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Searching for new saving behavior theories : How relationships between banks' customers and advisors affect household saving

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Searching for new saving behavior theories

New saving
behavior
theories

How relationships between banks' customers and advisors affect household saving

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Abstract

Purpose – The purpose of this paper is to develop a model of bank advisor/customer relationships and customer saving behavior.

Design/methodology/approach – The research is a theoretical review and model development of savings behavior and bank advisor/customer relationships. The review is used for the development of a model of bank advisor/customer relationships, and their effect on savings behavior.

Findings – Findings are a model that distinguishes three kinds of exchange (relational, interimistic, and transaction) in between bank advisor and customer. The three kinds of exchange then influence customer savings behavior.

Research limitations/implications – The implications of this research is that it points to that relationship marketing theory can be used in the analysis of how bank advisors influence customer savings behavior.

Practical implications – For regulators and financial services firms, these findings point to how the role of bank advisors for consumer savings behavior can be analyzed. This is important, as much policy work presumes that advisors influence customer savings behavior, but the knowledge base for that presumption needs to be better understood.

Social implications – The paper contributes toward a better understanding of the social exchange between bank employees and customers as regards savings products.

Originality/value – This paper is original because it includes many theoretical research fields, and because it connects the bank advisor and customer relationship with the customer's savings behavior.

Keywords Banking industry, Marketing theory

Paper type Research paper

1. Introduction

Most saving theories are based more on the aggregate level of saving than on the process of saving and the marketing context of the saver (Wärneryd, 1999). In economics, household saving is mainly treated as a residual, and not as a primary activity. In addition, the dynamic stochastic general equilibrium models, which form the basis for forecasting and economic policy (e.g. Kydland and Prescott, 1982) treat the financial sector as an intermediary with no measurable impact on aggregate demand.



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However, the most recent global banking crisis has demonstrated that the financial sector has a considerable impact on the gross domestic product; this calls for increased understanding of how the financial services have an impact not only on demand and consumption, but also on saving (Kocherlakota, 2010). One step on the way to increasing our understanding can be to focus on the relationship between bank advisors and customers, and how this relationship may relate to customer saving behavior. That such a line of inquiry is important and may be fruitful is supported by research in the fields of finance (Hackethal *et al.*, 2012), economic psychology (Wärneryd, 1999), and financial services marketing and behavioral economics (Chuah and Devlin, 2011). Support is also provided by the fact that governments and regulators have pointed to bad marketing practice by financial advisors as a cause for the financial crisis.

That the relationship between bank advisors and customers has been identified as important in many fields of research provides a motive for us to use theories from different disciplines to increase our understanding of the relationship between bank advisors and customers, and of how this relationship may relate to customer saving behavior. In this endeavor, we use saving behavior theories in the fields of economics (Keynes, 1936; Modigliani and Brumberg, 1954; King, 1985), finance (Markowitz, 1952; Tobin, 1958; Guisi *et al.*, 2002), and economic psychology (Kahneman and Tversky, 1979; Thaler and Shefrin, 1981; Shefrin and Thaler, 1988; Browning and Lusardi, 1996), where saving behavior predominantly is analyzed as results of the savers' own decisions, preferences, and motives, as well as more recent research within finance on the relations between advisors and customers (Hackethal *et al.*, 2012; Inderst and Ottaviani, 2009, 2012). We also use theories from relational marketing (Lambe *et al.*, 2000), where the main focus is on the interaction between sellers and buyers of financial services.

The purpose of this paper is to develop a model of bank advisor/customer relationships and customer saving behavior. In fulfilling this purpose, we will review literature in the fields of economics, finance, economic psychology, and marketing. We define saving behavior as being the stock of savings, as well as the flow of saving, and the activity or types of saving – analyzed one at a time – contrary to research that often focusses on only one of these three perspectives of saving. This paper thus contributes by reviewing the literature in the above-mentioned fields and by developing a new saving behavior model that can influence the consumer response from both a policymaking and commercial perspective.

2. Literature review of saving theories

2.1 *Saving theories based on economics and behavioral finance*

Economic saving theories are based on some form of a discounted utility model. Wärneryd (1999) mentions several academicians who in the nineteenth and twentieth century combined economics and psychology and he discusses the development of saving theories in four stages:

- (1) the early focus on motivational factors and emotions (Wärneryd refers to Senior, 1836; Jevons, 1871); objective factors, such as uncertainty; and subjective factors, such as self-control (Wärneryd refers to Marshall, 1890);
- (2) the formation of modern time preference theory through past and present value of capital, willpower, and self-control (Wärneryd refers to Böhm-Bawerk, 1888; Fisher, 1930);

-
- (3) attempts to eliminate psychology from the economics of intertemporal choice (see Loewenstein, 1992); and
 - (4) a new interest displayed by economists in involving psychology (e.g. Thaler and Shefrin, 1981; Kahneman and Tversky, 1984).

