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e finance lab  
Frankfurt am Main

# EFL quarterly 03|2007

AN E-FINANCE LAB PUBLICATION

- > The Financial Market Luxembourg – A Success Story with High Cross-border Attractiveness
- > How to Meet Private Investors' Advisory Needs
- > Do German Banks Successfully Outsource Back-Office Processes?
- > Credit Scoring Transparency – Can Germany learn from the U.S.?



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### **Gestaltung**

Novensis Communication GmbH  
Bad Homburg

3. Ausgabe, 2007  
Auflage 1.350 Stück

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Printed in Germany

## The Financial Market Luxembourg – A Success Story with High Cross-border Attractiveness

WOLFGANG KÖHLER

Luxembourg is a picturesque small country with a land area of just 2,586 km<sup>2</sup>, bordered by France, Belgium, and Germany. The country has a population of about 460,000 people. Approximately 280,000 are Luxembourgers, the remaining percentages are foreigners. About 120,000 commuters come to work in Luxembourg every day from the three surrounding neighbor countries: 62,000 from France, 32,000 from Belgium, and 26,000 from Germany. The citizens have their own language: Luxembourgish. They also speak French – the official language of the country – and German. The result is a thriving multinational, multilingual environment, where many other languages are spoken as well.

Labor costs are low and underpin strong performance. Unemployment has seen some increase in recent years, but as of 2006, still remained at a relatively low 4.4%.

The architecture of the country, where one sees both the modern offices of the European Union institutions and the futuristic lines of numerous financial headquarters standing comfortably next to lovingly restored museums, bears witness not only to the vitality of Luxembourg society, but also to the long term commitment of Luxembourg to develop a robust, world class financial centre that will stand the test of time.

Today, Luxembourg is home to some 154 banks originating from 26 different countries. With more than 24,300 employees, the financial sector is a strong pillar of the local economy and accounts for 17% of national employment. Its share of GDP is 30% and its contribution to public finances and also to national economic growth is just under 40%. Now growing in maturity, innovation, and adaptability, Luxembourg is one of the top countries for Private Banking globally. The world of private banking is one of attention to detail and high level services. Wealthy clients seek personalized service, long term relationships with private bankers they can trust, and made to measure solutions. Ranking 8th in importance worldwide, with a market share of 3.9%, the Luxembourg Financial Centre offers an abundant choice of innovative products and services. The local banks have both the expertise and the capability to satisfy the investment needs and advisory requirements of private customers.

Investment fund activities play a significant role in the growth and success of the Luxembourg Financial Centre. Two significant trends can be identified: For about ten years Luxembourg has assumed a position as European leader in standard funds and more recently the adaptability of Luxembourg's regulatory bodies has allowed for the evolution of alternative types of funds and has been supporting new opportunities. Along with this impressive growth, Luxembourg has amassed a reputation of expertise and trust. All Luxembourg funds are authorized and supervised by the financial regulator, the Commission de Surveillance du Secteur Financier (CSSF).



Wolfgang Köhler  
CFA, Administrateur Délégué, Speaker of the Board of Management DZ BANK International S.A., Luxembourg.

Nearly 10,000 investment funds and a volume of 2,000 billion Euro make Luxembourg the second largest fund market in the world and show clear evidence of the scale on which Luxembourg continues to be an attractive financial centre.

In summary, Luxembourg's likeability factors are: Luxembourg tops Mercer's list of the world's safest cities, infrastructure (transport, IT, health care), personal and corporate taxes, educational system. An OECD pension study cited Luxembourg as the best place for retirement. In 2007, the Grand Duchy of Luxembourg will be honored to organize for the second time after 1995 as European Capital of Culture more than 1,000 events and festivities in partnership with the Greater Region (Saar-Lor-Lux-Rhineland-Palatinate-Wallonia). Highlighting the wealth, diversity, and shared characteristics of European cultures and contributing to a better mutual understanding between the citizens of the European Union these events also emphasize – beside all importance of business – the attractiveness in the greater region of Luxembourg.

