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AN E-FINANCE LAB PUBLICATION

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FRANKFURT AM MAIN

Retail Banking: Successful Financial Engineering “Made in Germany”

How to Successfully Manage Cultural Differences in an IT Project with an International Partner

The Impact of Business Process Outsourcing on Bank Performance

Usefulness of Second Life for a Financial Service Provider

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JOHANN WOLFGANG GOETHE UNIVERSITÄT FRANKFURT AM MAIN

TECHNISCHE UNIVERSITÄT DARMSTADT

5th Anniversary of the E-Finance Lab

On Oct. 15th, 2002, the E-Finance Lab was founded as a public-private research partnership, comprising the Goethe University Frankfurt and the Technische Universität Darmstadt on the public side and the companies Accenture, Deutsche Bank, Microsoft, Siemens, T-Systems (all tier-1 partners) and Innovative Software (nowadays: Interactive Data Managed Solutions) (tier-2 partner) as foundation members. On Jan. 30th, 2003, the E-Finance Lab started operations and grew quickly to a world-wide acknowledged factor in the IT and process related finance research including the respective knowledge transfer into practice. Congratulations to the fifth anniversary! Many thanks to the foundation members for having started, financed, and staffed this venture. And many thanks to the researchers for their excellent work. All the best for the future!

Impressum

Redaktion
Prof. Dr. Wolfgang König
Dipl.-Wirtsch.-Ing. Julian Eckert
Dipl.-Wirtsch.-Inform. Nicolas Repp

Herausgeber
Prof. Dr. Wolfgang König
Vorstandsvorsitzender des E-Finance Lab
Frankfurt am Main e. V.

Kontakt
info@efinancelab.com
www.efinancelab.com

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Editorial

Retail Banking: Successful Financial Engineering “Made in Germany”

Carsten Dirks

Carsten Dirks, member of the board, Interactive Data Managed Solutions AG, Frankfurt am Main

Innovations in financial services are mostly attributed to the US or UK which is comprehensible based on their importance especially in investment banking. But often groundbreaking innovations and the respective financial engineering in retail banking in Germany are hardly recognized. There are at least two competitive advantages that might be well suited to be acknowledged as leading factors: The efficiency in which client services are executed and the innovative services and products offered in the retail brokerage segment – both from a client point of view.

Compared to other continental European nations – and even to a substantial extent compared to UK – Germany has rapidly adopted the internet as an important sales and service channel for banking and brokerage. Today many banks are pure online banks and their business models have become scalable and profitable. The most important reasons especially for the profitability have been twofold (Figure 1):

1. Making existing transactions much less expensive (for the bank) if the client becomes electronically integrated in the process – and as a part of the cost reduction strategy the prices for bundles of retail banking transactions in Germany are very low compared to other nations.

2. Help clients understand financial markets by (a) making complex financial information accessible to the end-user, (b) delivering high-end tools to trade, and (c) offering complete new asset classes like "structured products" that enable investors to trade following professional investment strategies and access to commodities, currencies, and foreign equities.

