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# **A DYNAMIC ANALYSIS OF TRUST IN CUSTOMER-BANK RELATIONSHIP: A RETROSPECTIVE CASE STUDIES APPROACH**

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## **Abstract**

This research analyzes trust building within the customer/bank relationship. It introduces the time dimension to study the mechanisms and the development processes of trust, both institutional and interpersonal, during the customer/bank relationship. A qualitative and longitudinal study was undertaken based on retrospective case studies conducted within a French bank. This research highlights the general development process of interpersonal trust and the existence of two modes of trust construction - *linear* and *by stages* – depending on the occurrence of incidents, their nature and their resolution by the bank. Our results show also a shift from institutional to interpersonal trust that occurs during the customer/bank relationship.

**Key words:** Customer/bank relationship, Development process of trust, Interpersonal and institutional trust, Retrospective case studies.

## **Résumé : UNE ANALYSE DYNAMIQUE DE LA CONFIANCE DANS LA RELATION CLIENT-BANQUE : UNE APPROCHE PAR LES ETUDES DE CAS RETROSPECTIVES**

Cette recherche analyse le processus de construction de la confiance dans la relation client/banque. Elle présente l'originalité d'introduire la dimension temporelle pour étudier les mécanismes et les processus de développement de la confiance, tant institutionnelle qu'interpersonnelle, durant la relation client/banque. Une étude qualitative et longitudinale a été entreprise, basée sur des études de cas rétrospectives, conduite dans une banque française. Cette recherche met en évidence le processus général de développement de la confiance interpersonnelle et l'existence de deux modes de construction de la confiance - linéaire et par paliers - selon l'occurrence d'incidents, de leur nature et de leur résolution par la banque. Nos résultats montrent aussi l'avènement d'un basculement de la confiance institutionnelle vers la confiance interpersonnelle au cours de la relation client/banque.

**Mots clefs :** relation client/banque, processus de construction de la confiance, confiance interpersonnelle et institutionnelle, études de cas rétrospectives.

## **Introduction**

Trust is a notion that has provoked considerable interest from both researchers and practitioners in the fields of psychology, sociology, economics and more recently marketing and management. The concept is at the core of numerous studies in particular with regard to its nature, its status, and how it is built up in business relationships.

If we try to draw up a synthesis of theoretical work on trust, it is possible to identify two perspectives in studying this concept. The first approach, a 'static' one, has tried to study and measure the concept of trust – its dimensions, antecedents and consequences – at a particular moment T. The second approach is more dynamic, but much less developed in management, and aims at ensuring a better understanding of the processes by which trust is built over the course of time (Ring and Van de Ven, 1992 ; Zajac and Olsen, 1993).

In this study we address the following main question : *“How trust is built up during the customer/bank relationship ? What are the mechanisms that contribute to the emergence and the reinforcement of trust over time ?”*

Drawing on the literature, the first part of the paper shows the difficulty of conceptualizing trust through the examination of its various definitions, types and development processes. We then present the research methodology based on a qualitative and longitudinal study conducted in a French bank. Finally the results are discussed and the main implications, including the time dimension in the analysis of trust, are drawn.

### **1. WHY IS IT RELEVANT TO STUDY TRUST THROUGH A DYNAMIC APPROACH?**

In the marketing literature, interpersonal trust is variously defined as a belief, an expectation, a feeling, a behavioral intention or a willingness to rely on an exchange partner within

perceived risky situations (Moorman et al., 1992 ; Chaudhari and Holbrook, 2001)). Some authors consider that trust is made up either of two components – credibility and benevolence (Doney and Canon, 1997 ; Ganesan, 1994 ; Morgan and Hunt, 1994) – or of three – credibility, honesty and benevolence (Hess, 1995). The definitions provided do not explicitly include the question of the dynamic of trust, its development on the basis of the history or shared experience of the partners, or to any incidents encountered during the customer/firm relationship. This account seems consistent in so far as the studies have often aimed at defining and measuring trust at a given moment (T) by means of measurement scales, while ignoring the consumer's perception in a qualitative and longitudinal perspective (Dwyer et al., 1987 ; Ring and Van de Ven, 1994 ; Zajac and Olsen, 1993). Faced with the growing number of conceptions and definitions of trust, certain authors have also wondered whether trust should be viewed as interpersonal, based on individuals knowing one another, rather than as institutional, based on the reputation of the firm or institution (Williamson, 1993 ; Young and Wilkinson, 1989).

