Editorial

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Welcome to this first issue of Volume 17, 2012. This issue contains seven papers that span a range of marketing and management issues (including organisational and consumer behaviours) and each study conducted in a different country context (Sweden, China, India, United States, Saudi Arabia, Egypt and South Korea).

The first paper, *Perceived Performance, Equity Sensitivity and Organisational Commitment among Bank Managers* by Vella, Caruana and Pitt, explores the impact of equity sensitivity and perceived firm performance on organisational commitment. People are considered to be an organisation's most valuable and competitive asset, particularly in service firms. This is recognised in the Service-Profit chain. Employees with high levels of commitment to the organisation will tend to perform better, be more productive, exhibit lower levels of absenteeism and are usually punctual. But, how can organisations achieve greater commitment among employees? Vella and colleagues specifically investigate whether equity sensitivity among managers in banks impacts on their organisational commitment and whether bank managers' perceptions of their bank's performance mediate the effect of equity sensitivity on organisational commitment. Equity sensitivity is derived from equity theory that refers to the balance between employees' inputs (such as hard work, skill level, tolerance and enthusiasm) and their tangible (for example, salary and benefits) and intangible (such as recognition) returns. Equity results when a situation matches an individual's own internal standard of equity.

The research was based on 274 questionnaires completed by senior and middle managers of a single bank and suggests that managers with higher levels of

equity sensitivity exhibit higher levels of organisational commitment. However, this positive relationship between equity sensitivity and organisational commitment only holds for situations of perceived high firm performance. In situations of low perceived firm performance those with higher equity sensitivity tend to exhibit lower levels of organisational commitment. The findings offer useful insights for banks that want to get the most out of their employees, particularly in the current challenging economic times. An employee's commitment to the organisation is both a function of their own personal disposition, as well as their perceptions of the organisation's performance. Banks may need to think carefully about how they communicate organisational performance to employees in order to counter negative perceptions portrayed in the media.

The second paper, *Beyond State-Owned Banks: Evidence from Shanghai Bank Customers* by Chen and Loke, explores the impact of foreign bank entry into China on Chinese consumers. Since 1978, China's banking industry has undergone extensive reforms and China's entry into WTO in 2001 has further intensified the transformation process. By the end of 2006, foreign banks were free to operate in China. The authors note that a considerable number of studies has examined the impact of foreign entry on the sustainability of domestic banks and also on the survival of foreign banks in China, but there have been fewer studies on the implications of the banking reforms and foreign entry on bank customers. The growing affluence of the Chinese and higher literacy rates have resulted in demands for more sophisticated financial services, which extend beyond the traditional deposits and

loans services. The authors argue that with the entrance of foreign banks and the strengthening of other domestic financial institutions, consumers are now presented with a wider selection of banks. Set against this background, Chen and Loke explore the role of socio-demographic factors and customers' banking experiences and priorities in the selection of banks. In particular, the paper investigates the receptiveness of the Shanghai Chinese towards newer commercial banks such as the joint-stock banks and the penetration of foreign banks into China's banking industry.

On the basis of a survey of 388 Shanghai residents conducted via face-to-face interview, the research finds that state-owned banks remain dominant despite the opening up of the banking sector, and perception towards state-owned banks remains favourable. The research finds that education, income, age, occupation sector and location of hometown affect customers of state-owned banks only. The authors conclude that while foreign banks have now gained access to operate liberally in China, Shanghai bank customers have yet to fully accept the foreign banks: there are still reservations, especially from those aged over 40 years, the less educated and those from the lower income bracket. Despite the liberalisation of the banking industry, the Chinese have not quite gone beyond the state-owned banks in their choice of banks.

The third paper, *A Comprehensive Model of Information Search and Processing Behaviour of Mutual Fund Investors* by Mishra and Kumar develops and validates a model of information search and processing behaviour of mutual fund investors. The authors argue that understanding the investment behaviour, specifically information search and processing behaviour, of mutual fund investors is key to the effective marketing of such schemes, and yet we have only limited understanding of it. The study proposes a model to explain the impact of mutual fund investors' subjective knowledge (SK), perceived purchase risk (PPR) and purchase decision involvement (PDI) on their

investment behaviour (specifically information search and processing behaviour). The proposed model is arrived at by combining the limited insights from the existing studies dispersed across multiple domains of literature including traditional finance, behavioural finance and consumer behaviour. The model was empirically validated through structural equation modelling of data collected from a survey of 268 mutual fund investors and suggests that mutual fund investors' SK negatively impacts on their PPR, but positively impacts on their PDI. PPR negatively impacts on mutual fund investors' PDI, but positively impacts on their depth of information search (DIS) and information processing behaviour (DIP), and DIS positively impacts on mutual fund investors' DIP.

The authors conclude that investors who perceive themselves as highly knowledgeable (high SK) perceive the purchase of mutual funds to be less risky (low PPR), and are motivated to actively engage in investment decisions (high level of PDI). Investors who perceive themselves as less knowledgeable (low SK) perceive the purchase of mutual funds as more risky (high PPR), and are motivated to remain passive during investment decisions (low PDI). The findings suggest that mutual fund marketers should use different marketing strategies for passive versus active mutual fund investors.

In the fourth paper, *Financial Advisor Participation Rates and Low Net Worth Investors*, West explores differences in participation rates for financial advisers among low and high net worth households. Financial advice is one of the key offerings of the financial industry. It is generally agreed that retail investors seek guidance from investment advisors to manage their investments and to meet their own and their families' financial goals. As the complexity of the investment increases, so too does the need for financial advice. Yet despite the apparent importance of financial advice to investors in helping them make well-informed financial decisions, West notes that only around one-fifth of US

households actively access financial advisor services, representing a very low penetration rate. Set against this background, the study presents a simple analytical framework to identify the key determinants underlying the incentives for households to engage financial advisors. The key question explored is whether the low advisor penetration rate is the same relative proportion across wealth levels and, if not, whether the high-net worth segment is disproportionately targeted at the expense of less wealthy investors. The study used data from the US 2007 Survey of Consumer Finances and employed a logistic regression approach to understand the characteristics of households who engage financial advisors for investment or comprehensive financial advice.