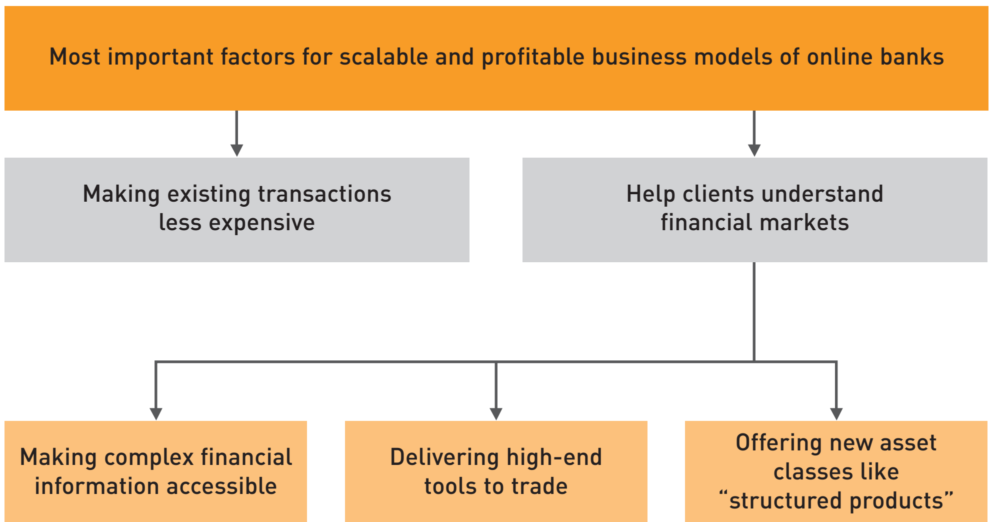

Figure 1: Factors for scalable and profitable business models

Especially the added services for retail brokerage are a serious competitive advantage of the German market and are well suited to be "exported" into Europe and also to up and coming markets. The existing offering today is able to support a range of end-users, for instance a client who wants to save in mutual funds for his retirement up to semi-professional traders with several hundred transactions every day. Key to this success has been to make information (especially financial information) not only accessible (including very often providing it free-of-charge) but also to be innovative in designing tools to make complex products understandable to different target groups. We are still in an early phase of finding new ways to engage clients in their own investment decisions but we have already a magnitude of offerings to educate investors.

The next phase has already started and the focus will be to make the investment process more transparent especially in areas like risk exposure and portfolio allocation. With these developments banks can use new legal regulations like MiFID to their competitive benefit and not just administrative burden. These developments combined with the extraordinary success of structured products have given the banks in Germany a very powerful edge that can be used much stronger than today to foster the international growth.

Taking it all together there are good reasons why “Made in Germany” has become a hallmark for the retail banking industry, too.

Researchreport

How to Successfully Manage Cultural Differences in an IT Project with an International Partner

CROSS-CULTURAL DIFFERENCES CAN BE A STIMULATING FACTOR FOR IT PROJECT SUCCESS

Michael Prifling

Robert Gregory

Need for Cultural Intelligence

In a highly competitive environment like in the global financial service industry, banks conduct large-scale IT projects with international vendors from low cost countries to achieve higher levels of operational efficiency and excellence. At first glance, such a venture offers significant cost saving potentials. However, there are certain obstacles to overcome for being successful in such an international engagement. Cross-cultural differences have to be managed effectively.

Researchers have found out that "Cultural Intelligence", a person's capacity to adapt effectively to new cultural settings, is vital for successful cross-cultural interaction (Earley, 2002; Earley and Ang, 2003). People with high cultural intelligence are better capable to recognize the universal, group- or person-specific and culture-specific elements when observing a person's or group's behavior (Earley and Mosakowski, 2004). A person who is able to identify the culture-specific elements of behavior can advance to the more important step of adapting him- or herself to this behavior – or to sensitively explain to his or her offshore colleague a situation. Most findings in the extant literature state that cross-cultural differences in project teams are the first and foremost hindering circumstances and a barrier to team performance. We argue however – adding to the existent literature –, that curiosity for other cultures can stimulate cross-cultural interaction (at least when the intercultural encounter happens for the first time) and this in turn can positively influence the outcome of international IT projects, as well.

The new approach of this research is the adoption of the Cultural Intelligence concept of Earley (2002) as a theoretical framework in the IT project management context.

The Case Study

We conducted a case study where we investigated a large-scale IT project. A core banking system of European bank had to be reengineered because of three major reasons: high system complexity, dependency on key human resources, and function and data redundancy with other systems. The bank chose to conduct this large and technically complex IT project with the help of an IT vendor from India. The fact that this to be reengineered IT system is enabling the core competency of a retail bank sets this project apart from other IT projects, because commonly supporting business processes are affected. Despite some challenges and significant cultural differences within the team, the IT project was successful in the end.

We chose a qualitative, exploratory case study as our research approach. We conducted 15 expert interviews from the client and the vendor with a total of 22 hours of transcribed interview protocols so far. After this first round of interviews, a second and third round will follow, where we will analyze the most promising results of the first round in detail. The reason for choosing an exploratory rather than an explanatory research design was the lack of an established theory for analyzing cross-cultural dynamics in IT offshore outsourcing.

Findings on Cultural Intelligence

Cultural Intelligence has a motivational, a cognitive, and a behavioral dimension. The motivational factors can be subdivided into negative and positive aspects, which in sum make up the motivation of a person to cooperate with an international colleague. The long term involved project managers from the bank affirmed, that – adding to the theory – the absence of one very strong negative factor is absolutely crucial: an employee must not have fears of losing his or her job when conducting a project. Especially

