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To cite this article: Birgit Leick , Grit Leßmann , Alexander Ströhl & Tim Pargent (2020): Place-based entrepreneurs and their competitiveness: a relational perspective on small regional banks, Journal of Small Business & Entrepreneurship, DOI: [10.1080/08276331.2020.1836463](https://doi.org/10.1080/08276331.2020.1836463)

To link to this article: <https://doi.org/10.1080/08276331.2020.1836463>



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Published online: 18 Nov 2020.



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## Place-based entrepreneurs and their competitiveness: a relational perspective on small regional banks

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### ABSTRACT

This paper focuses on place-based entrepreneurs as regionally anchored companies that rely on regional resources to generate a sustained competitive advantage, but are increasingly challenged by a seemingly placeless and highly-globalized marketplace. Although there are numerous cases of successful place-based entrepreneurs, the role of place for their competitiveness is an understudied research field. This paper presents an illustrative case study to explore the competitive advantage of small regional banks from Germany, which are prototypical place-based entrepreneurs that successfully compete in the market, but meet important external challenges. By focusing on a relational perspective on the idiosyncratic co-operative relationships of the banks with regional SMEs, the paper finds that the place-based entrepreneurship of the small regional banks is determined by the interplay of static/dynamic proximities in the relationships, which leads to their strength and resilience. These relational and proximity-based benefits result in a strategy of investments by the banks in the relationships with regional SMEs, and the investments, in turn, support the building of a strong regional identity that is shared with the banks and their customers.

### RÉSUMÉ

Cet article se concentre sur les entrepreneurs locaux en tant qu'entreprises ancrées qui dépendent des ressources régionales pour générer un avantage concurrentiel durable, mais qui sont de plus en plus confrontées à un marché apparemment sans localisation et fortement mondialisé. Bien qu'il existe de nombreux cas de réussite d'entrepreneurs basés sur le lieu, le rôle du lieu pour leur compétitivité est un domaine de recherche sous-étudié. Cet article présente une étude de cas illustrative pour explorer l'avantage concurrentiel des petites banques régionales d'Allemagne, qui sont des prototypes d'entrepreneurs locaux qui rivalisent avec succès sur le marché, mais sont confrontés à des défis externes importants. En se concentrant sur une perspective relationnelle

### ARTICLE HISTORY



Received 23 January 2020  
Accepted 4 October 2020

### KEYWORDS

Place-based entrepreneurship; sustained competitive advantage; small regional banks; relationship banking; proximities

### MOTS-CLÉS

entrepreneurs locaux; avantage concurrentiel durable; petites banques régionales; banque relationnelle; proximités

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sur les relations de coopération idiosyncrasiques des banques avec les PME régionales, l'article révèle que l'entrepreneuriat territorial des petites banques régionales est déterminé par l'interaction des proximités statiques/dynamiques dans ces relations, ce qui conduit à leur force et à leur résilience. Ces avantages relationnels et de proximité se traduisent par une stratégie d'investissement des banques dans les relations avec les PME régionales, et en retour, ces investissements soutiennent la construction d'une identité régionale forte qui est partagée avec les banques et leurs clients.

## 1. Introduction

Place-based entrepreneurs are challenged in today's seemingly placeless marketplace even though their business model might prove to be a source of sustained competitiveness (Dybdahl 2019; Vlasov et al. 2018). Small regional banks in countries like Italy or Germany are prototypical place-based entrepreneurs with their century-long tradition of business operations within a limited regional market area and their role as core financial partners of notably SMEs (Sellar 2015; Fiordelisi and Mare 2014; Mercieca et al. 2007; Usai and Vannini 2005). In spite of its practical relevance, such place-based entrepreneurship represents an understudied topic in the entrepreneurship and small business management literature with only a few publications addressing it (Bollweg et al. 2020; Hakenes et al. 2015; Howorth and Moro 2006). Notably the role of place as either a competitiveness factor for or threat to the competitive advantage of such entrepreneurs in the trade-off between a regional and global market challenges has not been thoroughly explored, resulting in a lack of knowledge on the inter-relationship of place and competitiveness. For small regional banks, Ughetto et al. (2019, 617) illustrate this lack of knowledge as follows: "little is known about how recipient regional economies are affected by changes in the traditional bank-SME relationship, in the banking system (Basel II and III) and in the financial markets".

Motivated by this evident gap in the literature, the present paper explores how place-based entrepreneurs such as small regional banks actually use place to generate a sustained competitive advantage. To this aim, the paper focuses on the tight, and place-dependent, relationships of the banks with regional SMEs (*cf.* Koetter et al. 2020). Based on a literature review and research propositions, which are derived from the literature, an illustrative case study from German public-sector saving banks (*Sparkassen*) and mutual savings-cooperative banks (*Genossenschaftsbanken*) is presented. These banks hold long-term collaborative relationships with regional SMEs and have their headquarters at short distance from these customers (Flögel and Gärtner 2018), both of which qualifies them as prototypical place-based entrepreneurs.

The paper finds that the place-based entrepreneurship of the small regional banks is facilitated by the interplay of their established relationship banking with regional SMEs and spatial/a-spatial proximities, acting in this relationship. Jointly, these elements generate high levels of regional engagement on the part of the banks, which, in

**Table 1.** Size of the small regional banks in Germany (data from 2018).

Sparkassen		Genossenschaftsbanken
Number of banks with total employees below 249	Number of banks with balance sheet total below 45 mio EUR	Number of banks with balance sheet total below 45 mio EUR
109 of 385 (28.3%)	384 of 385 (99.7%)	872 of 873 (99.8%)

Source: Deutscher Sparkassen- und Giroverband e.V. (2019); Bundesverband der Deutschen Volks- und Raiffeisenbanken (2019).

turn, materializes as investments in their network interaction with regional SMEs and other stakeholders (companies, public actors, *etc.*) and contributes to the building of a shared regional identity among the banks and SMEs.

With these findings, the paper contributes to the small business management and entrepreneurship literature in the following ways: First, it adds to the extant empirical research on proximities in inter-firm business relationships, which, however, mainly focuses on innovation collaboration (Balland et al. 2015; Ben Letaifa and Rabeau 2013), by illustrating the importance of notably dynamic proximities for co-operative relationships outside the innovation field. Second, the finding of the inter-related spatial and a-spatial proximities with bank-SME relationships amends the established “stylized facts” on relationship banking (Boot 2000; Elsas and Krahnen 1998) with a place-based component. Third, the paper demonstrates how regional identity is expressed and built by place-based entrepreneurs through regional engagement (Bürcher 2017; Jussila et al. 2007) and how it is used as a competitiveness factor in a regional market. Finally, because the co-operative relationships between the small regional banks and regional SMEs strengthen the competitive advantage of the banks, the paper also contributes to the extant research on SME-related business co-operation and competitiveness issues (*cf.* Wincent 2005).

The remainder of this paper is organized as follows. The next two sections present the context and a literature overview, including the research propositions. The following section describes the methodology and research design, followed by the empirical results. The final sections, first, discuss the findings and, subsequently, present the main conclusions, the limitations to the study and a brief outlook on future research avenues.