The most frequently used saving theory, the life-cycle hypothesis (LCH), has its roots in the absolute income hypothesis (Keynes, 1936). This hypothesis focusses on the “propensity to consume” and “liquidity preference,” based on three motives: the transactions motive, the precautionary motive, and the speculative motive. Keynes focussed on current income, while Duesenberry (1949) examined past income (or past consumption), creating the relative income hypothesis. His theory also held that households made comparisons with other people’s consumption level, and he proposed to use the ratio between current income and the household’s highest past income. Friedman’s permanent income hypothesis, on the other hand, focussed on present and future income, thus incorporating expectations and uncertainties about the future (Friedman, 1957). He concluded that the planned or permanent consumption is the fraction of permanent income that does not depend on the size of permanent income but on other factors, in particular, the interest rate, the ratio of wealth to income, and factors affecting the consumer’s tastes for current consumption vs accumulation of assets, such as the degree of uncertainty attached to income, the consumer unit’s age and its composition, and objective indices of cultural factors. He also included measured income and measured consumption, being a sum of two components: a permanent and a transitory component. The alternative given by Modigliani and Brumberg (1954) in their LCH included the role of age and the time horizon, in which individuals optimize the use of their lifetime resources evenly over their (expected) remaining lifetime. This gave birth to the above-mentioned, forward-looking LCH, which is still today’s most used saving theory. Current consumption is seen as a proportion of lifetime wealth, which consists of present assets, current income, and expected income during the rest of the lifetime. The household acts as if it has perfect knowledge about the future. At the aggregate, or macro level – when used to analyze the household saving ratio and forecasting national saving – the LCH may work well as individual differences may cancel out[1], but at the disaggregate, or micro level – when used to explain the saving process – empirical studies show that the LCH fails to explain much of savings (King, 1985). Both the young and the old seem to save more than expected, and some studies have not been able to identify the hump-shaped, life-cycle saving predicted by the LCH (Wärneryd, 1999).

An attempt to enrich the LCH with psychological factors was made by Thaler and Shefrin (1981), and from this paper they built the behavioral life-cycle hypothesis (BLCH), which focussed on three features: self-control, mental accounting, and framing. Three elements were included in their discussion of self-control: internal conflict, temptation, and will power. In formulating their concept of internal conflict, they created a dual preference system: one concerned with the long run (the planner), and the other with the short run (the doer). The planner function is basically given the role of distributing income over the rest of the life cycle. The dual preference system, as well as mental accounting and framing, gave insights into the process of saving, since money is not assumed to be fungible, and people distinguish between different kinds of money. The way the BLCH focussed on self-control, including temptation and the delay of gratification, is similar to the theories formulated verbally by classical and neoclassical economists.

One important objection to the LCH, and to some degree also to the BLCH, is related to the assumption that consumers maximize consumption utility over their life cycle. Instead, there could be utility in building up wealth by saving. Also, many derive pleasure from working, not only utility in leisure and consumption (Wärneryd, 1999). Keynes (1936) saw a human motive to improve or better conditions, which, according to Browning and Lusardi (1996), is not incorporated in the LCH. Another issue is uncertainty about the future, and time horizons, which tends to vary among individuals. Those who plan more and have longer planning horizons typically tend to save more and have less debt (Julander, 1975; Lea *et al.*, 1995). The bequest motive means that the time horizon could also be extended beyond one's own lifetime. Old people continuing to save could also be an effect of habits. There is uncertainty and risk, with differences among people on how they react to risk. Prospect theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992) shows that, for most people, loss aversion is more important than risk aversion.

There is also the factor of selective perception and limited cognitive capacity (Wärneryd, 1999). Information is seldom received by all in the same way. Selective perception occurs when only a certain amount of the information is attended to and processed. Except for the limited capacity to process information, there can be differences in imaginative powers. The question is then how to maximize behavior when there are factors limiting people's rational dealings with the future. Besides, only economic conditions are part of the utility function, according to the LCH, which also does not take into account that individuals may change their tastes over time.

Herbert Simon (1955, 1979, 1990) found an alternative to maximizing utility in his satisficing principle of bounded rationality. Two concepts were central to the characterization: search and satisficing, i.e. seeking satisfaction. The important part of this theory was that it showed how choice could actually be made with reasonable amounts of calculation, and using incomplete information, without the need of performing the impossible – of carrying out the optimizing procedure. Simon (1990) recommended the use of a few cognitive principles, such as recognition processes, heuristic search, and serial pattern recognition; he also declared that in the long run the rationality concept in economics would have to take account of emotions (Wärneryd, 1999).

2.2 Adapting theories to financial sector developments

The macroeconomic focus in the saving theories discussed above lies mainly on total savings in an economy, but interest in the underlying dimensions of saving has increased, including the microeconomic and the psychological dimensions. Therefore, research has turned to analyzing the process of saving by asking people about their saving attitudes, motives, and behavior. One of the pioneers was George Katona (1940), who focussed mainly on two factors: the ability to save (from survey results and disposable income data) and the willingness to save (from the index of consumer sentiment of the University of Michigan, based on subjective data from surveys). As a result, empirical studies became more important than the work of developing new holistic theories of saving. Qualitative case studies and experiments, as well as quantitative regressions and structural equations developed over time, are building knowledge about saving and individuals/households' saving behavior.

Facing increased product innovation on financial markets, greater international financial integration, liberalization of financial markets, privatization, and pension reforms, the financial sector has developed extensively since the beginning of

the 1980s. This is particularly visible in international stock markets, the participation of households in mutual funds, and the importance of private- and employee-owned pension plans. The household surveys carried out have given information on portfolio composition and attitudes toward liquidity, borrowing, and saving, as well as risk taking. As a base, the theory of choice under uncertainty has been used, including the development of computational techniques and databases, but this approach has not been coordinated to better understand household behavior (Guisi *et al.*, 2002). Declining to examine the decision between consumption and saving, and focussing more on household portfolio choices, finance research has emphasized the asset-pricing implications of models such as the capital asset-pricing model (CAPM) and the consumption CAPM. The theoretical analysis of household portfolios has emphasized mostly the choice between risk-free and risky financial assets (Markowitz, 1952; Tobin, 1958). Research indicates that there seems to be a tendency of poorer households to specialize in risk-free assets and of richer households to add risk, even if theoretical models imply the opposite for portfolio composition to be optimal. Interestingly, empirical research on household saving and on portfolio choice has proceeded separately. However, Guisi *et al.* (2002) see a need to reconnect the issues.

