

Bank identity and image: a gap affecting the bank-SME relationship?

A case of a local savings bank in Sweden

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Abstract

In this paper, the relationship between banks and small- and medium-sized enterprises (SMEs) is studied in terms of bank identity and image. The gap that might exist between corporate identity and image is also considered in this study and how this gap might affect the bank-SME relationship. A case study research is conducted in one of the savings banks in Sweden to gain bank identity comprehension. The savings bank has been chosen as it has a somewhat different profile than the other major banks in Sweden. Compared to the other traditional banks it is geographically limited to a municipality and as a smaller bank it is believed to be more affected by the technological changes and globalisation experienced by the Swedish banking industry. In an industry characterised by standardisation, large-scale advantages and with larger organisations it becomes more difficult for the smaller savings banks to argue for their *raison d'être*. Thus, for the local savings banks the management of identity and image become even more crucial. To obtain an understanding of bank image, additional 17 interviews were performed with the case study bank's SME customers. This study indicates that a gap exists between the case study bank's identity and image. The most alarming finding of this study is that a discrepancy also exists between the desired and actual identities of the bank. Specifically, the vision and goals of the case study bank do not reflect the image that its customers have of the bank or the identity that prevails within the organisation. It is clear that the managers find it difficult to deliver and realise the vision and goals of the bank. As a result, the SMEs become confused as to the bank's role, which affects their relationship with the bank. To the best of the author's knowledge, few have taken into consideration the gap that can exist between actual and desired identity and between identity and image and the effect these gaps can have on customer relationships, especially within the bank sector.

Introduction

The banking industry in Sweden has undeniably experienced rapid changes, especially in the wake of deregulation in the early 1980s and the banking crises in 1992. Today, the banking industry is characterised by globalisation, standardisation, fast technological changes and large-scale advantages. These changes have resulted in questions being raised among banks, such as “Who are we?” and “What kind of business do we operate?”, questions that are closely related to management of identity and image (Balmer, 2001; Hatch and Schultz, 1997; Albert and Whetten, 1985). Thus, the constant changes experienced within the banking industry have led not only to intense competition among the banks but also to an identity crisis (Bloemer *et al.*, 1998). It has, therefore, become even more important for banks to understand their customers and the image perceived by customers of the organisation (Yavas and Shemwell, 1996). Furthermore, the heightened level of competition has led to strategic questions regarding how the banks should differentiate themselves from competitors. It has been argued that developing a strong identity and image is an effective way for banks to find a unique position in the financial market (Flavián *et al.*, 2004; Balmer and Stotvig, 1997; Yavas and Shemwell, 1996; Van Heerden and Puth, 1995). Consequently, developing a strong identity and image is an imperative task for most banks and, according to Worcester (1997), is not an optional activity; rather, it is an important part of the bank’s strategy.

In this paper, the relationship between banks and small- and medium-sized enterprises (SMEs) will be studied in terms of bank identity and image. A case study research is conducted in one of the savings bank in Sweden. The savings bank has been chosen as it has a somewhat different profile than the other major banks in Sweden. Compared to the other traditional banks it is geographically limited to a municipality and as a smaller bank it is believed to be more affected by the technological changes and globalisation experienced by

the Swedish banking industry. In an industry characterised by standardisation, large-scale advantages and with larger organisations it becomes more difficult for the smaller savings banks to argue for their *raison d'être*. Thus, for the local savings bank the management of identity and image becomes even more crucial.

Theory suggests that corporate identity and image are interrelated (Christensen and Askegaard, 2001; Gioia *et al.*, 2000; Hatch and Schultz, 1997). However, in reality, the identity and image of a firm can be poorly fitted, which means that the members' perception of their own organisation does not mirror the picture of the organisation held by the external public. This gap can jeopardise the well-being of an organisation and its relationship with customers, and it is, therefore, important that it is dealt with as quickly as possible. With this in mind, this study aims to do the following: (1) analyse the identity of a bank by questioning how the managers perceive their own organisation and by examining the outer profile of the bank, (2) analyse the image of the bank by studying how external actors—in this case, the SME customers—perceive the bank, (3) examine whether there exists a gap between the bank's identity and its image, and (4) determine whether this gap (if it exists) affects the relationship between the bank and its SME customers. Earlier research suggest that both banks and SMEs can benefit from developing a strong relationship with each other. The banks can through establishing profound relationships with corporate customers gain greater share of the financial market. In fact, it has been argued that corporate customers offer the greatest profit opportunity for banks (Zineldin, 1995). Through strong relationship the banks can overcome the information asymmetry prevailing in the relationship with SME customers (Berger and Udell, 1995), and thereby reduce the risks associated with business customers. From the SMEs perspective, if they can develop strong relationship with their banks they can gain greater access to finance and assure financial support also in times of difficulties. It has

