrictions for depositing money in this way and the firms had to follow the rules. At the same time, the firms had become more dependent on the IT systems that facilitated the transfer of the money. The CEO for Firm F, who had experienced pressure from financial institutions, explained that the cost of card transactions exceeded 60,000 SEK every year, which for a micro-enterprise with 2–3 employees was a considerable amount of money. The net present value of that kind of annual dividend was immense in a low-interest-rate and low-inflation economy. Even though there were benefits to digital depositing, the costs for employing the systems were high for a small retail firm.

“In the past, there were no costs for the payment machine. There were no card fees. No charges for swiping the cards through the machine that we have to pay for. We have to pay annual fees to the bank. You pay for the number of payments and there are fees for that. Many of these fees did not exist 10–15 years ago. They are thousands of kronor each year. This has increased in conjunction with the reduction of the bank’s personal service.”
(CEO, Firm H)

Moreover, the costs for the card payments were perceived as high:

“That is probably the card payments, the transaction volume. Every card transaction costs money. It also depends on what payment card the customers have. There are some payment cards that are ridiculously expensive. These cards you don’t want to take. You can almost lose money on these cards. What other banks charge for it, I have no idea. I have not looked into it, as it is like it is here. I think. Here we have both personal knowledge

27 According to a conversation on 2014-10-17 with the taxation authorities, the amount that can be withdrawn during a card payment has been limited to 200 SEK.
and local knowledge and we can see them so. There is no anonymity here. They cannot go and hide somewhere if they are doing something bad.”
(CEO, Firm H)

Firm I was relatively newly established and the CEO did not know exactly how high the card fees were, but tried to negotiate down the costs for the card transaction fees. However, the local bank could not offer a better deal. The firm was part of a franchise or an umbrella organization that gave the firm access to a good agreement with Swedbank. The fees were about 8000–9000 SEK per month. The CEO could not say for sure how much the fees were, but about 65–70 per cent was card payments out of 2.7 million SEK per month. The card fees also varied depending on what card was used. American Express was the most expensive.

“There are not many who have the American Express cards, but when you see the cards it makes you feel sick. There are so few who have these cards, but that’s the whole point. It is bad.”
(CEO, Firm I)

The CEO of Firm J viewed the cost of card transactions as considerable, and it had to use two different banks: one for card payments inside the store and the other one for refill of fuel outside.

“If there is e.g. 25,000 SEK of card payments during a day, we get the money the day after in our account. In this case we have no relationship personally, the payment it is done electronically, but it costs us money. I do not remember exactly the bills we got, the first time, the turnover was about 600,000 SEK and the transaction fee was about 7000 SEK for card payments so the fee is about one per cent.”
(CEO, Firm J)

Some firms paid one per cent as a transaction fee, which was as high as having a person employed part-time, a considerable cost for taking care of electronic transactions and making digital deposits.

5.4.2 Characteristics of digital depositing

Digital depositing concerns primarily the retail firms and these firms perceived that the costs for the service were high. Table 5.5 presents the main observations on this service.
In the exchange related to digital depositing, hard information was created by the digitalization itself and the numerically based exchange at location 1. Per se, the exchange was made via digital communication channels for the firms that deposited money digitally. A majority of the firm representatives claimed that the costs of digital depositing services were high, and it took one day before the money was deposited in the bank account.

Table 5.5. Digital depositing characteristics.

<table>
<thead>
<tr>
<th>Digital depositing</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>• Transfer of figures digitally and the digital exchange (hard information).</td>
<td>• The exchange took place regularly on a daily basis and therefore it corresponded to a long-term exchange.</td>
</tr>
<tr>
<td></td>
<td>• The exchange of money was automated and transferred via digital communication channels.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The costs for transferring money via card payments were perceived as high (importance of price).</td>
<td></td>
</tr>
<tr>
<td>Location 2</td>
<td>• Exchange of money and also other communications were becoming digitalized (digital communication channels).</td>
<td>• The exchange took place regularly on a daily basis and therefore it corresponded to a long-term exchange.</td>
</tr>
<tr>
<td></td>
<td>• Cost was important. The costs of card payments were perceived as high (importance of price).</td>
<td></td>
</tr>
</tbody>
</table>

At location 2, transaction-based elements were likewise present in the exchange. Evidently, digital communication channels were used to transfer the money and a majority of the firm representatives said that the costs were high; this affected retail firms in particular. A majority of the firms at location 2 said that the price was important. The cost was an issue when employing digital depositing, but the cost of the digital depositing only affected retail firms, as they needed to deposit money from consumers one way or the other, similar to the depositing of cash. The
cost or the fee for the card acquiring service that the retail firms used when depositing money electronically could not be ignored. To stop accepting card payments was not an alternative, as the fees and management of cash depositing had become more expensive. For larger firms or firms affiliated with certain associations or networks, the costs for the transaction were, in general, lower than the transaction fees that smaller firms paid. Transaction fees for card payments were high and the firms' profitability deteriorated.

The data indicate that relationship-based elements are present to a rather small degree, and that various aspects of soft information, personal contact and trust are not central to the nature of this exchange. However, at both location 1 and location 2 digital depositing is performed on a regular and long-term basis, which implies that relationship-based elements are not completely absent.

5.5 EXCHANGE OF MONEY

5.5.1 Firm–bank exchange

Exchange of money is a type of service demanded by retail firms who handle cash. The retail firms in this study needed to change cash into different monetary units on a regular basis so they did not run out of coins or banknotes. If they had run out, the retail firms would have had problems selling goods if customers would or could not have paid with cards. If a bank branch office did not offer exchange of cash or closed down the service completely, the firms had to turn to other banks or other service providers such as CIT that could supply them with desk change. Some retail firms had been affected by different market-related actions such as the dismantling of the banks' cash-management services. This had forced the firms to turn to other financial intermediaries. This was not an issue for firms that did not handle cash. The CEO at Firm A, a grocery store at location 1, revealed a number of facts about how the firm handled cash and exchanged money to receive the desk change they needed. In the beginning, the firm’s personnel went to the bank both to deposit money and to get desk change. At this time, the bank branch office was located next door to the store. Due to risk of robberies, the firms decided to start using the CIT service to pick up money and to buy the change from the CIT service provider.

“We started hiring Loomis and they began to collect money and deliver our exchange. As they started to do that, I did not care if the bank closed down. However, I did have to pay a decent amount of money to make them drive
here and come to us […] Then we started buying money and exchange services from Loomis; the cost has become higher than before when we went to the bank to get the money. From the beginning we did not even pay the bank to deposit money or when exchanging money. But later the bank started to charge for depositing money and to exchange money. The charge to deposit money and exchange money is quite a lot.”
(CEO, Firm A)

The CEO was not sure if it was a fixed cost that Loomis charged for driving to location 1 or if it depended on the distance. Another CEO in the same region, who owned a smaller grocery store, Firm F, agreed that the cost for exchanging money had increased and that it had become more troublesome. The CEO had been satisfied with the situation before, but after the bank branch office closed down the situation changed, both concerning money exchange and the depositing of cash.

“It depends on whether there are a lot of deposits, then you have to go and deposit money. Sometimes you have to go and buy exchange money when you are out of it. The personnel here were so good too. They knew me and I knew them. It flowed and it worked just fine.”
(CEO, Firm F)

At least for this firm, the personal face-to-face contacts were important and the close social exchange with the bank personnel mattered for Firm F. The CEO of Firm E explained that the last bank that closed down at location 1 offered to deal with the desk change at the local branch office. However, the CEO had already left the bank both in business terms and mentally, as the bank had not wanted to help the retail firm with a start-up loan that the CEO had applied for initially.

“In recent years the bank wanted me to come there and exchange money, but I had already finished my chapter with them, because they did not help me; they could not support me when the firm needed a loan. It would have been different if it had been several hundred thousand SEK that I wanted to borrow, but it was not.”
(CEO, Firm E)

At location 2, retail firms utilized exchange of money services. The bank that operated there still supplied firms with desk change and at least some firms were not charged for that service. The representatives of retail firms at location 2 visited the bank branch office personally to exchange money.
"I usually visit the bank a couple of times every month to exchange money. If I have a question, then I can ask it, when I visit the bank."
(CEO, Firm H)

When the bank had a surplus of coins and bills with lower denominations and retail firms wanted more coins and smaller banknotes, it would be a win-win situation and a lubricant for the exchange. It increased the liquidity for both the bank and the firm, which did not have to hire a CIT service provider to whom they would have to pay to receive the money that they lacked.

"It’s probably the exchange of money that we’re talking about. It is important for us to be able to exchange money. But it’s also important that the bank has good opening hours and that they are available. It is important to be able to get in touch with them. As I have got to know the branch manager, if they close half past three I can call the branch manager and ask if I can come down to exchange money even after opening hours. That is important. How much desk change is used varies. It runs very unevenly. Sometimes you stand there with more or less nothing. Then it is important to get hold of the bank and be able to collect change."
(CEO, Firm I)

During the yearly meeting with the bank, the CEO of Firm I discussed the exchange of money, which was perceived as critical.

"The IT services are important, but for me it is well developed. It is good enough, I would say. But it is two different things. You must have the face-to-face service to make exchanges and all that..."
(CEO, Firm I)

Once the bank office closed down, however, Firm I could no longer get desk change from the bank. Instead it used desk change from Loomis via the Internet and was happy not paying for this service.

"Now we do not pay anything for the desk change so it cannot be better."
(CEO, Firm I)

The CEO for Firm I said that if there was no bank branch office, they would have to go to a location 30 km away, where the second closest bank branch was located. The CEO for Firm G owned a retail store and drew a similar conclusion that the handling of desk change would suffer if the branch office closed down. The CEO of
firm G visited the bank office a couple of times every month to exchange money. Like the other retail firms at location 2, one of the partners of Firm J emphasized that the exchange of money was an important service that the bank branch office provided.

“We go there twice a week to pick up desk change. We do not have to use Loomis for that. If we had been with another bank we would have to order money from Loomis […] some other firms around here have to do so and they have to keep a larger inventory of money for the desk change.”

(CEO, Firm J)

For firms that needed to keep a large inventory of money, both the cost of capital and the risk of robberies increased. When the support from the bank decreased, the firms felt left out and the exchange was affected accordingly.

“In the case of the exchange of money, it begins when we’re at the station and check what we have. Then we drive down and buy the desk change. We have our money ready and we receive a bag with coins in different denominations. It is usually quick. Then we bring it back. You don’t want to walk with it. That does not feel comfortable. If you have cash in the hand, then you are prey.”

(CEO, Firm J)

5.5.2 Characteristics of exchange of money

In the exchange of money, the transaction-based elements play a central role. Firms at location 1 were not able to exchange money locally, as the branch office had closed down. The price of the service was an element that concerned a majority of the firms and primarily the retail firms. At location 2, hard information did seem to be present in the exchange, but only one firm referred to the presence of digital communication channels. The relationship-based elements had fragmented characteristics in the exchange of this service. First of all, soft information was not particularly present, while the personal contacts were important for one firm at location 1 before the local branch office closed down. At location 2, at least two firms went to the bank personally to exchange money, which made it likely that they had personal contacts with the bank. Regarding trust, one firm experienced a win-win situation that increased trust and confidence in the bank. Further, a negative past experience related to a bank service could make its mark on the firm–bank exchange and have a negative impact on trust. The CEO of Firm E had such
experience, affecting the firm’s willingness to return to a bank in order to use other bank services, even if it could be a benefit in some aspects, such as the shorter distance to the bank being more convenient. The data indicate that for firms at location 2, where there was a bank branch office, the relationship-based elements were more salient compared to location 1. Table 5.6 gives an overview and summarizes the empirical observations.