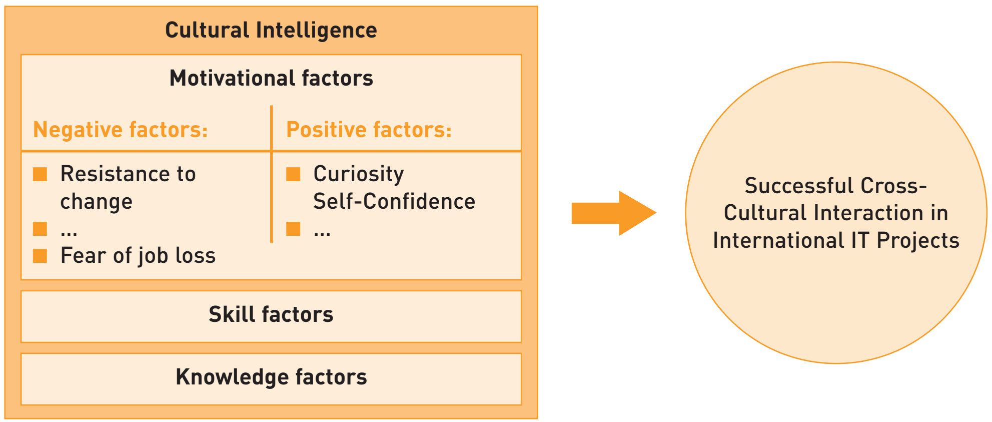

Figure 1: Cultural Intelligence as a driving factor for successful cross-cultural interaction

in outsourcing scenarios, often staffs from the client company are afraid that by completing their work, they make themselves dispensable. As a consequence, their motivation is negatively affected. One of the key success factors in the case we investigated was the fact that the bank offered all of its employees new positions within the company or release into early retirement with financially attractive packages. With such a socially responsible procedure, the employer avoided having people on board who could impede the progress of the project. On the other hand, the positive motivational forces that should be supported by the project management are clear objectives, curiosity, and self-efficacy. Curiosity and self-efficacy can be enhanced with intercultural workshops, where essential knowledge about cultural particularities and differences is taught to the designated project members. When confronted with his or her own "uncommon" particularities (compared to other cultures), the "ice starts to melt". Moreover, it is mandatory to increase curiosity for other cultures and self-efficacy of project members. This can be achieved by organizing site visits of European project workers to the place where the offshoring partner is located and inviting Indian project workers to Europe. Initial face-to-face meetings are found to be very important in such global teams to function in a smooth manner. The timing of those off-shore site visits is important – they should happen very early in the project. Particular interest of project members for the respective other culture – curiosity within the Cultural Intelligence model – had positive effects on the motivation and cooperation in this project.

The overall motivation of project members consists of several factors, including the career motivation (the degree to which the successful collaboration in a project positively influences one's career perspectives), the content-driven motivation (for example the degree to which a person desires to contribute to a project that can make the daily work life more comfortable), and the above described motivational dimension of Cultural Intelligence (the degree to which one person actually wants to cooperate with people from another culture, out of curiosity, personal interest, and cultural attractiveness). The bank managers conjecture that the latter can positively influence the overall project motivation of a project member. Accordingly, and especially in the case of having such a culturally interested person in a responsible position for a project, cross-cultural differences can also be a success factor, not only a hindering factor for international projects.

Findings on the Advantages of a Mirror Structure

Besides the above illustrated appliance of Cultural Intelligence to explain success in international IT projects, bank managers argue that certain project management techniques stimulate intercultural interaction, as well.

The organizational setting of a "mirror structure" (Willcocks and Lacity, 2006), where the vendor duplicates the hierarchical structure of the client organization specific to one project, is one of them. This leverages clear responsibilities and marks counterparts easily. According to such a configuration, there are two project managers for both parties. Then, the personal relationship between those two project managers is central for the development of a "project culture" and trust building. Especially in the context of an offshore project with an Indian company, where hierarchy generally plays an important role, having a person in charge that can enforce decisions within the vendor organization helps notably for successful cooperation. This key player can smoothly communicate difficulties and setbacks when trained appropriately.

Further, problems that arise due to cultural differences within an international project can be overcome by a strong controlling and detailed documentation of every work step. Clear personal responsibilities and open communication are key success factors – for example, to avoid violating deadlines. Not meeting time restrictions proved to be one of the major problems that the bank – in our case study – identified as a problem resulting from cultural differences. In India, for example, deadlines are not seen as the point in time when the end product shall be delivered. Rather, initial concepts or ideas are then presented. When compared to a deadline as it is widely defined in the Western World, there are clearly cultural differences. These can lead to problems with the time table of a whole project. To overcome such difficulties, a cascading approach to meet deadlines with a number of earlier subdeadlines could be used. The identification and communication of these cross-cultural issues by the Indian – hierarchically powerful – project manager helps significantly. In general, mutual cultural learning eases international IT projects.

