Editorial

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In this final issue of Volume 13, there are seven papers: five analysis papers and two practice papers. In keeping with the broad remit of this Journal, the papers cover a range of issues including revisiting and extending ongoing debates within the literature, introducing new developments and assessing the impact of recent developments within the financial services operating environment on the competitive structure of the industry.

There has been much discussion of the need to improve the quality of decision-making among financial services consumers. Governments in a number of countries have responded by developing financial literacy programmes. In the first paper, *Cognitive drivers of suboptimal financial decisions: Implications for financial literacy campaigns*, Estelami argues that while financial literacy programmes have attempted to combat consumers' irrational economic decisions, empirical evidence from behavioural science and cognitive psychology points to robust and persistent patterns of suboptimal economic decisions which span the socioeconomic and educational spectrum. The evidence suggests that the possession of knowledge on financial matters is not a sufficient condition for ensuring that individuals are able to make rational financial decisions. In the paper Estelami examines how suboptimal decision styles exhibited by consumers often result from basic limitations of the human cognitive system and the hardwiring of the human neurological system. The paper profiles five decision patterns which account for a range of suboptimal financial decisions by consumers: hyperbolic discounting, short-term memory overload, attribute anchoring, poor knowledge of risk levels and mental accounting. Drawing on evidence from the literature and previous

research findings, the paper highlights the impact of each decision style on decision-making behaviour and provides specific recommendations for how financial literacy programmes may need to counter these forces.

A number of papers have explored internet banking adoption, yet limited research to date has been conducted into internet banking use in Turkey. Recent indicators show that the majority of internet users in Turkey have not yet adopted internet banking. The second paper, *Exploring the adoption of a service innovation: A study of internet banking adopters and non-adopters*, by Ozdemir and Trott, examines the factors affecting the process of internet banking adoption and characterises internet banking adopter and non-adopter segments in Turkey. The research applies an extension of the Technology Acceptance Model with the Diffusion of Innovation Theory and Theory of Perceived Risk models. Based on a multi-method approach, employing first a quantitative survey of 155 bank customers in Turkey followed by a qualitative phase, the paper reveals that internet banking adopters and non-adopters in Turkey have different perceptual, experience, socioeconomic and situational characteristics. In terms of perceptual-related characteristics, internet banking adopters perceived internet banking as more user-friendly, more useful and less risky compared to non-adopters. With regard to experience-related characteristics adopters exhibited more experience with mobile internet and the internet compared to non-adopters. Respondents who used the internet more frequently also perceived internet banking use as more useful. In terms of demographic and situation characteristics, adopters were found to have higher incomes and longer working

hours compared to non-adopters. It was further revealed that besides the perceptual factors related to internet banking use, perceptual factors in relation to the banks in Turkey were also influential in internet banking adoption process.

Throughout the last few decades the financial services industries of a number of countries have experienced processes of progressive deregulation. The impact on competition has been noticeable, yet there has been limited research to date that has empirically tested the precise impacts of deregulation on competitive structures. *The market structure effects of commercial bank entry into underwriting: Evidence from the league tables*, by Papaioannou, investigates the market structure effects of the deregulation of the US underwriting industry, which allowed commercial banks to expand into investment banking activities. In particular, the paper analyses the gains of commercial banks in market rankings and market share, the market position of the traditional top-ranked (so-called bulge-bracket) firms and changes in market concentration. The paper investigates four key questions: whether commercial banks increased their market profile in the underwriting markets of various categories of issues? whether commercial banks have been relatively more successful in gaining in market rankings and share in the type of securities they have a comparative advantage over pure investment banks?; whether the entry of commercial banks into underwriting changed the traditional market dominance of the top investment banks? and whether the commercial bank entry reduced the barriers to entry and the concentration of the underwriting markets for various types of securities? The sample of underwriting firms was drawn from the league tables published by the *Investment Dealers' Digest* from 1990 to 2004. The results suggest that commercial banks were successful in gaining market share in underwriting, especially in debt offerings. Commercial bank entry into underwriting eroded the dominance of bulge bracket firms

in debt underwriting, but not in equity offerings where their dominance intensified. Finally, commercial bank entry helped reduce market concentration in debt but not in equity underwriting. The findings of the study have useful implications. From a broader policy-related perspective, the findings provide evidence in support of deregulation as a means to increasing competition. From the underwriting service providers' viewpoint the question is whether banks can generate synergies that would enable them to implement cross-selling strategies successfully. From the clients' perspective, the findings are relevant as to whether the new competitive environment offers more underwriter choices that could result in more favourable pricing of underwriting services.