Table 5.6. Exchange of money characteristics.

<table>
<thead>
<tr>
<th>Exchange of money</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>• Exchange of money was perceived as costly (importance of price).</td>
<td></td>
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<tr>
<td></td>
<td>• The cost of travelling to deposit money increased with greater distance to a location where it was possible to exchange money, i.e. the cost to conduct the service influenced the exchange.</td>
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<tr>
<td></td>
<td>• Experiences with a bank had an impact on the firm’s willingness to use a bank service (trust).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• When the last bank branch office closed down, one firm felt that they lost a personal connection with the bank. Similarly, the commitment was affected by earlier experiences that were perceived as negative for one firm (trust).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• A concern for personnel regarding the risk of robberies could matter when deciding upon money exchange service.</td>
<td></td>
</tr>
<tr>
<td>Location 2</td>
<td>• Possible to order desk change via Internet (digital communication channels). Little importance of price for the firms that could exchange money at the bank branch office.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• A win-win situation when firm could exchange money at the bank (creating trust), since it increased the commitment and strengthened the exchange.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The bank’s opening hours and availability was important for some firms, which implied that the firms had personal contacts with the bank. The availability increased the number of bank visits.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The exchange of money was an ongoing service, which could be equated to a long-term exchange.</td>
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</table>
A concern for personnel regarding the risk of robberies mattered when deciding how to conduct the money exchange service.

As the bank branch office had closed down at location 1, the firms referred to a CIT service provider or other bank. Consequently, there was not a direct firm–bank exchange of money. For this service, the exchange had to some extent been terminated and the direct exchange, where the bank performed the service and the firms were paying the bank for it, did not exist any longer. The firms had turned to other financial intermediaries like Loomis or Nokas that acted as CIT service providers, or other bank offices. Nevertheless, the exchange was different and for location 1 the relationship-based elements were not particularly present in the exchange of money. A cautious view is that the relationship-based exchange was more limited at location 1. At location 2, the existing bank did offer desk change to firms, i.e. exchange of money. Some firms paid for the service, but less than they would pay to alternative suppliers. One firm had been able to make a deal where the bank and the firm were exchanging money without any fees. In this case, there was still a vibrant exchange.

5.6 PAYMENT

5.6.1 Firm–bank exchange

Payment was perceived to be an important service, and in one way or another, the firms utilized payment and performed payments electronically via Internet banking where the payments were registered and approved. For some firms and in some cases the process was automated. Internet banking took care of the direction and the destination. No firm went to the bank office to make a payment. The CEO of Firm A, a grocery, never visited the bank. He had support from ICA when making payments. The invoices were sent to ICA, where they were scanned and delivered digitally to a system where the CEO could approve the payments via a mobile application, which was a service that the firm paid for.

28 The headquarters of ICA Gruppen AB is located in Stockholm and they offer support to the associated grocery stores that includes provision of some financial services such as payments.
“I can decide if the payments should be paid via e.g. Swedbank or Länsförsäkringar […] ICA sends a file to Länsförsäkringar, and only Länsförsäkringar. I decide from where the payment should be deducted. ICA charges me per payment.”

(CEO, Firm A)

ICA would not provide the grocery stores with bank services even if ICA had a bank and the grocery was a part of ICA Gruppen AB, but ICA handled a share of the payment. With the help of the application on the mobile phone the CEO decided from which bank and what bank account the money should be deducted. There was no face-to-face contact when making the payments. If problems occurred, the CEO made a phone call to solve the problem. The money was transferred to and from the firm’s corporate bank, Nordea. It was done automatically without using Internet banking. The incoming invoices were not posted and approved at Nordea but were approved via the mobile application provided by ICA.

“Not supplier invoices. However, of course I have a bank. I have a bank where ICA deposit money and withdraw money. It’s Nordea bank, since ICA bank is not a corporate bank. ICA handles the outgoing payments and deducts the money from the account at Nordea bank and deposit at Nordea bank if I receive money. And ICA send the files electronically to the bank […] The invoices of course. I have the billing address in Stockholm. If you are going to bill me, then I say this ‘here you have the address’ and it is an address in Stockholm. The invoices are scanned into ICA’s own system too. At the scanning centre the people scan it into the computer, which allows me to see them on my computer. When I want to pay, I click ok and pay.”

(CEO, Firm A)

ICA would send a file to the firm's bank, which paid the salaries. For this service, the firm had to pay for every payment. ICA had a solution for large suppliers, where the payments were made automatically at the same time as the goods were delivered to the store.

“ICA has a payment system that the suppliers can be a part of and then they are safe, for example, Arla. We have direct debit, but they are also secured by ICA because ICA pays Arla and I pay ICA […] concerning those suppliers who have an agreement with ICA – when the ICA truck arrives here with goods, then ICA has debited me already.”

(CEO, Firm A)
In this case, ICA took the responsibility and the large suppliers knew that they would be paid automatically. The firm did not have to do anything, not even approve the payment. The firm did not have to be concerned about the payment, but there was no credit time. The payment process had been speeded up by this integrated payment system and the risk of not being paid had decreased. The payment was digitalized and systematized. The payment process occurred in the background, but neither the sender nor the receiver of a payment was anonymous. The firm knew that ICA transferred the file to a bank and ICA knew to what bank the file should be delivered. The bank performed its share of the payment automatically, which was supported by information technology and the technological connection between the firm and the bank. The digital information was generated by ICA, which delivered the information via the Internet so the bank could perform the payments. This would not be possible without a previous exchange. Another development regarding payments was mobile payments, as the banks offered payment services such as Swish.

“It (cash) will not disappear completely, but it will be used less. You will not be able to pay by card everywhere. It is that thing you will use (the mobile). In the future when you bring your mobile to the checkout, you get the sum and press a key and then the money is transferred. This (technology) is already installed in our checkouts today. And you can pay with your mobile today already at stores […] The next thing, that is, the mobile.”

(CEO, Firm A)

Even if it was not possible to pay with the mobile everywhere, such payment solutions were ready to be rolled out and the systems and the functions were already in place at the grocery store, but the consumers did not have the technology in their phones to use this solution. However, there was a risk of robberies when using cash.

“…they had to start to keep hundreds of thousands at home. That is not good due to the risk of robberies when firms must keep money at home or at the company.”

(CEO, Firm A)

Other firms managed payments via Internet banking and used direct debit payments. For Firm B, payment was the most important service.
“It is payment services. Payment services, outgoing bank transfers and also incoming payments.”
(CEO, Firm B)

For Firm B the IT services were important, including the time it took to type in all the details. One reason for changing bank was the cumbersome payment solution.

“They’re really important. That it does not take too much time for us. It was also a reason why we swapped from Swedbank. They had a system where you had to type in the security box all the time for all sorts of payments and approve suppliers. Handelsbanken had a much simpler system. It must be said that it is very important that you can work fast with these systems and with good security […] you had to type in the numbers on the security box three times for each payment, each payment! We maybe make 20 payments a day and then it is better if you can do it only once. Handelsbanken had that solution. It was a big difference. Now maybe they have made it better. I think that Swedbank have made it better now.”
(CEO, Firm B)

The CEO of Firm C said that information technology was important and that the time needed and simplicity of conducting bank services were important, which was also the case for loan services. For Firm C, the payment service was most important; time was important and technology helped to save time. Simplicity or usability of the IT solutions and the payment service were related. Firm E also used Internet banking to make payments and it worked well. Firm A did not normally sign in to Internet banking often, but when the firm installed an ATM it had to check the balance frequently to confirm the figures. Having an ATM meant that the firm’s liquidity was affected and it also created a need to check the account balance more frequently to ensure that the payments were covered, particularly as the payments were automatically deducted from the bank account. Firm D made the payments during the evenings. In other words, this could be done after office hours and when the CEO found time. It was convenient even though it was self-service.

“It is mostly done during the evenings when I pay the bills. One needs some time to ensure the OCR numbers are correct, otherwise one could pay someone else’s bills.”
(CEO, Firm D)
As illustrated below, Firm F also used Internet banking to pay invoices:

“I use Internet banking […] it works really well. I pay my bills there. […] There may be a problem when the bank is updating the system.”
(CEO, Firm D)

The CEO for Firm D did not know exactly how often the firm’s payments were made.

“Yes. Not every day and I don’t know how often […] It is done automatically for Svenska Spel and ATG. Then there must be money in the account […] Yes, of course. They don’t care about us small firms. They don’t care at all!”
(CEO, Firm D)

The problem was that the bank had closed down.

“Yes, of course, naturally it was so… then the cost increased for me… When the bank closed down I had to hire CIT instead […] I had to sign an agreement to get rid of the money and that service cost much more money […] and I have not received any compensation from the bank.”
(CEO, Firm D)

Firm F ran into problems when the bank branch office closed down as this increased costs, but not the cost of Internet payment per se. The increased cost made it difficult to pay bills on time, as the costs increased and the profits decreased. The CEO of Firm H described the following concerning payments and visits to the bank:

“The rest is done via the Internet. If something goes wrong, then you solve it […] 20–30 years ago I think that I visited the bank more frequently. Then you paid your bills at the bank. That is not how it is done today.”
(CEO, Firm H)

According to the CEO of Firm G, a lot had changed in the last few years.

“Everything has become easier. It is the fast society that has to make everything go more easily and quickly. It is quick to send an invoice, to receive an invoice and to pay an invoice. It is smooth.”
(CEO, Firm G)
The CEO of Firm I paid the bills using a slightly different technological solution.

“The invoice is scanned and after that I approve it.”
(CEO, Firm I)

The approval was done using a technical solution that paid the invoice via the bank. Firm J paid the invoices via their bank’s Internet services.

“The invoices, we also pay via the Internet service of the bank […] it is my business partner and I who handle the Internet banking.”
(Managing partner, Firm J)

5.6.2 Characteristics of payment

Payments have the characteristics of being transaction-based, but relationship-based elements are also present to some degree. Table 5.7 displays an overview of the characteristics presented by the firms.

There is empirical evidence that hard information was important. Representatives of Firm A and Firm D explicitly said that they sent a file to make payments or used OCR numbers when making payments. Moreover, digital communication channels were used to distribute the information and the firms indicated that their payments were made via the IT systems. To some extent payments were completely automated, but in some cases account numbers and invoice numbers had to be typed in manually via the computer and this could be time consuming. The price was not a major concern, as the cost of making payments was not high. However, the CEO of Firm A said that they had to pay for using the payment service and two other firms indicated that price could be an issue. The CEO of Firm B was concerned about the time it took to type in information to make payments as that could be translated into a cost for the firm. It was important for a CEO with a limited amount of time. The CEO of Firm F indicated that electronic payments could be more expensive for them.

Neither soft information nor personal contacts were of particular importance. The firms made payments electronically and the payment process was to a large extent automated. However, a couple of firms expressed that trust concerned them when making payments. Some trust had to be established and a payment was not paid to an anonymous supplier. If a supplier sent an invoice, the payer knew where to pay the money and the supplier knew that there was money on the way. It was also
ensured that payments were completed and that unauthorized people could not access private or sensitive information. Long-termness was also present to some extent, as some firms made payments frequently.