The literature review also allows us to identify various determinants and consequences of trust according to its contexts of use, namely industry, services, retailing, and bank-to-bank or bank-to-customer relationships (Andaleeb, 1991 ; Geyskens and Steenkamp, 1995 ; Moorman et al., 1993). However, some variables such as satisfaction, cooperation and communication appear either as antecedents or consequences of trust. This problem occurs in particular because the authors don't indicate the stage of development of the relation being studied. Thus, analyzed from a static view of trust, these determinants and consequences hide/mask the reality and complexity of trust and precisely the mechanisms of its construction during a relation. Nevertheless, because trust is by nature a dynamic and contextualized concept, it is relevant to take into account the time dimension of the development of the relation when we analyze its underlying processes. One can hypothesize that this dynamic vision of trust may

reconcile the former conflicting findings about the double status of some factors (as both antecedents and consequences) that emerge in the static approach and thus contribute to a better understanding of the mechanisms of trust building. This shift in the conception of trust must be accompanied by a change in the method used to analyze this construct.

This line of inquiry is all the more interesting since it concerns the banking services sector characterized by a high level of perceived risk, depending on the intangibility, simultaneity of production and consumption, and variability of services.

## **2. RESEARCH METHODOLOGY**

A qualitative and longitudinal study was adopted, based on 18 retrospective case studies (Yin, 1990) conducted within a French bank. Each case focuses on the relationship between a customer and his financial adviser, at the time when the study was carried out. The critical incident method enables us to trace back the historical relationship between a customer and his adviser (Flanagan, 1954 ; Bitner, Booms and Treteault, 1990 ; Keaveney, 1995). Further, identifying the incidents that come up between a bank and its customers as well as the way they are handled allow us to understand more clearly the development processes of trust and the mechanisms by which it is built. Finally, the dyadic approach allows us to trace back the historical relationship as perceived by the customer and his financial adviser (Brown and Swartz, 1989 ; Deshpandé *et al.*, 1993 ; John and Reve, 1982).

The retrospective in-depth interviews were set up one to one and allow us to trace back the customer's bank history. The interviews were set up in seven different branches of the bank in three departments in Paris (Paris-Ouest, Paris-Est and Paris Hauts-de-Seine). Customers were selected on the basis of the four main criteria expounded in the literature: product and services portfolio, the duration of the relationship with the bank, the frequency of contacts between the customer and the adviser, and the occurrence of incidents during the customer/bank

relationship. Clarifying conceptions of trust in the private customer/bank relationship necessarily involved choosing those customers having a reasonably substantial bank product and services portfolio. Customers needed to have sufficient experience of bank services to be able to discuss trust, and to have been in the adviser's customer portfolio for more than a year. In addition, the customers selected were required to have maintained regular contact with their existing adviser. Financial advisers were also required to have dealt at least once with both negative events (either incidents in the customer's private life or critical incidents provoked by the bank) and positive events in the course of their relation with the customer. Incidents in the customer's private life may have given rise to problems at the level of his financial situation and of the relationship between the customer and the bank (for example : a period of unemployment, a divorce, a death). Incidents provoked by the bank may involve an error involving the transfer of funds to another customer's account, a "forced" sale of a financial product or service, or a refusal to a request for a loan.

In the course of the interviews, we questioned nine customers aged from 28 to 45 and nine customers aged from 51 to 69, and their financial advisers aged from 23 to 54. Customers aged from 28 to 45 are part of the *active customers segment* and those aged from 51 to 69 are part of the *senior customers segment*, as defined by the bank's classification scheme. The 18 retrospective cases studies include 81 interviews (31 financial adviser interviews and 45 customer interviews and 5 branch manager interviews). Finally, the interviews were recorded and transcribed, then analyzed.

### **3. FINDINGS & RESULTS DISCUSSION**

We carried out intra-case and inter-case content analyses, highlighting three principal results. First, we demonstrate the recursive functioning/nature of the interpersonal trust-building process (i). This kind of trust appears as the major dimension of reliance/confidence in the

customer-bank relationship. Then we propose two modes of interpersonal trust construction, depending on the history of the banking relation (ii). Third, we reveal some transfer mechanisms from institutional trust to interpersonal trust in the course of the relation between the customer and the bank/adviser (iii).

### ***i- Recursive process of interpersonal trust building***

Our research shows/explains how some variables are identified in the literature either as antecedents or consequences of (interpersonal) trust. By introducing the time factor in our analysis, we succeed in explaining the double status (antecedent and consequence of trust) of certain variables such as satisfaction, communication or coordination, depending on the moment when the investigation is made and the development stage of the relation. The construction process of interpersonal trust takes a recursive form.

For instance, if a customer is satisfied with an initial experience (at moment T), his satisfaction may generate trust in the adviser and in the bank, which in turn may reinforce his satisfaction (becoming a consequence) in the next encounter (at moment T+1) (antecedent=>consequence=>antecedent ...). The following quotations illustrate this recursive process of interpersonal trust building: *“Because I am satisfied with my past experience with my adviser, it is easier to have confidence in his proposals. And when things go well, I am satisfied and pleased, and I rely on him now and for the future.”*

Communication between customers and bank advisers and coordination of their behavior seem also to contribute to building interpersonal trust, and are in turn improved by it.