also been suggested that firms with longer banking relationships pay lower interest rates on loans and are less likely to pledge collateral (Berger and Udell, 1995). Thus, a profound relationship is important not only for banks but also for SME customers and it seems therefore warranted to study bank identity and image and the influence these can have on the relationship.

Corporate identity

Albert and Whetten's (1985) definition of identity as "central, enduring and distinctive" has been widely cited within the organisational literature. Within marketing theory, the concept is known as corporate identity, emphasising the question: "What are we?" (Balmer, 2001; Van Riel and Balmer, 1997; Hatch and Schultz, 1997). In organisational theory, the focus has been on the issue: "Who are we?" However, both research disciplines base their definition of identity on the distinctive and unique characteristics of an organisation (Balmer and Gray, 2000; Gray and Balmer, 1998; Markwick and Fill, 1997), often ascribing it to the employees' perception, feelings and beliefs of their own organisation (Cheney and Christensen, 2004; Dutton and Dukerich, 1991).

The managers have a key role in the identity process in communicating the essential messages of the firm to external observers and also to the employees of the organisation. A firm's identity is developed as the employees interact and, consequently, is highly influenced by the behavioural action of the managers (Balmer, 2001; Hatch and Schultz, 1997). The corporate identity is also often defined as the symbolic representation of an organisation, emphasising the firm's vision, goals and strategy. Therefore, common goals are perceived as important in creating a feeling of belonging and in helping employees to identify themselves with the organisation (Alvesson and Björkman, 1992; Ashforth and Mael, 1989).

Corporate image

In marketing literature, the focus of image is on external organisational aspects, emphasising the feelings and beliefs that various external observers have about a company (Hatch and Schultz, 2003; Abratt and Nsenki Mofokeng, 2001). Consequently, an image is formed in the minds of external observers and can be seen as a symbol of a person's perception of an organisation. In that way, image is subjective and is developed as the actors interact with the firm. In organisational theory, image is defined as how the employees of an organisation believe external actors perceive the organisation (Dutton and Dukerich, 1991). From that perspective, image is seen as an internal issue and as an expression that an organisation wishes to project to certain external actors.

A firm's image is strongly linked to its vision and mission and is considered a manageable resource. Abratt and Nsenki Mofokeng (2001) argue that as the vision and mission guide the company in its daily interaction with external actors, those principles will logically be reflected in the corporate image. Because the corporate image is believed to be the visible element of a firm's image, the firm has the ability to create and manipulate a desired picture of itself in the minds of the external actors. To achieve a desired image firms must encourage and facilitate constant two-way communication with their target audiences. Thus, firms must be fully aware of the image they are sending to both their external and internal audiences (Balmer and Stotvig, 1997). Image affects not only the perceptions that external observers have of the firm but also the employees' perception of the firm (Christensen and Askegaard, 2001).

Interdependence of identity and image

Corporate identity and image do not exist independently of each other; rather, they are closely interrelated (Christensen and Askegaard, 2001; Hatch and Schultz, 1997; Dutton *et al.*, 1994). The identity forms the basis for the image that is projected to various external observers. The transmitted image then returns to the organisation and affects the internal employees' view of the organisation and also their self-perception.

In some cases, the identity and image of a firm can be poorly matched, which means that the employees' perception of their own organisation differs from the picture the external observers has of the organisation. This difference might result from the organisation projecting an image that does not mirror its identity, or the external actors might have misunderstood the intentions of the corporation. Regardless of the reasons, it is important that the gap is dealt with as soon as possible. A substantial gap between the self-perception of the organisation and the perception of the external public can have fateful consequences for the firm, and the bigger the discrepancy, the greater the risk for the organisation's well being (Albert and Whetten, 1985). Kiriakidou and Millward (2000) also emphasise the difference between the actual and desired identities of the organisation. The desired identity refers to the vision and mission of the organisation, whereas the actual identity encompasses the mind-sets and behaviours of the employees reflecting on what the organisation is. According to these researchers, the desired identity needs to correspond to the actual identity of the organisation in order to create a favourable basis for customers and other individuals in the external public.