Internal marketing is recognised as important to service organisations, especially banks. Owing to the reliance on people in the customer-bank relationship, the satisfaction a customer gets depends very much on the performance of the service and the people who perform it. Despite the volume of literature on internal marketing, there is limited empirical evidence on its impact on the perception of service quality in developing nations. In their paper, *The impact of internal marketing on the perception of service quality in retail banking: A Ghanaian case*, Opoku *et al* explore the impact of internal marketing on the perception of service quality in Ghana, specifically: the relationship between employee status (management and employees) and perceptions of internal marketing; the relationship between employees and management, and customers on perceptions of service quality; and employee perceptions of internal marketing and its impact on perceptions of service quality. The research was based on a survey of 32 top managers, 100 employees and 200 external customers of a major bank in Ghana. The results suggest that internal marketing can have an influence on service quality. Implications of the study are highlighted,

limitations noted and directions for future research outlined.

Customer satisfaction has been studied in a number of contexts and is recognised to have importance in understanding the behaviour of customers. Yet, less research has been conducted in the context of credit unions, to assess whether customer satisfaction is affected by the same or different factors as for customers of other financial institutions. *Understanding customers' revealed satisfaction preferences: An order probit model for credit unions*, by Barboza and Roth, examines customer satisfaction and its role in the credit union sector of the financial services industry. The research is based on a survey of 300 randomly selected in-branch credit union members in Northwestern Pennsylvania that yielded a 50 per cent response rate or 10 per cent of the total membership at the time of the survey. Respondents were accessed via direct mail and/or as customers were conducting business at the branch facility. Customers' satisfaction responses were coded using a categorical order of 1 = Excellent, 2 = Good, 3 = Satisfactory and 4 = Poor. The analysis was conducted using an order probit model. The findings reveal that a higher probability of achieving excellent overall customer satisfaction ratings is directly affected by high satisfaction in courtesies, privacy and waiting indicators. The evidence also suggests that a unified marketing effort directed at an undifferentiated customer base may not be effective as an overall strategy. The results of the study show more specific segment profiles that exhibit key differences that need to be considered in decisions. These differences are seen across segments in their demographic composition and patronage frequency. The findings have implications for strategic management design of credit union product/service strategy.

Banks face a number of risks when entering foreign markets. Such risks are often escalated when entering markets in countries where the government is intimately involved in all areas of industrial development and in

the planning and implementation of social policies, the so-called 'planned-market economies'. China is an example of such a country. Since joining the World Trade Organization China pledged to fully liberalise its banking sector, exposing its domestic banks to foreign competition. Global banks have been attracted to China and the opportunities for financial services and products. Yet, how can foreign banks assess the risks of entry into the Chinese financial services market? When investing in the majority of developed countries, and in some of the developing countries, it is possible to gain sufficient information from published sources, commercial sources or surveys. Thus, application of standard analysis frameworks that rely on such information can be conducted reliably. In the case of China, such information is not always readily available; hence, there is a need to apply alternative methods to assess the risks of entry. In their paper, *The application of a planned economy country risk model (PERM) to the assessment of market entry into the Chinese banking sector*, Carpenter and Vellat introduce and discuss the Planned Economy Risk Model (PERM) to assess the dimensions of risk in entering such markets. The PERM framework uses the following key factors related to the risk of investment in planned-market economies: an overview of the current political economy, central government control mechanisms over the private and public sectors (for example government-business interpersonal network), corporate governance and issues of transparency, central government ties to Central Banks, central governments' political and economic relationship with local governments, the legal system (judiciary), and SME development and access to loans from banks. Using China as an example, PERM is applied and the results in doing so are explored. It is anticipated that such a tool will provide analysts with the ability to employ more effectively other methodologies in determining the advantages of investment.

In the final paper in the issue, *The riches of relevance*, Noble uncovers the reality of joined-up communications in the financial sector. The paper outlines several key developments in one-to-one communications that are affecting the financial services sector's ability to achieve joined-up communications both at the database level and in the realities of talking to customers in a personalised way across multiple channels. Four key issues are discussed: developments in variable colour printing; the emergence of advertising on bills and statements; measuring outcomes that are important both to marketers and to shareholders; and managing post-M&A customer communications to ensure that

acquisitions do not rapidly lose customers, and therefore value. The paper concludes that a joined-up approach to one-to-one communications with customers and prospects seems to be key to effective financial marketing in a slow economy. Many channels to the customer and prospect are now available, but integral to any customer relationship is a 360° view of the customer, in a coordinated database, which allows an organisation to recognise the value and history of each customer, whatever channel of communications they choose to interact with the company.

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Editor