Figure 2: Project Management Techniques for successful international IT project management

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Researchreport

The Impact of Business Process Outsourcing on Bank Performance

GERMAN BANKS ACHIEVE SIGNIFICANT IMPROVEMENTS IN PROFITABILITY AND COST EFFICIENCY THROUGH BUSINESS PROCESS OUTSOURCING. THIS EFFECT STEMS FROM AN INCREASE IN REVENUES RATHER THAN FROM A REDUCTION OF THE BANKS' WORKFORCE

Markus Fritsch
Andreas Hackethal
Mark Wahrenburg

Introduction

A widely held view says that Business Process Outsourcing (BPO) is good for shareholders but bad for employees. Many observers conjecture that cost reductions from outsourcing come at the cost of employee lay-offs. In one of the first empirical studies on this subject (Fritsch et al., 2007) we conclude that one view is correct while the other is wrong.

BPO is gaining importance among new forms of business to business exchanges. Hence academic research has started to focus on BPO and postulates that it bears unique potential that, however, is accompanied by severe risks. By leveraging the core capabilities of both the outsourcer and the vendor, BPO can even be a source of competitive advantage. On the other hand, researchers also propose that BPO can be utilized to reduce costs and achieve efficiency rents.

But do these expectations match reality? Does BPO fulfil the expectation that it will accomplish both efficiency improvements and provide a source of competitive advantage? Taking a firm-level view, we therefore aim to answer the question how firm performance is influenced by BPO. Additionally, to address frequently discussed concerns about lay-offs that come along with outsourcing, we analyse the effect of BPO on the firms' workforce. We selected BPO arrangements in the German banking area as our research object, since the financial services sector is the second largest buyer of outsourcing services with increasing demand (Gartner 2004). We focus our analysis on BPO arrangements of back office processes for the settlement of securities and domestic payments, as these processes are most frequently outsourced.

Data and Methodology

We study the evolution of financial performance and employment of German banks that have outsourced their back office operations between 1992 and 2006. We collected information among the 500 largest banks on whether one or both back office processes had been outsourced and the year the outsourcing took place. In total we obtained information from 254 banks, of which 155 had not outsourced any of these processes. 32 banks report having only outsourced their securities operations, 29 banks report having outsourced only their payments processing, and 38 banks have outsourced both processes. Thus, in total we find 99 banks and 137 BPO events in our sample in the timeframe between 1992 and 2006 (Figure 1).

To measure the performance of the banks we rely on accounting data taken from the Fitch IBCA Bankscope database. We focus our analysis on the cost efficiency, defined as operating income over total operating costs of the banks (Cost-Income Ratio – CIR) and the profitability, measured by return over total assets (Return on Assets – ROA).

To disentangle the effects of BPO from other economic or industry effects we compare the characteristics of banks after a BPO event to non-outsourcing banks (control group) in the

