METHODS OF INQUIRY ON TRUST IN WEALTH MANAGEMENT

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ABSTRACT

The aim of this thesis "Methods of Inquiry on Trust in Wealth Management" is to propose multiple paradigms framework as a methodology of inquiry to investigate business issues in the practice of wealth management. The multiple paradigms framework of Burrell and Morgan (1979) is referenced for analysis. The introduction chapter explains my ontological assumption on trust, the grounds for choosing Burrell and Morgan's sociological paradigms and the rationale for the journal format thesis. Then, empirical research in three paradigms taking different assumptions regarding the nature of social science and the nature of social relations is undertaken and discussed in separate chapters. A different research method is used for each paradigm inquiry: qualitative for the Interpretive paradigm, quantitative method for the Functionalist paradigm, and longitudinal multi-method for the Radical Structuralist paradigm. The thesis contributes to new knowledge in these areas: by proposing multiple paradigms to study trust in the context of wealth management, by developing a construct of behavioural trust together with an interpretive framework of trust for private banking, by developing a construct of investment behaviour in terms of decision control as a proxy of trust, and by adding to the multiple paradigm literature by formulating an "essence" - an integrative conclusion drawing from findings from different paradigms. Managerial implications with potential to improve wealth management practice are discussed in each of the paradigms and in the conclusion chapter.

Key words: paradigm, trust, wealth management, research method

DECLARATION

I, Andrew On Yuet LO, declare that no portion of the work in the thesis has been submitted for another degree or qualification at this or any other university or other institute of learning.

DEDICATION

To my daughter Katherine, wife Wendy and mother Wei Lung. In fond memories of my late father Ting.

ACKNOWLEDGEMENT

There are a number of individuals to whom I would like to express my gratitude. First of all, I would like to thank my supervisors Prof. Bob Wood and Dr. Fengyan Cai for their sound guidance and encouragement in this research journey. I am also grateful for the advice and comments from my former supervisor Dr. Charles Cui and former DBA Director Dr. Matthew Allen. I would like to thank and acknowledge the great support Rupert Hoogewerf and his team at *Hurun Report* offered to me by administering the investment questionnaire to high-net-worth individuals in China. Let me thank DBA Director Prof. Timothy Divenney for his leadership and the opportunity for me to present in the plenary sessions of the 2020 AMBS DBA Conference. Last but not least, I am grateful to Prof. Colin Mayer and Prof. Richard Whittington at my former alma mater for the conversation and insights which have given me the inspiration to undertake this part time doctoral programme.

LIST OF ACRONYMS

AUM	asset under management
CDO	collateralized debt obligation
CR4	four firms concentration ratio
CRS	Common Reporting Standard
DOJ	Department of Justice
ESG	environmental, social, governance
FDRC	Financial Dispute Resolution Centre
GFC	Global Financial Crisis
H	knock out barrier
HHI	Herfindahl-Hischman Index
HKMA	Hong Kong Monetary Authority
HNW	high net worth
HNWI	high net worth individuals
K	strike price
M	million
N	time to expiry
M&A	merger and acquisition
MBS	mortgage backed security
MTM	mark to market
NE	numbers -equivalent
OTC	over the counter
QE	quantitative easing
r	risk free rate
S	spot price
SFC	(Hong Kong) Securities and Futures Commission
σ	volatility
UHNW	ultra high net worth

PREFACE

In this section, I would like to provide some context for the reader which includes the motivation of my research, terminology in the research area and my background.

A key difference between the DBA and the PhD is its orientation towards practice. The new knowledge sought by the DBA thesis is relevant to business practice and should have the potential to improve it. It is also a part time degree programme taken by business practitioner working in the field with industry knowledge of the research area. I work in the field of wealth management and am a private banker in a leading international bank in Hong Kong. A commitment to being relevant and of interest to practice has always been my motivation and the first consideration. The consequence of such commitment means I might have foregone some research which could have had better potential for publication in academic journals if such research was not of interest to the business practice of wealth management. An initial research direction was subsequently dropped after discussion with senior management of private banks and it is described in the introduction chapter. Another consequence is that the area of concern under research is narrow in scope, focused on wealth management practice. Despite the narrow area of concern, some of the research findings have relevance to other fields. For instance, the findings of the empirical paper in Chapter 3 “Consumer Behaviour and Trust in Private Banking” may have relevance to client relationships in other professional services such as medicine and law where the provider of service has more information and knowledge than the client and is in a better position to judge what the client needs than the client himself. Another example, while reflecting on the fundamental client and private bank conflict and the changes in private banking industry following the Lehman bankruptcy, my research uncovered the next radical change in the making which resonates with the current events in the world as described in Chapter 4 “Changes in Private Banking Following Lehman Bankruptcy”.

Let me briefly define wealth management and private banking. Wealth management is a business within the finance industry offering financial securities such as cash, currencies, fixed income, equities and investment funds to retail and private banking clients. Private banking is more upscale than retail banking and it focuses on serving the high net worth individuals (HNWI) who has more than 1 million USD to invest – in practice, most private banks in Hong Kong requires client to maintain a minimum account balance of 2 million USD or more. Private banker refers to the banker who carries the client advisory function and some private banks call private banker client advisor. The research in this thesis focuses on the client advisory nature of wealth management. I have fourteen years of experience in private banking working as private banker managing client's assets and as manager of private bankers.

My thesis is in a journal format with three empirical papers investigating wealth management issues using three paradigms in Burrell and Morgan's (1979) framework. A different research method is used for each paradigm analysis – hence the title of the thesis is "Methods of Inquiry on Wealth Management Practice". In addition to the three empirical papers, I have included an introduction and conclusion chapters. These two chapters explore a common theme in my research which is about trust in the context of wealth management. Trust is an inherent characteristic in wealth management as performance of financial service is uncertain and the client has to make decision before the resolution of uncertainties. Some of paradigm research and findings are not strictly about trust – for instance those in the Radical Structuralist paradigm paper in Chapter 4. The introduction and conclusion chapters tie the three empirical papers together with the common thread of trust.

My prior research background is in applied corporate finance. I researched on conglomerates in my master's degree thesis – I showed the existence of a conglomerate discount in publicly listed firms, estimated its factor variables in an empirical study and reflected on the development of the conglomerate firm. After my master's degree, I started working in private banking in Hong Kong. I had a career in engineering before finance – I took my bachelor degree in mechanical engineering, qualified as a professional engineer and worked as sales and marketing manager.

Chapter 1: Introduction

Abstract

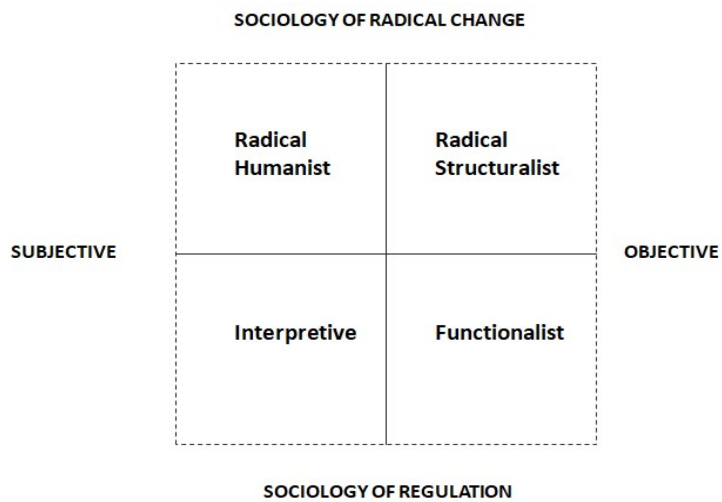
The aim of this chapter is to introduce multiple paradigms as a method of inquiry to study the wealth management practice. Wealth management is a business segment within the finance industry offering financial assets to high net worth individuals (HNWI). Trust is central to wealth management as performance of investment is uncertain while clients have to make decisions before the resolution of uncertainty. The reasons for selecting Burrell and Morgan (1979)'s multiple paradigms are explained together with my ontological assumption on trust. This chapter introduces three areas of concern to be investigated in three paradigms (Functionalist, Interpretive and Radical Structuralist) together with brief description of methodology. A different research method is used for each paradigm inquiry: qualitative interpretative method for Interpretive, quantitative statistical method for Functionalist, and longitudinal multi-method for Radical Structuralist paradigms. One of the contributions the DBA thesis makes is to propose multiple paradigms as a methodology to analyse trust in the context of the wealth management business.

1.1 What is my research about?

Before one sets sail, one should look at the compass to orient the boat along the course of the journey. The introduction chapter of my thesis aims to do this by setting the context for the reader. It starts with a description of my research area, which is the practice of wealth management, the development of my ontological assumption and the statement of the main research objectives. Next, the frame of reference for the research is addressed with respect to the framework of inquiry, areas of application and methodology. Then, I will explain the rationale of using multiple paradigms analysis and particularly that of Burrell and Morgan's for research investigation. The introduction chapter highlights a binding common theme in my three empirical papers which is trust in the context of the wealth management business.

Kuhn's (1962) seminal work "The Structure of Scientific Revolutions" on paradig has inspired much scholarship and debate in social science. Kuhn explains paradigm as a theoretical perspective and is a set of assumptions about reality which gives the framework for interpretation on our observations (Johnson, 2000). Subsequently, notable work on multiple perspectives analysis followed such as Allison's (1971) "Essence of Decision", Burrell and Morgan (1979)'s "Sociological Paradigms and Organisational Analysis", Linstone's (1984) "Multiple Perspectives for Decision Making" and Hassard's (1991) "Multiple Paradigms and Organisational Analysis". Allison (1971) illustrated multiple perspectives by using different models such as a rational actor model, an organisational process model and a governmental politics model to analyse the Cuban Missile Crisis. In a treatise of a history of thought analysis, Burrell and Morgan's (1979) model provides an intellectual map of four paradigms to classify social theories based on different assumptions regarding the nature of social science (objective *versus* subjective) and regarding the nature of society (regulated *versus* radical change). Please see Figure 1.1.

Figure 1.1: Burrell and Morgan’s (1979) sociological paradigms



Hassard (1991) applied Burrell and Morgan’s (1979) model to study organisational analysis in the British Fire Service. His contribution is in research methodology, in his refutation of Kuhn’s paradigms incommensurability, by demonstrating the merit of studying work organisation issues by use of multiple paradigms using a range of research methodologies, a different one for each paradigm. So, what does my research add to the contribution of multiple paradigms analysis in the literature?

My first contribution on multiple paradigm analysis is to use it to analyse trust in a business context. Trust is a central concept in financial service as performance of financial service is uncertain until completion while consumers have to make decision before the resolution of uncertainties. Financial service has the characteristics of credence goods (Calcagno, 2017) which are ‘goods and services that an expert knows more about the quality a consumer needs than the consumer” (Dulleck and Kerchmbamer, 2006, P.5). I add contribution to the theory of trust when applied to wealth management using multiple paradigm analysis.

The second contribution is to add to multiple paradigm research in providing an “essence”, an integrative conclusion drawing from the findings of different paradigms. While Allison (1971) shows that a researcher may rely on one perspective too much and neglects the view points of the perspectives. “Where you stand depends on where you sit” (Allison, 1971 as cited by Bernstein, 1999), it is the paradigm that a researcher adopts that will shape the findings. But Bernstein (1999) said despite the title of the book, Allison’s work lacks the essence of the decision: *What is the essence and integrative lesson learnt from* *the different paradigms?* I will address "the essence" in an integrative conclusion of my multiple paradigm analysis together with managerial implications.

Another contribution is that my research addresses an area in financial services that is of growing importance but is under-researched and the thesis adds new knowledge in that area. Wealth management is among the fastest growing business segment thanks to the recent years of prosperous economic growth and its characteristic of being a capital light business and is looked at very favourably after the Global Financial Crisis (McKinsey, 2014). Private banking is upscale wealth management service for clients with at least 1 million USD placed at a private bank for wealth management. Private banking is an area which is very under-researched in academic studies. The difficulties stem from the highly confidential nature of the business - clients are wealthy and often high-profile individuals in society and this leads to a lack of client data reporting and the difficulty in finding an organisational sponsor for research. It is also unusual for an academic researcher to possess a personal network of high net worth individuals (HNWI) to access for research. The data set obtained for this research is unique in itself.

The results of this research have the potential to bring about significant improvement to the wealth management practice. This is made possible by the new knowledge the research produced together with the discussion of managerial implications. Contribution to new knowledge includes development of a new construct for describing investment behaviour in terms of control, the degree of self control versus delegation to wealth manager, rather than the usual risk and return consideration; and proposal of a new framework for private banking behaviour in terms of trust derived from interpretive analysis. Research findings which can bring significant improvements to wealth management practice include: marketing tactics learnt in the Functionalist paradigm from statistically significant associations of certain demographic factors with investment behaviour; insights on marketing strategy gained in the Interpretive paradigm based on an interpretive understanding of trust in private banking, and industry trend predictions developed from the Radical Structuralist paradigm.

1.1.1 The research area

My DBA research is about the practice of wealth management and in particular concerning the client advisory side of the wealth management business. I conduct multiple paradigms research to investigate issues in wealth management with a common theme of trust. In doing so, my research aims to make a significant improvement to the business practice of wealth management. I work in the field professionally as a private banker in the Hong Kong branch of a large international bank. Let me begin by describing what wealth management is about.

Wealth management is a business segment within the finance industry and it refers to the management of wealth using financial assets such as cash, foreign currencies, fixed income, equities, investment funds and derivatives. Private banking is high end wealth management which focuses on clients who are high net worth individuals (HNWI) with a minimum of at least 1 million USD of liquid assets to invest. In practice, most private banks in Hong Kong and Singapore have higher threshold of at least 2 million USD to open an account. Wealth management is a business with a large market size - Ernst and Young (2018) estimated a market size of 55 trillion USD in 2016 and projected to grow to 69.6 trillion USD in 2021 while Cap Gemini (2019) estimated market size to be already 68 trillion USD in 2018 with Asia accounting for 30% of market size with 20 trillion USD; it is also a high growth business with annual growth rate of about 4.7%, with Asia Pacific growing faster at 5.9% (Ernst & Young, 2018). Business growth is driven by favourable long term structural factors such as the growth of wealth creation, increased use of securitization in investment banking enabling smaller investors to purchase securities, and the improvement of information technology in banking which makes possible the servicing of a large number of private clients.

Indeed, wealth management is regarded to be among the most attractive business segments within the financial services industry with reasons being higher than GDP revenue growth, profitability with low capital requirement, and ample liquidity (McKinsey Global Wealth Management Survey 2014). The characteristics of being a capital light business and high liquidity have become increasingly attractive since the GFC as regulations such as Basel III imposes more stringent capital and liquidity requirements for banks. Wealth management can even provide a source of surplus liquidity for other banking business such as corporate banking where the relevant local regulatory framework permits. In addition, private banking can also bring synergy to the whole bank - private banking clients such as entrepreneurs would present cross selling opportunities for other banking businesses such as commercial and corporate banking as entrepreneur clients are also the key decision makers in companies.

Most of the empirical work of the three empirical papers refers to Hong Kong. Hong Kong is one of the major wealth management centres in the world. Private Wealth Management Association (PWMA) estimates that the wealth management asset under management (AUM) in Hong Kong in 2018 was about 3 trillion USD with PWMA's member firms of private banks in Hong Kong holding about 980 billion USD and the remaining AUM held by other asset management firms and trusts. At the size of 3 trillion USD (PWMA & KPMG, 2019), AUM held in Hong Kong's financial institutions account for 15% of the market size in Asia using Cap Gemini (2019)'s estimate of 20 trillion USD for Asia. Hong Kong is the major offshore wealth management centre for China - about half of the private banks in Hong Kong's AUM is sourced from clients outside of Hong Kong (PWMA & KPMG, 2019) and Hong Kong provides a gateway for international investors to invest in China. As a low tax jurisdiction with no capital gain tax and estate duty, Hong Kong retains local capital and attracts foreign capital for wealth management. Hong Kong is larger than Singapore as a private banking centre and is also one of the major centres for derivatives trading in the world. The use of derivatives in wealth management in Hong Kong is common and Lehman Brother's bankruptcy exposed its risks.

Trust is a central concept in wealth management business. Performance of financial investment is uncertain while consumers have to make decisions before the resolution of uncertainties. While both the client as buyer and the private bank as seller face uncertainties before decision to invest, the private bank has more information and knowledge than customers. The situation is more complex than a game of asymmetric information usually portrayed in game theory. It is because even the private bank does not have not know with full certainty about the performance of an investment at the end of the investment period - unlike that of a used car dealer in selling "lemons". It cannot be modelled adequately as either a simultaneous move game or a two period sequential move game. It is because the interaction of the private banker with the client is ongoing with repeated interaction. Both parties face uncertainties with imperfect information though the private is better informed with more information in terms of pricing, risk and financial know how.

There is an issue of heterogeneity concerning the client's investment style inclination. Some clients in certain market segments, will have a higher tendency to choose Self Directed investment decision rather than listening to private bankers for advice or delegate investment decisions to a discretionary portfolio. The relationship of demographic factors with the client's natural tendency to select Self Direct, Advisory or Discretionary investment is of practical interest to the private bank and will be investigated in Chapter 2. What are the circumstances that incline the client to entrust the private bank more and how do the clients develop their trust towards the private bank? This is a question of interest to private banks and will be researched in Chapter 3. About a decade ago, a major investment bank Lehman Brothers went bankrupt causing a steep loss of trust in financial institutions and triggered the Global Financial Crisis. There was excessive risk taking on derivatives investment in wealth management in Hong Kong and these risks were not exposed until Lehman Brothers' bankruptcy. The basic context for trust in financial institutions was badly shaken during the Global Financial Crisis following Lehman's collapse. What are the changes brought on by Lehman Brothers bankruptcy to the private banking industry in Hong Kong? This is the research question in Chapter 4.

1.1.2 My ontological assumption on trust and rationale for journal format thesis

There is a close relationship between my ontological assumption on trust, multiple paradigms analysis and the journal format thesis. Let me explain in this section.

As the nature of the DBA is to focus on research relevant to management practice, the natural question I ought to clarify is why I chose not to adopt action research as my methodology. Action research combines theory and practice to investigate a managerial problem by iterative diagnostic, action intervention and reflective learning (Avison et al., 1999). To attain the iterative diagnostic, action intervention and reflective learning usually requires a host organisation. In practice, there is real life difficulty in securing a private bank as host organisation for research. First, private banks have a tradition of client confidentiality as their clients could be individuals of high profile. Hence, private banks are not willing to share their client contacts for research. Second, international banks may have restrictive clauses in employment contract on intellectual property and that the intellectual property of models developed by a banker belongs to the bank. It is hard to separate work and applied research for DBA. The second hurdle makes it highly prohibitive for a private banker practitioner like me to work with my employer for action research.

With my former supervisor, we decided on the journal format thesis and started working on a qualitative paper focusing on a gap in the trust literature when applied in services marketing. The research uses in depth interview with HNWI who are clients of private banks in Hong Kong. I interpreted the interview script of the interviewees and developed a construct of behavioural trust which is not researched in the literature and articulated my understanding of trust in wealth management behaviour in a qualitative framework. The intention then, was to further develop the construct of behavioural trust into an instrument with measurement scale in a quantitative paper as the second paper following the tradition of exploratory sequential mixed methods - starting with qualitative data, then builds on database with a second quantitative data (Creswell, 2014). Here, I encounter a few obstacles. First, the HNWIs I interviewed are busy individuals and while they are happy to participate in 1:1 interviews, they are less inclined to participate in a questionnaire for measurement scale development or in experiments for hypotheses testing. Second, I found senior management of private banks are not interested at all in the quantification of the behavioural trust construct. The feedback I received after discussion is that senior management prefers tangible measurement of trust and perceives trust as the asset under management (AUM) of client placed in discretionary mandate or advisory services with the private banks. They see little value to operationalize an abstract trust construct into an instrument with measurements. Hence, I came to a realization that different parties in the wealth management industry may have different conceptions about trust. Third, I learnt my former supervisor would be leaving AMBS at the end of my year 3 which gives me an opportunity to reflect on my learning and map new research direction. Hence, I believe writing three papers each analysing issues in wealth management related to trust from the perspective of different stakeholders will be a good research direction. My research is a journey of evolution and I was informed by my own research. While the thesis is not action research for the reader, my research journey to me as a researcher is an experience of action research.

Hence, my experiential research journey shapes my *ontological assumption on trust* and my subsequent decision to choose multiple paradigm analysis. The choice of multiple paradigm analysis as research methodology then affirms the structure of the *journal format thesis* with empirical papers for each paradigm presented as separate chapters. The interaction of a client with the private banker is too complex to be articulated in one theoretical model like in game theory. It is more complex than a game of asymmetric information as the private bank, though it has more information and knowledge than the client, does not have perfect knowledge with full certainty on how the investment recommendation will perform at the end. In addition, real life heterogeneity in the market concerning client's willingness to listen to advice could vary due to demographic factors such as generation (age bracket), gender and personality. Each stakeholder, whether it is the client, the private banker, the senior management of private bank or the regulator may have a different conception of trust. I came to realise that there is no one "God's eyes view" of the world as argued by Putnam. There is no one universal general model of trust which caters for all circumstances for all the stakeholders. The reason is that there is no one vantage point which is always secure and dominant (Rorty, 1979 as cited by D'Agostino, 2010). Ontology refers to what actually exists and what does not (Johnson, 2000). My ontology assumption on trust is that certain aspects of trust are only apparent to the eyes of some stakeholders in certain perspectives. To seek understanding on trust and the nature of wealth management, I believe investigation using a framework with multiple perspectives is desirable and the interpretation of multiple perspectives will yield insightful conclusion. It is important to choose an appropriate theoretical framework to investigate a social issue as there is a close linkage among the intellectual framework (F), research methodology (M) and the area of concern (A) as put forth by Checkland's (1985) FMA argument which is relevant for all research. I will elaborate on this in the next section.

1.2 On framework (F), methodology (M) and application (A) of my research

My ontological assumptions on trust shape my perception of social reality in the context of wealth management. Social reality is the object of concern in the research of social science (Checkland, 1981). There is a close relationship between social reality and the **theoretical framework (F)** as the framework sets the context for the perception of social reality. Checkland (1985) illustrates this linkage with Vickers' theoretical framework of appreciative systems with its concept of appreciation and norm which better describes human affairs and is more suitable for investigation of social science problems than a framework of a natural science nature. Checkland (1985) argues that researcher in the study of human actions should ask what intellectual framework (F) will make the observed actions meaningful. In my case, the theoretical framework (F) chosen is a multiple paradigms framework and that of Burrell and Morgan's (1979). A paradigm is one particular perspective of the world with its underlying assumptions, theories and methodology (Oxford Dictionary). Burrell and Morgan (1979) conceive a framework of multiple paradigms based on differences in two fundamental dimensions regarding social reality: (i) the nature of social science and (ii) the nature of society. Different assumptions regarding the nature of social science (objective versus subjective) and the nature of society (order or conflict) divide the social world into four paradigms, each with a different perspective of the world. The different paradigms enable me to research various perspectives which are real in practice and with each perspective posing a distinct primary concern to a different stakeholder. The Functional paradigm investigates HNWI and wealth manager's relationship from the angle of the wealth manager; the Interpretive paradigm studies the HNWI and wealth manager's relationship from the standpoint of the HNWI; and the Radical Structuralist paradigm assumes an industry perspective on private banking beyond the client and firm relationship. The paradigms investigation will be addressed in separate empirical papers with the Functionalist paper in Chapter 2, Interpretive paper in Chapter 3 and the Radical Structuralist paper in Chapter 4.

The relationship linkage of the theoretical framework (F), methodology (M) and area of application (A) is articulated by Checkland (1985) as the "organised use of rational thought" which is about applying the framework of ideas (F) in the methodology M on an area of application (A) of human affairs. Checkland (1985) further elaborates that it is an iterative process and there is learning about F, M, A from the use of M. The choice of a theoretical framework will determine the selection of methodology. In particular, Baskersville and Wood-Harper (1996) remark that M is the ideal research method which gives the most valuable knowledge about F in the situation of A.

Let me elaborate on the **methodology** of my research. Each paradigm is a separate theoretical framework of its own with its unique assumptions on social reality and hence calls for different **research method (M)**. The Functionalist paradigm framework assumes objectivism regarding the nature of social science while presuming an orderly social relations; the methodology for this paradigm is nomothetic in nature which involves systematic protocol such as testing of hypotheses (Burrell and Morgan, 1979) and the research method (M) I selected is the quantitative method of survey questionnaire with statistical analysis. The Interpretive paradigm framework presumes subjectivism concerning social science and an assumption of stable social relations; the methodology is ideographic in nature which focuses on subjective accounts of seeking first-hand knowledge of the subject under research (Burrell and Morgan, 1979) and the research method (M) selected is the qualitative method of in depth 1:1 interviews. The Radical Structuralist paradigm framework assumes objectivism regarding the nature of social science like the Functionalist paradigm but presumes the opposite of social relations in conflict; methodology is nomothetic in nature and the research method (M) I chose is multi-method of historical analysis looking at radical changes in the private banking industry following the major risk event of Lehman bankruptcy. Checkland and Holwell (1998) refer to framework (F) and methodology (M) as the *guiding epistemology* which leads to research findings and the discovery of knowledge about the area of concern (A).

Having addressed the "intellectual structure" (Checkland and Holwell, 1998) of framework and methodology, let me explain the **areas of applications (A)** of my research. Areas of applications are the real life problem to be investigated. Baskerville and Wood-Harper (1996) refer A as the same as research question. Let me list the areas of applications - research questions of the three empirical papers below.

The Functionalist paper looks at the relationship of HNWI with the wealth manager by assuming the perspective of the wealth manager. The research question asks the effects of demographic factors on investment behaviour in terms of varying degrees of entrusting the wealth manager. I develop a new construct of investment behaviour in terms of decision control and trust is conceived as the degree of discretion given to the wealth manager. The Interpretive paper examines the relationship of private banking clients with private banks by taking the perspective of the clients. The research question asks how private banking clients develop trust in the context of wealth management. In that paper, I interpret trust from the angle of the interviews and articulate my understanding in a framework of trust in private banking behaviour. The Radical Structuralist paper seeks an industry level understanding on private banking. The research looks at what are the changes to private banking in Hong Kong following the Lehman Brothers bankruptcy when the context of trust in financial institutions was shaken during the Global Financial Crisis. The research sees beyond the client and private bank relationship and includes consideration of other stakeholders such as regulator, new industry entities and power relations.

The theoretical framework (F), methodology (M) and area of application (A) of my research are summarized in Table 1.1. In the conclusion chapter, an essence of the multiple paradigm research is drawn taking interpretation from the findings of three paradigms. Hence, forming another level of Checkland's (1985) FMA of "organised use of rational thought" with F being the Burrell and Morgan framework, M being the methodology of interpretation of the findings from the Functionalist, Interpretive and Radical Structuralist paradigms, and A being the area of concern in wealth management.

Table 1.1 Summary of framework (F), methodology (M), area of application (A)

	Interpretive paper	**Functionalist paper**	**Radical Structuralist paper**
Theoretical Framework (F)	Interpretive paradigm	Functionalist paradigm	Radical Structuralist paradigm
Nature of social science inquiry	Subjective	Objective	Objective
Nature of social relations	Orderly	Orderly	In conflict
Area of concern	Client - wealth manager relationship from client's perspective.	Client - wealth manager relationship from wealth manager's perspective.	Industry perspective of client - wealth manager- regulator, relationship.
Area of application (A)	Understand how private banking clients develop trust and articulate it in a framework.	Study effects of demographic factors on different investment styles related to trust.	Study the changes in private banking industry following Lehman bankruptcy.
Research design	Qualitative method	Quantitative method	Multi-method
Methods (M)	Semi structured interviews	Survey questionnaire	Historical analysis
Analysis	* Interpretive analysis of interview script. * Develop a construct of behavioural trust. * Articulate understanding of trust in a framework.	* Hypothesis testing on statistical association of demographic factors with investment styles. * Choice model (logit) estimation.	* Record comparison of regulations. * Longitudinal analysis on industry structure (Herfindahi-Hischman Index).

1.3 Further discussion on theoretical framework (F)

In this section, I will review the multiple paradigm frameworks in the literature and the reasons for choosing Burrell and Morgan's (1979) framework.

1.3.1 The consideration for a framework for inquiry

In this section, I will discuss the process of consideration for the various multiple perspectives framework. The multiple perspective method of analysis has been in use in social science starting notably with Allison's (1971) analysis of the Cuban Missile crisis in political science, then Linstone's (1984) multiple perspectives in organisational analysis and decision making, Burrell and Morgan's (1979) multiple paradigm analysis of social theories, and Hassard's (1991)'s multiple paradigm analysis of work behaviour using Burrell and Morgan's (1979) framework. The notion of a single and distinct perspective of paradigm comes from the seminal work of Kuhn (1962) in which he articulates the process of scientific revolution by way of a paradigm shift through a sociology of change in scientific thoughts. A paradigm is one particular world view with its underlying assumptions, theories and methodology regarding a scientific subject (Oxford Dictionary). While a paradigm's structure of assumptions, theories and methodology ensures the internal validity and reliability of its investigation in one single perspective, Allison's (1971) seminal work of multiple perspectives inquiry using rational actor, organisational process and governmental politics models' analysis on the Cuban Missile Crisis in political science shows that there are insights uncovered in one perspective which are not discernible in other perspectives and hence demonstrates the merit of multiple perspectives analysis. Let me give a brief description on the general framework for inquiry considered before explaining the reasons for the chosen framework in the next section.

An early form of multiple perspective mindset of inquiry starts with Churchman's (1968) systems approach. Churchman saw the inadequacy of analysing social problems using scientist's techniques which are too narrow. He advocated an approach which encompassed multiple stakeholders: client, decision maker, planner, system philosopher; and for economic, social and cultural consideration to solve a social problem which was about a debate between different attitude of the mind concerning society.

Following Allison (1971)'s "Essence of Decision" on the Cuban Missile Crisis, Linstone (1984) states that his Technical, Organisational and Personal perspectives of organisational analysis was inspired by Allison and readers can notice that Linstone's work evolved from Allison's and others tradition. Linstone's Technical perspective has its root in operational analysis and the Personal perspective incorporates elements of Churchman's inquiring system and Steinbruner's cognitive paradigm. A drawback of such multiple perspectives is the difficulty to be comprehensive as new perspectives come up subject to new thinking.

Burrell and Morgan (1979) conceive a multiple paradigm framework based on categorisation on two fundamental axes of (i) the nature of social science and (ii) the nature of society. Opposite assumptions regarding the nature of social science (objective versus subjective) and regarding the nature of society (order or conflict) divide the social world into four paradigms: Functionalist, Interpretive, Radical Structuralist and Radical Humanist. Burrell and Morgan (1979) use their framework to classify social theories in a history of thought analysis.

Hassard's (1991) multiple paradigms analysis of work behaviour in the British Fire Service is an application of Burrell and Morgan's framework for organisational analysis. Hassard (1985, 1991) disputes Kuhn's (1962) paradigm incommensurability and argues that each paradigm in Burrell and Morgan's framework is worthy of study, one paradigm at a time. Hassard's multiple paradigm analysis makes a significant contribution to paradigm study in terms of methodology.

1.3.2 My arguments for choosing Burrell and Morgan's (1979) framework

Among the frameworks discussed previously, I have chosen Burrell and Morgan (1979) as my framework for inquiry. Here, I will give my reasons, elaborate more on Burrell and Morgan's taxonomy, and illustrate with some examples of my research.

First, Burrell and Morgan's framework is more exhaustive in the consideration of multiple worldview. The authors chose to span the perception of the social world using two fundamental and independent dimensions of the nature of social science and the nature of society, and including opposing views within the two dimensions. With this approach, it becomes feasible to consider all different worldviews spanned with these two independent dimensions. In comparison, other multiple perspectives models without fundamental and independent dimensions tend to have different perspectives evolve over time. For instance, Kellerman (1979) suggested three additional models of small-group process model, dominant leader model and cognitive process model which could be added to Allison's (1971) models. Linstone's (1984)'s Organisational perspective is similar to Allison's (1971)'s Model II on organisational process and Linstone's Technical perspective is related to Allison's Model I of rational actor model.

Second, Burrell and Morgan's (1979) framework is more suitable for debate of thoughts. Having selected axes of analysis as dimension of the nature of social science and the dimension of the nature of society, the authors then consider opposing ideologies such as objectivism versus interpretivism in the nature of social science and opposite beliefs of order and conflict in the nature of society. In the four distinct paradigms formed in opposing beliefs, Burrell and Morgan's framework enables researcher to analyse, compare and debate findings of the different paradigms. Churchman's (1968) system approach of inquiry acknowledges that the scientific worldview on social problem is limited and advocates including other attitudes of the mind with respect to society into solving social problems. Churchman's inclusion of other attitudes of the mind enables a platform for discussion but it does not facilitate ready debate as much as Burrell and Morgan's framework of paradigms with opposing ideology.

Third, Burrell and Morgan offer a framework which is objective and value free for researcher to use. Churchman's inquiry takes the good-natured positions of equality and equity, a humanist approach centred on individual human values following the Kantian belief of not treating an individual as a means but as an end. In doing so, Churchman imposed *value judgement* of ethical behaviour and the moral obligation, using Nelson (2013)'s term of assessment of Churchman's legacy, to "secure improvement in human condition". Having imposed a moral high ground and a vantage point from a value judgement may impose a bias and masks the researcher from seeing the truth. For instance, the profit motive may encourage a private banker to act unethically and recommends a certain investment over another for the bank rather than for client. Mitroff and Linstone follow the line of thoughts of Churchman. Linstone (1984) labels each of his multiple perspectives with ethical basis - Technical perspective's ethical basis is rationality, Organisational perspective's is justice and fairness, and Personal perspective's is morality. Mitroff and Linstone's multiple perspectives of "Unbounded Mind" have their values embedded as well. Lundberg (1996) reviewed their work and remarked that the authors hold a philosophy of humane and ethical management to seek harmony and development. Burrell and Morgan do not presuppose any value judgement. Their framework sees the world as it appears regardless of different and opposing view of the world. Both Churchman and Linstone are attributing ethical obligation to their frameworks. In the real world, there are events stemming from unethical behaviour. The fall of Lehman Brothers was due to excessive risk taking, not unknowingly, by the firm's executives motivated by economic gain and power which is in conflict with ethical obligation. Neither Churchman's or Linstone's frameworks would be able to provide an objective and accurate account for such an event. Having a value free framework for research is consistent with my ontological orientation regarding trust. My ontological assumption regarding trust has no "God-eyes view" of trust - there is no one dominant vantage point for all stakeholders and there is no one universal model which can cater for all in all circumstances. I believe some aspects of trust can be better understood in one paradigm than others and truthful understanding of trust should be sought from multiple paradigms.

Fourth, Burrell and Morgan's framework is more suitable to analyse trust, especially for the circumstances when trust is breached. Burrell and Morgan perceive social relations in society but only in a state of order but also in conflict. The private banking industry in Hong Kong went through structural changes in the years following the Lehman Brothers bankruptcy. There was excessive risk taking with derivative investment in wealth management in Hong Kong which was exposed in the Global Financial Crisis following the Lehman bankruptcy. The excessive risk taking was due to moral hazard of private banks which held the asymmetric information advantage over clients on risk and price regarding derivatives. The regulations before the Global Financial Crisis did not adequately consider imperfect information faced by clients and moral hazard of private banks and subsequently the regulations were substantially revised. Burrell and Morgan's Radical Structuralist paradigm, which focuses on understanding the fundamental conflict in social relations, enable the researcher to analyse the origin of moral hazard, its consequences and remedy. While Burrell and Morgan's Radical Structural paradigm focuses on conflict, which is revolt from order, the other paradigms of Functionalist and Interpretive fixate on order.

Fifth, Burrell and Morgan provide a structured epistemological framework to seek knowledge with guidance on different levels of analysis on the nature of social science and the nature of society. I believe such structured approach leads the researcher to develop better research approach, which Creswell (2014) describes as a plan for research which spans from philosophical assumptions, designs to methods of data collection, and analysis, resulting in strengthened argument and improved validity. Hassard (1991) claims that Burrell and Morgan's model has attracted the most attention out of the many paradigm models and he partly attributes it to their analysis of social science by reference to the "philosopher's tool kit of ontology and epistemology" (Hassard, 1991, P.276). Burrell and Morgan prescribe four levels of analysis regarding the assumptions for the nature of social science in terms of ontology - "the essence of the phenomena", epistemology - "the grounds of knowledge", human nature - "relationship between human beings and their environment" and methodology - the means of investigation for knowledge. Then, the authors list the different assumptions for these four levels of analysis for the objectivist approach to social science versus the subjectivist approach. Please see Table 1.2.

Table 1.2 Assumptions in Burrell and Morgan's framework

			Objectivist	Subjectivist
	Social science			
1	Ontology		Realism	Nominalism
2	Epistemology		Positivism	Anti-positivism
3	Human nature		Determinism	Volunatarism
4	Methodology		Nomothetic	Ideographic
	Society		**Order**	**Conflict**
1	Equilibrium state	*Structure of society*	Status quo	Radical change
2	Fundamental		Social order	Structural
3	Free will	*Individuals and society*	Consensus	Domination
4	Attitude		Cohesion	Contradiction
5	Social relationship		Solidarity	Emancipation
6	Needs	*Individuals*	Satisfaction	Deprivation
7	Fulfilment		Actuality	Potentiality

Burrell and Morgan advocate seven elements of analysis regarding the assumptions on the nature of society which I categorize from seven elements to three groups of relationships concerning: the structure of society external to the individuals, the relationship dynamics of the individuals with the structure of society, and the needs internal to the individuals. These layered levels of inquiry ranging from the macroscopic to the microscopic on the two axes of investigation on social science and society give vigour to the ground of inquiry and enables the researcher to build accumulated accounts of knowledge.

1.4 Implementing framework, methodology, applications (FMA) on my research

Having addressed areas of concerns and the general framework for inquiry, let me move on to discuss the areas of applications and methodologies for my thesis. For areas of applications, I have selected three wealth management real life issues as previously stipulated as main research objectives, each to be analysed with an appropriate Burrell and Morgan paradigm. Relevant research questions and methodologies will follow from the choice of the paradigm. The premise of my ontological inquiry on trust is that some aspects of trust are better to be discerned for a certain party in a perspective than another, hence different perspectives should be researched for a holistic understanding.

1.4.1 Interpretive paradigm study

The Interpretive paradigm paper "Consumer Behaviour and Trust in Private Banking Relationships" focuses on customer - private bank relationship interpreted from the point of view of the customers. The research seeks to understand how private banking clients develop trust and articulate the understanding in a framework of trust in wealth management behaviour. Same as the Functionalist paradigm, the Interpretive paradigm assumes stable social relations regarding the nature of society but it adopts the opposite view of subjectivism regarding the nature of social science.

In terms of social relations, the client and bank relationship is first and foremost bounded by codes of conducts and regulations stipulated by the regulator. Private banking is a heavily regulated profession - private bankers need to qualify for licences and must conduct business within the codes and regulations - failure to do so will result in severe punishment by regulators. In terms of structure of society in private banking, it is stable with status quo stipulated by codes and regulations and thus maintaining the order in the fundamental client and bank relationship. An orderly relationship exists between client and bank with "consensus" being the voluntary acceptance of the choices of wealth management services offered. Regarding the needs of the client, it is assumed that the needs are satisfied with in the context of the existing scope of offerings and there is no imminent need to inquire the future needs of the clients.

In terms of assumptions concerning social science, the Interpretive paradigm predicates an ontological orientation of nominalism that the individual does not see real structure in the social world (Burrell and Morgan, 1979) – a concept such as trust is in the participant's mind and it is a means to make sense of social reality while trust is unobservable by sight by the researcher. The epistemology stance for the grounds of knowledge is subjectivism which aims to seek understanding on the underlying mechanism which cannot be observed (Burrell and Morgan, 1979). Voluntarism is presumed for human nature and individuals are to originate their behaviour independent of social systems and client behaviour can be different and not identical. Some research questions I ask are: How do private banking clients form trust? What are the underlying decision process and the decision factors? Are there different types of trusting behaviour? The methodological approach is ideographic in nature which focuses on individual cases rather than on generalization (Johnson, 2000) and such ideographic approach should be inquired by subjective accounts by which the researcher gets inside and interprets from the point of view of the participants.

The research methodology I use is 1:1 in depth qualitative interviews with fifteen HNWIs who are clients of private banks in Hong Kong. The primary concern is to "understand the subjective experience of individuals" (Burrell and Morgan, 1979, P.253). The focus of qualitative research is on the perceptions and experiences of the participants (Creswell, 2014) and trying to make sense of their lives (Fraenkel & Wallen, 1990 as cited by Creswell, 2014) and understand the process which creates reality. Hence, knowledge is sought and theory is constructed from the standpoint of the participants of private banking clients. Words spoken by participants recorded in interview scripts are products of the participant's subjective experience. I interpreted the interview text producing thick description. For data analysis techniques on interview script, I followed that of Spiggle's (1994) on analysing qualitative data for consumer research such as techniques of constant comparison, categorization, abstraction, dimensionalization, iteration and integration. I acknowledge that there is an element of researcher intervention along the sense of Gidden's (1984) double hermeneutic (as cited by Johnson, 2000) that interpretation of social life depends on both the knowledge of how individuals make sense of their experience and the knowledge as researcher that I bring to what I observe - such as my knowledge about private banking industry, products and services. Please see Table 1.1 for a summary of area of concern, framework and methodology.

1.4.2 Functionalist paradigm study

The functional paradigm paper "The effects of demographic factors on trust in investment behaviour" investigates trust in the HNWI and wealth manager relationship by assuming the viewpoint of the wealth manager. This paradigm assumes orderly social relations with "sociology of regulation" and objectivism regarding the nature of social science.

In terms of social relations, a regime of maintaining the status quo prevails, the HNWI are presented with a selection of wealth management services with varying degrees of investment delegation to the wealth manager and the client is presumed to be satisfied in choosing the best service to his liking. In the regime of sociology of regulation, it is presumed that it feasible to identify and satisfy the individual's needs within the context of the existing social arrangement (Burrell and Morgan, 1979). The HNWI and wealth manager relationship is cohesive and is maintained by some degrees of trust. In terms of assumptions regarding social science, the ontological view of the social world is external to the HNWI as the participants can only choose from the services provided by the wealth manager while the wealth manager assumes realism in believing the preferences for investment delegation observed is indeed trust. The epistemological stance taken is positivism which holds the belief that it is possible to observe social life, establish knowledge about how it works (Burrell and Morgan, 1979); and the research believes that by observing HNWI's decisions on investment delegation, it is possible to find patterns between demographic characteristics and trust as suggested in the literature and I set up hypotheses to test them. In the tradition of positivism, the research neglects attention to the underlying mechanism of trust which cannot be observed. A stance of reductionism leads to an assumption of biological determinism that demographic factors determine human behaviour. The methodology for the Functionalist paradigm is nomothetic in nature which focuses on a general mechanism that explains social pattern (Johnson, 2000).

The methodology used is quantitative analysis with a survey questionnaire with sample size of over 300 HNWI in China. Trust, as conceived by the private bank, is operationalised as the degree of advice offered in the investment services. HNWI participants are asked for their preference ordering of investment services ranging in different degrees of advice offered such as Self Direct, Transaction Advisory, Portfolio Advisory, Discretionary. Demographic factors of participants are noted. Hypotheses are developed from literature in investment management, in marketing concerning market segmentation, in psychology concerning personality and in neural science concerning cognitive capability. Chi-square tests were used for hypothesis testing. Choice model using logit was estimated together with inclusion of a factor interaction variable. Burrell and Morgan explain that the aim of the Functionalist paradigm is to make predictions which are "predictive knowledge of external reality" and in this case, it is the prediction of investment service choices based on demographic factors. Please see Table 1.1 for a summary of area of concern, framework and methodology.