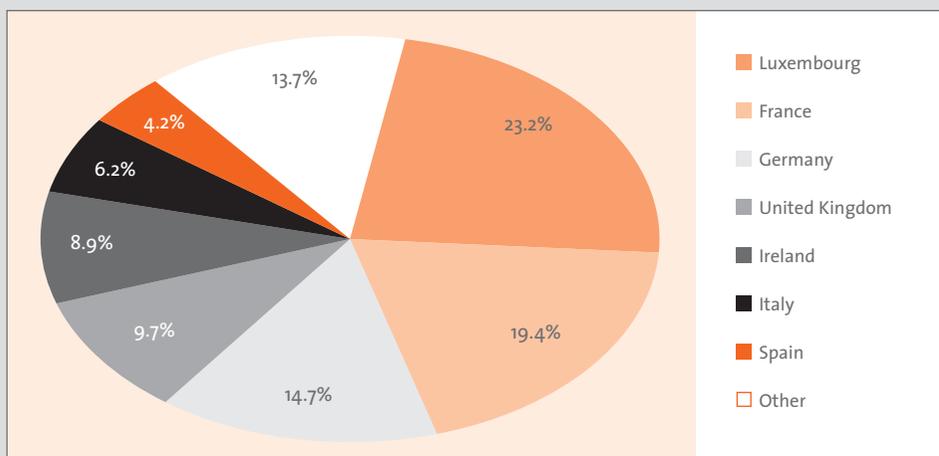


Figure 1: Luxembourg represents 23% of the European investment fund market

# How to Meet Private Investors' Advisory Needs

**INDIVIDUAL INVESTORS DIFFER SUBSTANTIALLY IN THEIR ANALYTICAL SKILLS AND FINANCIAL KNOW-HOW, IN SHORT: IN THEIR FINANCIAL SOPHISTICATION. A SEGMENTATION STRATEGY BASED ON FINANCIAL SOPHISTICATION COULD INCREASE CUSTOMER SATISFACTION AND ACCEPTANCE OF ADVISOR RECOMMENDATIONS**

ANDREAS HACKETHAL

CHRISTIAN JANSEN

## Need for financial advice

The intense competition in global banking markets forces retail banks to differentiate via advisory quality. A solely sales-oriented strategy does not convince the increasingly demanding bank customer of today. Instead, comprehensive advisory concepts that focus on individual customer needs are in the center of innovative sales strategies. The potential for a value-add advisory is large: Abundant empirical evidence in Behavioral Finance shows that investors suffer from irrational investment decisions. For example, general stock market participation rates as well as the share of stocks in investors' portfolios are hardly commensurate with modern theories on portfolio selection. Moreover, portfolio diversification is often insufficient, especially in terms of geographic diversification. Investor behavior is frequently observed to be characterized by inertia, resulting in no or only sluggish portfolio adjustments to changes

in an individual's circumstances. Such suboptimal investment decisions generate nontrivial costs for investors and may also lead to dissatisfaction. It follows that financial advisory can be beneficial for investors if the consequence is the avoidance of suboptimal investment behavior. Importantly, not all investors suffer from irrational decision making to the same extent. Investors who possess better analytical skills and better financial knowledge are less prone to irrational behavior and suboptimal decision making than their less skilled peers. We use the term financial sophistication to capture these investor traits (see Figure 1). More sophisticated investors and those with little know-how differ quite substantially in their specific needs regarding the form and quality of financial advisory. As a consequence, advisors would have to treat the two investor types very differently in order to attain an optimal level of advisee acceptance of their advisory services.

It also follows that conventional customer segmentation criteria such as age, wealth or income would not provide sufficient information for an advisor aiming to satisfy an investor's specific advisory needs. Retail banks that segment their customers based on sophistication and align their advisory processes accordingly could provide customers with a superior advisory quality and as a consequence, could be more effective in optimizing investor portfolios. This strategy is supported by regulative changes: The Markets in Financial Instruments Directive (MiFID) which will become effective in November 2007 suggests that financial service providers (FSPs) align their financial advisory according to customer sophistication. In order to guaran-

tee the suitability of transactions for the customer FSPs are required to assess in detail the financial situation, experience, and knowledge of their customers.

## Study of the advisory process

In our study we empirically investigate whether a segmentation strategy that is based on individual financial sophistication has the potential to increase customer satisfaction. We surveyed 761 customers of two German retail banks and asked them to specify their last purchase of an investment product at their bank. Based on this specific purchase, we then queried customers on their satisfaction with the preceding advisory service in four categories: Satisfaction with the advisory