## 2 The context: small regional banks in Germany

### 2.1. Small regional banks in the German banking system

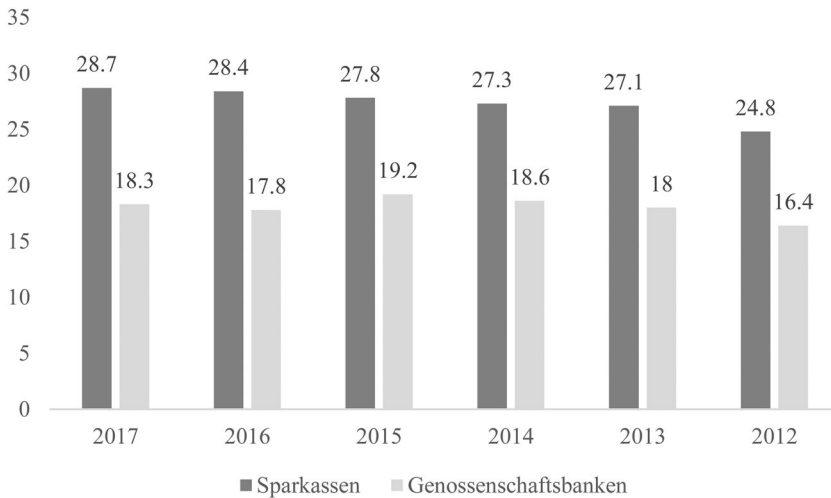
Regional banks such as public-sector banks and mutual savings-cooperative banks, which individually are small companies (Table 1), are an integral part of Germany’s “three-pillar” banking system (Höwer 2016; Hüfner 2010; Table 2); they co-exist along private commercial banks and other specialized banks and are equally distributed across the country. This is an important difference to notably the private commercial banks, which are concentrated in selected headquarter locations (*e.g.*, Frankfurt am Main) but serve the whole German market and, hence, compete with the regional banks in their small-scale market areas (Hakenes et al. 2015).

On the aggregate level, the regional banks in Germany account for a large market share and have been market leaders in corporate lending over the past few years

**Table 2.** Structure of the German banking market (data from 2017, n.i. data not indicated).

	No. of banks	No. of branches	Average no. of branches per bank type	Balance sheet total (mio. EUR)	Average balance sheet total (mio. EUR) per bank type	Credit loans to non-banks (mio. EUR)	Savings deposits by non-banks (mio. EUR) <sup>a</sup>	Equity capital (mio. EUR)	Equity-to-asset ratio (in %)	Return on equity (in %)	Earnings before taxes (mio. EUR)
Large private banks	4	6,820	1,705	1,692,660	423,165	484,262	61,618	96,493	5.70	2.88	2,779
Other commercial banks	165	2,024	12	1,030,045	6,243	664,044	39,518	63,314	6.15	5.28	3,343
Branches of foreign banks	115	160	1	406,913	3,538	88,525	n.i.	n.i.	n.i.	n.i.	289
Landesbanken	8	364	46	861,292	107,662	459,775	n.i.	51,027	5.92	1.85	944
Sparkassen	390	9,818	25	1,199,516	3,076	951,150	290,253	104,995	8.75	9.39	9,859
Mutual savings banks	918	9,442	10	890,108	970	666,881	185,793	71,895	8.08	10.13	7,283
cooperative banks											
Mortgage banks	13	38	3	228,653	17,589	185,549	n.i.	8,871	3.88	5.49	487
Building and loan associations	20	29	1	229,179	11,459	166,671	n.i.	10,795	4.71	9.18	991
Special purpose banks	20	1,385	69	1,244,021	62,201	389,633	n.i.	n.i.	n.i.	n.i.	1,464
Total	1,823	30,126	–	7,782,387	–	4,056,490	590,331	489,091	–	–	27,438
Average	–	–	17	–	4,269	2,225	324	268	5.90	5.61	15

<sup>a</sup>Other banks: 13,149 mio. EUR. Source: Deutsche Bundesbank, Zeitreihen, data from 2017. Equity capital, equity-to-asset ratio and equity return: own calculation with data from 2017.



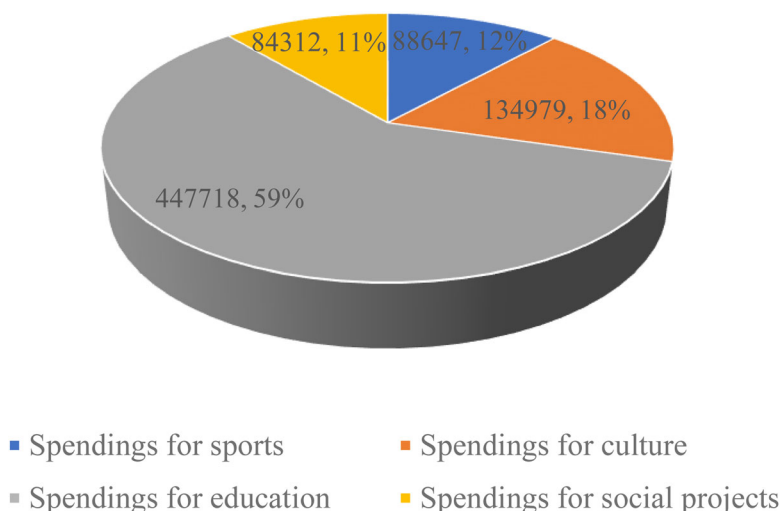
**Figure 1.** Market shares of German regional banks in corporate lending (2012–2017). *Source:* Finanzberichte Sparkassen-Finanzverbund 2013–2018. Deutscher Sparkassen- und Giroverband e.V., Berlin.

(Figure 1). In 2017, the German banking market had a total volume of EUR 7,066 billion, of which public-sector savings banks accounted for 17.0 per cent and mutual savings-cooperative banks for 12.6 per cent (Deutscher Sparkassen- und Giroverband e.V. 2018). Public-sector savings banks also hold 32.6 per cent of all branches, followed by mutual savings-cooperative banks with 31.3 per cent and private commercial banks with 29.9 per cent (Deutsche Bundesbank 2018). Moreover, both types of regional banks demonstrate a higher equity compared to the other bank types in Germany and generate higher returns on equity, which indicates their stability (Table 2).

Historically, the existence of regional banks in Germany is explained by the “regional principle”, which represents a formal or traditional norm to restrict business operations of the banks (with all branches) to a specific market area. The principle still accounts for the operations in and strategic focus of the banks on regional markets (Gärtner and Flögel 2013). Public-sector savings banks have to follow the principle as a legally binding rule (Schrumpf and Müller 2001) because they are owned by municipalities (Höwer 2016; Flögel and Gärtner 2016). Hence, their market area corresponds to the geographical scale of their principal shareholder (Scheike 2004), and their operations are based on the legal mandate to provide customers in the region with financial services (Schrumpf and Müller 2001). Mutual savings-cooperative banks, however, are owned by private shareholders, who are organized in co-operatives (Höwer 2016). Their regional focus is derived from their traditional understanding as regional co-operatives (Raab-Kratzmeier 2014; Schrumpf and Müller 2001).

## 2.2. The place-based model of small regional banks in Germany

Because of their overall regional operations, both public-sector savings banks and mutual savings-cooperative banks possess a place-based business model. However, its sustainability is heavily dependent on the growth of the regional economy. If the



**Figure 2.** Sponsoring activities by German public-sector saving banks (Sparkassen) in 2017 and 1,000 EUR. Source: Deutscher Sparkassen- und Giroverband e.V., Bericht an die Gesellschaft 2017.

regional economy faces stress, for example, because of a loss of the competitiveness of established industries and lay-offs, regional banks need to sustain their competitiveness despite this stress by developing this small-scale regional market (Usai and Vannini 2005) because opportunities for market expansions and internationalization are very limited. Hence, they have an intrinsic interest to promote regional growth strategies through various activities beyond corporate lending (Hakenes et al. 2015), for example, through the development of new industrial sites on behalf of municipalities, public-private partnerships with municipalities for business development, and investments in technology promotion and business incubation centers (*cf.* Sunley et al. 2005). The activities of regional banks to lobby and influence regional policies in Germany typically encompass, for instance, investments in social and cultural projects through sponsoring and charity (Figure 2).