1.4.3. Radical Structuralist paradigm study

The Radical Structuralist paradigm paper "The Changes in Private Banking Industry Following Lehman Brothers Bankruptcy" studies the radical changes in the industry in Hong Kong after the fall of Lehman Brothers which brought on the Global Financial Crisis (GFC) resulting in a drastic loss of trust in financial institutions. In addition, codes of conduct and regulations for private banking in Hong Kong were radically changed as GFC exposed their inadequacies. The context in which clients build trust with private banks was shaken. The Radical Structuralist paradigm presupposes the sociology of radical change concerning the nature of society and objectivism regarding social science.

Burrell and Morgan (1979) articulate opposite sets of assumptions regarding the nature of society for the Radical Structuralist paradigm as compared to the Functionalist and Interpretive paradigms. Radical Structuralist paradigm views the structure of social relations differently with (i) equilibrium state being radical change rather than status quo as private banking codes and regulations were radically changed after the crisis and (ii) the fundamental relationship is that of structural conflict rather than social order as there is conflict between the economic motive of the private bank versus benefit for clients. The relationship of individuals with society is that of free will being dominated, attitude contradicted and relationship imprisoned (Burrell and Morgan, 1979) as some clients found that they were appropriated by banks which sold unsuitable investments for economic gain.

The assumptions regarding the nature of social science are the same as the Functionalist paradigm. The ontological view of the world exists externally and independent of how it is perceived by different parties and does not need to be interpreted; the language of the regulator is understood by all industry stakeholders such as private banks, private bankers, clients and prospective clients in the form of code of conducts, regulations and ordinances.

The epistemological stance presumed is positivism which believes it is feasible to observe to observe social life, establish knowledge about how it works - metrics such as market share, revenue, efficiency ratio and profit are observable and it is possible to comprehend firm behaviour from profit maximising motives. The methodology used for Radical Structuralist paradigm is nomothetic in nature which seeks a generalisation of a mechanism that describes social pattern (Johnson, 2000).

Some research questions raised in the paper include: What are the tensions faced in the private bank - client relationship? What are the changes faced by the consumers pre and post GFC? What are the changes in the status quo in regulations and codes post GFC? What are the changes in industry structure comparing pre and post GFC? Any there changes in structures governing the industry and the power relations? Where are the predictions for the industry? What maybe the next radical change in society in the making?

The research design selected was multi method and it is a longitudinal analysis of qualitative and quantitative data. Record comparison of qualitative data such as law, codes and regulation before and after Lehman Brother bankruptcy were analysed to uncover issues of informational asymmetry leading to moral hazard and remedy of additional disclosures on fees and risks. Industry concentration metric Herfindahl-Hirschman index (HHI) was computed from quantitative data of private bank market shares before and after Lehman Brothers bankruptcy. HHI indicates relative power of the firm versus the consumer and guideline from the Department of Justice was used.

Some of the theories Burrell and Morgan classified in the Radical Structuralist paradigm are used for analysis such as Marxism and Conflict Theory. Marxism criticises capitalism as an appropriation of one social class on another based on capitalistic structures such as capitalist exploit labour by controlling the means of production (Johnson, 2000). In the context of the paper, the appropriation is in an economic exchange relationship between the private bank and client due to a structure of asymmetric information in knowledge, risk and pricing as private banks sold clients complex derivatives which looked attractive before GFC. Conflict Theory is about class conflict and it is based on the thinking of Dahrendorf that social class results from positions in authority and there are conflicts from contest for control for these positions (Scott, 2009). Johnson (2000) argues that inequality of authority is unavoidable but is can be mitigated by political rights. In the context of this paper, the demonstration of Lehman Brothers Minibond investors in Hong Kong in the absence of class action law suit is an illustration of political movement. Please see Table 1.1 for a summary of area of concern, framework and methodology.

1.4.4 Radical Humanist paradigm investigation

The Radical Humanist paradigm assumes the sociology of radical change regarding society, similar to Radical Structuralist paradigm, but takes a stance of subjectivism concerning the nature of social science. While I do not have a paper written for the Radical Humanist paradigm due to the limitation of time, it is worthwhile to comment what a good topic would be for investigation. One suggestion for topic of research could be disruptive technology in wealth management such as Robo-advisor which is an automated investment advice delivered online by utilizing mathematical algorithm to support investors for decision making (Deloitte, 2016). The innovative features of Robo-advisor are its speedy client advisory capability and low starting capital requirement for clients.

Conflict is presumed regarding the nature of social relations in society which gives impetus for radical change. Burrell and Morgan describe that the conflict stems from the structure of current social arrangements and individual's choices are restrained in Weber's notion of an iron cage, similar to HNWI's wealth management choices are constrained to the traditional human client advisor model with is slow and requires commitment of large starting capital. Because of the iron cage, the relationship of the individuals with the society is that of emancipation about setting from existing restrictions and individuals focus not only on fulfilling current needs but on reaching their potential - in the context of wealth management, HNWIs are keen to break from the traditional private banker advice model to try an innovative service model; new wealth management start-up firms spring into action with Robo-advisor offerings; some bankers even free themselves from the restrain of large corporate setting to found or join Robo-advisor start ups.

Radical Humanist paradigm assumes subjectivism, similar to the Interpretive paradigm, in its assumptions concerning the nature of social science. Burrell and Morgan explain that an ontological orientation of nominalism is presumed and the individuals do not see the structure of the social world external to the individuals. The paradigm predicates voluntarism regarding human nature and individuals are free to express their behaviour independent of societal constraints. The methodological approach should be ideographic in nature which inquires on individual cases rather than generalization (Johnson, 2000). Hence, I see a suitable research methodology would be interpretive qualitative case studies. This paradigm also provides a framework to study issues on trust which is not obvious at first glance. First, the beliefs in the Radical Humanist paradigm can mobilize an individual with business acumen to trust himself to set free and become an entrepreneur to found a Robo-advisor start up. It gives a framework to study trust in oneself and entrepreneurship. Second, if the underlying algorithm which powers the Robo-advisor is value free, without the temptation of greed or moral hazard, could Robo-advisor be more trusted than human advisor? Third, what signals should Robo-advisor send out to demonstrate that its algorithm is value free?

Some possible research questions for the paper on Robo-advisor may include: What motivates the founders of Robo-advisory firms to innovate and disrupt the traditional wealth management model? What flaws do the founders see in the traditional model? How do the founders show their new business model is better? How do they go about convincing others?

Burrell and Morgan (1979) discuss dominant theories which they classify in Radical Humanist paradigm such as critical theory, individualism and the early thinking of Marx. The aim of critical theory is to investigate deeply beyond the superficial appearance of social life to uncover its assumptions and underlying drivers (Johnson, 2000). It is critical because often the surface reality can contradict with the underlying reality and critical thought must be followed by critical actions to effect radical changes such as innovation by disruptive technology. Individualism favours the idea of individual interests over the societal interest as it is viewed as a form of social control (Johnson, 2000). Udehn's (2001) citation of Descartes "the supreme perfection of man is that he acts freely or voluntarily" expresses individualism elegantly. Burrell and Morgan further note the humanist thinking of the young Marx that economics does not determine social life while Johnson (2000) raises that humanistic concerns such as personality and culture are more important. It is possible that the personality of the founder is an important factor in Robo-advisor entrepreneurship and the economic motive of profit may not be the dominant motivation.

1.5 The structure of the thesis

The chapters which follow will be in the same sequence of discussion as above. The sociology of regulation with orderly social relations is assumed first and the Functionalist paradigm paper "The Effect of Demographic Factors on Investment Style Preferences" is presented in Chapter 2, followed by the Interpretive paradigm paper "Consumer Behaviour and Trust in Private Banking Relationships" in Chapter 3. Then, the opposite assumption of the sociology of radical change is assumed regarding the nature of society in the Radical Structural Paper in Chapter 4.

Lastly in the conclusion Chapter 5, I will reflect on the findings of the three papers with respect to trust, a common theme among the papers. I will put forth the essence of the multiple paradigms study with an integrative perspective. Managerial implications for the industry are discussed, followed by a section on limitations and future research. Lastly, the thesis ends with a discussion on implications for the private banker practitioner.

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Chapter 2: Consumer Behaviour and Trust in Private Banking Relationships

Abstract

The area of concern for research of this paper is on the relationship of clients with private banks, interpreted from the client's perspective. The paper adopts the Interpretive paradigm in Burrell and Morgan's (1979) framework for analysis and takes a subjective view regarding the nature of social science inquiry and an implicit assumption of orderly social relations. The research objective is to understand how private banking clients develop trust and to articulate the understanding in a framework. Qualitative research techniques of Belk (2013), Bengstsson (2016), Creswell (2014), Spiggle (1994) and Yin (2016) were referenced and applied. Semi-structured interviews with 15 high net worth individuals who are clients of private banks in Hong Kong were conducted. The research develops a new construct of behavioural trust and integrates it in its proposed framework of trust in private banking behaviour. In addition, the research uncovers a typology of private banking behaviour based on trust as well as revealing trust in interpersonal and organisational levels. The research contributes to new knowledge with development of the behavioural trust construct and its proposed framework of trust in private banking behaviour. The research findings of typology of private banking behaviour yield practical marketing insights for private bank to win the trust of clients to improve business practice.

2.1 Introduction

Private banking is a high end wealth management business which focuses on clients who are high net worth individuals (HNWI) with a minimum of 1 million USD of liquid assets to be managed. Wealth management is now a key business in modern day banking which encompasses retail banking, commercial and corporate banking, investment banking and wealth management. It is a high growth business driven by favourable structural factors such as the growth of wealth creation, increased use of securitization in investment banking and hereby enabling wide distribution to investors, and the rapid rise in computing capability which makes possible to serve a large number of wealth management clients.

The McKinsey Global Wealth Management Survey 2014 stated that wealth management is among the most attractive business segments within the financial services industry due to higher than GDP revenue growth, profitability with low capital requirement and ample liquidity. Since the financial crisis in 2008, the innate characteristics of being a capital light business and high liquidity have become increasingly attractive as regulations such as Basel III imposes more stringent capital and liquidity requirements for banks. Where the relevant local regulatory framework permits, wealth management can even provide a source of surplus liquidity for other banking business such as corporate banking. In addition, private banking also brings synergy to the whole bank - private banking clients such as entrepreneurs would present cross selling opportunities for commercial and corporate banking as they are the key decision makers in the companies.

Despite the attractiveness of the private banking business and its potential business synergy, academic research in this domain is relatively rare. A few recent studies examined the behaviour of retail investors in the *Journal of Business Research* such as e a recent paper on behaviour of retail investors of cooperative bank in Italy (Monti et al., 2014), customers of a financial advisory firm in the UK (Johnson and Grayson, 2005) and consumption patterns for retail financial products of Hispanic Americans (Plath and Stevenson, 2005), but there is not yet research devoted to study private banking clients.

The key question faced by private bankers in wealth management is to develop long term and committed relationship with their clients. The nature of client relationship is very different between private banking and retail banking. Retail clients may not have a lot of surplus funds for investment and usually they are not matched with a dedicated relationship manager. In contrast, wealth management in private banking involves a much larger sum of money and a longer consideration process; the investment products are more complex and their performance are uncertain until completion; and there is a marked difference in terms of repeated interaction between the dedicated private banker and the customer. Hence, findings for retail clients cannot be readily applied to private banking clients.

In this paper, I aim to investigate a fundamental issue underlying the client - private banker relationship which is how private banking clients develop trust. The research context is the important growth market in Asia and the major international private banking centre of Hong Kong. Asia surpasses North America in wealth creation and Hong Kong is only second to New York in terms of number of USD billionaires (Amy Lo, Chairman, Executive Committee of PWMA, 2017). Our research methodology is qualitative research using semi-structured interviews with customers of private banks in Hong Kong. For qualitative data analysis, I have followed Spiggle (1994)'s framework and Bengtsson (2016)'s qualitative content analysis. The main research findings include 1) development of the construct of behavioural trust, 2) proposal of a framework of consumer behaviour and trust in private banking relationships, and 3) discovery of a typology of private banking consumer behaviour. This paper is organised into the following sections. In section 2, the extant literature on financial services and trust is reviewed with gaps pointed out and leading to key research objectives. Section 3 describes the research method and methodology for data analysis. Section 4 summarizes findings and interpretation. Section 5 is discussion of our contributions and the managerial implications in practice.

2.2 Literature Review on Trust

2.2.1 Trust in the context of wealth management

A key characteristic of wealth management services is that the performance of financial product and services is uncertain before completion while the consumers have to make choices before the resolution of uncertainties. This characteristic is more acute in private banking than in retail banking as the scope is far more complex than basic products such as fixed term deposit and loans. In our interviewees, interviewee #1 said that "we can't predict the result (with wealth management decisions in private banking)". Interviewee #2 also acknowledged that in her conversation saying "we don't mind that an investment advice is sometimes wrong or loss making because the investment outcome is unpredictable". The interviewees acknowledged and described that decision making in wealth management takes place in a context of uncertainties.

The private banker, as a financial advisor, is marketing a service whose quality is difficult for the consumer to assess ex ante and while for consumers, information for making sound investment decisions are "incomplete, complex and costly to acquire" (Monti et al., 2014). In my interviews, I found that private banking clients would look for help in their interaction with private banker -- interviewee #1 said that "it is important that the private banker can tell us all the benefits and risks of an investment, and point out what to watch out for in an investment decision". Monti et al. (2014) depicts this interaction between the financial advisor and the client by game theory and show the interaction revolves around trust - the client is to decide whether he should place his trust on the advisor. The authors' stylised game shows that a relationship with asymmetric information could result in an equilibrium outcome of no trust with the client not acting on the private banker's advice and foregoing worthwhile investment opportunities which could have improved investment performance. How can this disastrous client relationship outcome be averted?

2.2.2 Definition of trust in the literature

There are two frequently cited definitions of trust, both published in the *Academy of Management Review*. Mayer, Davis and Schoorman (1985, P.712) define trust as "willingness to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor" in a dyadic relationship between a trusting party (trustor) and a party to be trusted (trustee). The authors highlight that trust is not the risk taking action but the willingness to take risk; and the need for trust only arises due to uncertainties in risky situations. Rousseau et al. (1998, P.395) define trust as "the psychological state with the intention to accept vulnerability based on positive expectation of intention or behaviour of other party". The authors added the concepts of expectation of good intention and behaviour and focus on conduct and articulate that trust is a result of strategic interaction of trustor based on positive expectation of good nature of the trustee. Rousseau et al. further describe three different forms of trust ranging from deterrence-based trust to calculus-based trust, which is based on rational choice in economic exchange relationships, to relationship trust, which derives from repeated interaction overt time between trustor and trustee. Rousseau et al.'s (1998) definition provides a good starting point consideration for trust in the context of wealth management as "the willingness to accept vulnerability based on the positive expectation of intention, behaviour and performance of the wealth manager". I refer the term of wealth manager as the wealth management service provider with the advisor and the firm combined as one in totality.

2.2.3 Themes and concepts of trust identified in literature review

Literature in disciplines of economics, finance, marketing, management, psychology and sociology were reviewed and concepts and themes relevant to wealth management identified. Theme is a higher category which relates to a group of similar concepts. The themes identified are 1) the nature of trust; 2) frameworks of trust; 3) models of trust. Please see Table 2.1 for theme and concepts identified in literature on trust which are relevant to wealth management.

Table 2.1 Themes and concepts identified in literature review on trust

	Theme	Concept	Key literature
1	Nature of trust	Credence goods	Dulleck & Kerschbamer (2006)
		Levels and dimensions of trust	Ganesan & Hess (1997)
		Measure of trust	Gillespie (2012), McEvily (2012)
2	Conceptual F4949)rameworks of trust	Trust framework	Crosby, Evans & Cowles (1990), Mayer, Davis Schoorman (1995), Moorman, Desphande & Zaltman (1993)
		Trust in professional	Lewicki & Brinsfield (2012)
		Dimensions of trust Interaction of trust dimensions	Lewis & Weigert (1985) Lewis & Weigert (2012)
3	Models of trust	Modelling dimensions of trust	Johnson & Grayson (2005)
		Trustworthiness Trustworthiness & monitoring	Levine et al. (2018), Monti et al. (2014) Calcagno and Giofre (2017)
		Repeated interaction	Andreoni (1993), Breitmoser (2015)
		Fairness	Rabin (1993)
		Norm	Bicchieri (2006)

I will go over these three themes identified in the following sections.

2.2.4 The nature of trust

There are four elements regarding the nature of trust in the literature which are of relevance to private banking. These elements are about credence goods, the levels of trust, the dimensions of trust, and the measure of trust.

Informational problems exist in private banking as its products and services are credence goods. For credence goods, the expert seller knows more about the quality of the goods the consumer needs than the consumer himself (Dulleck and Kerschbamer, 2006). The authors demonstrate the informational asymmetry problem of credence goods in their game theoretical model and show the informational problem could be solved if there are consequences for the expert seller to be incompetent (e.g. under-treatment) and if there are means of verification for the consumer to check against the expert seller to be opportunistic (e.g overcharging). In the private banking in Hong Kong, regulators such as the Securities and Futures Commission (SFC) and Hong Kong Monetary Authority (HKMA) stipulates codes of conduct with consequences for breach of competence for the license holder private banker while the means of verification to check opportunistic behaviour of private banker are left largely to the client. In this study, I will investigate these means of verification against opportunistic behaviour.

The nature of trust can be examined at different levels – the level of the individual or the level of the organisation. Which level of trust is more prominent in private banking? Is it the level of interpersonal trust between the client and the private banker or the level of trust between the client and the bank? Most empirical studies in financial services (Calcagno, Giofre & Urzi-Brancati, 2017; Johnson & Grayson, 2005; Monti et al., 2014) look at interpersonal trust and neglect organisational effect by focusing on one organisation because of availability of data through the single organisational sponsor. In the marketing literature, Ganesan and Hess (1997) study both interpersonal and organisational levels of trust in buyer-seller relationships and found that interpersonal credibility of a sales representative is more effective than organisational credibility in winning trust of buyers while organisational benevolence is more effective than interpersonal benevolence. For this study, I reach out to fifteen HNWI using a number of different private banks and my data includes organisational effects which can add to the literature on trust in financial service.

The nature of trust can also be conceived in terms of dimensions - the different and independent elements of trust which transcend the interpersonal and organisational levels. Ganesan and Hess (1997) analyse trust through dimensions of creditability and benevolence in addition to interpersonal and organisational levels. Lewis and Weigert (1985) argue that trust has cognitive, affective and behavioural dimensions. Johnson and Grayson (2005) model trust in financial service with cognitive and affective dimensions in a survey study carried out on clients of a large UK financial advisory service firm.

Lastly, there are numerous studies on the measure of trust. However, Gillespie (2012) surveyed the literature and found most extant research is not on the measure of trust but on trustworthiness. According to Mayer, Davis and Schoorman's (1985) and Rosseau et al. (1998)'s definition, trust is about the *willingness* to accept vulnerability. McEvily, Radzevick and Weber (2012) measured distrust as willingness to pay to avoid being vulnerable. By experiment, the authors found trust depends on context of trustor-trustee interactions rather than personality traits.

2.2.5 Conceptual framework of trust in literature

A conceptual framework covers the focus of the research study and is interpreted within the context of larger domain which is theoretical, practical or social (Yin, 2016). A conceptual framework of trust describes the researcher's understanding, leading to development of a theoretical concept on trust. A conceptual framework can be the result of an extensive literature review such as Lewis and Weigert (1985, 2012) or by qualitative research which facilitates the researcher to work on less structured data, allows participants to express more freely their views, enables the research to describe the underlying process and articulates new concepts, such as Lyon (2005). On the other hand, a model is developed from quantitative research which explains the research phenomenon by relating the strength of relationships between its factors. A conceptual framework of trust usually focuses on the larger picture, for instance describing the process of how trust develops such as Mayer, Davis and Schoorman (1995) while a model may choose to concentrate on a specific area with the larger framework such as appraisal of trustworthiness like Levine et al. (2018). More on models will be discussed in the next section.

Lewis and Weigert (1985) reviewed the extant literature on trust and propose a broad conception of trust in the sociology viewpoint with collective attributes which is relevant to relations among all people. The authors describe trust having a multi-faceted character with cognitive, affective and behavioural dimensions which are "merged into a unitary social experience" (P.969). *Cognitive trust* involves the mental process including perception, thinking, memory and it makes logical judgement as to who are trustworthy. *Affective trust* is built on emotional basis like friendship and is prominent in interpersonal trust. The affective dimension is more pronounced in situations of distrust and betrayal. *Behavioural trust* lies on social expectation – the expectation that people will act competently and dutifully and with such expectation, people will reciprocate by trusting. The authors remark that while sociologists' conceptions on trust aim for general attributes, psychologists' focus on individual differences which come from personality traits or prior social contact. Lastly, the authors cite Parsons (1970) in a discussion of trust between professional and client which is relevant to private banking. Client's trust on professional arises because of "competence gap" as the client cannot validate the competence or integrity of the professional. Parsons (1970, as cited by Lewis and Weigert, 1985) further argues that four conditions are essential to generate trust: (1) both client and professional believe that action is aimed at common values – for instance "financial well being" such as meeting retirement needs in the context of private banking; (2) the common values be translatable into common goals – for instance meeting returns, income distribution targets and staying within a volatility limit for the investment portfolio; (3) each participant's expectations must fit in each joint involvement as either party is more than merely a professional (private banker) or the client; (4) a reasonable judgement of trust should be made in the light of relevant empirical information, for example trust will be forfeited in the case of bad reputation of a professional. Furthermore, these four conditions together with an adequate representation of competence and integrity of the professional will lead to trust by the client. In a recent publication, Lewis and Weigert (2012) explain that the three dimensions of trust are not static and there is a reciprocal reflexive relationship among the three mode of human experience of cognition, emotion and behaviour. Lewis and Weigert (2012) point out Johnson and Grayson's (2005) interpretation of the reflexive relationship between cognitive trust and affective trust.

In the area of marketing, Dick and Basu (1994) develop a conceptual framework of trust based on an extensive literature review to understand the phenomenon of customer loyalty in terms of its cognitive, affective and conative antecedents and its consequences. The authors' definition of cognition and affection are similar to Lewis and Weigert (1985) while conation is defined as behavioural disposition and refers to reaction to stimuli and it is purposeful and instinctive. Dick and Basu (1994) articulate that cognitive antecedents are accessibility, confidence, centrality and clarity; affective antecedents are emotion, mood, primary affection and satisfaction; conative antecedents are switching cost, sunk cost and expectation.

There are conceptual frameworks of trust which describes the process of building trust. Moorman, Deshpande and Zaltman (1993) propose a theoretical framework of trust in market research relationships consisting of three stages of (1) antecedents; (2) relationship process of trust; (3) relationship outcomes in terms of user experience. The authors consider both individual level interpersonal and organisational level of trust and the associated antecedents. The authors then develop measurement scales following construct definitions with empirical studies by questionnaires. Then, a model of trust is developed by testing hypotheses and factor effects were estimated by regression.

In a highly cited publication in the *Academy of Management Review*, Mayer, Davis and Schoorman (1995) propose a four stage conceptual framework of trust after undertaking an extensive multi-disciplinary literature review. The authors' framework depicts trust in a general dyadic relationship involving a trustor and a trustee with four stages of (1) factors of trustworthiness (antecedents); (2) risk taking actions; (3) outcomes; (4) feedback which links outcome to trustworthiness. The additional stages as compared with Moorman, Desphande and Zaltman's (1993) include in risk taking actions and feedback. The stage of feedback is of particular relevance in private banking due to the nature of repeated interaction of annual portfolio review and ongoing investment advisory activities. Mayer, Davis and Schoorman's (1995) factors of trustworthiness include ability, benevolence (trustee's desire to do good to the trustor aside from an egocentric profit motive) and integrity (trustee adhering to principles that trustor finds acceptable). In a later publication, Schoorman, Mayer and Davis (2007), the authors reflected on their earlier work and acknowledged that it is a general framework which neglects specific contextual variables such as a relationship involving power difference and asymmetric information and use the case of supervisor and subordinate relationship as an example. I see private banking relationship as another example. In addition, the authors further note that one of the recent trends of the research on trust is the focus on context specific relationships.

Examples of context specific relationships are those of professional relationships such as that of doctor and patient and that of private banker and client. Lewicki & Brinsfield (2012) comment that development of trust in professional relationship is gradual: it starts with a basic level of calculus-based trust (CBT) and progresses to a more complex knowledge-based trust (KBT) and ultimately identification-based trust (IBT). Lewicki, Tomlinson and Gillespie (2006) define that CBT is trust involved the arm's-length nature of transactions focusing on economic exchange. It involves cognitive calculation of benefits of sustainable a relationship in comparison to the costs of severing it. An example in private banking would be a relationship based on a private bank's platform in terms of breadth of product offering at lower price. The authors explain KBT as trust based on knowledge in knowing each other well so that behaviour becomes predictable. It is about understanding what the other wants and anticipating their needs. Repeated interaction can help to develop KBT. An example of KBT in the context of private banking would be the understanding of the investor's risk attitude so that appropriate asset allocation decision can be made such as allocating more equities to a risk seeking client and less to a risk adverse one. Lewicki, Tomlinson and Gillespie (2006) define IBT is trust based on identification with each other - it goes beyond the knowledge of what the other needs and includes understanding of his values, desires, intentions and aspirations. It is about mutual understanding, sharing and appreciation of each other. The authors explain that IBT generates emotional bonds and an orientation towards objective of joint outcome. IBT leads to leap of faith, conviction that the partner can be relied on in a caring manner, and commitment to sacrifice for the other based on common interest. The authors further elaborate that IBT is about "forming a common identities while maintaining one's own distinctive identity in the relationship" (Lewicki, Tomlinson & Gillespie, 2006, P.1012) and a small fraction of relationships can develop IBT. In the context of private banking, I see IBT coming from understanding what clients wish to accomplish with their wealth – whether it is about raising and supporting family members, living a comfortable life style in retirement or building a legacy to fund philanthropy. In practice, these different intentions will impact on financial planning, investment horizon and result in different investment decisions.

Rousseau et al. (1998, cited in Lewicki, Tomlinson and Gillespie, 2006) propose a framework of trust which highlights its context specific nature with three constructs: calculus-based trust (CBT), relational trust (RT) and institution-based trust. In particular, RT derives from repeated interaction and generates emotional attachment of care and concern.

2.2.6 Models of trust in the literature

Models of trust give more details and specify strength of relationship among its factors. They tend to focus on parts of the conceptual frameworks rather than the larger picture. In addition, I see some further differences between models and conceptual frameworks. A conceptual framework provides the context and a perspective and its description of process is usually qualitative. It is derived from literature review or from qualitative empirical research. On the hand other, a model is developed from empirical testing of a conceptual framework or by empirical investigation of quantitative research. It is usually tested by empirical data while a conceptual framework may not as it can be a result of an extensive literature review. Some of models of trust relevant to private banking are discussed below.

Johnson and Grayson (2005) model trust in financial service between financial advisors and clients with survey data from customers of a large UK financial advisory service firm.

The authors build a model of customer trust by referencing Lewis and Weigert's (1985) conceptual framework on dimensions of trust and find their antecedents and consequences on outcome variable such as anticipation of future interactions. Johnson and Grayson (2005) follow Lewis and Weigert's (1985) definitions of cognitive trust and affective trust while they neglect to model behavioural trust. The authors developed new measurement scales for cognitive and affective trust and used quantitative method of confirmatory factor analysis (CFA). They find cognitive and affective dimensions of trust can be distinguished and have common and unique antecedents. Statistically significant antecedents for cognitive trust include expertise, product performance, firm reputation, and satisfaction with previous interaction while those for affective trust are firm reputation, similarity and cognitive trust. While cognitive trust and affective trust contributes significantly to anticipation of future interaction, the effect size of cognitive trust is greater.

There are some recent models of trust focused on the area of investigation of trustworthiness such as Calcagno, Giofre & Urzi-Brancati (2017), Levin et al. (2018) and Monti et al. (2014). In a survey study of clients with one of the largest Italian banks, retail investors with low level of trust in financial advisors use different actions to exert control over the recommendations they receive. For investors with low financial literacy, they are more likely to seek a second professional opinion to seek support of the recommendation previously received. For investors with high financial literacy, they are more likely to monitor the performance of the investment recommendations directly. The authors illustrate the problem of financial service as a credence service and recommend a policy of improving disclosure of product characteristics which is beneficial for knowledgeable investors as well as facilitating access to experts outside of investor's banks to provide standardized training information about financial products.

By the use of experimental games and survey measures, Levine et al. (2018) investigate what makes people more trustworthy and find the personality trait of guilt-proneness best predicts trustworthiness with the sense of interpersonal responsibility as the underlying mechanism. The authors demonstrate that people high in guilt-proneness behave in interpersonally sensitive manners when they are responsible for others' outcomes.

In a study conducted with financial advisors and clients of an Italian cooperative bank using interviews and survey, Monti et al. (2014) find non-expert retail investors make investment decisions based on their perception of the advisor such as the advisor's communication style as “honest signals” rather than on the risk and return characteristics of investments. Thus, it highlights the asymmetries in information and power in the investor-advisor relationship and potential vulnerability to opportunism. The majority of participants also choose to delegate investment decisions explaining that they trust the financial advisor and consider delegation as the default. The authors attribute this surprising and unusual result due to the trust in the institution of cooperative bank as clients share a small ownership stake.

A key characteristic of a private banking relationship is its nature of *repeated interaction*. It is not a one off economic exchange transaction as the private banker presents investment recommendations continuously subject to client needs and financial market conditions in addition to formal portfolio review conducted annually or quarterly. The factor of repeated interaction is tested empirically in game theory of economics by experiments. Andreoni and Miller (1993) find in experiments that in a non-cooperative game of prisoner’s dilemma, (see Figure 2.1) people are more cooperative in repeated games and an equilibrium of (cooperate, cooperate) with payoff (7, 7) is attainable rather than the equilibrium of (defect, defect) with payoff of (4, 4) in the usual single period prisoner’s dilemma.

Figure 2.1 Prisoner’s Dilemma

		Player 1	
		C (cooperate)	**D**(Defect)
Player2	**C**	7, 7	0, 12
	D	12, 0	4, 4

The reason is because there is incentive for an individual to be opportunistic in a one period game while opportunistic behaviour will lead to distrust and forgoes pay off in (cooperation, cooperation) equilibrium strategy in repeated games. Breitmoser (2015) explains that whether an individual will behave opportunistically or co-operatively depends on the extent that the individual values future cooperation and he models that by discount factor in calculating future payoffs.

Game theory models strategic interaction of players with each player formulating his strategy by taking into consideration of how the other will formulate his strategy. In game theory, a player will need to form a belief, rational expectation, of how the other will behave. In a theoretical game model, Rabin (1993) shows the existence of fairness equilibria: equilibrium outcomes of mutual-max when each person maximizes the other's payoffs and mutual-min when each person minimizes the other's payoffs when a kindness function is incorporated in the calculation of payoffs. These equilibria are the result of expectation of fairness and that people would like to help those who help them but to punish those who harm them.

In another game theoretical model, Bicchieri (2006) argues that a norm of generosity can shape the individual's expectation towards one another and realise an equilibrium of (cooperate, cooperate) in prisoner's dilemma. Johnson (2000) defines norm as the cultural rule which associates people's behaviour with social consequences and in doing so regulates behaviour. Please see Table 2.2 for summary of key findings in literature review on trust.

Table 2.2 Summary of key findings in literature review on trust

	Year	Author	Method	Construct	Key findings
1	2006	Dulleck & Kerschbamer	Theoretical: game theory	Credence goods nature of trust	Informational problems in markets for credence goods. Problems can be solved if there is liability for seller, verification of treatment and other assumptions.
1	1997	Ganesan & Hess	Empirical: survey	Levels of trust	Interpersonal creditability & organisational benevolence are more predictive on trust.
1	2012	Gillespie	Literature survey	Measure of trust	Most extant research is on measuring trustworthiness and not on trust
1	2012	McEvily	Empirical: experiments	Measure of trust	Measure distrust as willingness to pay to avoid being vulnerable. Found mistrust depends on context trustor-trustee interactions rather than (personality) trait.
2	1993	Moorman	Empirical: survey	Trust framework	3 stage trust framework: antecedents, trust process, relationship outcome.
2	1995	Mayer, Davis Schoorman	Theoretical	Trust framework	4 stage trust framework: trustworthiness risk taking action, outcome & feedback.
2	2012	Lewicki & Brinsfield	Theoretical	Trust in professionals	Trust in professionals involve: transaction based trust needing cognitive assessment, and identification based trust requiring identification of desires and intentions.
2	1985	Lewis & Weigert	Theoretical	Dimensions of trust	Trust has cognitive, affective and behavioural dimensions.
2	2012	Lewis & Weigert	Theoretical	Interaction of trust dimensions	Trust has cognitive, affective and behavioural dimensions. There are reflexive interactions between dimensions.
3	2005	Johnson & Grayson	Empirical: survey	Dimensions of trust	Interpersonal trust between financial advisors and clients has cognitive & affective dimensions with antecedents.
3	2014	Monti et al.	Empirical: survey, interviews	Trustworthy	Non expert retail investors use heuristics based on advisor's communication to judge trustworthiness.
3	2018	Levine et al.	Empirical: experiments	Trustworthy	Personality trait of guilt-proneness with mechanism of interpersonal responsibility predicts trustworthiness.
3	2017	Calcagno, Giofre & Urzi-Brancati	Empirical: survey	Trustworthy and monitoring	Investor with low trust in financial advisor use different strategies to monitor financial advisors depending on competence.
3	1993	Andreoni & Miller	Empirical: experiments	Repeated interaction	People are more cooperative in repeated prisoner's dilemma than one period game.
3	2015	Breitmoser	Empirical: experiments	Repeated interaction	Discount factor in repeated prisoner's dilemma determines equilibrium strategies.
3	1993	Rabin	Theoretical: game theory	Fairness	Individuals behave nicely to those who treat them nicely and likewise for meanly leading to fairness equilibria of (Cooperate, Cooperate) and (Defect, Defect) in prisoner's dilemma.
3	2006	Bicchieri	Theoretical: game theory	Norm	Norm of benevolence leads to (Cooperate, Cooperate) equilibrium in prisoner's dilemma

2.2.7 Towards a framework of trust in private banking

In this section, *knowledge gaps* in the literature are identified and the scope for the framework of trust in private banking to be investigated is laid out.

There is a *knowledge gap* in the literature which calls for more clarity on the behavioural dimension of trust. The behavioural dimension, together with cognitive and affective dimensions of trust, was proposed by Lewis and Weigert (1985) in a theoretical paper. Johnson and Grayson (2005) researched on the antecedents of cognitive and affective dimension of trust by a quantitative empirical model but neglected to model the behavioural dimension. At the same time, behavioural consideration is receiving attention in game theory with models incorporating behavioural elements of fairness (Rabin, 1993) and norm (Bicchieri, 2006) and their impact on cooperation. My framework of trust will incorporate the behavioural dimension and its antecedents will be investigated. The empirical findings on behavioural trust will add to the literature.

Another *knowledge gap* in the literature is the lack of a comprehensive framework on trust for private banking. My framework will fill this gap by integrating elements from other frameworks of trust such as antecedents (Mayer, Davis and Schoorman 1995, Moorman 1993; Johnson and Grayson 2005), trust process (Johnson and Grayson 2005; Lewis and Weigert 1985), risk taking action (Mayer, Davis and Schoorman, 1995), outcome (Crosby 1990; Johnson and Grayson 2005) and repeated interaction (Mayer, Davis and Schoorman, 1995) to form a four-stage framework.

2.3 Research Methodology

2.3.1 Putting the research in the context of Interpretive paradigm

The research focuses on the client and wealth manager relationship interpreted from the perspective of the clients in the Interpretive paradigm. The Interpretive paradigm takes the opposite assumption of subjectivism concerning the *nature of social science* as compared to objectivism for the Functionalist paradigm. Subjectivity respects the notion of "self-conscious awareness" (Johnson, 2000, P.317) and recognises the different point of view of individuals and hence the interview participants may have different point of views regarding trust. On the other hand, objectivity aims to find a "universal point of view" (Johnson, 2000, P.317) which transcends the various point of views of individuals.

Burrell and Morgan (1979) further differentiate the differences between the Interpretive paradigm with the Functionalist paradigm concerning the assumption on the nature of social science based on four levels: ontology, epistemology, human nature and methodology. Let me quote Burrell and Morgan's description of these four levels of assumptions in the context of my research below. The Interpretive paradigm presumes nominalism regarding ontology and that the individual does not perceive real structures in the social world and hence a concept such as trust cannot be observed directly by the researcher but it exists in the minds of the interview participants as the means to make sense of social reality – in particular how to navigate wealth management decision making in the face of uncertainties. The epistemological stance regarding the grounds of knowledge, on how an individual comes to understand the world and communicates the knowledge, is anti-positivistic and it sees the social world as "relativistic" which can be understood only from the perspective of the individuals directly engaged in the activities under study and in the context of my research, it calls for an understanding from the inside of the interviewees rather than I the researcher observing from the outside. The assumption of human nature is voluntarism and that individuals are free to originate their behaviour and hence it is feasible that the interviewees may exhibit different patterns of behaviour and different conceptions about trust. As a consequence of voluntarism in human nature, the methodological approach for the Interpretive paradigm is ideographic which focuses on the individual cases rather than coming up with generalization. Each interview script will be studied in details with qualitative data to be analysed following the procedure of Spiggle (1994).

In terms of assumption regarding the nature of social relations, the Interpretive paradigm presumes order in a regime of the sociology of regulation (Burrell & Morgan, 1979). In the context of this research, order prevails in the client and private bank relationship as the industry is highly regulated with licensing requirements, regulations and codes of conduct. Any breaches may receive punishment and a ban from industry is possible for severe breach. These formal rules maintain regulation and order in the client and bank relationship. Regarding the needs of the client, it is assumed that the needs are satisfied within the context of the existing scope of offering and the consideration of disruptive and innovative wealth management model such as artificial intelligence or robo-advisory service is not considered in the Interpretive paradigm research. However, Burrell and Morgan (1979) note that the sociology of regulation in the Interpretive paradigm is implicit rather than explicitly stated and there is no direct interest for a debate in social relation of order versus conflict. The purpose of the Interpretive paradigm investigation is to seek understanding of a subjectively created social reality as it is within the status quo of the existing client and private bank relationships.

The distinguishing feature between the Interpretive paradigm and the Functionalist paradigm is in the perception of social reality. In the Interpretive paradigm, the social world is seen as "emergent social process" (Burrell & Morgan, 1979, P.28) which is constructed by the individuals. Reality is socially created and interpreted with "intersubjectively shared meanings" (Burrell & Morgan, 1979, P.29). The authors place sociological theories such as hermeneutics and phenomenology in the Interpretive paradigm with hermeneutics closer to the boundary line of subjectivism and objectivism. Hermeneutics is a field of study on how to interpret meaning to a cultural product such as a piece of writing, for instance the interview script from a qualitative interview, and hermeneutics originated from the interpretation of the Bible as it was being revised, rewritten and translated (Johnson, 2000). Hermeneutics disputes the scientific method in the tradition of positivism as it argues that there is no one objective reality for all. The Interpretive analysis of this research paper is carried out within the domain of hermeneutics. In the hermeneutic perspective, meaning cannot be discerned just from the piece of writing itself and should be sought in conjunction with the context of the writing. Hermeneutics calls for subjective decision on interpretation (Johnson, 2000). The knowledge of how individuals make sense of their experiences requires the researcher to take an emic perspective (Yin, 2016) which assumes the perspective of the interview participants while the knowledge that the researcher brings to the research shed new lights in an etic perspective (Yin, 2016) with an external perspective reflected with the researcher's knowledge in the area. Adopting solely an emic perspective precludes knowledge such as findings of groups and patterns of behaviour of different participants which the individual participant does not have knowledge of. More will be said in the analysis section in which I take both an emic and etic perspective in analysing the interview scripts.

Research on financial services in the extant literature tends to favour quantitative research methodologies taking the perspective of a Functionalist paradigm. Johnson & Grayson

(2005) studied customer relationships in one financial advisory firm by means of a survey and analysis by structural equation modelling. Monti et al. (2014) looked at behaviour of retail investors and financial advisors by interviews and structured questionnaire and analysis by descriptive statistics. The quantitative method relies on a deductive approach in research and the researcher aims to test or verify a theory by means of testing hypotheses (Creswell, 2014). The use of statistics enables the researcher to test if the null hypothesis could be rejected or not. These two studies are based on large cross-sectional samples thanks to an organisational sponsor providing participants for survey research. The use of an organisational sponsor also excludes the effect of the organisational level of trust. Furthermore, quantitative approach lacks the capability to depict the processes in consumer decisions which is possible in qualitative research. The inductive logic of qualitative research enables the researcher to develop theories. Creswell (2014) describes the ways the researcher develops generalizations or theories by a series of steps: first by gathering of information – by means of open-ended questions; then the researcher analyses data to form categories or themes; from there the researcher seeks broad pattern, such as categories or themes; finally, the researcher puts forth generalizations or theories.

We choose qualitative methodology based on in-depth semi structured interviews with 15 high net worth individuals who are clients of private banks in Hong Kong. A major benefit of the qualitative approach is the richness and depth of the data obtained in the interactive interview which is not possible to attain in a survey study in quantitative research. Since our goal is to understand consumer behaviour and how consumers formulate their trust in private banking relationships, qualitative research design is the most suitable. The semi-structured qualitative interviews give us the setting to understand the meanings and experiences of the interviewees (Spiggle, 1994).

2.3.2 Interviewees selection

Theoretical sampling is used to maximize the difference of interviewee types which Spiggle (1994) described as a form of constant comparison in which comparison is made to select whom to interview. Glaser and Strauss (1967, P.45) explain that theoretical sampling is “data collection for generating theory” while the researcher “jointly collects, codes, and analyses his data and decides what data to collect next…to develop his theory as it emerges.” (cited by Bryman, 2001). Sampling is carried on until theoretical saturation is reached where a category has been saturated and new data seems to emerging regarding the category (Bryman, 2001). Category is a higher abstraction than a concept which groups concepts with common features together (Bryman, 2001). Theoretical sampling is purposive sampling which aims to maximize information for the study though it is not necessarily a representative sample (Creswell, 2014). In this research, theoretical saturation is reached with a total of 15 coded interviews with which little new information is derived from additional interviews. The interviewees selected represent the major known client segments in private banking such as business owners, senior executives, retirees and investment office. In the investment office segment, there are appointed individuals with investment decisions delegated to them and these individuals have professional knowledge and experience in finance. There is also diversity in the interviewees in terms of age group (from 30 - 40 years old to 70 - 80 years old), gender (10 interviewees are male and 5 female), marital status (13 are married, 2 single), net worth (minimum of 10 million USD to over 400 million USD). These fifteen interviews were conducted from March to August, 2017. Please see Table 2.3 Summary of interviewees.

Table 2.3 Summary of interviewees

Code	Sex	Marriage	Age	Segment	**Total net worth** (MUSD)	**Liquid net worth** (MUSD)	Education	Expertise*
1	M	Married	60-70	Business owner	20-50	10-20	Doctoral	6
2	F	Married	70-80	Business owner	> 50	>20	Master	6
3	M	Married	50-60	Executive	10-20	5-10	Master	6
4	F	Married	40-50	Business owner	10-20	5-10	Bachelor	5
5	M	Married	50-60	Business owner	10-20	5-10	Exec Ed	6
6	M	Married	50-60	Business owner	20-50	5-10	Bachelor	5
7	M	Married	40-50	Business owner	10-20	2-5	Bachelor	5
8	M	Married	60-70	Business owner	> 50	>20	Doctoral	5
9	F	Married	50-60	Business owner	20-50	5-10	Master	4
10	M	Married	40-50	Business owner	> 50	>20	Doctoral	7
11	F	Widow	50-60	Retiree	10-20	5-10	Bachelor	4
12	F	Single	30-40	Investment officer	> 400	>100	Master	6
13	M	Married	40-50	Business owner	10-20	5-10	Master	7
14	M	Married	50-60	Investment officer	20--50	10-20	Bachelor	5
15	M	Married	60-70	Executive	>50	10-20	Doctoral	5

*Expertise: expertise is assessed by the researcher with 7 being highest expertise

2.3.3 Interview design and data collection

As for designing the actual depth interviews, we have followed Belk's (2013) and Yin's (2016) methodologies. We adopted a two-way interaction between the interviewee and the interviewer and we asked open-ended questions with the aim to "depict a complex social world from a participant's perspective" (Yin, 2016). In terms of structuring the interview, I funnelled questions from the general to the specific, avoided asking why and closed end questions, and sometimes circled back to earlier questions for greater depth (Belk, 2013). For conversation techniques, we followed Yin's (2016) technique in speaking in modest amounts, be nondirective, staying neutral, maintaining rapport and using an interview protocol which serves as a mental framework for inquiry. See Figure 2.2.

