Aalto Service Factory

The Future of Banking Services

Edited by Jaakko Aspara, Risto Rajala and Virpi Kristiina Tuunainen

Aalto University

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Contents

Preface

This edited volume is centered on issues that concern "the future of banking services". The mission of the book is to provide a broad, academic research-based coverage of subjects relating to important areas of contemporary and future banking services. The volume includes eight insightful scientific essays authored by academic scholars (Chapters 2–9). In addition, the book contains an introductory special report (Chapter 1) by a group of students, based on a research project concerning a consumer perspective to future banking.

Over the past years, financial deregulation, internationalization, and digitalization have shaped the landscape of banking and financial services drastically. Moreover, the global service business revolution has enriched mindsets in the industry with a growing attention to the end users' banking behavior and service experiences. This development implies that the role of technology in banking business, for instance, transforms from being merely a facilitator of banks' internal processes to become an essential enabler of new service platforms and value offerings. What is more, banking is likely to shift from a traditional transaction and contract orientation towards collaborative and interactional processes, as well as towards new services provided through a combination of online and physical platforms. This shift is also about moving away from push strategies towards pull strategies, where the banking services are increasingly built upon the interactive roles of the users – in a true service marketing spirit.

Specifically, this book aims to increase our understanding of the changes in the economic and socio-technical reality in which banking services take place. The international call for papers for the volume was targeted especially to academic scholars in leading business schools in the Nordic countries. There were two reasons for this approach. First, banks in the Nordic countries have for long been at the forefront of developing and adopting new service innovations and in building value-adding relationships with customers. Second, Nordic business schools possess leading international expertise in service business management, especially under the label of services and relationship marketing.

This primarily Nordic authorship – as well as double-blind peer review process – shows in the outcome of this book. The chapters are authored mainly by service scholars in the fields of marketing, information systems, and finance. All of them have sound experience in applying their expertise to banking and financial services in particular. At the same time, notwithstanding the academic nature of the chapters, their contents also attempt to remain at a level that is practical and understandable to business managers and even to consumers. The theoretical jargon of finance and economics is tried to be avoided.

The chapters of this book are divided into two parts. The first part represents a consumer perspective to banking services. It includes the aforementioned special report by a group of business graduate students, as well as three chapters by academic scholars. These chapters depict the consumers' or users' side of the banking services by shedding light on different aspects of consumer behavior, preferences, and capabilities related to banking services.

The second part, in turn, is centered on the evolution of the banking services from the perspective of the broader markets as well as the companies and institutions operating in these markets. It also investigates the current trends and the evolution of banking and financial services, and aims to provide outlooks to the future of the banking business in general.

As mentioned, the *first chapter* is a special report by three business graduate students of the Aalto University: Lari Paunonen, Olga Lehtinen, and Hanna Aro. As young business students, they are in a good position to explore the future of banking. They are likely to themselves be heavy users of banking services in the future – and as business students, they might also get engaged in actually developing the services at the banks' side. The findings in this special report are based on a netnographic analysis of discussions in the social media, and on focus group discussions with selected users and experts of banking services. The report culminates in four visionary accounts describing the possible roles of banking services in consumers' everyday life in the future.

The *second chapter* is authored by Anne Sunikka and Johanna Bragge. It investigates the personalization of communication on financial services. The experiments conducted in the study reveal that the users of banking services pay more attention to personalized than to general messages from their service providers. The findings add an interesting perspective to the existing knowledge on service promotion and marketing communications in banking. The results are somewhat contrasting with general beliefs, which are often rooted in self-reported studies and assume that personalization of communication would only have minor or no effects on consumer behavior.

The *third chapter* discusses the role of banks in enhancing the consumers' financial capabilities. It is authored by Liisa Peura-Kapanen, Anu Raijas, and Outi Uusitalo. As the world of financial services become more complicated, the knowledge and capabilities pertaining to financial issues become ever more valuable assets to everyone who wishes to succeed financially. This chapter especially highlights the role that banks may have in financial education of teenagers and young adults.

The *fourth chapter*, authored by Joonas Rokka, Katariina Karlsson, and Janne Tienari, discusses whether and how banks and their employees can enhance corporate reputation in social media. The theme is a very topical one, as consumer services take increasingly place in an environment where the users and the service providers' employees communicate online through social software.

The *fifth chapter*, which is the first chapter of the second part of the book, is authored by Anu Bask, Hilkka Merisalo-Rantanen, Markku Tinnilä, and Theresa Lauraeus. The chapter aims to increase our understanding of the evolution of banking service business models over time, in the changing environment. The chapter analyzes the transformation of retail banking and services in Finland from the 1970s to the present. Moreover, the chapter suggests some trends to be captured for the future.