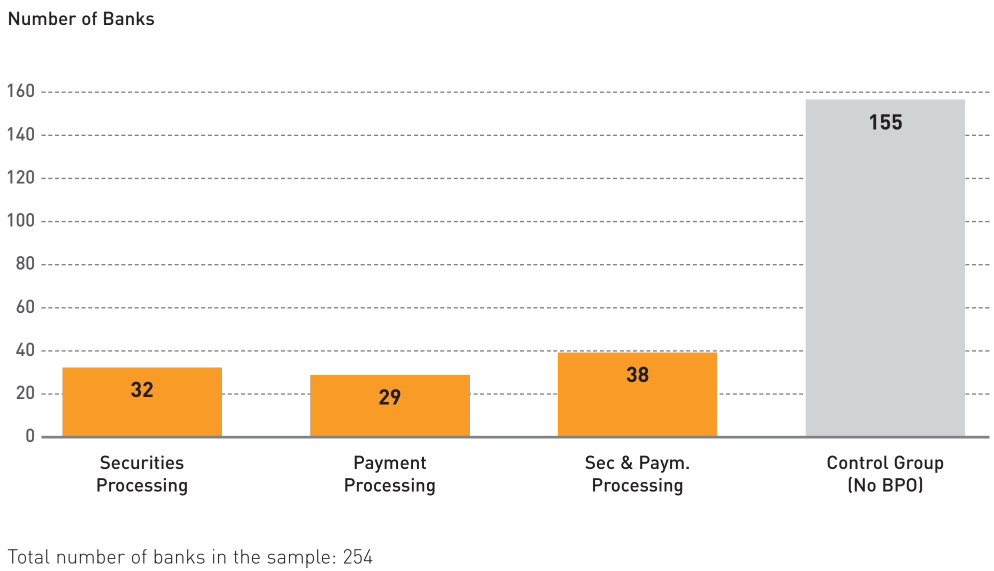


Figure 1: Number of banks which have sourced out back office processes

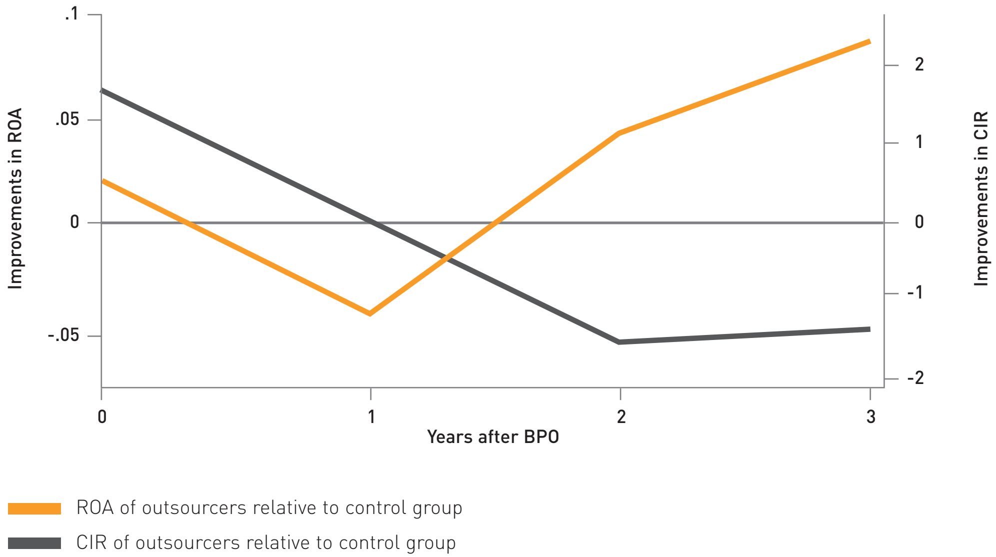


Figure 2: Development of ROA and CIR after BPO

same period. In the control group we include all banks from our survey that have not outsourced a business process.

We focus our analysis on a three year period after the BPO. A shorter period would not capture the full effects of BPO as the bank might face transitional costs which will lower the performance in the year after the outsourcing. Looking at a longer period than three years we can be less sure that other effects than the BPO events influence our results.

BPO and firm performance

Figure 2 depicts the performance improvement of the banks with BPO arrangements relative to the control group in a three year window after the BPO. In the year of the outsourcing the profitability (ROA) of the banks was only marginally above industry level. In the first year after the BPO the ROA declined, presumably caused by transition costs of the outsourcing project. In the long run however, BPO leads to an increase of profitability above industry level. Cost efficiency improvements can be observed starting form the first year after the BPO (declining CIR indicate improving cost efficiency).

The statistical analyses of the change in the characteristics over the whole three-year period show an absolute increase in profitability, measured by ROA, of 0.06 percentage points while the ROA of the control group declined in the same time. While an absolute increase of 0.06 does not seem to be a large increase in profitability at first sight one has to keep in mind that the average ROA of the banks at the time of the BPO was 0.19%. Thus the observed change in ROA means a relative improvement in profitability of over 30 percent while the profitability of the control group decreased. Looking at the results of the cost efficiency we can observe similar results. However, the difference between the outsourcing banks and the control group is less significant. The cost-to-income ratio of both the outsourcing banks and the control group decreased after the BPO events, which is equivalent to an improvement in cost efficiency for both groups. The CIR of the banks, which have outsourced business processes decreased by twice the value of the control group, however the relative improvement in cost efficiency based on an average CIR of 65.7% only amounts to about 2.3%.

Breakdown of performance improvements

To better understand the effects that lead to the observed performance improvements after BPO we look at three additional metrics: The overall cost reduction, reduction in workforce and the employee productivity (Figure 3). The cost-to-asset ratio, the proxy for overall cost changes, also decreased for both groups. Again the BPO banks were able lower their overall costs to a greater extent, but the difference is not statistically significant.

Most interestingly, we can not observe a workforce reduction at all, measured by personnel expenses over total assets for either of the two groups. Finally, employee productivity, measured by operating return over personnel expense, increased significantly more for the BPO banks than for the control group.

We can evidently observe a significant increase in profitability and cost efficiency caused by BPO. Contrary to what one might have expected BPO does not lead to a reduction in workforce. While the overall costs are slightly lowered compared to the level of the industry average, the main effect of performance improvement stems from increasing revenue. This additional revenue is generated by the same workforce, which is equivalent to an increase in employee productivity.