Figure 2.2 Interview protocol with high net worth individuals

Interviewee's wealth Management experience

- How many years have you been a client of private banks? How many private banks do you use? Why do you use more than one?
- What do you consider to be important in choosing a private bank? Why?
- How much funds do you hold in private banks? What is this in % in relation to liquid asset?

Interviewee's view on private banking relationship

- What do you expect in a private banking relationship?
- What actions of a private banker make you feel uneasy?
- What actions of a private banker put you at ease?
- What do you expect to see in a trustworthy private banker?
- How can a private banker gain your trust?
- Please describe the most important aspects of a trustworthy private banker? Are there other important aspects? If so, how are they different? How do you rank them?
- What do you think of Discretionary mandate? Would you invest in it?
- Anything you would like to add?

Interviewees characteristics

Market segment: ( ) business owner, ( ) retiree, ( ) executive, ( ) professional, ( ) inherited
Net worth: ( )% liquid, ( )% real estates, ( )% business & others
Liquid net worth: ( ) 2-5M USD, ( ) 5-10M USD, ( ) 10-20M USD, ( ) >20M USD
Total net worth: ( ) 10-20M USD, ( ) 20M-50M USD, ( ) >50M USD
How much funds do you in private banks?
Demographics: Age : ( ) 30-40, ( ) 40-50, ( ) 50-60, ( ) 60-70; ( ) gender; ( ) marital status

The use of the interview protocol enable me to better address the broad research question of understanding consumer behaviour and how they formulate trust in private banking relationships by dividing it into a series of questions which probe into inquiry of the concepts identified in the literature. We have further structured interview questions around 1) general questions such as how do the interviewees go about choosing the private bank, what are the things they consider; 2) questions on trust – such as how do they formulate trust, what are their cognitive, affective and behavioural consideration of trust; 3) questions on understanding their preference on investment style and their attitude towards Discretionary portfolio management. We further note the characteristics of the interviewees in terms of market segment, net worth and others.

2.3.4 Data analysis method

In this section, we describe how the coding process for data analysis is developed in a systematic manner. The methodology advocated by Spiggle (1994) on analysis of qualitative data in consumer research is followed – particularly constant comparison, categorization, abstraction, dimensionalization, iteration and integration. In addition, Bengstsson (2016)'s methodology of qualitative content analysis is applied in the process of categorization.

Constant comparison is used in theoretical sampling to select whom to interview by comparing the interviewees with the aim to maximize information to maximize difference in the types or segments of the interviewees. Constant comparison is used to determine the point of saturation in which additional interviewees do not add new information.

Categorization is the "process of classifying units of data" (Spiggle, 1994). First, the interviewees' consents were sought for audio recording of the interview. The interviews were then transcribed to text. Afterwards, the interview transcripts were analysed into the chunks or unit of data. Attention was paid to the frequency of occurrence of certain key words and it shapes the operation of categorization. Techniques prescribed in Bengtsson's (2016) qualitative content analysis were followed for categorization with the objective of identifying homogeneous group in the data. During the categorization process, the number of words in the text is reduced to meaning units where sub-categories are identified. The sub-categories contain items which are internally homogeneous and externally heterogeneous. Bengstsson (2016) further explains that two approaches for content analysis can be adopted - manifest analysis which focuses on surface structure of what the interviewees actually said, and latent analysis which the researcher seeks deep structure and interprets the underlying meaning of the text and asked "what intended to been said?"

by the interviewees. Both manifest analysis and latent analysis were carried out to code the sub-categories and categories of trust. Please see next section for illustration.

The operation of *integration* integrates the categories and constructs previously defined while analysis of *abstraction* moves to a higher concept. Both techniques were used to integrate the findings in the categories of trust and abstract to a higher level concept of the framework of trust in private banking.

2.4 Coding Analysis

Coding analysis in the categorization process was performed and the interview text is reduced to meaning units where sub-categories which share similar characteristics are identified. Then, these sub-categories are integrated into categories which emerge as cognitive, affective and behavioural dimensions of trust. Manifest analysis which looks at surface structure of interview data and latent analysis which focuses on deep structure were performed. Examples of how the interview data were coded to arrive at the sub-categories and categories were shown in Table 2.4, Table 2.5 and Table 2.6.

2.4.1 Cognitive dimension of trust

Lewis and Weigert (1985) define cognitive trust as a dimension of trust which involves the mental process of thinking to make logical judgement as to who is trustworthy; it is also the client's willingness to rely on service provider's competence and reliability (Moorman et al., 1992; Johnson and Grayson, 2005).

The findings from the interview data (please see Table 2.4) are consistent with the literature with sub-categories identified in manifest analysis as competencies (of private banker) and functionalities (of private bank's platform). Competencies of private banker are about "market knowledge… the degree the private banker is in tune with the financial markets" and "be able to explain the fundamentals of a stock beyond the company research report". Functionalities of private bank's platform is about "ability to book a wide range of investments including equity IPO", "access to good private equity offering" and "high loan-to-value for leverage". The difference with the literature is the clear differentiation between interpersonal level and organisational level of trust. The sub-categories identified in latent analysis from interpreting the intention of the interviewees are cognitive demand and platform performance. There is cognitive demand in investing and clients believe that they require cognitive assistance from private banker for investing. Clients also believe the performance of the private bank platform with its wide offer of investment products and capabilities can achieve good client experience outcomes.

Table 2.4 Coding for category of cognitive trust

Quotes from interviewees	**Sub-category** *Manifest analysis* Surface structure	**Sub-category** *Latent analysis* Deep structure
#12: "market knowledge…the degree the private banker is in tune with the financial markets" #12: "able to explain the fundamentals of a stock beyond the company research report"	Competencies (of private banker)	Cognitive demands (Client needs cognitive assistance from private banker for investing)
#15: "ability to book a wide range of investments including equity IPO" #13: "access to good private equity offering" #13: "high loan-to-value for leverage"	Functionalities (of platform)	Platform performance (Quality of private bank's platform drives investment performance)

In summary, manifest analysis reveals cognitive trust as a category which focuses on the mental process of appraisal of trustworthiness in terms of competencies and performance of the private banker and the private bank. Latent analysis interprets cognitive trust as a theme which articulates the client's willingness to rely on private banker's competencies and private bank's platform and pricing to navigate the cognitive demands in investing.

2.4.2 Affective dimension of trust

Affective trust is defined by Lewis and Weigert (1985) as a dimension of trust built on emotional basis like friendship and is based on feelings generated by care and concern (Johnson and Grayson, 2005). However, for affective trust, our findings are not entirely consistent with the previous literature in financial service. We do not find Johnson & Grayson's (2005) finding of similarity of client advisor to customer to be important with our interviewees. Likewise, our data does not represent any evidence for Monti et al.'s (2014) "honest signals" such as the smiles or the clothes of the financial advisor.

Manifest analysis focusing on surface structure unveils sub-categories of attentive care and immaterial affection. Interviewees refer *attentive care* as about "someone you enjoy talking to", "customer centric...treating client on a one to one basis as every client is different", "attention to client's emotion", "active listening", "not waiting for two days before getting an answer" and "making a trade off based on emotional consideration". Sub-category of *immaterial affection* is a finding which is previously not seen in literature and it has the meaning that affection is not important with interviewees expressing comments such as "affection is about the first impression…it is judged by your feelings towards that person which may not be accurate", "emotions are usually not accurate and they are not important", "investment is not a romantic relationship", "I will not follow private bankers if they leave for another private bank". Latent analysis uncovers deep structure and the interpretation of sub-categories of "serving me" and "investing involves no emotion" mirroring the sub-categories of attentive care and immaterial affection in manifest analysis. Please see Table 2.5 below.

Table 2.5 Coding for category of affective trust

Quotes from interviewees	**Sub-category** *Manifest analysis* Surface structure	**Sub-category** *Latent analysis* Deep structure
#3: "someone you enjoy talking to" #3: "being attentive" #9: "customer centric...treating client on a one to one basis as every client is different" #9: "attention to client's emotion" #12: "active listening" #13: "being responsive is very important. I don't want to wait for 2 days before getting an answer" #13: "making a trade off based on emotion – e.g. I stay with that private bank to invest in a leverage portfolio knowing that its interest rate for borrowing is not as competitive as others"	Attentive care	Serving me
#9: "affection is about the first impression you form when you see that person. It is judged by your feeling towards that person which may not be accurate" #7: "emotions are usually not accurate and they are not important" #8: "investment is not a romantic relationship" #3, #8: "I will not follow private bankers if they leave for other private banks"	Immaterial affection	Investing involves no emotion

In summary, affective trust is a category which focuses on the emotional basis of the relationship with sub-categories of attentive care and immaterial affection. It is also a theme about the client's willingness to believe in a private banker based on the client's conceptions of "serving me the customer" and "investing involves no emotion".

2.4.3 Behavioural dimension of trust

Behavioural trust is articulated by Lewis and Weigert (1985) as the dimension of trust that arises from social expectation that the other party will act dutifully and violation of such expectation results in negative consequences for all parties involved. The authors described this construct in a theoretical paper and did not back it up with empirical study. In an empirical study with quantitative model, Johnson and Grayson (2005) referenced the trust framework of Lewis and Weigert (1985), modelled cognitive trust and affective trust while neglecting to model behavioural trust and treated it as consequence of cognitive and affective trust. I did not find any cited publication which empirically studies the behavioural trust construct. Hence, my empirical findings on will add to the literature on this construct. Coding from the interview script shows the construct of behavioural trust centres on the conduct and behaviour of private banker. Let me illustrate the coding of this construct starting with coding analysis from interview script to sub-categories.

Coding by manifest analysis focusing on surface structure reveals sub-categories of *transparency*, *fairness*, *not-self-serving* and *time*; with the corresponding sub-categories of *information asymmetry*, *knowledge asymmetry*, *client-interest-first* and *repeated interaction* unveiled using latent analysis. Please see Table 2.6. Let me elaborate on these sub-categories.

Interviewees describe the sub-category of *transparency* as "telling all the benefits and risks of an investment and point out what to watch out for in an investment decision" while referring to what transparency is not as "keeping information to themselves" and "not spotting obvious issues about the investment" which even the client can. The corresponding interpretation using latent analysis reveals the sub-category of *information asymmetry* which speaks to the problem of adverse selection the client faces and client's wishes that the private banker should act to be transparent to level the informational asymmetry.

Table 2.6 Coding for category of behavioural trust

Quotes from interviewees	**Sub-category** *Manifest analysis* Surface structure	**Sub-category** *Latent analysis* Deep structure
#2: "some private bankers keep all the information to themselves and tell you nothing". #2: "even I can spot some obvious issues about the investment, it is impossible for private banker not to" #1: "a private banker should tell us all the benefits and risks of an investment and point out what to watch out for an investment decision."	Transparency	Information asymmetry (Private banker should act to level informational asymmetry)
#2: "I don't mind if an investment advice is wrong and loss making because investment outcome is unpredictable", "I would judge whether the private banker is a fair person – when he or she makes a recommendation, whether it is explained clearly" #3: he likes a tier fee structure "If I just tell them to execute a trade, the fee should be tiny. If they recommend some investment and I take it, there is a higher level of fee"	Fairness	Knowledge asymmetry (Private banker should bear responsibility for reasonable client outcome)
#1: "for private banker whose objective is to make you buy their products, I tend not to listen to them" #1: "an important criterion for me to trust a private banker is how much the banker understands our investment needs and requirements" #2: using real estate agents as example "I have many real estate agents and many of them keep pushing me to buy properties", "there are two agents I always approach because they never trapped me. If they know a flat has some problems, they will never recommend to me".	Not- self-serving	Client-interest-first (Private banker should not be opportunistic while not expected to be benevolent)
#12: it takes about two years to evaluate the private banker to trust him as it takes six months to observe the performance of investment. #3: "it a journey, it's about establish a track record with me, making suggestions that worked out", "it takes about three years for me to trust a private banker"	Time	Repeated interaction (client's monitoring mechanism to test belief of trustworthiness)

Fairness is a sub-category described by interviewees as an investment recommendation which is "explained clearly" which could even be "loss making" as client understands that "investment outcome is unpredictable". Fairness also mean fees should be based on the value add a private banker brings such as "tiny" fee for execution only trade and "higher level of fee" for advisory transaction. The interpretation in latent analysis reveals the sub-category of *knowledge asymmetry* and the client belief that the private banker should bear responsibility for a reasonable client outcome.

The sub-category of *"not-self-serving"*, associated with surface structure, is depicted by interviewees as "how much the banker understands (the client's) investment needs and requirements" and it is not done with the objective of making the client "to buy their products". The corresponding sub-category, associated deep structure, is the interpretation of "client-interest-first": a private banker should place client interest first and not be opportunistic. It should be noted that while benevolence is described as an antecedent of trust in the literature (Ganesan & Hess, 1997; Lewis & Weigert, 1985; Mayer, Davis & Shoorman 1995), benevolence, "sacrifices which exceeds self interest" (Ganesan & Hess, 1997), is not described by interviewees. Interviewees spoke about a weaker variant of the concept referring to being not "not-self-serving" and placing "client-interest-first" in the commercial relationship client and private bank relationship.

Lastly, the interview text reveals a sub-category of *time* within surface structure as interviewees explained that time, as much as two to three years, is needed to trust the private banker as it takes time to observe the performance of investment and to establish a track record for investment recommendations. The associated sub-category within deep structure is *repeated interaction* as clients use time to enable repeated interaction with private banker as monitoring mechanism to test belief of trustworthiness.

In summary, behavioural trust is a category, derived from manifest analysis, which focuses on the conduct of the private banker with the elements of transparency, fairness and not-self-serving and the expectation that the private banker will act dutifully in the client-private banker relationship. At the same time, behavioural trust is a theme, in the tradition of latent analysis, which focuses on the client's willingness to take risk while assuming the problem of adverse selection in the face of information asymmetry, knowledge asymmetry in protecting their own client interest and in monitoring the private banker.

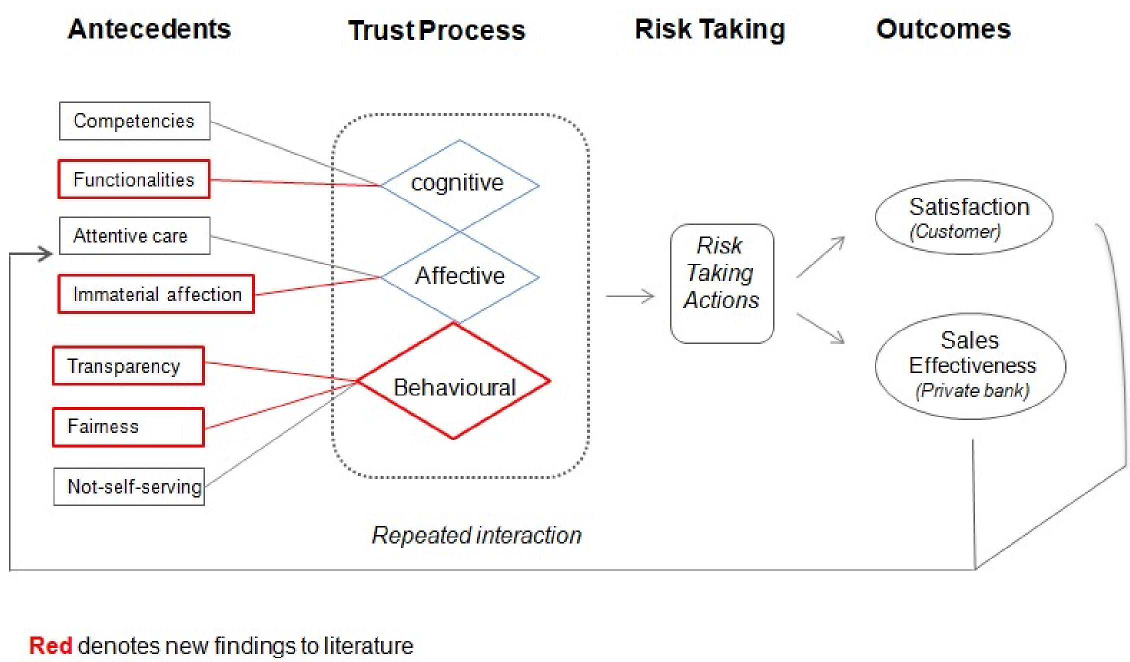
2.5 Findings

2.5.1 Framework of trust in private banking

In this section, the mechanism of how consumers develop trust based on my field study is structured into a framework of trust in private banking. To be consistent with the tradition of prior frameworks (Lewis & Weigert 1985; Mayer, Davis & Schoorman 1995; Moorman

1993) and model (Johnson & Grayson, 2005), sub-categories identified in manifest analysis of content analysis are used. This approach facilitates the development of the new framework from the extant literature and shows the new findings to knowledge. Please see Figure 2.3.

Figure 2.3 Proposed framework of trust in private banking



First, the decision process is staged and I propose modelling of a four-staged process. It starts from the appraisal of trustworthiness factors in the first stage, which is considered in grouping based on the dimension of trust (cognitive, affective and behavioural) in the second stage, followed by risk taking actions in the third stage which leads to outcome in the final forth stage. As a key characteristic of private banking is its repeated interaction nature, hence we propose the decision process loops back to the starting first stage. In the practice of private banking, there is quarterly portfolio update and annual portfolio review which translates to feedback every quarter.

Second, I propose explicit modelling of behavioural consideration of trust. One of our contributions is the explicit analysis on behavioural dimension of trust which is omitted by Johnson and Grayson (2005). As shown in the previous section, our field data showed that transparency, fairness and benevolence (to a lesser extent in the interviews though benevolence is cited in literature) are three antecedents for behavioural dimension of trust.

Third, I propose including the third stage of risk taking action which was discussed by Mayer, Davis and Schoorman (1995) but neglected in Johnson and Grayson (2005). Modelling this stage is crucial as consideration of trust should lead to explicit action and Mayer, Davis and Schoorman (1995) argue that one must "take risk to engage in trusting action" by "assuming" the risk. In private banking, this means making the investment choices after conceptualization of trust.

Fourth, the last stage of outcome for both parties after a period of observation and monitoring is modelled. A positive outcome for the client is satisfaction and while a positive outcome for the private bank is sales effectiveness – the private bank's success in achieving sales of "preferred solutions" (Weitz, 1981 as cited by Johnson & Grayson, 2015, P.503).

2.5.2 Interpretation using latent analysis

Spiggle (1994) describes that interpretation is about understanding the meaning of others by identifying patterns and transferring meanings across from the interviewee's domain to that of the researcher's. This transferring of meanings is the quest of interpreting others' experience which involves moving from an emic point of view, inside the interviewee's perspective, to an etic point of view which is from the outside and from the perspective of the researcher (Yin, 2016). Emic perspective is the interviewee's "indigenous meanings of real-world problems" (Yin, 2016, P.16) while an etic perspective represents external meanings gained by researcher across different contexts (Marshall, 1998). Latent analysis within qualitative content analysis involves interpretation of what the interviewees meant to say and what they are thinking using my knowledge gained from years of working in the private banking industry is a form of interpretation.

The narrative of interpretation of the interviews using latent analysis of the interviews is a script as follows. There are cognitive demands required in investing and private bank clients expressed the need for assistance from private banker. They also seek a private bank with superior platform for investment performance. Many private bank clients, across a wide range of net worth brackets, have concern of "serving me" and placing demands of attention, care and being customer centric on private bankers which is suggestive of an egocentric character in having a narrow outlook to one's own concerns –

this is not a surprise as all private bank clients are wealthy and well accomplished individuals with many earning their wealth as first generation. On the other hand, some clients believe that investing involves no emotion and that affection and friendship of private bankers are not important. Clients recognize their disadvantage and the adverse selection problem in the asymmetric relationship with the private banker. They believe the private banker should act to level information asymmetry and private banker should bear responsibility for reasonable client outcome due to knowledge asymmetry. They expect private banker to place client-interest-first and not be opportunistic while not expected to be benevolent. Lastly, clients use repeated interaction over time as a monitoring mechanism to test their belief of trustworthiness towards the private banker. The minimum number of meaningful interaction required is at least four times as interviewees expressed it would require a minimum of two years to develop trust while it takes at least six months to monitor the performance of an investment recommendation.

The interpretation of why benevolence is not directly observed, while it is prevalent in literature in trust, could be attributed to the context of wealth management in Hong Kong and the background of the interviewees. All interviewees except two have their wealth self-made with most of them being business owners. Business owners are risk takers who take control and accept the risks of their decisions. Hong Kong with its free market capitalist economy and low tax rate with little social welfare assistance from government breeds a culture of self reliance. Therefore, private banking clients in Hong Kong understand tacitly that private banks are commercial organisations with profit motive. As a result, they do not expect private bankers to be benevolent in being kind beyond economic motive but to conduct business with transparency and fairness while not being self seeking with guile and neglects client interests.

2.5.3 Typology of private banking behaviour

In my attempt to interpret the interviewees' experiences, I seek to identify patterns in terms of similarities and differences among the interviewees. The interviewees themselves are expressing what they perceive of the world from their eyes without being aware of other interviewees and their differences. The etic perspective is left to the researcher to find new knowledge. We observed to find the similarities and differences in the interviewees' attitudes towards trust to uncover the different groups of private banking clients. The discovery of such typology of behavioural difference fits the description of Spiggle

(1994)'s citation of Wallendort and Brucks (1993) of a "theoretical scheme that is removed from the perspectives of interviewees". The interviewees are not aware of other people's characteristics and how they are different from others and that groups exist for individual with similar characteristics. Hence, new knowledge is discovered. In a way, it is similar to Johnson's (2000) description of Anthony Giddens' double hermeneutics. Gidden's (1994) double hermeneutic (cited by Johnson, 2000, P.142) illustrates an example of subjective decision and double hermeneutics refers to the notion that explanation of social reality depends on the knowledge of how individuals (the interviewees) make sense of their experiences and the knowledge of the researcher brings to what he observes and interprets.

While the antecedents of trust are robust across interviewees, there are similarities and differences in their attitudes towards cognitive, affective or behavioural trust. A key difference is the difference in the perceived relative importance of cognitive, affective and behavioural consideration of trust among the interviewees. This heterogeneity in the attitude towards the different dimensions of trust reveals a typology of three different categories of private banking relationships: behavioural trust focused, personal relationship focused and the cognitive oriented investor. Please see Table 2.7 for typology of private banking behaviour

Table 2.7 Typology of private banking behaviour

	Cognitive Trust	Affective Trust	Behavioural Trust	Interviewees
(1) Behavioural trust focused *Banker conduct is the differentiator*	2	3	1	#1,#2
(2) Personal relationship focused *Focus on private banker*	3	2	1	#4, #6, #9
(3A) Cognitive investor, Institutional relationship oriented *Choose the private bank*	1	3	2	#3, #7, #8, #11, #15
(3B) Cognitive investor, investment oriented *Look for expert private banker*	1	3	2	#5, #10, #12, #13, #14

1: most preferred, 3: least preferred

Behavioural trust focused relationship

These interviewees viewed behavioural trust to be the most important followed by cognitive consideration. A common characteristic for the interviewees are that they view private bank as a platform for investment. They will screen out a group of desired private banks based on the functionalities of the platform and brand name is not a consideration if the functionalities are the same. Such clients would categorize private banks based on the capabilities of the platform (for instance brokerage style private bank, private bank with great lending capabilities, boutique private bank etc).

Once these clients put private banks into categories based on platform, the key differentiating factor becomes behavioural trust of the private banker. They judge whether the private banker is a fair person - whether there is "fair judgment on recommendations" and not a product pusher. These clients also understand that an investment advice could be wrong and loss making because investment outcome is uncertain. What are the cultural characteristics of these clients? The interviewees are knowledgeable and have a high level of knowledge in finance. They have also substantial wealth – liquid net worth of over 10 million USD and total net worth of more than 20 million USD.

Personal relationship focused

For the clients who are personal relationship based, they view behavioural consideration of trust to be most important followed by affective trust. They predominantly focus on the interpersonal level of the relationship and seldom mentioned the organisation during the interview. Although the focus is on the private banker, their primary concern is on the conduct and behaviour of the private banker rather than on personal affection. Interviewees #4 (female business owner in China), #6 (male business owner in China), #9 (female business owner) are in this group. As an example, interviewee #9 the female business owner acknowledged that personal relationship is very important but she said "the feeling towards the private banker may not be accurate while the behaviour of the person, through repeated interactions, I will be able to understand more details about that person" and she added that "we can only judge through behaviour".

There are further characteristics of interviewees in this group: [i] Two third of interviewees in this group are female while there are only 5 female out of 15 interviewees (1/3) in the study, hence there is support that this type of behaviour of *personal relationship focused* is more prevalent for female, [ii] 2 of the 3 interviewees are from China (not Hong Kong based) and that include all of the 2 interviewees who are China based and indicates support that China based private banking clients are *personal relationship focused*, [iii] All 3 participants are smaller private bank clients: all with liquid net worth of 5 – 10 million USD. This is consistent with my industry observation that if the liquid net worth of a client becomes substantial, the client may structure a family office and hire finance professional to manage investment and behaviour may change. [iv] Financial expertise of the interviewees do not rate high (scores of 5, 5, 4). None of the interviewees have a culture of being financially sophisticated. Hence, there is support that *personal relationship focused* is more common with smaller private bank clients with lower financial knowledge

Cognitive orientated investor

The third group of clients regard cognitive consideration of trust to be most important followed by behavioural. Within this group, there are two subgroups as they focus cognitive trust on different levels – at the level of the organisation (the private bank) or the interpersonal level of the private banker.

For the *cognitive investor- institutional relationship oriented*, they choose private bank mainly based on the organisation level and the relationship attachment is with the firm. Hence, organisational level of trust is more evident. Five interviewees were in this category: Interviewee #3 (male corporate executive), #7 (male business owner), #8 (male business owner), #11 (female widow retiree), #15 (male corporate executive). Interviewee #3 commented that he originated the private banking relationship by picking the bank. He also has a strong preference for large and reputable bank and he said “I am not going to put my money with medium size institution”. Interviewee #7 mentioned that “the sense of safety and security of the institution very much matters”. Interviewee #8 said “the institution is important and we usually choose a larger bank”. Interviewee #11 commented that the most essential deciding factor is “reputation of the bank … I haven’t used a bank which I am not familiar with at all so far”. Interviewee #15 picked his private bank because he is keen on participating in initial public offering (IPO) and the private bank he picked has a strong investment banking division and hence was able to offer capital market deals like IPO. Furthermore, interviewees #3 and #8 said expressly if their private bankers departed for another institution, they would not necessarily follow him. For instance, interviewee #8 said “we (his family) seldom change banks because if we have established a long term working relationship and we know the whole team, it is not a problem even one or two members left the bank”.

For the *cognitive investor - investment focused*, they look for the expert investment advice. Five interviewees are in this category: interviewees #5 (male business owner), #10 (male business owner), #12 (female investment officer), #13 (male business owner), #14 (male investment officer) are in this category. These clients show the highest financial level of financial expertise with scores of 6, 7, 6, 7, 5 in a 7 point scale. Three of the interviewees are business owners (private equity, accountancy practice and hedge fund) while 2 of the interviewees are investment officers (family office and non profit organisation). All of them come from a cultural background of advanced financial expertise. As investment advice is delivered through the private banker rather than directly from the firm, these individuals look for the highest expertise in the contact point. The key words interviewee #12 is about knowledge – "knowledge" was mentioned 3 times and for the word "know" was spoken 7 times excluding the phrase of "you know". For her the focus is on knowledge and she seeks the private banker with expert knowledge and she mentioned that it is important the private banker should "give me some other options and alternatives" to consider when making investment. Interviewee #13 stressed the importance of "investment insights" the private banker brings such as "suggesting new trading ideas", "what are the interesting products in the street to achieve better returns" and he is willing to trade off on fees for insights as he mentioned that "reduction of fees is not too important if there are new products and new investment ideas". Interviewee #14 stressed the importance of expertise with "pro-activeness" and "tend to lean towards the bank that more proactively communicates and interacts with me". Most of the interviewees in this category of *cognitive investor - investment focused* have low regard for Discretionary investment mandate when asked for their comment on investment styles. 4 out of 5 interviewees expressed that they most dislike this investment style while interviewee has a Discretionary mandate, he only allocates 10% of his overall investment. This finding is not surprising given their common cultural background of advanced level of financial expertise.

2.5.4 Interpretation of other behavioural patterns

Further understanding on the interviewees is sought by adopting an etic point of view by observing and reflecting on their similarities and differences across the behaviour of the different interviewees.

Preference ordering of cognitive, affective and behavioural trust

What are the additional patterns observed within the typology of private banking behaviour? Cognitive consideration of trust stands out to be the most prominent. 10 out of the 15 interviewees expressed that cognitive consideration is the most preferred. Affective trust is shown to be the least preferred. None of the 15 interviewees regarded affective consideration to be the most preferred dimension of trust. 12 of 15 interviewees commented that affective trust was least preferred. There are 3 interviewees who expressed affective trust to be second preferred and they are in the group of the smallest liquid net worth and the smallest private banking clients. Behavioural trust was most preferred by 5 interviewees and second preferred by 10 interviewees. None said behavioural trust was least preferred. From the dataset, there is support that cognitive consideration is the most prominent (10 out of 15 interviewees regarded cognitive dimension as the important) followed by behavioural (5 out of 15 interviewees believed behavioural dimension as the most important) and affective dimension is the least prominent (no interviewees viewed affective dimension as most important while 12 out of 15 interviewees regarding it as least important). Please see Table 3.2 for result summary.

Interpersonal or organisational trust?

In our research, there is support for the existence of organisational level of trust from the interview script of the interviewees. Interviewee #3 said "even if my private banker is leaving for another private bank (a major international private bank), I won't follow necessarily follow him". Interviewee #8 said "the institution is important and we usually choose a larger bank". There is support that organisational level of trust is more lasting as interviewee #8 articulated that "the reason why we seldom change institution is because we have established a long term working relationship and we know the whole team, so it is not a problem when one or two members left". The reason for interviewee #8 is because he valued "stability" but "unfortunately, the turnover rate (for private banker) in this industry is high. He went on to remark that "for a new banker, it may take quite a long time to establish trust" and it could be the case that building trust on a interpersonal level with a new private banker might take longer time than building trust on an organisational level. This paper seeks to develop a theoretical framework which considers both interpersonal and organisational trust and brings out the importance of either level depending on context.

Is interpersonal trust or organisational trust more prevalent in private banking? In the typology of private banking behaviour, interpersonal trust is found to be dominant in 3 out of 4 types of behaviour. This orientation towards interpersonal trust is observed in 10 out of 15 interviewees. Hence, there is support that trust on an interpersonal level is more prominent in private banking. Interviewee #14 mentioned that new private bank accounts were opened because his banker moved to another private bank and his statement shows the importance of interpersonal trust. Interview 8 also remarked that "the turnover rate (for private banker) in this industry is high". The comments by these two individuals reflected the private bank's growth strategy of hiring experienced private bankers for their established clientele and interpersonal trust. Please see Table 2.8.

Table 2.8 Interpersonal versus organisational level trust

Private Banker **individual level oriented**	**Private Bank** **firm level oriented**
(1) Behavioural trust focused	
(2) Personal relationship focused	
(3B) Cognitive investor, investment oriented	(3A) Cognitive investor, Institutional relationship oriented

2.6 Conclusion

McKinsey & Company (2014) states wealth management is among the most attractive business within the financial services industry. Private banking is the ultimate premier segment in wealth management with important clientele who may present cross-selling opportunities in the bank. Despite this attractiveness, there is very little academic research in private banking as compared to retail banking due to the difficulty for the researcher to source HNWI participants for research and the reluctance of private banks to be as sponsor because of client confidentiality. This study brings new knowledge in this under researched area.

Let me clarify an issue on epistemological position before proceeding with the rest of conclusion remarks. *The question is on research design: Why does the research start with a lean towards research model if this is interpretivist study*? The reason is this is the first empirical study undertaken following the literature review project in the DBA curriculum. I was keen to find what gaps exist in literature and where I could contribute new knowledge. Hence, I came to conducting research with the awareness of previous frameworks in mind and was *leaning closer towards a positivist approach* in the tradition of Yin. Although there is interpretation using latent analysis in content analysis focusing on deep structure which leads to a narrative of interpretation, my proposed framework of trust in private banking from the research is based on surface structure which tilts towards realism in ontological orientation and positivism in epistemology. The choice of focusing on surface structure is motivated by the aim of contributing to the gap within existing literature which is positivist in nature.

The *interpretation* of interviewees' comments reveals additional insights on wealth management business besides trust. An understanding on a way how private banks pursue growth strategy is uncovered which is the hiring of experienced private bankers from competitors. Interviewee #14 mentioned that new private bank accounts were opened from time to time because his private banker(s) joined other private bank(s). Private bankers joining competitors is common and it is echoed by interviewee #8 who said "the turnover (of private bankers) in this industry is high". The evidence of growth strategy echoes with McKinsey's finding that the wealth management is among the most attractive business segment within the financial service industry. The emphasis on recruiting experienced private banker is because of the long time required for a private banker to build up trust though repeated interaction with client which was mentioned by all interviewees. For instance, interviewee #8 mentioned that he "usually look for stability" and "feel more comfortable to trust a person who has a longer relationship and spend less time to test whether the person is trustworthy". Experienced private bankers are poached from competitors because of their established client relationships. As observed in the industry, it is uncommon to see private bankers joining competitors with a tenure of less than three years with their former private banks.

2.6.1 Contributions and managerial implications

The paper makes contributions in the three areas. First, the paper studies an important but under researched area in business which is private banking. Second, the paper adds new knowledge to theory by (i) developing a new construct of behavioural trust and its associated antecedents as there is no empirical paper in management literature which studies this concept while this construct would be important for private banks to develop trusted and potentially long lasting client relationships; (ii) formulating a generalized framework of trust in private banking by integrating the cognitive, affective and behavioural dimensions of trust. Third, there are empirical findings with managerial implications which have the potential to significantly improve business practice.

In particular, the empirical finding of typology of private banking behaviour reveals different client segments based on their attitudes towards trust and can significantly improve business practice by this new way of segmentation. Segmentation by Interpretive inquiry is more effective when applied for trust rather than the traditional segmentation practice in industry which primarily has a functionalism inclination. This is because the way a private banking client conceives, decides and develops trust takes place in his mind and cannot be readily observable by the eyes of the private banker. Kotler and Keller (1997) define market segment as a large and *identifiable* group with similar needs and wants within a market. The requirement on identifiable characteristics has influenced an orientation towards the perspective of the marketer as observer and a lean towards functionalism. The commonly used groups of segmentation variables for consumer markets are demographic, geographic, behavioural and psychographic. Segmentations by demographic, geographic and behavioural variables are readily observable to the marketer in his perspective while psychographic segmentation attempts to understand the beliefs and motivation of consumers inside which is not readily observable by marketer and have to be uncovered in interaction such as purchase behaviour or questionnaire participation. As shown in Chapter 2 "The Effects of Demographic Factors on Investment Behaviour", demographic variables do not reveal statistically significant findings on Discretionary – the investment style which delegates investment decisions to investment professionals. The difference in observable demographic characteristics does not necessarily translate to differences in attitude towards trust. Private banking is a business highly dependent on trust. This is because the performance of private banking service is uncertain until completion while the client has to decide before the resolution of uncertain. The client also faces imperfection information and asymmetry with a disadvantage in information and knowledge when compared with the private banker. Hence, I propose that targeted marketing actions based on typology of trust would be more effective in winning the client's trust and this is a finding with managerial implication which can significantly improve practice.

At the same time, segmentation by interpretive inquiry is a contribution in research method for marketing and it is more than psychographic segmentation. While psychographic segmentation endeavours to find out consumers' beliefs and motivations, it usually investigates that by questionnaire which is a typical functionalism approach assumed in a stance of reductionism. Questionnaire method is deductive with its close ended nature and gives the researcher little capacity to interpret the context while interpretive inquiry is the opposite. The open ended nature of semi-structured interview in interpretive research gives the researcher opportunity to probe and the interviewee to talk and elaborate. An example is an insight on Discretionary investment mandate in a remark by interviewee #3. Interviewee #3 was adamant that he disliked Discretionary investment mandate, he gave an example of situation where Discretionary is preferred for his mother. He explained that the reasons were that she was too elderly and hence cognitively unable to decide on her own or appraise private banker's advice. Interpretive inquiry enables the researcher to interpret the context which can lead to new findings. An example is with interviewee #12: in the typology of private banking behaviour based on trust, she is of the type of *cognitive investor – investment focused* and for her the most important concern is to have the most knowledgeable expert private banker who can recommend the best investment alternatives. This is in contrast with the client type *cognitive investor – institution focused* where the emphasis is with the private banks. The reason is the context – interviewee #12 is an investment officer of a family office and she is a member of the next generation of the family. The private banking relationships are already in place and were chosen by her parents. Hence, her main concern is to find the most knowledgeable expert private banker among the private banks the family uses. This understanding gives insight to the understanding of the family office market segment. This understanding also gives implications to practice: when investment control is passed to the next generation, the needs and wants of the client relationship change. The private banker who serves the elder generation may or may not be a good match with the next generation. Hence, the private banker who originates the relationship with the parents and the private bank need to be alert and responsive when wealth succession takes place.

2.6.2 Future research

One future research is to extend the investigation on trust in private banking to test relationships developed in the qualitative framework by quantitative method of structural equation modelling. First, to define the constructs identified, construct measures need to be specified. Construct measures can be developed or be borrowed from past research in the literature (Moorman, Deshpande & Zaltman, 1993). Constructs which exist in literature should be borrowed and referenced. To develop new constructs, initial items will be drawn up using findings from this qualitative research. Then, first pretest with small sample size is needed for item refinement, to be followed by second pretest of larger sample size to analyse for discriminant validity by factor analysis and for reliability by item-to-total correlations (Moorman, Deshpande & Zaltman, 1993). Next, estimation with structural equation modelling is to be used and a sample size of 200 is recommended by Hair, Babin and Anderson (1998).

To fulfil the recommended sample size of 200, I had reached out to senior management of private banks in Hong Kong to discuss possibility of organisation sponsorship. It turned out that they were not interested in the research of construct development for trust. In their perspective, trust is measured in the degree of discretion in investment control delegated to the private bank by clients. Hence, the areas of concern to the senior management are: how to increase asset under management for Discretionary mandate, and how to identify suitable client segments to discuss investment propositions for advisory services. At the same time, the interviewees, who are private banking clients for this qualitative research, were not keen to participate in measurement scale development and I can comprehend their reasons. Most of the interviewees are business owners and they are busy individuals. In addition, these business owners are very successful with their businesses – all of them have net worth of at least 10 million USD and with three of them over 50 million USD. To engage them, method such as elite interview which was used in this research is far more effective than questionnaire. With the lack of interest from industry stakeholders and doubtful prospect of reaching the required sample size of 200 without an organisational sponsor, the quantitative model extension research direction was dropped. However, if there is a private bank interested in being an organisation sponsor in the future, this research direction can be revisited.

Another future research is to investigate wealth management business issue using a different perspective in multiple paradigm analysis as proposed in the thesis. This paper "Trust in Private Banking Relationships" actually started as the first empirical research in the thesis. The multiple paradigm idea came to fruition after consulting with my current main supervisor Prof Bob Wood on comparing perspectives of the different stakeholders of wealth managers and clients. Having examined the wealth management business from the perspective of wealth manager in "The Effects of Demographic Factors on Investment Behaviour" in Chapter 2 and from the perspectives of clients in this Chapter 3, the perspective of analysis will move to an industry level in Radical Structuralist paradigm in Chapter 4 in which the taken for granted assumption of orderly social relation is disrupted when trust in financial institutions is breached in paper “Changes in Private Banking Industry Following Lehman Bankruptcy”. While the scope of trust investigated in this chapter is narrow as the relationship of focus pertains to that of a contractual relationship between private bank and clients, the next chapter examines a broader scope of trust and considers not only relationships between banks and clients but also relationships with regulator and financial services consumers at large.

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Chapter 3: The Effects of Demographic Factors on Investment Behaviour

Abstract

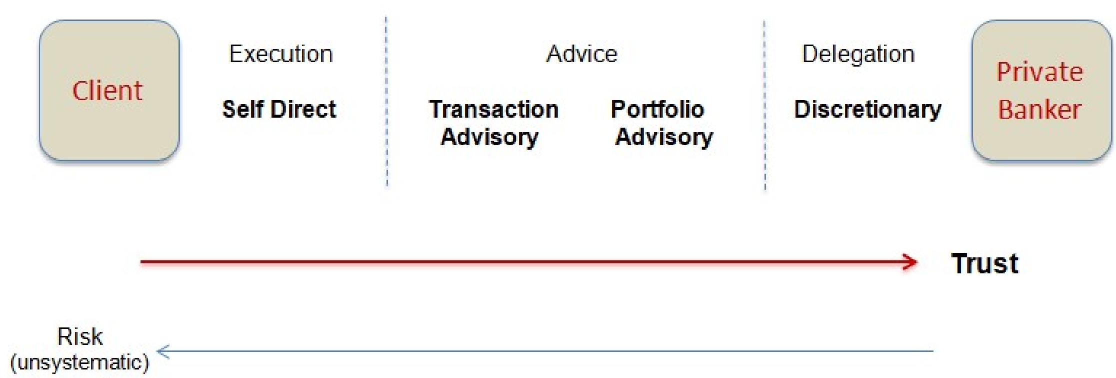
The area of concern for research of this paper is on the relationship of high net worth individuals (HNWI) with the wealth manager, perceived from the wealth manager's perspective. The paper adopts the Functionalist paradigm in Burrell and Morgan's (1979) framework for analysis and takes an objective view regarding the nature of social science inquiry and an implicit assumption of orderly social relations. The paper studies the effects of demographic factors on investment behaviour of HNWI in terms of a new construct expressed in investment control - ranging from Self Directed to varying degrees of delegation to entrust the wealth manager. Survey questionnaires with 306 participants were conducted with HNWI with net worth of over 1.5 million USD. Hypothesis testing using chi-square test was done to test statistical association of demographic factors with investment behaviour. Hypotheses are developed from literature in investment management, marketing, personality and neural science. A choice model was estimated using logit to include interaction of two demographic factors. The research contributes to new knowledge with development of a new construct to describe investment behaviour in terms of decision control and the research findings yield marketing insights for wealth manager to improve business practice.

3.1 Introduction

Wealth management is the offering of investment service in financial securities such as currencies, bonds, equities, managed funds such as discretionary mandate to high net worth individuals (HNWI). The difference between wealth management and private banking is that wealth management service is available to affluent clients in retail banking or brokerage below the threshold of a few million USD required by a private bank.