The *sixth chapter* by Jaakko Aspara and Jukka Luoma, in turn, investigates the evolution of a specific sub-market in banking, that is, the mutual fund service market. The authors empirically analyze and interpret a set of market evolution factors in regard to this market. The chapter depicts the past trends in the market's evolution as well as discusses their prospective extensions into the future.

The *seventh chapter* by Tomi Fyrqvist, Nina Källström, and Vesa Puttonen is also related to the sub-market of investment services. It discusses, especially, the emergence of the market for socially responsible investing (SRI). The chapter highlights that SRI is gaining increasing ground after the recent financial crises and a sense of urgency in enhancing environmental and social responsibility around the globe. The authors underline that the increasing amount of recognition of social responsibility should be of interest to the managers of mutual funds and the marketers of financial services.

The *eighth chapter*, authored by Marianne Palva and Esko Penttinen, analyzes the European-level payment standardization initiative SEPA (which stands for Single Euro Payments Area) by discussing its evolution and reviewing the current situation in Finland. The authors argue that a unified standard has a potential to become a platform that paves the way for value-added services, such as fully automated accounting and improved financial forecasting tools for consumers, small and medium sized enterprises, and multinational companies.

The final chapter, *chapter nine*, discusses a trend that is believed to become ever more important in all business in the future. The chapter is authored by Jonas Hedman and Stefan Henningsson. The authors illustrate a process of improving the sustainability of an organization's service operation by using Nordea Bank as a case study. The chapter raises many thoughts that should be in the agenda of all business executives now and in the future.

Helsinki, May 2012

The Editors

Part 1:
Consumer Perspectives to Future Banking Services

1 Special Report – The Future of Banking Services from the Consumer Perspective

By Lari Paunonen, Olga Lehtinen and Hanna Aro
Aalto University School of Economics, Helsinki, Finland

Abstract: This chapter reports a study of the possible roles of banking in our everyday life in the future. The findings are founded on a research project conducted among young people. The study included a netnographic analysis of discussions on banking. The discussions took place in online forums in several different countries. In addition, the study included an analysis of four focus group discussions in Finland. Based on our observations derived from the empirical study, we present four visionary accounts describing the users' perspective of the future scenarios of banking services.

Keywords: Retail banking, Consumer perspective, Netnography, Focus groups, Future scenarios

1.1 Introduction

Retail banking has been in a continuous change over the past few decades. From the customer's perspective, the most significant changes pertain to digital revolution, as computers and the Internet have become more common in everyday life. As a consequence, the total number of online banking transactions in developed countries such as Finland has more than tripled from 2001 to 2010 (FFI, 2011). As the rate of change is not showing signs of decrease, it is a demanding but crucial task for banks to keep up with the rapid evolution and to prepare for future challenges.

The objective of this study was to investigate the attitudes of young customers toward retail banking and, based on that data, outline what kind of a role banks could play in their everyday life in 10-20 years' time. The primary data was collected from Internet forums and focus group interviews. We interviewed both customers and professional customer service personnel of a bank organization.

Young adults between 20 and 30 years of age were selected as the target segment and informants for this study. They generally have a few years' experience of basic banking services, such as cards and online banking, but are not necessarily accustomed to current service models. As the future is likely to be heavily shaped by information and communications (ICT) technology, it was seen sensible to choose younger customers with a downright relationship with technology as main informants. From the business point of view, it is also justified to study today's young customers, as they are the most profitable ones of tomorrow. Moreover, the authors being young adults themselves provided an advantage in listening to the voices of new customers – a task which often perceived difficult in marketing research.

Our research design is briefly introduced in the next section. After discussing the methodological issues, we present our empirical findings, which are divided into five main categories. Based on the data, four possible outlooks describing the role of the bank in the future were sketched. These stories, explained as future scenarios on everyday banking services are not limited by the current legislation, established practices, or such. The paper is concluded with a brief summary.

1.2 Methods

The primary data was collected from three sources: Internet forums, (focus group) interviews of customers from the target segment, and interviews of customer service personnel of a case bank (Nordea Bank of Finland). Secondary data, such as statistics about the use of different channels in retail banking, was also used for understanding and illustrating the recent developments, the present state, and the current trends in the industry. Notice, however, that as our primary data is purely qualitative and based on the opinions of a small group of consumers, it cannot necessarily be treated as representing the general view of the whole market.

Netnography

The art of exploring online discussions is widely known as netnography, as it can be seen as an online ("net") form of ethnography, the branch of anthropology concerned with the scientific description of human cultures. A netnographic process is generally faster, simpler, and less expensive than a traditional ethnographic one, and more naturalistic and unobtrusive in terms of data than focus groups or interviews (Kozinets, 2010).