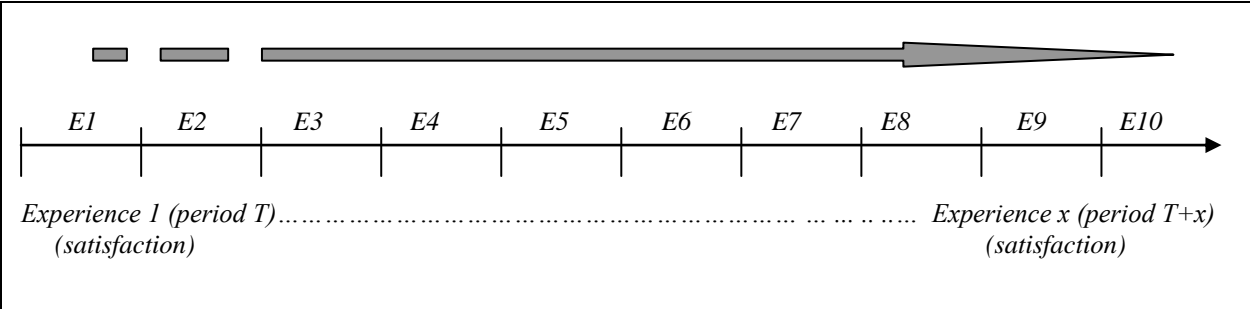
These findings show that when we focus on the behaviors and experiences of customers and advisers, we better understand the mechanisms and modes of interpersonal trust building.

They also corroborate the results of past studies, which stress that good communication between partners strengthens the tendency to mutual trust.

**ii- Modes of interpersonal trust building**

Our content analyses highlight two modes/types of construction of interpersonal trust, depending on the relational history between customers and bank advisers. The first mode of building interpersonal trust takes a *linear* form (figure 2). This mode appears when customers, in their relation to the bank, are faced with “minor” incidents or incidents that have been favourably resolved by the adviser (10 cases out of 18). In these cases, both customers and advisers agreed to say that “*they enjoy and maintain a reciprocal relation based on trust*” and “*that maintaining/managing the relation is quite easy*”. However, these partners of exchange are conscious that “*institutional trust (customer/bank) has not yet been really tested*”. Thus customers expect that “*the bank will answer positively to future needs (e.g. a credit request)*” and the advisers state that they “*pay attention and remain aware of the evolution of our customers’ needs and expectations*”.

**Figure 1- Linear mode of construction of interpersonal trust**

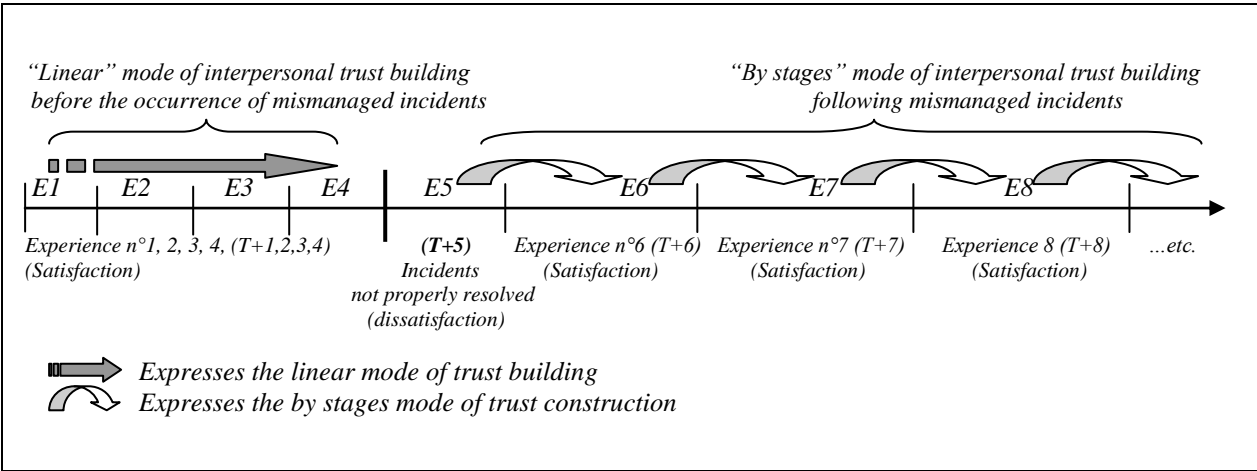


The second mode of interpersonal trust building “*by stages*” relates to those situations where the incidents were mainly caused by customers, and were considered to be serious and/or were not satisfactory resolved by the bank (8 cases up to 18). These cases were characterized

either by an entry in relation with the present bank following incidents with a previous bank or non-satisfying resolution of major incidents encountered during the relation with the bank being studied. Thus, customers report *"becoming mistrustful"* toward the credibility of the adviser or the bank.