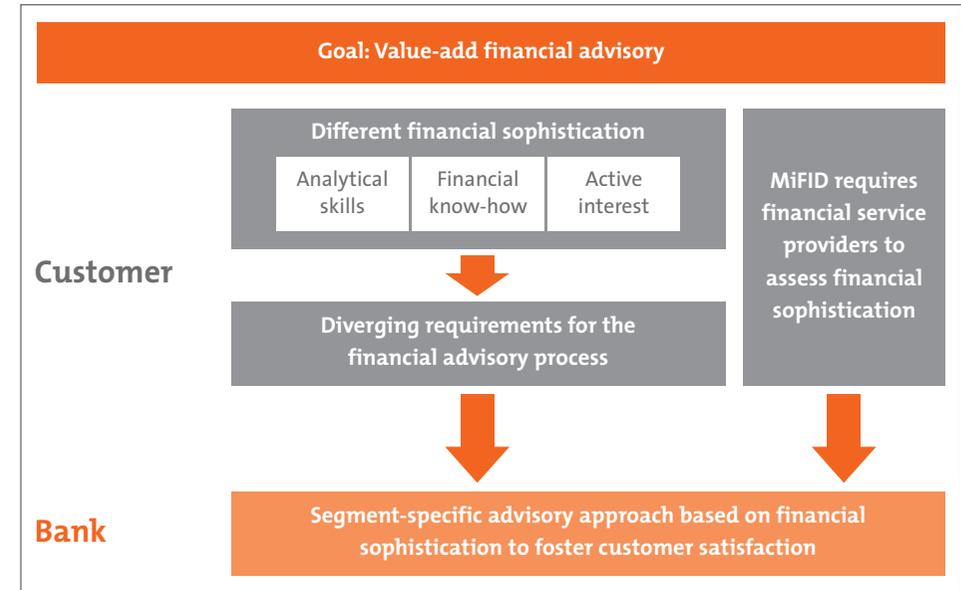


Figure 1: Segment-specific advisory to enhance customer satisfaction

(65% of respondents agreed), competence of advisor (73% agreed), repurchase intentions (50% would make the same purchase again), and recommendation behavior (15% recommended the service). Moreover, customers were asked to assess their perception of 30 attributes of that advisory service. The individual level of financial sophistication was evaluated using seven questions, e.g. on customers' affinity to finance, their financial knowledge and experience, and their rationality. Using cluster analysis we find that customers differ markedly in their level of financial sophistication.

**It depends on the customer type**

Based on logit-analysis we identified sixteen process attributes that have a significant impact on customer satisfaction. However, the large dispersion in customer perception

of these process attributes indicates that customers are treated differently. The critical question is whether the observed differences are deliberate and systematic. To answer this question we compared average perceptions of process attributes of several customer segments (grouped by age, wealth, risk aversion, and financial sophistication). Figure 2 shows no systematic relationship between advisory process design and customer type. The observed unsystematic dispersion of customer perceptions might therefore be simply due to different advisor types who pursue their individual advisory style independent of the individual customer. However, cognitive characteristics of investors significantly affect their preferences for specific forms of financial advisory services. We estimated two separate logit models for each segmentation strategy and found that the two models for

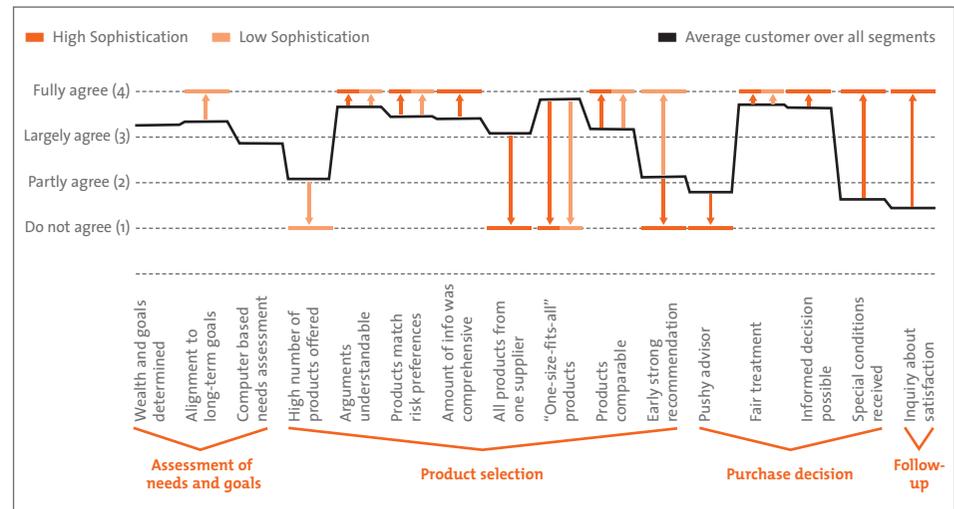


Figure 3: Ideal advisory process as a function of customer financial involvement

less and more sophisticated customers show the largest deviations. Less sophisticated customers demand different characteristics for nine out of these sixteen attributes than their more sophisticated counterparts (see Figure 3). Less sophisticated investors tend to demand clear-cut recommendations and dislike complexity. Advisors should act as trustworthy guides who preprocess all relevant information and provide this group of advisees with only a small set of options to choose from. Our results indicate that advisors should not discuss at length potential behavioral biases of less sophisticated customers but instead encourage them to delegate their decision making to the advisor. Highly involved customers, on the other hand, seek a knowledgeable partner with whom they can jointly analyze a much broader set of options

in order to improve their own decision making. More sophisticated investors might also appreciate education on behavioral biases because they are both more able and more willing to accept and act upon these insights. Finally, we estimated the hypothetical increase in customer satisfaction levels if the two retail banks adapted their advisory approaches to different sophistication levels. We find that a sophistication-oriented advisory would increase customer satisfaction by ca. 20%.

**Conclusion**

Advisors who take into account investors' financial sophistication can increase customer acceptance of their recommendations and thereby better assist their advisees in improving their decision making.