Table 1. Internet forums selected for the netnographic investigation

Name	***URL***	***Language***
Kauppalehti	http://keskustelu.kauppalehti.fi	Finnish
Pakkotoisto	http://www.pakkotoisto.com/talous-politiikka-uskonto/	Finnish
Suomi24	http://keskustelu.suomi24.fi/debate/33	Finnish
Hartgeld.com	http://hartgeld-forum.de/forum/index.php	German
AndroidPIT	http://www.androidpit.de/de/android/forum	German
BritishExpats.com	http://britishexpats.com/forum/	English
MoneySavingExpert.com	http://forums.moneysavingexpert.com/	English
Fórum de Financas Pessoais	http://www.forumfinancas.com/index.php	Portuguese
Banco Bradesco at FB	http://www.facebook.com/bradesco	Portuguese
Banco Santander Brasil at FB	http://www.facebook.com/santanderbrasil	Portuguese
Tapiola Pankki at FB	http://www.facebook.com/tapiolaryhma	Finnish
Nordea Finland at FB	http://www.facebook.com/NordeaSuomi	Finnish

In our study, we did not interact with people online, but just observed discussions and comments within the context. To ensure a broad view into the subject, Internet forums from several countries in many languages were selected (Table 1). The majority of the data we obtained was about consumers' comparing and complaining about current services. It should be noted that we cannot be definitely sure whether the opinions we collected were written by customers belonging to our target segment or not. Hence, this data was mainly used for planning the focus groups.

Focus group interviews

Focus group is a widely known method of qualitative research that involves a group of people having a discussion about their opinions and attitudes. The discussion is led by one or more facilitators who ask questions but try not to affect the views of the participants. Focus groups provided us with an efficient way of having two-way conversations with the people from our target segment, and group interaction is also beneficial when generating ideas (Denzin, 2000). The situations were carefully planned to be as relaxed as possible and the facilitators (two of the authors) made it clear that they do not represent a bank but a university. Three focus groups with consumer-customers were organized with the numbers of participants being five, six, and six.

In addition, one focus group with three customer service personnel from Nordea Bank was organized after the customer sessions. The objective of this session was to collect experiences and possible ideas of the professionals concerned with the everyday retail banking issues.

Finally, all the acquired data were collected together and divided into five topics that, in our opinions, represented the most important points that arose. Based on this taxonomy, we looked for problems, wishes, and conflicts, and eventually outlined future outlooks that address these considerations. The outlooks are not meant to be complete and they are partly overlapping, but will hopefully serve as stimulation for further research and debate.

1.3 Empirical Findings

This section summarizes our empirical findings. They are divided into five categories that are discussed one at a time. Each subsection begins by a presentation of the essential focus group observations. The findings from the netnographic investigation are discussed, and references to related extant academic studies are made in each category.

Trust

Trust towards banks and their personnel created much discussion in every focus group and was also a common topic in the Internet forums. It was always one of the first things the participants mentioned when asked about associations with banking services. Overall, it seems that not much additional customer value can be created with trust as such, but lack of it easily prevents customers from adopting new services or even makes them switch the banking service providers.

The main issue seems to be the perceived conflict of interest. Banks were often seen as only trying to take advantage of the customer and not truly working in his or her benefit. As one of the partakers said, “It has to be remembered that the bank advisor is a sales person and that does not create trust.” Consequently, many participants were reluctant to accept any extra services or advice unless the trust towards the bank was already strong.

The process of building trust was seen delicate in our empirical inquiry. The most critical factors were thought to be personal contact and information flow between the bank and the client. One focus group participant stated that “Trust cannot be built in the Internet,” referring to the fact that online banking is not a truly interactive channel, but personal contact at a branch office or by phone is needed to build trust. It was also concluded in one focus group, perhaps somewhat paradoxically, that the more the bank knows about the client, the more trust it creates – albeit that the perceived conflicts of interest was still a major concern. A generally accepted view was that if sophisticated customer profiles are created, it should happen in cooperation with the customer and all information should be given voluntarily.

Another major subject which surfaced in relation to trust was technology that was sometimes seen unreliable by the users of financial services. For example, many had had negative experiences with card payments and therefore regarded cash as the preferred method of payment. Also the ability of machines to predict customer needs and offer solutions was questioned. At the same time, however, some participants thought that it is more pleasant if their personal information is managed by mindless computers instead of gossiping humans. In particular, data protection was not seen as an issue by anyone.

In the Internet discussions, the proficiency of advisors and other customer service personnel was frequently questioned. It was also often suspected that their main goal is just to sell the products of the bank; especially the investment fund units of large banks were generally seen worse in this sense, compared to companies specialized in asset management.