The increase in workforce productivity might stem from the relocation of back office resources to revenue generating tasks. Especially in the smaller and medium sized banks in our sample, employees are responsible for sales tasks as well as for all related paperwork, entering transactions in IT-systems, etc.. Making use of the more sophisticated processes and IT-systems of the service provider and being freed from non revenue generating administrative tasks, employees can spend more time with customers and thus increase the sales effort of the bank. In larger banks the same effect can be achieved by transferring the back office staff to the vendor and hiring sales staff at the same time. The observed increase in revenue may also stem from an advanced product portfolio the bank is able to offer utilizing the specialized know-how of the service provider. Banks can now sell more complex products which they could not have processed while the back office tasks were still performed in-house.

Individual success factors

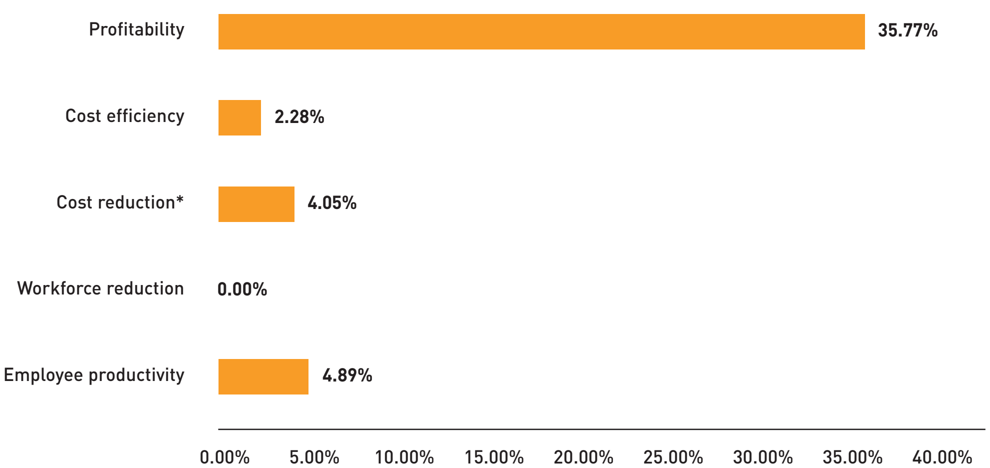
In a second step, using the excess performance of outsourcing banks as endogenous variables, we try to determine the influence of several factors on the individual outsourcing success in terms of financial performance. In particular we analyse the effects of the use of individual vs. standard contracts, the perceived capabilities of the service provider, the monitoring effort, and the contract duration.

Individually negotiated outsourcing contracts help to improve the cost efficiency as well as the profitability of the banks. Banks benefit from individual contracts as the services provided by the service provider are tailored to the specific needs of the banks.

We also find that the perceived know-how of the service provider has a positive influence on profitability after BPO. We conclude that the management of the outsourcing banks only make use of the enhanced processing capabilities of the service provider and enrich their product portfolio if they have a high level of confidence in the know-how of the service provider.

The monitoring effort required to control the service provider (FTEs in retained organization over total number of employees) has a different effect on the two metrics of bank performance. High monitoring effort leads to lower profitability as it ties up resources in controlling activities which can not be used in an efficient way to generate more revenue. As we have seen in the breakdown of the effects of BPO on profitability, banks seem to shift resources from back office functions to more customer-related functions. The more resources there are involved in the monitoring process, the less effort can be focused on sales related functions. On the other hand diligent monitoring of the BPO arrangement can improve the cost efficiency. Tight control mechanisms will force the service provider to meet the targets and service level agreements agreed upon.

Contract duration only has a positive effect on cost efficiency while profitability is not affected. The longer the contract duration, the higher the operational cost savings achieved by BPO. We can conclude that long term contracts do not have the disadvantage of locking in terms and conditions which become unfavourable for the banks over time. Long term contracts seem to encourage both parties to invest more in the relationship and to put more emphasis on ongoing process improvements, which has positive effects on the cost efficiency of the outsourcer.



* statistically not significant

Figure 3: Improvements of key metrics after BPO relative to control group

Conclusion

Our analysis shows that banks are able to increase profitability and cost efficiency by BPO. Breaking the impact of BPO further down, we find that the main effects stem from increased revenue which is generated with an unchanged level of resources. Thus, we do not observe a reduction in workforce, but rather increased employee productivity, i.e., the banks are able to generate more revenue per employee.

We can also show that the achievements by BPO are influenced by several success factors. Individually negotiated outsourcing contracts, a high level of trust in the know-how of the service provider, and a long contact duration help to improve the firm performance after BPO. A high monitoring effort leads to improved cost efficiency but has negative impact on profitability.