Academic research on investment behaviour generally starts with finance theory on risk and return and perceives investment behaviour as risk taking action such as overweighting risky asset such as equities with higher return and volatility for a risk-seeking investor and underweighting for a risk-adverse one. However, in industry practice, wealth manager also perceives client investment behaviour in terms of decision control, ranging from client driven, to open for advice, and to delegation of investment decisions to the wealth manager. These investment behaviours correspond to the increasing value-added services the wealth manager offers and at the same time decreasing level of investment control the client has. In this study, I propose a new construct of investment behaviour (see Figure 3.1) expressed in terms of investment control rather than based on the usual exclusive risk and return consideration. The construct depicts four categories of investment behaviour with varying degree of client investment control such as Self Direct, Investment Advisory, Portfolio Advisory and Discretionary.

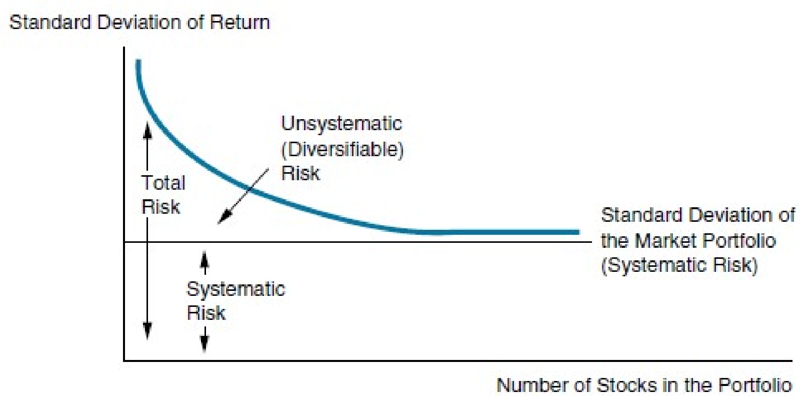
Figure 3.1 New construct of investment behaviour



There are motivations for clients to rely on the more value-added services of the wealth manager. One reason is the client will be better informed with the wealth manager's advice as the wealth manager is more knowledgeable and has more information on financial markets and in investing and the client would benefit from timely recommendations in fast changing financial markets. Another reason is that technique of portfolio management such as monitoring of securities correlation in diversification to cut down on unsystematic risk, hence reducing portfolio volatility, is costly for a client who does not have access to portfolio management software. Reilly and Brown (2002) give an illustration of adding stocks to a portfolio that are not perfectly correlated in the portfolio where unsystematic risk can be reduced due to diversification (see Figure 3.2). A third reason is that Discretionary mandate could overcome investors' behavioural bias such as panic selling and herd mentality.

Figure 3.2 Diversification and portfolio risk

Source: Reilly and Brown (2002)



At the same time, there are incentives for the wealth manager to offer more value-added services. The benefits for the consideration of client includes better information from advice, leading to informed client investment decision along with better risk management and resulting in lower risk in portfolio volatility. The benefits for the wealth manager include increased revenue from transaction commission in Advisory services and from management fee in Discretionary mandate. Management fee is sticky and is a form of annuity income which is much preferred by the wealth manager while transaction commission could fluctuate subject to financial market conditions as trading activities fell in a falling market.

The investment behaviours described in the construct is **a *proxy for trus*t** in wealth management relationship where different behaviours indicate different strength of trust (see Figure 3.1). *Trust in the context of wealth management* was previously discussed in the prior chapter (see Section 2.2.2) and it is the willingness to accept vulnerability based on the positive expectation of intention, behaviour and performance of the wealth manager. The four investment behaviours are concerned with varying degree of strength of trust. Self Direct is the least trusting with the client retaining all control and gives wealth manager instructions to execute his orders. Transaction Advisory involves an incremental level of trust as the client is open to advice on transaction and is subject to opportunism of frequent trading driven by wealth manager's private incentive to earn more commission. Portfolio Advisory requires the next higher level of trust as the client becomes even more vulnerable as he would not be able to monitor the wealth manager in portfolio management technique such as securities correlation. Discretionary is the most trusting as the client surrenders control of investment transactions and foregoes transactions monitoring by delegating to the portfolio manager. In giving up different degrees of investment control, the client accepts different degrees of vulnerability with the positive expectation of intention and performance of the wealth manager. In turn, the client becomes subject to opportunism and may suffer because of false expectation of the wealth manager's good performance and be vulnerable to disappointing result.

At the same time, client may gain benefit of reduced risk from relinquishing control in investment decisions. Transaction Advisory can guard client against the Self Direct scenario of holding securities which have become unattractive. Portfolio Advisory entails recommendations with a view of diversification to reduce portfolio risk (see Figure 3.2). Discretionary enables the portfolio manager to implement portfolio management techniques in a timely basis to achieve superior risk adjusted returns while minimizing risk. Hence, moving in the direction of increasing trust to the wealth manager carries the benefits of decreasing portfolio risk.

As an industry practitioner of private banking and a DBA researcher, I am keen to investigate what drives the behaviour of investment control. A practical question is to understand how a client's natural inclination towards Self Direct, Advisory and Discretionary investment differ. Another question of interest is to understand which market segments may respond better to which investment services.

I pose the **general research questions** as follows.

i. Taking a Functionalist perspective, I ask what is the impact of demographic factors on investment behaviour in private banking in terms of tendency for Self Direct, Advisory and Discretionary? The demographic factors chosen to study are generations (in terms of age bracket), gender, marital status, net worth and a biological factor blood type. There is documented relationship between blood type and personality in psychology and relationship for blood type with cognitive capacity and ageing in the neuroscience literature and blood type is chosen to test hypotheses for these relationships.

ii. What are the possible drivers for the value-added wealth management services of Advisory and Discretionary? Some specific questions include: Which client segment is most receptive for advice - women or men? Which client segment has higher inclination for Self Direct investment– unmarried single men? Which client segment is the best suitable for Discretionary - the holy grail of investment management?

iii. What are the managerial implications?

3.2 Literature Review

In this section, literature on the Functionalist paradigm is reviewed in the context of the paper's research in wealth management. Then, literature on market segmentation is reviewed with reference to private banking practice. Next, publications looking at trust as a central issue in financial service are discussed. Finally, research on investment behaviour relating to literature in (i) traditional finance theory in terms of risk taking, (ii) bounded rationality, (iii) behavioural finance, (iv) personality, and (v) blood type are discussed.

3.2.1 Literature related to market segmentation

Market segment is one of the key concepts in marketing. Kotler and Keller (1997) define market segment as a large and identifiable group with similar wants and needs within a market. In order for the marketer to undertake actions, the market segment must have identifiable characteristics. Hence, the market segment approach follows that of a Functionalist paradigm with the ontological assumption that the marketer can observe the similarity of characteristics within the market segment. Kotler and Keller (1997) list the four commonly used groups of segmentation variables for consumer markets as: demographic, geographic, psychographic and behavioural. In my dataset, market segments data are demographic such as age bracket, gender, marital status, net worth and blood type.

In the private banking industry in Asia, market segmentation practice tends to focus on the practical rather than theoretical. The most commonly used method is to segment by size such as asset under management (AUM) and net worth. The segments in the order of decreasing AUM are: family office, ultra high net worth individuals (UHNWI), high net worth (HNW) and affluent. While the segmentation limits vary from private banks to private banks, the following general principles usually apply. Affluent clients are the clients with the smallest AUM which falls between minimum threshold of a criteria customer in a private bank as defined by the local regulator (for instance in Hong Kong, professional investor has a minimum of 8 million HKD which is about 1.02 million USD) and the minimum threshold the private bank aims to target (usually a minimum of 2 - 5 million USD). HNWI clients form the major client segment by quantity and AUM ranges from the bank's declared minimum AUM requirement to the UHNWI threshold (usually 10 - 30 million USD). Family office is an investment office set up by UHNWI and staffed with investment professionals who are investment managers and points of contact with the private banks. A family office generally needs a minimum of 200 million USD of liquid asset to manage to make a business case to economically justify the cost structure. This approach of segmentation by AUM mainly addresses the issues of pricing and products. Clients with larger AUM are usually more price sensitive and have more bargaining power, hence private banks often have a pricing policy for commission and fees based on AUM. Clients with larger AUM have more assets to invest and generally have appetite for more complex products such as derivatives and private equity. However, the approach of segmentation by AUM is *not* client behaviour oriented and it does little to reveal the client's intention towards Self Direct, Advisory or receptive to Delegation. In this paper, I will test whether *net worth* as a factor has any statistically significant impact on investment behaviour.

Recently, there is a growing trend in the private banking industry to segment the market by *demographics* and to take aim at the market segments by targeted marketing campaign. A popular segmentation is by gender and private banks are launching marketing campaign aimed at women. There is a dense literature in investment management concerning gender effect particularly in the US; however, there could be an issue of stereotyping in other culture such as the UK regarding gender as I had experienced in a conference presentation discussion. In the industry, UBS - the leading private bank by AUM in the world launched UBS Unique, a tailored wealth management package for wealthy women in 2017. Marina Lui, Head of UBS Unique, says UBS research shows investment decisions made by women differ from men: women are less inclined to take risks, tend to be less confident about choice of investments and likely to invest in a more disciplined manner (Munish, 2017). In the investment management literature, the generally cited gender effects are: men tend to feel more confident about their financial decisions making (Barner & Odean, 1997; Hira, 2008); men tend to be more active in transactions (Lewellen et al., 1997; Hira 2008); women have lower financial knowledge than men (Lusardi and Mitchell, 2008; Van Rooi et al. 2012; Almenberg and Dreber, 2015; Bannier & Neubert 2016); and women tend to be more risk averse than men (Olsen & Cox, 2001; Charness & Gneezy, 2012). As gender is a recognised research topic in investment management and it is also a major marketing campaign in industry, gender's effect on investment behaviour in terms of decision control will be researched in the paper.

The other popular segmentation approach in the industry is to segment by professions: such as entrepreneurs, professionals, retirees, inheritance wealth and housewife. Segmentation by professions reveals the structure of the wealth in terms of its size, its accumulation or depletion in terms of cash flow, and the relationship of wealth with the client's profession and family members. However, it is not readily oriented towards the understanding of advice.

A segmentation method becoming popular is segmentation by generation for age group. A generation is influenced by the milieu it grows up in such as the politics, the culture and the events of the period (Kotler & Keller, 1997). Age bracket segments the market by social experience with the belief that each generation has its unique experiences, beliefs, values and preferences. The generation of growing interest for wealth management is the Millennials. Oxford Dictionary defines a Millennial as a person reaching young adulthood in the early 21st century while Cambridge Dictionary lists the birth years of 1980s, 1990s, or early 2000s. Millennials are also known as generation Y. Millennials grew up in their unique social environment of the information age with internet, Apps on mobile phones and social media. They are much more tech savvy and digitally inclined than previous generations. Private banks are developing a strategy of digital client interface in addition to the traditional private banker client channel to serve the Millennials segment. The HNW Millennials are usually next generation with inherited wealth or with control over family wealth or young entrepreneurs especially in the tech sector. Goldman Sachs (2019) comments that Millennials have distinct set of consumer behaviours as they grew up in a period of technological change, globalization and economic disruption. Their affinity with technology enables them to be better informed consumers - more capable to compare product features, peer reviews and prices. The generation preceding the Millennials is Generation X, those who born in the mid 1960s to early 1980s, and the generation before Generation X are the Baby Boomers who were born between 1946 to 1964. Each generation is unique in terms their experience, leading to different preferences in consumption, interaction and learning thus leading to different tendencies towards Self Direct, open to Advisory or delegation by Discretionary investment behaviour. *Generation* as a variable in *age bracket* is tested in this paper for its effects on investment style tendency on self control, advice and delegation. There is more on this variable for a China specific discussion relevant to the dataset in the hypotheses development section.

The market segment demographic variables selected for study in this paper is generation (age bracket), gender, marital status, net worth (discussed in AUM) and a biological variable: blood type. More on marital status and blood type are to be discussed in the section 3.3.

3.2.2 Literature on trust in financial service

The issue of ***trust*** is central in financial service as its performance is uncertain until completion while the consumer has to decide before consumption. A level of expertise is required to make the correct consumption decision regarding risk and returns tradeoffs in addition to constraints such as investment horizon, liquidity characteristics and correlation with the consumer's other financial assets and the financial advisor often has more information and expertise than the client. Financial service has the characteristics of credence goods (Calcagno, Giofre & Urzi-Brancati, 2017) which are "goods and services that an expert knows more about the quality a consumer needs than the consumer" (Dulleck and Kerchmbamer, 2006, P.5). Therefore, the financial consumer will benefit from advice and in fact may be better off if he delegates investment decision to investment professionals for Discretionary management if the consumer is not knowledgeable. But at the same time, the consumer should be wary of agency issue and opportunism: in the case of delegation - will the portfolio manager make too many unnecessary trades, and in the case of advice - will the financial advisor recommends too risky or overly complex investments. In a client survey of retail investors in a large Italian banks, Calcagnon, Giofre and Urzi-Brancati (2017) found these consumers keep agency issue in check by a number of mechanisms which include monitoring the financial advisor's activity, asking financial advisor for better recommendation or by asking for a second expert's opinion. The authors found that the mechanism which the retail investors use to control the financial advisors depend on their financial literacy. Retail investors with high financial literacy are likely to monitor the advisors' activity directly while those with low financial literacy tend to seek a second expert opinion to confirm the original recommendation. A trade off exists for consumers of credence goods like financial service - if the consumer trusts and over relies on the financial advisor, the consumer may fall prey to opportunism in an agency problem; on the other hand if the consumer does not trust the financial advisor enough, he may miss out investment opportunities and fails to choose his ideal consumption choice (Monti et al., 2014). A further problem may exist if the consumer chooses not to trust and engage in advice and makes investments on Self Direct basis when he does not have the capability to make the best decision.

3.2.3 Literature on investment behaviour

In this section, research on investment behaviour found in literature pertaining to (i) traditional finance theory, (ii) bounded rationality, (iii) behavioural finance, (iv) personality and (v) blood type are reviewed.

A contribution of this paper is the development of a construct measuring the tendency of investment control and delegation. While there is a literature on issues in investment advice and delegation, I have not come across a paper which develops a construct of investment behaviour in terms of self control, openness to advice and delegation, the causes and consequences of these behaviours. In Calcagno, Giofre and Urzi-Brancati's (2017) paper, the survey shows the retail investors have the following inclinations towards investment advice: Self Directed 8%, advice seeking: 48%, delegation: 14%, no need for investment: 30%. Hence, it is evident that knowing how to service the advice seeker effectively, spotting the right client for advice delegation, and how to enable the Self Directed driven clients are key commercial issues for wealth managers and private banks.

Literature on investment behaviour and finance

There is an extensive literature on investment behaviour in terms of risk taking within the finance theory framework. The risk taking behaviour is generally about the action of asset allocation decisions - such as percentage weighting on risky assets of equities which offer higher returns with higher volatilities versus the weighting on safer assets such as bonds.

There is large literature in investment management from the US on the effects of demographic factors such as gender, age, marital status, income and race on risk taking behaviour - and the publications concerning gender and investment behaviour are particularly dense. More details on the effects of demographic factors on risk taking behaviour will be discussed in section 3.3 hypotheses development.

There is a close relationship of the four investment behaviours with risk management and its consequence on risk and returns. Investment styles of Portfolio Advisory and Discretionary investment both use portfolio management technique to achieve diversification for optimal risk-adjusted returns by monitoring securities concentration and correlation. Investment decision is made to achieve best possible returns for a desired level of risk as measured by portfolio volatility. The level of portfolio volatility is taken as a limiting factor as per the investor's risk attitude. Discretionary management aims for the most optimal risk-adjusted (gross) returns, on a before-management-fees basis, as investment decisions are taken by professional managers promptly without the need to wait for client's instructions and void of behavioural bias. Portfolio Advisory considers the same portfolio management technique to achieve diversification and strive for best risk adjusted returns but subject to delay in contacting client for instruction and behavioural bias. Transaction Advisory does not consider risk management in a portfolio context and securities are bought and sold based on expected returns with client consent. Self Direct investment carries the largest risk because investments are not screened as per private bank's recommendations and suitability of investment with client profile is not checked.

Literature on investment behaviour and bounded rationality

Bounded rationality stems from constraints on information capacity of the individual (Simon, 1958). In the context of service relationships, the degree to which decision making can be rational is limited due to the fact that access to all information is not available and the consumer lacks the full knowledge of the consequences of the decisions. The consumer is limited in his capability to process large amount of information as argued by Simon. An example is that some investors may have difficulty with Portfolio Advisory investment style as it is cognitive consuming to estimate securities correlation and portfolio volatility when investing. Investors need firstly the background financial knowledge and secondly the ability to process the correlation, risk and returns characteristics.

Literature on investment behaviour and behavioural finance

Behavioural finance attempts to improve on standard finance theory which assumes investors are rational and also account for investor's cognitive and emotional shortcuts and bias (Statman, 2017). Shefrin and Statman (1985) illustrated the behavioural bias of disposition effect in which investors sell winners too early and hold losers too long. It is caused by cognitive bias of faulty framing plus hindsight bias, and emotional bias of regret leading to suboptimal financial decision making. Investors are not rational as assumed in the standard finance theory. In the context of my paper, Discretionary investment mandate could be a good solution to avoid these biases. Statman (2017) argues that investor does not just seek financial returns but also utilitarian, expressive and emotional benefits. Financial returns are numeric but emotional and expressive benefits matter as well. Relevant to my research here, there is support for merits for advisory service in terms of the expressive interaction and emotional rapport. A feature in Statman's (2017) Behavioural Portfolio Theory is that investors use mental accounting and may have different portfolios for different needs. In the context of my research, an investor may engage in more than one investment style and for instance, may use Discretionary investment mandate for one purpose while Self Direct for another.

Literature on investment behaviour and personality

In the psychology literature, personality has the closest relationship to my construct of investment behaviour in terms of tendency for Self Direct, Advisory and Discretionary. Oxford Dictionary defines personality as "the combination of characteristics that form an individual's distinctive character" while Cambridge Dictionary explains personality as the type of person one is as shown by the way the person behaves, thinks and feels. Kimmel (2013) states personality research offers greater potential for customer insights than other psychological concerns and it can be used to identify psychological characteristics as a foundation for marketing *segmentation* for strategic marketing decisions. Understanding individuals' differences and similarities in terms of personality can be an effective way of segmentation. Due to the limitation of working with my data sponsor, it is not possible to administer a lengthy questionnaire and measure personality. But in this section, I develop the linkage between personality and investment style based on literature review.

Within the personality literature, Corr and Matthews (2009) acknowledge that trait theory is the dominant paradigm in personality theory while there are contributions from the other paradigms of personality such as social-cognitive, idiographic and humanistic models.

Traits are labels to describe some persistent and enduring characteristics of personality (Hewstone, Fincham & Foster, 2005). In my view, the different personality theories fit within Burrell and Morgan's Functionalist paradigm and I see personality traits as usual in understanding external stimuli and choosing behaviours. Furthermore, personality traits can be measured with measurement scales and they are an individual's inherent characters which are stable and "enduring over time and across situations" (Fung & Durand, 2014). Trait Theory became prominent thanks to the pioneering work of Eysenck (1967, 1982) who used factor analysis to come up with supertraits of extraversion, neuroticism and later psychoticism with a lower hierarchy of traits to model personality (Hewstone, Fincham & Foster, 2005). The modern reference of personality is Costa & McCrae's (1985) Five-Factor Model of extraversion, neuroticism, agreeableness, conscientiousness, and openness to experience with factors of extraversion and neuroticism following Eysenck's definition.

The personality trait of *extraversion* indicates "assertiveness, sociability, talkativeness, optimism, and being upbeat and energetic" (Costa & McCrae 1992, cited in Mayfield, Perdue & Wooten 2008, P.224). Fung and Durand (2014) argue that this trait is risk taking and add that extraverts are active and more overconfident (quoting Shaeffer, 2004) while introverts are reserved, aloof and quiet. Fung (2014) gave a biological explanation in neuroscience with hormone for extraversion. In terms of tendency to trust, Sicora (2015) claimed that individuals with lower level of extraversion are less likely to trust. Sicora (2015) quotes Hogan and Holland (2003) that extraversion provides pro-social and cooperative behaviour which is conducive to trust. The *implications on investment behaviour* are that extraverts are most likely to favour the interactive advisory services due to their risk taking, sociable and cooperative nature while the opposite trait of introverts are most likely to prefer Self Directed.

The personality trait of *neuroticism* indicates "tenseness, moodiness, anxiety, and insecurity" (Costa & McCrae 1992, cited in Mayfield, Perdue & Wooten 2008, P.224). Fung and Durand (2014) regard this trait as emotional instability and it is "prone to psychological distress like negative emotion such as hostility, depression and anxiety." She classifies this trait as risk averse. Sicora (2015) quotes Fahr & Irlenbusch (2008) anxiety is associated with scepticism and lower propensity to trust others. Scora (2015) quotes Mount, Barrick and Stewart's (2008) claim that anxious people are less cooperative and I believe this translate to less willingness to trust others. The *implication on* *investment behaviour* is that neuroticism implies that the individual is not inclined towards advisory service. Self Directed investment is more likely.

Agreeableness personality trait demonstrates "altruism, personal warmth, sympathy towards others, helpfulness, and cooperation" (Costa & McCrae 1992, cited in Mayfield, Perdue & Wooten 2008, P.224). Fung and Durand (2014) classify this trait as risk averse and relates to positive association of empathy with brain activities during observation and imitation of others in neuroscience (Gazzola, 2006). Sicora (2015) cited Morradian et al. (2006) that individuals high in agreeableness are more likely to believe others have good intentions. The *implication on investment behaviour* is that agreeableness is essential for advisory and is absolutely necessary for delegation of trust to Discretionary investment. This is a key personality trait for value-added private banking investment services.

The personality trait of *Conscientious* indicates "purposefulness, being strong willed, determination, organisation, reliability, and punctuality" (Costa & McCrae 1992, cited in Mayfield, Perdue & Wooten 2008, P.224). Fung and Durand (2014) describe conscientiousness as having a degree of control, persistence and motivation to goals. She adds that individuals high in this trait are "diligent and self controlled" while those lower are "lazy, aimless, lax and careless". Fung (2014) further adds that conscientious individuals are "careful and deliberate decision-making" and avoid "impulsive risk taking". The *implication on investment behaviour* is that the reliable, diligent, self controlled and not impulsive risk taking nature of this trait makes it ideal for investment style with good risk management technique such as Portfolio Advisory and maybe Discretionary.

Openness to experience is a trait that shows "an active imagination, aesthetic sensitivity, a preference for variety, intellectual curiosity, and broad cultural interest" (Costa & McCrae 1992, cited in Mayfield, Perdue & Wooten 2008, P.224). Fung and Durand (2014) describe this trait as active seeking and appreciate new experiences where individuals high in this trait are open to innovative ideas while individuals low in this trait are "conventional and dogmatic in their beliefs and attitudes and emotionally not responsive". Fung (2014) attributes this trait with intelligence (Helson 1985, McCrae and Costa 1985; DeYong et al. 2005; DeYong and Gray 2009) and is correlated with performance in working memory and cognitive control citing DeYoung et al. (2005). Fung and Durand (2014) classifies this trait as risk taking. The *implication on investment behaviour* is that openness to experience is conducive for advisory investment, where new and innovative investment ideas are discussed. The association of this trait with higher IQ makes it suitable for Portfolio Advisory as this investment style is cognitively more demanding.

Literature on blood type and relationship to investment behaviour

While there is literature on personality and its relationship with investment behaviour, personality is not directly measured as variable in the study. This stems from a constraint imposed by research partner Hurun on the limited number of questions I can raise in the survey questionnaire. However, I found literature on the relationship of personality with blood type; hence blood type will be used as a proxy for personality to develop hypotheses.

There is literature on the relationship between personality and blood type which draws on trait theory but it seems to be contested over the years. First, there is a debate regarding the trait theory approach, which views internal process as dominant in shaping personality, versus social-cognitive theory approach, which sees personality influenced by the world the individuals live in. Second, even within Trait Theory, there are inconsistent findings on the relationship of personality with blood type. Earlier studies using personality questionnaires similar to Eysenck's found statistically significant relationships between personality and blood type (Angst & Maurer-Groelis, 1974; Boyer, 1986; Eysenck, 1977; Jogawar, 1983; Lester & Gatto,1987). However, the more recent empirical studies performed using Costa and McCrae (1985) Five-Factor Model generally found no statistically significant relationship (Cramer & Imaike, 2002; Rogers & Glendon, 2003; Wu, Lindsted & Lee, 2005).

Rather than using the recent studies to dismiss the findings of earlier studies, a possible explanation in my view could be due to the differences in Eysenck's model (1970) of extraversion, neuroticism and psychoticism with Costa and McCrae's (1985) Five-Factor Model of extraversion, neuroticism, agreeableness, conscientiousness and openness. Digman (1990) compares personality models and note the main difference between Eysenck's (1970) and Costa & McCrae's (1985) is Eysenck's omission of openness as a factor while there are similarities between Eysenck's factor of psychoticism with Costa and McCrae's factors of agreeableness and conscientiousness. Even though Costa and McCrae (1985) adopt Eysenck's two supertraits of extraversion and neuroticism as factors, I believe the additional three factors may extract explanatory power from extraversion and neuroticism factors and hence these two factors could be measured differently in the two models. For example, a recent publication by Sivaraman et al. (2018), which used

Eysenck's personality questionnaire (1964), found a statistically significant relationship between personality and blood type. Nonetheless, I take note that Sivaraman et al.'s (2018) publication appears in a new medical journal in India. In summary, I will develop hypotheses on personality and blood type drawing from studies which found statistically significant results using personality questionnaires similar to Eysenck's and published in internationally well known journals.

In the neuroscience literature, there are recent publications such as Alexander et al. (2014) and De Marco and Venneri (2015) which point out the interaction effect of blood type with ageing on cognitive ability. Both papers are published in international well known journals. Alexander et al. (2014) is published in *Neurology* with an impact factor of 8.055 (2017) and De Marco and Venneri (2015) is published in *Brain Research Bulletin* with an impact factor of 3.44 (2017). The effect on cognitive ability will impact on investment behaviour and will be discussed in the next section on hypotheses development.

3.3 Hypotheses Development

This research paper adopts the Functionalist paradigm in Burrell and Morgan's (1979) framework. In the Functionalist paradigm, Burrell and Morgan argue that the ontological view of social world exists external to the individuals and the notion of function is developed from the standpoint of the researcher and not the participants. As such, the research is conducted from the point of view of the wealth manager with the *research goal* of understanding investment behaviour in terms of preferences on the services the wealth manager can provide. A new construct of investment behaviour in terms of investment control and trust is developed which ranges from Self Direct, Transaction Advisory, Portfolio Advisory to Discretionary.

The Functionalist paradigm operates with a notion of determinism which attempts to explain social phenomena in terms of some narrowly defined factors at the expense of others (Johnson, 2000). In here, I raise the main research question of how investment behaviour can be understood from market segments in terms of demographic factors. The ***overall research question*** is as follows: What impacts of demographic factors such as age bracket (generation), gender, marital status, net worth and blood type may have on the investment behaviour construct in terms of Self Direct, Transaction Advisory, Portfolio

Advisory and Discretionary? The specific hypotheses concerning demographic variables are developed as follows:

3.3.1 Hypotheses concerning generation (age bracket)

In the finance literature, there is life cycle theory which draws the relationship between age and risk attitude. Investors make investment decisions based on expected income stream based on number of remaining years of earnings. Hence, older age and smaller remaining number of earnings years translate to lower risk taking behaviour (Farrell, 2014). The rationale is linked to investment horizon and risk capacity (Reilly, 2002). When an individual is young, there is more capacity to take on risky investment such as equities, with higher returns and higher volatilities, as the longer investment horizon will mitigate the negative returns of higher volatilities and may offer opportunities to recover losses. Jagannathan and Kocherlakota (1996) remarked that as the number of working years diminishes, the investor should reduce risk of investments.

While finance literature comments on age's impact on investment behaviour as a variable, the demographic data of age in this paper is collected in age brackets in three different generations. Each generation's life experience is unique as shaped by different defining events of the period, culture and politics while members of the same generation will likely share in the same outlook and personal values (Kotler & Keller, 1997). In the data set, there are three different generations: year 30 or below; age 31 -45; and above 45. The survey was carried out from July to December, 2016. The youngest age bracket has participants who were born in 1986 or later and are Millennnials as per Cambridge Dictionary's definition of a person who was born in the 1980s or after. The middle bracket of age 31 to 45 has participants born between 1971 and 1985 and corresponds to Generation X and some elder Millennials. Generation X is generally for those born in the 1960s and 1970s. The eldest age bracket of above 45 corresponds to participants who are born before 1971 which counts some elder Generation X and Baby Boomers.

There are certain key events in China which shaped the lives of the generations differently. There are four years in the 1960s (1966, 1967, 1968, 1969) that there were no university entrants in China (Giles, 2015). It adversely affects the elder Baby Boomer segment and for those were of age 68 at the time of the survey experienced complete tertiary education disruption for four years and for those in age early 60s experienced some disruption.

University education in the 1970s and early 1980s before China opened its doors was structured for the old closed door economy with little emphasis on commerce. The Baby Boomers who later became entrepreneurs were self made. The *consequence* is that the elder *Baby Boomers* (those falling in the survey age bracket of above 45) experienced the least formal education and they possess the least financial knowledge in comparison with the other generations. Then, in 1986 when China started with the open-door policy and developed a market economy, Baby Boomers were of age 22-40 and benefited as the first group of entrepreneurs. Manufacturing and trading of goods flourished and university enrolment climbed. Economic progress gathered pace gathered when Premier Zhu Rongji started state owned enterprise reforms in 1998 which triggered some management buy-out opportunities at low valuation - it was all exciting and attractive for the first generation of entrepreneurs. The Baby Boomers were of the age of 34 - 52 while Generation X was of age 14 -33. The result is that Generation X was being better educated and grew up in an environment which was encouraging for entrepreneurship and risk taking. Hence, the *implication* for investment that is *Generation X* should have higher propensity for risk taking behaviour. Subsequently, China joined the WTO in 2001, trading and economic activities climbed rapidly. In 2001, the Baby Boomers were of age 37-55, Gen X were 17 - 36 and Millennials were growing up with the eldest being age 16. During that time, the internet became accessible and e-commerce was starting. English education was becoming popular in China as a language of international commerce. The Millennial is the best educated generation, grew up in the era of globalisation and in the age of internet. The Millennials also grew up in families of growing income and wealth and suffered the least hardship. Some of them are second generation HNWI gifted with family wealth and inheritance. The *implications* for investment is that *Millennials* form the generation which has the best formal training in finance gained in formal studies and/ or through client experience in wealth management

The following 3 hypotheses are developed concerning the preferences of 4 investment behaviours for the different generations.

H1.1 For Self Direct investment, Millennials should have the highest propensity compared to the other generations.

Reasoning: Millennials have the best formal education and the best training in finance. This generation also has the smallest knowledge gap between them and the financial advisors. Thus, Millennials should be the most confident in their investment decisions which translate to the highest propensity for Self Direct investment.

H1.2 For Transaction Advisory, older generations such as Generation X, Baby Boomers should have higher tendency for this investment style compared to Millennials.
Reasoning: Transaction Advisory service is the simplest advisory service to comprehend. Investment is recommended on a standalone basis and does not consider securities correlation and portfolio context. This investment style takes less cognitive effort to implement than Portfolio Advisory. In Asia, most banks offer Transaction Advisory service for free.

H1.3: For Portfolio Advisory, Millennials should show higher propensity when compared with other generations.
Reasoning: Portfolio Advisory considers the impact of securities correlation and makes investment decision based on the incremental risk adjusted returns the new investment contributes to the portfolio. This is the most cognitive consuming investment style and requires the commitment and knowledge of finance theory which the Millennials should show the greatest propensity for when compared with the other generations.

For Discretionary, I chose not to formulate hypothesis as the structure of the age bracket data is not ideal to support the arguments. Discretionary investment is the delegation of investment decisions to professional managers. Individuals who choose this investment style believe the professional manager will make better investment decisions than they can. The older age generation of Baby Boomers may have incentive to prefer this investment style. Elder generation such as Baby Boomers should prefer this investment style especially the Baby Boomers who were about 68 years old at the time of survey because their university education was disrupted in China during Cultural Revolution. They should have the least formal training in finance and be less cognitively as able than the younger generations. However, in the survey, the Baby Boomers were mixed with some Generation X in the age bracket of over 45 years old. Hence, it is not possible to isolate this group in the study.

3.3.2 Hypotheses concerning gender

There is a dense literature concerning the impact of gender on investment behaviour in the investment literature coming mainly from the US. While gender effect could be looked at as a taboo in academic research in some culture, this is clearly a recognised research topic given the volume of literature cited and for that reason I must objectively treat it as a variable for hypothesis testing. The general findings in the literature are that gender has different and opposite associations with risk taking actions through differences in areas of risk attitude, overconfidence, trading frequency, financial knowledge, and attitude towards learning and advice. These findings are summarized below and are used to formulate three hypotheses regarding preferences of investment behaviours.

Men are more risk loving

Generally, the literature finds men have more risk loving attitude than women. Farrell (2014) quotes Croson and Gneezy's (2009) literature review that a general statement is that most studies find women are more risk averse and likely to choose less risky portfolios. Olsen & Cox (2001) found women to be more risk averse, weigh the possibility of loss more heavily and place more emphasis on risk reduction. Hira (2008) found men preferred above-average risk while women prefer average or below-average risk. The difference in risk attitudes between gender leads to different risk taking actions for investment. Women were found to under invest when compared to men (Charness & Gneezy, 2012) and larger percentage of women invest in minimum-risk portfolio though some difference is attributable to income (Hinz, McCarthy and Turner, 1997 as cited by Farrell, 2014). Single men were found to more likely than single women and married women to choose mostly stocks portfolio (Sunden and Surette, 1998). The implication on my construct of investment behaviour is that men are more likely to choose investment styles of higher risk without consideration of risk management such as Self Direct and Transaction Advisory.

Men are more over-confident

Overconfidence is unfounded confidence associated with biased self perception. There are a number of studies which found me to be overconfident in their financial investment. Bannier & Neubert (2016) found men to be overconfident in their financial decision making as their investments have a strong association with both actual and perceived financial knowledge while women's investments only associate with actual financial knowledge. This finding is consistent with Beyer & Bowden's (1997) claim that men tend to feel more competent in financial matters than women (cited by Hira, 2008) and Barber & Odean (1997)'s finding that men tend to be more confident about their financial decision-making (cited by Hira, 2008). The implication on the construct of investment behaviour is that men should have higher propensity for Self Direct investment. Nonetheless, Farrell (2014) cites Croson and Gneezy's (2009) claim that the male gender effect of overconfidence, as argued by Barber and Odean (2001), disappears when occupations of all participants are limited to managers and entrepreneurs. Hence, over confidence could be occupation influenced rather than gender based.

Men trade more frequently

Barber and Odean (1997) found men tend to trade more frequently and further Barber and Odean (2001) found men trade 45% more than women and reduces net returns by -2.65% for men (-1.72% for women) in a study with a discount brokerage firm and commented that stock trading is an investment activity susceptible to overconfidence due to low predictability and external stimuli (cited by Farrell, 2014). In another study by Lewellen, Lease and Schlarbaum (1997), the authors found men make more transactions, rely less on brokers, anticipate higher returns and believe their returns are more predictable than women (cited by Hira, 2008). This active trading behaviour has association with over-confidence. In an industry publication, Schultz (2017) claims that women clients in the US are reshaping private banks as they are less transaction oriented than men and tend to focus on larger goals such as financial planning. The implication on the construct of investment behaviour is that men should favour transactions oriented as supposed to portfolio oriented investment styles such as Transaction Advisory and Self Directed.

Gender and difference in financial knowledge

The literature has a number of studies with findings that men have higher financial knowledge. Farrell (2014) quotes Lusardi and Mitchell (2007, 2008) that women are less likely to answer financial knowledge questions correctly. Other researchers have found women to have lower financial knowledge than men (Bannier & Neubert 2016; Van Rooi et al. 2012; Lusardi and Mitchell, 2008). Almenberg and Dreber (2015) found women have lower numeracy when compared to men. On the other hand, Hira (2008) cites Dwyer et al.'s (2002) finding that the impact of gender is significantly weakened when knowledge disparities disappear suggesting that it is difference of financial knowledge rather than gender that drives investment behaviour. The possible implication on this paper's construct of investment behaviour is that men should favour more Self Direct investment when compared to women and women should have a higher need for Discretionary and Transaction Advisory service.

Gender and different attitudes towards learning and advice

Men and women approach learning and advice regarding investment differently. Hira (2008) state women are more likely to seek advice of finance professional while men are more likely to learn about investments on their own. Furthermore, women prefer instructor-based learning while men prefer self-directed learning. Nonetheless, the single most preferred means of learning about investment for men and women is to consult with a knowledgeable person. Hence, the role of a private banker wealth manager is important for clients. The possible implication on the construct of investment behaviour is that men are less likely to prefer Discretionary services when compared to women.

The following three hypotheses are proposed concerning the preferences of the investment behaviours for the gender demographic variable.

H2.1: Men are more likely to choose **Self Direct** investment style than women.

Reasoning: Men are generally more overconfident in investment decision (Bannier & Neubert 2016; Barber & Odean 1997; Beyer & Bowden 1997); men are found to have higher financial knowledge (Almenberg & Dreber 2015; Bannier & Neubert 2016; Lusardi & Mitchell 2007, 2008); Van Rooi et al. 2012) and men are more likely to learn about investment on their own (Hira 2008). The literature finding that men have more risk loving attitude (Croson & Gneezy's 2009; Hira 2008; Olsen & Cox 2001; Sunden & Surette, 1998) also supports this hypothesis as Self Direct investment does not consider risk management technique is of higher risk.

H2.2: Men are more likely to choose **Transaction Advisory** than women.

Reasoning: Men trade more frequently (Barber and Odean 1997 2001; Lewellen, Lease & Schlarbaum 1997) and have higher risk attitude (Croson & Gneezy's 2009; Hira 2008; Olsen & Cox 2001; Sunden & Surette, 1998). Transaction Advisory trades on news flow, buy low and sell high and faces no restriction from portfolio consideration and asset allocation constraints. Transaction Advisory is more risky than Portfolio Advisory as it does not need to pay attention to securities correlation.

<u>H2.3</u>: Women are more likely to choose **Discretionary** investment than men.
Reasoning: Women are found to have lower level of financial knowledge (Almenberg & Dreber 2015; Bannier & Neubert 2016; Lusardi & Mitchell 2007, 2008) which gives more incentive to delegate investment decisions. Women are more risk averse (Croson & Gneezy's 2009; Hira 2008; Olsen & Cox 2001; Sunden & Surette, 1998) and the risk management techniques in asset allocation approach in Discretionary should be appealing. Women are less concerned with investment transactions but more concerned about financial planning (Schultz 2017).

I choose not to formulate any hypothesis concerning Portfolio Advisory investment style. It is because there is not much literature on gender study on portfolio management technique. Portfolio Advisory employs risk management technique in asset allocation but it requires higher financial knowledge which contradicts with literature findings on financial knowledge and gender. As a result I choose not to formulate any hypothesis and will wait to see how the statistical results come out.

3.3.3 Hypotheses concerning marital status

While many studies found gender difference in risk taking investment behaviour, that men are risk taking while women are risk averse, there is a study which shows the contrary and it involves sample of male participants who are all married men. Farrell (2014) cites Papke (1998)'s study which shows no significant difference in risky asset (equities) allocation in investment portfolio between men and women using a sample of married men. The male participants are all married and are restricted to the spouse of the women participants. This finding contradicts the results from other studies concerning the gender and investment and the key difference in methodology is the sample selection of all married men.

My interpretation is that Papke's (1998) result shows the effect of marriage on investment behaviour in that married men do not invest significantly differently in overweight equities when compared to women, it supports the argument is that marriage decreases the risk attitude of men. This could be influence from the more risk averse wife and shapes investment decision of the husband. Another reason is that marriage usually brings more financial burden such as dependents of children and marriage couples are more likely to own their homes and as a result household debts rise which favours a less risky portfolio.

Having explained the effect of marriage on risk attitude and the consequence on risk taking behaviour, what does it mean for investment behaviour in terms of the investment behaviour construct in the paper? The implication is that single individuals should be less concerned with risk management and there is less need to consider investment styles with risk management techniques such as Portfolio Advisory and Discretionary. The second implication stems from the joint financial decision nature which comes with marriage as legal rights in sharing wealth comes with being married. The joint financial decision making nature does not encourage married individuals to favour independent and Self Directed investment behaviour. On the other hand, joint financial decision making may favour a professionally managed Discretionary portfolio which uses robust risk management techniques and is "neutral" in the sense that does not require concurrent advisory consent of both husband and wife as investment decisions are made by the professional portfolio manager. Hence, the following hypothesis is formulated regarding gender effect on Self Direct and Discretionary investment.

H3.1: Married individuals should have lower propensity for **Self Direct** investment style compared to singles.

H3.2: Married individuals should have higher propensity for **Discretionary** investment style when compared to singles.

As there is no literature which directly relates to the effect of marital status on investment advice, I chose not to formulate hypotheses regarding Transaction Advisory and Portfolio Advisory and elect to look at the results of the statistical analysis.

3.3.4 Hypothesis concerning net worth

There are papers on investment risk taking behaviour and its association with income. Income is related to net worth as net worth is the accumulation of income and assets. The literature generally finds higher income individuals would like to take on more risks. Agnes (2006), as cited by Farrell (2014), found relationship of portfolio concentration with higher income that higher income leads to less diversified investment portfolio with more concentration in some securities. Hinz, McCarthy and Turner (1997), as cited by Farrell (2014), higher income individuals take on more risk. There is consistent finding with Reilly's (2002) argument that individuals with higher income and higher net worth should have a higher propensity to undertake risk as the higher income and net worth can help to absorb losses in investment.

On the other hand, some of the practices observed in the private banking industry point to the contrary. Private banks generally steer larger clients to take on investment in a portfolio context and use more risk management techniques. In some private banks, there are also systems controls which monitor large portfolio drawdown in absolute amount. As a result, private banks are shaping higher net worth clients to be more risk averse which is opposite to the findings in literature that higher net worth clients are more risk taking. There is another observed client behaviour in the industry which drives higher net worth clients to be more risk averse in investment. Ultra high net worth individuals (UHNWI) with a large amount of liquid assets, usually over 100 million USD liquid assets, often set up a family office staff and hire investment professionals to make investments at private banks. Usually, the family office manager is concerned about portfolio drawdown and is more risk averse. In the context of the construct of investment behaviour in terms of Self Direct, advisory services and Discretionary, the family office usually orients the private banking relationship towards Self Direct or advisory. The private banking relationships are almost never Discretionary oriented. As the family office adds a layer of cost for the UHNWI, the family office manager is generally very concerned about fees. The family office manager usually shops among private banks for the best deals in term of pricing and product features. When it comes to advisory service, family office generally opts for Transaction Advisory as advice for transaction is usually given for free. Private banks tend to offer Portfolio Advisory for a fee which remunerates for private bank's asset allocation strategy. Family office tends to avoid paying this advisory fee and prefers to integrate asset allocation views of different to their own asset allocation view and implement the asset allocation strategy by Self Direct or Transaction Advisory service with private banks. However, in the dataset, there are survey participants who are UHNWIs who have family office or participants who are family office managers.

Due to the conflicting views of literature findings with industry practice on risk taking behaviour and the last lack of literature relating to the construct, I am hesitant to formulate hypotheses and would like to defer to see the statistical analysis on the data.

3.3.5 Hypotheses concerning blood type

As previously explained in the literature review section, I will develop hypotheses on the effect of blood type on investment behaviour drawing from literature on the relationship of blood type on personality and particularly the studies which found statistically significant results using personality questionnaires similar to Eysenck's and were published in well known international journals.

Eysenck (1977) put forth a claim that blood type AB is associated with introversion by citing results of studies by other researchers: Angst and Maurer-Groeli's (1974) finding that the personality trait of *introversion* is more frequent among blood type AB using samples of European participants. This result is consistent with Mourants' (1976) finding that blood type AB is in higher proportion in Japan when compared to England and with Lynn & Hampon (1977)'s finding that Japan is the most introverted nation in a study of personality traits among advanced nations. The *implication* is that blood type AB individuals, being more introvert, should prefer Self Direct to Advisory as there is no need for interaction.