Bank identity and image

In today's fiercely competitive banking industry, it has become imperative for banks to find an effective strategy. Development of a strong image has been argued to be an effective

strategy for banks in differentiating themselves from competitors (Balmer and Stotvig, 1997; Yavas and Shemwell, 1996; Van Heerden and Puth, 1995). Customers prefer banks with favourable and strong images, and they tend to recommend those banks to others. Thus, a strong bank image is related not only to customer loyalty and retention (Bloemer *et al.*, 1998; Nguyen and LeBlanc, 1998) but also to the acquisition of new customers. As image has been found to be important for banks, research about the factors affecting the bank image has increased. Van Heerden and Puth (1995) have found four factors affecting the bank image: dynamism, stability/credibility, client/customer service and visual identity. A dynamic bank is described as, among other things, fast growing, active, flexible, and improvement oriented. Stability/credibility refers to how trustworthy and honest a bank is. In terms of client/customer service, banks with a favourable image have friendly and knowledgeable employees who provide good service. Lastly, an organisation's degree of attractiveness, visibility and fashionableness represents the visual identity. The first three factors are intangible factors pointing to corporate behaviour and are argued in most cases to be more significant than visual identity. Hence, banks should put effort into training and educating their employees to provide customers with high-quality service (Flavián *et al.*, 2004; Nguyen and LeBlanc, 1998; Balmer and Stotvig, 1997). The level of service quality and the manner in which it is provided influence the customers' overall picture of the organisation. It is, therefore, imperative to remind employees constantly of the importance of providing high-quality service.

In addition to customer service, Flavián *et al.* (2004) suggest that perceived security and reputation affect bank image. In studying bank image in the context of the Internet, they also emphasise the importance of personal contact in managing a favourable image. Balmer and Stotvig (1997) found that customer service also affects the identity of a bank because

everyone in a bank is responsible for providing high-quality service, as well as managing a strong bank identity. Those employees interacting directly customers, however, have an even more important role, as they are the ones communicating the identity. To meet the customers' expectations, they must have the necessary skills, experiences and personalities. The employees need to be taught that they are not selling a product so much as a relationship.

Methodology

We conducted a case study of a bank in a small municipality in Sweden, to obtain an indepth understanding of a bank's identity. There are three banks located in the municipality: One is a local savings bank (the case study bank) and the others represent two of the main banks in Sweden. The case study bank was chosen for this study because compared with the other banks, which are often dependent on decisions made in the regional and/or central office, the case study bank states its own vision and goals. Furthermore, the case study bank is geographically limited, which makes it easier to have an overview of the bank's customers and business.

In this paper, the bank's identity is studied by interviewing the employees about the bank in which they work. The aim is to find out the collective understanding of the main characteristics of the bank. The bank's vision and goals are also analysed in this study, as they have been found to be associated with corporate identity and image (Alvesson and Björkman, 1992;). Because the managers are argued to have a key role in the development of a firm's identity (Balmer, 2001), interviews were conducted with three of the bank's managers. In addition, these managers represent the perception of the individual bankers working with SME customers. The managers have constant contact with the individual corporate advisors and have also good connections with the SME customers. Printed and public materials have

also been used in this study to reveal the bank's identity. Thus, the bank's homepage and annual report of 2006 were used because they give an indication of the identity and profile of the bank.

The first interviewed manager is responsible for the business division, consisting of 16 employees. This manager has been working within the banking industry for about 30 years and at the case study bank for about 5 years. He has the strategic responsibility for the division and leads and supports the business advisors in their work. The second respondent has been working at the bank for about 30 years and currently works as a marketing manager. He works with the bank's profile and represents the bank in different business associations and projects in the society. The third respondent works as a credit manager in the bank. The credit manager has also been working within the banking industry for about 30 years and started working at the case study bank in the end of 1980. The main task of this manager is to make sure the routines and procedures of the bank's credit are appropriate and effective in accordance with the bank's policy.