The importance trust is of course a recurring theme in the prior research on bank marketing as well, like in consumer and business research in general. A large body of research (Frey and Lüthje, 2011; Casaló *et al.,* 2011) exists that deals with the role of trust (a) between a consumer and a firm as well as (b) interpersonal trust (e.g., consumer’s trust in a salesperson). It identifies both the importance of trust in the form of trusting the competence of the service-provider and trust in the form trusting its honesty and non-opportunistic intentions. These aspects of trust seem to be salient in online services (Greenberg *et al.,* 2008). Our results are consistent with this body of extant research. However, it seems that especially the desire for efficiency and ability to conduct trustworthy banking activities as a self-service were especially highlighted in our data. These aspects are discussed in the following sections.

Efficiency

When asked about the most important characteristics of good banking services, efficiency, simplicity, and functionality were mentioned in every focus group. These qualities applied to all service channels. Especially in case of basic everyday tasks, speed, facility, and automation were highly valued.

The expectations towards everyday matters, such as credit card payments, were different than what they were towards bigger affairs, such as loan arrangements. The lead time or complexity were not seen as problems in the latter, but in case of more usual affairs, long waiting time in particular was considered a failure. One of the participants stated that "Though it is nice that infrequent, bigger issues can be easily taken care of when they appear, in the end it is the daily things that matter". Many of the participants favored stripped-down services: as one of the attendees expressed, "I don't go to the bank to drink coffee. I go there to take care of something fast and easily."

Most of the interaction between the bank and the participants took place in the Internet. Speed and the possibility to choose the time freely were listed as the main advantages of online banking. Some of the attendants also concluded that automation and infrequent need to be in contact with the bank are strong signs of functionality and efficiency. One attendee noted that when one does not need to think about banking, it means that everything is working as it should.

Efficiency was also associated with flexibility in our data. The employees said that it is frustrating when they cannot deal with all of the client's problems themselves, but have to transfer the client to someone else. The customers strongly supported this view. Yet, the employees agreed that if the reason to advise a young customer to use online banking instead of getting issue taken care of immediately is well argued and makes the process faster and cheaper, the clients do not oppose. However, a request to visit a branch office has to be very well justified, as the young customers typically prefer not to do that.

In the Internet forums, the views were similar to those in the focus groups. Speed was mentioned frequently, and standing in a queue in a branch office or waiting for a transaction to complete were seen particularly frustrating. Being able to manage all financial affairs in one Internet service and automation of regular transactions and other simple tasks were often thought to be valuable features. Although simplicity was generally appreciated, extra services and events offered by banks seemed to have an important role in some countries (e.g., Brazil), and they were considered essential building blocks of good service. The observed importance put by both the consumers and bank employees on speed of service, functionality, and ease of use is broadly consistent with other recent studies on bank services marketing (Lee, 2011; Ahmad and Al-Zu'bi, 2011).

Self-Service

All individuals in our focus groups were familiar with using online banking for daily routines and regarded it as their main connection with their bank. Comments on online products and services as well as on the trend towards self-service were mainly positive or neutral. When asked about the future of online banking, video calls, mobile banking, and improved efficiency and ease of use were mentioned. However, there were concerns about alienation and impersonal relationship with the bank.

For many attendees, the prerequisite for adopting new services was having user help readily available, especially as they thought that it is possible to do significant financial damage by mistaken use. Many participants were afraid that compared with traditional channels, help is much harder to find in self-service channels, and hence solving a problem takes longer. One of the participants also commented that "Why is it so that only self-service is simple and quick, but right away when you actually need 'service' it gets complicated and slow?" This raised an opinion that it is not justified to automatically assume that customers want to prioritize online banking. The trend was perceived to be that the more you do yourself, the less personal service you are offered.

In the Internet forums, the discussion was generally not related to the future of online banking but rather to the current problems. A typical post complained about the online bank not working with the customer's device, not being accessible at the moment, or about the usability being poor. It was also grumbled that getting help from the bank is slow and cumbersome.

In general, the generally positive attitude that was found toward self-service adds to other recent research (Buell *et al.,* 2010; Huettinger and Cubrinskas, 2011) which has also identified that especially younger customers have increasingly grown to live with, and even appreciate, self-service. However, we also identified the continued existence of some suspicion about the pressure to have to increasingly or exclusively resort to self-service.

Personal Contact

Despite the increasing role of self-service in retail banking, personal contact and customer service curiously raised the most opinions among our focus group attendants. Although young customers may maintain a relationship with the bank for years without ever visiting a branch, the attendees unanimously agreed that it is incorrect to assume that the quality of personal service does not play a significant role. On the contrary, said the participants, the less one visits a branch, the more weight one visit gets.

