Editorial

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In this final issue of Volume 17, I am pleased to present five articles on different topics of financial services and based on data from a range of different countries. Two articles specifically focus on long-term investments and challenge traditional approaches. Two other articles explore internal organizational practices and the impact on organizational competitiveness. The remaining article challenges gender-stereotyped approaches by financial advisors.

The first article, ‘Value chain capability, value strategies, and firm default risk’ by Wenbin Sun and Kexiu Cui, links the firm’s value strategies and capabilities to firm default risk reduction, thus extending the effect of value chain strategies to firm default risk. The authors conceptualize and operationalize a new firm capability, value chain capability (VCC), and examine how this capability and two firm value strategies, research and development (R&D) and advertising, combine to reduce firm default risk. The authors note that investing in R&D and advertising are two corporate value strategies that have gained much emphasis in the marketing literature. They also note that the literature depicts ‘R&D as a value creation strategy that develops new products and processes to augment benefits delivered to consumers, while advertising is a value appropriation strategy isolating firm’s products from competitors’ offerings by creating brand associated assets’. The authors argue that these two value strategies, both occupying different spaces in the value chain, affect a firm’s risk to shareholders and suggest that an integration of the capabilities is important because a firm’s operations throughout its entire value chain are interrelated and complementary.

The article employs stochastic frontier estimation to measure VCC. The research finds that the model has a very strong predictive power in explaining default risk. When facing default risk, firms have alternative choices: they can choose to increase their advertising expenditure and attempt to increase revenue through value appropriation, or can choose to optimize their value chain and obtain financial benefits from value creation. However, the research also finds that strategies focusing on R&D and advertising are double-edged swords: investing in value creation and value appropriation will help firms to gain competitive advantage, but R&D and advertising are themselves expenditures and may potentially increase default risk, particularly when they don’t achieve their intended goals. However, when R&D and VCC are combined, the study finds that high VCC helps R&D to reduce firm default risk. Advertising, however, regardless of whether VCC is high or low, is always effective in lowering default risk, although VCC does increase advertising strength.

The authors assert that a firm with a better VCC may have stronger relationships between value strategies and risk reduction. The article outlines a number of strategic implications to debt holders.

The second article, ‘Wealth portfolios and elite professional athletes’ by Gary Fox, Jason West and Michael Drew, examines the appropriateness of traditional pension planning approaches for professional athletes. The financial planning ‘life cycle’ assumes that individuals proceed through predictable life stages characterized by significant life events. This assumption has underpinned the conventional view in the management of

pension funds for a generation. This explains why defined contribution retirement plans offer life cycle funds as the default investment option to many plan participants. The life cycle strategy involves switching investments from relatively high-risk assets, such as stocks, to relatively lower-risk assets, such as fixed-interest securities and cash, as the investor approaches retirement. This approach is based on the assumption that the size of the retirement portfolio grows steadily with time, based on the steady growth in salary from a relatively low starting point.

However, the authors note that not all individuals' wealth accumulation follows this pattern. A professional athlete, for example, has a unique and atypical earning life cycle and can earn substantial sums of money in a much shorter career as compared to the more traditional earnings pattern involving a progressive and gradual increment of earnings over forty-plus years. The authors point out that no detailed analysis has been conducted on appropriate investment strategies that optimize terminal wealth for elite athletes and other individuals possessing unorthodox earnings profiles over their working lives. Their article attempts to fill this gap.

The authors use a portfolio simulation of asset return data from 1927 to 2010 to assess whether the earnings profile of a professional athlete and the portfolio size effect calls for a higher allocation to stocks during periods of high earnings, and whether this approach will lead to better wealth outcomes than the simpler life cycle asset allocation strategy. The study finds that taking advantage of the portfolio size effects from higher earnings at a younger age has a much greater impact on terminal wealth than relying on life cycle strategies. It also finds that the value of the terminal wealth of an elite athlete is largely determined by earnings from their relatively brief sporting career when compared with savings from earnings subsequent to their retirement from sport. The authors show that the asset allocation strategy is more

critical for unorthodox earnings profiles than for typical earnings profiles due to larger capital accumulation experienced during periods of high income.

In summary, the authors argue that although the life cycle strategy provides some attractive features in terms of risk aversion and diminishing utility from wealth, they demonstrate that for unorthodox earnings profiles the case for taking advantage of the portfolio size effect is particularly strong.

The third article, 'Gender stereotyping in financial advisors' assessment of customers' by Inga-Lill Söderberg, explores financial advisors' assessment of their customers according to both financial advisor and customer gender to assess potential differences. Financial advisors are a key element of the financial services sector: they use their professional skills to aid decision-making and reduce customer uncertainty, educating customers about financial risks in general and making expert-supported investment propositions. Financial advice has the potential to serve as a substitute for customer financial knowledge. The authors note that the relationship with a professional advisor affects customer portfolio performance.

The authors note that a number of studies have separately confirmed gender-related differences in risk-aversion behaviour and investment behaviour. The studies generally show that women are more risk averse than men, and that men exhibit overconfident behaviour. Moreover, the authors note that the literature has found that advisors had a tendency to tailor their approach according to customer gender. Set against this background, the authors set out to explore whether financial advisors advised customers differently according to gender, both their own gender and the customer's gender.

The data set consisted of 361 matched pairs of financial advisors and customers who had recently participated in a financial

advising session at a bank branch. Advisor/customer pairs were given a questionnaire consisting of identical questions to gauge the degree to which they shared a common understanding of different aspects of the advisory session in which they had recently participated. All pairs were also asked background questions, and the advisors were asked additional questions about their work situation.

