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To my wife Patrizia, my value-added
(*Franco Fiordelisi*)

To Del and my cheeky kids – Catrin, Lois,
Rhiannon, Alun, Gareth and Gethin
(*Phil Molyneux*)

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Franco Fiordelisi (MA, PhD) is Lecturer in Banking and Finance at the Faculty of Economics 'Federico Caffè' of the University of Rome III, Italy. His main research interest relates to the economics of the banking and other financial institutions focusing on efficiency, productivity and shareholder value creation. His research has been published by leading academic journals. He has acted as a consultant to many banks, leasing and factoring companies.

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Preface

Managing to create sustainable shareholder value is currently recognised by academics and practitioners as a major objective by both financial and non-financial companies. One might ask why, since the 1990s, there is such a strong interest towards shareholder value among practitioners, academics and, even, regulators. The primary reason for the increasing interest of banks and other firms towards the creation of shareholder value is that business has become more competitive and this new environment requires a new approach to keeping both stakeholders and shareholders satisfied. Banks have to compete with one another to obtain valuable capital resources to invest and to get such resources they have to demonstrate to potential suppliers of capital (shareholders) that they will generate sufficient returns – in other words banks need to demonstrate that they can create value for potential shareholders. As such, shareholder value maximisation has become the primary business goal and performance target for many banks and other companies. Although managers and practitioners have traditionally criticised the notion that the sole objective in decision-making should be to maximise firm value, over the last decade, they have recognised that shareholder value maximisation is at least an important priority.

Generating stable shareholder value growth requires an intense focus on delivering benefits to customers in the most efficient way, hiring and retaining a motivated workforce, maintaining excellent supplier relationships, and being a good corporate citizen in each of the company's local communities. The so-called *service value chain* shows the long-term relationship between customer satisfaction, customer loyalty, productive efficiency, employee motivation and satisfaction and shareholder value. In a competitive market, shareholder value is based on customer satisfaction and productive efficiency, which also requires employees' and managers' satisfaction.

This text aims to provide a detailed analytical assessment of shareholder value creation in banking. It explains what shareholder value creation is and its main drivers. Various shareholder value measures in banking are compared with conventional and other performance indicators. We empirically examine the drivers of shareholder value in banking and illustrate empirical relationships between factors that are believed to add to the wealth of bank owners. The first part of the text provides a framework for analysing shareholder value theory by discussing how shareholder value can be defined, if it can be considered a valid strategic objective for banks, how shareholder value can be measured and how it can be created. The second part of the text presents various empirical investigations in order to measure shareholder value (using the Economic Value Added approach) and some of its drivers (such as cost and profit efficiency, productivity changes and customer satisfaction). The final part analyses the importance of these drivers in creating shareholder value and also briefly develops a new measure of bank efficiency (shareholder value efficiency).

We believe that this text provides the most extensive coverage on shareholder value issues in banking and that it will be of use to financial sector practitioners (who need to manage their operations so as to generate wealth for their shareholders) as well as academics and students interested in measuring bank and firm performance from a stockholder perspective.

Special thanks go to Alessandro Cazzette, Daniele Previati, Jon Williams and Yener Altunbas for their comments, support and advice dealing with many areas covered in the text.

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