In all the customer focus groups, the role of personal bank advisors was discussed, especially because the financial affairs were seen highly personal and significant. The participants appreciated the ease and efficiency of meetings when the advisor knows the customer already. It was also believed that one can get better and more customized service from a person who knows the client's preferences. In addition, as the bank was seen as a formal institution, some formality was expected of both sides in interaction with bank advisors.

In the eyes of most of the attendees, proficiency and good knowledge of financial products was thought to be the most important quality of an advisor. Many of the available products and services were not clear to the participants and thus they requested clear advice that matches their level of knowledge. However, a common view was that advisors typically concentrate too much on selling the products instead, without even knowing the client and her needs.

In the Internet forums, there was mixed interest in personal service. Many of the writers prioritized low costs and even deliberately avoided personal contact. Yet, there were also participants looking for extensive and highly customized service above all. Good service and a pleasant attitude towards the customer were always valued, although there were doubts that smaller customers would receive such respectful treatment. In addition, many writers were ready to substitute video or phone calls or even instant messages for face-to-face contact.

In our data, the attitudes toward the role of personal contact in banking services is also generally in line with earlier research (e.g. Apte and Vepsäläinen, 1993) that has identified personal service to remain one of the most challenging issues in the design and selling of banking services. Against this background, our findings additionally stress especially the aspect of parallel personal consultancy or even advisory service, which should be in place to support the online users when they need it. Moreover, the issue of trust was identified as essential here as well, as an implicit factor affecting how the role of personal service is regarded. In the following section, we discuss our findings concerning trust, in connection with extra services, in more detail still.

Extra Services

One of our goals was to investigate customers' opinions on new services banks could offer in the future. The participants were rather skeptical about non-traditional services of any kind, such as banks acting as an intermediate between a real estate agent or a car dealer and the customer. Two main reasons for rejection seemed to be lack of trust and general reluctance to change.

The perceived conflict of interest was seen as a major obstacle to letting banks take care of various personal affairs. When suggested that banks could fill in their clients' tax forms, one attendee summarized the whole issue of trust: "But is there some way they could cheat?", that is, could the information be used in unacceptable ways? Nevertheless, educational offerings and traditional insurances were considered perfectly welcome.

The interviewed employees were slightly concerned about banks losing their core business if seemingly unrelated services are added in. At the same time, the interviewees stated that customers already offer tasks unrelated to banking, such as cancelling magazine subscriptions. The employees did suggest some extra services, such as working in cooperation with travel agencies.

In many international Internet forums, the attitudes towards extra services, such as offering theater tickets or discounts to certain shops, were clearly more positive than in our focus groups. Extra services were often considered an organic part of banking and the customers even demanded them. There was also substantial interest towards financial education.

In the consumer research literature (e.g. Blundell *et al.,* 1994), consumer demand and the sensitivity of consumption is shown to vary by both the consumer life cycle and anticipated changes in income.

1.4 Future Outlooks

Based on the findings gained through the netnographic analysis and the focus groups, we created four stories illustrating consumers' attitudes and wishes about the role of banking services in their life in the future. The outlooks are not mutually exclusive and the protagonists are not meant to directly describe different customer segments, even if different types of customers are identified and characterized.

Customized Banking

Jake is a conscious consumer who knows what he wants. He enjoys the opportunity to choose himself what the bank does and what to him. Jake does not mind making some extra effort to select the services and contact channels to get exactly the kind of relationship with the bank he prefers.

As Jake does not have time or desire to visit branches, he has arranged a regular meeting with a banking advisor during lunch time in his favorite restaurant. Virtual meetings are also possible, but Jake prefers them only when being abroad. He has picked the advisor from the bank's social media site, where descriptions of the personnel as well as ratings and comments given by fellow customers are readily available. Reading good feedback makes it easier for him to trust the advisor.

Jake is careful with money and wants to keep track of his spending. Hence, he wants an income/outcome statement specifying what he has used his money for in the past. The statement also summarizes what extra purchases Jake is able to do next month and how changes in income would affect his finances. He uses mobile banking almost daily and has given away all the cards as he prefers to pay with his smartphone instead. The bank has offered Jake many extra services like searching apartments or cars for as well as promotions of local sports clubs and concerts, but he chooses to pay only for the bank's filing his annual tax report.

All in all, Jake is very happy with his bank as he feels like being in control and getting exactly what he wants and needs. He also knows that if the situation changes, it is easy to increase or decrease the bank's responsibilities in his life.

Intelligent and Efficient Banking

Liz is a busy working young mother who does not have time to spare and thus wants efficiency and functionality from her bank. She prefers the bank to predict her needs and offer ready options that she just has to choose from. Sometimes Liz even thinks that the bank personnel have the ability to foretell happenings in her everyday life, that fast can they offer her the right solutions.