The study explored financial advisor assessments of customer perceptions of risk tolerance, customer satisfaction with the advisor, customer trust in the advisor, customer likelihood of following the advice given, and advisor ratings of customer financial literacy. The study finds significant evidence that advisors assess their customers differently according to these variables depending not only on customer gender, but also on advisor gender. Male advisors rated customers' answers higher than did their female colleagues for all variables, with the exception of advisors' ratings of customer financial literacy.

The authors argue that advisors' assessment of their customers is likely to influence the way in which they frame the information and the advice they give to their customers. The findings have important implications for the nature of advice received by customers, suggesting possible gender stereotyping of advice in practice. Such gender-biased, gender-tailored advice can be counterproductive from an overall economic stability perspective. The authors advise that financial advisors, their employers and policymakers should be aware of the possible association between advisor gender and gender stereotyping of clients, and suggest that the findings may indicate a need to educate advisors as well as consumer within the overall context of customer financial education programmes.

The fourth article, 'Internal marketing and employee commitment: Evidence from the Ghanaian banking industry' by Bedman Narteh, explores the relationship between

employee commitment and internal marketing. It is widely recognized that there is a strong relationship between committed employees and better organizational performance: employees with greater commitment to their organizations perform better on their jobs compared to those who have lower commitment. The author hypothesizes a positive relationship between employee commitment and internal marketing, but notes that little empirical research exists that has specifically examined the relationship between internal marketing and employee commitment in the financial services sector.

Previous research into internal marketing has been criticized for being fragmented. The author argues for the need to provide a more holistic and integrated model of the dimensions of internal marketing. The study presented in the article provides a contribution towards conceptualizing the dimensions of internal marketing and exploring the relationship between internal marketing practices and employee commitment. Given the current economic situation that many international firms find themselves in, the author argues that a focus on the impact of the internal customer on the external customer would seem timely and relevant in attempting to rebuild trust in the industry.

The study identified from the literature four internal marketing practices: empowerment, rewards, training and development, and communication. The impact of these four internal marketing practices on employee commitment in the retail banking industry was then investigated. The research was based on survey data from 410 employees from 16 of the 26 banks in Ghana. Questionnaires were self-administered to employees at their various workplaces across three major cities in Ghana: Accra, Kumasi and Sekondi-Takoradi.

The findings revealed that, with the exception of communication, the factors are positively associated with employee commitment. Empowerment was found to

be the most important determinant of employee commitment, followed by employee training and development. The third determinant was found to be reward systems. The findings suggest that internal marketing is multi-dimensional: in order to ensure employee commitment, individuals first need to be empowered and developed, hence given the capacity to commit, and then need to be rewarded for their contribution. The strategic implications of the findings for bank managers are discussed in the article.

The final article in this issue, 'Considerations of a gold-denominated life insurance policy' by Liu Cong, Chen Dong, Zhang Yan, Li Chenxi, Hu Gaiqin and J. Tim Query, proposes the design of a long-term life insurance policy denominated in ounces of gold, and compares it with traditional long-term life insurance policies. Life insurance policies are generally designed for the long term. Protection from the effects of inflation and economic cyclical fluctuations is an important consideration in order to ensure the purchasing power of the long-term cash flow from the life insurance product.

The authors argue that inflation has primarily existed in an environment where paper currency is used as legal tender. They note that when precious metals such as gold and silver were used inflation was not an issue, as the precious metal itself had value. The authors note that because of its dual attributes, of a currency and a commodity, gold can be viewed as a tool for hedging. They note that in the banking industry, gold-linked structured products have experienced rapid growth and are already large scale, but studies examining the impact of inflation and cycle fluctuations by linking insurance with gold are somewhat scarce and are warranted. The article thus responds to this gap by designing a life insurance product that is denominated in ounces of gold and comparing its performance with traditional long-term life insurance policies. The

premiums, death benefits and payments are denominated in gold, but paper currency is still used to settle the account, using the spot price of gold at the time of settlement.

The article presents a quantitative analysis to determine the effects of long-term life insurance products denominated in ounces of gold during periods of inflation and various fluctuations of economic cycles from 1998 to 2008. The analysis uses actual insurance data from China and actual prices of gold as provided by the World Gold Council for the gold-denominated annuity. This study uses three kinds of single premium immediate annuity products for comparative purposes: an ounce-denominated annuity product; a fixed annuity investing in bank deposits; and a variable annuity investing in bank deposits.

The study finds that for the period studied, the purchasing power of the ounce-denominated annuity product is slightly higher than the fixed annuity investing in bank deposits, and the variable annuity investing in bank deposits. The purchasing power of the fixed annuity investing in bank deposits was found to be the least desirable, as it tended to go down annually due to the effects of inflation. Over the study period, two periods of economic slowdown in China were experienced. The ounce-denominated annuity product outperformed the traditional products on average over these periods. The authors suggest that an argument can be made that annuities denominated in ounces of gold provide a significant hedge to cash flows, based on its rise in purchasing power during periods of decreasing economic activity.

The authors propose a risk management programme aimed at price risk, interest rate risk, currency risk and investment risk as a result of the insurance policy denominated in ounces. The recommended strategy includes an inducing index method to hedge against the losses caused by price fluctuations of gold.

Tina Harrison
Editor-in-Chief