Nevertheless, these small regional banks face huge competitiveness challenges in the global business environment and, more recently, due to digitization and its ubiquitous effects on financial services. A major challenge is associated with the ongoing centralization and concentration of financial service provision in urban regions, a trend that generally favors large private commercial banks using economies of scale (Wójcik and MacDonald-Korth 2015). This centralization raises the level of competition in the market areas where the regional banks operate (Mercieca et al. 2009). To generate efficiency gains, the German public-sector saving banks have recently begun to merge into larger units and streamline their operations (Gärtner and Flögel 2017). The resulting fierce competition, along with the second trend of more digitally available financial services, endangers the proximity-based business model of the small regional banks, notably their decentral and customized approach to loan decisions (Conrad et al. 2018; Gärtner and Flögel 2017). Furthermore, national and supra-national (European Union) politics – the latter aiming at the privatization of publicly-owned banks – imply major regulatory changes such as an increasingly standardized loan-granting process, which is enforced by the legal frameworks of Basel II

and Basel III in the European Union (Seikel 2017). Jointly, these challenges threaten the place-dependent operations of small regional banks, which is the motivation to explore their sustained competitiveness in this context.

### 3. Literature review

#### 3.1. *The concept of place-based entrepreneurship*

Feldman's (2001) observation that entrepreneurial activities are mostly a regional phenomenon lays the ground for place-based entrepreneurship. In a broad understanding, which is followed in this paper, place-based entrepreneurship is associated with the use of regionally-provided resources by companies for learning and upgrading processes (Moriggi 2020; Cantino et al. 2017) as well as the place embeddedness of companies (McKeever et al. 2015). Both ideas are reflected in the argument proposed by Vlasov et al. (2018) and Cantino et al. (2017) that the place-specific inter-firm business co-operation respectively network relationships constitute the place embeddedness of such entrepreneurs.

Hence, in the context of small regional banks, which this paper addresses, place-based entrepreneurship is conceptualized from a relational perspective. Place-based entrepreneurs are, thus, incumbent small regional banks, which are dependent on relationships provided within the region, for example, through customers, suppliers, co-operation partners and policy actors, on the one hand, whilst actively developing these relationships themselves, on the other (*cf.* Bürcher and Habersetzer 2016). Hence, the strong interdependency between small regional banks and regional SMEs as well as their geographical proximity implies that the transactions managed in the relationships are embedded not only in the relationships themselves, but also in the region in which banks and SMEs are located.

#### 3.2. *Relationship banking and housebank relationship*

Furthermore, the embeddedness of transactions in the relationships between small regional banks (as lenders) and their SME customers (as borrowers) is reflected in the concept of "relationship lending" (Elyasiani and Goldberg 2004), which is also described as "relationship banking" (Boot 2000) and the "housebank relationship" (Elsas and Krahnen 1998).

The three concepts jointly emphasise the long-term co-operative character of the relationship (Elsas and Krahnen 1998; Berger and Udell 1995), with the so-called housebank considered as the main lender to and, hence, key financial partner of the company (Behr and Güttler 2007). The transactions, which are embedded in the relationship, are multi-dimensional but corporate lending typically represents the main transaction (Uzzi 1999). The relationship provides the housebank with informational advantages, which goes at the expense of the company because the bank receives implicit, private and complex information about it (Moro et al. 2012). Another important element is the trust that typically builds over time and leads to more advantageous lending conditions for the company as the relationship becomes more long-termed. This accounts for the label of the concept as "relationship lending"



(Elyasiani and Goldberg 2004), and it also explains the stability of the housebank relationship.

Therefore, with relationship lending or, more broadly speaking, relationship banking, the loan-grant decisions of the banks are supported by the relationship to the companies, which alleviates information asymmetries between the co-operation partners over time and provides the bank with abundant information, including tacit knowledge (Berger and Udell 2006; Boot 2000; Berger and Udell 1995). Other informational advantages are explained by the low monitoring costs of the borrower because of the evolving trust between borrower and lender and their mutual reputational gains in the course of time (Baas and Schrooten 2006). Therefore, relationship banking leads to more favorable credit conditions for the borrowing company over time, reduces the transaction costs and risks for the lending bank, and increases the value of the relationship for both contractual partners (Boot 2000; Bornheim and Herbeck 1998).

The concept of the housebank relationship with relationship banking applies specifically to SMEs with their tight and long-term bank relationships (Neuberger and R  thke 2009; Baas and Schrooten 2006). Such relationships tend to be persistent; for example, Elsas (2005) shows that an increase in market competition strengthens the housebank relationships. Moreover, the global financial and economic crisis in the past decade has given proof that stable housebank relationships are beneficial to companies because housebanks are more open, in such situations, to loan granting than other types of banks (Ughetto et al. 2019; Hasan et al. 2019; G  rtner 2009).

### **3.3. Spatial and a-spatial proximities in the relationship**

Despite the advantages highlighted, place itself is not indicated as an element of relationship banking (*cf.* Dass and Massa 2011; Elsas 2005). Therefore, the proximities approach, which will be applied to inter-firm business co-operation in this paper, provides a more fine-grained understanding of the role of place for such relationships (Torre and Wallet 2014). The concept includes various proximities, spatial and a-spatial ones (*cf.* Knoben and Oerlemans 2006).

A central term is physical proximity, defined as the geographical distance between companies (Boschma 2005), which influences the level of transaction costs and determines the degree to which companies exchange knowledge, notably through face-to-face communication. Concerning the relationship between small regional banks and regional SMEs, physical proximity represents a lever for the banks to reduce the costs of acquiring information on borrowers in the necessary quantity and quality. For the context studied, the decision-making about loan grants with public-sector savings banks and mutual savings-cooperative banks is organised decentrally and takes place in spatial proximity to their customers (*cf.* Deeg 1998). This model allows the bank consultants to pass on tacit, non-codified information about customers (for example, planned investments and business decisions) to the headquarters inside the region. Such information cannot be retrieved from the balance sheets and on the company books. This is a notable difference to the business model of large commercial banks with branches inside, but headquarters outside, the region, where a complex internal

hierarchy and physical distance need to be surmounted between the consultant in the regional branch to the central committee when deciding about loan grants. The more hierarchical structure with large banks does not encourage the bank consultants to report notably the non-codified information about borrowers (*cf.* Stein 2002).

The empirical literature on physical proximity with bank relations is scarce; only Degryse and Ongena (2005) show that the low geographical distance between banks and their corporate customers reduces asymmetric information. According to Boschma (2005), physical proximity, however, does not necessarily influence by itself the exchange of resources and knowledge in co-operative relationships but rather represents a facilitator that intensifies other a-spatial proximities acting in the relationships. Hence, social proximity is another proximity that matters for the relationship between regional banks and SMEs. It builds on the social relationships between persons (Knoben and Oerlemans 2006) and is amplified by trust, friendship and kinship, or shared experience (*cf.* Boschma 2005). The effects of social proximity depend largely on the context (Boschma 2005): A high degree of social proximity can strengthen business co-operation, but overly strong relations can also lead to wrong decisions or involve nepotism in the relationships. *Vice-versa*, a low degree of social proximity can disturb and even hinder transactions when these relationships are not trustful enough or lack substantial personal interaction.

Cognitive proximity represents a third relevant proximity<sup>1</sup>, which is defined as the ability to absorb and process knowledge (Boschma 2005). To generate cognitive proximity, companies involved in co-operative business relationships need to possess similar communication modes (Molina-Morales et al. 2015; Knoben and Oerlemans 2006). For the relationship addressed here, a high degree of cognitive proximity is necessary because the transactions between banks and companies are based on codified and non-codified information. Cognitive proximity can support the bank's ability to absorb, decode and process such information and develop it into valuable knowledge about the SME. However, a high level of cognitive proximity can also disturb learning processes (Huber 2012) if bank and companies are cognitively too close to each other.