Financial institutions develop products that are offered to their customers and also try to influence their customers to save more. Thereby, there is a need for these institutions to know more about their target groups. Their market research is also often based on the basic research of saving, such as the work by Katona. Financial institutions also use market segmentation, which was defined by Smith (1956) as: "Segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements. In the language of the economist, segmentation is disaggregative in its effects and tends to bring about recognition of several demand schedules where only one was recognized before." Market segmentation was applied to saving groups (Wahlund and Wärneryd, 1987). If the population is heterogeneous with respect to saving behavior, there is much to gain from understanding the different segments and thereby developing products tailored for each segment. Shefrin and Thaler (1988) found two groups, the "planner" and the "doer." Gunnarsson (1999), combining economics and marketing factors, found in a cluster analysis six groups:

- (1) residual savers;
- (2) contractual savers;
- (3) security savers;
- (4) risk hedgers;
- (5) prudent investors; and
- (6) divergent strategies.

Many banks nevertheless still group their customers according to their customers' income volumes and potential saving ability, while missing out on other economic-psychological aspects of savers that show more information about risk taking, willingness to save, and future expectations.

The financial advisor has become more important, in line with the increased complexity in financial markets and the larger room for bank profits from these types of financial services. Relationship banking has been developed within economics to increase the understanding of relationships between banks and customers and the

effects on the aggregate level. Boot (2000, p. 9) cites Bhattacharya and Thakor (1993), who conclude that information frictions – asymmetric (and proprietary) information – “provide the most fundamental explanation for the existence of (financial) intermediaries.” Boot defines relationship banking as the provision of financial services by a financial intermediary that invests in obtaining customer-specific information, often proprietary in nature and evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products. In contrast, transaction-oriented banking focusses on a single transaction with a customer, or multiple identical transactions with various customers. Even if Boot claims that relationship banking goes beyond lending and applies to other financial services as well, the research on the effects of relationship banking (see Thakor, 2000) is mainly related to lending, which complicates the interpretation of the results. Thus, in a relation between a bank credit manager and a borrower, there is an incentive for the bank to understand the borrower’s context, while, in a similar relation between a bank advisor and a saver/investor, there is not the same need to understand the context of the customer since the bank’s assets are not at risk. The risk structure is more symmetric in a lender-borrower context than in a bank advisor-saver context. There is, therefore, a need to enrich the theory of relationship banking to include the saver’s perspective.

Hackethal *et al.* (2012) find that the involvement of financial advisors lowers portfolio returns net of direct cost and worsens risk-return profiles, as measured by the Sharpe ratio; it also increases account turnover and investment in mutual funds, consistent with incentives built into the commission structure of both types of financial advisors. Negative advisory effects on portfolio performance are even stronger for bank financial advisors than for independent financial advisors. Regression analyses suggest that advisors tend to be matched with richer, older, more experienced, and self-employed female investors rather than with poorer, younger, and inexperienced male ones. In this respect, advisors are similar to babysitters: babysitters are matched with well-to-do parents, they perform a service that parents themselves could do better, and they charge for it; however, observed child achievement is not boosted by babysitters but by positive characteristics of the family. No issues of regulating babysitters emerge, however, because the nature of the activity and the contribution are known to all parties involved. Inderst and Ottaviani (2012) conclude that banks have limited incentive to educate naïve customers and, in an earlier paper (2009), they found a high risk of misselling if the advisor (or agent) both prospect for new customers and provide product advice.

These studies demonstrate the problems in creating a relationship between a bank and a customer based on conditions of mutual commitment and trust. Since the risks of the investment are on the customer only, there is an incentive for the bank to realize higher profits through commissions and mutual fund fees, and the opportunities for misselling are large, not least when it is selling/advising certain groups of savers/investors with low financial literacy. Bernheim *et al.* (2001) and Lusardi and Mitchell (2009, 2011) find widespread financial illiteracy among bank customers, with negative consequences for retirement planning, saving, well-being, and wealth accumulation. Almenberg and Widmark (2011) and Almenberg and Säve-Söderbergh (2011) also find low numeracy and understanding of fundamental financial concepts among Swedes in general. They find lower numeracy and understanding of fundamental financial concepts among persons who are older, are women, have less education and income, and were born abroad. These groups also tend to avoid risk when saving, thus

reducing potential return. Financial illiteracy affects household decision making in general, including saving decisions.

Banks and other financial institutions have an opportunity to bridge the gap between the lack of financial literacy and the increased individual responsibility for saving, e.g. retirement planning, by informing and educating customers while improving saving decisions. However, findings from Inderst and Ottaviani (2012), as well as Hackethal *et al.* (2012), indicate that not all financial advisors act with these intentions, not least since other incentives (e.g. provisions and product standardization) could lead to a conflict of interest and, thus, advice that is not to the benefit of the customer. As a result, lawmakers in several countries (e.g. the EU and USA) have developed and are continuing to develop financial regulations with the objective of decreasing misselling (see, e.g. in the EU, the MiFID, and IMD). In Sweden, the 2004 law on financial advisory services has been criticized since it is based on assumptions that the investor/saver acts rationally despite abundant research to the contrary (Korling, 2010). In addition, the law does not deal with the important question of the boundary between advisory services and selling. This is also one of the conclusions in a study by Eriksson *et al.* (2009), in which customers and financial advisors were surveyed with the objective of understanding better the application of the law. There is coherence between customers and advisors in their belief that the financial advice given is in line with the regulations. However, even if customers generally trust their banks, advisors, and the advice given, advisors tend to fail to identify their customers' risk profiles, generally assuming a higher propensity for risk taking than what customers express. In addition, if the customers are financially literate, these shortages of financial counseling can be overcome, but for financially illiterate customers the advice given will not meet their needs – a situation difficult to change with the law in its current state. It is more important to understand the conditions for the interaction between customer and advisor, and thus there is a need to develop new theories in this regard.