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Insideview

Usefulness of Second Life for a Financial Service Provider

Interview with Prof. Dr. Walter Brenner, Univ. of St. Gallen, and Thomas Schröder, Commerzbank AG, Frankfurt a. M.

Together with Commerzbank you have published a study with potential scenarios for the use of virtual worlds like Second Life in a commercial setting. Can you describe the initial situation that lead to this joint project.

Prof. Walter Brenner: In the first months of last year we could observe a major hype regarding virtual worlds and especially Second Life which bore significant similarities to the internet hype in the late nineties and we all remember how this one came to an end. Nevertheless many managers felt alarmed and invested significant amounts of money to create virtual branch offices in Second Life. This created a momentum which leads to an ever increasing number of organizations with virtual outlets without valid use scenarios and sustainable business models. Nobody wanted to be one that missed this trend.

And Commerzbank wanted to take part in this "next generation internet"?

Thomas Schröder: In order to realize our vision of "ideas ahead" it is our goal, to evaluate the usability of new technologies not just from an organizational perspective but especially from a customer's perspective. Nevertheless it is not economically reasonable to evaluate every new technology with a "working prototype" therefore we were challenged to find new approaches to identify the usability of virtual worlds for our business. One method to do this is to evaluate the degree with which a new technology helps us to deliver increased service usability to our customers. If a technology doesn't promise to deliver a real benefit for our customers we usually don't pursue additional activities. Nonetheless the media attention companies received after they opened virtual subsidiaries as well as the rise of virtual economies were additional reasons to pursue the evaluation. Following the headline "Virtual Money – Real Profits" in the German Magazine Spiegel we strived to identify new opportunities for doing business in a virtual world. Since other major banks such as ING Diba, Wells Fargo and Deutsche Bank – Q110 are represented in Second Life we tried to identify scenarios in which Second Life allows us to provide new services to our customers and therefore create value for them.

Prof. Dr. Walter Brenner,
Director, Institute of Information Management,
University of St. Gallen

What are the results of the evaluation?

Walter Brenner: We can clearly see a trend towards increased use of digital identities either with a profile in social networks like Xing or with avatars in virtual worlds like Second Life. Therefore a simple rule can be applied in order to realize success for business: "people are the killer application". Nevertheless there are certain facts that are not completely discussed in the media but relevant for companies if they plan to do business in Second Life:

- The number of actual users (approx. 900,000 in the last 30 days) are in relation to the total number of registered users (approx. 11,5 million) relatively small. Yet the latter number is often incorrectly reported as the actual number of users of Second Life.
- No sustainable business models have been observed so far and the company that is the main profiteer of the virtual currency "Linden Dollar" is the creator and owner of Second Life, Linden Lab which determines the exchange rate of the virtual currency into a real currency.
- The infrastructure which Second Life is based on is from a technical perspective not ready for prime time yet. The biggest obstacles companies will be facing are a lack of scalability if more than a handful users are visiting a virtual world as well as concerns over security.

Even after a company tour with Linden Lab when we had a chance to exchange ideas with representatives from Linden Lab it was not possible to understand the strategic positioning of the company itself. It is of major importance for potential entrants to understand whether Linden Lab decides to focus on becoming solely a technology provider, on extending its position of being market maker for virtual currencies and virtual goods or to pursue a mix of these positions.

When will Commerzbank open a virtual branch office?

Thomas Schröder: We have identified several scenarios that might provide the basis for business activities in virtual worlds. In order to ensure that we don't miss the right moment to become active in virtual worlds we defined a technology radar which defines environmental and technological requirements for successfully launching a branch office in a virtual world. Whether this will be Second Life or another virtual world is open – the objective is to provide value to our customers.

Thank you for this interesting conversation.

Infopool

News

As of January 2008 Prof. Dr. Andreas Hackethal re-joined Frankfurt University's faculty of economics and business administration as a new professor of finance. In addition he will take on the role as Deputy Dean of Goethe Business School and help the school achieve its ambitious growth targets. He will continue to act as a co-director for cluster 4 of the E-Finance Lab.

Best Paper Award: Uwe Schweickert (external Ph.D. student at the Chair of e-Finance (cluster 5) participating in the cooperative Ph.D. program of the E-Finance Lab) and Miroslav Budimir (Deutsche Börse AG) received the Best Paper Award of the "1st International Conference on Advances and Systems Research; Special Focus Symposium on Market Microstructure" for their contribution "Benchmarking Latency in Securities Trading – An In Depth View on Trading at Light Speed". Congratulations!