The relation between these three proximities from a static perspective is not perfectly clear. Fitjar and Rodríguez-Pose (2017), Crescenzi et al. (2016), and Balland et al. (2015) suggest that physical proximity is less important for co-operative relationships than other proximities. However, according to Paci et al. (2014), Rychen and Zimmermann (2008), and Boschma (2005), both social and cognitive proximity can be facilitated by physical proximity. More specifically, Agrawal et al. (2008) and Ben Letaifa and Rabeau (2013) claim that physical and social proximity substitute each other whereas Hansen (2015) finds that physical proximity can be either a facilitator of or substitute for social proximity. Finally, Mattes (2012) regards social and physical proximity just as auxiliary proximities that can facilitate cognitive proximity.

Taken together, the literature suggests that physical and social proximity are either complements or substitutes in inter-firm business co-operation, whereas physical proximity is considered as a complement of cognitive proximity (Ben Letaifa and Rabeau 2013). However, the empirical evidence is thin, which requires further

assumptions about the proximity relations for the relationship of small regional banks and SMEs:

- The physical proximity of bank and company will have a positive effect on their social proximity because of the informational advantages provided over short distances and by flat hierarchies.
- Various transactions are managed simultaneously in the relationship and may require different levels of physical proximity. Standardized financial services such as current account transactions require only a low degree of physical presence and can easily be replaced by online services. By contrast, complex transactions such as investment loan decisions cannot be standardized to the same extent and require higher levels of physical proximity to find a customized solution. A substitution of physical through online service provision may adversely affect them.
- For cognitive proximity between regional banks and SMEs, it can be assumed that both physical and social proximity facilitate the communication and instigate learning processes between them, for example, when banks are dealing with new demands by SMEs.

These ideas find partial support in the literature. Petersen and Rajan (2002) show that US companies choose more distant banks and less personalized communication. However, Neuberger and R  thke (2001) rather highlight that micro-enterprises in Germany prefer both electronically provided and personal financial services.

A further complexity to the missing evidence is the observation that the proximity categories are both influencing and influenced by the actual amount of interaction in the relationship (Balland et al. 2015). This argument has two consequences for the relationship between regional banks and SMEs: First, regular and continuous interactions taking place in the relationship (based on physical-social proximity) will most likely generate high levels of cognitive proximity (Balland et al. 2015), with banks learning about their customers and SMEs about the banks over time. Second, the interactions also change the relation of physical, social and cognitive proximities (Menzel 2015), and these changes influence themselves the interaction between bank and company in complex ways. Therefore, the spatial and a-spatial proximities acting in the relationship of bank and companies are subject to change over time, and their dynamic relations (e.g., physical-social proximity) may also change as the relationship continues.

### **3.4. Regional engagement and identity through relationships**

The observation that small regional banks engage for the region they are located in and that this engagement is not limited to the provision of financial services, but includes, for example, sponsoring and charity activities (Figure 1), is in line with the common understanding of corporate social responsibility. Corporate social responsibility is often found with SMEs (Pahnke and Welter 2019) and defined as the pressure on entrepreneurs of “holding companies to account for the social consequences of their activities” (Porter and Kramer 2006, 78). While this concept reflects a reactive behavior

on the part of companies, Jussila et al. (2007, 36) define corporate regional responsibility as a proactive strategy to influence regions as “firms’ active participation in regional strategy processes, L&RED initiatives and regional philanthropy”. Hence, corporate social responsibility is associated with the commitment of companies beyond basic business operations in a given region such as the lobbying for and participation in policy initiatives, and it is part of the understanding of companies as regional players.

A related idea is corporate regional engagement, which Bürcher (2017, 694) describes as “personal engagement of decision-makers of firms that can be based on a feeling of responsibility vis-à-vis the region” and that results in high levels of regional social capital (cf. McKeever et al. 2015). Bürcher (2017) shows that such regional engagement is more than the production and sales of goods and services in a specific region because it leads to the formation of a regional identity (cf. Raagmaa 2002). This argument is supported by the empirical literature: Berglund et al. (2016) show the link between identity-formation and regions for entrepreneurs. More specifically, Gill and Larson (2014) demonstrate how place-based identity intermingles with identity works of entrepreneurs to build a strong entrepreneurial mindset that is attached to a specific location. Finally, Markowska and Lopez-Vega (2018) highlight how entrepreneurs use such a regional identity for the narratives they build around their business, which shows how regional identity may materialize through actions and behavior of entrepreneurs.

### 3.5. Research propositions

From the literature, it can be derived that the housebank relationship represents a basic competitiveness factor of the small regional banks because it accounts for a persistent, long-term co-operation with regional SMEs due to trust, reputation-building and informational advantages (Elyasiani and Goldberg 2004; Bornheim and Herbeck 1998). Moreover, the interplay of physical (spatial) and social and cognitive (a-spatial) proximities acting in the housebank relationship (cf. Boschma 2005) reinforces the basic advantages that the housebank relationship provides to the banks, which results in place-based relationship banking. This leads to the following research proposition.

**Research proposition 1:** *The competitive advantage for small regional banks as place-based entrepreneurs results from the established housebank relationship with regional SMEs and its amplification by spatial and a-spatial proximities in the relationship.*

Furthermore, because of the proximities in the relationship, the literature suggests that the relationship between regional banks and their corporate customers such as SMEs is regionally embedded beyond the business operations of the banks. The place embeddedness, thus, creates relational benefits for the banks from their housebank relationship, which are further amplified through the banks’ engagement for the region, including the promotion of regional economic growth strategies (cf. Bürcher 2017; Jussila et al. 2007).

**Research proposition 2:** *The competitive advantage for small regional banks as place-based entrepreneurs results from the established housebank relationship with regional SMEs and its amplification by the banks’ regional engagement.*

**Table 3.** Coding guideline for the grounded theory research process.

Coding level 1	Coding level 2	Coding level 3
Endogenous factors for the SME-regional bank relationship	Characteristics of the inter-firm business relationship	Housebank relationship with local companies, notably SMEs Business contacts of banks to local companies, notably SMEs Business contacts of banks to local policy-makers Business contacts of banks to local associations and clubs
	Business activities of the regional bank	Information provision for customers Provision with cash Business networking services Business services for the international expansion of companies Business services for future financial planning (incl. succession planning)
	Proximities in the inter-firm business relationship	Physical (spatial) proximity Social proximity Cognitive proximity
	Corporate engagement of regional banks	Sponsoring and donations Vocational training, training Employer services Tax payments Regional support in crises Regional public procurement
	Structural characteristics of regional banks	Organizational form, formal characteristics of the business organization Business model compared to large commercial banks Regional market area Bank size Branch closure policies Mergers and fusions as policy Regulatory environment for the business organization
Exogenous factors for the SME-regional bank relationship	ECB policies of low interest rates	
	Regulatory requirements (nationally, European Union) Digitization Globalization and competition	

#### 4. Methodology, research design, data collection and analysis

Empirically, the present paper is based on a qualitative, inductive research approach according to the grounded theory paradigm (Strauss and Corbin 1997). Accordingly,

**Table 4.** Interview design with regional banks (group i).

Regional bank	Regional bank type	Position of interviewee	Month/year
A	Sparkasse Bavaria	Head of corporate banking	December 2015
B	Genossenschaftsbank Bavaria	Managing director	January 2016
C	Genossenschaftsbank Bavaria	Head of corporate banking	July 2016
D	Sparkasse Bavaria	Managing director	August 2016
E	Sparkasse Baden Württemberg	Head of branches	August 2016
F	Genossenschaftsbank Bavaria	Head of corporate banking	December 2016
G	Regional government development bank Bavaria	Head of branches	December 2016

the empirical fieldwork was organized as a process to generate insights into the topic inductively and iteratively, and the whole research process was structured in line with building-blocks recommended for empirical fieldwork in accordance with the grounded theory paradigm (O'Reilly et al. 2012).