Table 5.7. Payment characteristics.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>• Account balance, digital files and OCR numbers were necessary.</td>
<td>• Trust was essential, even when making an exchange electronically.</td>
</tr>
<tr>
<td></td>
<td>• IT services were important and they were essential when making payments (digital communication channels).</td>
<td>• To make a payment a previous exchange had to be established, as the payer needed to know the receiver’s account details (long-termness).</td>
</tr>
<tr>
<td></td>
<td>• The price had some significance for some firms (importance of price).</td>
<td></td>
</tr>
<tr>
<td>Location 2</td>
<td>• IT services were crucial for making payments (digital communication channels).</td>
<td>• Knowledge about who sent and received the payment was important (trust).</td>
</tr>
<tr>
<td></td>
<td>• All firms performed payments via different IT-based solutions.</td>
<td>• To perform payments over the Internet a link had to be established over time, which could be seen as long-term.</td>
</tr>
</tbody>
</table>
5.7 SAVING AND INVESTMENT

5.7.1 Firm–bank exchange

An investment in a financial product, such as stocks, was perceived as a form of saving, but with a higher risk than traditional savings. The CEO of Firm B said the following about savings and investments:

“Well, there is less of that. There are few of those activities today. But if we had the opportunity then we would manage it well with our closest bank branch office.”
(CEO, Firm B)

This CEO talked about the lack of competition among banks in the region, and even though there were alternative banks that could be reached via the Internet, the firm preferred to do business with the local bank.

“It seems like the profits of all banks are too high. It is not particular for this community. It is a general problem for the whole of Sweden. Therefore it seems like competition is too low all over Sweden.”
(CEO, Firm B)

A lack of competition resulted in a relatively high price for this service. This decreased the willingness to invest in the bank’s financial products. The lack of competition also led to the exchange becoming limited and the opportunity to develop a more extensive exchange was therefore restricted. Firm A would, if it had a larger excess of money, invest in stocks or mutual funds, but not necessarily at the local bank.

“Should I get more money, I would start to invest, I would surely open an account somewhere. Then I would buy stocks or mutual funds, or buy something else.”
(CEO, Firm A)

Firms performed the service via the branch office or found other alternatives, which meant that there could be a threshold for investing in financial products. The CEO of Firm A prioritized investments in his own firm rather than making other investments where the overall return was more difficult to assess. The CEO of Firm A explained that even though the firm did not make investments in stocks
or mutual funds with the firm’s money, he did make investments with his private money. These investments were performed via the Internet.

“All my investments I have made in the company, so I have not had any money to invest elsewhere. But I have looked after the business and paid off the loans. That’s where I put my money first and foremost, to pay off the debts. I do not want to use an overdraft as it costs money. I have invested in cooling and new stuff all the time, so I have not had money to invest elsewhere.”

(CEO, Firm A)

The firm’s investment decision was based on the CEO’s priorities and it was more important to pay off debts and invest the surplus in the business. The CEO of Firm E had a similar approach.

“I invest in what lies in store; there are goods. The bank is just someone that you pay fees to, deposit money, money goes in and out all the time. I’m not that big so I don’t invest in the stock market and such.”

(CEO, Firm E)

The CEO of Firm C gave a different picture of saving and investment.

“We put it in a savings account, yes, where we have higher interest rates. We also own some stocks and those we have on the brokerage account.”

(CEO, Firm C)

For this firm, price was considered important. The stocks that the firm owned were put in a brokerage account at the bank. At location 2, Firm I viewed investments as a challenge.

“What I am thinking of is investments. How much do I dare to invest? Of course, if the firm had been located in an expanding area, it would have been easier to invest. Then I would certainly have invested more in the firm. Then I would have invested more keenly from the start.”

(CEO, Firm I)

Firm I saved money and allocated money for pensions, besides the mandatory pension savings. The Firm G representative talked about investments when he met the bank and the investments Firm J made were related to the loan that they took out from the bank.
“Then it is other relationships with the bank, when we negotiate interest rates to finance our investments of the company.”
(CEO, Firm J)

Investments were also related to loans. Taking out a loan enabled firms to make investments and a good investment created a surplus that could be considered as saving per se if the money was invested in bank products. As some firms made their investments in their own business, they did not consider making financial investments in stocks, funds and other savings in order to get a return on the investment.

5.7.2 Characteristics of saving and investment

As shown in Table 5.8, I found both transaction-based and relationship-based elements in saving and investment. The transaction-based elements present were digital communication channels and the importance of price. Firm C explicitly mentioned they used digital communication channels to perform some saving and investment services. Firm representatives at both locations stated that the interest rate was important and that they tried to influence the conditions. The interest rate could be used to compare this service between different banks.

Table 5.8.Saving and investment characteristics.

<table>
<thead>
<tr>
<th>Saving and investment</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>• One firm stated that investments were made via digital communication channels. • The price was important since firms negotiated the price and wanted to put money in a savings account with the highest interest rate. • The cost of money was significant since firms preferred to pay their debts first (importance of price).</td>
<td>• One firm said that they would talk to their branch office personally if they needed to save or invest money (personal contacts). • Trust was a concern when saving and investing.</td>
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</table>
The data demonstrate that personal contacts and trust were ingredients in the exchange of this service. Firm representatives mentioned that personal contacts with the bank were important for them when performing saving and investment services or that they would talk to their bank if they were going to make investments. Trust was also perceived as important by one firm, who saw saving and investment as a risk. Firms used their current bank for this service, which further implies that trust was an issue.

5.8 ADVISING

5.8.1 Firm–bank exchange

Before a firm becomes a client to a bank, the bank cannot deliver any real bank services to them. Banks can present their offerings and the prices of the different services to their customers, but the public information on the banks’ web pages should be seen as information rather than as advice. Certain regulations control the exchange and it is only when a firm has become a client that the bank may provide a client with advice. The CEO of Firm D said that it would be beneficial for him to have a personal advisor at his bank.

“It would be good to have a personal bank advisor, a single point of contact at the bank. If there is a problem I know whom I should contact and also if I need to get a loan.”

(CEO, Firm D)

The CEO of Firm A stated that he thought that firms would receive better advice at a larger office where the relationship managers were more specialized, than in a small local branch office.

“Yes, but it’s something that you don’t need very often. If one wants advice, then it’s possible to make an appointment. I think that they give better advice now instead of going locally [...] when going into town they have an advisor that only works with companies, or just does farming. Here there is much agriculture and forestry. [...] It is not possible to have that expertise in a
small town like this. But they must of course take the time to go into town and make an appointment. But I do not think you need to go to the bank every week. You visit the bank when it is something important.”

(CEO, Firm A)

On the one hand, bank personnel at a larger office could be more specialized. On the other, the face-to-face interaction between the firm and the bank tends to become less frequent if there is a greater distance to the bank. This was problematic, as a close connection with the bank was perceived as crucial.

“We have a close connection with the bank, that is important too. But basically, without IT services the business would not work.”

(CEO, Firm B)

For Firm B, the bank representative visited the firm a couple of times every year, while the CEO visited the bank frequently. During the advisory meetings they discussed business matters.

“We keep close in touch with each other to develop the company.”

(CEO, Firm B)

Even though their bank was 30 km away, Firm B maintained a close connection with them. In the beginning, when the CEO started the company, he presented a business plan to a local bank official who believed in the business ideas. The bank official was the reason that his firm existed today. Trust in bank officials was also perceived as critical for ongoing advisory meetings.

“Yes, once a year we meet our advisor at the bank.”

(CEO, Firm C)

The CEO met the bank advisor when the firm needed to change car and to sign a leasing contract. This could be handled over the phone, so she did not have to go to the bank. Instead, the bank sent the contract via mail and checked the car with a car register. In some sense, there was an established trust between the firm and the bank. The CEO had a good personal contact with the bank’s advisor.

“Hee hee. Well, I don’t know if it is 100 per cent. He is a salesman too. You have to question him as well. In general, I think that I trust him. Yes, I do trust him. I do. Mmm.”

(CEO, Firm C)
Firm C hesitated and insisted that they did not trust the bank advisor completely, but valued the personal contacts.

“To have one and the same contact person with the bank, that is really important. That they know us and that we know him or her.”
(CEO, Firm C)

The bank did not do much to improve the exchange but it was always possible to call the bank and the personal advisor was always available.

“He has not done much, but he is always there when we call him, he always answers and it is easy to get in touch with him.”
(CEO, Firm C)

The CEO also explained that it would be possible to have a personal advisor in Stockholm.

“If it was the same person that I have contact with, but of course it would be more troublesome to sign contracts. Well, there is an electronic identification service that solves that, so maybe it does not matter anymore.”
(CEO, Firm C)

Firm E seldom asked for advice.

“I am thinking of when I last called the bank for advice. It is not often. Maybe I should call them and try to negotiate down the interest rate.”
(CEO, Firm E)

This implied that costs were an issue rather than the advice itself. The quality of the exchange was contingent on the relationship manager at the bank and the contacts with him or her.

“It has been excellent all the way. The relationship manager that I had before my present one was also excellent. It depends on whom you have as a contact person. I am very fastidious about that. I want to talk to one person only. If I have started to talk to someone I want to continue with that.”
(CEO, Firm E)

The CEO changed to a new personal advisor when the old advisor left the bank and it was complicated when the bank changed personnel.
“Yes it is a bothersome situation when you need to change to an advisor that
doesn’t know you.”
(CEO, Firm E)

The CEO of Firm E further said that mostly it was not the bank that made contact
with the CEO. Instead, it was the other way around. If there was something special
that needed to be handled a meeting was arranged, but the meetings were not
frequent. Moreover, the price was considered important. For the CEO of Firm F the
advising service changed after the bank branch office closed at location 1.

“It was advice and some help, basically all questions. It was easy to go there,
it was open every day, but after a while the opening hours became shorter
[…] I visited the bank on a daily basis […] I can call the people in Sundsvall,
but it is much more awkward.”
(CEO, Firm F)

There was an indication that the advisory services were not as good as they had
been previously. At location 2, the CEO of Firm G said that when he talked with
the bank it was about advising and investments. They were ‘pleasant’ problems.
The CEO of Firm G did not receive any instructions from the meetings, but he had
never received bad advice from the bank. The personal contacts played an
important role.

“No, I have not received any bad advice from the bank. They are sensible
when it comes to giving advice. The first thing they do is find out what risk I
want to take […] Whatever the case is, you want a personal connection, the
personal touch is important, absolutely.”
(CEO, Firm G)

Another CEO, representing Firm I, described what happened during the yearly
advisory meeting in the following way:

“The last time we met, it was my first year and we went through the
financial statements. We discussed it a little. We talked about the liquidity.
We talked about saving and such things. We talked about how the first year
had passed. We talked about saving money. We talked about bank charges.
We did that. Card fees, we talked about. We talked desk change and money
concerning that. We talked about whether there was a solution other than
Loomis to deposit money, whether it was possible to obtain a similar solution
for the same price and money. We tried to find something in common, so it becomes a win-win for both of us, so to speak.”
(CEO, Firm I)

This happened during the advisory meetings. There were management issues, such as operations and how to manage the firm financially, that concerned both the firm and the bank. Cost was an important issue, but so was the quality of the service. It was important to find the win-win opportunities and to have a long-term view on the exchange. The CEO of Firm H sometimes visited the bank and sometimes the bank paid a visit to the firm. The bank branch office was located close to the firm. However, the CEO did not need any advice.