2.3 Exploring the concept of saving behavior and its antecedents

As can be seen above, saving behavior as part of bank customers' financial management is a complex concept to study. Not least, the differences among the concepts of the stock of savings, the flow of saving and saving behavior deserve a discussion. Among researchers, there is a variety in the use of the flow of saving, saving as the stock of savings, and the saving behavior in more general terms such as the activity (frequency) of saving, and the types of saving (stocks, bonds, mutual funds, cash, debt amortization, investing in art or real estate, etc.). We have decided to analyze saving behavior from all three perspectives, i.e. as the stock of savings, the flow of saving, and activity as defined by the types of saving.

The economist's view of saving is often to treat it as a residual, and in more specific terms: saving is mostly defined as the difference between net worth at the end of a period and the net worth at the beginning of the period, which would be equal to the excess of income over consumption expenditures in a period (Wärneryd, 1999). Katona (1975) distinguished between three types of saving motives: contractual, discretionary, and residual saving, which means that only the third type is similar to the economic definition of saving. Accumulating capital as a more specific saving motive could be done by saving monthly in a contractual type of saving, or by taking discrete decisions at specific points in time. With such a motive as making a profit and building wealth, savings are also influenced by the change in market value, which, in the short term, is

not a discrete saving decision, although this may lead to a change in saving behavior, adjusting the portfolio as a result of the market developments.

When exploring the antecedents, we choose to focus on Katona's ability and willingness to save. First, there are factors such as the economic environment, which has an impact on a person's ability to save. Although global financial markets and foreign trade of goods and services often include a great deal of uncertainties and volatility, they still determine national labor market and stock exchange developments, and, eventually, a person's income outlook. On the national level, tax and social security systems, such as unemployment benefits, pensions, and tax levels, also have an impact on the ability and willingness to save. In addition, the way banks compete and are regulated play a role, not least for the interaction between banks and customers. On the one hand, saving ratios have declined in the western world in the light of improved welfare systems and better access to bank loans, which reduce the need or incentive to save. On the other hand, the recent developments in pension systems, which in general are less favorable for the individual, seem to have raised the incentive to save, while also increasing financial advisory services related to long-term saving.

Second, demography and the labor market determine life-cycle dimensions, such as total income and saving horizons. For example, saving to smooth consumption over the life cycle leads to a need to save for retirement, especially among the middle aged. High-income earners tend to have higher saving rates than low-income earners (Hugget and Ventura, 2000). Wealth, on the other hand, seems to have a negative impact on saving in developed countries (Salotti, 2010), but on the household or individual level this factor has not been tested. How education in general directly affects saving behavior also needs more empirical testing, but financial literacy seems to have an impact on both the ability and willingness to save (Bernheim *et al.*, 2001).

Personality traits, expectations, and attitudes play a role, especially for the willingness to save. Personality can be defined as behavioral consistency of long duration (Wärneryd, 1999). Saving is much about deferring gratification into the future, and to do so there must be imagination or thinking about the future, and a willingness to wait, or self-control (Fisher, 1930). The future is by nature uncertain, and people's expectations about the overall macroeconomic situation and the personal economic situation have been regularly measured since Katona developed his index of consumer expectations in the 1940s. When the index falls, people get more pessimistic about the future, the willingness to consume tend to decrease, and saving will thus increase. Personality traits may be more difficult to measure, since data often are subjective and gathered by having respondents describe themselves from statements about personality. Psychologists and economists have mainly examined the role of five important personality factors in explaining the willingness to save: extraversion (outgoing), agreeableness (inflexibility), conscientiousness (meticulous), emotional stability, and intellect. In some studies, intellect has been exchanged for autonomy (tough mindedness). Brandstätter (1996) found that conscientiousness and inflexibility were significant factors that had an indirect influence on the intention to save and the saving behavior. These concepts can be related to earlier concepts such as self-control and will power, important ingredients of the BLCH. Nyhus (2002) finds support in empirical studies for the notion that personality factors can explain individual differences in saving behavior, but also concludes that results are mixed, and that there is a need for more empirical studies to reach more robust results. Most people have positive attitudes toward saving, perhaps since it is regarded as difficult and even

painful. The direct relationship between saving attitudes and saving behavior has generally been weak. Wärneryd (1999) models saving behavior using saving attitudes, subjective norms, and perceived control to bring about intentions to save; together with past saving, these factors determine saving behavior.

Saving motives seem to significantly contribute to explaining the variance of total money saved, but it is difficult to structure them hierarchically. Fisher and Montalto (2010) find that saving motives differ by saving horizon. Emergency and retirement saving motives significantly increase the likelihood of saving regularly. Longer saving horizons also increase the likelihood of saving.

Wärneryd (1999) identifies four motives:

- (1) habit or controlling expenditures;
- (2) precautionary motive;
- (3) bequest motive; and
- (4) profit motive.