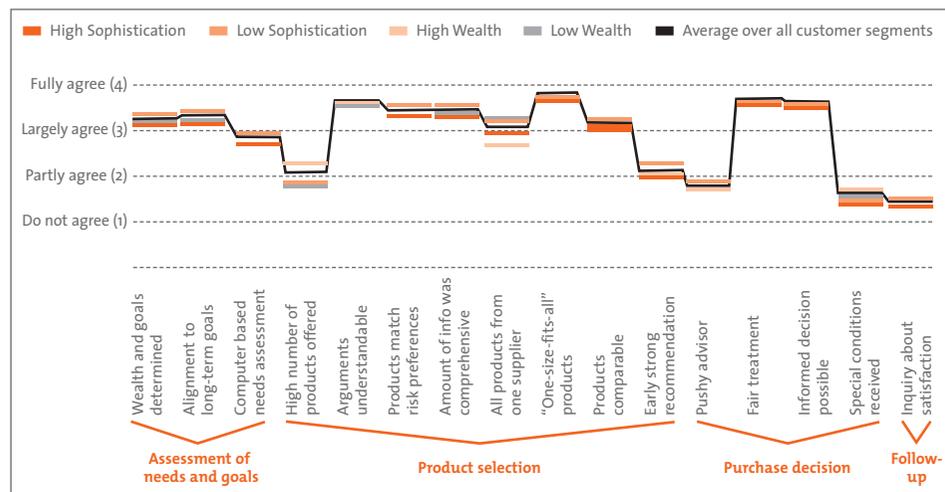


Figure 2: Customer perceptions of the advisory process

# Do German Banks Successfully Outsource Back-Office Processes?

**GERMAN BANKS ARE HIGHLY SATISFIED WITH THEIR BUSINESS PROCESS OUTSOURCING (BPO) VENTURES. BENEFITS ARE ACHIEVED THROUGH THE COMBINATION OF A CLOSE VENDOR RELATIONSHIP AND A WELL-DEFINED OUTSOURCING CONTRACT. THE OUTSOURCING OF DOMESTIC PAYMENT PROCESSES IS MOST SUCCESSFUL WHEREAS THE OUTSOURCING OF CONSUMER CREDIT PROCESSES STRUGGLES WITH QUALITY IMPROVEMENTS.**

KIM WÜLLENWEBER

## Introduction

According to a former E-Finance Lab (EFL) study, Business Process Outsourcing (BPO) provides unique potentials for German banks (Wüllenweber, Gewalt et al. 2006). Specifically, potential cost savings and the ability to achieve quality improvements were found as main drivers why German banks outsource some of their back-office processes (e.g., settlement of securities or consumer credits). As these outsourced processes are close to bank's core business, BPO provides a considerable knowledge potential through the leverage of both outsourcer and vendor core capabilities.

However, these unique potentials come along with significant risks that have limited the growth of BPO. In particular, the lack of BPO management experience and the complexity of business processes increased managers' aware-

ness of financial and quality related risks. This risk awareness even limited BPO adoption in the German banking industry (Wüllenweber, Gewalt et al. 2006).

This article addresses the question whether the benefits associated with BPO have been achieved by German banks that did engage in BPO ventures. In addition, empirical data is provided to analyze how German banks governed (managed) their BPOs in order to achieve the expected cost savings and quality improvements. We used four banking processes for investigation: settlement of securities, consumer credit, credit cards, and domestic payment transactions. These processes are ideal candidates for BPO as they are digitally enabled and do not represent core competencies that banks typically do not outsource. Wüllenweber, Gewalt et al. (2006) found that bank managers

associate higher benefits with the outsourcing of domestic payment and security settlement processes than the external delivery of credit specific processes. Thus, we specifically analyzed outcome and governance differences across processes.

## Methodology

From the Top 500 German banks, we determined that 1,027 business processes (out of potentially 2,000 processes (4 per bank)) were sourced out. In total, 335 bank managers (from 215 banks) responsible for one of these BPO ventures returned our questionnaire. This implies a response rate of 32.6%. Figure 1 shows the distribution amongst business processes.

The differences across processes are assessed using mean difference tests at significance level 0.05. All analyses are carried out using SPSS version 15 so that mean difference tests are weighted by standard deviations.



Figure 1: Distribution of processes in the sample

## Some selected results: banks highly satisfied with BPO

Most of the banks are satisfied with their BPO projects. 86.6% of the respondents confirmed that their expectations have been fulfilled (mean=5.56 (scales range from 1 (indicating low satisfaction) to 7 (indicating high satisfaction)); standard deviation=1.23). Interestingly, the results differ according to processes: bank managers of domestic payment processes are more satisfied (mean=6.00, standard deviation=1.4) than bank managers responsible for securities, consumer credit, and credit card settlement (all mean=5.33; standard deviations=1.3/1.4/1.5).

Cost savings have been realized in more than 70% of all BPO projects (Figure 2). However, banks engaging in domestic payment BPOs were more satisfied with their cost savings than banks outsourcing their securities, consumer credit, and credit card processes.

Quality improvements have been achieved in 60.6% of all BPO ventures (Figure 3). Interestingly, banks outsourcing credit card settlement were more satisfied with their process improvements than banks engaging in consumer credit BPOs. The results for domestic payment and securities settlement BPOs did not significantly deviate from credit card BPOs.