“It happens that they try to give some advice, but honestly, I am old and I absolutely don’t care about their advice […] If I have some questions then they help me and answer them and they take their time.”
(CEO, Firm H)

A representative and partner of Firm J used the bank’s advisory services.

“Yes, of course we do. All financing, everything that we cannot finance ourselves, then we go via the bank […] Loans, pension savings, life insurance. Loans both privately and at the company, we have at the bank. We also have health insurance via the bank. DKV Health I believe it’s called.”
(CEO, Firm J)

The firm’s interest in advice related to financial issues, as advising was connected to financing. Savings, loans, life insurance and investments were important concerns and the IT services were perceived as good.

“Yes, I think so. Now we have solid control, I think. We have better control. Then there are other relationships with the bank, when to negotiate interest rates and financing of investment in the company. It goes both up and down. How we are treated and how we get through our ideas. There can be differences, but when it comes to the Internet part it’s great.”
(CEO, Firm J)
5.8.2 Characteristics of advisory services

Some transaction-based elements were relevant for some of the firms. One firm explicitly mentioned IT services, and another firm touched upon the importance of price. The importance of price was related to the advice regarding loan services.

The complexity of the advisory service, which included other bank services, meant that personal contacts were needed. This, in turn, suggests that soft information was exchanged. Firm B mentioned the close connection with the bank and other firms also stressed the importance of personal contact with the bank. A majority of the firms also saw trust as an important element, where good advice and good will helped the bank to establish trust. The confidence in a personal advisor was central for many of the firms. Firm E expressed that it was important for them to have one contact person, which could be related to the need to find someone that they could trust. Trust-related issues fulfilled a function in the exchange, but the atmosphere went up and down, depending on how the bank was perceived as treating the firm. There was also some kind of long-termness present since some firms mentioned that the advisory meetings took place at least once a year. Finally, a firm representative stated that a combination of IT services and close personal interaction could amplify the firm–bank exchange. Information technology alone did not amplify the exchange, but a specific combination of a transaction-based element and a relationship-based element may strengthen it.

Table 5.9 displays the relevant elements of the exchange and as can be seen, both transaction-based and relationship-based elements were perceived to be present in the exchange of advisory services.
Table 5.9. Advisory services characteristics.

<table>
<thead>
<tr>
<th>Advising</th>
<th>Transaction-based elements</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location 1</td>
<td>● Firms indicated that the costs and prices were more important than advising. Advising was used to decrease costs (importance of price). ● Digital communication channels were useful for advising.</td>
<td>● The personal contact was important. ● Advising took place over the phone, which meant that trust had been established previously. ● For one firm, the daily bank visits and personal contact with the bank strengthened the exchange and it facilitated the advisory service. ● It was bothersome to change personal advisor, which indicated importance of trust. ● Advising took place with some frequency (long-termness).</td>
</tr>
<tr>
<td>Location 2</td>
<td>● The price was important for at least one firm. ● IT services such as Internet banking gave the firm better control over their finances, which implied that fewer advisory services were needed (digital communication channels).</td>
<td>● Advising was a complex matter and was related to many bank services. There was a risk of misunderstandings and therefore disputes could increase (soft information). ● The personal touch was important for one firm. ● Personal contact was important for some of the firms. ● Face-to-face interaction was crucial, especially when it came to advisory services. ● Trust was important.</td>
</tr>
</tbody>
</table>
6 ANALYSIS OF THE FIRM–BANK EXCHANGE

In this chapter I present a step-by-step analysis of the empirical findings and summarize them for each service. To capture the multidimensionality of firm–bank exchange, I wrap up the analysis by comparing the services exchanged between the firm and the bank.

6.1 BANK ACCOUNT

The data demonstrate that a bank account is necessary for the firms and that the exchange related to the bank account entails both transaction-based and relationship-based elements, as pointed out in Table 6.1. The high level of hard information is motivated by several findings, including the fact that all firms transfer money to their bank accounts and check the account balance via Internet banking. Furthermore, the terms of the agreement between the firm and the bank were part of this hard information. One firm representative revealed that signing a contract with the bank was required to open a bank account. Even though signing contracts to open a bank account was not mentioned by all firm representatives, all banks comply with the same legal framework and therefore firms must sign contracts to be able to open a bank account and to perform this type of firm–bank exchange. The findings related to the firms’ use of the bank account support the function of hard information in the exchange (Petersen and Rajan, 2002).

The firms investigated were using information technology to access bank account information, which motivates a high degree of use of digital communication channels. There were only a few informants who expressed the importance of price for the bank account. One firm representative considered the cost of opening a bank account to be significant, while a couple of the other firm representatives indicated cost to be an important factor, as they try to avoid long and costly distance travel when opening up an account. This justifies a low level of importance of price, and based on the findings regarding hard information, digital communication channels and importance of price, I claim that the transaction-based elements are at a medium/high level.
Table 6.1. Classification of bank account.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>High</td>
<td>Medium</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication</td>
<td>High</td>
<td>Medium</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of price</td>
<td>Low</td>
<td>Medium</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Long-termness</td>
</tr>
</tbody>
</table>

The relationship-based elements were prominent from the point when a firm started its business and opened a bank account. According to Polanyi (1958), subjective personal experiences influence the exchange. The findings of this study support the presence of relationship-based elements in the exchange relating to the bank account. In the exchange of this service, soft information seems to be present to a medium extent, which I argue is a result of the complexity of selecting a bank, which takes place before opening a bank account and the need for soft information in the selection process. The complexity of changing from one bank to another was clearly expressed by one firm representative and indicated by others. Related to soft information, firm representatives indicated that personal contacts were of importance; observations that justify a medium level. The relationship between soft information and personal contacts has previously been identified in the literature (Ijiri, 1975). Several informants mentioned that when opening their bank accounts their personal contacts with bank employees contained information of a soft nature.

There were also firms that emphasized the influence of trust in the exchange related to the opening of a bank account, as previous private engagement of the CEO of Firm D influenced the selection of the bank. Another example is the CEO of Firm I, who received a gift when the firm opened their bank account, which
increased trust. In sum, I found trust to be at a medium level, which is supported by previous research (e.g. Tyler and Stanley, 2007). Most evident, however, is that all the firms have developed the exchange related to the bank account service over a long period of time, i.e. a high long-termness prevails. The presence of long-termness in the firm–bank exchange relating to the bank account is discussed by Macneil (1980). Not all firms expressed that all the relationship-based elements were important, but in total, I contend that this kind of exchange is at a medium/high level for the bank account. The long-termness is salient for all the firms and the findings indicate that soft information, personal contacts and trust are important to some degree.

The overall assessment of the transaction-based elements and the relationship-based elements for the bank account service is summarized in Table 6.1. It is also worth noting that no differences between the two locations were found.

![Figure 6.1. Position of bank account characteristics.](image)

Figure 6.1 illustrates the position of the bank account service. I have assessed the data from the investigated firms and visualized the result in the figure. As
mentioned, the findings suggest that both the transaction-based and the relationship-based elements of the exchanges are at medium/high levels.

6.2 LOAN

The firm representatives had experience of bank loans when financing the businesses and all of them mentioned different types of loan services. According to the findings, the exchange of loan services entails both transaction-based elements and relationship-based elements.

I found that the three transaction-based elements were present in the exchange relating to loans. In a majority of the exchanges, hard information was at a high level, which I suggest is down to the broad range of different types of formal documentation that the bank request, the financial statement of the firm that the loan officer at the bank assesses before granting a loan, and the contracts that are signed to receive a loan. This corresponds with Berger and Udell’s idea (2006) that hard information plays a critical role when firms need finance. In contrast, digital communication channels did not play an important role, as there was limited empirical support of this element in the exchange. It is possible that information regarding a loan could be distributed via the Internet, but only one firm indicated a frequent use of the Internet when checking the credit level, which took place during a limited period of irregular cash flow. Therefore, I assess the level of digital communication channels to be low for this type of bank service. A majority of the firms’ representatives indicated that the price was important for the loan service. Indicators such as cost-related issues and the importance of a low interest rate among the firms create a high level for this particular element. The importance of price is in line with literature in economics e.g. Alchian and Demsetz (1972) and business literature such as Kelly and Coaker (1976). To sum up, I assess the level of the transaction-based elements for loan services to be medium/high (see Table 6.2).
Table 6.2. Classification of loan.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>High</td>
<td>Medium</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication</td>
<td>Low</td>
<td>High</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of price</td>
<td>High</td>
<td>High</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High</td>
<td>Long-termness</td>
</tr>
</tbody>
</table>

When firms were comparing interest rates they called the bank or visited the bank personally, which demonstrates that it is more than hard information and price that is of importance for the firms when applying for a loan. Many firm representatives expressed the importance of the relationship-based elements for the exchange of loan-related services. In line with Berger and Udell (2006), I interpret soft information as central to loan services. I found that the quality of the service was important and according to Petersen and Rajan (2002) information that is hard to put down on paper or store electronically corresponds to soft information. The cases show that knowledge of a tacit nature was present in the exchange. This type of knowledge was difficult to codify and write down, motivates a medium level of soft information. Further, a majority of the firms mentioned the importance of personal contacts for the loan-related exchange. Many firms were dependent on personal contacts with the bank when they needed finance. Based on these findings, the level of personal contacts is at a high level for loans. Another element that appeared frequently was trust, which was important in order to receive a loan. Satisfaction with the bank was also mentioned and can be seen as an indicator of trust. The high presence of trust when considering loans motivates the “high level” interpretation. According to Bradach and Eccles (1989), trust is only one component of the governing mechanism. A number of observations motivate the high level of long-termness for loans. The loan
exchanges took place over a long term and there were only a few loans granted for a short period. Further, many informants indicate that they have had loans since they started their firms and they still have bank loans at the same bank. In summary, and as shown in Table 6.2, when considering the relationship-based elements, I conclude that the level is high/medium.

Even though some firms did not mention all the elements, this does not imply that those elements are unimportant. Digital communication channels such as access to Internet banking may be taken for granted, as they seem to be more important for firms in general than the firms indicated regarding loans specifically. However, the informants did not mention this element. Based on the empirical findings, the transaction-based and relationship-based elements of loans are illustrated in Figure 6.2.

There was a broad representation among the firms regarding loan-related experiences. Even a firm without any loans had experience from financing their customers, who could borrow money from a bank when purchasing goods, using a
standard contract from the bank. As mentioned above, I interpret the transaction-based elements to be positioned at a medium/high level and I conclude that the relationship-based elements are high/medium. Thus, the firm–bank exchange regarding loans consists simultaneously of a great deal of transaction-based and relationship-based elements; this is in line with Rad et al. (2013), who studied how bank loan officers use different kinds of information when assessing loan applications from SMEs.

6.3 DEPOSITING OF CASH

The depositing of cash concerns mainly the retail firms, which demand this facility. This is not offered by bank branch offices. Still, cash needs to be deposited at the firms’ bank accounts. The firms had to turn to another financial intermediary, the CIT service provider, which collected the cash and performed the service. The cash was then transferred from the CIT service provider to the firm’s bank account. Even though depositing cash was a service that the banks primarily did not perform, the exchange related to depositing of cash took place. The banks were involved in the financial transaction process that took place, and it was not completed until the firm received the money in its bank account.