A first stage of the fieldwork (2015-2016) focused on developing ideas about theoretical categories and paying attention to the requirement of the constant comparison of empirical findings with theoretical considerations. The fieldwork was accompanied by a literature review that summarized key ideas from the literature and compared them with the empirical results. A subsequent stage (2016) targeted the reflection, writing and narrowing down of theories for the topic under investigation, based on an analysis of the information collected and the insights gained from the literature review. A third fieldwork stage (2016-2017) refined the categories and codes created in the first stage of empirical fieldwork, and a fourth stage in the research process (2017-2018) finally established the coding scheme (Table 3) underlying this paper and juxtaposed the finished coded empirical material and theories. Moreover, research propositions were established in this stage of the research process.

For the empirical research design, purposive sampling was applied (Miles et al. 2018), which resulted in a multiple case study approach that follows the recommendations for qualitative case-study settings provided by Yin (2018), Eisenhardt and Graebner (2007), and Eisenhardt (1989). Concerning the research design used for the case study, the aim was to collect enough evidence to reach empirical saturation, support theory-building and establish a rigorous case-study setting (*cf.* Gioia et al. 2013; Guest et al. 2006).

Following these goals, the case-study sample consists of a total of 12 in-depth interviews held either personally or by phone with key stakeholders from three groups (Tables 4 and 5): (i) managers from small regional banks from Southern Germany (the Federal States of *Bayern* and *Baden-Württemberg*); (ii) managers in associated banking associations (for example, the Association of Public-Sector Savings Banks); and (iii) managers from external expert organizations with connections to the small regional banks (*e.g.*, regional chambers of commerce and chambers of craft). Whereas the interviews with group (i) had the goal of investigating the specific interaction between the banks and SMEs from the perspective of the banks, the interviews with groups (ii) and (iii) aimed at gaining additional insights from stakeholders residing outside this relationship, and, hence, at controlling the information provided by group (i).

The analysis of the material collected through the interviews applied the method of cross-case comparison (Eisenhardt 1989). With regard to coding and data

**Table 5.** Interview design with external stakeholders (groups ii and iii).

External stakeholder	Type of external stakeholder	Position of interviewee	Month/year
H	Association of Bavarian <i>Sparkassen</i>	Head of corporate banking	July 2016
I	Association of Bavarian banks	Head of association	December 2015
J	German Association of Banks	Head of association	January 2016
K	Association of <i>Sparkassen</i> in Baden Württemberg	Communications officer	September 2016
L	Regional industry association Bavaria	Head of association	January 2017

interpretation, an open coding technique was used in line with the principal tenets of grounded theory (Strauss and Corbin 1997; O'Reilly et al. 2012; cf. Saldaña 2016). It enabled an open and contextualized, yet theoretically grounded, interpretation of the categories derived in the early stages of the research process but also allowed their refinement in later stages. These categories were checked and, if necessary, refined using examples from the transcripts, which were condensed into manifestations of the categories. The interpretation of the coded empirical findings was, moreover, closely aligned to the theoretical insights gained from the literature review. Attention was paid to a potential bias stemming from different assessments of “real-life” phenomena on the part of the actors interviewed from regional banks *versus* outside regional banks. Table A1 in the appendix gives a detailed overview of how the interpretation with the data analysis was performed, based on the coding scheme from the grounded-theory approach used, and how manifestations were established from key aspects associated with the concepts discussed in the literature review.

With this setting, the empirical study does not aim to establish causal relationships that are statistically representative (Gioia et al. 2013; Siggelkow 2007). Instead, the primary goal is to benefit from the expert knowledge of the interviewees selected and interpret their explanations by considering theoretical arguments about the relationship studied here. All interviewees were identified via snowballing techniques, and, because of this, but also given the grounded-theory approach chosen, the 12 interviews were iteratively conducted during the research process (2015–2017).

## 5. Empirical analysis

**Research proposition 1:** *Competitive advantage for small regional banks based on proximities in the housebank relationship.*

To start with, all interviewees confirm that the relationship between the small regional banks and SMEs covered in the sample represents a prototypical housebank relationship, whose core is “a very tight, personal and trustful contact between the bank consultant and the business owner, which is being established over the years” (Regional bank A) and that “has a long-term character and is stable and resilient over time, also in difficult times” (Banking association J). Through the trustful, highly personalized relationship between bank consultant and owner or managing-director in a company, the bank is committed to relationship banking. It receives “soft” and non-codified information, which is provided, e.g., through company visits and personal meetings, as well as codified facts from the customers (such as balance sheets). This mix of information provided on the company’s credibility through the relationship facilitates quick yet informed decision-making and generates informational advantages



for the bank, as one interviewee points to as follows: “often the bank has more information about the situation of a company than the company itself” (Chamber of Crafts L). Another important insight is that this relationship is, in fact, exclusive in its value for both parties, and personal bank consultants for the SMEs are the key lever to maintain the value of the relationship over time. Even a longer break in the contact between bank consultant and company representative does not imply its breach because the high levels of trust and exclusivity keep the relationship stable.

Moreover, the interviews highlight that the relationship between regional banks and SMEs is determined by proximity, which SMEs understand both as physical and social proximity with the bank consultant, as the following statement describes:

Two things have always been extremely important to all our corporate customers: First, the geographical closeness. That the customer knows I just need to go around the corner and there is my bank. Second, it is the personal contact. The latter can be organized as a digital bank service via e-mail, app or chat, whatever. (Regional bank D)

The amalgam of physical and social proximity is described by the key informants from banks B and D as the feeling of “being present in the minds of the entrepreneurs”.

In addition, cognitive proximity is generated through repeated personal communication; it helps creating a joint understanding of the demands that SMEs have but also reflects the learning process on the part of banks about these demands through the ongoing communication. Cognitive proximity overlaps with the physical and social proximity, because “the most important thing is that the bank and the customer talk to each other ... and face-to-face communication is paramount in the bank-customer relationship” (Banking association L).

However, the interviewees stress that the importance of the proximities is changing because physical proximity decreases and social and cognitive proximity is gaining in importance due to external factors (such as the digitization of banking operations, tougher requirements for standardization of financial services, and the fiercer competition within the banking sector). However, the relationship between regional banks and SMEs is not automatically harmed by a loss of physical proximity because the banks manage to replace physically provided standardized services by online services, whilst simultaneously maintaining the physical provision for high-end, less standardized and more customized, services.

With this shift, the banks meet the sophisticated demands of companies by offering a differentiated service package with personalized services at the top of the pyramid that is embedded in a multi-channel communication and distribution strategy. Altogether, the banks exchange physical for social proximity, but maintain the same level of service quality and intensity despite a higher proportion of less personalized online services. To implement this strategy, the personal contact with the bank consultants is paramount, as is stressed as follows: “we estimate that we will have more channels to communicate with the owners and managers of companies in the region, but that their personal bank consultants will always be the same” (Regional bank F). Therefore, such a strategy includes the concept of the “travelling” bank consultant who drives out to the facilities of the companies and initiates regular personal meetings.



However, this strategy of exchanging social for physical proximity faces two important limitations. First, in order to generate high levels of social proximity, the banks need to invest heavily in the high-end, non-standardized services, which they need to carefully judge given resource limitations compared to large banks. Importantly, fluctuations of the staff in the bank or ownership changes with companies trigger a transition period of new trust-building and reciprocal investments of the banks respectively companies. Such changes might lead to breaches in the highly personalized relationships. To prevent this, the regional banks proactively seek to extend the housebank relationship to the new entrepreneurial persons in companies, for example, the new generation of owners or external managers, and develop the management of family succession as an emerging market segment, which fits into the portfolio of high-end, customized services they offer.