To obtain an understanding of the bank's image, interviews were performed with the case study bank's SME customers. Interviews were conducted with the owners of the firms, the majority of whom were also the firms' founders. The interviewed firms were all small firms, the largest having 41 employees and the smallest with 3 employees. These firms are a representative selection of the firms in the community in terms of size and business activities.

This study is part of a larger research project investigating the relationship between local actors and SMEs. In the research project, a total of 60 interviews were conducted, of which 45 were made with SME owners. Of these SMEs interviewed, 17 had a relationship with the case

study bank. Thus, those SMEs that were customers at the case study bank at the time of the interviews were chosen for this specific study.

The SMEs were selected through a so-called snowball-sampling technique. The first respondents chosen were asked to suggest the names of other firms they believed could be of interest in this study. The only criterion given was that the firms suggested should have been established for a number of years so that the entrepreneur had some history upon which to reflect. The length of each interview varied between one-and-a-half to two hours. The interviews were conducted at the respondents' premises, and each of the interviews was recorded and later transcribed to avoid misunderstandings. The respondents were able to tell their stories relatively freely although an outline with questions was used in the interviews as a guide.

The identity of the case study bank

There are about 80 independent savings banks in Sweden, of which the case study bank is one. The savings banks have a 200-year history that greatly affects their identity and image. Consequently, the strong identity of each bank is even today based on the fundamental ideas behind the establishment of the savings banks 200 years ago. The banks' commitment to the local community is one example of an end that has followed the savings banks through the years. The case study bank was established in 1859 and has today five offices located in the municipality. The bank has its own board of directors. The bank establishes its own conditions for lending but cooperates closely with Swedbank, one of the major banks in Sweden, by using parts of their IT-system and their bank processing. There are around 100 employees working in the bank, of whom approximately 20 work with corporate customers. The bank has about 40 000 private customers, around 3500 private firms and approximately

2200 limited liability companies. Thus, the case study bank is the largest among the banks represented in locality.

The stated vision and goals of the case study bank is to take part in the development and growth of the local community. This is an identity that distinguishes them from the other two banks. As explained by a bank manager, the other banks are thought to be more focussed on profits and results, whereas the case study bank has local interest.

The banks here have a slightly different approach. The X-bank is more businesslike and is not so involved in the local community. Our bank is in comparison to the other banks, a local bank with local interest. The bank aims to contribute to the development of the locality by offering superior services and products. The bank can also contribute with favourable image for the community through sponsoring and through various other arrangements.

The case study bank supports the local community by providing beneficial services and through sponsoring, grants and benefits. Among other things, the bank sponsors various sports and cultural events. Also, the bank has developed foundations that aim to contribute to positive development of the society and to increase interest in entrepreneurship and culture. One bank manager clarifies the role of the bank by commenting that it has a responsibility in supporting the local businesses. However, at the same time, he points out that the individual bankers need to be careful in their financial decisions and support only those businesses with potential:

The bank has an important role in the development of the community. It means that we have to be more involved and support financially the businesses in the community. It does not mean supporting everybody with ideas or those with crazy ideas. We have to support those with potential. That is our role.

The main goal of the case study bank is to be perceived as the “customers’ bank”. Friendly and competent advisors, who are sensitive to the customers’ needs and who can provide them with fast service, are critical to the bank. As stated on the case study bank’s homepage, the goals of the bank are:

- to satisfy the customers and appear to them as active and available,
- to have the competence that corresponds to the expectations and demands of the customers,
- to be an attractive workplace in which job satisfaction is an important aspect,
- to allow those living in the community to experience the bank as positive in the development of the locality,
- to have the economic position to be able to guarantee growth in its business.

The bank wishes to be perceived as an active partner providing every firm with the best service. However, the bank’s focus on the local community seems to limit the individual bankers in their work. A discrepancy between the stated vision and goals and what the bank can actually do for their SME customers seems to exist. One manager explained:

This is a local bank, so our sphere of activities is mainly within the community.

At the same time, we need to be aware of what is happening in the world around

us. This bank was established in 1859, so it has experienced a lot over the years. However, our sphere of activities is still within community. In order not to be too limited in our contacts with the firms, we have tried to follow our customers in their development as much as possible, but this is not easy.