Transaction-based elements were present in the depositing of cash. This is also suggested by Rose and Hudgins (2012). Hard information was indicated to be present among all the retail firms, as the money was transferred from the firms via the CIT to the bank. In addition, agreements were signed, and the depositing of cash, that to a large extent was performed via the CIT service provider, was governed by a signed agreement as well. Altogether, this justifies a high level of hard information for this service. However, the use of digital communication channels was low, as this element was not involved in the depositing of cash. The retail firms considered the importance of price element regarding the depositing of cash, which is in line with the findings of Lundberg et al. (2014). These firms stated that the costs of getting rid of cash and buying cash were considerable. A grocery store had installed an ATM to recycle the cash that they received from the customers, which decreased the costs for depositing cash.

As banks have stopped offering depositing of cash as a service, some firm representatives mentioned that the relationship with their bank had deteriorated. Considering soft information, one informant explained an issue they had with the bank, which had a negative impact on the exchange. Otherwise there were no explicit indications of soft information and therefore the degree of this element is
interpreted as low. Currently the firms do not visit the bank office when depositing cash; instead firm representatives go to a deposit box to deposit money and the CIT service provider collects the cash from there. Although the deposit box may be located at the bank office, the firm representatives do not have to meet the bank personnel to deposit cash. Thus, the previous frequent personal contacts with the bank when depositing cash no longer take place, and since no firm had other types of contact with the bank, the degree of personal contacts is low.

Only one firm representative indicated that trust influenced the exchange to some extent. This was related to the risk of not receiving the money in the bank account in a timely manner, or even at all, should the CIT service provider go bankrupt. Even though trust in the CIT service provider may be important for some firms, the overall degree of trust is low. No firms indicated the presence of long-termness and since the CIT service provider primarily conducted this exchange, the degree of long-termness is low, even if signs pointed towards an ongoing exchange.

Table 6.3 summarizes the transaction-based and relationship-based elements in the exchange of depositing of cash. I interpret the transaction-based elements to be on a medium/high level, while the level of the relationship-based elements is considered to be low.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>High</td>
<td>Low</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication channels</td>
<td>Low</td>
<td>Low</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Importance of price</td>
<td>High</td>
<td>Low</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Low</td>
<td>Long-termness</td>
</tr>
<tr>
<td>Transaction-based elements (total)</td>
<td>Medium/High</td>
<td>Low</td>
<td>Relationship-based elements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(total)</td>
</tr>
</tbody>
</table>
The different types of elements in this exchange have been positioned in Figure 6.3. One matter that should not be neglected is that direct exchange with the bank is limited. Some transaction-based elements were present, but the relationship-based elements were limited.

![Figure 6.3. Position of depositing of cash characteristics.](image)

### 6.4 DIGITAL DEPOSITING

Retail firms serving consumers primarily use a digital depositing service, as they use payment cards as an alternative to pay with cash. When consumers use payment cards, the money is deposited electronically. The exchange is to some extent performed by the bank, but there are also other third party suppliers involved in the exchange, such as the card acquiring companies.

The transaction-based elements were apparent for digital depositing. Hard information was exchanged between the retail firms and the banks when the customers made a payment with payment cards. All the retail firms indicated the
use of hard information related to digital depositing. This motivates a high level of hard information for these firms. There were firm representatives who revealed that digital depositing was taking place via digital communication channels. This is evident, and motivates a high level of this element for digital depositing. The presence of digital communication channels is in line with Thunman (1992), who identified technical bonds between the firm and the bank. The importance of price was at a high level among the retail firms, and as a majority of these firms referred to the cost and price of digital depositing it motivates a high level of the importance of price element. This was also stressed by the frequency of which the exchange takes place in this case. The firms demonstrated that there were costs for both the electronic transaction itself and for the hardware that the firms need to perform the service. The importance of price is suggested by Kelly and Coaker (1976) as an important criterion for purchasing. Further, the retail firms perceived that the price of digital depositing had increased relatively more than the price of cash depositing. To a large extent the retail firms highlighted the transaction-based elements and in total, digital depositing demonstrated a high level for these elements.

As for the previous service – depositing of cash – relationship-based elements were more or less absent. One firm had disagreements with the bank, which may indicate the presence of soft information. However, the level of such information is assessed as low. The firms do have personal contact with the bank, albeit infrequently. Occasions when at least one firm was in contact with the bank or the card acquiring company personally were when they were starting to use the service or when problems occurred. There were some personal contacts, but the amount still only motivates a low level of this element. The exchange related to digital depositing took place regularly on daily basis for a majority of the firms. This motivates a medium level of long-termness, which is in line with the relationship-based elements that Moriarty et al. (1983) identified. In total, the relationship-based elements are at a low/medium level. The results of the analysis for digital depositing are summarized in Table 6.4.

In Figure 6.4, the position of digital depositing is visualized. In general, the representation of the transaction-based elements among the retail firms was broad. The different position compared to the position of depositing of cash depends mostly on the degree of the element digital communication channels for the transaction-based elements, but also on the degree of the relationship-based element long-termness.
Table 6.4. Classification of digital depositing.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
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<tr>
<td>channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of price</td>
<td>High</td>
<td>Low</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium</td>
<td>Long-termness</td>
</tr>
<tr>
<td>Transaction-based elements (total)</td>
<td>High</td>
<td>Low/Medium</td>
<td>Relationship-based elements (total)</td>
</tr>
</tbody>
</table>

As shown in Figure 6.4, the indications of relationship-based elements are few. Explicit statements on the presence of personal contacts and trust were absent. However, there are indications that point to a long-term exchange, which implies that the relationship-based elements are not completely absent.
6.5 EXCHANGE OF MONEY

Exchange of money is demanded by retail firms that need desk change when consumers are paying with cash (Lundberg et al., 2014). The observed cases here indicated that the exchange was heterogeneous, and that personal interaction with the bank had decreased as the use of cash had decreased. Some banks offered exchange of money to firms, while others did not. In the latter situation, the firms had to use alternative financial intermediaries as service providers, with whom they did not have a previous relationship and who were not located in the same area as the firm. The exchange of money depended specifically on how the service was performed and completed, as this was not carried out in the same way for all the firms. The retail firms demanded exchange of money, but the bank and the financial intermediaries did not perform this service in the same way.

The transaction-based and relationship-based elements for this service are summarized in Table 6.5. Regarding the transaction-based elements, I found that there were some differences between the two locations. Some firms had
agreements with a CIT, while other firms fully relied on the bank. Some retail firm representatives expressed that they exchanged stacks of money with different denominations, which means that hard information was present when retail firms needed to exchange money. This justifies a medium level. Only one firm used digital communication channels to order desk change, which motivates a low level for this element. The importance of price was an element that concerned retail firms, primarily at location 1. A couple of firms at location 1 emphasized the importance of price due to the costs that they incur for exchange of money. By exchanging money the firms helped the banks to get rid of small denominations, which corresponds to empirical results presented by Lundberg et al. (2014). At location 2 one firm did not have to pay for this service. If a firm did not pay for a service, the importance of price may be low, but if a bank charged high fees for the same service, the price became important. The findings demonstrate that there was a difference depending on what bank the firm employed for exchange of money. Based on the data from the two locations, I interpret the importance of price to be at a medium level. I contend that the transaction-based elements are at a medium/low level.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
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<td>Medium</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Importance of price</td>
<td>Medium</td>
<td>Medium</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>Medium</td>
<td>Long-termness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transaction-based elements (total)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements (total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium/low</td>
<td>Medium/low</td>
<td>Medium/low</td>
</tr>
</tbody>
</table>
The findings indicated that relationship-based elements were present when money was exchanged, and that there were some differences between the two locations. Soft information was limited at both locations, but a few retail firms with the bank branch office in the vicinity relied on tacit knowledge to some degree for the exchange of money. Considering the firms at both locations, a low level of soft information is motivated. The personal contacts were important for one firm at location 1, before the local bank branch office closed down. Since the distance to the bank branch office became much further, the firm representative visited the bank less frequently and the personal contacts decreased. For location 2 there were at least two firm representatives who went to the bank personally to exchange money on regular basis, which motivates a medium level of personal contacts. Regarding trust, one firm at location 1 emphasized the importance of commitment and that previous experiences influenced its willingness to perform the exchange with its bank. At location 2, another firm experienced a win-win situation, which increased trust and confidence in the bank, and which corresponds to research by Ganesan (1994). These findings motivate a medium level of trust. As exchange of money takes place on a regular basis for the retail firms, a medium level of long-termness is justified. To some extent the two locations show different characteristics of the service offerings. However, the overall assessment of the relationship-based elements is that they are at a medium/low level.

The findings presented in Figure 6.5 are on an aggregated level, but it is interesting to analyse the relationship-based elements for this particular service, as some distinctive differences emerge between the firms that have Handelsbanken and the firms that have other banks or financial intermediaries supplying this service. For the firms using Handelsbanken, the relationship-based elements are more apparent and the firms meet the bank manager in person more frequently. The bank is available after the bank officially has closed for the day and some firms did not have to pay for the service. Since both the firms and the banks gain on the exchange, a mutual respect and trust seems to evolve in this process. The denominations of the desk change that the firms lack are the denominations that the bank has in excess and vice versa. For other firms, the relationship-based elements appear to be more or less absent. Even though the firms may develop a long-term exchange with the CIT service provider, the exchange seems to be less diverse compared to the exchange that takes place with the bank. Thus, the characteristics of exchanging money depend on the bank and the service provider that is performing the service.
Figure 6.5. Position of exchange of money characteristics.

The exchange on an aggregated level in Figure 6.5 illustrates a position for this service in the lower left quadrant. There are admittedly differences between the firms; this implies that the characteristics are of a heterogeneous kind for this service and it is apparent that the different characteristics depend on how the banks or the financial intermediaries provide the service.

6.6 PAYMENT

Payment is a service that all the firms employ in order to transfer money back and forth from one account to another, and it was considered to be one of the most important bank services. The result of the analysis is summarized in Table 6.6, which shows that the transaction-based elements are high, while the relationship-based elements are at a medium/low level.

All firms were making payments via the bank, and the informants expressed that payments needed to be easy to perform. When firms made their payments the amounts could be typed in manually. In some cases electronic files with payment
information were also distributed to the bank and then the payment process was carried out more automatically. Since all firms were making payments and the payments were essentially information that is easy to transfer, a high level of hard information is justified, which corresponds to the findings of Petersen and Rajan (2002), who contend that hard information is easy to transfer. Most firm representatives mentioned that they use digital communication channels to make payments. They argued that IT solutions are important and that they use Internet banking and other IT solutions. This motivates a high level for the digital communication channels element. Some firms indicated that the cost was important when making payments. As all the firms were frequently conducting payments, an increased price for payments would affect them, and consequently it would have a negative impact. Even if the cost per exchange in general was low, the frequency of payments was high. Therefore the importance of price justifies a high level for this element, as the firms are sensitive to a higher cost, which is in line with Lundberg et al. (2014).