He finds that the habit and precautionary motive explain most of the variance. Lindquist (1981) proposed a hierarchical structure of reasons for saving, in which the lowest level is to handle cash, the second level is the need to have reserve money, the third level is to have sufficient money to buy something expensive, and the highest level is the need to manage accumulated wealth. The problem with this type of hierarchical structure is that people tend to have many motives that are not mutually exclusive, and motives also vary over time in line with the LCH. For example, retirement saving could be both contractual and discretionary: it could be of the greatest importance for those aged 40-60, while saving to buy a car or a house could be more important for those aged 30-39. It thus seems reasonable to link saving horizons to saving behavior, and allow for different types of saving.

Overall, these antecedents seem likely to determine the complex concept of saving behavior as defined as the flow of saving, the stock of savings, and the saving activity. Still, there is a need to do further empirical testing in order to find more robust results. In addition, as Hackethal *et al.* (2012) have shown above, the interaction between bank and customer – especially how the banks' advice influences savers – deserves to be included when analyzing saving behavior.

3. Literature review of relational and transactional exchange

As discussed above, researchers in different academic disciplines find that the relationship with the advisor may be important for customer saving behavior. Researchers have also distinguished between transaction- and relationship-oriented banking structures as fundamentally different systems. We suggest that the effect of the bank advisor on the customer may depend on the extent to which their exchange is more or less relational or transaction oriented. We now proceed to discuss the theory behind transaction and relational exchange and apply it to saving behavior.

3.1 Transaction exchange theory

In financial services, just as in any other exchange of goods or services, a distinction can be made at a general level between market and nonmarket forms of governance. Market governance will be viewed as synonymous with the concept of discrete exchange (Goldberg, 1976; Macneil, 1978). With transactional exchange, the transaction is independent of the historical and social context, or past and future

relations between the contracting parties; it constitutes nothing more than the transfer of ownership of a product or service. It is assumed that individuals acting on a market are well informed and therefore will make rational choices/decisions that could lead to transactions. Forms of exchange can either be a discrete exchange (a onetime transaction) or repeated transactions (Webster, 1992). Both are nonrelational, but with repeated transactions there is a greater opportunity to develop a relationship. Based on the Coase (1937) theory on transaction cost, Williamson (1975) views the governance decision as fundamentally a choice between a "market," based on governance through a price mechanism, and a "hierarchy," implying governance through a unified authority structure. The efficiency implications of adopting alternative governance mechanisms are considered. Actors desire to minimize the direct and opportunity costs of exchange, which are transaction costs (Williamson, 1975).

As there are market failures, in the sense that market mechanisms can become an inefficient means of mediating exchange, certain dimensions of transactions give rise to transaction costs, such as search and information costs, as well as costs of monitoring and enforcing contractual performance. These costs can be characterized as sunk costs in that they are relevant only within the context of the transaction, and not to other transactions or other actors. Similarly, transaction-specific investments involve physical or human assets that are dedicated to a particular relationship and cannot be redeployed easily. There are three main types of transaction costs. First, there are costs associated with carrying out safeguarding to minimize the risk of subsequent opportunistic exploitation (Klein *et al.*, 1978; Williamson, 1985). Second, there are costs connected with external uncertainty, where too many contingencies to be specified *ex ante* will cause a need for adaptation as events unfold (Rubin, 1990). Lastly, costs arise when there is a demand for evaluation activities to ascertain whether contractual compliance has taken place (Alchian and Demsetz, 1972). There are direct costs involved with these three areas, and there are also opportunity costs in the form of maladaptation or costs incurred as a result of not making an appropriate investment. These examples of transaction costs show the limitations of the market-based approach of governance. Transactional exchange theory therefore views nonmarket governance as a response to environmental uncertainty and dependence (Heide, 1994). Williamson (1985, 1991) acknowledges the possible existence of bilateral relations. These additions have brought transaction exchange theory closer to theories that are focussed on nonmarket and relational dimensions.

3.2 Relational exchange theory

In a work that strongly influenced research in relational exchange theory, Macneil (1980) developed a multidimensional typology of business exchange that differentiated the "transactional" or discrete exchange from a new form of exchange, which he named "relational." This accounts explicitly for the historical and social context in which transactions take place and views enforcement of obligations as following from the mutuality of interest that exists between a set of parties (Dwyer *et al.*, 1987; Kaufmann and Stern, 1988). Relational exchange appears to capture the spirit of a bilateral power system (Bonoma, 1976) in which an individual's utility function is subsumed by the global utility of the system, and individual decision makers as a consequence adopt a "unit action" orientation. Individual goals are reached in a bilateral system through joint accomplishments, and concern for the long-run benefit of the system serves as a restraint on individual tendencies to pursue self-interest in an opportunistic fashion (Ouchi, 1979; Heide, 1994).

The development of relationships is not automatic or effortless, since it requires that parties engage in exchange activities that are resource consuming (Eriksson and Sharma, 2007). Relationships include attributes that must exist to ensure functional (or highly effective) relational exchange. These include commitment and trust (Anderson and Wietz, 1992; Morgan and Hunt, 1994), communication, cooperation, and interdependence (Anderson and Narus, 1990), norms (Heide and John, 1992), social bonds (Han *et al.*, 1993), adaptations (Håkansson, 1982; Hallén *et al.*, 1991), performance satisfaction (Dwyer *et al.*, 1987), and a high degree of mutuality (Heide and John, 1992).