## Successfully governing BPO projects

While BPO offers unique potentials that come along with distinctive risks, organizations are unprepared for their governance (Mani, Barua et al. 2006). When BPO benefits depend heavily on leveraging capabilities by aligning structures and resources between outsourcer and

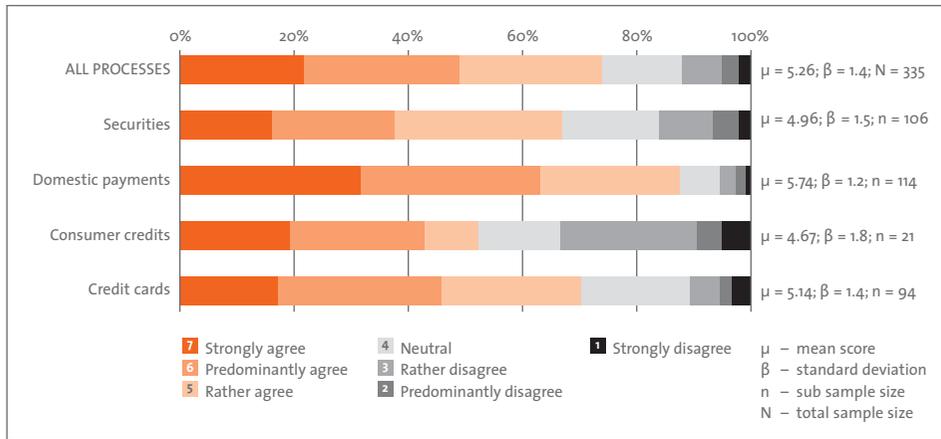


Figure 2: Assessment of statement: "We achieved to reduce process costs through BPO."

vendor, intensive cooperation is necessary to achieve their attainment. Thus, a great extent of embeddedness through personal and social bonds/networks is critical from a governance perspective. Relational norms (such as commitment or flexibility) and processes (such as joint problem solving or frequent coordination) have to act as self-enforcing control mechanisms. Nevertheless, relational governance cannot be seen as substitute for contractual governance: outsourcing contracts legally define obligations and provide exchange parties with an instrument of control and escalation.

The results of our study show that bank managers were satisfied with their relational and formal governance: almost 60% of the respondents confirmed that their relational governance is suitable for their BPO ventures (mean=4.64, standard deviation=1.4). In more than 75% of BPO ventures, the outsourcing contract was assessed as highly effective (mean=5.17, stan-

dard deviation=1.3). Thus, the BPO ventures were governed by both relational and formal governance instruments implying a use of these instruments.

However, the effectiveness of governance varied across processes: relational governance has been more effective in domestic payment BPO projects than in credit card BPOs (Figure 4). In addition, relational governance is regarded significantly better in credit card BPOs than in securities settlement BPOs. Interestingly, relational governance has been assessed as effective for all processes except securities settlement: the mean score of securities settlement BPOs is not significantly higher than the mean Likert point (4.00) resulting in neither an effective or ineffective role of relational governance. With regard to formal governance (Figure 5), the data reveal that contracts in domestic payment BPOs are regarded significantly better than those in consumer credit, credit card, and

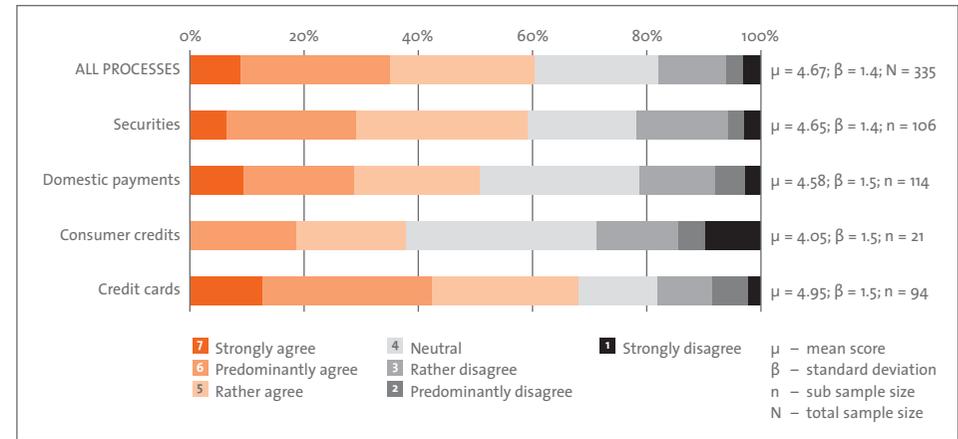


Figure 3: Assessment of statement: "We achieved to improve process quality through BPO."

securities settlement BPOs. Nevertheless, the outsourcing contracts from the latter three are effective as the mean scores are significantly higher than the mean Likert point (4.00).

#### Measurability and standardization as success factors

As the assessments of satisfaction and governance instruments vary across processes the unique characteristics of these processes were analyzed. Specifically, the degree of standardization (i.e. process transparency and programmability through uniform business rules, process logics, and data models; implementation of process standards such as SWIFT messages) and output measurability (being able to assess and track the quantity and quality of vendor's activities) were evaluated. The data show that domestic payment processes are significantly more standardized than credit card processes (mean scores: 5.95 vs. 5.63; scales

range from 1 (indicating a low degree of standardization) to 7 (indicating a high degree of standardization)). The credit card process, in turn, is significantly more standardized than the securities settlement process (5.15). The securities settlement process, in turn, is significantly more standardized than the consumer credit settlement (4.52).