Team members

Donovan Pfaff (former member of cluster 3) and Kim Wüllenweber (former external Ph.D. student of cluster 1 participating in the cooperative Ph.D. program) successfully defended their Ph.D. theses "Financial Supply Chain Management" and "Evaluating and Managing Business Process Outsourcing Ventures in the German Banking Industry". Congratulations!

In October 2007, Dipl.-Wirtsch.-Inf. Christian Schulze joined the team of cluster 3 and Dipl. Kfm. Christian Rauch joined the team of Cluster 4 as research assistants at the E-Finance Lab. Since 01.12.2007, Dipl. Math. oec. Timo Litty is supporting the team of Cluster 4 as a research assistant.

The E-Finance Lab spring conference 2008 "Globalization in the Finance Sector and Efficient Systems", Feb. 21st, 2008

The E-Finance Lab spring conference 2008 will be held at the Westend Campus of the J.W. Goethe-University (Casino), Frankfurt, on February 21st, 2008, 15.00 – 20.00 o' clock. For further information and registration see **www.efinancelab.com**.

The Center for Financial Studies, the E-Finance Lab and the Deutsche Börse AG are inviting submissions of papers for an international conference on "The Industrial Organisation of Securities Markets: Competition, Liquidity and Network Externalities". The objective of the conference is to bring together academics and members of the industry to focus on state-of-the-art academic research. The conference, which is chaired by Prof. Dr. Peter Gomber (Cluster 5) and Prof. Dr. Erik Theissen (University of Bonn and Center for Financial Studies), will take place in Frankfurt, on June 13-14, 2008.

Selected E-Finance Lab publications

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For a comprehensive list of all E-Finance Lab publications see:
http://www.efinancelab.com/publications

Infopool

Research outside the E-Finance Lab

RESEARCH PAPER: UNDERSTANDING THE EFFECTS OF RELATIONSHIPS ON THE INTENTION OF A FIRM TO ADOPT E-BANKING

Recently, many banks have adopted the e-banking system as a way to expand their range of available financial products and services, so that they can increase their competitiveness. Unlike the popular view that advanced information technology would automatically lead to adoption, this paper considers the nature of relationships in the banking industry and argues that stronger relationship ties and greater relationship advantages will influence technological strategies. The findings show that both relationship benefits and relationship trust beliefs can lessen the concern about possible risks and increase the intention to adopt e-banking. Apparently, relationship is an "invisible" asset that is specific to the bank and its corporate client. As banks wish to employ IT as a competitive weapon, they must become aware that a long-term, reliable relationship cannot be easily replaced by information technology.

Kuo, Keng-Yang; Tseng, Fan-Chuan; Liou, Ding-Yuh
In: International Journal of Electronic Finance 1 (2007) 4, pp. 484-501.

RESEARCH PAPER: A LONGITUDINAL EXAMINATION OF NET PROMOTER AND FIRM REVENUE GROWTH

The Net Promoter Score is a metric, which consultant Reichheld advocates as "The One Number You Need to Know to Assess a Company's Ability to Grow" (compared to other loyalty metrics, such as customer satisfaction and retention). The Net Promoter Score is widely embraced and adopted by managers all over banks and insurance companies. The aim of this article is to replicate Reichheld's analyses employing longitudinal data from 21 firms (including the service industries) and more than 15,500 interviews from a Customer Satisfaction Barometer, namely the American Customer Satisfaction Index - using (amongst others) the insurance sector. Surprisingly, the authors find no support for a "clear superiority" of Net Promoter. Apparently, for industries with intense customer relations like the financial services, the application of the Net Promoter Score might lead to misallocations of resources. Interestingly, Reichheld refused to comment on those findings in the discussion forum of the Journal of Marketing.

Keiningham, Timothy L.; Cooil, Bruce; Andreassen, Tor Wallin; Aksoy, Lerzan
In: Journal of Marketing 71 (2007), pp. 39–51.

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 or mail your business card with the note "please printed newsletter" to

Prof. Dr. Wolfgang Koenig, E-Finance Lab,
Frankfurt University,
Mertonstr. 17, D-60054 Frankfurt, Germany.

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newsletter@efinancelab.com.

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For further information please contact:

Prof. Dr. Wolfgang Koenig
E-Finance Lab Chairman
Frankfurt University
Mertonstraße 17
60054 Frankfurt

Phone +49 (0)69 / 798 - 236 57
Fax +49 (0)69 / 798 - 285 85
E-Mail wkoenig@efinancelab.com

Press contact
Phone +49 (0)69 / 798 - 231 85
Fax +49 (0)69 / 798 - 285 85
E-Mail presse@efinancelab.com

or visit our website
http://www.efinancelab.com