From a relationship marketing point of view, the goal of developing relationships between seller and buyer has been defined as the ability to attract and maintain customers and enhance customer relations (Berry, 1983). A series of transactions is transformed into a relationship in which both parties are committed to some extent. Dwyer *et al.* (1987) and Wilson (1995) note that, although there is initially little trust, it develops through exchange episodes, or relationship interactions. There is some variation to how commitments drive the relationship process. Commitments that are made against an understanding of the customer's context, and are more specifically adapted to the relationship, develop the relationship most. Commitments in the relationship development process often are made within cooperative relationships and have been found to take time (Fichman and Levinthal, 1991).

Relationships may be considered a form of contract that serves as a substitute for formal contracts or direct control (Rindfleisch and Heide, 1997). Relational norms may not effect buyer control, but may act as a moderator of the link between dependence and control in exchange relationships. Also, contracts or direct control are needed to serve as a safety net should the relational contract temporarily fail (Ring and van de Ven, 1994). Therefore, as there are limitations to the relational exchange theory, a basis for a transaction exchange theory still is required.

3.3 Combining transactions and relations: an interimistic approach

In transactional exchange, or a discrete form of governance, the individual parties to a transaction remain autonomous and rely to a large extent on economic and legal sanctions to enforce contractual obligations. In contrast, in relational exchange, the parties account explicitly for the historical and social context in which transactions take place. Trust and interdependence, as well as relational norms, are important relational attributes and usually develop over time to varying degrees. It should be remembered, however, that the two exchange forms, transactional and relational, are ideal types. These ideal types are theoretical inventions and simplifications of more complex phenomena, and are used to identify the most characteristic elements. Both theories have their limitations and are therefore not necessarily independent of each other.

There are thus varying degrees of use of transactional and relational exchange in all types of exchange governance. The pure form of transactional exchange is limited in its capacity to explain exchange governance in exchange relationships in which parties are able to develop relationship-based governance over time. On the other hand, contracts or direct control, as noted above, are necessary to serve as a safety net should the relational contract temporarily fail. Therefore, an "interimistic" approach acknowledges the complementary nature of transactional and relational forms of exchange. Lambe *et al.* (2000) draw on Macneil's conceptualization of exchange to allow for varying degrees of relational exchange, depending particularly on the time available

to develop the relationship in its fullest sense. They propose a new structure in which the exchange forms are analyzed from a temporal perspective. The exchange continuum is thus structured in Figure 1.

The left side represents the transactional exchange, the least relational of all exchanges, while the right side represents the relational exchange, the most relational of all exchanges. The discrete transactional exchange is a onetime exchange (such as withdrawing money from an ATM). Repeated transactions are more relational than a discrete exchange since firms have a greater possibility to develop a relationship. The interimistic relational exchange (IRE) is a close, collaborative, fast-developing, rather short-lived exchange relationship. There is heavy time pressure to develop the relationship, and the expectations of further transactions are reduced. The enduring relational exchange (ERE), on the other hand, is a long-term relationship. There is sufficient time for relational exchange to emerge in an evolutionary fashion (Fichman and Levinthal, 1991).

Over the duration of the relationship, the buyer and the seller teach each other about their respective resources, such that the seller can fit its offering to the buyer's context (Eriksson and Sharma, 2007). The contextual understanding is difficult to develop in transactional exchange, since contexts are often unique to a certain extent, and therefore requires repeated exchange and adaptations (Hallén *et al.*, 1991).

Trust is a critical variable in relational exchange and is visible when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 1994). When mutual trust exists, unanticipated contingencies will be resolved in a mutually profitable manner (Ganesan, 1994). Mutual commitment, in addition, ensures that partners will make both the effort and the investments necessary to produce mutually desirable outcomes (Dwyer *et al.*, 1987).

In an ERE, little or no trust exists at the beginning of the relationship but develops through exchange episodes or relationship interactions during an extended period of time. In contrast, an IRE allows partners less time for trust to evolve. There may be prior extra-exchange relationship interactions, a reputation for fair dealing, and/or pledges substituting for the trust developed over time (Lambe *et al.*, 2000). With regard to interdependence, there must be a high level existing or emerging early in the life of the relationship in an IRE, as there is not enough time for it to evolve slowly. Similarly, the development time for relational norms is shortened by the existence of industry-wide exchange norms, partners who have a relational exchange competence, and/or prior extra-exchange relationship interactions. However, a relational norm such as loyalty probably needs some time to develop, simply because it is based on experiences and comparisons that the customer makes.

As a further illustration of the differences between exchange forms, we consider the overarching frame of cooperation in the relationship (Heide and Miner, 1992). Cooperation represents a mode of solving problems in order to achieve a joint end (Blankenburg Holm *et al.*, 1996). In transactional exchange, such modes may not develop as fully as in repeated exchange relationships.

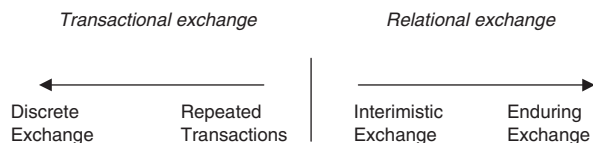


Figure 1.
The exchange
continuum

3.4 Advisory customs and saving behavior

Whether consumers do their business in transactions or relationships is a big research question for researchers from many different disciplines. In banking, the banking systems have been found to differ, depending on whether they are predominantly transaction or relationship oriented. While relationship and exchange are analytically distinct, the real world of financial services blurs these lines. We therefore consider transaction and relationship exchange endpoints on a scale, and customers and advisors may be placed anywhere along this continuum.