The case study bank wants to be perceived as a valuable partner that can provide SMEs with the necessary knowledge and competency. The managers, however, state that the customers often perceive the bank solely as a money supplier. As indicated by one of the managers, the bank wants to change this picture of the bank:

Of course, there are exceptions, but they often perceive us as a money supplier. We want to change that. We want to be something more than a money supplier; we want to be perceived as business partners as much as any one else in their network. We want to provide them with capital but also with knowledge contributing to the firms' development.

Another manager, however, indicates that it is often difficult to provide SME customers with advice that is not closely related to bank financing. The individual bankers seldom have knowledge about or experience in the SME customers' specific businesses.

It is difficult to contribute with other good advice, not easy; we are seldom specialists in businesses. Those customers we have are often very good at what they do, whether they produce, are carpenters or are bricklayers. What we can contribute is knowledge of financial matters.

The bank image: how SME customers perceive their bank

The majority of the interviewed SME firms perceive the case study bank as being too focussed on collateral. Because a considerable amount of collateral is often required before a loan application can be granted, it is not unusual that the owner is also asked to personally stand surety for the firm's loans. The following quotation comes from an entrepreneur who is rather satisfied with his banking relationship but perceives the bank as being too focussed on collateral. He believes the bank's focus on collateral causes big problems for many small firms:

The banks always demand security, and that is primarily why many small businesses do not make it. They do not have enough security to do the investment they wish to do. I turned to my bank to be able to finance a real estate investment. I then experienced the reality of when you want to do something, but you do not have the security demanded.

The SME customers claim that individual bankers seldom understand their specific business and that they often lack the necessary competence to give them the advice they need. The bankers are often good at giving advice on general matters or matters closely related to bank financing, but they are not as good at giving advice that is more specific and related to an industry. Many of the interviewed SME firms perceived the bank as solely as a capital supplier; consequently few see the bank as an actor who can provide them with necessary advice. For example, one of the entrepreneurs said that her bank contact does not really understand how her business functions, although it is a traditional retail store that has been operating in the community since the end of the 19th century. Consequently, she believes that

the bank could do a lot more for SMEs and wishes they could be a lot more active in the relationship:

He doesn't have the knowledge about the industry and how warehouses function in our business. In our business, we often have problems with storage space size. We have to have a big storage space in order to have a wide range of products to offer the customers, but at the same time, the bank wants us to reduce our storage space. We cannot ask our customers who have driven two hours to come back tomorrow. We have to adapt our procedures and system to our customers.

The following quotation comes from an entrepreneur who also finds his bank contact to lack knowledge about his firm's business. In particular, he is dissatisfied with his bank's lack of experience regarding international businesses. The relationship with the bank has been fine; however, as the firm has developed and increased its international business, the relationship has become more strained. The entrepreneur explains:

The firm has, in general, a good status at the bank, but as our business has developed, the relationship has also changed. We perceive the bank as a local institution that has difficulties in relating to firms with businesses outside the local community. That is a problem for us. We do not aim to be a local business. We are an industrial firm established in the international market. We cannot have a partner who does not understand that.

Findings

The identity of the case study bank seems to be poorly matched to its image. Thus, the picture the SMEs hold about the case study bank does not correspond to the vision, goals and external profile the bank wishes to communicate to their external observers. The bank wishes to be perceived as “the customers’ bank”, and the main goal is to employ competent and friendly employees who are sensitive to the customers’ needs. For corporate customers, this means dealing with a competent advisor who is able to follow them in their development. However, the empirical findings of this study indicate that, in reality, the case study bank has difficulties in understanding the specific businesses of their SME customers and, consequently, in following them in their development. From the perspective of the SMEs, the case study bank is good in giving advice that is closely related to bank financing. However, the bank is not as good in giving advice in other aspects that are not directly related to bank financing. The bank is therefore seldom perceived as a partner that can provide them with necessary advice, instead the bank is defined more as an important money supplier. Thus, the image the SME customers hold about the case study bank is quite the opposite of the bank’s desired identity. It is obvious that this discrepancy not only jeopardise the well-being of the organisation but also the relationship with the SME customers.