The findings reveal that age, education, employment category, income and net worth are highly significant variables related to the propensity to engage a financial advisor. The results also indicate significantly reduced active engagement between advisors and low net worth investors than claimed by the low net worth investors in the survey. The study further explores financial advisor remuneration and presents a model to derive the expected fee profile of financial advisors as a function of wealth and compares the fee structure against a financial advisor client portfolio. The analysis reveals that a combination of lower costs per investor and higher expected fee income motivates advisors to target higher net worth investors. The study thus provides evidence to support the long-held belief that advisors prefer higher net worth investors, which drives low investment participation rates by less wealthy households. The paper raises a number of issues around financial inclusion and the wider welfare of low-income households.

The fifth paper, *The Effect of Near- versus Distant-Future Mindsets on Socially Responsible Investors' Mutual Fund Preferences* by Alexander, Sailors, Al-Khatib and Al-Habib, explores the extent to which investment decisions made in the near or distant future cause investors to

make trade-offs between the social responsibility and financial aspects of the investment. The authors note that socially responsible investing (SRI) has seen tremendous growth in recent years but acknowledge that in choosing among potential SRI investments, investors often are required to make trade-offs between the social responsibility and financial aspects of the investment. The authors examine contexts where investors are more or less willing to make such trade-offs. The authors note that there is evidence that people construe a product differently when considering it in the near versus distant future. For example, when considering the near future implications of an SRI investment, investors are expected to think more concretely about the costs of the investment making the required trade-offs more visceral and increasing preference for investments that do not require making trade-offs. By contrast, when considering the distant future implications of an SRI investment, investors are expected to think more holistically about the investment, and thus increasing the focus on its SRI aspects making the required trade-offs less visceral and so reducing preference for investments that do not require making trade-offs.

The authors test out their assumptions using a discrete choice experimental design among a unique SRI market of 60 Muslim retail investors in Saudi Arabia. The Shari'a (Islamic) principles are inherently socially responsible and Muslims comprise a significant proportion of the investment population globally. Participants were randomly assigned to one of two choice-based conjoint experimental conditions – near-future mindset versus distant-future mindset and were asked to make choices from among a series of several sets of alternatives, mimicking actual marketplace behaviour. The findings reveal that SRI-focused retail investors primed to take a distant-future mindset were more willing to choose mutual fund options that traded-off social responsibility and financial return

attributes than were those who were primed to take a near-future mindset. Those with a distant-future mindset were more willing to incur the higher management fees one would expect from mutual funds. The authors highlight a number of key managerial implications in communicating SRI investments to investors based on whether investment decisions are being considered for the near or distant future.

Hassan and Ibrahim in their paper, *Provision of Financial Information and its Impact on the Relationship between Executives and Venture Capital Managers: A Study of the Private Equity Market in Egypt*, focus on the relationship between private equity/venture capital (PE/VC) firms and investee companies (ICs) in the context of the provision of financial and non-financial information. In particular, they focus on the impact of information provision on the development of the relationship between chief executive officers (CEOs) and PE/VC managers. Research into the PE/VC firms-ICs' relationship supports the view that precision and clarity of information from ICs affect PE/VC firms' involvement, yet the authors argue that limited research has been conducted in a developing market context. The authors seek to address this gap by selecting Egypt as the research context. Egypt is one of the developing economies where the PE/VC industry is rising, but still suffers from the absence of relevant laws and regulations that govern companies operating in this industry. Semi-structured interviews were conducted with key individuals in 7 of the 14 PE/VC firms registered with the Capital Market Authority in Egypt in 2009.

The research finds both similarities and differences between Egyptian PE/VC in respect of developing relationships with their ICs. The provision of timely information allows PE/VC managers to have a higher degree of trust in CEOs, to be more supportive of CEO's strategic decisions and to interact more frequently with the ICs. The paper highlights implications for both

CEOs of the ICs and PE/VC managers. The authors conclude that it is important for PE/VC managers to develop and maintain successful relationships with ICs, which will promote a positive image of the PE/VC firms that can be used for marketing purposes, which in turn, can be translated into more deals in the future.

The final paper, *Overconfidence and Emotion Regulation Failure: How Overconfidence Leads to the Disposition Effect in Consumer Investment Behaviour* by Chu, Im and Jang, examines investor overconfidence and its impact on investment behaviour. Stock investment decisions have crucial consequences for investor welfare. However, investors often fail to obtain superior investment performance due to their emotional biases. The authors argue that previous financial behaviour studies have dealt with overconfidence and the disposition effect, although few studies have examined the relationship between the two concepts. Responding to this gap in previous research, the authors conducted a computer-aided mock stock investment experiment to evaluate their hypotheses. Sixty-eight undergraduate and MBA students at a South Korean University, and 93 office workers took part in the study.

The findings reveal the relationship between overconfidence and the disposition effect. In particular, the study shows that overconfident investors tend to trade in greater volumes and exhibit stronger disposition effect. They also feel greater shame in a repeated loss condition due to overly strong confidence in themselves. Thus, overconfident investors typically experienced self-regulation failure and took greater risks by buying more stocks, whereas less overconfident investors tended to decrease their buying. The paper highlights implications and avenues for further research.

I hope you enjoy reading this collection of papers!

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