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>High</td>
<td>Low</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication</td>
<td>High</td>
<td>Low</td>
<td>Personal contacts</td>
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<tr>
<td>channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of price</td>
<td>High</td>
<td>Medium</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Long-termness</td>
</tr>
<tr>
<td>Transaction-based elements</td>
<td>High</td>
<td>Medium/Low</td>
<td>Relationship-based elements</td>
</tr>
<tr>
<td>(total)</td>
<td></td>
<td></td>
<td>(total)</td>
</tr>
</tbody>
</table>

The relationship-based elements were of less importance for the payment service. There were no indications of soft information, and there were few personal contacts related to how the payments were conducted. Some firm representatives
mentioned that trust in the payment solution was important. The bank account was central to making a payment, and a relationship between the firm and the bank needed to be established before a payment could be made. The characteristics of the bank account are, therefore, to some extent inherited by the payment services, which underlines the importance of trust before making a payment. Based on this reasoning, I assess the level of trust to be at a medium level for this service. Looking at the time perspective, one single payment only took a short period of time to perform, but there were payments that were repeated frequently. This indicates a longer perspective for payments. When payments were conducted via Internet banking the systems were the same for each payment and in that sense a payment has a longer perspective. This motivates a medium level of long-termness for payment.

The payment characteristics are displayed in Figure 6.6. The relatively low level of relationship-based elements deserves some attention, as there were few explicit statements that put emphasis on them. To some extent this exchange could inherit the characteristics from the bank account. The informants did not explicitly state it, but payments were dependent on services such as the bank account, which indirectly influenced the payments. In order to make a payment and to receive a payment a firm needs a bank account. Therefore, there is a link between the two services, bank account and payment, and the characteristics of the bank account influence the payment service.
6.7 SAVING AND INVESTMENT

Saving and investment were not the most critical bank services, although some of the firms saved and invested money at their banks when they had a surplus. Some firm representatives highlighted that they directed their saving and investment towards their own business, such as inventory. This is to some extent related to saving and investment at the bank, but this was primarily not placed at the bank. The firms often took a loan to invest in their own business, which later had to be amortized. This amortization is therefore connected with saving and investment.

Few transaction-based elements were found for saving and investment. Hard figures and agreements were generally not mentioned, which may be a result of the fact that few firms conducted this type of service. However, investment products and pension provisions depended on explicit terms that per se influenced the exchange. One firm stated that the pension provisions were mandatory, which implies that hard information is present to some extent and taking this into account motivates a medium level of hard information. Some firms employed saving or
investment services and used digital communication channels when trading stocks. Based on these observations a medium level of this element is motivated. The most apparent transaction-based element was the importance of price. Firms that saved and invested money put emphasis on the price, as they are keen to receive a return on their investment. Since the firm representatives were aware of the return they received on invested money, I contend that a high level of the importance of price element is reasonable. This supports Eriksson and Hermansson’s (2014) findings on the importance of price for saving and investment. The aggregated transaction-based exchange is at a medium/high level for saving and investment.

In this exchange, there were few apparent signs of soft information. The cases demonstrate that some kind of tacit information was present for saving and investment. The considerations made regarding this element justify a medium level of soft information. There were also indications of relationships to other services such as bank account, loan and depositing services, so saving and investment may inherit some characteristics from these services. The firms that employed other more complicated saving and investment services, i.e. not only keeping money in the transactions account, seemed to have more personal contacts and met their bank more frequently, which, in turn, increased the opportunities to develop closer and more personal contacts with the bank. This motivates a medium level of personal contacts. Trust seems to be an important relationship-based element, at least for some firms, as firms without confidence in the bank may not save or invest money with it. Firms that invested in their own businesses may have less confidence in the bank and instead rely more on their own ability to generate financial returns than trusting the bank’s ability. This motivates that the trust in the exchange is at a medium level for saving and investment. This corresponds with the findings of Eriksson and Hermansson (2014), who argue that trust is of importance for saving and investment. The firms mentioned three main products related to saving and investment – depositing at the bank account, stocks and funds. Some of these placements were made for a shorter period of time, while others were made for a longer period this motivates a medium level of long-termness. The aggregated relationship-based elements are at a medium level.

Table 6.7 summarizes the analysis of the transaction-based and relationship-based elements in the exchange of this specific service.
Table 6.7. Classification of saving and investment.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>Medium</td>
<td>Medium</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication</td>
<td>Medium</td>
<td>Medium</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of price</td>
<td>High</td>
<td>Medium</td>
<td>Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medium</td>
<td>Long-termness</td>
</tr>
<tr>
<td>(total)</td>
<td>Medium/High</td>
<td>Medium</td>
<td>Relationship-based elements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(total)</td>
</tr>
</tbody>
</table>

Figure 6.7 illustrates the aggregated findings concerning the saving and investment characteristics, but the evidence is not particularly clear in this case. The interpretations are uncertain as few firms actively employed saving and investment services, apart from depositing money. A majority of the firms gave the impression that no substantial savings and investments were made at their bank. In general, the most important investments were made in their own business.
6.8 ADVISING

The study found that almost every firm participated in advisory meetings at least one time every year. Some of the firms also received advice from their relationship manager at the bank more frequently. However, one CEO stated that the firm did not have contact with a personal relationship manager at the bank.

A few firm representatives reported that hard information, digital communication channels and the importance of price influenced advising. During the yearly advisory meetings interest rates, fees, liquidity and financial statements were on the agenda, which underlines that advising was an activity where issues were sorted out between the firm and the bank. Sorting out these issues indicates hardening of information, which supports the findings of Petersen (2004). Some firms stated that different types of hard information were on the agenda, but not all firms confirmed this. This motivates a medium level of hard information. A couple of firms argued that digital communication channels were utilized in order to have better control of financial information. Firms may have the option to use
digital communication channels for advising. This motivates a medium level related to such channels. The cost for the bank services that are discussed at the advisory meetings concerns most firms, but for the advisory service itself, the firms did not consider the cost in general. Further, the firms did not have to pay to participate in the banks’ advisory meetings. Since there was only limited evidence of the importance of price for advising, a low level of this element is motivated.

The relationship-based elements are apparent in the advising exchange. Advising seems to be a complex service and there is a risk of misunderstandings between the firm and the bank, which motivates a medium level of soft information. Personal contacts take place more or less frequently, even though one firm did not have a relationship manager. In general, the firm representatives indicated that the personal touch and the personal connection with the bank personnel were important. Therefore, I interpret the personal contacts to be on a high level. Although some firms did not fully trust their banks, trust was still perceived as important, which corresponds to Bradach and Eccles’ research (1989). Among the firms, there were examples of win-win situations, which is likely to increase the firms’ trust in their banks. My interpretation is that level of trust is high. The cases give evidence for long-termness in this exchange, as, in one example, a bank replaced the contact person, which was problematic for the firm because it created the need to build a relationship with another bank representative. Advisory meetings seem to involve both historic and future perspectives. The future perspective of advising does not only mean difficulties in measuring the result of a piece of advice, as addressed by Lundahl and Silver (2005), but also that the long-termness for advising is evident.

The results of the analysis of the transaction-based elements and the relationship-based elements in total for advising are summarized in Table 6.8. Based on the findings, the aggregated transaction-based elements for advising are considered to be medium/low, while the relationship-based elements are high/medium.
Table 6.8. Classification of advising.

<table>
<thead>
<tr>
<th>Transaction-based elements</th>
<th>Degree of elements (low, medium, high)</th>
<th>Degree of elements (low, medium, high)</th>
<th>Relationship-based elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard information</td>
<td>Medium</td>
<td>Medium</td>
<td>Soft information</td>
</tr>
<tr>
<td>Digital communication channels</td>
<td>Medium</td>
<td>High</td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Importance of price</td>
<td>Low</td>
<td>High</td>
<td>Trust</td>
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<td></td>
<td></td>
<td></td>
<td>Long-termness</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Transaction-based elements (total)</th>
<th>Medium/Low</th>
<th>High/Medium</th>
<th>Relationship-based elements (total)</th>
</tr>
</thead>
</table>

Figure 6.8 displays the position for advising in the upper left quadrant. Advising takes place via personal meetings and here trust is important. Personal contacts with the bank seem to be beneficial for firms in order to develop better relationships with the banks, which is in line with Uzzi and Lancaster’s (2003) findings on personal contacts. I also suggest that a bank that understands the history of a firm is able to give relevant advice and identify win-win situations.
6.9 SUMMARY OF THE MULTIDIMENSIONALITY OF EXCHANGE

The firm–bank exchange is critical for firms and the exchanges between the firm and the bank contain a broad range of bank services, of which eight regular services are analysed in this study. The analysis of the services demonstrates that their characteristics differ (see Figure 6.9.) Previous studies traditionally argue that the exchange is either governed by transactions, or governed by relationships (Macneil, 1980; Thunman, 1992; Uzzi and Lancaster, 2003). According to research on governance mode, the exchange is located on a continuum from market transaction to relational exchange (Lambe et al., 2000; Uzzi, 2000), which is also the most traditional and common way to approach the exchange between firms and banks.

The point of departure of this study is instead that these two types of elements coexist, which is in line with Bradach and Eccles’ work (1989). By recognizing that different services are exchanged, and that the elements related to each of these services can be characterized as transaction-based or relationship-based to different
degree, a more complex picture appears. This picture captures the multidimensionality of firm–bank exchange. The first main finding is that firm–bank exchange is complex. Taking into the consideration that the firm does not buy just one service in this exchange, but several, my findings indicate that these individual services do not display the same characteristics.

Thus, the analysis confirms that a framework permitting multidimensionality is a fruitful approach. In fact, the eight bank services cover all four quadrants in Figure 6.9.

In quadrant I, where both kinds of elements are relatively low, exchange of money is positioned. The reason for this is not that the service is completely absent, but that the interface with this service is not with a bank, but with an intermediary.

In quadrant II, depositing of cash, digital depositing and payments are found. This quadrant is characterized by a high degree of transaction-based elements and a low degree of relationship-based elements. These types of services resemble the
traditional market transaction, where the firm and the bank do not need to have a lot of contact and the price is important and determines whether or not the firm buys the specific service from the bank.

Advising is positioned in quadrant III; this is an exchange characterized by a low degree of transaction-based elements and a high degree of relationship-based elements. This quadrant represents the opposite situation compared to quadrant II, and has a lot in common with how the relationship marketing and network perspectives describe how the exchange is performed. Soft information, personal contacts, trust and social interaction are necessary in order to perform this exchange.

Finally, bank account and loan are found in quadrant IV. These services are characterized by a relatively high degree of transaction-based elements and a high degree of relationship-based elements. Saving and investment are placed in between quadrants II and IV. In terms of exchanges for saving and investment, it follows that they are complex and both contain information that is not easy to transfer electronically, but requires human interaction and trust, but at the same time, the financial and economic dimensions are important for the well-being of the firm. Moreover, it seems that a two-sided dependence characterizes these services. Consequently, the firm and the bank can solely rely on the relationship marketing or the pure market transaction paradigm in order to perform these exchanges.