Second, the policy requirements for credit standardization push back the personal element in the housebank relationship and endangers the viability of the proximities-based relationship. The interviewees confirm this threat since bank-specific calculation models are gradually superseding the personal, individual decision-making given high pressures on banks to legitimize their loan decisions against the Basel regulations. Notwithstanding this, regional banks maintain their flexibility to decide in cases where the calculation model and personal assessment collide, as they state.

**Research proposition 2:** *Competitive advantage for small regional banks based on regional engagement through the housebank relationship.*

The regional banks use regional engagement as a strategy in their consulting approach with regional SMEs to convey a sense of regional identity to them, as the interviewee of regional bank B states: “If you are coming from the region and you are working in the region, you convey to the customer a sense that regional economic cycles matter for you”. This approach provides the bank with a strategic advantage over other banks with this customer segment that values regional identity high. Moreover, the banks proactively support the regional economy, either directly through investments, taxes, job creations and donations, or indirectly through investments in regional business contacts and relationships, as the following statements highlight:

When we built our new head office, we gave 80 per cent of the orders to regional construction and craft firms. (Regional bank D) and Our bank is one of the biggest donors in the region with approximately 150,000 EUR that we donate per year for social, cultural and sports events in the region. (Regional bank C)

This financial and non-financial support and the regional identity are inter-connected because the banks invest in their relationships with SMEs (and private customers as well as other stakeholders, for instance, policy actors), which, again, stabilizes the relationships and allows the banks to keep their customized approach. Their regional engagement, based on relationship banking, pays off because it helps the banks to achieve regional market leader positions and maintain a competitive advantage over private commercial banks, as the following statement suggests:

Regional banks are small banks, but they consider themselves as strong partners of small enterprises, those companies we have in this region. Because of this strategy, they are

strong and make it hard for other house banks – large banks – to gain market shares with particularly the small enterprises. (Chamber of Crafts L)

## 6. Discussion

Regarding *research proposition 1*, the illustrative case study shows that the housebank relationship respectively relationship banking (Elyasiani and Goldberg 2004; Boot 2000; Bornheim and Herbeck 1998) between the small regional banks and regional SMEs is amplified by the interplay of physical, social and cognitive proximities (Boschma 2005). Due to physical and social proximities between the business partners, the banks maintain their non-standardized, personalized consulting, including real-time analysis and decision-making. This approach stabilizes the evolving trust between the key persons in the relationship – personal bank consultants and owners/owner-managers –, even in troubled times. The fact that trust is an outcome of relationship banking is confirmed for Italian start-up entrepreneurs (Howorth and Moro, 2006). Moreover, these findings from this case study are in line with Degryse et al. (2017), who show that relationship banking is associated with better credit conditions for SMEs, notably in the post-2007/2008 crisis times.

Beyond confirming the established findings from empirical studies, the present case study provides further evidence that the co-location of banks and SMEs (physical proximity) within the market area is closely intertwined with the intensive and stable social interaction between the key persons from their organisations, that is, owner-manager and bank consultant (social proximity). Moreover, the case study shows that this interaction is embedded in an effective communication (cognitive proximity). Both the physical-social proximity relation as well as the physical-social-cognitive proximity relation amplify the informational advantages that the banks gain from relationship banking with regional SMEs.

Since the relations between the proximities are, however, themselves subject to change following influences from globalization, digitization, and national and supranational policymaking and regulatory requirements, the importance of physical proximity is decreasing while social and cognitive proximities are relatively increasing in importance with the housebank relationship. Because of this, the regional banks face rising transactions costs due to higher investments in relationship banking to compensate for this change. However, the regional banks avoid to become alienated from the regional SMEs. This is a direct result of the smallness of their regional markets which forces them to continuously develop tight relationships with customers in spite of the surrounding market conditions. Partly, this is also the outcome of a proactive strategic move towards a portfolio diversification with more emphasis on high-end, customized consulting and individual risk assessment of companies, which places standardized and online services on the lower end of the portfolio. This differentiation strategy enables the small regional banks to consider the individual context of SMEs irrespective of a loss of physical proximity and take advantage of the tight housebank relationship to continue to provide value to regional SMEs. Altogether, the case study shows that the dynamic relations of proximities help the small regional banks maintaining their housebank

model even in challenged times. Partly, this finding is reflected in the empirical literature on dynamic proximities (for example, Huber, 2012), but this literature is mostly studying innovation co-operation (as an example, Steinmo and Rasmussen, 2016).

With regard to *research proposition 2*, an important finding is that it is these dynamic proximity relations which also strengthen the regional embeddedness of the housebank relationship in spite of the rising competition and a more anonymous market. Generally, both public-sector savings banks and mutual savings-cooperative banks possess a high degree of regional market knowledge, which lays the ground for their place-based business model. Beyond this, the embeddedness of the regional banks investigated is particularly facilitated by their proximity-dependent operations in the segment of the customized financial services such as the management of company succession, start-up and internationalization services. Hence, the banks generate a strong regional identity and use it as an asset in the relationship with regional SMEs to safeguard a place-based business model. The housebank relationship, thus, lays the ground for their high levels of regional identity. The banks, thus, invest in the building and developing of co-operation with SMEs and other stakeholders in the region, which also goes beyond the provision of financial services. Through these network relationships, they acquire regional-specific market knowledge, for example, about a company's creditworthiness and future expansion plans. As a result, these investments in regional-identity creation pay off for the banks because the regional SMEs share regional identity with them as a joint value.

Taken together, the housebank relationship, and the relationship banking taking place within this key SME-bank relationship, as well as other network relationships in the specific region, along with the engagement of banks for the region, jointly support the small regional banks in performing better than their competitors located outside the regional market. This latter finding is echoed by Hasan et al. (2019), who show that Polish co-operative banks have a positive influence on regional economic development, based on relationship banking and local interactions.

## 7. Conclusion and limitations

Place-based entrepreneurship with small regional banks is determined by the long-term, resilient, housebank relationship between the banks and regional SMEs and shaped by the interplay of static and dynamic proximity relations. Together, these factors result in a strategy of regional engagement and investments in regional identity on the part of small regional banks to sustain a competitive advantage over large competitors – despite a seemingly placeless financial market. Although small regional banks are limited to and dependent on regional markets, they use place as a factor to strategically develop and sustain their place-based business model. These findings are in line with evidence from other European countries about small, regional or niche-based banks and their competitiveness respectively role in fostering regional financing, notably for SMEs (Hasan et al. 2019; Degryse et al. 2017; Hakenes et al. 2015; Fiordelisi and Mare 2014; Howorth and Moro 2006).

With this conclusion, the study contributes to the literature on place-based entrepreneurship by confirming that entrepreneurial operations are not placeless (*cf.* Shrivastava and Kennelly 2013) and showing how SMEs can develop place as a competitiveness factor and strategic asset. As a final comment, this paper contributes to this emerging, yet understudied debate by providing insights into how such a place-based business model can be maintained by small companies in the global and seemingly placeless marketplace.