4. Building a model of how the exchange form affects saving behavior

The above-described theories can be used to build a model to help explain the role of bank advisor and customer relationships in saving behavior. The dependent variable in such a model is thus saving behavior, and defined here as the stock of savings, the flow of saving, and the types of saving or the saving activity (type of saving products). These three perspectives of saving behavior are analyzed one by one.

The independent variables follow from the discussion in Section 2.3. These variables are thus linked to the ability and willingness to save, such as income, education, stage in the life cycle (e.g. career, family structure, and housing type), financial literacy, saving motives, and risk attitude.

We have then chosen to treat the exchange form as a partially mediating independent variable, in the sense that it is likely to play an important role of mediating between the independent and the dependent variables; however, the independent variables could still influence the dependent variable also in a direct way (Figure 2). This partially mediating variable for saving behavior spans the range from relational to transaction exchange. One way the exchange form could influence saving behavior is if the relationship between customer and advisor enhances the customer's financial literacy. Another is if the advisor encourages more saving activity by clarifying the need for saving and/or the potential for wealth building. At the same time, the customer's stage in the life cycle, as well as his or her different saving motives (e.g. building up wealth or saving for retirement), could influence whether or not the customer seeks a deeper relationship with the bank with regard to saving.

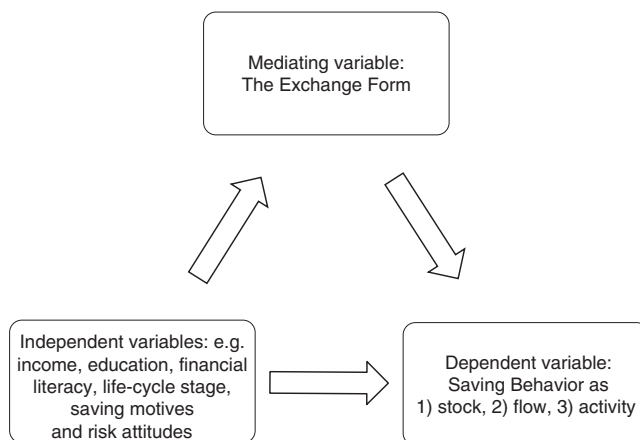


Figure 2.
A model of saving behavior with the exchange form as partially mediating variable

The exchange form is an elusive variable to study. To demonstrate the potential for research by including the exchange form as a partially mediating variable, we here present some constructs that can be used for operationalization. From the above discussion, we identify the following constructs as a way of operationalizing the mediating variable:

- (1) Duration: the duration of exchange. Examples of concrete measures of duration are measures of frequency of meetings, contacts, or exchange regarding savings between customer and bank advisor.
- (2) Context: the bank advisor's and customer's understanding of each other's context, pertaining to savings. Examples of concrete measures of context are the degree of social bond between customer and bank advisor, the history of communication, and the performance (or "acting upon" or "heeding") of past advice.
- (3) Trust: the trust in the bank's advice and the advisor's knowledge, trustworthiness, and integrity; the level of interdependence and mutuality.
- (4) Loyalty: the propensity of the customer to switch to another bank; the customer's use of several banks or bank advisors at the same time.
- (5) Cooperation: the mutual understanding of how the advisory meetings should work, and the extent to which the customer views the advisory meeting as cooperation between the customer and the advisor.

All these five independent variables may reflect exchange or transaction. For instance, a relational exchange probably has a longer duration, a higher degree of contextual understanding, and a stronger ingredient of trust, loyalty, and cooperation. We fully acknowledge that these variables are not without exceptions. For instance, there may be transaction exchanges over an extended period of time, with low degrees of contextual understanding and loyalty. However, based on the theoretical distinctions made earlier between transaction and relational exchange, we claim that it is more likely that relational exchange has a longer duration and stronger ingredients of contextual understanding, trust, loyalty, and cooperation.

In addition to transactional and relational exchange, we may consider interimistic exchange as an exchange form somewhere in between the two. The reason why we include IRE is empirical, as advisors may suggest many saving products for relatively short time periods, as life events change for the customer. For instance, the job may change, a house may be purchased, or perhaps there is an inheritance. These life events may call for re-evaluation of savings, followed by periods of no or little exchange with the advisor. We argue that this empirical observation can be categorized as IRE, and therefore include that exchange category in our framework (Figure 3).

5. Conclusions and managerial implications

Saving behavior is often analyzed in a framework of a household's or an individual's ability and willingness to save, or at the aggregate level in a life-cycle perspective. This paper shows the importance of introducing the exchange form when analyzing saving, i.e. the relational and transactional impact on saving. By including the exchange form as a mediating variable, the analysis could both broaden and deepen. The type and strength of the relationship between the bank customer and the bank may have an