With regard to output measurability, our data reveal that the output of domestic payment processes (5.52; scales range from 1 (indicating low measurability) to 7 (indicating high measurability)) is more measurable than the output of securities (5.14) and credit card settlement (5.01) processes. No significant differences have been found towards the settlement of consumer credits (5.10).

#### Implications

The data show the pattern that processes which are highly standardized and measurable

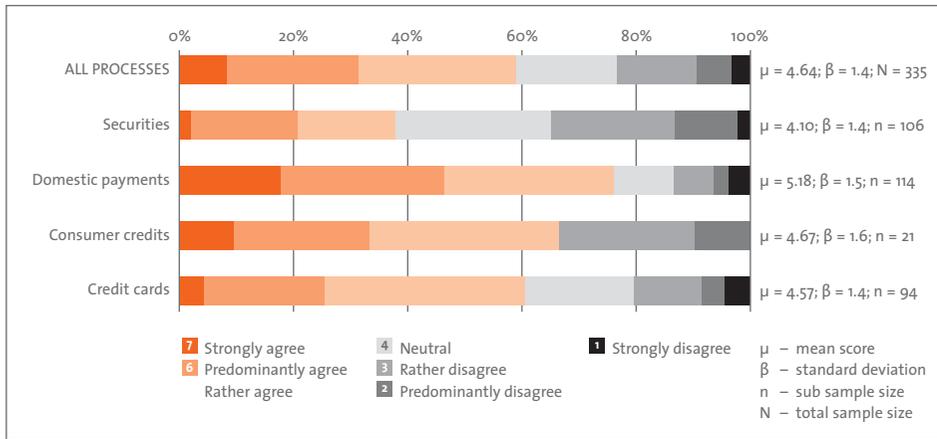


Figure 4: Assessment of statement: "Overall, we have a good relationship to our service provider."

(domestic payment and credit card processes) can better achieve cost savings and quality improvements. In addition, they enable effective design of relational and formal governance instruments: if processes are highly standardized (i.e., transparent and programmable) and highly measurable, individual contract clauses can be designed more detailed and precisely. Moreover, relational governance activities such as joint planning and informal conflict resolutions benefit since both the outsourcer and the vendor have a common and well-defined ground for their discussions and negotiations.

A similar argumentation applies to the achievement of outsourcing benefits: through higher programmability and transparency of the process the vendor can more easily exploit economies of scale, scope, and skill and therefore reduce process costs. With respect to quality improvements, formal contracts

can be designed to explicitly achieve higher quality standards. For example, it can be formally required that the settlement of payment transactions can be achieved in "t+1" (one day after the payment) instead of "t+2".

### Conclusions

The potential benefits and potential losses of Business Process Outsourcing (BPO) have been controversially discussed by practitioners. To shed some light on these discussions, this article analyzes the outcomes of 335 BPO ventures from the German banking industry. Specifically, the following findings have been made:

1. Bank managers are highly satisfied with their BPO ventures.
2. Cost savings have been realized across all processes. Domestic payment BPOs achieve

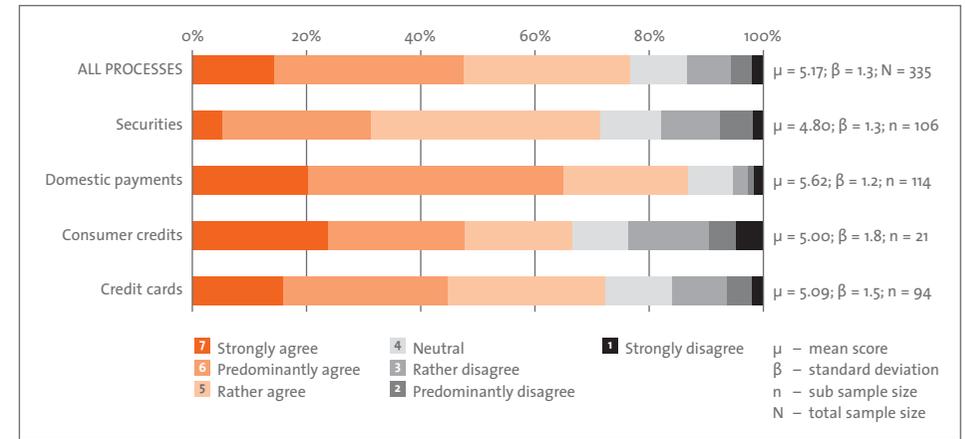


Figure 5: Assessment of statement: "The outsourcing contract covers all our requirements and expectations."

higher cost savings than security, consumer credit, and credit card BPOs.

3. Quality improvements have been achieved in all processes except in consumer credit BPOs.
4. Bank managers are highly satisfied with their governance instruments. Specifically, a close vendor-relationship (relational governance) is used in combination with a well-defined outsourcing contract (formal governance) to govern (manage) the BPO ventures.
5. High output measurability and a high degree of process standardization (such as in domestic payment BPOs) positively influence the quality and effectiveness of formal and relational governance instruments.