As an illustrative case study, this study faces some important limitations that deserve being mentioned. First, the perspective of the SMEs cannot be directly addressed with the research design chosen for this paper. Generally, there is a lack on data on SMEs regarding their bank relationships. For the country studied, Germany, official sources, such as the German Federal Bank or the German Association of Public-Sector Savings Banks, do not provide these data, and studies investigating corporate borrowers would heavily depend on surveys to generate primary data, which was not feasible within the framework of the present study. Second, the role of policy (notably EU and supranational policies) is only implicitly mentioned in this paper, although it matters for the long-term survival of small regional banks in the EU. The regulatory requirements for financial services in the EU have led to more restrictive credit-lending conditions in the past years, putting the personal element in the relationship with regional SMEs at risk and limiting the flexibility of banks about customized loan decisions. Therefore, policy as a factor in the SME-regional bank relationship should be looked at in greater depth in future studies. Finally, another limitation is associated with the exploratory research approach and the small sample size. Although case-study research is an acknowledged and powerful research approach with qualitative studies (Gioia et al. 2013; Siggelkow 2007), which particularly adds to the building of theory through the exploration of understudied phenomena, the explanatory power of the present case-study is limited and needs validation in follow-up studies. Since the sample of small regional banks was designed in a single-country research setting, future research should carefully verify the rigor of the findings attained, based on a larger, representative sample among banks respectively a sample in a multi-country setting such as several countries in the EU.

## Note

1. We skip the other proximities mentioned in Boschma (2005) because we deem them as being of minor importance for the specific relationship addressed here.

## Disclosure statement

No potential conflict of interest was reported by the author(s).

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## Appendix

**Table A1.** Key aspects related to small regional banks as place-based entrepreneurs according to the literature and based on the coding and empirical analysis.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
Housebank relationship and relationship banking	Trust and personal relationships	Smallness of the market area, limited business opportunities and closed business community enables personalized relationships	<ul style="list-style-type: none"> <li>• “The regional principle limits our market area to this region.” (Regional bank A)</li> <li>• “We are a regional bank that has to focus on the regional market, which is different from large banks.” (Regional bank C)</li> <li>• “What business opportunities do we have in this small market?” (Regional bank C)</li> </ul>
		Closed business community necessitates market penetration and intensification of customer relationships	“Well, this is actually a strength of regional banks. We have a completely different relationship to our customers than banks in an anonymous large city. Because here in this region, you often know each other since your childhood, and you usually have intensive relationships to people. And these relationships matter for example, if a business partner faces difficulties.” (Regional bank D)
		Conditions of a regional market require commitment to personal relationships	<ul style="list-style-type: none"> <li>• “Since our market area covers this region, we know our customers well. We know what the company produces, which markets it serves and what the company’s activities in the region are. Because of this, there is a special connection.” (Regional bank A)</li> <li>• “All companies basically have the same bank consultant.” (Regional bank D)</li> </ul>
		Individual, non-standardized business with companies	“Private banking is a highly standardized business. But not the B2B sector, it is the opposite – a highly individualized business, and the personal relationship is paramount!” (Regional bank B)
	Decision-making based on long-term relationships	Customer loyalty based on trust	<ul style="list-style-type: none"> <li>• “We simply have customers who are extremely loyal and have a high trust in our bank.” (Regional bank D)</li> <li>• “We experience that the banking business lives on trust. And one wins trust by knowing the persons who sit in front of you.” (Regional bank D)</li> </ul>
		Relationship perseveres throughout the company’s lifetime	“The very trustful personal relationship between bank consultant and owner-manager is being built up over years and decades. This is the recipe for success – we accompany the company from their start-up phase

(continued)

**Table A1.** Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
		Individual risk assessment by considering the specific company context in every situation	<p>to their succession planning.” (Regional bank A)</p> <ul style="list-style-type: none"> <li>• “Large banks have a standardized risk management, but we have an individual risk management. That means we look at every individual company, independent of their industry.” (Regional bank B)</li> <li>• “Because we give loans to companies, we enable companies to grow, invest and start a business. Every of these functions resides with us in the course of time.” (Regional bank C)</li> <li>• “We are a bank that always keeps the umbrella a bit longer open or does not use a management of risks by industry, which is the standard approach of large banks. Large banks say that they do not service certain industries anymore. We use a different approach because we know most the companies and are able to assess the risk in different ways.” (Regional bank D)</li> </ul>
		Decision-making related to relationship management	<p>“The bank consultant needs to engage with managing the relationship with the company, that is, the owner-manager. That is what makes us different to large banks.” (Regional bank B)</p>
	Informational advantages on the part of the regional bank	Generation of informational advantages based on company visits of bank consultants	<p>“As bank consultant, I drive out to the company, look at the facilities. This is important for the companies, but also for us, because you gain a lot of information when you visit a company. It is our plausibility test.” (Regional bank B)</p>
		Generation of informational advantages based on regional networks	<p>“As a rule, we are engaged in an intensive networking with local business partners, for example, industry associations and chambers of commerce. We also have the municipalities as partners in these networks.” (Regional bank D)</p>
		Generation of informational advantages based on acquisition of tacit knowledge	<ul style="list-style-type: none"> <li>• “As bank consultant, I drive out to the company, look at the facilities. This is important for the companies, but also for us, because you gain a lot of information when you visit a company. It is our plausibility test.” (Regional bank B)</li> <li>• “As a rule, we are engaged in an intensive networking with local business partners, for example, industry associations and</li> </ul>

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Table A1. Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
	Stability and resilience of the relationship	Symbiotic business relationship	chambers of commerce. We also have the municipalities as partners in these networks." (Regional bank D)
			<ul style="list-style-type: none"><li>• "I believe that our credit business differs largely from that of large banks, we have a regional business and know all persons in the companies. This allows us to assess the situation of the company in a very profound way." (Regional bank D)</li><li>• "If you serve the complete national market like large banks, it is much more difficult to assess regional-specific situations. This is where we have big advantages. And the customers, of course, know this. It simplifies our business." (Regional bank E)</li><li>• "We are just here in the region, and we know the needs of the companies. We know the situation of the company because we are in the relationship with the company. It makes things much easier." (Regional bank E)</li></ul>
		Stability and resilience based on diversification	"We want to give something back to the customer. This is because of the trust we get from the customer because we have really long-term customer relationships." (Regional bank C)
			<ul style="list-style-type: none"><li>• "Of course, this works with diversification of our portfolio." (Regional bank C)</li><li>• "We value the customer relationship. We are deeply connected with the customers in our market area." (Regional bank E)</li><li>• "There is a certain stability and reliability as well as resilience in the relationship that grows over time and pays off in difficult times." (External stakeholder J)</li></ul>
Proximity	Physical proximity: being within reach	Creation of trust in the relationship and the feeling of being within reach for the customer	<ul style="list-style-type: none"><li>• "When it comes to communication and closeness to the company, then trust is the alpha and omega." (Regional bank E)</li><li>• "The customer values that we are flexible and drive out to them." (Regional bank A)</li><li>• "Notably for investment decisions that we need to take, it proved wise and important that the company is located in the region and not far away because the</li></ul>

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**Table A1.** Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
		Ability of real-time analysis and non-standardized consultancy	<p>proximity matters a lot here." (Regional bank A)</p> <ul style="list-style-type: none"> <li>• "Geographical proximity is important that the bank consultant and the owner-manager can personally talk when it comes to a loan decision." (External stakeholder L)</li> <li>• "You have only a few companies that you can evaluate and assess with a standardized approach. Our customers come to us and say: 'I want to talk with someone', and, here, we cannot adopt a standardized approach but need to react and decide swiftly." (Regional bank C)</li> <li>• "We have the ability to understand the vitae of the company, and this is not going to change in the future." (Regional bank B)</li> <li>• "Because of this, the closeness to the customers will be important for the future. We have a long-term customer-consultant relationship that has been growing over a long time. It contains trust, and the consultant knows the customer over a long time and he knows the background of the company." (Regional bank D)</li> <li>• "Well, with small companies, physical proximity between customer and consultant matters. I want to extend this to the personal relationship between the bank, the consultant, and the decision-maker in the company. This is a good relationship and it is based on the "felt" closeness. For investment decisions, this is extremely important." (Regional bank G)</li> <li>• "The personal, individual and trustful contact over the years binds the company and the bank together. The company will remember that their challenges were met by us in a holistic way and with success." (Regional bank A)</li> </ul>
	Social proximity: being present in the head	"Feeling" of closeness	
		Presence in the head	"And another effect is – what I call – the presence in the head, which is the fact that the bank consultant and the decision-maker in the company know that they can just give themselves a call when they