If one accepts this analysis with its limitations, it follows that both the firm and the bank have to pursue different strategies and behaviour depending on the service that is in focus. For example, it is a waste of resources to spend competence, time and money in order to perform digital depositing as it had the characteristics of an exchange with relationship-based elements. Thus, a mismatch between the characteristic and the strategy and the nature of the specific service can be costly for the firm and the bank, and lead to failures. For example, advising usually tends to require trust and personal contacts and cannot be delivered solely within digital communication channels and through transfer of hard information. Closely related to the strategy is the competence to perform the exchange, where both counterparts have to be careful about who is responsible to carry out the exchange strategy. This is, of course, less of a problem for the big banks, but for small and medium size firms with limited resources and where the exchange with the bank is not the main operation, it might be a problem to find people who fit the exchange. A critical question for the bank is the balance between providing competence and not having too many people involved in the exchange with the firm. Finally, firms
may need more or fewer services, and it seems that the number of and how the services are combined — usually banks offer more than these eight services — are likely to influence the multidimensionality of the exchange.
CONCLUDING REMARKS

The multidimensional approach applied in this study appeared to give a richer and more sophisticated picture of the exchange of different services between firms and their banks. The cases give indications of why this multidimensionality prevails. This study attempts to address the characteristics of firm–bank exchange that have not been fully understood in business research, which has been done by identifying elements characterizing bank services. Previous research has to a large extent focused on either transaction-based or relationship-based elements, and viewed the exchange as based on either transactions or relationships. To some extent these approaches have limited the research and not captured the multidimensionality of firm–bank exchange. Although there have been attempts to conceptualize the two types of exchange, they have been made without investigating the broader range of bank services that firms normally employ. Research has focused on a particular service, such as saving within retail banking (Eriksson, 2006; Eriksson and Hermansson, 2014) or on the firm–bank exchange in general (Carson et al., 2004). Further, finance literature has to a large extent addressed lending, while other bank services have been left alone (Boot, 2000; Udell, 2008).

Counter to what is derived from classic service marketing and relationship marketing (Berry, 1983; Grönroos, 1994; Gummesson, 1987), this study argues that firm–bank exchange has a more complex nature than previously understood, which means that the transaction-based and relationship-based elements are heterogeneous for bank services. Two services, bank account and loans, are demonstrated to be highly transaction-based and highly relationship-based, while depositing of cash, digital depositing, payments and saving and investment are demonstrated to be more transaction-based than relationship-based, even if saving and investments indicate a more even distribution of the assessed aggregate. Exchange of money is shown to include relatively low levels of transaction-based and relationship-based elements, although some of the relationship-based elements range from low to high depending on the situation, such as the specific service that the bank offers to the firm and/or the location of the bank. Advising is demonstrated to be highly relationship-based and less transaction-based. In other words, the cases demonstrate a multidimensional firm–bank exchange.

Admittedly, there are some limitations to this study. It has not analysed the changes taking place in the economy. For example, over the last 20 years the information used and exchanged is to a much larger extent flowing through digital communication channels, where hard information has a more important role.
However, business scholars (e.g. Howcroft et al., 2007) argue that the exchange has moved from a transactions-oriented to a relationship-oriented exchange, but this does not correspond to the increased importance of digital communication channels and information technology in general. The role of information technology seems to be dual. On the one hand, information technology can give transaction-based elements a more significant role in the exchange, as more hard information is accessible and transparent, but on the other hand, the technological bonds established seem to increase the importance of relationship-based elements. In addition, digital technology has given location a new meaning, as it has led to the ability to perform bank services remotely. In general, for bank services where the transaction-based elements dominate, a greater distance from the bank seems to matter less compared to services that are primarily relationship-based. This study indicates that close personal contacts with the bank enhance the exchange between the firm and the bank. Face-to-face meetings and personal contacts are important in order to develop more complex bank services where soft information is exchanged. The personal contacts and the face-to-face meetings are also important for bank services where the contacts with the bank are perceived as important for the firm.

I would also like to address the fact that the weight that each element is given in the bank service exchange has influenced the analyses. This holds for the definitions as well. If definitions had been more or less narrow, this would probably have influenced the result of the study/analyses. I therefore call for more comprehensive definitions and a more coherent terminology concerning firm–bank exchange, but also other business-to-business types of exchanges. For example, an exchange that takes place via digital communication channels over the long-term would be characterized as being both transaction-based and relationship-based. Establishing a digital communication channel between a firm and a bank, such as opening a bank account with Internet banking creates a technological bond, i.e. a long-term bond that is related to and can be viewed as relationship-based. This suggests that the exchange is more complex than has been appreciated in earlier research. Further, to be able to transfer an electronic payment or make any type of financial transaction via Internet banking, there must be a relationship between the actors established before the financial transaction takes place.

By studying firm–bank exchange covering various bank services, including transaction-based and relationship-based elements, the findings demonstrate that the nature of firm–bank exchange is multidimensional and that bank services have different characteristics. However, the study has only captured the firm–bank exchange in a specific region in Sweden, where many bank branch offices have
closed down and firms are particularly dependent on proximity to banks. The location of the firms may influence the exchange. If the distance to the bank branch office varies the exchange may change depending on whether the opportunities for face-to-face communication are better or worse. If it takes more or less time or costs more or less money to travel to the bank, some service exchanges seem to be influenced as well, at least for some firms.

The number and character of the firms in the sample is limited. This study only concerns ten firms and several of them are in similar industries and of similar sizes. Moreover, as only a few of the selected firms conduct saving and investment, this may have an impact on the result. Consequently, it would be interesting to analyse the experiences of firms in other regions, as it would be beneficial to investigate firms in different industries and of different sizes. I suggest researchers should quantitatively study the firm–bank exchange of various bank services. This study analyses eight services, but banks offer significantly more. As several services include a more extensive use of information technology, a longitudinal study may increase our understanding of the impact that the rollout of IT services has had. One possible effect of this development is the closure of bank branch offices, which provides an additional topic to study. Other areas of importance for firm–bank exchange are the regulative and institutional changes, such as new regulations and harmonization of the European and international financial regulations, which govern the banks. In some respect the implementation of new regulations can be performative and influence behaviour. It would be interesting to investigate the impact of the new regulations to gain a better understanding of the market complexity and the reciprocity between the market actors. Moreover, it is important to encourage a broader discussion of transactions and relationships in banking and how the bank–firm exchange is defined in general, which concerns both finance and business research.

Last, but not least, I observed that the picture of the analysis differs depending on firms, location and bank. It was not the main purpose of the study to identify these differences, but as the sample consisted of various types of firms, using different banks, and located in several places, I was able to make some additional observations.

First, banks do not pursue a uniform strategy, as noted in the exchange of money service. Some banks may place a stronger emphasis on building personal relationships with firms and welcome social interaction and contacts, while other banks’ strategies may focus more on the development of new technologies and interaction and exchange of information through the Internet. For banks that only
offer Internet banking services, the exchange can be shown to have a more transaction-based nature, while for banks that offer advisory services, the exchange has more relationship-based characteristics. The nature of a service such as exchange of money can be different depending on whether or not another financial intermediary such as a CIT service provider performs the service.

Second, there is empirical evidence in the cases that the locations of the bank and the firm play an important role in how the exchange is developed and performed. The locations in this study have a lot in common and they are not very distant from each other, but when it comes to banks, they are different to some degree. The distance does, of course, constrain soft information and personal interaction, and does to some extent also limit the emerging trust in people and personal contact. The distance between the bank and the firm necessitates the use of digital communication channels.

Third, the firms’ characteristics influence the multidimensionality as firms belong to different industries and have different sizes. The cases convincingly show that retail firms’ demands differ from those of other types of firms. Retail firms still handle big volumes of cash, which means that the services containing cash are important for them, and they have needs that differ from those of other firms. This, in turn, means that the retail firms’ exchange tends to have different characteristics compared to other firms’ exchanges. For firms that only make payments, the exchange would have a more transaction-based nature, while for firms that have loans and need advice, the exchange would have a more relationship-based nature.
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APPENDIX 1

A list of bank services offered to SMEs by Swedish banks (that operate in Västernorrland, Sweden e.g. Danske Bank, Handelsbanken, LF Bank, Nordea Bank, SEB and Swedbank).

- Accounts for deposits and saving (different types of bank accounts with different interest rates and terms)
- Advising (in person/by phone)
- Asset management and investment services (saving, securities etc.)
- Cash management (CIT, money pick-up services, collection services, etc.)
- Credit card
- Credit check
- Customer service
- Electronic ID (BankID – secure login)
- Electronic invoicing
- Electronic bookkeeping (integrated with Internet banking)
- Exchange of money
- Insurance services
- International business services
- Internet banking
- Leasing (e.g. car leasing)
- Letters of credit
- Legal advice (tax, change in ownership and succession planning)
- Loans and financing (different types with different interest rates)
- Mobile banking
- Newsletter
- Payment services
  - Card services (e.g. payment card and card stop services).
  - e-payroll (salary management)
  - Express payments
  - Filetransfer payments
  - Giro payment (Bankgiro and PlusGiro – National payment transactions for incoming and outgoing payments)
  - International payments (in- and outgoing)
  - Mobile payment solutions (e.g. Swish)
- Pensions
- Phone banking
- Risk management (currency, interest, commodity, market risk)

These banks offer more services than those presented above. In some cases there are services or products that are included in e.g. advising, cash management, risk management, etc. Some services are related to each other e.g. advising with other bank services.
APPENDIX 2

Interview guide (Original interview guide in Swedish, see Appendix 5)

Interviewer
(Name)

1. Introduction to the study
The interviewer (Magnus) tells the informant about the purpose of the study and asks how much time he/she has for the interview. The study is described as a study of SMEs. (For the first informants in the early stage of the study, it is said that the closure of bank branch offices is of interest).

2. Information about the informant
Would you like us to exclude your name? Yes No
Date: Interview number:
Name: Age:
Role:
Education level:
(Interviewer circles the option that applies) Grammar School High School Post
High School Academic degree Post-graduate degree

IT knowledge:

3. Firm-related questions
Name of the company:
Industry:
Turnover:
Number of employees:

4. Bank-related questions
4.1. General bank questions
Has your business been affected by the closure of the local bank branch office?
How did it influence your firm?
How did this influence other firms locally?
What is most important about a local bank branch office?
What bank or banks do you and your business use?
What alternative banking solutions are available that you can use or would consider using?
Why? Why not?

4.2. Bank services
What bank services does your firm use?
What are the most important bank services? (Name at least five services) (Help the informant if the informant does not mention any alternatives).
Why are these bank services important?
What bank services can you employ without visiting the bank office and vice versa?
What bank services would your company be able to employ via the Internet? (i.e. the services that you do not currently use via the Internet today) All bank services?
How often do you use each bank service?
Is it important that the bank have a competitive offering of IT-related services?
How important is the price of the bank services?
For which bank services is the price important?
Are there any other factors that are important? What factors?
What bank services does your company use most frequently?

4.3. The relationship with the bank
Is it important to have a good relation to the bank? Why?
Is it important to have a personal contact at the bank?
Do you receive help from the personal contact at the bank?
What do you value the most?
Why? What does it depend on?
Does your personal contact or the relationship manager at the bank visit your company on site?
How often does this take place?
Are they genuinely interested in your business?
What does the bank do to strengthen the relationship with you as a client?
Are there better ways?
How?
Why?
4.4. Transaction-related questions
Are there bank services where the relationship is not important?
For what services?
How often do you use these bank services?
How often do you visit the bank office?
How often do you log in to Internet banking?
What services do you use there?
What services can you not use there?
Is speed important when using bank services?

4.5. Technology-related questions
Do you know if there are technological solutions that can help you obtain a loan?
How often do you use the telephone bank for your business?
How do you use it?

4.6 Cash management
How does your company handle cash?
How often?
How large an amount is it?
Would it be positive or negative for your business to not handle cash?
Would your business survive without cash?