Boyer (1986) found that blood type A individuals to be more obsessive-compulsive and more psychotic than type O. The *implication* is that being more obsessive-compulsive and psychotic, type A individuals are less likely to be engaging in Advisory dialogue while more likely to choose Self Direct than type O individuals.

Jogawar (1983) found that people with type B blood were less emotionally stable and more apprehensive. Angst and Maurer-Groeli (1974), Marutham and Indira (1990) found relationship between Type B and neuroticism (as cited by Rogers and Glendon, 2003). It is likely that type B individuals are less trusting because of apprehensive nature and being emotional less stable is not conducive to Advisory, hence type B should prefer Self Direct.

Lester and Gatto (1987) found individuals with type O had higher extraversion scores (as cited by Rogers and Glendon, 2003). The *implication* on investment behaviour is that type O should prefer the interactive nature of Advisory services to Self Direct.

H4.1: Compared with type O, the blood types of AB, A, B should have opposite preferences and have more favourable attitude towards Self Direct.

In neuroscience, there is some recent research concerning the relationship of blood type and cognitive capacity - in particular, the interaction effect of age with blood type on cognitive capacity. De Marco & Venneri (2015) found that type O blood adults had larger grey-matter volume than non-O adults. Grey matter contains most of the neuronal cells in the brain which accounts for memory and decision making. In addition, the authors point out non type O individuals might be more susceptible to cognitive decline with ageing. This is consistent with the narrower finding in Alexander et al.'s (2014) paper that non type O individuals show poorer cognitive trajectories and particularly blood type AB individuals are associated with higher incidence of cognitive decline. The study is large scale with 17,630 participants and was published in Neurology which, according to Scimago Journal Rank, is the most cited journal in neurology. Cognitive ability relates to the ability to reason independently and directly impact on Self Direct investment and to a lesser extent advisory service. As a result, the following hypothesis is formulated.

H4.2: Older type AB blood individuals should less likely choose Self Direct.

Please see Table 3.1 for summary of hypotheses.

Table 3.1 Hypotheses for effects of demographic factors on investment behaviour

Demographic factors	**Hypotheses**
Generation	H1.1 For Self Direct investment, Millennials should have the highest propensity compared to the other generations. H1.2 For Transaction Advisory, older generations such as Generation X, Baby Boomers should have higher tendency for this investment style compared to Millennials. H1.3: For Portfolio Advisory, Millennials should show highest propensity when compared with other generations.
Gender	H2.1: Men are more likely to choose Self Direct investment style. H2.2: Men are more likely to choose Transaction Advisory. H2.3: Women are more likely to choose Discretionary investment.
Marital status	H3.1: Married individuals should have lower propensity for Self Direct investment style compared to singles. H3.2: Married individuals should have higher propensity for Discretionary investment style when compared to singles.
Blood type	H4.1: Compared with type O, blood types of AB, A, B should have opposite preferences and more favourable attitude towards Self Direct. H4.2: Older blood type AB individuals should less likely choose Self Direct.

3.4 <u>Methodology</u>

3.4.1 Literature setting the context of the Functionalist paradigm

In Burrell and Morgan's (1979) sociological paradigms, the Functionalist paradigm takes on *objective* assumptions regarding the nature of social science together with a view of *regulation* regarding the nature of society. In this paradigm, methods and techniques similar to natural science are used to analyse the social world. The social world is orderly and appears as controlled. Hence, the analytical models can be relied on to make predictions concerning real life phenomena. Here, I use survey questionnaires to ask a sample of HNWIs concerning their investment behaviour and use statistics to analyse the data and to understand choice patterns. Marshall (1998) says Durkheim is closely associated with Functionalism and he often uses analogy from biology for his arguments. The tradition of functionalism building from natural sciences was influenced from the thoughts of Comte, Spencer, Pareto and Durkheim (Burrell & Morgan, 1979). The Functionalist paradigm makes four levels of assumptions in an objective stance regarding the nature of social science in terms of ontology, epistemology, human nature and methodology.

The *ontological* assumption about the essence of the phenomenon under study is that of realism and that what we perceive is real and concrete. The world external to the individual's cognition is real and can be observed. Furthermore, Burrell and Morgan quotes Merton (1968) that the Functionalist paradigm involves the standpoint of the *observer* and not that of the participant. The researcher in the Functionalist paradigm is taking a perspective similar to that of a natural scientist conducting an experiment. In this paper I observe from the questionnaire responses the preferred investment styles of HNWI in terms of varying degrees of self control versus delegation ranging from the styles of Self Direct, Transaction Advisory, Portfolio Advisory to Discretionary; and we observe the demographic characteristics of the participants such as age, marital status and gender based on their responses in the survey questionnaire. The *epistemological* assumption concerning the grounds of knowledge for the Functionalist is that it is feasible to observe a social phenomenon and establish reliable knowledge about how it works (Johnson, 2000). As a result, Burrell and Morgan argue that knowledge can provide predictions about the external reality. This epistemological assumption derives from the rationality of principles used in natural sciences and scientific theories can be backed by empirical evidence. The epistemological assumption is that from observing the ways HNWIs of different demographic characteristics express their preferences for investment styles, I can understand how different demographic groups of individuals choose investment styles. For the next level of assumption regarding *human nature*, Functionalist assumes human nature is deterministic and behaviour is caused by some underlying motive (Johnson, 2000). The underlying motive of the HNWIs is to make investment style choices to maximise their well being (utility), and they have preference ordering among these investment styles for rational decision making. While the HNWIs are concerned to choose investment style to maximise their utility, the wealth managers are keen to have higher degrees of delegation towards to them for the reasons of higher revenue (management fees in Discretionary and commission in Advisory services) to the bank, lower cost of servicing and better risk management for the client. Lastly, the *methodological assumption* of Functionalist is that of a nomothetic one. A nomothetic method looks for a general mechanism to account for the observed behaviour and social patterns. Here in this paper, I assume certain demographic factors shape investment style preferences in terms of the degree of self control versus delegation. This perspective is of interest to private banks for commercial reason and they are keen to know if certain market segments with common demographic characteristics exist. If these segments exist, the private banks will target them and formulate the ways to reach out and service these client segments. For instance, if female HNWIs are found to be more keen on delegating investment decisions to wealth manager by choosing Discretionary investment, wealth manager should develop targeted marketing plan with focused communication aimed at the women segment.

3.4.2 Data and Method

In this methodology section, the design of the questionnaire, the method of conducting the survey, descriptive statistics of the survey data, the methods for testing hypotheses and estimation of choice model are discussed.

The survey questionnaire (see Figure 3.3) asks the participants for their responses to rank their preference of four investment styles. The following ordinal scale is used for the ranking of preference - 1: most dislike, 2: dislike, 3: preferred, 4: most preferred. The investment styles are Self Direct, Transaction Advisory, Portfolio Advisory, Discretionary. The investment styles are presented in the order of increasing advice from the independent nature of Self Direct, to be given advice on a deal by deal basis of Transaction Advisory, to be given more holistic advice on a portfolio level of Portfolio Advisory, and finally to entrusting the financial institution with Discretionary Investment. HNWI individuals with net worth of over 1.5M USD are targeted as participants of the survey. The survey questionnaires also ask the participants the following demographic questions: age (<30, 31-45, >45), gender (male, female), marital status (single, married), blood type (A, B, O, AB), city of residence, net worth (< 1.5M USD; 1.5M-7.25M USD; 7.25M-14M USD; over 14.5M USD). Only responses from participants with net worth of over 1.5M USD will be used. Please see survey questionnaire in Figure 3.3 and while the variables formulated for analysis are shown in Table 3.2.

Figure 3.3: Survey questionnaire on investment styles

Please rate your preference rank score (1 Most dislike, 2 Dislike, 3 Preferred, 4 Most preferred) for the investment styles below.

Self Direct ____; Transaction Advisory___; Portfolio Advisory___; Discretionary___

Please indicate your net worth

Below 1.5 million USD (below 10 million CNY) ___
Between 1.5 to 7.25 million USD (between 10 - 50 million CNY) ___
Between 7.25 to 14 million USD (between 50 - 100 million CNY) ___
More than 14 million USD (more than 100 million CNY) ___

Age < 30 ___ ; 31 - 45 ___ ; > 45 ___

Gender Male ___ ; Female ___

Marital Status Single ___ ; Married ___

Blood type A ___ ; B___ ; O___ ; AB___

Table 3.2 Variables description for statistical analysis

Variable name	Measuring	Measure	Values
ClientDirect	Preference for Self Direct Investment	Ordinal	1, 2, 3, 4 (1 most dislike, 4 most preferred)
TransactAdvice	Preference for Transaction Advisory	Ordinal	1, 2, 3, 4
PortfolioAdvice	Preference for Portfolio Advisory	Ordinal	1, 2, 3, 4
Discretionary	Preference for Discretionary	Ordinal	1, 2, 3, 4
Generation	Age bracket	Ordinal	1 = ”<30” ; 2 = ”31-45”, 3= ”>45”
Gender	Gender	Nominal	1 = “Male”, 2 = “Female”
Marital	Marital Status	Nominal	1 = “Single”, 2 = “Married”
Networth	Net worth	Ordinal	2 = “1.5M - 7.25M USD” 3 = “7.25M - 14.M USD” 4 = “>14.5M USD”
Blood	Blood type	Nominal	1 = “A”, 2 =”B”, 3 =“C”, 4=”AB”
CodedClientDirect	Coded preference for Self Direct Investment	Ordinal	1, 2, 3 (1 most dislike, 2 neutral, 3 most preferred)
CodedTrasactAdv	Coded preference for Transaction Advisory	Ordinal	1, 2, 3
CodedPortfolioAdv	Coded preference for Portfolio Advisory	Ordinal	1, 2, 3
CodedDiscretionary	Coded preference for Discretionary	Ordinal	1, 2, 3
LogitClientDirect	Attitude towards Self Direct Investment	Ordinal	0 = “Not preferred”, 1= ”Preferred”
LogitTransactAdv	Attitude towards Transaction Advisory	Ordinal	0, 1
LogitPortfolioAdv	Attitude towards Portfolio Advisory	Ordinal	0, 1
LogitDisretionary	Attitude towards Discretionary Investment	Ordinal	0, 1

The dataset collected is unique as it is the only known dataset for wealth management involving HNWI in China and the new investment behaviour construct measuring the tendency of control, interaction and delegation for investment. China is a developing country and according to *Credit Suisse Global Wealth Report Databook (2017)* China’s wealth per adult is 26,872 USD while the US is 388,585 USD. The survey participants of HNWI with net worth of over 1.5M USD is already 55.8 times the average of China, 3.8 times the USA and 5.4 times of UK and demonstrates that the researcher found the unique access to HNWIs in China who are the minority in the population. The survey targets HNWIs and questionnaire also asks the survey participate to self declare their net worth, the participants with no responses and the ones who reported a net worth of below 1.5M

USD are deleted from the sample. The survey data has 306 participants who are HNWIs with net worth of over 1.5M USD. While USA accounts for 33% of world wealth, China now accounts for 10% which is double the market share of UK at 5% (Credit Suisse Global Wealth Report Databook, 2017). The dataset is also very unique in terms of wealth data because of its uncommon access to HNWI and the growing importance of China as a market for wealth management business.

Hurun is the partner chosen for conducting the survey and the organisation has a very good network of HNWIs in China. Hurun is a publication, research and lifestyle company based in Shanghai. It publishes its well regarded annual China Rich List of the wealthiest individuals in the country. The founder of the company, Mr. Rupert Hoogewerf is a long time friend of researcher Andrew Lo. A former chartered accountant, he founded the *China Rich List* publication in 1999. Mr. Hoogewerf agreed to have *Hurun Report* staff to carry out the investment style survey questionnaire when *Hurun Report* is contacting HNWI to conduct its annual "Best of the Best" luxury goods survey. It is agreed that Andrew Lo would have exclusive use of the data concerning investment style preferences.

The data was collected from July - Dec 2016. Hurun staff conducted the survey by one to one meetings, telephone interviews and emails. The stock market indices performance for the year of 2016 were: China A shares Index: -12.5%, Hong Kong Hang Seng Index: +0.4%; US S&P500 Index: +12%. China A shares index performance in 2016 of -12.5% was significantly worse than 2015 of +9.4%. China A shares had a very volatile year in 2015 when it climbed by 60% then plunged by over 40% to finish with a gain of +9.4%.

3.4.3 Descriptive statistics

The raw data obtained from Hurun was cleaned by eliminating data without responses to investment style preferences and by removing participants with net worth below 1.5M USD. In the cleaned data, there are 306 observations in which all participants have net worth over 1.5M USD. Of these 63% of the participants have net worth of between 1.5M - 7.25M USD, 22% of them of between 1.5M - 7.25M USD and 15% over 14.5M USD.

The characteristics of the other demographic variables are as follows. For the generation variable in terms of age bracket, 24% of participants are Millennials who are below 30 years old, 57% are in the age bracket of 31 to 45 (Generation X and elder Millennials) and

19% are above the age of 45 (Baby Boomers and elder Generation X). In terms of gender, 68% are male and 32% are female. For blood type, there are 57 missing values (18.6%) which reduces valid observations to 249. Type A accounts for 17%, type B 31%, type O 40% and type AB 12%. Please refer to Table 3.3

Table 3.3 Descriptive statistics of demographic variables

Net worth

		Frequency	Valid Percent
Valid	1.5M-7.25M USD	192	63
	7.25M-14.5M USD	67	22
	>14.5M USD	47	15
	Total	306	100

Age

		Frequency	Percent	Valid Percent
Valid	< 30	72	23	24
	31-45	170	56	57
	> 45	58	19	19
	Total	300	98	100
Missing	System	6	2	
Total		306	100	

Gender

		Frequency	Percent	Valid Percent
Valid	Male	198	64	68
	Female	94	31	32
	Total	292	95	100
Missing	System	14	5	
Total		306	100	

Marital status

		Frequency	Percent	Valid Percent
Valid	Single	78	25	27
	Married	214	70	73
	Total	292	95	
Missing	System	14	5	
Total		306	100	

Blood type

		Frequency	Percent	Valid Percent
Valid	A	43	14	17
	B	77	25	31
	O	100	33	40
	AB	29	9	12
	Total	249	81	100
Missing	System	57	19	
Total		306	100	

The demographic variables are analysed for correlations (Table 3.4). There is only one statistically significant correlation between age and marital status as the likelihood of being married increases with age. There are no statistically significant correlations among other variables including age with net worth. Higher age does not correlate with higher net worth in this dataset, in the dataset 24% of the participants are below the age of 30 and these individuals are wealthy next generation and wealthy self made young entrepreneurs in China.

Table 3.4 Correlations among demographic variables

Correlations

	Age	Net Worth	Marital Status	Blood type
Age	1	.051	.422**	.016
Net Worth	.051	1	.074	.038
Marital Status	.422**	.074	1	-.048
Blood type	.016	.038	-.048	1

**. Correlation is significant at the 0.01 level (2-tailed).

3.4.4 The choice of significance level α

The level of significance α is a key input parameter for hypothesis testing. It is the probability of rejecting the true null hypothesis which represents the degree of risk a researcher is willing to take Type I error (Kim, 2015). Type I error occurs when the null hypothesis is falsely rejected when it is actually true. When committing a Type I error, a researcher claims the research hypothesis is true when it is really not true and is misleading (Coolidge, 2013).

The convention for setting level of significance follows from Fisher's (1925) and his practice of accepting an experiment's result as significant if it could not be produced more frequently than one in twenty chances or p =.05 (Coolidge, 2013). Fisher's rationale is that one in twenty chances represents an unusual sampling occurrence (Moore and McCabe, 1993 as cited by Kim, 2015). While the level of significance is set by the researcher, it ought to be set as a decreasing function of sample size according to Leamer (1978 as cited by Kim, 2015) and with consideration of the implications of both Type I and Type II errors (Skipper et al., 1967 as cited by Kim, 2015). For this study, I have followed the usual convention of choosing $\alpha = .05$, and claiming statistically significant results with $p < .05$. In addition, I also point out results with $p < .10$ with the reasons below.

First, SPSS reports hypothesis testing with two-sided p-value by default as asymptotic significance (2-sided) even though chi-square is a one-tail test. Two-tailed tests are more conservative than one-tailed tests as it is more difficult to reject null hypothesis with a two-tailed test than with one-tailed (University of Utah, 2021). As a result, I choose to report chi-square tests using SPSS two-sided p-value and claiming statistically significant results for those with $p < .05$ (2 sided). At the same time, I also point out results with $p < .10$ (2 sided) and proceed to analyse the contingency table using odds ratio to affirm direction of the hypothesis and then carry out one-tail test and report result with exact sig. (1-sided) and claim statistical significance for results with $p < .05$ (1 sided).

Second, chi-square test is sensitive to sample size (University of Utah, 2021). My sample of n = 306 is small with the relatively high degree of freedom (df) with the measure of investment behaviour (recoded) having 3 levels and demographic factors having multi-levels leading to larger critical values. A larger level of significance could be set for a smaller sample size (Leamer 1978, as cited by Kim 2015). While I use $\alpha = .05$ as cut off, it is also worthwhile to point out results with $p < .10$ because of small sample size.

Third, the sample size of blood type AB is small n = 29 and type AB is the rarest blood type. It impacts on hypothesis testing of H4.2 concerning the effect of age bracket with blood type interaction on investment behaviour by logistic regression as small sample size leads to large standard error with wide confidence interval around the point estimator. While not achieving statistically significant result at $\alpha = .05$, I show 90% confidence interval around the mean of the outcome variable for each level of age bracket and blood type AB as comparison.

3.4.5 Hypotheses testing

For hypotheses testing involving categorical variables, nonparametric statistics such as chi-square statistics are used (Coolidge, 2013; Field, 2013) to determine if there is an effect of a demographic variable on a particular investment style. For categorical variables such as preference ordering of investment style and demographic variables, their underlying distributions are not normally distributed and measures such as mean and dispersion are not meaningful and therefore parametric tests such t test and ANOVA should not be used. Chi-square test is a goodness of fit test which measures how well the observed frequency match with the theoretically expected frequencies (Coolidge, 2013) and the researcher uses it to compare differences in frequency between two or more categorical variables (Coolidge, 2013). For instance, if one is to compare the effect of demographic variable of marital status (being single or married) on investment behaviour of Self Direct investment, one would compare the observed count in preference score (say preference score 1 corresponding to most dislike) to its expected count. The expected count is equal to the theoretical probability (the ratio of married participants to single participants in the survey sample) multiply the total number of counts observed for preference score 1 taking the null hypothesis is that there is no difference in the probability of choosing preference score 1 for single or married individuals.

While chi-square test does not make assumption regarding the underlying population, it includes other assumptions as explained by Coolidge (2013). Firstly, the outcome variable score, in this case the preference scores, should be independent from one another. It is the case here as each participant is asked to do the survey separately and cannot influence the other participants. Secondly, there should be a minimum of five observations in any one cell of the contingency table and I have verified that this is the case as the dataset has large enough observations. Thirdly, the dependent variable must be a frequency count and not a continuous variable which is the case here.

The degree of freedom of chi-square distribution depends on the number of categories (levels) of the variables instead of on the number of observations, the sample size. Critical value of chi-square increases as degree of freedom increases. Having a larger degree of freedoms than necessary leads to a larger critical value of chi-square than necessary and will lead to failure to reject the null hypothesis that there is no difference in observed frequency count from the expected frequency. For degree of freedom consideration, the four point preference score on investment style of 1: most dislike, 2: dislike, 3: preferred, 4: most preferred were re-coded by combining 2: dislike and 3: preferred to a form a 3 point scale which becomes 1: most dislike, 2: neutral; 3: most preferred. It is because while preferences of the 2 extreme ends are well expressed, some participants would have issues in differentiating preference choices in the middle levels. Combining and reducing number of categories in a variable is a recognized technique for chi-square test – for instance, Coolidge (2013) prescribes a solution for violation of chi-square test assumption of minimum of 5 observed count in a category by combining categories to increase cell frequencies in contingency table. Coolidge (2013, P.407) acknowledges "that some information is invariably lost, but the chi-square test will be more sensitive to real differences among the cells".

Chi-square tests are carried out on the effects of 5 demographic factors of generation (age bracket), gender, marital status, net worth and blood type on each of the 4 investment styles. The null hypothesis is that each categories of the demographic factor (for instance age brackets in the generation variable) has the same effect on an investment style (for instance Transaction Advisory) in the chi-square test. A total of 20 (5 x 4) chi-square tests are carried out and the summary results are shown in Table 2.5. The contingency tables for the chi-square test are discussed in the results section under the relevant demographic variables in the next section. In the chi-square tests, chi-square χ^2 statistic, the degrees of freedom, the significance value are reported and odds ratios are discussed. Odds ratio is a measure of effect size for categorical data and it is the ratio of the odds which is the probability of an event occurring divided by the probability of that event not occurring. The 10 hypotheses developed regarding the effects of demographic factors on investment styles are tested and discussed.

In addition to hypothesis testing by chi-square test, the effect of demographic variables and the interaction effect of blood type with age bracket on investment style is estimated using logistic regression (logit) where the binary outcome variable is the attitude towards a particular investment style. Logistic regression is a form of multiple regression with an outcome variable that is binary and the predictor variables could be nominal, ordinal or continuous (Field, 2013). Attitude score is recoded from the raw preference score recorded in the questionnaire where value of 0 is assigned corresponding to preference score of 1 (most dislike) and 2 (dislike) and value of 1 is assigned corresponding to preference score of 3 (preferred) and 4 (most preferred). Then, demographic variables are regressed on attitude scores of each investment style. The value of the demographic parameter is estimated using maximum-likelihood estimation, which computes the coefficient that makes the observed values most likely to have occurred (Field, 2013). Then, a multi factor choice model is estimated using logistic regression. During the model estimation process, statistically significant variables are selected, retained and factor interaction effects are also tested. Out of the 4 investment styles, only Self Direct Investment multi factor logit model has a good fit ($p < .05$) with Omnibus tests of model coefficients ($p = .022$). In this logit model, interaction effect of blood type with age bracket is formulated as variable and used to test hypothesis H4.2 regarding older blood type AB individual's lower propensity to choose Self Direct Investment. The results are reported in the next section.

3.4.6 The reasons for logistic regression

There are three reasons why logistic regression is chosen over ordinal logistic regression (also known as ordinal regression) despite the loss of information in the pooling of categories. First, one of the assumptions for ordinal regression is the proportional odds assumption and Laerd Statistics (2021) refers this as the fundamental assumption. It assumes each independent variable has exactly the same effect at each cumulative interval of the ordinal dependent variable (Laerd Statistics, 2021) and essentially having the same regression coefficient (Institute of Digital Research& Education, UCLA, 2021). In fact, the proportional odds assumption needs to be verified in a statistical test and if it does not hold, ordinal regression is not suitable for use. This means there is a certain sample size required at each level of category requiring minimum number of observations for each outcome category – this is problematic for smaller sample size dataset such as this one.

The second reason is precarious because it interferes with the objective of the choice model estimation which is to study the interaction of age bracket with blood type. While ordinal regression can accept an independent variable as nominal or continuous, ordinal independent variables must either be nominal or continuous (Laerd Statistics, 2021). The independent variable of age bracket is an ordinal variable. It is clearly not continuous as observations are in age brackets and not exact in age. Treating age bracket as nominal variable causes a loss of information in terms of order. This is problematic as the purpose for this choice model estimation is to test the interaction of age with blood type as reported in the neuroscience literature.

The third reason is there is backing in literature that collapsing categories in ordinal regression, when the proportional odds assumption holds, to logistic regression does not influence the proportion of Type 1 error either favourably or unfavourably (Murad et al., 2003).

3.5 Results and Discussion

Chi-square test is used to test association of demographic factors (age bracket, gender, marital status, net worth and blood type) with each of the four investment styles in nine hypotheses. Please see Table 3.5.

Table 3.5 Results for hypotheses testing by chi-square test

		Asymptotic Sig. (2-sided)		Exact Sig. (1-sided)		** < .05 * < .10
H1: Age						
H1.1	Self Direct	0.183				
H1.2	Transaction Advisory	0.007	**			
H1.3	Portfolio Advisory	0.098	*	0.053	*	
	Discretionary	0.308				
H2: Gender						
H2.1	Self Direct	0.654				
H2.2	Transaction Advisory	0.331				
	Portfolio Advisory	0.639				
H2.3	Discretionary	0.425				
H3: Marital Status						
H3.1	Self Direct	0.091	*	0.018	**	
	Transaction Advisory	0.143				
	Portfolio Advisory	0.270				
H3.2	Discretionary	0.107				
Net worth						
	Self Direct	0.597				
	Transaction Advisory	0.353				
	Portfolio Advisory	0.368				
	Discretionary	0.585				
H4: Blood type						
H4.1	Self Direct	0.033	**			
	Transaction Advisory	0.476				
	Portfolio Advisory	0.244				
	Discretionary	0.446				

3.5.1 Hypothesis testing: generation (age bracket) on investment behaviour

H1.1 For Self Direct investment, Millennials (age < 30) should have the highest propensity compared to the other generations.

H1.1 is not supported. For Self Direct investment, there is no statistically significant difference at $\alpha = .05$. Test result is χ^2 (4) = 6.225, p = .183 asymptotic sig. (2-sided).

H1.2 For Transaction Advisory, older generations such as Generation X, Baby Boomers should have higher tendency for this investment style compared to Millennials.

H1.2 is supported. There is a statistically significant association for Transaction Advisory investment style as shown by Chi-square test χ^2 (4) = 14.135, p = .007 asymptotic sig. (2-sided). (Furthermore, direction of hypothesis is verified to be correct by odds ratio in contingency table). Please see Table 3.6 for contingency table. In terms of odds ratio, the odds of eldest age bracket having a positive opinion of Transaction Advisory (odds at 19.5% = 9/(5+41)) is 2.07 times that of the youngest age bracket (9.4%). At the same time, the odds of the youngest age bracket having a negative attitude towards Transaction Advisory (odds at 43%) is 4.3 times that of the eldest (10%). The odds ratio in the data supports the directional hypothesis in both directions. Elder age bracket generation shows a more favourable attitude towards the simpler advisory service when compared to young Millennials.

Table 3.6 Contingency table for age bracket on Transaction Advisory

CodedTransactAdvice * Age

			Age			Total
			< 30	31-45	> 45	
CodedTransactAdvice	1	Count	21	21	5	47
		Expected Count	11.3	26.8	8.9	47.0
	2	Count	43	120	41	204
		Expected Count	49.1	116.4	38.6	204.0
	3	Count	6	25	9	40
		Expected Count	9.6	22.8	7.6	40.0
Total		Count	70	166	55	291
		Expected Count	70.0	166.0	55.0	291.0

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.135[a]	4	**.007**

a. 0 cells (0.0%) have expected count less than 5.

H1.3: For Portfolio Advisory, Millennials should show highest propensity when compared with other generations.

H1.3 is not supported at $\alpha = .05$ as it just misses cut off with p = .053 (1-sided). The result of the Chi-square test χ^2 (1) = 2.813, p = .053 (1-sided). The direction of hypothesis is verified to be correct by odds ratio in contingency table (see Table 3.7). In terms of odds ratio, the odds of the youngest age bracket having a positive opinion of Portfolio Advisory is 42% - which is 1.4 times that of the eldest age bracket of 29%. At the same time, the odds of the eldest age bracket having a negative attitude towards Portfolio Advisory (odds at 49%) is 2 times that of the eldest (24.5%). Elder age bracket generation shows a more favourable attitude towards the simpler advisory service on transactions when compared to young Millennials. The attitude shown for Portfolio Advisory is opposite to that of Transaction Advisory with the older generation preferring advice on transaction. A reason could be that extra cognitive effort is required in Portfolio Advisory in keeping track of securities correlation in building a portfolio which is harder for older individuals.

Table 3.7 Contingency table for age bracket on Portfolio Advisory

CodedPortfolioAdvice * Age

			Age			Total
			< 30	31-45	> 45	
CodedPortfolioAdvice	1	Count	14	31	19	64
		Expected Count	15.4	36.0	12.6	64.0
	2	Count	36	100	26	162
		Expected Count	39.0	91.2	31.9	162.0
	3	Count	21	35	13	69
		Expected Count	16.6	38.8	13.6	69.0
Total		Count	71	166	58	295
		Expected Count	71.0	166.0	58.0	295.0

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.823[a]	4	**.098**

a. 0 cells have expected count less than 5.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	7.823[a]	4	.098	.098		
Likelihood Ratio	7.390	4	.117	.121		
Fisher's Exact Test	7.507			.110		
Linear-by-Linear Association	2.813[b]	1	.094	.101	.053	.013
N of Valid Cases	295					

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 12.58.

b. The standardized statistic is -1.677.

There is no hypothesis developed concerning effects of age generation on Discretionary Investment due to lack of supporting theories in the literature. The results from the chi-square test χ^2 (4), p = .308 asymptotic sig. (2-sided) which shows there is no statistically significant association regarding age bracket and Discretionary.

3.5.2 Hypothesis testing: gender on investment behaviour

The following 3 hypotheses were developed and were tested in chi-square tests.
H2.1: Men are more likely to choose Self Direct investment style than women.
H2.2: Men are more likely to choose Transaction Advisory than women.
H2.3: Women are more likely to choose Discretionary investment than men.

None of the above hypotheses were supported. Chi-square tests are not statistically significant (H2.1: $p = .654$; H2.2: $p = .331$; H2.3: $p = .639$ asymptotic sig. (2-sided)). No hypothesis was formulated for Discretionary and the result of chi-square test is not statistically significant as well $p = .425$, 2 tails. In my sample, investment behaviours of Chinese HNW women are not distinctly different from HNW men and the results do not show gender making a difference on investment behaviours. These results are surprising and different from the findings in the dense literature concerning gender and investment. How could this difference be explained?

Firstly, there are some limitations regarding certain studies in the literature. Male gender effect of overconfidence in investment (Beyer & Bowden, 1997; Barber and Odean, 2001; Bannier & Neuber, 2016) is highlighted in the literature. However, Farrell (2014) quotes Croson and Gneezy's (2009) claim that male gender effect of overconfidence, as argued by Barber and Odean (2001), disappears when occupations of all participants are limited to managers and entrepreneurs. Hence, overconfidence could be occupation influenced rather than gender based. Second, there are numerous studies in the literature documenting the difference in financial knowledge or numeracy between men and women (Lusardi and Mitchell, 2008; Van Rooi et al. 2012; Almenberg and Dreber, 2015; Bannier & Neubert 2016). However, Hira (2008) argues and cites Dwyer et al.'s (2002) claim that the impact of gender is significantly weakened when knowledge disparities disappear, hence pointing that it is financial knowledge, rather than gender, that influences investment behaviour. Therefore, there are arguments that it is not the gender but occupation and financial knowledge factors are the underlying factors that drive behaviour and there could be sample selection issues in the studies of gender and investment in the literature which neglects to control the effects of occupation and financial knowledge.

Secondly, there are differences between my data and the sample data of the studies in the literature. First, not all the participants in the studies in the literature are HNWI, some studies in the literature use pension plan and not all of pensioners have sufficient wealth to have investment management needs and experience while participants in my sample have a minimum net worth of 1.5M USD and more likely to have wealth management needs. Hence, participants in my study are likely to have acquired higher financial knowledge, because of their wealth management needs as HNWI, and higher financial knowledge is a mitigating factor on gender effect on investment (Dwyer et al., 2002 as cited by Hira, 2008). Furthermore, HNWIs in China are mostly entrepreneurs and senior professionals and these are the two occupation factors which mitigate gender effect on investment (Croson and Odean, 2001 as cited by Farrell, 2014). It seems the market structure of HNWIs in China and hence the women sample participants of my study have captured these mitigating factors on the gender effect on investment as mentioned in the literature.

3.5.3 Hypothesis testing: marital status on investment behaviour

H3.1: Married individuals should have lower propensity for Self Direct investment style compared to singles.

H3.1 is supported. The result of the chi-square test χ^2 (1) = 4.766, p = .018 (1-sided). Please see Table 3.8. The direction of hypothesis is verified to be correct by odds ratio in contingency table (see Table 3.8). In terms of odds ratio, the odds of a "single" marital status individual having a positive opinion of Self Direct with odds at 43% is 1.65 times that of a married marital status individual of 26%. At the same time, the odds of a "married" individual having a negative attitude towards Self Direct (odds at 48%) is 1.85 times that of a "single" of 26%. The odds ratios in the data support the directional hypothesis in both directions. My arguments put forth for this hypothesis is that marriage lowers the risk attitude of married men, as Papke's (1998) result shows married men do not significantly overweight risky asset of equity as compared to women, and marriage brings legal rights in sharing wealth and does not favour the independent decision of Self Direct.

Table 3.8 Contingency table for marital status on Self Direct

CodedClientDirect * Marital Status

			Marital Status		
			Single	Married	Total
CodedClientDirect	1	Count	16	68	84
		Expected Count	22.4	61.6	84.0
	2	Count	37	98	135
		Expected Count	36.0	99.0	135.0
	3	Count	23	43	66
		Expected Count	17.6	48.4	66.0
Total		Count	76	209	285
		Expected Count	76.0	209.0	285.0

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.791[a]	2	**.091**

a. 0 cells expected count less than 5.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	4.791[a]	2	.091	.090		
Likelihood Ratio	4.849	2	.089	.091		
Fisher's Exact Test	4.800			.096		
Linear-by-Linear Association	4.766[b]	1	.029	.033	.018	.007
N of Valid Cases	285					

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 17.60.

b. The standardized statistic is -2.183.

H3.2: Married individuals should have higher propensity for Discretionary investment style when compared to singles.

H3.2 is not supported as $p > .1$ (2-sided) and also direction of the hypothesis is not supported. Please see Table 3.9 for contingency table. The result of the chi-square test χ^2 (2) = 4.474, p = .107, 2-sided. In terms of odds ratio, the odds of a "married" marital status individual having a positive opinion of Discretionary investment (odds at 63% = 81/(57+72)) is 2.1 times that of a "single" marital status individual (29%). However, the odds in the other direction of negative attitude is opposite to the hypothesis: the odds of a "single" individual having a negative attitude towards Discretionary (odds at 29%) is smaller (0.78 times) rather than greater that of a "married" (37%) which is opposite to the expected result. Hence, this hypothesis not supported.

Table 3.9 Contingency table for marital status on Discretionary

CodedDiscretionary * Marital Status

			Marital Status		
			Single	Married	Total
CodedDiscretionary	1	Count	17	57	74
		Expected Count	19.5	54.5	74.0
	2	Count	36	72	108
		Expected Count	28.4	79.6	108.0
	3	Count	22	81	103
		Expected Count	27.1	75.9	103.0
Total		Count	75	210	285
		Expected Count	75.0	210.0	285.0

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.474[a]	2	**.107**

a. 0 cells have expected count less than 5.

3.5.4 Effect of net worth on investment behaviour

No hypotheses are developed due to conflicting views in literature and industry practice. The results of chi-square tests are not significant across the 4 investment styles (Self Direct: p = .597; Transaction Advisory: p = .353; Portfolio Advisory: p = .368; Discretionary: p = 0.585 asymptotic sig. (2-sided)). There are no statistically significant associations of net worth on investment behaviour.

3.5.5 Hypothesis testing: Blood type on investment behaviour

H4.1: Compared with type O, blood types of A, B, AB should have opposite preferences and have more favourable attitude towards Self Direct investment.

H4.1 is supported. The results of the chi-square test χ^2 (6) = 13.749, p = .033 (2-sided) thus showing there is a statistically significant difference in preference scores among the 4 blood types. Please see Table 3.10 for contingency table. To test the directional hypothesis, odds ratio will be examined next. In terms of odds ratio of unfavourable attitude towards Self Direct investment: The odds of type O blood having an unfavourable attitude towards Self Direct investment is 74% = 42/(36+21), A is 26%, B is 30%, AB is 27%. Hence, the odds ratio of type O having an unfavourable attitude towards Self Direct investment compared to type A is 2.8, compared to type B is 2.5, compared to type AB is 2.8. Thus, type O individuals are more likely to dislike Self Direct Investment when compared to type A, B, AB individuals by a factor of 2.5 times or more. Now, in terms of favourable attitude towards Self Direct investment: The odds of type O blood having a favourable attitude towards Self Direct investment is 26% = 21/(42+36), A is 48%, B is 28%, AB is 27%. The odds ratio of type A having a favourable attitude towards Self Direct investment compared to type O is 1.8 times. Type A is most likely to have a favourable attitude towards Self Direct investment. *In sum*, the chi-square test results show that there is a difference in attitude towards Self Direct investment among individuals of the 4 blood types with type O exhibiting a much higher likelihood of dislike attitude towards Self Direct investment by a factor of 2.5 or more compared to type A, B, AB and at the same time type A individual is 1.8 times more likely to have a favourable attitude towards Self Direct investment as compared to type O.

The results support the hypothesis which is formulated from literature on personality and blood type. In the literature, blood type A with the obsessive-compulsive and psychotic personality traits which show the most opposite behaviour to type O in terms of dislike and like attitude towards Self Direct investment. Hence, there is support in the claim that being obsessive, compulsive and psychotic would most likely be the personality traits which influence an individual's propensity for Self Direct style.

Table 3.10 Contingency table for blood type on Self Direct

CodedClientDirect * Blood type

			Blood type				Total
			A	B	O	AB	
CodedClientDirect	1	Count	9	17	42	6	74
		Expected Count	13.1	22.2	30.1	8.5	74.0
	2	Count	20	40	36	16	112
		Expected Count	19.8	33.6	45.6	12.9	112.0
	3	Count	14	16	21	6	57
		Expected Count	10.1	17.1	23.2	6.6	57.0
Total		Count	43	73	99	28	243
		Expected Count	43.0	73.0	99.0	28.0	243.0

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.749[a]	6	**.033**

a. 0 cells have expected count less than 5.

<u>H4.2</u>: Older Type AB blood individuals should less likely choose Self Direct investment.

It is not possible to make statistically significant claim concerning this hypothesis at $p < .05$ level. Two different statistical methods were tried: 1) Chi-square test was performed on type AB (within-group) individuals looking at their preference scores on Self Direct investment across different age brackets. 2) A logit choice model for Self Direct investment was estimated with an interaction variable for age bracket with blood type. The results are shown below.

1) Chi-square test for within-group type AB

Chi-square test cannot be used as the assumption on expected frequencies in each cells of the contingency table be greater than 5 is violated. (see Table 3.11). There are 7 cells (77.8%) with expected frequencies less than 5. The consequence is that the sampling distribution of the test statistic will be too deviant from the chi-square distribution (Field, 2013). This is due to small sample size (n=28) in relation to the number of levels (3 x 3) of the two categorical variables. The results of the Chi-square test is χ^2 (4) = 6.144, p = .189 asymptotic sig. (2-sided).

Table 3.11 Contingency table for age brackets within blood type AB on Self Direct

Crosstab[a]

			Age			Total
			< 30	31-45	> 45	
CodedClientDirect	1	Count	0	2	4	6
		Expected Count	.6	3.2	2.1	6.0
	2	Count	2	8	6	16
		Expected Count	1.7	8.6	5.7	16.0
	3	Count	1	5	0	6
		Expected Count	.6	3.2	2.1	6.0
Total		Count	3	15	10	28
		Expected Count	3.0	15.0	10.0	28.0

a. Blood type = AB

Chi-Square Tests[a]

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.144[b]	4	.189
Likelihood Ratio	8.496	4	.075
Fisher's Exact Test	5.975		
Linear-by-Linear Association	5.000[c]	1	.025
N of Valid Cases	28		

a. Blood type = AB
b. 7 cells (77.8%) have expected count less than 5. The minimum expected count is .64.
c. The standardized statistic is -2.236.

2) Logit choice model on Self Direct with age bracket and blood type interaction

A logistic regression was estimated for Self Direct Investment in an iterative process with predictor variables of age bracket, blood type, net worth, and the interaction of age bracket with blood type. The outcome variable of the logit model is binary and is recoded from the raw preference score collected in the survey questionnaire where value of 0 is assigned corresponding to preference score of 1 (most dislike) and 2 (dislike) and value of 1 is assigned corresponding to preference score of 3 (preferred) and 4 (most preferred). The model with the best fit, as indicated by Omibus test of model coefficients (p = .022), is chosen in the iterative estimation process. The model specification is shown in Table 3.12. Although this specification is the best fit available, not all variables are statistically significant and hence the model specification is far from ideal.

Table 3.12 Logit estimation of Self Direct

Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	17.906	8	.022
	Block	17.906	8	.022
	Model	17.906	8	.022

Variables in the Equation

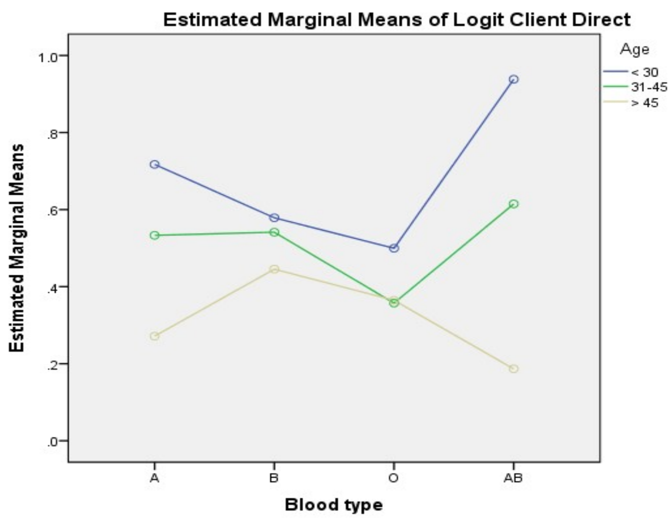
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Age	-2.118	.882	5.760	1	.016	.120
	Networth	.322	.188	2.938	1	.087	1.381
	Blood			5.581	3	.134	
	Blood(1)	-2.866	2.320	1.527	1	.217	.057
	Blood(2)	-4.067	2.219	3.359	1	.067	.017
	Blood(3)	-4.538	2.134	4.522	1	.033	.011
	Age * Blood			4.369	3	.224	
	Age by Blood(1)	1.196	1.037	1.330	1	.249	3.307
	Age by Blood(2)	1.816	.964	3.547	1	.060	6.147
	Age by Blood(3)	1.759	.939	3.509	1	.061	5.807
	Constant	3.982	2.067	3.712	1	.054	53.633

a. Variable(s) entered on step 1: Age, Networth, Blood, Age * Blood .

The marginal means of the outcome variable of preference score for Self Direct for each level of age bracket and blood type were computed while controlling for net worth. Please see Figure 3.4: Estimated mean of logit Client Direct for age brackets and blood types. It is noted that the mean values of the outcome variable of preference score for Type AB decreases across increasing age brackets indicating lower tendency to choose Self Direct with higher age brackets. The 90% CI around the mean of eldest age bracket of Type AB is (-.0713, .4453) and the 90% CI around the mean of the youngest age bracket of Type AB is (0.4642, 1.4118) do not overlap and they are different at $p < .1$. However, the 95% CI for these two age brackets overlap and cannot claim that they are different at $p < .05$ level. The sample size of blood type AB, the rarest blood type, is very small at n = 29. A larger level of significance α could be set for smaller sample size (Leamer 1978 as cited by Kim

2015, P.3). While not achieving statistically significant result at α = .05, I show 90% confidence interval in logit estimation.