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**Table A1.** Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
	Cognitive proximity: being able to communicate	Ability to communicate effectively	<p>want to talk about something." (Regional bank G)</p> <ul style="list-style-type: none"> <li>• "It is of utmost importance to communicate with the owner-manager." (Regional bank B)</li> <li>• "The bank consultant and the decision-maker in the company know that they can just give themselves a call when they want to talk about something." (Regional bank G)</li> <li>• "It is important that bank and company have an open communication about financial issues over the years." (External stakeholder J)</li> </ul>
	Changing inter-relationship of physical, social and cognitive proximity (dynamic proximity relations): physical proximity is decreasing in importance.	Changing environment (market, digitization, regulation) implies reduction of the importance of physical proximity	<ul style="list-style-type: none"> <li>• "The low interest rates and the ECB policies, which reduce the profit of regional banks, and digitization as well as the rising demands of their customers, are the main reasons why regional banks thin their network of subsidiaries in the regions." (External stakeholder I)</li> <li>• "Digitization implies a huge cost pressure on regional banks, which leads to the typical consequences such as closing of subsidiaries, staff laid off and others." (External stakeholder K)</li> <li>• "A huge challenge in our region will be that we cannot keep a subsidiary for each village with full service. This is not feasible with regard to costs." (Regional bank C)</li> <li>• "Companies will not find their consultant around the corner as it was before, but geographical proximity stays important, though." (External stakeholder K)</li> <li>• "I know that the intensity of the long-term relationship between bank and initial owner-manager is decreasing with the younger generation." (External stakeholder H)</li> <li>• "Another challenge is digitization. With digital paths to reach a bank, you can get out easily of an established bank relationship as a customer. Then it is only about the business if you, as the owner of a company, want it that way." (External stakeholder H)</li> <li>• "Regulation has made the personal relationship more technical than it was 20 or 30</li> </ul>

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**Table A1.** Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
		Reduced physical proximity, but same or higher levels of social-cognitive proximities	<p>years ago. Companies have to undergo complex checks now. It also leads to changes in the relationship, of course. Regional banks can keep up the personal relationship in a technical, digital system, but have to accept higher costs. However, your situation in a rural area might be less competitive, too?" (External stakeholder J)</p> <ul style="list-style-type: none"> <li>• "There is no negative impact on the relationship with companies as customers. Because our bank consultants go to the companies, it has always been like this and we'll continue with it." (Regional bank A)</li> <li>• "The very intensive relationship between the bank consultant and the company is the basis for everything. It is vital for notably SMEs. SMEs cannot constantly switch banks but need a stable and reliable basis with their bank consultant. It is 'people's business' ". (External stakeholder I)</li> <li>• "If you as owner-manager want to get a loan of about 100,000 EUR, it does not matter whether you drive 5 or 50 kilometres to your bank consultant." (External stakeholder I)</li> <li>• "Proximity stays important in the digital world, too. Banks want to keep it and keep in touch via the internet, that is, apps, for example, with their customers. Where you get a direct contact to your own bank consultant." (External stakeholder K)</li> <li>• "There is a change in generation, and I think the younger an entrepreneur is, the more digital services he or she will use. Then you have geographical proximity to your bank but without the personal contact." (External stakeholder L)</li> <li>• "The personal proximity is what we will focus in the future because we just believe that it is our core competitive advantage over those offering anonymous services on the internet" (Regional bank D)</li> <li>• "We believe that the internet is not going to replace the personal</li> </ul>
	Changing inter-relationship of physical, social and cognitive proximity (dynamic proximity relations): social and cognitive proximity increasing in importance	Avoidance of "becoming alienated" from the customer	

*(continued)*



Table A1. Continued.

<i>Concept in the literature used for the analysis</i>	<i>Key aspects explored for the analysis</i>	<i>Manifestations of the key aspects identified in the analysis</i>	<i>Original quotations by key interviewees</i>
			<p>consulting with customers.” (Regional bank D)</p> <ul style="list-style-type: none"> <li>• “The companies noticed themselves that large banks have a higher fluctuation, and their consultant is replaced every six months. He or she is never visiting the company personally. Balance sheets are sent by mail. Companies do not like this. They want someone they can talk to and communicates the decision personally. This is our big advantage.” (Regional bank F)</li> <li>• “When we are having our regular meetings with companies, for example, discussion of balance sheets and ratings, we try to discuss other topics that might be important for the customer. We try to arouse needs and establish ground for more intensive talks. Succession planning, risk insurance, energy-efficient investments are topics of that kind.” (Regional bank A)</li> <li>• “There is a danger of a breach in the long-term relationship with digitization and the changing behaviour of the younger generation. But the <i>Sparkassen</i> try to cope with it by building up a relationship to the younger generation in the company management at an early point in time. It works well for them.” (External stakeholder H)</li> <li>• “I heard from small craft firms that nothing changes for them with the regional banks withdrawing from specific areas such as small villages. It is the relationship that matters more in these cases than their reduced services in the company’s village.” (External stakeholder H)</li> <li>• “If there is a new bank consultant, this person will be introduced well to the company customers. As a rule, a change in bank consultant does not risk an established, grown relationship.” (External stakeholder I)</li> </ul> <p>“We also offer our customers the management of their company succession.” (Regional bank B)</p>
Regional engagement	Regional operations of banks beyond the provision of financial services	<p>Managing company succession</p> <p>Business start-ups and entrepreneurship</p>	

(continued)

Table A1. Continued.

Concept in the literature used for the analysis	Key aspects explored for the analysis	Manifestations of the key aspects identified in the analysis	Original quotations by key interviewees
		Market expansion and internationalization	<p>"Our bank has been financed a centre for business start-ups." (Regional bank E)</p> <p>"We accompany the companies to their international markets, for example, China. We join the mayor of the municipality or the business development responsible when they plan such travels. These are the synergies provided in the local network." (Regional bank E)</p>
		Regional identity	<ul style="list-style-type: none"> <li>"For <i>Sparkassen</i>, it is very important that they see themselves as part of the region and engage for the region as a part of it. All employees do this, from the CEO level down to the individual bank consultant. Many employees work in social projects and represent the bank through this work in the region." (External stakeholder K)</li> <li>"This regional anchoring will not stop because of digitization, but I guess this will be the same in about 20 years." (External stakeholder K)</li> </ul>
	Relational networks of banks with multiple stakeholders in the regional economy	Regional risk assessment based on the generation of regional-specific knowledge about industries through business networking, for example, the companies' creditworthiness	<p>"Give me the list of your debtors, what companies are on this list?" I asked. And I said to the company: 'Take care, these companies here are not creditworthy – I know them.' " (Regional bank B)</p>
		Network-based co-operation with municipalities, for example, through project work	<ul style="list-style-type: none"> <li>"With regard to municipalities, we co-operate with them in projects, when it is about strengthening the attractiveness of the region." (Regional bank E)</li> <li>"We co-operate with municipalities when we develop industry zones. We also finance these zones by financing the municipalities. This is the network." (Regional bank E)</li> <li>"For a <i>Sparkasse</i>, it is part of our professional understanding that we understand ourselves as part of this region. Then it is our mission to engage for the region whenever possible." (External stakeholder K)</li> </ul>
		Interaction of <i>Genossenschaftsbanken</i> with various stakeholders in a regional network	<p>"Based on the business model of <i>Genossenschaftsbanken</i>, money is re-invested in the region. Our members own the bank and they benefit when our business is profitable through dividends and boni." (External stakeholder H)</p>