5. Questions related to the distance between the firm and the bank
How important is it that there is a bank branch office nearby?
Why? Why not?
Please describe this more!
What obstacles or problems do you see with a greater distance to your bank office?
Would it cost more money for you if the distance increased?
How long does it take to go to your nearest bank office?
What is the distance to this office?
Would it be more difficult to operate your business if the distance was greater?
Would it make a difference if the bank branch office were located in Sundsvall?
Stockholm? Another place?
What does this depend on?
6. Additional information
Is there anything you would like to add?
Do you know any other firm that we could contact?

7. Final question
If we have any additional questions, would it be ok to come back to you?

Thank you for your time!

If you have any further questions, you are very welcome to contact me.

(Leave contact details for the informant)

Magnus Norberg
Mid Sweden University
APPENDIX 3

Additional questions during the interviews

The advisory service

Whom do you meet personally at the bank?
What role does this person have?
Are there different people at the bank that you meet?
How often do you meet your advisor at the bank?
What is the purpose of the advice?
Where do you meet? Why?
How long does the meeting take?
What happens during the meeting?
What do you discuss?
Who is taking the initiative at the meetings?
Do you trust your personal contact at the bank?
Does your bank contact keep their promises?
Is your bank contact competent?
Does your bank contact know you and your business?
What knowledge does the advisor have about the location?
Has the advisory service changed? In what way?
Is your bank contact accommodating?
Do you talk in a separate room or an open office?
Were you satisfied with the advice that the bank contact gave you?
Why, or why not?
What is important when you receive advice?
How replaceable is your contact person at the bank?
What happens if this person is not available (sick, is not working)?
Is there any other person that you can address your questions to?
Have you changed your personal advisor? What happened?
Did it become better or worse?
What is important for you to feel satisfied with the advice?
Does your bank contact offer you coffee or anything else?
What information do you receive before the meeting?
What information do you get after the meeting?
What power relationships exist between you and your personal advisor?
Can you get financial advice elsewhere?
Technology-related questions

Are there any other technical aids for the meetings with your bank contact?
Can you get advice via videoconferencing?
What are the pros?
What are the cons?
Do you get a reminder for a meeting?
Do you receive financial advice via the Internet?
Is that information correct?
Have you received incorrect information via the Internet?
Does it take time to find the information when you search for advice via the Internet?
Is the bank’s website always available?
Is it more efficient to call? When?

Regulatory questions

In what circumstances is there a written contract between your firm and the bank?
Are there contracts that regulate advice?
What agreements are they?
Do you have these agreements available?
Are these agreements complicated to understand?
Do you know what it says in the agreement?
Are the contracts between your firm and the bank necessary?

(Some of the questions above were asked to the informants during the first interview, and in two cases I returned and conducted follow-up interviews and asked additional questions on that second occasion. Not all questions were asked to all the firm representatives and the questions were not asked in the same order.)
APPENDIX 4

Lista av tjänster som erbjuds av de sex största bankerna som är verksamma i Västernorrland, Sverige dvs. Danske bank, Handelsbanken, Länsförsäkringar Bank, Nordea, SEB och Swedbank:

Bank konto (med olika typer av villkor och med olika avkastning/ränta)
BankID
Bank och kreditkort
Betalning
  - Girobetalning (exempelvis Bankgiro och Plusgiro)
  - Betalning via fil
  - Expressbetalning
  - Internetbetalning
  - Kortbetalning
  - Lönebetalning
  - Mobil betalning (exempelvis Swish)

Bokförings- och administrationstjänster (exempelvis e-bokföring)
Cash management (exempelvis dagskassehantering)
Fakturahantering
Försäkringstjänster
Internetbank
Internationella banktjänster
Juridisk rådgivning (exempelvis skatt, ägarförändring och succession)
Kapitalförvaltningstjänster
Kreditkontroll
Kortinlösen
Lån (med olika typer av villkor)
Leasing (bil m.m.)
Mobilbank
Nyhetsbrev
Riskhantering (riskkontroll m.m.)
Rådgivning (personlig samt telefonrådgivning)
Pension
Sparande och placeringar (exempelvis akter m.m.)
Telefonbank
Växling
Det finns fler banktjänster som bankerna erbjuder än de som nämns ovan. Några banktjänster ingår i eller är också relaterade till andra banktjänster. Exempelvis ges rådgivning för många andra banktjänster.
APPENDIX 5

(Original interview guide - In Swedish)

Intervjuare
Magnus Norberg

1. Introduktion till studien
Magnus berättar om forskningsprojektet och syftet med studien och frågar respondenten hur lång tid han/hon har till förfogande.
Kortfattat beskrivs studien som en undersökning av hur små och medelstora företag (SME) påverkas av att bankkontor läggs ner.

2. Information om respondenten
Vill ni att vi utelämnar ert namn? Ja Nej
Datum: Mötesnummer (Ex 1.1*):
Namn: Ålder:
Roll: 
Utbildningsnivå:
(Ringa in) Grundskola Gymnasium Eftergymnasial Akademisk examen Post akademisk
IT-kunskaper:

3. Företagsrelaterade frågor
Företag:
Bransch:
Omsättning:
Antal anställda:

4. Bankrelaterade frågor
4.1. Allmänt bank
Har er verksamhet på något sätt påverkats av att bankkontoret på orten lades ner?
Hur påverkade det er?
Hur påverkade det andra företag på orten?
Vad är det viktigaste anser du med att ha ett bankkontor på orten?
Vilken, eller vilka banker använder ni i ert företag? 
Vilka alternativa banker/lösningar finns det som kan ni använda/överväger att använda? 
Varför? Varför inte?

4.2. Banktjänster
Vilka banktjänster använder ert företag? 
Vilka är de viktigaste banktjänsterna (Nämnn minst 5 st)? (Hjälp respondenten med alternativ).
Varför är dessa banktjänster viktiga? 
Vilka av dessa banktjänster kan ni genomföra utan att besöka bankkontoret och vice versa? 
Skulle ert företag kunna genomföra bankärenden via Internet? Alla ärenden? Hur ofta? 
Är det viktigt med en bank som har ett konkurrensskraftigt utbud av IT-relaterade tjänster? 
Hur viktigt är priset på banktjänsterna? 
I vilka avseenden har priset betydelse på banktjänsterna. 
Finns det andra faktorer som har betydelse? Vilka? 
Vilka banktjänster använder ert företag mest frekvent av?

4.3. Relationen till banken
Är det viktigt med en bra relation till banken? På vilket sätt? 
Är det viktigt med en personlig bankkontakt? 
Får ni hjälp av den personliga bankkontakten? 
Vad värdesätter ni mest? Varför? 
Vad beror det på? 
Får ni besök av personer från er bank/den kundansvarige banktjänstemannen? 
Hur ofta får du besök av personer från banken? 
Har de intresse av din verksamhet? 
Hur gör banken för att stärka relationen med dig som kund? 
Finns det bättre sätt? 
Hur? 
Varför?

4.4. Transaktionsrelaterade frågor
Finns det banktjänster där relationen saknar betydelse?
Vilka?  
Hur ofta genomför ni bankärenden?  
Hur ofta besöker ni ert bankkontor?  
Hur ofta går ni in på er Internet bank?  
Vilka ärenden uträttar ni där?  
Vilka ärenden kan ni inte uträtta där?  
Har snabbheten betydelse för genomförandet av bankärendet?

4.5. Teknikrelaterade frågor  
Känner ni till om det finns tekniska lösningar som kan underlätta för er att få lån?  
Telefonbanken, hur ofta använder ni den? Hur använder ni den?

4.6 Kontanthantering  
Hanterar företaget kontanter?  
Hur ofta? Hur stora belopp handlar det om?  
Skulle det vara positivt eller negativt att slippa kontanthantering?  
Skulle ert företag kunna överleva utan kontanthantering?

5. Frågor relaterade till avståndet  
Har det någon betydelse att det finns ett bankkontor nära företaget?  
Varför? Varför inte?  
Beskriv ytterligare!  
Vilka hinder/problem ser ni med ett längre avstånd till er bank?  
Kostar det er mer pengar?  
Hur lång tid tar det att åka till ert närmaste bankkontor i er bank?  
Hur långt är avståndet till er bank?  
Är det svårare att driva ert företag om avståndet till banken var längre?  
Skulle det fungera lika bra att ha en bankkontakt i Sundsvall? Stockholm? Annan ort?  
Vad beror det på?

6. Övrigt  
Har ni något mer som ni vill tillägga?  
Har du tips på andra företagare som vi kan kontakta?
7. Avslutning
Om det skulle vara någon kompletterande fråga. Är det ok att vi återkommer? Tack för er tid! Har ni några ytterligare funderingar så är ni välkomna att höra av er till mig.

Lämna ut dokument till respondenten med frågor och kontaktuppgifter.

Magnus Norberg
Mittuniversitetet i Sundsvall
APPENDIX 6

Kompletterande frågor till företagens representanter

Rådgivning och personlig service

Vem/vilka träffar ni personligen på banken?
Vilken position har personen?
Har ni flera personer som ni pratar med?
Syfte med rådgivning?
Hur ofta träffar ni er rådgivare?
Besöker rådgivaren er?
Vad avgör platsen?
Är det korta möten?
Vad händer under mötet? Vad diskuterar ni?
När ni får råd, vilken dokumentation får ni?
Vem tar initiativet?
Litar ni på er personliga bankkontakt som ni träffar?
Håller rådgivaren vad den lovat?
Är det en kunnig rådgivare?
Vilken kompetens har rådgivaren om dig som kund?
Vilken kompetens har rådgivaren om orten?
Har det förändrats? På vilket sätt?
Är rådgivaren/banken tillmötesgående? På vilket sätt?
Sitter ni i ett separat rum, eller ett öppet kontorslandskap?
Är ni nöjd efter rådgivningen?
Varför, varför inte?
Vad är viktigt när ni får råd? (Snabba, lönsamma, korrekt, lärorika etc)
Hur utbytbar är personen/rådgivaren?
Vad händer om rådgivaren slutar, eller är sjuk?
Finns det någon annan som kan svara på dina frågor?
Har ni bytt rådgivare?
Vad hände? Blev det bättre eller sämre?
Vad är viktigt för att ni ska bli nöjd?
Bjuder rådgivaren på kaffe? Bjuder rådgivaren på smörgås? Annat?
Vilken information från ni före mötet?
Vilken information får ni med er efter rådgivningsmötet?
Vilket maktförhållande finns mellan dig och rådgivaren
Kan Ni erhålla råd på annat sätt?
Teknikrelaterade frågor

Vad finns det för tekniska hjälpmedel när ni har möte med er bankkontakt?
Kan ni få råd via videokonferens?
Vilka är fördelarna?
Vilka är nackdelarna?
Får ni en påminnelse inför motet?
Får ni finansiella råd via Internet?
Är informationen korrekt?
Har ni fått felaktig information via Internet?
Tar det tid att hitta den information som ni söker via Internet?
Är bankens websida alltid tillgänglig?
Är det mer effektivt att ringa?
När är det mer effektivt att ringa?

Frågor om regelverk

När används skrivna avtal mellan ert företag och banken?
Finns det avtal som reglerar rådgivningen?
Viska avtal är det?
Har ni dessa avtal tillgängliga?
Är dessa avtal enkla att förstå?
Vet ni vad det står I dessa avtal?
Är dessa skriftliga avtal mellan ditt företag och banken nödvändiga?