Figure 3.4 Estimated mean of logit Self Direct for given age bracket and blood type



Covariates appearing in the model are evaluated at the following values: Net worth = 2.53

Dependent Variable: Logit Self Direct

Age	Blood type	Mean	Std. Error	90% Confidence Interval	
				Lower Bound	Upper Bound
< 30	A	.717[a]	.157	.459	.975
	B	.579[a]	.165	.308	.850
	O	.500[a]	.087	.357	.643
	AB	.938[a]	.288	**.464**	**1.412**
31-45	A	.533[a]	.096	.375	.691
	B	.541[a]	.076	.416	.666
	O	.357[a]	.070	.242	.472
	AB	.615[a]	.128	.404	.826
> 45	A	.272[a]	.205	-.065	.609
	B	.445[a]	.115	.256	.634
	O	.365[a]	.132	.148	.582
	AB	.187[a]	.157	**-.071**	**.445**

a. Covariates in the model are evaluated at Net worth = 2.53.
90% Confidence Interval computed using +/- 1.645 Std. Error

3.6 Limitations of the Study

The main limitations of the study come from the difficulty in carrying out a large scale survey on private banking clients due to the unwillingness of private banks to be organisational sponsor. Private banks generally value client confidentiality and are not willing to conduct surveys on clients and share with outside parties. Although I have direct access to HNWIs and private banking clients, it is difficult for one researcher to reach out to them simultaneously and administer the research quickly - financial markets are fast changing and data collection should be done quickly when financial markets conditions are about similar, otherwise rising or falling equities markets would have different impact on HNWIs risk appetite and investment behaviour.

The partner organisation Hurun which administers the research has a wide access to HNWIs in China and its team of research staff enables the survey be completed within a short period of time. However, the main limitation posed by Hurun is the small number of questions which I can put down in the survey as my questions on investment styles preferences are added on in their annual survey of HNWIs in China on luxury goods. The limited number of questions prohibited me from asking questions on personality and cognitive abilities. I was only able to ask question on preference ordering of four investment styles and demographics such as age bracket, gender, marital status, net worth and blood type. Through the literature in personality which relates personality to blood type and the literature in neuroscience which relates cognitive abilities to blood type, I am able to formulate hypotheses to indirectly test effects of personality and cognitive abilities on investment behaviour.

The second limitation of the dataset collected from Hurun is the relatively limited sample size of n = 306 of individuals with net worth of more than 1.5 million USD. According to Credit Suisse Global Wealth Report 2016, China has 1.59 million USD millionaires. The sample size is small compared to the population of HNWI in China and may not be representative. Another consequence of the limited sample size is adverse consequence on statistical inference: chi-square test is sensitive to sample size and hypothesis H4.2 concerns blood type AB which is the rarest and results in a very small sample size of n = 29 which leads to large standard error in logistic regression estimation.

3.7 Conclusion and Managerial Implications

This research makes a few original contributions to the research in wealth management in terms of: 1) an original empirical data set on investment behaviour of HNWI in China, 2) development of a new construct of investment behaviour in terms of investment decision control in varying degrees of self directed and delegation, 3) managerial implications which are actionable linking the findings on the association of investment behaviour with market segments in terms of demographic factors, 4) suggestion of using blood type as a proxy for personality and shows the need to investigate the interaction effect of ageing with blood type on cognitive ability which has impact on investment decision making.

The new construct of investment behaviour developed in this research is a theoretical contribution in the area of client advisory in wealth management. Prior research in literature describes investment behaviour purely in the finance framework in terms of risk taking behaviour and perceives investor as risk taking or risk averse. In industry practice, we see clients' behaviour not only in risk taking but also in the terms of decision control and trust ranging from self control, open for advice to delegation of investment decision. The 4 distinct investment behaviour (styles) of Self Direct, Transaction Advisory, Portfolio Advisory and Discretionary are what that are observed in industry and also correspond to how private banks service the clients in practice.

The research asks research questions with managerial intent to understand the association of the investment behaviour construct with market segments in terms of demographic factors. Demographic factors are the readily accessible market segmentation variables for wealth managers. The research leads to the following marketing insights.

3.7.1 Marketing insights on demographic factors

1) Findings on age bracket (generation):

HNWI of age bracket > 45 (elder Gen X and Baby Boomer) shows a statistically significant higher preference (χ^2 (4) = 14.135, p = .007 (2-sided)) for Transaction Advisory than the younger generations. In terms of odds ratio, the odds of eldest age bracket having a positive opinion of Transaction Advisory is 2 times that of the youngest age bracket. At the same time, the research shows different results for investment behaviour of HNW Millennials with higher preference for the more advanced Portfolio Advisory service (though not statistically significant at $p < .05$; χ^2 (1) = 2.813, p = .053 (1-sided)). In terms of odds ratio, the odds of the youngest age bracket having a positive opinion of Portfolio Advisory is 1.4 times that of the eldest age bracket. Millennials may prefer to take a holistic view of investing in a portfolio context considering both expected returns and risk.

2) Findings on gender

Contrary to the existing literature, my research does not find any statistically significant effect on gender. The difference could be due to the mitigating factors on gender effect such as occupation and financial knowledge as mentioned in literature. My research also hints at uncovering potential sample selection issues in certain studies in the literature such as potential sample bias towards non working female participants. My research raises a practical question for private banks - if HNW women in China invest not differently from men, should private banks have gender specific investment or marketing programmes?

3) Effect of marriage

The research finds married individuals have statistically significant lower propensity for Self Direct investment compared to single marital status individuals with result χ^2 (1) = 4.766, p = .018 (1-sided). The odds of a married individual having a negative attitude towards Self Direct is 1.85 times that of a single marital status individual. On the other hand, there is no statistically significant difference for Discretionary investment.

4) Effect of Blood type

The research finds statistically different results, χ^2 (6) = 13.749, p = .033 (2 sided), for Self Direct investment among blood types with hypothesis developed from literature on personality and blood type. Blood type A with its traits of obsessive-compulsive, psychotic (Boyer, 1986) shows the most opposite preference when compared to type O. The odds of type A having a favourable attitude for Self Direct is 1.8 times of that of type O while the odds of type O to have an unfavourable attitude for this investment style is 2.8 times of type A.

The research is unable to make statistically significant claim at p = .05 level concerning the interaction of blood type AB with age for Self Direct Investment. Contingency table of Chi-square test shows there is insufficient sample size. But the logit model shows the there is a difference at p = .10 level for the attitude towards Self Direct investment outcome variable as the 90% CI of the eldest age bracket (age > 45) does not overlap with that of the youngest age bracket (age < 30). The result is in line with the hypothesis that older Type AB individuals are less likely to choose Self Direct investment due to higher likelihood of cognitive decline as cited in neuroscience (Alexander et al., 2014).

3.7.2 Managerial implications on investment services offering

As the investment behaviour construct maps to the services wealth managers provide, the research findings yield managerial implications which are actionable.

Wealth managers should target Transaction Advisory service to market segments Generation X and Baby Boomer in China. These elder generations prefer to be given simpler advice on a transaction by transaction basis.

Portfolio Advisory service should be promoted to Millennials. Compared to Gen X and Baby Boomers, they favour this investment style which incorporates techniques of portfolio management with the objective of risk adjusted returns rather than solely seeking returns. A practical marketing strategy could be the use of a portfolio management online tool as client interface to enable portfolio co-creation for clients to simulate the effect of an investment on the portfolio's return and volatility prior to investing. The online tool could illustrate the incremental impact of an investment decision on the projected returns and volatility of the investment portfolio. The online tool should compute risk adjusted returns in terms of Sharpe ratio and facilities implementation of risk budgeting.

Self Direct investment means offering no advice to clients. This research finds individuals with type A blood with its associated traits of obsessive-compulsive and psychotic personality (Boyer, 1986) would prefer this investment style. Another market segment which prefers this investment style is unmarried single individuals. Private banks should device strategy to empower these individuals to self serve. An effective service strategy could be like IKEA's self service shopping strategy: Self Directed and "do it yourself" but makes service accessible readily when needed.

Concerning Discretionary investment, this research does not find any statistically significant result concerning this investment style. As such, demographic factors do not reveal much about this investment style. It appears that some factors, other than demographic ones, may be better in showing the association of trust in delegating investment decisions. On the other hand, my research suggests private banks may seek out clients with latent potential for this investment style - older clients with likelihood of decline in cognitive ability such as type AB blood individuals according to neuroscience literature (Alexander et al., 2014) and this could be a matter of social responsibility for private banks. Though, it is not a statistically significant result at $p < .05$, the research results indicate that type AB blood individuals' preference for Self Direct investment decrease with higher age bracket while type AB individuals have an introverted personality (Eysenck, 1977).

3.7.3 Future research

To test the interaction effect of blood type AB with age on the propensity of Self Direct investment, future research requires a larger sample size as type AB is the rarest of the 4 blood types and its small sample size (29 participants with blood type AB which amounts to 9% of the overall sample size) leads to large standard errors. As a result, I was not able to show the propensity to choose Self Direct investment for the eldest age bracket of blood type AB is statistically different from the youngest age bracket at $p < .05$.

Demographic factors do not have any associations with Discretionary investment while there are findings for statistically significant associations with other three investment behaviours. Hence, other factors or another research method is needed to investigate the circumstances which facilitate HNWIs to entrust investment professionals and delegate investment decisions to Discretionary investment. To understand why and how people trust, I believe a Functionalist approach with quantitative method may not be the appropriate method as it is important to consider not only what can be observed but also what cannot. For instance, we cannot observe individual's motives, beliefs and values (Johnson, 2000) and we cannot directly observe the process in which the individual decides whether he should trust or not.

The next chapter of my thesis "Consumer Behaviour and Trust in Private Banking Relationships" investigates the client - private bank relationship interpreted from the perspective of the clients in the Interpretive paradigm. Qualitative method of in depth 1:1 interviews were conducted to comprehend the subjective experience of the participants to seek understanding of the decision mechanism in which they develop trust with private banks.

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Chapter 4: The Changes in Private Banking Following Lehman Bankruptcy

Abstract

The fall of Lehman Brothers in 2008 due to credit derivatives is the largest bankruptcy case in US history and it triggered the Global Financial Crisis. This paper studied the changes in the private banking industry in Hong Kong following the Lehman bankruptcy. The area of concern for research within the wealth management practice is the industry perspective of client - private bank - regulator relationship. Burrell and Morgan's (1979) Radical Structuralist paradigm is referenced for analysis with its objective stance regarding the nature of social science inquiry and the assumption of social relations being in conflict. The research methodology used is longitudinal multi-method involving records of events, news reporting, regulations and codes, annual reports and market shares of private banks. The research reveals moral hazard of private banks, changes in regulations to deal with the moral hazard issue, mergers and acquisition trend, changes in industry concentration and market power of private banks. The research further uncovers the fundament conflict which breeds the next radical change in the making, comments on the impact on client and private bank relationship, and predicts emerging trends.

4.1 Introduction

On 15th September, 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection and initiated the largest bankruptcy case in history in the US. Lehman's long-terms assets were funded by short-term liabilities such as repo agreements and overnight wholesale funding markets for its operation (Wiggins, 2014). The repo-lending counter parties became increasingly uncomfortable with the quality of the collateral assigned and as a result demanded additional collateral in margin call which Lehman could not deliver and thereby triggering its bankruptcy (Wiggins, 2014). Please see Figure 4.1.

The bankruptcy of Lehman Brothers set off shock waves in financial markets. US equities Dow Jones index fell 4.4% on 15th September, decreased a further 4% on 17th September. In a month, LIBOR spiked up over 250% from 1% to 3.5% and bank credit spread jumped from 2% to 3.4% signalling distrust and credit risk in the banking system. Over the course of the next six months, MSCI world equity index lost over 40% of its value depicting a lack of confidence in global financial markets (see Figure 4.2). The bankruptcy of Lehman Brothers caused direct adverse hits on financial investments of retail and private banking customers in Asia through certain derivatives investments. Lehman issued credit derivatives called Lehman Minibonds which were sold to retail and private banking clients in Asia. These Minibonds were rendered worthless when Lehman went bankrupt. The sharp correction in equities markets caused a drastic drop in value of equities derivative such as equity accumulators which were sold to private banking clients and led to margin call. There is information and knowledge asymmetry between client and private bank. The client being the weaker party in the exchange relationship trusts the private bank to act in good faith. The fall of Lehman Brothers brought about steep losses to clients as a consequence of betrayal of trust. In the years afterwards, regulators tightened up regulations to address some of the moral hazard issues.

What would be a suitable framework to investigate the impact of the fall of Lehman Brothers on private banking industry in Asia? Economic frameworks tend to focus on payoffs and the resulting equilibrium and less on the institutional process of change. In the phenomenon of study, there is a marked regime shift with change in attitude of the regulator leading to substantial revisions in regulations and codes. I believe a sociological framework will be more suitable as it is descriptive and pays more consideration to various

Figure 4.1 Timeline of Lehman Brothers Bankruptcy

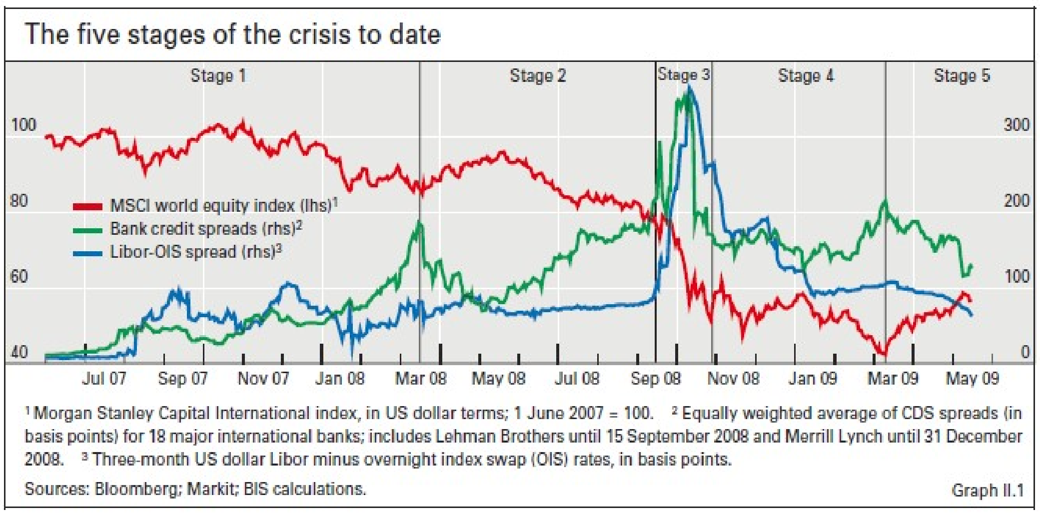
Source: Wiggins (2014) and Bank of International Settlement (2009)

2006	Lehman adopts **capital heavy growth strategy**. Acquired assets as its own investment to book on balance sheet. Lehman expanded **proprietary trading** in commercial real estates, leveraged loans and private equity. Proprietary trading revenue rose from 16% in 2001 to 26% of revenue in 2006. Lehman has bought 4 mortgage lenders and became the leading underwriter and market-maker in residential and commercial **Mortgage Backed Securities (MBS)**. Lehman Brothers held USD 111 billion in commercial or residential real estate-related assets and securities. More than 4x of its equity.
2007	**Capital adequacy concern** **Higher leverage** to pursue growth while maintaining limited capital Lehman reported gross leverage ratio rose from 23.7x in 2003 to **30.7x** in 2007 Problems in mortgage markets. Issuers of asset-backed commercial paper had problems rolling over. Large investment funds freeze redemption.
2008	Lehman started **deleveraging** strategy. Raised USD 6 billion capital. **Repo 105** "Balance Sheet manipulation" Repo is short-term loan secured by collateral of borrower. Repo 105 was treated as sales and Lehman removed about USD 50 billion from balance sheet the collateral delivered to lenders. **Liquidity problems** Lehman's long term assets were funded by short debt such as repo, commercial paper and overnight wholesale funding markets. Institutions demanded more collateral from Lehman, some refusing to roll over repo. USD 200 billion of Lehman's asset was funded by repo. **Fannie Mae & Freddie Mac fell** 13 July 2008 The US authorities announce plans for US mortgage finance agencies Fannie Mae and Freddie Mac, including purchases of agency stock. 7 Sep 2008 Fannie Mae & Freddie Mac were taken into government conservatorship.
10 Sep	**Large losses surfaced** First ever quarter loss since listing, 2008 2nd quarter of USD 2.8 billion (USD 3.7 billion write down on mortgage related assets and leveraged loans). Lehman announced it expected USD 5.6 billion write down in and expected 3d quarter loss of USD 3.93 billion. Lehman's share price **dropped 40%** to USD 4.22, down **90%** from Nov, 2007. Moody's announced it placed Lehman A2 rating on review.
12-14 Sep	**The Weekend Meeting** Weekend meeting hosted by US treasury secretary Henry Paulson, President of NYFED Timothy Geithner, SEC Chairman Christopher Cox with CEOs of major US and foreign Wall Street investment banks yielded no private sector solution.
15 Sep	**15 Sep, 2008** Lehman unable to fund its operation due to greater haircuts of collateral for repo lending. Lehman filed for **Chapter 11 bankruptcy protection** initiating the largest bankruptcy proceeding in the US. Lehman declared USD 639 billion in assets and USD 613 billion in debt. Lehman was the 4th largest U.S. investment bank.
17 Sep	Dow Jones index fell 4.4%, FTSE down 3.9%. Dow Jones index fell 4.0%, FTSE down 2.25%

stakeholders such as consumers, banks, regulators and society as a whole. In particular, I chose Burrell & Morgan's (1979) sociological framework and its paradigm of Radical Structuralist. In this paradigm, an objective stance is assumed together with a view of radical change regarding the nature of society. It is the sociological perspective which looks at the fundamental conflict leading to radical change that makes this framework ideal for analysis. The contribution of this paper is to use sociological paradigm analysis to acquire a deeper understanding of wealth management on business and industry levels leading to insights on underlying industry drivers and prediction of future industry and social trends.

Figure 4.2 Five Stages of Financial Crisis

Source: Bank of International Settlement (2009) Annual Report



4.2 <u>Literature Review</u>

Burrell and Morgan (1979) describe the Radical Structuralist paradigm as one focuses on the sociology of radical change using an objectivist standpoint. It is usually about "fundamental conflicts and radical changes through crisis". In the context of this paper, the crisis in question is the bankruptcy of Lehman Brothers which unfolded to a global financial crisis (GFC). In the subsequent years, radical changes in private banking regulations and industry structure followed. This paradigm focuses on issues such as structural conflicts, contradictions and exploitations to analyse interrelationships in the industry by understanding the formation and structure of power relationships.

For the Radical Structuralist paradigm, Burrell and Morgan (1979) lay out the four levels of assumptions in terms of ontology, epistemology, human nature and methodology regarding the objectivist approach to social science. The *ontological* assumption about the essence of the phenomenon under study is that of realism and what we perceive is real and truthful. For instance, in this paper, we observe private banks fees, profits and market shares; for regulators, we see their actions in terms of regulations and codes; for consumers, we see their reactions to investment losses. The *epistemological* assumption is that of positivism along the thinking of Comte and it is feasible to observe the social phenomenon and to establish reliable knowledge about how it works (Johnson, 2000) and it is based on rational decision making of clients, private banks and regulator. Radical Structuralist's assumption about *human nature* is deterministic in that human behaviour is caused by underlying motives (Johnson, 2000). In this paper, the main underlying motive is economic. The private banks are concerned about maximising profits; the clients are preoccupied with maximising their utility in searching for the most optimal investment service and product which closest match their needs with the least cost; and the regulator's aim is to ensure that consumers are treated fairly, that consumers are not squeezed out of consumer surplus by private bank and ensuring there is a fair and open market for private banks. Lastly, the *methodological* assumption of the Radical Structuralist paradigm is nomothetic. A nomothetic method looks for a general mechanism which explains the larger social pattern from individual events or behaviour. In this paper, I will focus on how the economic incentive in capitalism shapes industry structure, moulds the client - private bank relationships and the private banks rivalry.

Burrell and Morgan (1979) elaborate seven elements of differences for the sociology of radical change versus regulation. In the Radical Structuralist paradigm, 1) the status quo is radically displaced. In this paper, the status quo of former regulations and codes for private banking were radically changed. 2) Orderly social relations in society is changed to structural conflict. Retail investors suffering substantial losses in Lehman Minibonds took action by activism in public demonstration while some private banking clients took private banks to court to sue for heavy investment losses. 3) Consensus and voluntary agreement of opinions are given away to modes of domination. In the paper, regulators stepped in after the Global Financial Crisis, reprimanded and imposed fines on private banks. 4) social cohesion in the state of regulation is changed to contradiction. Activism of retail investors in public demonstration illustrates this contradiction. 5) Solidarity is given away to emancipation as some private bank clients resorted to legal action in courts to reclaim their investor's rights. 6) Needs satisfaction is changed to deprivation. 7) Actuality in needs is eroded to deprivation of fulfilment opportunities. During the time of radical change, some attractive investment opportunities for clients were foregone, which meant lost revenue for private banks.

In terms of relevant theories for the Radical Structuralist paradigm, Burrell and Morgan put forth the thoughts of Weber, the later works of Marx, conflict theory and radical organisation theory. The "iron cage" metaphor was famously coined by Weber who wrote that "we are born into this mechanism and our lives, choices, opportunities and cultural values are constrained by the *iron cage* of material goods and acquisitiveness". The iron cage symbolises the conflict of the individual's wish to set free from the structure of material goods imposed on him by society (Turner, 2000).

The later works of Marx focus on the relationship between economics and social life. Johnson (2000) explains the essence of Marxist sociology is about political economy and the power of capitalism to shape social life while the ideal of Marxism is about class revolution in which how labour struggles to overthrow the exploitation by capital. The conflict of capital and labour stems from the ownership of the means of production. Capital is the sole residual claimant of the economic surplus from the method of production. Marx contends that the ownership and control of the means of production creates different social classes. He depicts how the dominant social class appropriates wealth produced by subordinate class (Johnson, 2000). Marx's view of social life is materialistic and focuses on economic well being and struggle. Johnson's (2000) account of Marx's theory of history is that systems produce their internal contradictions and these tensions build up over time leading to radical disruption of social change. Marx's criticism of capitalism arises from his belief that the free market economic system is organised in way to breed evil consequences. I see this arising from the seed of the profit motive.

Conflict Theory is about class conflict under industrial capitalism due to differences in authority in organisations. Dahrendorf is a key thinker behind this theory. Inherent in Conflict Theory is that inequality of authority is unavoidable but it can be mitigated by political rights (Johnson, 2000). The activism of Lehman Minibond retail investors in organising demonstrations to attract media attention to garner political support in the absence of class action law suit in Hong Kong is a case of Conflict Theory in action.

The school of thought of radical organisation theory is advanced by Miliband in his book *The State in Capitalist Society*. Miliband sees capitalism as a giant form of enterprise with some elites taken together to form a dominant economic class (Burrell and Morgan, 1979). He advocates the study of power relations, power structure and political process. He sees power as a central concept and a stratification of social class based on power. In this paper, we will look at the power dynamics of the dominant players in the private banking industry such as how the regulator the Hong Kong Securities and Futures Commission is funded, the relationship of a self-regulating professional body the Private Wealth Management Association with private banks, and the identification of dominant private banks in Asia and their relationships with the regulators.

4.3 Research questions

Burrell and Morgan (1979) see the central motif of the Radical Structuralist paradigm as a critique of the current societal regime. It perceives radical social changes such as transformation of structures through political and economic crisis with the eventual outcome of replacing the status quo.

In the years before the fall of Lehman Brothers, financial regulators took a light touch in regulating derivatives trading. Derivatives trading takes place outside of public exchanges and is traded over the counter (OTC). The trading of mortgage backed securities (MBS), collaterized debt obligations (CDO) derivatives were not strictly regulated in the US. Lehman took on excessive exposure on these derivatives which it was not able to carry. Likewise, the sale of derivatives investments such as credit linked notes of Lehman Minibonds and equity accumulator to retail and private banking clients were not scrutinized by regulators in Asia. This status quo was drastically changed following the fall of Lehman Brothers which brought about huge loss in values of these derivatives.

In addition, Burrell and Morgan (1979) argue that sociology theories within the classification of Radical Structuralist paradigm have 4 notions in common: totality, structures, contradiction and crisis.

i. *Totality* refers to the total social relationships and interrelationships. In the context of this paper, this refers to relationships and inter-relationships with industry stakeholders of clients, private banks, regulators and industry interest group such as Private Wealth Management Association.

ii. *Structures* are "configuration of social relationships" which are "hard, concrete, persistent and enduring" (Burrell and Morgan, 1979). Social reality, in the Radical Structuralist paradigm, exists independently of any reaffirmation. In the case of this paper, structures are configurations defined by regulations and codes. They set the dos and don'ts in terms of investment suitability, product education, pricing and disclosure of risk. These structures imposed by regulations are rigid and lasting until new rules and regulations replaced the existing ones.

iii. *Contradiction*. There are inherent contradictions within the social structures. Marx saw conflicting interests between capital and labour regarding control of the means of production. There is contradiction in Marx's concept of exchange value and surplus value. Conflict theory sees contradiction in class conflict coming from a "structural imbalance" of classes of different authority and power. Contradiction is about "capitalist social formation contains the seeds of their own decay" (Burrell and Morgan, 1979). In my view, greed is the source of the decay. The competition for economic well being is the contradiction in the client - private bank relationship where the profit maximizing banks attempt to extract consumer surplus in their pricing while consumers shop among private banks to maximize their consumer surplus. There is a contradiction in the banks and regulator relationship concerning the capital position of banks - rivalry among banks to compete for profitability in return on equity causes them to run up leverage in their capital structure while regulators are concerned about banks having sufficient capital for loss absorption.

iv. *Crisis* happens when conflicts reach a point at which they cannot be contained. Burrell and Morgan (1979, P.359) see crisis as "the radical transformation from one totality to another where one set of structures are being replaced by another".

Having elaborated the theoretical background above, research questions on the changes in private banking post GFC are drawn up by analysis in three levels: client relationship level of HNWI and private banks, industry level and economic systems level. In particular, specific research questions are formulated as below.

i. Client relationship level of HNWI and private banks
   - What is the tension in the client – private bank relationship?
   - What are the changes faced by HNWI post GFC?

- What are the changes in regulations and codes?
- What is the overall impact on client relationship?

ii. Industry level

- What are the changes in industry market structure post GFC?
- What are the changes in power relations and relations with regulator?
- How do these industry level changes affect client relationship of HNWI and private banks?

iii. Economic factors level

- What are the underlying economic drivers of the private banking industry?
- What is the impact of these economic factors on client relationship?

The last set of research questions below ask what is the next big trend in private banking shaped by the larger context of economic conditions and industry forces?

iv. Predicting the next big trend

- What is the next radical change in the making?
- The emerging theme in client relationship

These four set of research questions will be discussed in sections 4.5, 4.6, 4.7 and 4.8.

4.4 Methodology

The methodological assumption of the Radical Structuralist paradigm is nomothetic as put forth by Burrell and Morgan. A nomothetic method focuses on the general statement that accounts for the larger social pattern which sets the context of behaviour and events (Johnson, 2000).

In this paper, I use a longitudinal study to study the private banking industry in Hong Kong before and after the Lehman bankruptcy. The methodology used is historical research and I pay attention to its use in the academic discipline of history. The three major aspects of historical research method include finding the data, evaluation of the data and presentation in written form (Harrison, 1968). During this process, particular attention has to be paid to source criticism as a constant questioning of the validity and reliability of historical data. Garraghan (1946) gives criteria for source criticism which includes when, where, by whom is the data produced? Is the data an analysis from pre-existing material? Is the data credible with evidence to justify the content.

As such, I attempt to find the data first by primary source and if it is not available, I will go to data published by reputable and recognized industry associations. For regulations in private banking, I go to the primary source which is the Code of Conduct for Persons Licensed by the Securities and Futures Commission (SFC), the local regulator in Hong Kong. For court cases regarding litigation for investment losses, I turned to the reporting by law firms and news article written by lawyer in major newspaper. For news reporting, I resort to that of *Financial Times* and *South China Morning Post*, the longest standing and largest circulation newspaper in Hong Kong. For the time table of events leading up to Lehman Brothers' bankruptcy, I use Wiggins (2014) case study "The Lehman Brothers Bankruptcy" in Yale Program on Financial Stability, and the events reported by Bank of International Settlement. Regarding data used for measuring private banking industry structure such as Asset Under Management (AUM), I first looked up the primary data in annual reports reported by banks. It turned out that the AUM data reported in annual reports is incomplete as some banks chose not to report Asia's private banking figures while other banks do. As a result, I turned to the AUM figures reported by a reputable industry organisation Asian Private Banker. Asian Private Banker publishes the AUM League Table of private banks in Asia, it also awards industry prizes to private banks in Asia. Asian Private Banker compiles its AUM League Table by a research process - firstly by looking up the figures in annual reports, secondly by questionnaires and interviews with private banks management to fill in the incomplete information missing in annual reports, thirdly by triangulation through verification from other sources. *Asian Private Banker AUM League Table* is trusted by private banks and is widely referenced in the industry. For industry concentration measure, I go with Herfindahl-Hischman Index (HHI), a widely referenced metric in economics and it is also the current metric used by the Department of Justice in the US.

4.5 Discussion on HNWI and private bank level

4.5.1 The tension in client and private bank relationship

In this dyadic relationship between the private bank and the client, the private bank holds the asymmetric advantage in information and knowledge when compared with the client. The tension faced in the private bank - client relationship stems from a potential moral hazard issue. Moral hazard is when one side of the market, the client, cannot observe fully the actions of the other side, the private bank (Varian, 1999) and so the private bank may take advantage of the client. The bank may not fully disclose its monetary and non monetary benefits or the complete information regarding risk to clients. In such a case, will client know the true intention of the banks? For instance, retails banks were keen to sell Lehman Minibonds because of the commission they earn. Did the retails banks fully explain the risks of the structured product to clients? Akerlof (2009) quotes other examples of moral hazard in banking which includes the savings and loan crisis in the US in the 1980s arising from savings and loan associations taking too risky business decisions thinking the government would bail them out. The sub-prime mortgage crisis of 2008 originated from lenders granting risky loans to people with poor credit and repayment ability with the view that these loans would be securitized and be sold off to different investors.

This tension in the client and private bank relationship is exacerbated by different interests of the two parties. Most of the private banks are part of publicly listed companies. There is constant pressure in delivering returns for shareholders. The client's concern is on how to make decision when faced with imperfect information to achieve better investment returns. The role of the regulator is to balance the interests of customers and banks to ensure a sound and efficient functioning of the market.

4.5.2 The impact on investors

The bankruptcy of Lehman Brothers in September 2008 led investors to very significant losses especially on derivatives investment. There are two kinds of high risk derivative investments which were sold to private banking clients in Asia: Lehman Minibonds and equities accumulators. Lehman Minibonds were also sold to retail banking clients.

Lehman Minibond is a credit-linked structured product issued by a Lehman Brothers Holdings wholly owned special purpose vehicle. The product was linked to the credit risk of a basket of reference entities and it guarantees payment of premium at regular interval with bond-like properties. The bankruptcy of Lehman Brothers Holdings halted payment of premium to investors and renders the Minibond worthless. This product was sold also to retail banking consumers.

The equities accumulator is a derivatives contract which an investor agreed to buy a stock at a fixed price (strike price = K), set at a level *below* the initial spot price (S_0) for a period of a year. The derivative contract can end prematurely before a year if the stock rises above the knock out price (H) and H is usually set at small increment above initial spot with H = 105% S_0. The investor is obligated to buy the stock at the strike price (K) but at a leveraged quantity at a loss when the market price drops below the strike price. This contract looks attractive to investors in the beginning as it accumulates the stock at a level below the initial spot price (S_0) for profit and the contract can be bought on margin without putting up the entire capital upfront. As Lehman Brothers collapsed, equities indices around the world dropped drastically. Many of these equity accumulator contracts were losing money and led to margin call which caused investors to unwind contracts to realize deep losses if they didn't have extra capital to top on margin.

As there is no class action law suit in Hong Kong, investors resorted to individual actions such as filing complaints to local regulators and private litigations in courts suing private banks for losses; angry retail banking clients organised public demonstrations and protested at banks to garner media attention. The results turned out to be quite different for retail banking clients compared to private banking clients. In March 2011, two and half years after the fall of Lehman, Bloomberg reported that Lehman receiver PWC said Hong Kong holders of Lehman Minibonds would receive 70% - 93% of their money back. This is a remarkable result as the retail clients managed to recover most of the capital with the financial intermediary bearing the losses as compensation. The key features were that some of the Lehman Minibonds investors were elderly with a low education level and the retail banks had marketed the Lehman Minibonds as low risk investment alternative to cash. The private banking clients who took litigation actions in courts for losses in equity accumulators had fared less well as reported by Hong Kong lawyer Smyth (2012). The usual argument in the defence of the private bank is that a term sheet was presented to the clients which highlighted the details of the trade with the description of cash settlement details including the worst case scenario. The investors of equity accumulators are also different as "professional investor" rather than vulnerable retail investors.

However, the adverse mark to market (MTM) effect of an equity accumulator when it is running at loss was not explained in the term sheet as it only explained the cash settlement details The adverse MTM leads to leveraged losses as the equity accumulator is buying the stock at a loss with leverage. The equity accumulator can be modelled using Black Scholes option pricing (denoted as V) as a function of the 5 parameters: $V = f(S, K, N, r, \sigma)$, where S is spot price, K is strike price (where K < S_0 meaning strike is less than initial spot price at the start of the contract), N is time to expiration, r is risk free rate and σ is stock price volatility. While the first four parameters are readily observable by investors, σ volatility is not. Furthermore, during a drastic market correction, volatility rises sharply and can adversely affect the value of the accumulator. Specifically, Lam, Yu and Xin (2009) find that risk characteristic such as vega (option price sensitivity to stock price volatility) is *asymmetric* and adversely larger when the accumulator is incurring a loss than when the accumulator in profit (Figure 4.3a). Hence, the authors show that losing investors are more vulnerable to changes in stock price volatility when losing than winning investors. Then, the authors compute profit and loss distribution using Monte Carlo simulation and show the distribution is *asymmetric* with long left tail indicating extreme loss is possible (Figure 4.3b). This is because if the stock price rises and it is higher than the knock out barrier (H), the accumulator contract will be knocked out and terminated; otherwise if the stock price drops, the loss can be substantial especially when stock price drops below strike price (K), the investor is obligated to buy the stock at loss and at leveraged amount. The asymmetric and adverse characteristic of the equity accumulator when it is running a loss shows the imperfect information and unforeseen risky consequences an investor faces. It also exposes a potential moral hazard issue in the selling process. Equity accumulators are usually sold to private bank clients in a bullish market and look attractive with rising stock price - equity accumulators make money initially and terminates when stock prices rises above knock out barrier H. But a private bank may not highlight the adverse and asymmetric characteristics when the equity accumulator is running at a loss.

Figure 4.3 Valuing Equity Accumulator

Figure 4.3a Greeks of accumulator contracts

Source: Lam, K., Yu, P.L.H. and Xin, L. (2009)

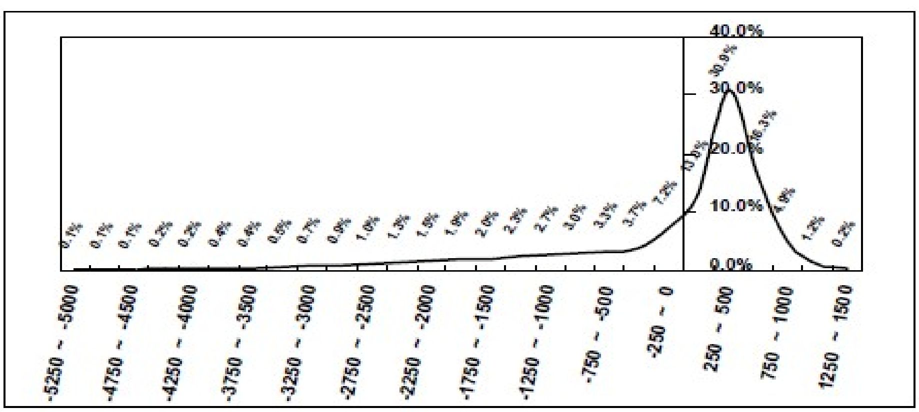
TABLE IV

GREEKS OF ACCUMULATOR CONTRACTS

Spot price S		88	92	96	100	104
Immediate settlement	Delta	290.12	211.95	137.19	65.98	-3.54
	Gamma	-18.49	-19.40	-18.13	-17.55	-16.23
	Vega	-12139	-12507	-11182	-8072	-2966

Figure 4.3b Probability distribution function of profit and loss of accumulator

Source: Lam, K., Yu, P.L.H. and Xin, L. (2009)



4.5.3 The changes to private banking regulations

The Securities and Futures Commission (SFC) is a statutory body governed by the Securities and Futures Ordinance to issue licenses and regulate the investment industry in Hong Kong. SFC has issued 21 editions of *Code of Conduct for Licensed Persons* in the span of 24 years from 1994 to 2018. There were only two editions in the five years prior to the bankruptcy of Lehman Brothers in 2008 while 14 editions have been published since then which hints at the substantial impact of the Lehman Brothers event.

The 8th edition of the *SFC Code of Conduct* (Sep, 2010) is the first revision published after the collapse of Lehman Brothers. The changes include specific clauses in dealing with the problem of moral hazard in the areas of incentives disclosure, information disclosure and declaration of independence. First, there is the addition of the requirement for pre-sale disclosure of monetary and non-monetary benefits which highlights the problem of *moral hazard* in the selling securities such as accumulator and Minibonds. The SFC found there were incidences that sales were made not based on what is best for client but for commercial gains of financial institutions. According to the SFC Code, monetary benefits would have to be disclosed in "percentage ceiling of investment amount or its dollar equivalent". In addition, where monetary benefits exist but not quantifiable, "licensed persons have to declare the existence and nature of such benefits". Second, there are additional requirements on disclosure of sales related information such as the capacity in which a licensed person is acting, whether as a principal or agent for client; whether there is affiliation of the licensed person with the product issuer before trade. Third, there is an additional clause on independence and conflict of interest. This shows the moral hazard problem in hidden information and the client faces asymmetric information when dealing with financial institutions.

In May 2011, the SFC eliminated a loophole for retail banks to sell derivative products to retail clients. In the past, retail banks could sell investment products if the investment amount is in excess of 500,000 HKD (63,694 USD). The saga of Lehman Minibonds sold to elderly and poorly educated clients exposed the failing of this loophole.

In 2012, the SFC started to address more strictly the issue of sales suitability for private banking clients. While the codes before 2008 have clauses pertaining to investment suitability and derivatives, they were not written in any extensive details. On 17 July, 2012 the SFC issued a circular regarding compliance with suitability obligations regarding investment. The circular stated that private banks have to use a portfolio-based approach in assessing investment suitability. In addition, if the financial intermediary in question is not able to obtain facts of the client's other bank accounts, the intermediate can only take into account the investable assets under his management when assessing investment suitability. There are also rules which require financial intermediaries to assess investor's knowledge and experience before trade. As Moiseiwitsch (2012) reported, this raised additional administrative work as internal control for private banks to fill in mandatory questionnaire to assess the client's experience and risk appetite particularly regarding derivatives to ensure suitability. This called for changes in bank's front office operating systems, programming changes and escalation in IT costs. Asian Private Banker (2016) in the review of 2015 private banking industry in Asia remarked 2015 saw a decline in AUM for the industry driven by China's slowdown and "climbing regulatory-related costs" and the implications for private banks are "buy or die" "or restructure" (2016, Issue 98, P.9).

In addition, the Common Reporting Standard (CRS), developed in response to G20 request, was approved by the OECD Council in 2014. CRS sets out reporting standard for local financial institutions to automatically exchange information regarding cross jurisdiction clients to another jurisdiction if bilateral agreement has been reached. These initiatives led to necessary changes in bank operating programming changes and pushed up IT expenditure and slowed down sales activities. CRS also puts the existing cross jurisdiction offshore private banking model to test. CRS increases transparency of information concerning cross border capital and hints at possible future tax initiatives.

4.5.4 The overall impact on client relationship

The origin of the GFC came from trading of complex credit derivatives linked to US subprime mortgage market. Banks knowingly transferred the mortgage default risk by securitization to move from their balance sheet to other investors. Risks were not eliminated but were merely repackaged and transferred. It was a case of moral hazard in which the party with more knowledge and information took advantage of the other party in the trade.

When Lehman Brothers went bankrupt, global equities markets suffered steep drawdown and exposed the risks private banks were taking in their client trading and moral hazard. Complex credit derivatives of Lehman Minibonds were sold to retail and private bank customers as cash alternative. Complicated equity derivative of equity accumulator with adverse asymmetric loss characteristic were sold to private bank clients without proper emphasis of risks encountered in worst case scenario. Regulators addressed the moral hazard problem with new regulations. The new regulations started with a position of distrust and aimed at monitoring, issue of investment suitability and disclosure of information which Lewicki, Tomlinson and Gillespie (2006) describe as distrust behaviour.

As a result, HNWI view private banks with "a baseline of initial distrust" because of "untrustworthy reputation" (Lewicki, Tomlinson and Gillespie, 2006, P.1000) in the immediate period after the GFC. Distrust is a psychological barrier to trust (Kramer, 1999 as cited by Lewicki, Tomlinson and Gillespie, 2006). In the ensuing years, private banks have to work hard to win back the trust of HNWI.

4.6 Discussion on industry level

4.6.1 The changes in industry market structure

Bikker (2002) states the Herfindahl-Hirschman Index (HHI) is the most widely used measure of industry concentration in the literature. In the US, Miller (1982) states the US Department of Justice (DOJ) uses HHI as industry structure guideline for anti-trust consideration, favouring HHI over four firms concentration ratio (CR4) which DOJ had previously used. Weinstock (1982) explained that CR4 has two major drawbacks. First, CR4 does not take into account of the relative sizes of the four largest firms and four equal-size firms may compete in different ways than four firms of various sizes. Second, CR4 does not consider the total number of firms in the market and excludes the market shares of the firms below the top four.

HHI is calculated by adding the square of each firm's market share. HHI = $\sum_{i=1}^{n} s_i^2$

HHI puts more weights on larger firms than smaller ones mathematically by squaring the market shares and it also incorporates each bank individually. HHI also captures the distributional characteristics of the firms in the market. As the smaller ones are weighted less, HHI is also less sensitive to cut-offs as it is not feasible to record market shares for all the small firms in the market. Bikker (2002) cites Davies' (1979) finding that HHI becomes less sensitive to changes in the number of firms the larger the number of firms in the industry. HHI varies from range between $1/n$ and 1, where n is the number of firms. $1/n$ represents the lower bound where all firms are of an equal size operating in an un-concentrated market. 1 represents the upper bound where it is the case of a monopoly with one firm in an extreme concentrated market. DOJ sometimes use a notion of market share not in fraction but the number of the percentage of the firm's market share (100 * market share in fraction). In this notion, the range becomes 0 to 10,000.

There is another metric proposed by Adelman (1969) which represents the numbers-equivalent (NE) of equally sized firms operating in the market. The relationship of NE with HHI is as follows: $NE = {}^{1}/_{HHI}$.

In *Antitrust Bulletin*, Miller (1982) cites DOJ 1982 Guidelines for market concentration for the evaluation of horizontal mergers. Market is considered un-concentrated: HHI (post-merger) < 1,000; moderately concentrated: HHI (post-merger) between 1,000 to 1,800; highly concentrated: HHI (post-merger) >1,800. Let me further add that in a competitive market (HHI << 1,000), firms have no market power to profitably raise market price above marginal cost. Conversely, in a concentrated market (HHI >> 1,000), firms have more market power and consumer welfare is compromised.

The analysis on private banking industry structure here uses AUM reported by *Asian Private Banker's AUM League Table* from 2012-2018. While this paper mainly studies private banking industry in Hong Kong, AUM of private banks in Hong Kong and Singapore combined is used for industry structure analysis as Asian Private Banker reports its AUM League Table in this manner and most private banks do not report AUM for their Hong Kong and Singapore branches individually in annual reports. Furthermore, Hong Kong is a larger private banking centre than Singapore and Singapore branch of most private banks have smaller AUM than the Hong Kong branch except for two Singapore based bank: Bank of Singapore and DBS. Hence, the combined market shares of Hong Kong and Singapore branches of a private bank should be similar to its market share of the Hong Kong market.