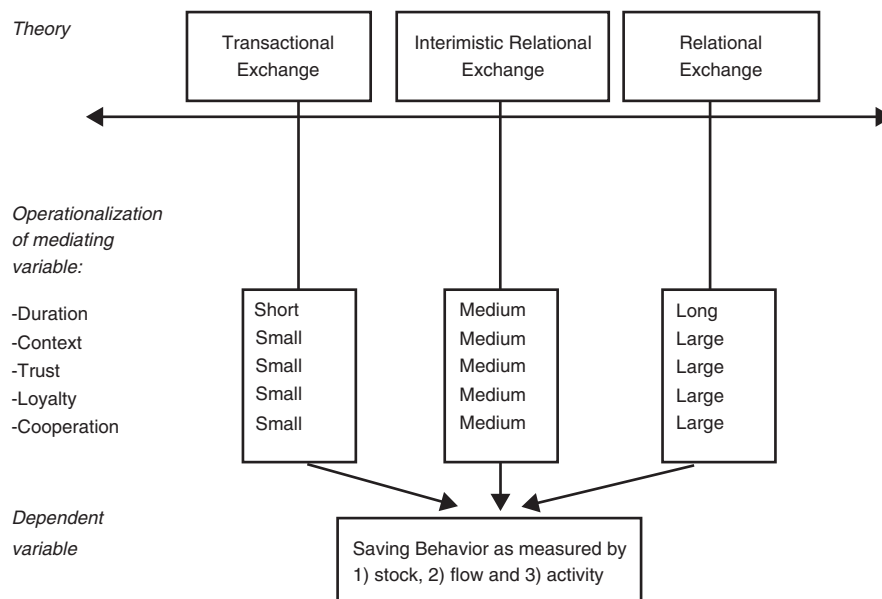


Figure 3.
A model for analyzing
how saving
behavior depends on
customer-advisor
relationships

impact on saving with respect to the flow of saving, the stock of savings, and the activity of saving, e.g. through the frequency of saving and through the types of saving in terms of portfolio choice.

By expanding saving theories and incorporating the exchange form, we see major implications of this paper for academic research, for the banking industry, and for policymakers. Academic research will benefit from the attempt to provide a more holistic approach to saving behavior, using factors that explain the individual's ability and willingness to save, as well as how saving behavior is affected by the relationship between the advisor and the customer, e.g. through relational strength, as measured here by duration, context, trust, loyalty, and cooperation. The banking industry has traditionally segmented customers in terms of, e.g. income, wealth, saving motives, and life style, but by analyzing the strength of the exchange form in terms of the constructs mentioned above, these new dimensions can add knowledge that improves future segmentation, not least as online banking and the pressure to cut cost through standardization are changing the way banks relate to their customers. As face-to-face advisory meetings to an increasing extent will be replaced by online banking, ways of distinguishing among different types of customers will have to avoid simplification. For policymakers, developing a framework with important factors explaining saving behavior, including the influence of financial advisors, helps when formulating rules and regulations for the banking industry, including supervision of consumer financial markets. For instance, if a customer has a high amount of trust and loyalty in an advisor, the advisor can use this to strengthen financial literacy and create value for the customer. At the same time, there are risks of misselling, which increase the need for enhanced consumer protection. In addition, cementing relationships can have effects on competition in the banking industry. Improved ways of regulating the advisory part of banking could also help limit the emergence of new financial crises,

taking into account that speculative bubbles can be generated from bad financial advice.

6. Future research

The framework presented in this research also has implications for future research in areas outside saving behavior. Research in banking distinguishes between relational and transactional banking as two types of banking systems. This paper develops a framework based on the nature of the exchange between the bank customer and the bank advisor and on the features of these kinds of exchange. We presume that these features also can be used to analyze other kinds of financial services, including insurance solutions and lending activities, and when using new types of distribution channels in the financial sector.

On a more concrete level, the framework presented in this paper needs to be empirically tested. Using the framework we have developed here presents two primary challenges for empirical studies. First, there needs to be a sample that is sufficiently large and diverse to include the heterogeneous aspects of saving, including all the independent variables discussed here, such as demographics, wealth, income, education, life-cycle phase, saving motives, saving attitudes, and risk attitudes. In addition, the sample needs to take into account the factors describing relational and transactional exchange, including the variations in between these endpoints. Second, causality is a challenge, since the mediating variable exchange form not only has an impact on saving in our model, but could also influence several of our independent variables. A structural equation model could be beneficial to use when analyzing this causality. It is also possible to see the model as iterative. As the customer and advisor meet over time, financial literacy is built up, so that the interest in saving is strengthened, and the process is thereby started over again with new influences on the saving behavior.

In measuring saving as the flow of saving as the dependent variable, the way of saving in monthly installments before and after an advisory meeting could be acknowledged. Saving as the stock of savings must take into account market developments, as well as discrete saving activities before and after an advisory meeting. Depending on the availability of data on saving products, saving behavior as measured by the activity and type of saving could focus on the portfolio choice before and after an advisory meeting, including the type and the number of products the customer chooses.

In measuring the features of the mediating variable, both subjective survey data and objective register data could be used. For example, duration could be measured by asking how many years a customer has been with the bank and the advisor, and by asking whether the customer perceives himself or herself to be a long-standing customer of the bank. Context could be measured by asking if the customer thinks the advisor knows about his or her life context, saving needs, and risk profile. An objective measure of context could be how close geographically the advisor is to the customer. Trust is mainly analyzed by collecting subjective data on how the customer sees the advisor in terms of knowledge, integrity, and trustworthiness. Loyalty can be measured subjectively by asking whether or not the customer has changed bank, and how long the customer has had a particular bank as the main bank. Another measure could be obtained by asking whether the customer uses multiple banks or not. Cooperation is mainly measured by subjective survey data, analyzing in what way the customer sees the advisory meeting as cooperation between the advisor and the

customer, and if there is a mutual understanding of what the advisory meeting should accomplish.

The database to be used in the empirical research needs to be large and include many variables. Therefore, the possibilities of extending this research are vast for enhancing our understanding of saving behavior, as well as of the exchange form, including the characteristics and relational strength of customers and advisors engaged in financial services.

Note

1. But if people are influenced by the same mass media at the same time, they may react in the same way, and reactions, therefore, do not balance out (Katona, 1975).

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Further reading

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