For Liz, efficiency means that whenever she needs something, a solution is offered almost immediately. Yet, intelligence on behalf of the bank is required to make sure that the solutions are feasible. Liz has chosen a so-called menu of three, which means that when something significant happens and a new need arises, the bank automatically offers her three options to choose from. Liz's husband likes to refer to their bank as an A-class restaurant: the menu is short, but all the options are good. It is just a matter of taste which one finds the most attractive.

Liz and her husband have manually shared many of their wishes with the bank, such as that they want to travel abroad once a year and purchase a new car every five years. In addition, plenty of information is collected automatically. The paycheck details, for instance, are retrieved directly from the employer. Based on the historical records, the bank also considers regular purchases and predicts surprise needs, such as sudden healthcare invoices. A good example of all this is when Liz got pregnant with her first child. The next day the bank had already sketched three ways to start saving for the new-born baby.

The bank has very few advisors since the customers rarely need to discuss the offered options. There are no branches either because whenever a customer wants to talk with an advisor, the meeting is held via video calling.

Anonymous Banking

Simon sees himself as a realist and believes that banks only look after their own benefit, even to the point in which the customer's privacy is compromised. Therefore he chose an anonymous bank. No names or other identifying information is included in the records of the bank, but Simon is just the customer number 290488-108. If he wanted to use the bank only for transactions, he could have simply registered in the Internet anonymously. Now, as he wanted to apply for a loan, a 3rd party intermediary verified his identity and credit rating to ensure that he does not disappear with the money. Yet, the identity and all other personal information at the bank are still reliably separated.

Simon communicates with the bank only through his online account. If he has a question or a problem, he sends an instant message anonymously and gets a response from one of the few advisors of the bank. As no face-to-face service is required, the bank operates no branch offices.

The loans are automatically granted and the terms determined based on the numbers in Simon's account. He, as some of our focus group participants, sees machines as more trustworthy than people. Simon realizes that there is a possibility of misjudgment or erratic behavior, but at least machines are not curious or gossipy about other people's information, as they are not human.

Simon always uses an anonymity server to hide his online IP address in order to ultimately ensure that the bank cannot identify or reach him in person. He finds even mobile banking too personal as anonymous prepaid mobiles were removed from tele operators' service assortment five years ago, because they were used for criminal purposes. He is, of course, afraid that the anonymous banks he likes might face similar pressures.

Bank as Educational Institution

Like many of our focus group participants, Marissa warmly welcomes the educational services offered by her bank. Compared with straightforward marketing and promoting, she finds the educational approach much more pleasant and useful. Since the bank took an active role in their relationship, Marissa has seen it more as a partner than a distant institution.

Marissa has attended several lectures about investing and got personal guidance on using the online services. Assistance was particularly helpful when she was studying abroad and needed to open an account, make cross-border money transactions, and get a new credit card to replace a stolen one. Marissa does most of the tasks herself and is not afraid to try new services or products because she knows where to get reliable information and that she can always get a quick answer to his questions.

Like our focus group attendees, Marissa finds it easier to trust the bank when she thinks that they are genuinely interested in helping with her finances. Marissa used to be suspicious when she did not understand what she was offered, but now she feels like being on the same page with the advisors. Despite her young age, Marissa has a solid banking relationship and knows that she is prepared for the upcoming life changes having the bank backing her.

1.5 Conclusion

The objective of this study was to investigate the attitudes of young customers toward banking services and outline what the future of everyday banking services could be like. We focused mainly on the customer's point of view, but some implications to the operations of the banks were also considered. Notably, our visions were not limited by the current legislation or established practices.

The study was begun by observing discussions in Internet forums in several countries and languages. After that, three focus groups of 5-6 participants between 20-30 years old were organized. The goal was to freely generate new ideas and discuss the remarks collected from the Internet forums. In addition, three customer service professionals provided us with their experiences and thoughts about retail banking services.

The findings were divided into five main themes: trust, efficiency, self-service, personal contact, and extra services. Based on them, four stories describing possible future visions or scenarios for the role of banks as service-providers were sketched. Customized banking is a response to the seemingly substantial variation in the personal needs and wishes of customers. Intelligent and efficient banking is a scheme in which the services are made as efficient and fast as possible by augmenting them with intelligent automation and information-gathering. Anonymous bankinh is a possible solution to the dilemma of efficient operations inevitably needing plenty of information about the customer, but many customers not wanting the bank and its personnel to get that information. Finally, bank as an educational institution responds to the apparently common need for education and knowledge about financial services and ways of maintaining personal finances.