My industry structure analysis looks at HHI, NE for AUM of private banks in Hong Kong and Singapore using Asian Private Banker's data. Please see Table 4.1.

Table 4.1 Metrics of private banking industry in Asia

AUM data source: Asian Private Banker
AUM data scope: Total AUM of private banks in Hong Kong and Singapore

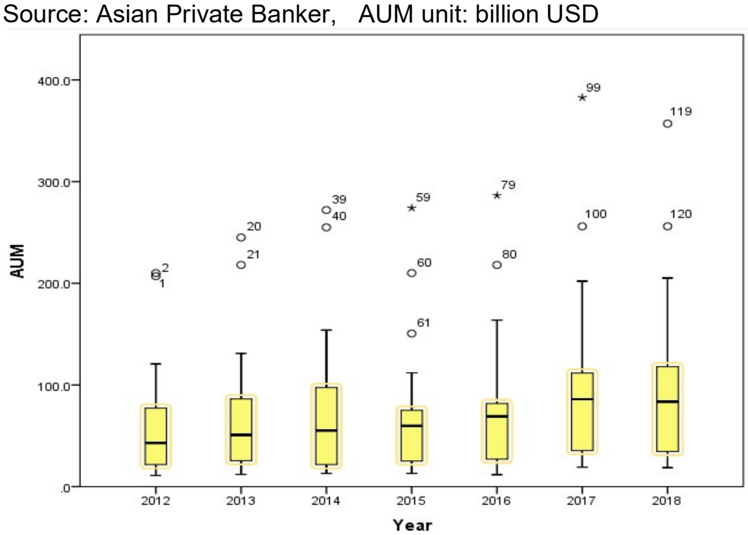
	2012	2013	2014	2015	2016	2017	2018	Average
AUM (billion USD)	1,208	1,352	1,556	1,472	1,554	2,007	2,013	
AUM change		1.12	1.15	0.95	1.06	1.29	1.00	**+8.9% p.a.**
HHI	**954**	**939**	**944**	**901**	**894**	**879**	**828**	**-2.3% p.a.**
HHI change		0.98	1.01	0.95	0.99	0.98	0.94	
Numbers equivalent (NE)	10.5	10.7	10.6	11.1	11.2	11.4	12.1	

HHI shows a trend of dropping from 954 in 2012 to 828 in 2018 indicating that the market is becoming less concentrated. In particular, HHI is decreasing 5 years out of 6 years with 2015 showing the largest contraction of -5% from 2014. The only year with HHI increase is 2014 when HHI increases 1% from 2013. For the same reason and in a mirror pattern, Numbers Equivalent (NE) is increasing 5 out of the 6 years with the exception of 2014.

A box-whisker diagram (boxplot) of private banks AUM from 2012 to 2018 is shown in Figure 4.4 with the median, the middle 50% with upper quartile and lower quartile as indicated by the box, approximately the top 25% as shown by the distance between the top of the box and the top of the whisker, and approximately the bottom 25% shown by the distance between the bottom of the box and the bottom of the whisker. Any case greater than the upper quartile plus 1.5 times inter-quartile range is deemed to be an outlier and is denoted as “o” while any case greater than the upper quartile plus 3 times inter-quartile range is deemed to be an extreme case and is denoted as “*”.

Figure 4.4 Asian private banks AUM (2012 - 2018)

Source: Asian Private Banker, AUM unit: billion USD



Please see AUM of private banks in Asia from 2012 to 2018 together with colour coded scheme for mergers and acquisitions in Figure 4.5.

Figure 4.5 Asian Private Banks AUM League Table

Source: Asian Private Banker

	2012	2013	2014	2015	2016	2017	2018
1	Citi	UBS	UBS	UBS	UBS	UBS	UBS
2	UBS	Citi	Citi	Citi	Citi	Citi	Citi *
3	CS	CS	CS	CS	CS	CS	CS
4	HSBC	HSBC	HSBC	HSBC	HSBC	HSBC	DBS *
5	Deustche	Deustche	Deustche	JB	JB	JB	HSBC
6	JP Morgan	JP Morgan	JP Morgan	DBS	DBS	DBS	JB
7	JB	JB	JB	MS	BOS	MS	MS
8	MS	MS	DBS	Deustche	BNPP	BOS	BOS
9	DBS	DBS	MS	JP Morgan	MS	BNPP	BNPP
10	BOS	BNPP	BNPP	BNPP	Goldman	Goldman	JP Morgan
11	BNPP	BOS	BOS	BOS	JP Morgan	JP Morgan	Goldman
12	Goldman	Goldman	Goldman	Goldman	Deutsche	LGT	LGT
13	SC	SC	SC	SC	SC	Deutsche	Deutsche
14	Barclays	Barclays	Barclays	Barclays	UOB	SC	SC
15	EFG	Coutts	LGT	LGT	LGT	CMB	Pictet
16	Coutts	EFG	EFG	Hang Seng	Hang Seng	UOB	UOB
17	ABN	ABN	ABN	EFG	BOCHK	Hang Seng	Hang Seng
18	LGT	LGT	Coutts	ABN	EFG	BOC HK	CMB
19	RBC	RBC	Sarasin	Sarasin	Sarasin	EFG	BOC HK
20			RBC	RBC	UBP **	Sarasin	EFG

(green)	Acquirer (post transaction)
(orange)	New entrant
(dark grey)	Being taken over (announced pre transaction)
(light grey)	Dropping out top 20

*Asian Private Banker 2018 League Table remarked that Citigroup and DBS reported private banking AUM mixed with some retailing bank AUM.

** UBP is both new entrant and acquirer which took over Coutts

Findings on changes in industry structure

i. Private banking clients are becoming better off. They are economically better off as measured by HHI as the metric is showing a decreasing trend with private banking industry becoming less concentrated and evolving towards more competitive direction.

The size of industry is showing up trend with an annualised growth rate of 10.7% and there are more new entrants of private banks in the industry.

ii. Private banks generally are worse off as they compete in an industry which is becoming less concentrated as shown by HHI. In fact, profitability of private banking industry has decreased as cost/income ratio rises as reported by Asian Private Banker.

iii. There is industry consolidation and small private banks are being acquired implying there is critical size and economy of scale effects. Surprisingly despite the consolidation due to mergers and acquisitions (M&A), it has not led to increase in HHI and industry concentration as the M&A concerned are cases of small private banks being taken over by medium size private bankers and the calculation of HHI, sum of firm's market share squared, puts less weights on firms with smaller market shares. The private banks taken over are smaller international private banks and mostly European. Notable international private banks with their Asian operations taken over include ING Private Bank, Merrill Lynch Wealth Management, Societe Generale, Coutts & Co, Barclays and ABN Amro Private Bank. Acquirers in these transactions are medium size private banks such as Julius Baer, DBS, BOS and LGT.

4.6.2 The consequences to changes in regulations

Changes in private bank regulations post GFC such as investment suitability checks, additional client data reporting demanded by Common Reporting Standard (CRS) requires changes in bank's operating systems and may required substantial costly information system upgrade. Hence, these changes favour large private banks with scale. In fact, some private banks without sufficient scale in AUM had exited the industry. As shown in Figure 4.5, private banks which were taken over were ranked close to the bottom of the AUM League Table. The tightening of investment suitability regulation steps up the requirements of transparency and alignment of client interest. It is expected that a management fee model will become more prominent as an alternative to the current dominant brokerage fee model where advice is given for free while private banks earn commission on transactions. Charging management fee for advice can prevent excessive trading and better align the incentives of the private banker to that of clients. Advisory fees can be prohibitive for certain clients who are more price sensitive but it may work in conjunction with other value propositions such as financial stability ("safety") of the private bank. Undoubtedly, it would be more difficult for a small private bank with a lesser reputation to charge advisory fees while it is easier for established private banks.

Acquisitions intensified starting in 2014 when profitability of the private banking industry fell. In 2013, Asian Private Banker reports many private banks have low profitability with cost/ income ratio of over 80% with management of private banks stating that costs associated with changes in regulations being the main reason. The private banks that were taken over are of small size and were near the bottom of the AUM league table and with sub-par profitability with cost/ income ratio higher than industry average.

4.6.3 The changes in industry power relations

In Dahrendorf's thinking, conflict in society is deep rooted in the differentiation of authority leading to various interest groups (Burrell and Morgan, 1979). These different interest groups become the forces for change. The changes seen in private banking industry in Asia ranged from actions of interest groups, establishment of new organisations, to changes in legislature. The pendulum of power is swinging to the side of the client post Lehman bankruptcy.

In the absence of class action law suit in Hong Kong, victims of Lehman Minibonds retail investors exercised their activism to organise public protests, often close to the branches of retail banks where they bought the structured products. These protests attracted a lot of media attention and the retail banks bowed to public pressure to compensate the investors. This led to the establishment of the Financial Dispute Resolution Scheme which financial institutions regulated by Hong Kong Monetary Authority (HKMA) or licensed by the Securities and Futures Commission (SFC) have to abide by. Financial Dispute Resolution Centre (FDRC) was established in 2012 and it can mediate dispute of up to 1 million HKD (127,388 USD). A number of the board members of FDRC are representatives from regulators HKMA and SFC. FDRC seeks to protect the rights of consumers to arbitrate smaller sum disputes before incurring large legal expense in litigations. The Legal Review Committee of Hong Kong published a report in 2012 to propose class action but legislation has yet to be enacted.

Banks form an industry association Private Wealth Management Association (PWMA) in 2013. PWMA has stated objectives in developing Hong Kong as a private wealth management hub, to promote a culture of proper conduct and high standard of professional competence, to provide a forum for private banks and acts as a channel for the industry to discuss with regulators and government. While it strives to improve the standard of industry practitioners by giving courses and granting credentials, it is also a formal interest group set by banks to liaise with regulators.

4.6.4 The impact of industry level changes on client relationship

After the GFC, the market structure of the private banking industry in Asia has been changing to more competitive direction as evidenced by decreasing trend of the concentration metric of HHI. In a less concentrated market, private banks have less market power to set price and influence market and is beneficial to HNWI clients. In more competitive private banking market, HNWI have more choices and there is more competition for private banks to be trust advisor.

With the balance of power shifting from private banks to clients, it is also more conducive to trust in client relationship. Power, according to Weber's definition, is the ability to control resources or other parties to make things happen as one desires despite obstacles (Johnson, 2000). Power mitigates uncertainty and makes the party with power less reliant on trust. Knowing that private banks have more power and may act opportunistically, clients will have low trust expectation and be less trusting under rational expectation. Hence, private banking client relationship could be less trusting in a concentrated market structure where private banks have more power, and conversely more trusting in a competitive market. There is further theoretical backing to my argument: Gangl, Hofmann and Kirchler (2015, cited by Hofmann, Hartl and Penz, 2017) proposed an inverse relationship between power and trust when it comes to cooperative behaviour between providers and consumers. The authors argue that power, if used coercively, may generate an antagonistic climate in cooperation while trust breeds more confidence in cooperation.

The private banks, in response to the cut in power in the selling process due to revised suitability regulations, formed an *interest group* in the name Private Wealth Management Association (PWMA) in 2013. PWMA provides a forum for heads of private banks to meet and became a channel for the industry to have discussion with regulators and government. PWMA mobilises its political power to have regular dialogue with the regulator and keeps private banks informed of new or potential regulatory changes. It also enables heads of private banks to potentially lobby their collective point of view to the regulator and balance their power with the regulatory authority.

4.7 Discussion on economic level

The Radical Structuralist paradigm takes an industry level perspective in analysis and is fitting to (1) reflect on the fundamental industry drivers and (2) make industry predictions which are of managerial interests. These 2 topics will be discussed in this section.

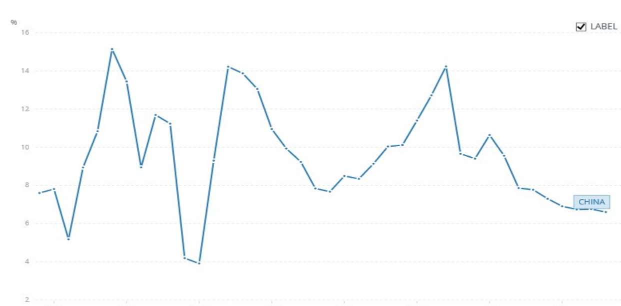
4.7.1 The underlying economic drivers

The wealth management business is considered to be among the most attractive business segment within the financial services industry (McKinsey, 2014). McKinsey lists its above-GDP revenue growth, profitability with low capital requirements and providing of liquidity funding as attractive features. I see there are five main secular factors as industry drivers for wealth management business in Asia. The first four are growth drivers for the industry while the fifth one presents challenge for private banks to overcome. These factors are: (i) Economic reform in China driving rapid private wealth growth, (ii) Capital light nature of private banking business, (iii) Structural trend of widening wealth inequality, (iv) Quantitative easing (QE) driving up asset prices, (v) Tightening of regulations.

(i) The economic reform in China driving private wealth growth.

In the annual reports of major banks with a private banking wealth management business, one will invariably find the comment that Hong Kong and the Greater China market is an important market thanks to its phenomenal growth. According to the World Bank, China has experienced rapid economic and social development since initiating market reforms in 1978. GDP growth has averaged nearly 10% a year and has the fastest sustained expansion of a major country in history. During its course, China has made gained substantial social development and lifted 850 million people out of poverty. Please see below Figure 4.6.

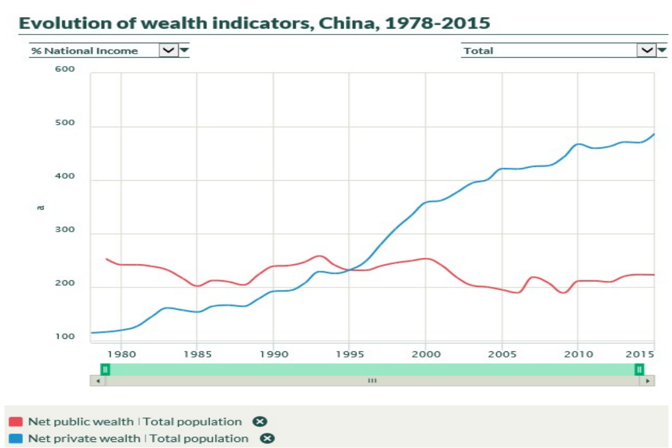
Figure 4.6 China's GDP annual growth from 1979 - 2018 (World Bank)



China's economic reform started under the leadership of Deng Xiaoping who introduced market-economy reforms. In the 1990s, reforms of some state owned enterprises were transformed by management buyout which created the first wave of entrepreneurs and private wealth accumulation. The pace of private wealth accumulation gathered steam with entrepreneurs engaging in flourishing manufacturing and export businesses while the bigger and more ambitious entrepreneurs began tapping the equity capital markets abroad in New York, Nasdaq and Hong Kong stock exchanges starting in the early 2000s. As noted with Piketty and other researchers on World Inequality Database, this secular trend of private wealth growth in China is rapid and dominant. Net private wealth in China was about 120% of national income in 1980 and it more than quadrupled to over 480% in 2015 while net public wealth has declined in this period. Please see Figure 4.7.

Figure 4.7 Evolution of Wealth indicators in China

Source: World Inequality Database (WID):



In 2015: Private wealth at 487% of national income while net public wealth stays flat at 223%

(ii) Capital light nature of wealth management business

Other than above GDP revenue growth, McKinsey (2014) lists low capital requirement and supply of liquidity as attractive economic characteristics of the wealth management business. The capital requirement is low as the primary nature of the business is to offer solutions for liquid wealth management in financial securities and lending is not the primary function as in commercial and corporate banking. Therefore, the risk weighted capital adjustment is low and a low risk weighting is assigned to private banking assets. The principle is that a bank requires capital to protect against losses in its assets (loans) and the amount of capital required to protect against losses depends on the riskiness of the asset (Hannoun, 2010). For instance, for assets typical of commercial and corporate banking, medium risk weights are residential mortgages (35%), while high risk weights include high volatility commercial real estate and claims on unrated corporate (100% risk weight). Where there is lending in private banking, usually there is secured collateral assigned from securities such as a Lombard loan in addition to the usual personal guarantee from the beneficial owner. In addition, all private banking relationships start with AUM with liquid assets in the private bank rather than starting with a lending relationship. Hence, wealth management provides a source of funding for banks.

The low capital requirement nature of private banking wealth management coupled with a supply of funding from clients is looked at very favourable after the Lehman crisis as most banks suffered asset write down while regulators raised capital requirement for additional loss absorption capacity. Some international banks started to put more resources into the private banking wealth management business segment. The international bank most determined to pursue this strategy is UBS. With its new Group CEO Sergio Ermotti appointed in November, 2011, UBS stated a new strategy in the 2012 annual that "focuses on our pre-eminent wealth management businesses and leading universal bank in Switzerland". UBS is committed to "building its industry-leading capital position".

(iii) The structural trend of widening wealth inequality

A direct and significant factor powering the growth of the wealth management industry is the structural trend of growing wealth inequality in the world. Piketty (2014) points out that private wealth as compared to national income in the US and Europe has been rising in the past several decades, with the pace picking up since the 1980s. For the countries he studied in detailed such as Germany, France and Britain, private wealth as a multiple of national income has climbed to a high level - 4 times in Germany, 5.2 times in Britain and 5.8 times in France in 2010 which are comparable to the pre World War II period.

In terms of income inequality, Piketty (2014) claims that the top 1% families in the US account for 20% of total income. Piketty (2015) attributes income inequality to the unequal access to top education, skills, escalating executive compensation and substantial tax cuts. Wealth inequality is even more extreme than income inequality. Harrington (2016) points out that the top 1% in the US accounts for 35% of its wealth. By investing the accumulated income and through compounding, the wealthy individuals are able to extend the lead in wealth over the rest.

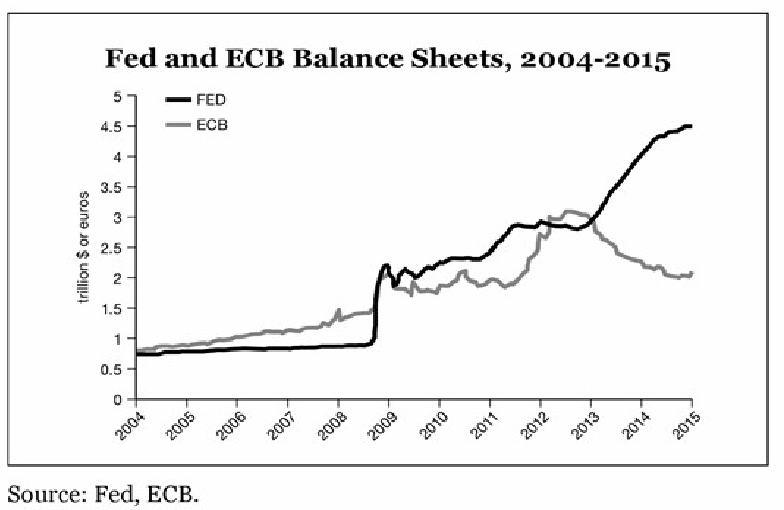
Tax policy is an area which impacts on income and wealth inequalities. Hong Kong has long been regarded as a low tax jurisdiction particularly attractive for HNWI. Hong Kong has no capital gain tax, no tax on dividends and no withholding tax. These three tax cuts reinforce each other to compound the growth of wealth for HNWI. No withholding tax enables investors to earn from interest bearing investment such as fixed income and deposit tax free. No tax on dividend enables investors to earn dividend in cash or in scrip in the form of additional shares tax free. No capital gain tax encourages long term investing, or taking profit, switching investments, and speculation for short term gain. They combine to enable NHWI in Hong Kong to increase their wealth much more than the rest. Note that no capital gain tax applies to all form of capital gain including securities investment, real estates and fixed asset investments. In addition to these three favourable tax treatments, Hong Kong abolished estate duty in 2006. Inheritance, the transfer of accumulated wealth to the next generation, is treated tax free in Hong Kong and accentuates the wealth inequality.

(iv) Quantitative easing (QE) driving up asset prices

Quantitative easing (QE) is an unusual monetary policy which was deployed during the financial crisis because the conventional monetary policy of the US Federal Reserve setting the fed funds rate was already used but had reached its limit as it was close to zero.

QE is central bank buying financial assets such as US treasury and mortgage backed securities (MBS) held in financial institutions (Dalio, 2018). Tooze (2018) refers to QE as buying of MBS by the Federal Reserve on its balance sheet on a massive scale which totalled 1.85 trillion USD. QE injected much needed liquidity into the financial markets. Dalio (2018) lists the effects being increasing money supply, boosting liquidity and capital position in financial institutions thus improving the private credit market. It also depressed long end treasury yield and therefore pushing up fixed asset prices and so drove up the prices of assets. Tooze (2018) explains that the depressed level of yield forces asset managers to switch out of bonds into equities and QE has a pronounced positive impact on equities markets returns. With three rounds of QE, Federal Reserve expanded its balance sheet to 4.4 trillion USD at the end of QE3 (Tooze, 2018). Please see Figure 4.8.

Figure 4.8 Balance sheets of the US Federal Reserve and ECB, 2004-2005



Source: Tooze (2018) quotes Fed, ECB.

The pronounced positive impact on equities markets is illustrated in the rapid rise of the S&P 500 index. Please see Figure 4.10 below. S&P 500 index reached a pre crisis high of 1,902 in Oct 2007, it dropped to a crisis low of 888 in Feb 2009 then climbed to a recent high of 2,980 in July, 2019. In percentage terms, S&P 500 is up 156% since pre-crisis high and up 335% since its crisis trough. Please see Figure 4.9 below. The view in the investment industry concerning the spectacular rise of S&P 500 index is that it is more attributable to liquidity in the financial market provided by central bank monetary policy rather than underlying economics as Tooze (2018) quotes an interview of a Citigroup strategist on FT.

Figure 4.9 S&P 500 index over 30 years from 1989 to 2019

QE brought about *key consequences* relevant to private banking in Hong Kong and also an uneven distribution effects on various social groups in society. The overall effect of QE is to fuel the widening of wealth inequality in the world and especially in Hong Kong. The specific pathways are as follows.

The clients of private banks in Hong Kong have benefited as private banks' investment focuses on global investing and global asset allocation. The US stock market is the largest in the world and it receives the most weight in global asset allocation. For clients who invested in private bank's Discretionary portfolio management mandates, they automatically enjoyed performance benefit of US equities. For clients less keen on discretionary portfolios, they would have benefitted from the advice to be overweighting in US equities as most international private banks advised overweight in US equities in the years following the Global Financial Crisis. Due to the more global investment nature of private banks, private bank clients are able to earn a lot more returns and increase their wealth more than retail investors who have less access to global investment and usually have a home bias in investing. In terms of performance, US equity index S&P 500 is up 156% (2,980 in July 2019) since pre-crisis high while Hong Kong's Hang Seng index is merely up 2% (32,121 in Jan 2019) since pre-crisis high (31,500 in Oct 2007). The wealthiest were able to increase their wealth through their global investment portfolio.

Two wealthy social classes have particularly benefited from Hong Kong equities market rally since the Global Financial Crisis. One social class is entrepreneurs with their companies publicly listed on the Hong Kong Stock Exchange or abroad. The valuation of the stake of their publicly companies have increased substantially and add to their wealth. These entrepreneurs with publicly listed companies benefit more than those with private companies. The publicly listed shares can also be pledged to private banks and the owner can use them as collateral to draw down a stock loan to monetize their stock holding without selling down the shares. The single stock loan will be subject to shares trading volume and be assigned a small loan to value due to its higher risk nature. Disclosure of stock loan to Hong Kong regulators may be required. Usually, the majority of loan proceeds will be invested in an investment portfolio of diversified securities while the minority of the loan proceeds could be remitted out for other use such as purchase of real estates. These actions would further increase wealth and widen the wealth gap between the owner of publicly listed companies and the rest. The other social class who benefit from QE are senior corporate executives of publicly listed companies as part of their compensation is in company shares or share options. At the same time, the distributional effects of QE on different social groups are uneven. It adversely affects the poor because they cannot earn interest on their savings on deposit and erodes purchasing power.

4.7.2 The impact of economic factors on client relationship

The four economic drivers identified in the previous section: economic reforms in China, capital light nature of private banking business, widening wealth inequality, and QE are positive for private banks and stimulate growth of the industry. But some of the economic factors favour certain types of private bank and do not affect all private banks equally. These economic factors shape industry development and impacts on client relationship.

The growth drivers of *widening wealth inequality* and *QE* are favourable exogenous factors for the private banking industry which affect private banks equally. They raise industry attractiveness and draw new entrants in Asian private banking. With more private banks operating in the industry, one managerial implication is how to differentiate one's private bank from the others. Some differentiation strategies observed involve adding peripheral advisory services which do not bring significant revenue impact but helps the core strategy of increasing AUM such as trustee service, philanthropy advisory, family business advisory and art advisory. These differentiation services require additional headcount in specialists and add a cost burden, benefitting the large private banks with the scale and good profitability to amortize these costs. Hence, large private banks attempt to erect new fixed costs as entry barriers to deter competition from new entrants.

The *capital light nature* of private banking is attractive especially in the Basel III regulation regime post GFC. This factor benefits the private banks with established operations in commercial and corporate banking in the region. This is because commercial and corporate banking requires bank lending to clients and these loans are capital intensive in Basel III while private banking provides synergy in attracting deposits which provides funding for commercial and corporate banking in the region. Cross country capital funding from (home) markets with surplus liquidity usually entails cost from infra group transfer pricing or it can be forbidden by certain regulators. As a result, it is predicted that private banks owned by Asia's universal banks will be on the rise because of their established presence in local commercial and corporate banking. In fact, in the recent ten years, the most active acquirer in Asian private banking is Singapore's universal banks such as

Overseas Chinese Banking Corp (OCBC) and Development Bank of Singapore (DBS). The attractiveness of the small European private banks as acquisition targets is higher to the acquirers who are Asia's universal banks with substantial commercial and corporate banking business in the region.

The growth factor of *economic reform in China* driving private wealth accumulation accelerates growth for the private banking industry in Asia but favours Chinese banks or international banks with a strong China footprint to capture business opportunities from their relationship network in China. It is expected that private banks within international banks with strong China footprint and private banks belonging to Chinese bank groups are in better position to capture growth.

The overall effect is the rise of the regional banks in Asia to tap into private banking. Some of these banks may not have the long track record in private banking. The names of these banks would be familiar to HNWI but the brands lack the association with private banking. How would these banks convince HNWI to bring their capital over for wealth management? One solution is through hiring of private bankers especially those who have worked in leading international private banks. These private bankers will add value with their clientele and also help to move the perception of these regional brands closer to private banking in the market.

4.8 The Next Big Trend

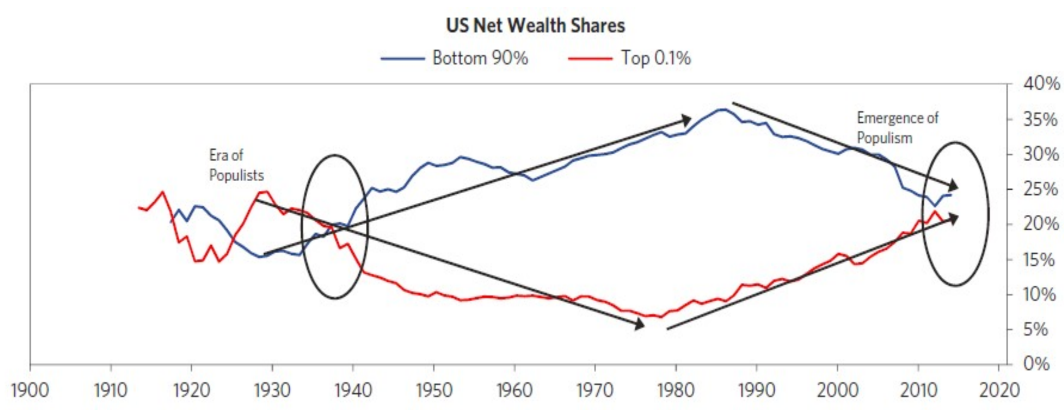
4.8.1 The next radical change in the making

How does all this relate back to Burrell and Morgan's Radical Structuralist paradigm? The fundamental conflict which caused a radical change in financial regulation after the fall of Lehman Brothers was caused by the issues of *moral hazard* and greed in trading complex financial derivatives. After the regime shift of regulatory changes, matters seem to be on the mend. But may be the *next radical change* in the making? In the last financial crisis, unusual monetary policy of quantitative easing (QE) was used by Federal Reserve to address the credit market problem. The central bank buys long tenor financial assets such as treasuries and other debt securities held in banks and improves banks reserves level by increasing money supply. The long term bond yield drops and asset prices rise due to a drop in discount rate. The increase in money supply also adds to inflationary pressure. QE further exacerbates the *widening wealth gap* by inflating asset prices and it causes a transfer of debt from the banking sector to the public sector shouldered by central banks. Braun (1997) asked "why is increasing inequality a danger to us all?" Braun's arguments include the shrinking middle class, declining consumer base, threat to democracy, increase in crime, deteriorating family life, ill health, inadequate housing and sliding economic stability. These arguments said some 20 years ago now vividly paints the social problems today with the rise of populism around the world - Occupy Wall Street, Occupy Central in Hong Kong and the yellow vests protest in France. The next sociology of radical change could be coming from the ***widening wealth inequality*** driven by the fundamental inequality of capitalism of r > g with return on capital (r) outpaces economic growth (g) (Piketty, 2014). The radical changes occurred after the financial crisis and the new one in the making are also related to *trust*. The rise in populism relates to the loss of trust in government. Oxford dictionary defines populism as a political approach which appeals to the ordinary people who feel their concerns are neglected by the established group.

The widening wealth gap is a global phenomenon and so is the rise of populism and social unrest. Dalio (2018) illustrates the correlation of wealth inequality with the rise of populism on his chart of US net wealth shares (see Figure 4.10). When the top 0.1% of US population has as much wealth as the bottom 90% in the 1920s and 1930s, an era of populists emerged. Now, in the 2010s with the wealth of the top 0.1% approaching the bottom 90%, populism re-emerged in Occupy Wall Street and the election of Donald Trump as President.

Figure 4.10 US Net Wealth Shares

Source: Dalio (2018)



Populist protests sprang up elsewhere other than in the US. Yellow vests movement started in France in November 2018 protesting the fuel tax which the ordinary citizen would have to bear the penalty of pollution ultimately caused by large corporations. In France, current aggregate private to national income is about 5.8 times exceeds the level in pre-WWII of 3.5 times and approaching that in pre-WWI level of 7 times (Piketty, 2014).

At home in Hong Kong, there were populist protests demonstrating against the government with initial concerns on the politically sensitive and controversial extradition bill in 2019. In my view, an underlying cause for public discontent is economic - the uneven economic distribution in society. In 2017, Yau reported in South China Morning Post that Hong Kong's wealth gap hit record high and that the richest 10% earn 44 times that of the poorest. Affordability of housing in Hong Kong is a serious issue. According to Demographia (2019)'s housing affordability survey using Q3 2018 data, Hong Kong's housing is the most unaffordable in terms of the median multiple - the median home price divided by gross annual household income which climbed from 11.5 in 2010, shortly after QE in the US, to 20.9 in 2018. A multiple of 5.1 and over is deemed to be severely unaffordable. In terms of income inequality in Hong Kong as measured by Gini coefficient, it has climbed to a very high level of 0.53 (Ma, 2011) while an international alert line is set at 0.4 (Chan, 2014). Above that threshold of 0.4, UN cautions that "inequalities may have serious negative political, social and economic consequences for societies if not properly addressed". An international financial centre has the usual characteristics of the rule of law, free capital flow, a thriving economy and a stable society. The rule of law was broken with unauthorised demonstration and vandalism in 2019. Hong Kong's reputation as a safe international finance centre was weakened and some private banking business might be at risk to Singapore.

4.8.2 The emerging theme in client relationship

How does the radical change in the making caused by the widening wealth inequality impact on private banking relationship? A new and emerging theme is taking shape as a result of changes in the larger context and driven by different industry forces.

The changes in the larger context of economic conditions brought on by QE, as the remedy for the global financial crisis brought on by Lehman bankruptcy, inflated asset prices and exacerbated wealth inequality in the last decade. Wealth is resources not needed for consumption in the future which can be held in reserve and accumulated (Johnson, 2000). Private banks offer a comprehensive wealth management platform and are based in international low tax jurisdictions and enable clients to achieve tax efficient and superior return on capital (r). But private banks are only accessible to HNWI who have at least a few million USD to invest. Product offerings such as hedge funds and private equity connect clients with hard to access managers to achieve better return and lower volatility. Private bankers have come to be more aware of the widening wealth gap and their contribution to a superior capital return (r) and so doing help to widen the fundamental inequality r – g and increases the uneven social stratification in society. While more socially oriented activities are on rise in private banking such as philanthropy advisory and community engagement, the most prominent activity is the ascent of ***sustainable investment*** as it involves the core strategy of management of capital at the heart of the client and private bank relationship.

Sustainable investment directs capital to companies with environmental, social and governance (ESG) consideration by investing in their debt or equity securities. ESG is a concept formulated by the United Nations before GFC with the publication of *UN Global Impact Report* in 2004 aim at the asset management industry and the *UN Principles for Responsible Investment (UNPRI)* in 2006. Sustainable investment puts ESG principles into action and the movement gathered momentum after GFC in the 2010s thanks to a chain of events aimed at different actors of the finance industry. Liu (2020) of Morningstar comments that the sustainable investment movement started in the 2010s as consumers come to making purchase decisions with sustainability in mind, leading to expectations that public companies should be stewards of ESG values. The UN put further impetus into the movement by the formation of the Paris Agreement in 2015. Subsequently, government polices put strain on non-ESG-compliant business practices, creating the context for asset management and private banking industry to direct capital flow. In 2018, UBS led the private banking industry to launch a 100% ESG compliant cross asset investment mandate with development bank bonds, green bonds and ESG-compliant equities. Other private banks soon followed. In 2019, the European Union (EU) launched the International platform on sustainable finance (IPSF) – a forum for policy makers of different countries and further strengthened the context for private banks to ramp up sustainable investment. The sustainable investment movement has gathered power through the some key events and formation of interest groups. Please see Table 4.2.

Table 4.2 Timeline and forces for ESG movement

Source: Morningstar & EU

Date	Key movements	Led by	Aim at
	<u>ESG</u>	UN	Asset management, Brokerage, Private banks
2004	UN Global Impact report "Who Cares Wins" recommending ESG consideration.		
2006	UN Principles for Responsible Investment (UNPRI)		
2010s	**<u>Sustainable investment</u>**		
	Putting ESG into action. Consumers making sustainable purchase decision driving public company to be stewards of ESG values.	Consumer	Companies
2015	Paris Agreement	UN	Countries
2018	UBS launches first cross asset SI investment	PB	HNWI, family office
	<u>Sustainable finance</u>		
2019	EU launched International Platform on sustainable finance (IPSF).	EU	Ministry of finance of countries

This emerging theme of sustainable investment is also conducive to building trust in private banking client relationships. Let me elaborate on the reasons.

First, the idea of sustainable investment speaks directly to the social conception of trust. Putnam (1993, as cited by La Porta et al.) describes trust from a sociological perspective as the tendency for individuals in a society to cooperate to produce socially efficient outcomes. Sustainable investment is about an investing approach which takes environmental, social and governance (ESG) consideration, and its declared intention has a socially efficient outcome in mind. It instils a higher purpose in wealth – wealth is not only about the means to support a lifestyle but also to improve the world the HNWI lives in. Sustainable investment is also a counter balance to the sociology of conflict stemming from widening wealth inequality as it builds communal trust between the wealthy and the rest. Putnam's idea of a well functioning society is based on interconnected networks of trust among citizens (Siisianen, 2000). Sustainable investment has a place in the sociology of integration to counter the forces from the sociology of conflict.

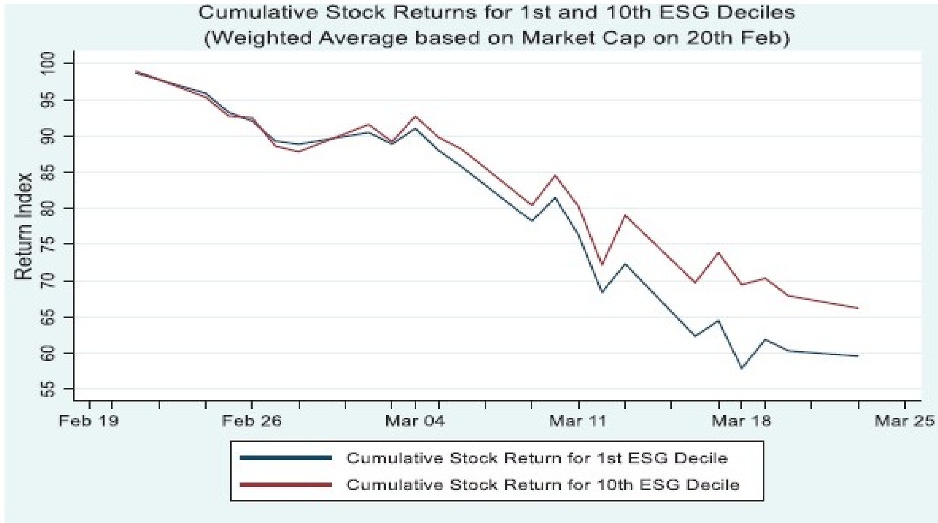
Second, conversation about sustainable investment involves notion of care which relates to the affective dimension of trust. This helps to foster an emotional bonding between the client and the private banker. This emotional bonding could be quick to develop and effective for clients with closely aligned values. Clients with personal values aligned with ESG consideration will develop trust swiftly.

Third, successful positioning of sustainable investment meets client expectation and affirms trust. UBS is the first private bank which launched a 100% sustainable discretionary portfolio in 2018 to HNWI. UBS markets sustainable investment initially as an approach for value-based investing with the slogan "Investing sustainably doesn't mean potentially sacrificing returns – it's a way while staying true to your values to invest and seek the returns you expect". In fact, the sustainable investment portfolio has delivered slightly better returns and lower volatility among all discretionary portfolios. Clients with values aligned with ESG who invested in the sustainable portfolios are satisfied with expectations exceeded and trust affirmed. Outperformance of sustainable investment is set to continue with capital flow gathering momentum. Morningstar (2021) reports that asset in sustainable funds hit a record high of 1.65 Trillion USD at the end of 2020 which is +29% from Q3, 2020.

Fourth, sustainable investment is a form of corporate social responsibility activity for private bank which builds trust and moreover, it is beneficial for private bank. Corporate social responsibility (CSR) helps to build up goodwill in the form of Putnam's (1993, P.169) social capital as "features of social organisation such as trust, norms and network that can improve the efficiency of society by facilitating coordinated actions". Lins, Servaes and Tamayo (2017) found that firms with high social capital in terms of stronger records in corporate social responsibility have better performance in share price during GFC. The authors explain that CRS activities build stakeholder trust and cooperation which paid off during GFC when trust was low and that high social capital firms were considered more trustworthy. In addition, Lins, Servaes and Tamayo (2017)'s study suggests that sustainable investment could be a CRS activity which benefits the share price of banks. A recent study by Johnson-Louis et al. (2020) found similar results during the COVID-19 pandemic and that companies with strong ESG records have better share price performance during the initial stages of the COVID-19 crisis. Furthermore, Johnson-Louis et al.'s (2020) results find direct support for superior performance of the sustainable investment portfolio – the authors found the cumulative stock returns of the 10th ESG decile is better than the 1st ESG decile during both the period of stock market drawdown and in the subsequent rebound. Please see figure 4.11

Figure 4.11 Cumulative stock returns for 1st and 10th ESG deciles during COVID-19

Source: Johnstone-Louis et al. (2020)



4.9 Conclusion

In this section, I will summarize the findings of the paper, reflect on the meaning of wealth, comment on policy implications and tie it back to Burrell and Morgan's Radical Structuralist paradigm.

The nature of financial service is uncertain until completion and the consumer is disadvantaged by asymmetric information and a knowledge gap. The fundamental conflict in the private bank and client relationship is that of moral hazard. Moral hazard is more acute in the transaction of complex financial instrument such as derivatives. Lehman Brothers' problem originated from derivatives such as mortgage backed securities and the direct impact on the private banking industry in Asia fell on derivatives such as Lehman Minibonds and equity accumulator.

The years following the collapse of Lehman Brothers, wealth management and the private banking industry in Hong Kong has undergone deep structural changes. With the lack of class action law, retail investors through activism managed to claim back most of the losses in Lehman Minibonds as retails banks paid up compensation. Private banking clients took private banks to court with mostly disappointing outcomes. Subsequent changes in regulations aim to address the issue of moral hazard through disclosure requirements of monetary benefits, declaration of conflict of interest, and later risk management consideration such as investment suitability. In terms of private banking industry structure, it has become less concentrated as measured by HHI with consumers becoming better off while private banks are experiencing suffering falling profitability. Industry consolidation continues with smaller banks being acquired by medium size private banks due to rising costs from implementing tax and investment suitability changes. In terms of power relations, private banks formed their interest group industry organisation PWMA to foster closer relationship with regulators and government. Although, class action lawsuit has yet been legislated in Hong Kong, investor activism led to establishment of Financial Dispute Resolution Centre (FSDC). The private banking industry in Asia is on the mend after Lehman bankruptcy. QE, the remedy of GFC, has caused asset bubble and widened wealth inequality which in turn drives the sociology of conflict.

Private banks, as custodian of private wealth, are taking the leadership in directing the flow of capital to sustainable investing to unleash the power of capital to change the world for the better. In doing so, private banks are building trust with HNWI through sustainable investment as a form of corporate social responsibility which could also be beneficial for the bank's shareholders in terms of share price performance.

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Chapter 5: Conclusion

Abstract

This chapter draws conclusion from the multiple paradigms inquiries in the previous chapters focusing on the common theme of trust. The nature of trust as identified by the different paradigms is discussed together with the lessons from the application of the Burrell and Morgan sociological paradigms framework. The thesis contributes to new knowledge in two areas: first, by proposing multiple paradigms as a methodology to study trust in the context of wealth management; second, by adding to the multiple paradigm literature by developing an “essence” which is an integrative interpretation of findings from the different paradigms. Lastly, managerial implications and suggestions to improve practice for the private banking industry and for the private banker practitioner are discussed.

5 Conclusion

Since Kuhn's (1962) seminal work *The Structure of Scientific Revolutions* on paradigm, it has inspired much scholarship and debate in social science on the topic. Subsequently, notable work on multiple paradigms studies followed such as Allison's (1971) *Essence of Decision: Explaining the Cuban Missile Crisis*, Burrell and Morgan (1979)'s *Sociological Paradigms and Organisational Analysis* and Hassard's (1991) *Multiple Paradigms and Organisational Analysis*. Allison (1971) illustrated a multiple paradigm perspective by using different models such as rational actor model, organisational process model and governmental politics model to analyse the Cuban Missile Crisis. In a treatise of the history of thought analysis, Burrell and Morgan's (1979) model provides an intellectual map of four paradigms to classify social theories and contributed in theory. Hassard (1991) applied Burrell and Morgan's multiple paradigms model to study organisational analysis in the British Fire Service. His contribution is in research methodology in his refutation of paradigms incommensurability by demonstrating a range of research methodologies, a different one for each paradigm, to analyse work organisation issues in the British Fire Service. So, what does my thesis add to the contribution of multiple paradigm analysis in the literature? Let me explain in terms of Checkland (1985)'s terminology of theoretical framework (F), methodology (M) and area of applications (A).

My first contribution on multiple paradigm analysis is to use it as a theoretical framework (F) to analyse trust in an area of concern (A) in business. In doing so, I add contribution to the theory of trust as applied to the business of wealth management. While Hassard (1991) looks at different organisational issues in the workplace for different paradigms, my research focuses on a unified theme of trust in the multiple paradigm analysis in the context of wealth management.