These positive results promote further adoption of BPO in German banks. Vendors should take special attention to provide outsourcers with maximal output measurability. In addition, they should invest in processes standards to streamline activities in order to further exploit quality improvements.

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# Credit Scoring Transparency – Can Germany learn from the U.S.?

**THE DEMAND FOR EFFICIENT MEASURES FOR PREVENTING CONSUMER CREDIT RISKS SUCH AS CREDIT SCORING IS GROWING ACROSS INDUSTRIES. IN GERMANY, SCORE CALCULATIONS AND UNDERLYING CONSUMER DATA ARE STILL A WELL-GUARDED SECRET. THE MARKET LEADER IN THE U.S. NOT ONLY DISCLOSES THE CREDIT SCORING VARIABLES TO THE CUSTOMERS BUT MOREOVER OFFERS THEM ADVICE ON HOW TO QUALIFY FOR BETTER INTEREST RATES.**

*According to the Federal Statistical Office, German insolvency courts reported an outstanding balance of receivables of €33 billion in 2006. Consumer insolvencies (including formerly self-employed persons and deceased persons' estate insolvencies) represent approximately 40% and have been growing from 3,357 in 1999, the year of its introduction, to 92,844 in 2006. How does the finance sector cope with this challenge?*

Credit bureaus within the banks and independent service providers collect data on consumers' credit history, e.g. from local courts or collection agencies, and offer analysis to help companies preventing defaults and losses. Over the past years, key players such as Schufa or arvato infoscore have developed from 'pure' credit information providers to 'providers of credit decisions' by linking their data pools with credit scoring systems. Credit scoring allows companies to more accurately predict the level of risk for each customer.

*What industries use credit scoring and how transparent is it to consumers regarding data that are considered in the score calculations?*

Credit scoring is being used across industries, e.g. at credit institutions to calculate the risk related capital requirements (Basel II) and interest rates or at distance sellers to provide consumers with payment methods dependent on their individual credit risk. Last year, an experts report initiated by the German Federal Ministry of Food, Agriculture, and Consumer Protection highlighted the lack of transparency regarding the credit variables in score calculations and its weighting. Concerns have been raised that consumers could be discriminated, e.g. because of their age or neighbourhood. For instance, consumers could get a low score because people in their neighbourhood don't pay their bills.

Having in mind that Schufa, for example,

stores 362 million data records of about 62 million Germans, whereof 7% are classified as default risks, it would be interesting to know what information is effectively used in the score. Sure, the German economy demands efficient measures to prevent losses. However, data protection laws and consumers' right of informational self determination may not be violated.

*Do consumers have more transparency to credit scoring in other countries, e.g. the U.S.?*

Credit scoring was introduced in the U.S. by Fair Isaac Corporation in the 1960s and up until a few years ago, the situation was comparable to that of Germany today. The calculations and the underlying credit variables were treated as a trade secret. In recent years, various acts, e.g. the Equal Credit Opportunity Act, first enacted in 1974, and the Fair Credit Reporting Act, have evolved into a complex statute and prohibit creditors from discriminating against credit applicants on the basis of e.g. race, marital status, age, or because an applicant receives income from a public assistance program. Fair Isaac, today's market leader in developing scoring systems in the U.S., responded and disclosed the



*Marcus Siegl has over 3 years of risk management experience as Inhouse Consultant and Risk Management Consultant at arvato infoscore GmbH.*

credit variables and its weighting schema (e.g. payment history 35%, amounts owed 30%). They even offer consumers to get an alert of a change on their credit report to find out when their score changes enough to qualify for better interest rates on a home mortgage or auto loan. Furthermore, consumers can examine their data at credit bureaus free of charge every 12 months and correct it if needed. This increases the quality of the database and the quality of risk estimation. More transparency balances the interests of all stakeholders – a successful model for Germany.

*Thank you for the interesting conversation.*

## news

### IBM Shared University Grant for Prof. Dr. Peter Gomber and the Chair of e-Finance

Professor Dr. Peter Gomber, holding the Chair of Business Administration, especially e-Finance (Cluster 5) and his team were awarded the IBM SUR (Shared University Research) Grant 2007. This prize features high performance computer hardware (servers, desktop PCs, and laptops) serving as the basis equipment for an e-Finance Trading Lab. The award was handed over to Professor Gomber at a meeting of the Faculty of Economics and Business Administration's board of trustees on May 9th, 2007 by Rudolf Bauer, Managing Director at IBM Germany (left) (accompanied by Erwin Jung, IBM University Relations, right). The laudation accentuated the strong relationship between practical relevance and academic rigor in the Chair's and Cluster 5's work on modern electronic trading mechanisms in securities markets.



The new **"Status Quo im Retailbanking 2006"** report is available now. In this report Prof. Dr. Bernd Skiera (Cluster 3) focuses on market share, product usage, and customer structure of the major German retail banks, analyzing the results of a survey-data of 20,000 retail bank customers. Special topics are the impact of brands on investment decisions and the online affinity of customers (*the management summary is available at [www.efinancelab.de/statusquo](http://www.efinancelab.de/statusquo)*).