A favourable image involves a suitable identity that prevails throughout the whole organisation. However, the case study bank has composed vision and goals that seem to be difficult for the employees to implement. For example, the stated goal of the bank is to be a partner that can contribute its customers with valuable advice. The interviewed managers, however, find it difficult to provide the SMEs with good advice, as they, according to themselves, in some cases lack knowledge about their customers’ specific businesses. As a result, the SMEs become confused as to the bank’s role, which certainly affects their relationship with the bank. The bank raises the expectations of the SMEs and makes promises

it cannot fulfil. In this study we consequently found that a discrepancy exists between the desired identity (vision and goals) of the case study bank and the actual identity that prevails within the organisation (Kiriakidou and Millward, 2000). Thus, the bankers have difficulties in interacting with customers in a way that fulfill the vision and goals of the bank. This is an alarming finding that needs to be considered in more detail in future research.

Discussions and recommendations to the savings bank

The development of a favourable image demands a framework through which an organisation can communicate its desired identity to its external public and employees (Abratt and Nsenki Mofokeng, 2001; Hatch and Schultz, 1997;). Hence, the case study bank needs to communicate its intentions and, more importantly, needs to explain why it acts in a certain way. Few SMEs understand why the bank always needs to judge a loan application on the basis of their availability of collateral, or why the individual bankers cannot make instant decisions. The more the SMEs know about the bank and how it functions, the easier it will be for the bank to develop a close and personal relationship with its SME customers. As there is no office dictating local branch practices it should be easier for the case study bank to take instant decisions. However, interviews with the SME customers indicate that they do not perceive the case study bank significantly different in their treatment of customers as the centrally controlled banks. The case study bank is also perceived as slow in their decision-making and the SMEs claim that it is difficult to develop close relationship with the bank. Consequently, the case study bank should be able to take more advantage of their local position.

The case study bank distinguishes itself from the other banks located in the community and makes use of its local position through a “helping the community” strategy, as defined by

Yavas and Shemwell (1996). According to these authors, small local banks might benefit from moving closer to the cluster of attributes about the local region. Indeed, the case study bank follows this strategy but has not fully succeeded in employing “feel-good themes”, such as knowing its customers well and providing prompt high-quality service, features that are argued by Yavas and Shemwell (1996) to be highly important in developing a local positioning strategy. Although many of the interviewed customer firms found the bank’s local strategy to be positive, some felt that the local focus limits the bank. The interviewed managers also indicated that they cannot possibly follow all of the customers in their development, especially those growing internationally. At the same time, the bank’s vision is to participate in the development and growth of its customers. In today’s marketplace, most firms, even locally oriented small firms, need to consider the competition from international actors, which means that they often need to adopt the risks and opportunities presented in international markets (Ruzzier *et al.*, 2006). If the bank wishes to keep its customer stock, it needs to understand this. In other words, the bank needs to find a strategy to keep its local identity and, at the same time, develop a favourable image that also benefits those SME customers growing internationally. Being local does not necessarily need to be in contradiction with supporting those customers with businesses outside the community.

As the case study bank is smaller than the other traditional banks in Sweden, they can seldom compete through lower prices or better technology. What they can do is to make use of their smallness and local position and offer a more personal relationship. The behavioural action of the individual bankers becomes important, as are their knowledge and competence (Flavián *et al.*, 2004; Nguyen and LeBlanc, 1998). Therefore, the bank needs to encourage its employees to commit themselves in providing high-quality service and in developing strong relationships with the customers, which means that every effort should be made to improve the manner in

which the products are provided to customers. Thus, the bank needs to educate and train its employees in how to interact with customers if the bank is going to be “the customers’ bank”, a vision put forth by the case study bank.

It is also important to point out that the SMEs also have a responsibility in building the relationship with their bank. As the SMEs have a strong image of the case study bank as solely as a capital supplier they also directly exclude them as valuable advisors, although they might in some cases have the experience and knowledge needed. Because the SMEs do not consider the bank as a partner, they are reluctant to provide them with profound information about their businesses. Thus, this reticence by SMEs to provide information makes it difficult for individual bankers to meet the needs of their SME customers. It is obvious that the case study bank tries to take its responsibility by formulating vision and goals that are in accordance to the wishes of the SMEs, but as indicated by the empirical findings of this study the bank has unfortunately not been able to fully realise those vision and goals, but still they are trying. Thus, a working relationship demands engagement from both sides, which means that the bank as well as the SME customers need to be active in the relationship.

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