My second contribution on multiple paradigm analysis is in methodology (M) in the use of *interpretation* of findings from the different paradigms to synthesize an "essence" which is interpretive and integrative conclusion drawn from multiple paradigms. While Allison (1971) shows that a researcher may usually rely on one paradigm too much and neglects the other view points of the paradigms. "Where you stand depends on where you sit" (Allison, 1971 as cited by Bernstein, 1999), it is the paradigm that a researcher adopts that will shape the findings. But critic such as Bernstein (1999) said despite the title of the book, Allison's work lacks the essence of the decision: *What is the essence and integrative* *lesson learnt from the different paradigms?* I will address "the essence" in an integrative conclusion of my multiple paradigm analysis together with the managerial implications in this chapter.

My third contribution on multiple paradigm studies is in the area of application (A). To my knowledge, this is the only known multiple paradigm research untaken in the field of wealth management practice. The findings of my research yield original and new knowledge relevant to management of private banks, practitioner of private bankers and policy makers in the industry.

The structure of the conclusion chapter is as follows. First, the chapter begins with pulling the strands from the three studies in terms of the learning regarding the nature of trust observed. Second, reflection on FM&A for each of the three studies is discussed together with a synthesis of the learning of the multiple paradigm study as a whole. Third, the use of Burrell and Morgan is revaluated in terms of (i) what insight I might have gained had a study been conducted using the radical humanist paradigm, (ii) could I have achieved the result with a mixed methods research approach? How would I use mixed methods if I had chosen it as research approach? Fourth and lastly, reflection on research is discussed with (i) managerial implications, (ii) implications for private banker practitioner, and (iii) personal reflection on my research journey.

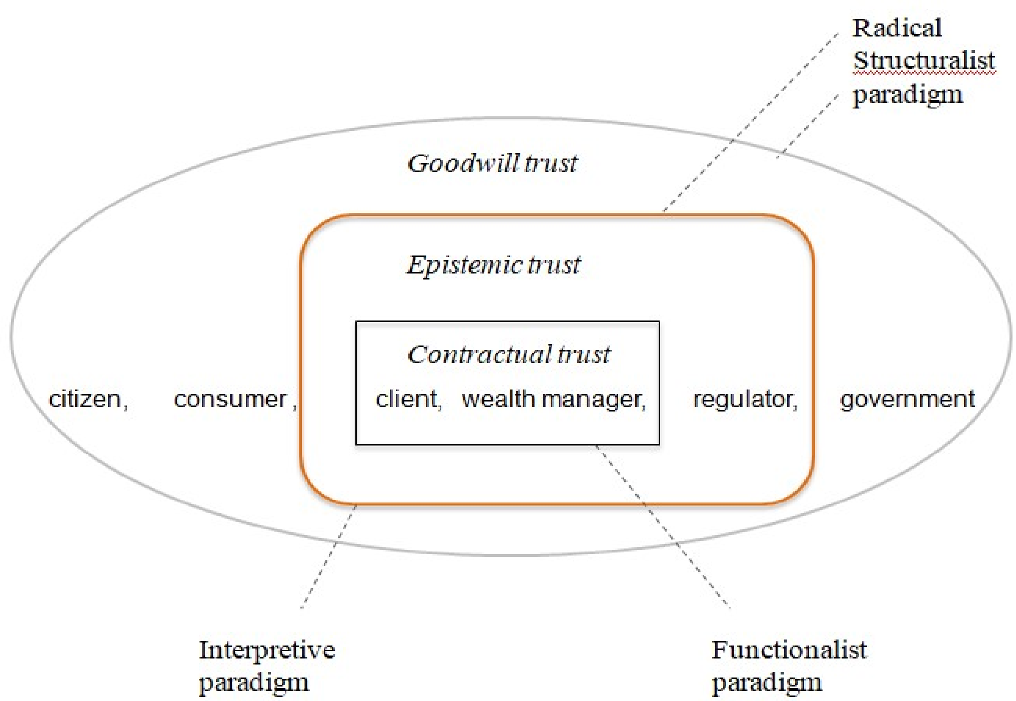
5.1 The Learning of Trust in Private Banking Relationship

As I explained in the introduction chapter, my ontological assumption on trust in the context of wealth management is that certain aspects of trust are apparent to the eyes of some stakeholders in certain perspectives and I came to a realization that there is no one universal general model of trust that can cater for all circumstances and clearly for all stakeholders. For instance, from the discussion I had with senior management of private bank, I learnt that private bank sees trust as client's delegation of investment decision with Discretionary mandate being the ultimate achievement in winning the trust of the client; from the in depth 1:1 interviews with HNWI private banking clients, I realize that there is a process in which clients develop trust and a number of intervi Source: Dalio (2018)
ewees said trust develops during repeated interaction which involves observation and validation; from the study on private banking industry in the years following Lehman

Brothers bankruptcy, I see the regulator's concern to address moral hazard and regulates the selling process of financial products as they are credence goods (Calcagno, 2017) which are goods that an expert seller knows more about the quality and the needs of the consumer than the consumer himself (Dulleck and Kerchmbamer, 2006, P.5). The various stakeholders in the wealth management business have different perceptions of trust viewed from their own perspectives. Multiple paradigm analysis sheds the light on these phenomena. I was able to come to a new and holistic conception of trust after re-interpreting and integrating the findings from multiple paradigms and thereby attaining a bird's eye view. Please see Figure 5.1.

Figure 5.1 The nature of trust identified

Nature of trust	**Stakeholders**	**Identified in paradigms**
Contractual	Client, wealth manager	Functionalist
Epistemic	Client, wealth manager, regulator	Interpretive, Radical Structuralist
Goodwill	Citizen, consumer, client, wealth manager, regulator, government	Radical Structuralist



Let me describe this general nature of trust before elaborating on its various aspects observed in different paradigms. Oxford Dictionary defines trust as "firm belief of reliability, truth or ability". It is about forming an expectation of consistent up to standard performance which can be depended on. In a study of buyer and supplier relations in the electronics industry in the UK and Japan, Sako (1997) finds three kinds of trust which are contractual trust, competence trust and goodwill trust. There are similarities to what I observe in my research in wealth management such as contractual trust and goodwill trust while I conceive another aspect of trust which is different and larger in scope than competence trust. The difference between my observations and that of Sako's is driven by the differences of the nature of relationships studied – Sako researched on inter-firms, business-to-business relationships while my area is more focused on the individuals with business-to-consumer relationships; Sako looked at trading of goods while my area of private banking is closer to service. I would describe the different aspects of trust I observed in my research as contractual trust, epistemic trust and goodwill trust.

Contractual trust is the moral ethics of fulfilling the contract and essentially keeping the written promises (Sako, 1997). In my research area, the focus area is the client and private bank relationship in the sale of financial products and services. The scope is well defined and narrow and requires the seller to deliver the terms of the contract. The implication for wealth management is the creation of a term sheet for complex wealth management products, such as a managed fund or structured product derivative, a term sheet is where product features, return and risk characteristics are shown. The period concerned is short term which is the duration of the investment product or service. The stakeholders concerning contractual trust are client and private bank. The paradigm in which contractual trust has the most relevance is the Functionalist paradigm. I will defer the detailed discussion of the findings concerning contractual trust to the next section.

I have observed an aspect of trust, which I label as *epistemic trust*, and it is similar to but deeper in scope than Sako's (1997) competence trust. Sako (1997) describes competence trust as the technical and managerial competence of a supplier to mitigate unforeseen risk such as machine break down or disruption in supply chain. Here elements such as expertise and uncertainties are identified. For the wealth management business, there is more acute problem of expertise and knowledge asymmetry between the client and the wealth manger and both face more uncertainties in financial markets as compared to buy and supplier of goods relationship. There is reason to label this nature of trust as epistemic trust. Oxford Dictionary defines epistemic as "relating to knowledge or to the degree of its validation."In the 1:1 interviews conducted in the Interpretive paradigm study, a number of participants mentioned that they require repeated interaction with private banker to observe the behaviour of private bankers to validate if they are trustworthy. Epistemic trust is more than having technical competence about the financial products, it address the fundamental issue of credence goods in which the expert seller knows more about the needs of the buyer than the buyer himself. The implication for wealth management is the concept of *suitability* which has been incorporated in the recent regulations. Suitability goes deeper than detailed technical explanation of investment product's risk and return characteristics in the term sheet. It considers whether the investment product is suitable for the client's investment profile, experience, investment horizon, the client's age and the suitability of this investment in relation to the existing portfolio in terms of concentration of risks. In the years following the Global Financial Crisis, the regulator has introduced extensive regulation concerning investment suitability. The stakeholders for epistemic trust are clients, wealth managers, private banks and regulators. The applicable time period for epistemic trust is longer than contractual trust as it is relationship based and extend beyond the tenor of an investment. Epistemic trust is observed in Interpretive and Radical Structuralist paradigms research.

Goodwill trust is open commitment and is the expectation of each party to do more than formally agreed (Sako, 1997). I see goodwill trust has a perspective which is social in nature and the discussion of trust in the sociology literature highlights this perspective. In an explanation of trust in the context of sociology, Marshall (1998) remarks that stable collective life in society is based on more than calculating self interests. He referenced Giddens' (1990) thinking on trust and society and that the human condition is inherently uncertain and society ought to protect individuals from anxiety by developing trust in others. Gidden's notion of trust conceives of relationship between individuals and society through elements of risk, anxiety and duty of care. There is no formal contract between individuals and society and I see the sociological perspective of trust describing goodwill trust. The implication for wealth management is that consumers at large, including those who are not clients, expect regulators to adequately regulate wealth managers and private banks. Goodwill trust is explicitly expected of the regulators and it is in a way implicitly implied by the wealth managers and private banks due to formal role of the regulators' oversight over financial institutions. Hence, consumers at large would not expect significant opportunistic behaviour from wealth manager to take extreme risks not foreseen in investment products and services. The bankruptcy of Lehman Brothers and the ensuing Global Financial Crisis with heavy losses in derivatives sold to investors in Asia led to a breach in *goodwill trust*.

Having explained the three aspects of trust uncovered in the multiple paradigm research, let me draw conclusion on the nature of trust identified and the lessons from the application of the Burrell and Morgan framework on a paradigm by paradigm basis.

5.2 Reflection of FMA for the Three Studies

In this section, reflection on FM&A for each of the three studies is discussed together in 5.2.1, 5.2.2 and 5.2.3 with a synthesis of the results of the multiple paradigm study as a whole in 5.2.4.

5.2.1 Reflection on Interpretive paradigm study

In the Interpretive paradigm study, I take the standpoint of the participants who are clients of private banks in Hong Kong in "Consumer Behaviour and Trust in Private Banking Relationships" in an area of application (A) to seek understanding of how private banking clients develop trust and articulate it in a framework. The framework (F) chosen is the interpretive paradigm in which I assume a subjective view regarding the nature of social science with an implicit assumption of orderly social relations. The method (M) used is qualitative research method with semi-structured 1:1 in depth interviews with open ended probing questions. These interviews enable the setting to understand the meanings and experiences of the participants (Spiggle, 1994). The findings regarding the nature of trust are as follows.

First, epistemic trust is identified as the nature of trust observed. The research uncovers the way HNWIs go about validating epistemic trust. The interview participants mentioned characteristics of repeated interaction with private banker, minimum period of six months and observation of conduct in four areas. In the Interpretive analysis, I articulate the mechanism of client assessing epistemic trust as behavioural trust with observation of the private banker's conduct in four areas which are transparency, fairness, creditability and benevolence. Epistemic trust is about the expert seller acknowledging his epistemic advantaged position and acting to level the playing field for the client. Hence, he will share information (*transparency*) to address information asymmetry; care about the client's interests (*benevolence*); and conduct business in way to acknowledge that he knows what the client needs more than the client himself (*fairness*).

Second, having developed behavioural trust as a construct in the Interpretive paradigm angle from the client towards epistemic trust, I integrate it into a framework of consumer behaviour in private banking based on client's view of trust. The framework has four stages: antecedents, trust process (which includes behavioural, cognitive and behavioural dimensions), risk taking action such as making investing and outcomes (Figure 3.3).

Third, another aspect of trust is uncovered due to Burrell and Morgan's assumption on human nature in the Interpretive paradigm. Burrell and Morgan (1979) explain a voluntarist human nature is assumed for a subjectivist approach to social science meaning an individual has free will and is autonomous. Because of the voluntarist human nature, I have observed a typology of private banking behaviour based on how clients' sense the relative importance of the cognitive, affective and behavioural dimension of trust. This typology gives a new and more effective basis for market segmentation for private banks. Segmentation is a marketing concept conceived in the tradition of functionalism. It is based on characteristics of the customers which the marketer observes so that different marketing promotion activities can be targeted to different market segments. The marketer believes the customers within the segment have the similar needs and also share the same observable characteristics in the eyes of the Functionalist marketer. This segmentation by typology of behaviour developed from the Interpretive paradigm should be more effective for private bank to adopt to earn the client's trust as it is developed from their point of view.

Fourth, another aspect of trust is brought to light in the Interpretive paradigm and it concerns two layers of trust - interpersonal and organisational. In the typology of private banking consumer behaviour discovered in the research, three out of the four types are interpersonal level focused while one out of four is on an organisational level. There is support to claim that private banker is more influential than the private bank in winning the trust of the clients. This is not surprising given the fact that the private banker is closer to the client and is the point of service delivery.

5.2.2 Reflection on Functionalist paradigm study

In the Functionalist paradigm study, the area of application (A) is to study effects of demographic factors on different investment styles related to trust. The framework (F) chosen is the Functionalist paradigm in which I take an objective positivist view regarding the nature of social science with an implicit assumption of order regarding social relations. The research is conducted from the standpoint of the wealth manager with observations from the participants who are high net worth individuals (HNWI) in China. The method (M) used is quantitative research method using a survey questionnaire with test of hypotheses by chi square test and estimation of choice model by logit. The following are the findings relating to the nature of trust observed.

Out of the nature of trust mentioned in the preceding section, *contractual trust* has the most relevance to the trust observed in the Functionalist paradigm. In this paradigm, participants are asked to rank their preferences on various investment services which the wealth manager provides, each service having different degrees of investment decision delegation. Trust is modelled as the degree of delegation to the wealth manager. The investment services offered are Self Direct, Transaction Advisory, Portfolio Advisory and Discretionary. The nature of trust identified has the most relevance to *contractual trust* as the study is based on matching of client preference with offerings of the wealth manager. The results concerning contractual trust in this context are as follows.

Firstly, the Functionalist paradigm finds out the least about Discretionary, the investment service with the highest level of trust, when compared with the other investment services. There is no statistically significant finding regarding Discretionary mandate while there are for the other three investment styles. It appears that it is difficult to discern the drivers for delegating investment decisions to Discretionary mandate in a Functionalist paradigm just by observing the demographic characteristics.

Secondly, while the Functionalist paradigm analysis does not shed light on the most trusting investment style of Discretionary Investment, it uncovers the most about the other extreme of least trusting - Self Direct. There is an association of Self Direct with single marital status individuals χ^2 (1) = 4.766, p = .018 (1-sided) and based on odds ratio, the odds of a single marital status individual having a favourable attitude on Self Direct is 1.65 times that of a married individual; There is a significant association of Self Direct with blood Type A individuals test χ^2 (6) = 13.749, p = .033 (2-sided) and the odds of a blood type A person having a favourable attitude on Self Direct is 1.8 times that of type O which is the most common blood type. Though not statistically significant, logit choice model estimated for Self Direct shows a possibility of an interaction effect with blood type AB with age (p = .10) and that propensity for Self Direct investment declines with age. It appears that the observed demographic factors have a higher association with Self Direct than trust by giving delegation.

Thirdly, there is statistically significant finding concerning the middle ground between Self Directed and Discretionary which is advisory service – in the middle of the trust scale formulated in the Functionalist paradigm. There is a significant association of Transaction Advisory with the eldest age bracket group test χ^2 (4) = 14.135, p = .007 and the odds of the eldest age bracket group having a favourable attitude towards Transaction Advisory is 2 times that of Millennials. On the other hand Millennials showed higher preference for the more advanced Portfolio Advisory service though it is not a statistically significant result at $p < .05$: χ^2 (1) = 2.813, p = .053 (1-sided), and the odds of Millennials having a favourable attitude is 1.4 times when compared to the eldest age group.

Fourthly, while the Functionalist paradigm reveals statistical association, these cannot be readily claimed as cause and effects. For instance, while there is a statistically significant association between blood type and investment behaviour, the underlying variable could be personality and not blood type. Due to limitation in the length of the questionnaire, blood type is chosen as a proxy variable for personality trait for hypotheses testing. The major drawback with the Functionalist paradigm research is that social reality is seen from the point of view of the wealth manager taking an objectivist view and there is no inclination to analyse the underlying mechanism of how HNWIs develop trust from their viewpoints which is not observable to the eyes but in the minds of the HNWIs.

5.2.3 Reflection on Radical Structuralist paradigm study

In the Radical Structuralist paradigm, the take-it-for-granted context of orderly social relations is changed to a regime of radical change. In this study, the area of application (A) is to study the changes in the private banking industry following the Lehman bankruptcy. The framework (F) chosen is the Radical Structuralist paradigm with an objective view on the nature of social science and the context of social relations in conflict. The context in which trust is maintained between clients and private bank was badly shaken during the years of the Global Financial Crisis. The research design used is multi-method with method (M) of historical analysis. There are key lessons regarding *epistemic trust* and *goodwill trust* in this paradigm.

First, regulators substantially revise regulations and address deficiencies concerning epistemic trust. In addition to the requirements of adequate disclosure of fees and risks, new rules concerning investment *suitability* were introduced by regulator in Hong Kong in 2012 requiring validation of client's liquid net worth, knowledge, experience and consideration for a portfolio-based approach in assessing investment suitability. Private banks have to comply with maintaining record for investment suitability checks before investing which leads to changes in the bank's front office operating system and escalation of IT costs.

Second, the consequences of increased IT costs brought on by new investment *suitability* regulations, as cure to address *epistemic trust*, is one of the drivers in changes in industry structure. *Asian Private Banker* (2016) comments that decline in AUM for the industry in 2015 was driven by China's slowdown and "climbing regulatory-related costs" and the implications for private banks are "buy or die" "or restructure" (2016, Issue 98, P.9). The increased IT capital expenditure is a fixed cost which small private banks, already with the lowest profitability, had difficulty in absorbing. Mergers and acquisitions in private banking in Asia rose with increased deal completions from 2015 with medium size private banks in Asia (such as Julius Baer, DBS, Bank of Singapore, LGT) taking over small private banking businesses in Asia (Asia business of Merrill Lynch, Société Générale, Coutts & Co, Barclays, ABN Amro, ANZ). (Please see Figure 5.7 AUM League Table for private banks in Asia). The market shares of the medium size private banks which are acquirers grew faster than the bigger private banks resulting in a decrease in industry concentration and hence towards a more competitive market as measured by the Herfindahl-Hirschman Index (HHI). (Please see Table 4.1). HHI decreased from 954 in 2012 to 828 in 2018 at a rate of -2.3% p.a. while the industry AUM growth was +8.9% p.a. A more competitive market structure is to the benefit of consumers as firms have less market power in setting prices and consumers have more choices - there are six new entrants in the top 20 private banks in Asia since 2015 (please see Figure 5.7). Hence, the remedy of the investment *suitability* regulation to address *epistemic trust* is a driver to level the market power imbalance between the private banks and consumers.

Third, *goodwill trust* is identified in the private banks' colletive action to change industry *culture* in establishing an industry association Private Wealth Management Association (PWMA) to promote a culture of proper conduct and a high standard of professional competence among its objectives. Even with new suitability requirement, regulation is still far from perfect as it is not feasible to specify all possible contingencies address opportunistic behaviour. A material change in industry culture is needed and PWMA seeks to mould new industry culture. It is also an organisation for industry firms to formally meet and act as a channel for discussion with regulators and government to balance the power relations.

Fourth, *goodwill trust* is further identified as there were situations in which *goodwill trust* was comprised. The first situation in which goodwill trust was breached was by the inadequate regulation of complex derivatives sold to wealth management clients in Asia - drastic losses in Lehman Brothers Minibond credit derivatives and equity derivatives incurred following the bankruptcy of Lehman Brothers. *Goodwill trust* in the wealth management industry in Hong Kong was severely damaged due to the loss of faith in financial regulation. The second situation in which *goodwill trust* was breached was the consequences from Quantitative Easing (QE), the remedy for the Global Financial Crisis. QE is the action of central banks buying financial assets such as treasury bonds and fixed income securities in financial institutions and the effects are increased money supply, improved capital positions in banks, depressed long end treasury yield which pushes up prices of fixed asset and financial securities (Dalio, 2018) – thus driving asset bubbles in the US and around the world. QE brought about uneven distribution effects on different social groups in society: those with wealth and the means to invest saw wealth growing while those without found assets such as real estate more difficult to acquire due to escalating prices and deposits at banks earning close to zero interest. The net effect is widening wealth inequality in society. Dalio (2018) estimates that in the US, the top 0.1% accounts for 20% of US net wealth while the bottom 90% accounts for 24%. Dalio (2018) argues that recent emergence of populism occurs during the period of widening wealth inequality which mirrors the disturbing pattern in the 1930s. Social protest movements became more active with inequalities in society being one of the issues. The widening wealth inequality compromised *goodwill trust* between citizen and government.

5.2.4 Synthesis of the research results

My multiple paradigm research brings new knowledge in the analysis of trust and managerial implications to the wealth management practice.

In terms of new knowledge in theory, different natures of trust are uncovered from the interpretation of the findings from the different paradigms. In the Functionalist paradigm, findings on the effects of demographic factors on investment behaviour give guidance on what investment services to target which market segments and understanding of *contractual trust*. In the Interpretive paradigm, understanding of *epistemic trust* was gained by interpreting how clients appraise the behaviour of wealth managers to cope with the information and knowledge asymmetry in the relationship. In the Radical Structuralist paradigm, insights on *epistemic trust* and *goodwill trust* are attained when the nature of social relations are in conflict. Contractual trust, epistemic trust and goodwill trust takes stakeholders such as the client, wealth manager, regulator, consumer, citizen and government into consideration. Taken together, it forms a view of the totality of trust in society. Different paradigms, due to their different assumptions on the nature of social science and on social relations, reveal different aspects of trust to the researcher.

With respect to practice, my multiple paradigm research yields insights on how to win trust for private banks, ranging from those on an operational level to increase business, to those from the perspective of the clients to win new clientele, and to the industry level for senior management to shape the industry. Private bank can learn the tactics of how to serve clients in terms of Client Advisory services as an observer in the *Functionalist* paradigm. Research findings in this paradigm can serve private banks to increase business with their existing clientele, bringing immediate impact. By adopting the standpoint of the private banking clients in an *Interpretive* paradigm, private banks can gain understanding on the process in which clients develop trust. The insights found from the view of the clients can particularly benefit private banks in winning new clients and impact on future business. When the context for which trust is built is breached in the paradigm of the *Radical Structuralist*, private banks can reflect on the fundamental conflict in the client and bank relationship, how to mend trust and predict where the industry is heading. The findings in this paradigm deliver an industry level understanding which is essential for senior management to lead the private bank and to shape the industry. One of the research findings here is the projected rise in prominence of *sustainable investing*. The essence of these findings can be applied in practice for instance to promoting sustainable investing in wealth management.

5.3 <u>Reflection of Burrell and Morgan</u>

The use of Burrell and Morgan is reflected in this section regarding: 5.3.1What insight I might have gained had a study been conducted using the radical humanist paradigm? 5.3.2 Comparison with mixed methods research approach: Could I have achieved the thing with a mixed methods research approach? How would I use mixed methods if I had chosen it as research approach?

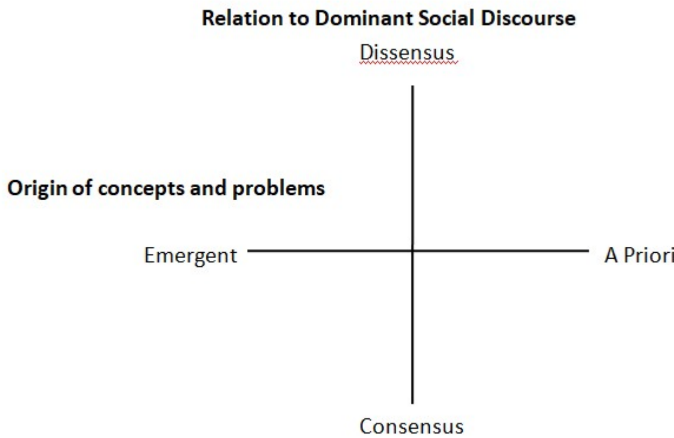
5.3.1 Omission of Radical Humanist paradigm

The Radical Humanist paradigm was omitted in the thesis due to time constraint for completing the DBA while working full time. It is unfortunate because a worthwhile phenomenon in wealth management could have been investigated using this paradigm such as the emergence of robo-advisor. AI is driving the development of a new business model of robo-advisors, "software programs that use algorithms to do what flesh-and-blood financial advisers do, but at a far lower cost" (Bloomberg, 2017). While robo-advisors account for a small fraction of market share in the global wealth management market, estimated to be 55 trillion USD in 2018 by Ernst and Young, its growth has been spectacular in recent years. In the US, AUM by robo-advisor services were projected to reach 166 billion USD in 2017 which is up 10-fold from 2014 according to Aite Group as cited by Bloomberg in 2017 and it surpassed 283 billion at the end of the third quarter in 2019 (Aite Group, 2019 as cited by Barron's, 2019). In addition to new start-ups, incumbents' full-service wealth management firms such as J.P. Morgan and Morgan Stanley have added some form of robo-advisory services (Barron's, 2019). This is a new and powerful technology. Can robo-advisors disrupt the wealth management industry?

What would be an appropriate framework to investigate this emerging new business model and interpret its impact? My initial thought is Burrell and Morgan's Radical Humanist paradigm. This new technology has the power to disrupt the industry from its status quo to a status of radical change. Utilising AI and computing power can potentially bring down the rigid structures staffed by expensive human advisor and support staff. It is often the case that the founding partners of new start-ups come from an established industry incumbent. For instance, a former colleague of mine had left a large private bank to join a growing robo-advisor in Hong Kong. Is the rigid corporate structure in a large bank the push factor for a founder of a robo-advisor to break free and realise his full potential? Will client trust the robo-advisor? If so, what is the interpretation of a trusted robo-advisor? The Radical Humanist paradigm could be a framework for analysis.

Is there is another framework to analyse robo-advisor? I believe Deetz's (1996) model regarding social research could be another alternative. Instead of Burrell and Morgan's framework that imposes a rigid divide based on ideological differences regarding assumptions on the nature of social science and society, Deetz proposed a framework based on "relation to dominant social discourse" and approach to "origin of concepts and problems". (Please see Figure 5.3). The debate of positivism versus interpretivism regarding the nature of social science is reinterpreted by Deetz to be an "a priori" versus "emergent" challenge while the conflict between the sociology of order versus radical change regarding the nature of society is reconceived to be "consensus" versus "dissensus" discourse. The dimension of "emergent" versus "a priori" corresponds precisely to the challenge of innovation against the established business model while the notion of dissensus versus consensus discourse speaks more accurately to investigate disruptive technology. Rather than Burrell and Morgan's subjectivist and conflict perspective, Deetz's model offers a framework to investigate robo-advisor based on "emergent" and "dissensus" context. It could be an interesting piece of future research to investigate the robo-advisor business model using both Burrell and Morgan (1979) and Deetz (1996) to compare findings. (Please see Figure 5.2: Deetz (1996) dimensions from the metatheory of representational practices).

Figure 5.2 Deetz (1996) Contrasting dimensions from the metatheory of representational practices



5.3.2 Comparing Burrell and Morgan with mixed methods research approach

Let me compare Burrell and Morgan with mixed methods research approach in this section. I will reflect on: (i) What are the differences between Burrell and Morgan and mixed methods research approach? Could I achieve the thing with a mixed methods research approach? (ii) How would I use mixed methods if I had chosen it as research approach?

(i) The differences

The first difference is that mixed methods research approach requires mixing of data while Burrell and Morgan does not and cannot. Creswell and Clark (2007, P.7) mentions that "mixing of data is a unique aspect of our definition" of mixed methods research. Mixed methods generally use the same dataset. For my research, I have difficulty in extending the dataset by asking the HNWI interviewed to further participate in experiments or survey questions. The HNWI are busy individuals who are more interested in expressing their views rather than treated as research participants. Creswell and Clark (2007) quote a mixed method example of not using the same dataset but mixing the research with the finding of a qualitative study applied in a subsequent quantitative study such as using the result of a qualitative study to develop a quantitative instrument applied with another population sample. However, for my research, I encountered difficulty with survey partner of HURUN who placed restriction on the limited number of questions I could raise in the survey questionnaire and hence it was not feasible to apply the findings of the qualitative study to the quantitative survey study. Due to the difficulty of access to data, I turn to Burrell & Morgan to use a multi-method research approach to investigate different issues involving trust in wealth management in three paradigm studies.

The second difference is that mixed methods generally investigate phenomena involving one kind of social relations as it is not possible to view a phenomenon which operates in the sociology of regulation and the sociology of conflict at the same time. Unlike the difference in the research approach towards the nature of social science (in terms of objectivism and subjectivism), differences in the nature of society refer to different set of circumstances with different social forces at play (in terms of social cohesion or social conflict). As a result, it is also inappropriate to take findings of studies done in situation involving social cohesion and apply it to another setting of social conflict. For my research, Burrell and Morgan enable me to shift perspective to research on trust in wealth management following the Lehman Brothers bankruptcy.

The third difference is that mixed methods cooperate in the realm of methodology while Burrell and Morgan operates in the realm of framework with its four unique paradigms which calls for different research methods for different paradigms. This difference enables Burrell and Morgan to be used as a framework for industry analysis – analysing relationships involving clients, firms and industry when the industry is undergoing a period of disruptive change driven by changes in larger context such as innovation and changes in economic conditions. Hence, I rediscover the Burrell and Morgan framework as a tool for strategic management.

(ii) How I would have used mixed methods

If I used the mixed methods research approach, I would have used exploratory sequential mixed methods and started DBA programme with an organisation sponsor for research participants already in place. I would start with a qualitative study with in depth 1:1 interviews of HNWI to understand their account of trust in wealth management; follow up with experiments, involving HNWI who are interviewed in the qualitative study and other HNWI, to apply the findings from the qualitative study to calibrate some measurement instruments for trust; and lastly; and lastly to apply the trust instruments calibrated in the experimental study in a large survey study ($n > 500$) with HNWI to estimate the relationship between trust constructs.

5.4 Reflection on Research

5.4.1. Managerial implications

Some key managerial implications pertaining to trust are discussed here while implications for industry practitioners are deferred to the last section as the final thought.

First, there is a novel finding in the Functionalist paradigm research regarding Portfolio Advisory, which requires the second highest level of trust and encompasses the most comprehensive advice from security selection to asset allocation. Portfolio Advisory is most preferred by Millennial HNWI, the youngest age bracket in the study. The managerial implication is to facilitate the portfolio co-creation client experience, ideally enabled by a digital client interface, where Millennials clients can interact with pre and post investment risk metric such as Sharpe Ratio to illustrate the incremental impact of the investment on the risk-adjusted return of the portfolio.

Second, there is a potential but overlooked market for Discretionary Investment. I found there is reason to suspect, which is to be verified in larger sample size testing, that blood type AB individuals' propensity to choose Self Direct Investment decreases in higher age bracket which is in line with neuroscience science's finding that blood type AB individuals' cognitive ability decline with ageing. While the size of this market is small as blood type AB is the rarest of blood types, there is a social responsibility of the wealth manager to reach out to serve this market.

Third, the proposed framework of trust in consumer behaviour in private banking in the Interpretive paradigm can be adopted by private bank as training material on how to win client's trust. Specific training content can be formulated to address each of the three dimensions of trust such training on investment management and products expertise for cognitive trust, training on personal relationship development, and training on banker conduct such as transparency, fairness, creditability and benevolence for behavioural trust.

Fourth, the Radical Structuralist paradigm analysis shows that private banks ought to be aware of their actions on clients. The Global Financial Crisis triggered by Lehman Brother bankruptcy exposed the extent of excessive risky products private banks sold to clients.

Private banks should acknowledge that they hold the upper hand in power and knowledge in the client relationships and should actively provide extensive and up to date financial education for clients.

Fifth, the private banks should reflect on their actions on society at large. Private bank offers a platform to invest wealth, the surplus capital of HNWI not needed for consumption, in financial assets and serves as custodian. Unlike other lines of banking such commercial, corporate and investment banking, private banking does not usually lend or raise money for corporations to directly stimulate economic growth. Wealth is also a form of social stratification and private banks strictly serves the wealthy. In the management of wealth, private banks further compound the wealth inequality and add to the financialisation of the economy. However, it appears that the wealth management industry does have awareness of their social effects and have responded in the form of sustainable investing. UBS, the industry leader in wealth management, markets sustainable investing and describes it as an investment strategy which incorporate environmental, social and governance (ESG) considerations while delivering market comparable returns. Private banks recognise that they should take the leadership to direct client funds flow to sustainable investing. At the moment, the allocation of HNWI's wealth to sustainable investing is small but the movement is gaining steam. According to *UBS Investor Watch* (2018), 39% of the HNWIs survey globally said they have at least 1% of their invested asset in sustainable investment with the wealthy in the emerging markets leading the way (Global average 39%; China 60%, UAE: 53%, Italy 51%, Germany: 42%, Hong Kong 34%, UK 20%, US 12%). Two years later as of March 2020, in the midst of the COVID-19 outbreak, daily cumulative flows in ESG equity has been growing steadily while fund flows for the top 25 US equity ETFs have dropped (Morgan Stanley Research, 2020) as reported on *Financial Times*. Please see Figure 5.3 for flows into ESG equity ETFs vs market equity ETFs. Other than sustainable investing, private banks have started to advise clients on philanthropic giving and set up dedicated staff for that initiative.

Figure 5.3 Flows into equity ETFs: ESG v market

5.4.2 Implication for private banker practitioners

There is good news for the private banker - the banker holding the front line role of client advisor. My interpretive essay "Consumer Behaviour and Trust in Private Banking Relationships" finds trust at the interpersonal level of the private banker to be more prominent than trust at the firm level. One of the research outputs is the typology of trust in private banking behaviour which found that three out of the four types of trust are focused on the level of the private banker while only one is centred on the private bank. The three types of interpersonal trust dominant at the private banker level are: behavioural trust focused, personal relationship focused, cognitive investor investment oriented while the one type of trust anchored at the firm level is the cognitive investor institutional relationship oriented. Hence, there is a real case for a private banker to develop his own personal brand in addition to leveraging the resources of the private bank as employee. These different trust behaviours are a manifestation of the heterogeneous and distinct preferences in the market reflecting there are different market segments based on trust. Each segment calls for different a skill set for a private banker to attract clientele. The market segments a private banker targets depend on his strengths and weaknesses. A reflection on the typology of trust can provide a roadmap for a private banker's clientele development strategy.

As I propose the case to develop the personal brand of the private banker, I should highlight that there is a close relationship between brand and trust in the marketing literature. Kotler and Keller (1997) describe brand association as "brand-related thoughts, feelings, perceptions, experiences, beliefs". The interpretive meaning of brand association manifests as the interpersonal trust as interpreted from the point of view of the private banking client.

What may be the ultimate development of a personal brand in the case of a wealth manager? There is an alternative form of wealth management model emerging in Hong Kong and it is external asset manager (EAM). The EAM advises HNWIs and uses private banks as platform to invest and the safekeeping of financial assets. Private banks serve the EAM as clients and stay hands off from their clients. To the clients, the EAM is the trusted advisor and the private bank retreats to take on a reduced role as custodian. Private banks recognize that certain EAMs have their established clientele and the private banks set up dedicated client servicing team for EAM. In addition to giving the EAM with the investment platform, private banks disseminate investment advice to them, conceding there are better trusted advisors than private bankers as so recognised by clients in the market.

How did the movement of EAM get started and gathering steam in Hong Kong? Let's look at the history of EAM in the birth place of private banking - Switzerland. Some of the earliest EAMs were set up by former senior private bankers near retirement. Because of their long relationship with their clients, some of them would like to have these private bankers look after their financial affairs even beyond retirement. The independent private practice of an EAM enable flexible work arrangement and some practice grew with young private bankers joining. In Hong Kong, the EAM movement was also started by private bankers, not for the reason of retirement but for more autonomy and the possibility of higher compensation. The usual things in common about these EAM start-ups are they were founded by a syndication of a few private banks with AUM funded by some large clients. The common theme about the EAM movement in Hong Kong is private bankers wishing to free themselves from the restraining structures in a large bank. This is a movement in action best explained by Burrell and Morgan's (1979) Radical Humanist model. The independent EAM practice enables a release from the dominance of corporate structures, setting free the "human consciousness", creativity and the entrepreneurial spirit.

This may indeed be an essay on its own using the Radical Humanist as model for analysis and completing the analysis of Burrell and Morgan's four paradigms. However, due to the limitation of time of the part-time DBA, I will not be able to do so but will leave it as another piece of future research. What would be an appropriate theory to reference for analysis if I were to do this investigation? Burrell &Morgan put Sartre's French Existentialism in the Radical Humanist paradigm. Sartre takes phenomenology's approach of using consciousness as a starting point and adds to it a fundamental concern for human freedom (Burrell and Morgan, 1979). Phenomenology is the study of the human consciousness and its connection with social life (Johnson, 2000) while Oxford Dictionary defines existentialism as a philosophical theory "which emphasizes the existence of the individual person as a free and responsible agent determining their own development through acts of the will". Sartre advocates that a person should be actively engaged in creating his own reality and not as an observer (Burrell and Morgan, 1979). Sartre uses the notion of being and nothingness to articulate the relationship between the world of external reality "being-in-itself" and the inner subjectivity of his consciousness "being-for-self". Also "being-for-self" has the "intentionality" of being someone (Priest). Nothingness is the gap between the world of external reality and the inner subjectivity of consciousness (Burrell and Morgan, 1979). Sartre's theory is that men should take actions for freedom rather than trapped in the external reality of a certain role in a profession. Roles are like external constraints which men accept from outside and restrain their consciousness. There are usually some constraints working in a private bank restraining the role of a private banker which a EAM does not. First, a large private bank is an established franchise with an extensive client network. It is an understanding that a private banker cannot develop clients who are already client at the private bank served by another colleague. Hence, a primary role of the private banker is to find new clients who are not yet covered by the bank. EAM is a start up phenomenon and this constraint of client overlap is not relevant. Second, there is usually some pressure to sell the in-house products and services at the private bank while EAM can choose to use more than one private bank. Third, when it comes to high profile clients with large AUM, there is occasional senior management client visits to be arranged. While this could be an occasion for deeper client relationship engagement, some senior private bankers regard this as time not well spent as certain clients are not open and prefer fewer relationship contacts. Fourth, the role of a private banker is primarily a client advisor with operational key performance indicators such Net New Money, AUM and revenue for the private bank. It is a front line client relationship role. But the EAM start up offers top level executive role for the aspiring founding members to fulfill their fullest business potential.

The analogy of having freedom rein in due to roles is vividly illustrated in the example of a waiter in a café in Sartre's *Being and Nothingness*. Sartre describes the waiter's gesture as “his movement is quick and forward, a little too precise, a little too rapid. He comes toward the patrons with a step a little too quick”, “ his eyes express an interest a little too solicitous for the order of the customer” and “all his behaviour seems to us a game”. He went on to interpret that the waiter “is playing at being a waiter in a café”, “he plays with his condition in order to realize” and “the act is to persuade their clientele”. Sartre reflected that “society demands that he limit himself to his function as” a waiter. Sartre added that “there are precautions to imprison a man” and “he might break away”. The same can be reflected for roles in different profession such as that of a private banker.

Sartre theorised that nothingness enables men to think beyond the limitation of external reality “being-in-itself” equals the men’s inner consciousness “being-for-itself” and in doing so becomes free to dream and hope (Burrell and Morgan, 1979). Sartre said while society demands a man limit himself to his function, “live in one’s role is a form of self-deception” and is a form of “bad faith”. I hope my thesis may shed a light of awareness for some private bankers.

Nonetheless, awareness alone is not enough. Voluntary action is needed to set the individual free (Burrell and Morgan, 1979). The waiter in Sartre’s “Being and Nothingness” said to himself “I must play at being a café waiter in order to be one, still it would be in vain for me to play at being a diplomat or a sailor” The waiter might wish to become a diplomat or a sailor but he is trapped in his role of a waiter. May Sartre’s words of wisdom be whispered to the ears of some able private banker, shake the awakening of his soul, free himself from his existing role and set sail to be an EAM.

5.4.3 Personal reflection on my research journey

Last but not least, let me end by reflecting on my personal research journey.

(i) Paradigm affinity

Let me ask myself whether it is possible to live life as an authentic functionalist, interpretivist and radical structural? Or did I lean towards a particular paradigm?

I have a natural affinity to the Functionalist paradigm because of two reasons.

The first reason is my personal background - my academic background and career practice includes engineering and finance. Both are very quantitative fields with a worldview of functionalism. However, I do have awareness of this tendency and try to maintain a proper researcher role as described by Creswell (2014) in identifying personal values, assumptions and biases in the beginning and strive to be objective without imposing personal bias. On the other hand, my industry experience in wealth management adds value to the research as it enables me to comprehend the context better and bring knowledge in the understanding of industry structure and the role of a private banker.

The second reason relates to the sequence of requirements in the DBA curriculum and it turns out to be a bit problematic for interpretive research for the alternative format thesis. The first requirement in the research phase of the DBA is the literature project followed by a pilot study as the second requirement, and the first empirical study comes as the next requirement. With this sequence of events and the scheduling of the qualitative study first, there is a tendency to start the research with certain assumptions in mind – which is not in the tradition of true subjectivism "in the far left" of the Burrell and Morgan interpretive paradigm. Nonetheless, I did attempt interpretive analysis in Creswell's (2014) description of interpretation in qualitative research which is about the understanding the researcher brings to the research from his personal experience. For example, I used the interpretive latent analysis within content analysis drawing from professional experience and knowledge to interpret the content of the interview script to find out the deep structure the interviewees meant to express.

Hence, I have untaken measures and actions to mitigate my inclination towards functionalism in my interpretive qualitative research.

(ii) What would I have done differently?

In order to be an authentic interpretivist researcher, I could have followed a method classified by Burrell and Morgan as interpretive such as the hermeneutic method to study trust in wealth management.

Hermeneutics is a word of Greek origin meaning to interpret and is a field of study about how to seek meaning to cultural product such as a piece of writing by considering the context in which it was produced (Johnson, 2000). Breeman (2012, P.150) describes hermeneutics as a method “to understand small pieces of text by referring to a larger piece of text, and to understand a whole text by analysing small pieces of text”.

Furthermore, Breeman (2012) elaborates that the hermeneutic method is especially suitable for studying trust because it gives the researcher a certain empathy with the participant. It is because through the analysis of text and acts, the researcher gets to internalize the situation of the participant, to “relive” the experience of what the participant has experienced and in doing so, can seek to understand the acts of the participant. Breeman (2012) illustrated Alvesson and Skoldberg’s (2000) elaborated hermeneutic circle with procedure of (1) pattern of interpretation, (2) the text, (3) the dialogue, (4) the sub-interpretation with the ultimate goal of seeking a general pattern which leads to better understanding of the text. He gave further examples as to how he would apply the procedure to study trust.

Lastly, as I have previously expressed, the main problem encountered in conducting empirical research in wealth management is access to data. Organisational sponsors are particularly important for getting this access especially for quantitative research due to sample size requirement. Hopefully with a DBA from The University of Manchester, I would be able to convince private banks to be organisational sponsor in the future to collaborate in research which is relevant, rigorous and impactful to wealth management.

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