### The E-Finance Lab Fall conference 2007 "Competition, Technology and Regulation – Trends in the Securities Trading Industry"

The E-Finance Lab Fall conference 2007 "Competition, Technology and Regulation – Trends in the Securities Trading Industry" will be held at the Westend Campus of the J.W. Goethe-University (Casino), Frankfurt, on September 25, 2007. For further information and registration see [www.efinancelab.de](http://www.efinancelab.de).

### Team members

On June 20th, 2007, Dipl.-Wirtsch.-Inf. Rainer Berbner (Cluster 2) has received his doctoral degree with a dissertation on "Dienstgüteunterstützung für Service-orientierte Workflows". As a new team member of the E-Finance Lab we welcome Dipl.-Wirtsch.-Inf. Robert Gregory, CEMS-MIM, who joined Cluster 1 on the 1st of June 2007 as research assistant.

## selected E-Finance Lab publications

### Berger, S.; Gensler, S.:

Online Banking Customers: Insights from Germany. In: Journal of Internet Banking and Commerce 12 (2007) 1.

### Beimborn, D.; Blumenberg, S.:

How to Measure Relationships – Merging Alignment and Outsourcing Research towards a Unified Relationship Quality Construct. In: 13th Americas Conference on Information Systems (AMCIS 2007). Keystone, Colorado, USA, 2007

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Evaluating Customer Channel Migration Activities – How to Increase Customer Profitability in the Financial Services Industry. In: INFORMS Marketing Science. Singapore, 2007.

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An Approach for Capacity Planning for Web Service Workflows. In: 13th Americas Conference on Information Systems (AMCIS 2007). Keystone, Colorado, USA, 2007.

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### Schwarze, F.:

Relationship banking and profitability – An empirical survey of German banks. In: Eastern Finance Association – 43rd Annual Meeting. New Orleans, Louisiana, 2007.

For a comprehensive list of all E-Finance Lab publications see:

[www.efinancelab.de/results/pubs/index.php](http://www.efinancelab.de/results/pubs/index.php)

## research outside the E-Finance Lab

### RESEARCH PAPER: ADVERTISING, RESEARCH AND DEVELOPMENT, AND SYSTEMATIC RISK OF THE FIRM

Financial accountability of advertising programs becomes more and more important for marketing executives to gain internal support for their initiatives. Responding to this call, the authors study the impact of a firm's advertising and its research and development (R&D) on the systematic risk of its stock, a key metric for publicly listed firms. Hypothesizing that a firm's advertising and R&D expenditures create intangible assets that insulate it from stock market changes, they examine the impact on its systematic risk lowering. After controlling for factors that accounting and finance researchers have shown to be associated with systematic risk, the authors find that advertising/sales and R&D/sales lower a firm's systematic risk. The authors extend prior research that has focused primarily on the effect of marketing initiatives on performance metrics without consideration of systematic risk. The ability of advertising and R&D as an investment in the company's customers is to reduce systematic risk and hence emerging to raise firm value.

*McAlister, Leigh; Srinivasan, Raji; Kim, MinChung*  
In: *Journal of Marketing* 71 (2007) 1, pp. 35-48.

### RESEARCH PAPER: ADAPTIVE ARRIVAL PRICE

Arrival price algorithms determine optimal trade schedules by balancing market impact cost of rapid execution against volatility risk of slow execution. In the standard formulation, mean variance optimal strategies are static: they do not modify the execution speed during trading. The authors show that with a more realistic formulation of the mean variance trade-off substantial improvements are possible for adaptive strategies that spend trading gains to reduce risk, by accelerating execution when the price moves in the trader's favor.

*Almgren, Robert; Lorenz, Julian*  
In: *Institutional Investor "Algorithmic Trading III – Precision, Control, Execution"*, Spring 2007, pp. 59-66.

### RESEARCH PAPER: STRATEGIC EVOLUTION: A GLOBAL SURVEY ON SOURCING TODAY

Sourcing is now a global game, and the use of this key strategic tool creates numerous opportunities and advantages for those who manage and deploy it well. The results of this survey disprove the common myth that sourcing is a "failure-plagued" phenomenon from both the customer and service provider perspective, with sourcing here to stay.

Through this survey, KPMG aims to examine the different elements of a sourcing contract and the effect of each of these on the success of the relationship between customer, service provider, and resultant business outcomes.

*Zarella, Egidio; Udhas, Pradeep*  
In: *KPMG Advisory*, March 2007.

## electronic newsletter

The E-Finance Lab conducts two kinds of newsletters which both appear quarterly so that each six weeks the audience is supplied by new research results and information about research in progress. The focus of the printed newsletter is the description of two research results on a managerial level – complemented by an editorial, an interview, and some short news. For subscription, please send an e-mail to [eflquarterly@efinancelab.com](mailto:eflquarterly@efinancelab.com) or mail your business card with the note "please printed newsletter" to

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