When senior management (the branch manager, for example) intervenes to solve an incident caused by the adviser, the customer calls into question interpersonal trust but not institutional confidence. These customers end up doubting and reconsider their confidence progressively in the course of their experience with the new advisers whom they will subsequently meet. Interpersonal trust is then put to the test in relation to the behavior of the advisers during these various experiences. In such cases, the advisers maintain that *"management of the relation with these customers is a daily battle"*. They need to be *"very attentive to this type of customer, who is much more demanding than those who have not encountered a serious incident"*, in particular for *"major customers"* in terms of profitability to the branch.

**Figure 2- Transition from "linear" to "by stages" mode of interpersonal trust building**



### ***iii- Transfers of institutional confidence towards interpersonal trust during the banking relation***

Finally, content analysis shows some transfer mechanisms of institutional confidence towards interpersonal trust during the banking relation, according to the age and the banking relation history of the customers.

#### **Segment of “*active*” customers (28-45 years old)**

Customers belonging to the “*active segment*” attached more importance to institutional confidence at the moment they enter in relation with the bank (7 cases out of 12). Thus they did not consider the relation with the adviser to be important, either because they did not start their relation with the bank following incidents unresolved by a previous provider or because they consider that they have little experience of banks (they were “*students*” or “*recently began their working life*”).

Nevertheless, during their relation with the present bank, these customers became aware of the importance of interpersonal trust to such an extent that some of them followed their adviser when he moved to another branch. This transfer of trust was observed for customers having met with incidents which were satisfactorily resolved either at the time of entering or in the course of the relation with the current bank. So even if they say they retain institutional confidence in the bank itself, their reliance on the adviser has become more significant.

#### **Customers belonging to the “*senior*” segment (over 50)**

These customers also explain their entry into relation with the present bank in terms of the perceived credibility of the institution. Like the “*active*” customers, they were not aware of the importance of the relation with the adviser (4 cases out of 6 ). However, following their long experience of the banking relation with various advisers, these customers tend to put past incidents into perspective. They say “*they have learned about the internal functioning of the*

*bank" and incident management.. Thus, when a problem occurs which they might previously have considered to be serious, they say they are "calmer" because they know "that their adviser will solve it successfully". Even if this does not happen, they think "that the bank manager will be available if a problem arises with the adviser". They talk about their "learning about the relation with advisers and the bank". Remember that in these cases the customers have not encountered incidents deemed to be "very serious" or that "incidents have on the whole been satisfactorily handled" by their advisers and/or their superiors in the course of their relation with the bank (5 cases out of 6).*

With the passage of time and through experience considered largely to be positive, these customers reveal their trust both in their adviser and their bank. Because they *"trust the bank which recruits good advisers"*, these customers do not consider it appropriate to follow these advisers if they move to another bank.

## **CONCLUSION**

To analyze trust in the customer/bank relationship, we adopted a time perspective which contrasts with earlier studies works that mainly use a static approach. This approach enables us to improve understanding of the mechanisms of trust building by identifying two modes of construction. The first mode shows that a relation based on trust can be built through a "linear" process when this relation is not marred by incidents or when incidents are correctly managed if they do occur. A second method of trust construction *"by stages"* characterizes relations that suffer from significant incidents which were not satisfactory resolved by the bank. In this case, confidence is put to the test and may be progressively renegotiated by the partners in their course of their ongoing relationship. The inclusion of the time dimension in our analysis also makes it possible to reconcile some contradictory results arising in the literature in relation to satisfaction now considered as an antecedent or consequence of trust.

Lastly, the study highlights how institutional trust is transferred into interpersonal trust in the banking relation, depending on the age and the banking history of the customers.

The comprehension of the modes of trust building and the mechanisms of transfer of institutional to interpersonal trust are key levers for improving the retention and loyalty of the various customer segments. This result may initiate reflection on a qualitative segmentation of customers in the banking sector, including the nature and the history of the relation. In regard to the primacy of interpersonal trust, another implication of our research relates to the management of mobility of personnel in contact with customers. The current strategy of French banks in relation to staff turnover does not enable the role of advisers in the construction and reinforcement of the trust relationship to be fully taken advantage of.

Our research evidently has its limitations. One limitation relates to the bias of hindsight which may affect the respondents' accounts. Ideally, data collection would be based on observing customer-adviser behavior in real time over a succession of interactions. Further, our customer sampling criteria undoubtedly drew upon individuals with profiles that were able to cast greater light on our understanding of the trust relation.

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