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2 Personalization of Online Communication in Financial Services

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Abstract: Personalization of communication is often taken for granted in business-to-customer relationships. How is this strategy perceived by online banking customers? This chapter investigates the perceptions and behavior of customers. We are interested in how the customers of a Finnish bank perceive personalized messages presented in the online banking context. Also, we investigate how customers behave regarding attention, elaboration, and choice during subsequent online banking encounters. Our findings underscore that even though the customers regarded personalized messages as somewhat intrusive in the focus group interviews, online experiments uncovered that they pay more attention to personalized than to general messages. What is more, they act on the personalized messages they receive.

Keywords: Personalization, financial services, online banking, promotional messages

2.1 Introduction

Personalization of communication and services in a multichannel environment is a familiar phenomenon for contemporary consumers. We receive an abundance of unsolicited direct mail and e-mail that addresses us by name and persuades us to try products and services claimed to be suitable for us. Especially social media platforms have turned to advertising; for example, Facebook addresses us with promotional messages that use our name, age, and gender prominently in the promotional texts. We receive sales calls from sales representatives of outbound marketing companies that have access to our personal information and previous purchase history. In addition, various channels offer functionalities to carry out financial transactions; for example, automatic teller machines (ATMs), mobile financial services, and various websites with tools for personal money management. Advertisements are also numerous in these channels. Some of the advertisements and services are personalized, especially when personalization is conceptualized as a mere mentioning of the customer by name. Some services, in turn, aim at deeper understanding of customer needs and use information technology for advanced analysis of customer information.

There is an established body of research in the field of online advertising (see Ha, 2008 for a review). However, the effectiveness of personalization in online advertising has received less attention in the academic literature. Most online advertising studies deal with e-commerce (retailing) sites or with contexts in which customers are first persuaded to enter the seller's site for online purchasing. Our studied case, instead, represents a context in which the visitors of the e-service are already customers of the company, and most have a regular need to revisit the site in order to conduct financial transactions. Our study thus contributes to the existing online academic personalization literature by presenting a context that has not, as far as we know, been studied before. Indeed, a special challenge for bank marketers is the goal-directed behavior of customers in their online bank activities; customers might only be interested in conducting their financial tasks without any interest for further information search or purchases.

The main research question of this chapter can be expressed from two perspectives. First, from the customers' point of view: Do customers accept personalized marketing in the financial service context? Second, from the financial service providers' perspective: Is personalization an effective strategy to increase sales of banking services? In the remainder of this chapter, we first discuss the concept of personalization. Next, we describe briefly the research design and methodology of the two-phase research project and present the main findings. Finally, we conclude the chapter with implications to the practice.

2.2 Personalization

Personalization is a concept that is intuitively appealing. The roots of it are in relationship marketing and management (Crosby *et al.,* 1990; Dwyer *et al.,* 1987). During the 21st century, the wide-spread use of information and communication technologies has made personalization an affordable strategy for implementing interactive relationships with customers. Just like a helpful sales clerk, the electronic customer interface greets the customer by name, remembers what she or he has purchased or browsed previously, and suggests products that might be currently of interest for the customer.

There are several definitions of personalization (Arora *et al.,* 2008; Fan and Poole, 2006; Montgomery and Smith, 2009; Sunikka and Bragge, 2012). The starting point of personalization is that the service provider knows the customer. In general, personalization aims at configuring products, service, and communication so that the end results suit the preferences of individual customers. Web personalization is a process and a set of activities by service providers who collect and process information on web behavior of customers and connect this information with information on previous purchase behavior and demographic information of customers. Various data mining methods, user profiling, and collaborative filtering are important technologies in implementing modern personalization.

In the marketing context, any part of the marketing mix can be personalized: the product or service offering, its promotional message, placement, or price (e.g. Arora *et al.,* 2008; Vesanen and Raulas, 2006). In addition, the communication can be personalized in several ways; by varying the content, frequency, and timing of messages, using different types of greetings in newsletters or e-mails, or by embedding pictures or videos suitable for the customer in the messages. The content of the messages can be based on the customers' interests and needs that have been inferred from their previous behavior (so-called preference personalization). Furthermore, the messages may include the name of the recipient in the message, or a reference to products and services that the customer has previously used or is currently lacking (so-called self-referent personalization) (Tam and Ho, 2006). The Internet has greatly enriched the usage of personalization in marketing, and personalization has become a significant research domain within the broader Internet advertising research.

In the banking sector, Finnish banks have been among the pioneers in serving their customers online. In Finland, 76 per cent of the whole population aged between 16 and 74 use online banking services; making it the second most popular application on the Internet after sending or receiving e-mail (Statistics Finland, 2010). Banking is a multichannel industry, and the overt reliance on a purely electronic channel and the resultant lack of personal contact may lead to decreased loyalty among customers (O'Loughlin and Szmigin, 2006). Joseph et al. (2005) state that contemporary banking is perceived as an impersonal service; and the speedy and efficient electronic service replaces what is lost in face-to-face service. One way of differentiating the commoditized service is to personalize the content of service and the communication to customers.

The online banking environment presents a unique platform for personalized communication since it removes many costs normally associated with messages in other websites: the connection can be secured, there is no need for information disclosure since the bank already has access to the financial and other information of their customers, and there is usually no competition for the attention of the customers by other marketers. From the customer information banks can infer, for example, several details of the customers' lives: hobbies and interests, preferred service providers for shopping and vacations, competing financial service providers, and so on. The present practice of using payment and credit cards has further increased the quantity of customer information to which banks have access.

However, online banking applications have not traditionally focused on personalized marketing. Instead, the applications have emphasized the goal-directed transactions of customers, that is, paying bills and checking balances. Online banking is generally perceived as a productivity-oriented or utilitarian information system. Utilitarian information systems refer to systems where goal-directed customer behavior prevails and which are mainly used to achieve goals that are external to the system (van der Heijden, 2004). The future challenge for financial service providers is to remold the electronic services into a more customer-oriented, personalized, and a comprehensive service offering.

Even though prior academic research focusing on personalized messages in online banks is scarce, few consultancy papers can be found. For example, Hesse et al. (2009) report that the Dutch ING bank has increased average campaign response rates, and expects to reduce its direct marketing costs through the implementation of a centralized campaign management program that creates personalized offers in real-time and can deliver such offers through multiple channels. Another Dutch bank, SNS Bank, calculates customer profiles and their click behavior in real-time, and provides their customers with personalized commercial offers. For example, if a customer searches for "high deposit rates" in a search engine, the search result within SNS Bank's website presents a personalized banner advertisement referring to their best deposit rates (Unica, 2009).

2.3 Research design and methodology

The data for this study was collected during a two-phase empirical study that is explained in the following. Table 2 depicts the different messages and the criteria by which the customers were assigned into the groups. Each customer belonged to one group only.

Table 2. Customer groups in the experiments

Group	*Promotional message*	*Number of customers*	*Criterion for customer selection*
Net bank statement (NBS)	Problems with archiving? Switch your bank account statement to the net.	281	Customers had no electronic bank account statement service.
Credit loan (Loan)	Have you considered that credit loans from banks are less expensive?	300	Customers only had mortgage loans from the bank. The bank had analyzed the customer data and inferred they might have credit loans from other banks.
X-card	Your X-card is about to expire. You can switch easily to Y-card on the net.	293	The credit card type that the customers were using was about to be withdrawn from the market.

Computer-mediated focus group interviews with self-referent and preference personalization

First, an explorative study with four focus groups was carried out among the customers of a Finnish bank. The purpose of this phase was to uncover the perceptions of consumers towards personalized promotions thorough different channels, and through the Internet bank, in particular. Computer-mediated focus group interviews in the same-time same-place setting (Bragge *et al.,* 2007, Boddy, 2005) were employed as the data gathering method.

The study comprised four focus group sessions, each lasting 2.5 hours and with 11 to 14 participants in each group. Altogether 53 persons participated in the focus group interviews. The main themes were privacy and personalization in general and personalization in bank marketing, in particular. We explored whether personal information (self-referent information) in promotional messages would receive greater attention and acceptance than messages with no personal information. The type of self-referent information in the messages varied from neutral to sensitive. The messages were targeted to different segments and there were different levels of personal information about the recipient in the messages.

Personalized banner experiments in the online banking context

The second phase of the research consisted of 9-week field experiments that were conducted on the website of the same Finnish bank. Three different experiment groups were formed from the customer base of the bank. Each group was shown a different message, personalized to the group, in the form of a banner advertisement after they had logged in to the online bank.

2.4 Findings

The need for discreet marketing for financial services

The socio-psychological Elaboration Likelihood Model (ELM) of persuasion (Petty *et al.,* 1983, Petty and Cacioppo 1986) examines how persuasive messages influence attitudinal changes. The model specifies central and peripheral information processing routes. The route taken depends on the motivation and ability of the recipient of the message to elaborate upon the messages. When the elaboration likelihood is high, the message recipient uses the central route and focuses in-depth on the central features of messages, and carefully evaluates their arguments and implications. With a low likelihood of elaboration, the peripheral route is taken, and the recipient examines the message quickly or focuses on simple cues, and applies simple decision-making rules or heuristics.

We used the ELM perspective to guide the analysis of the promotional messages in order to uncover what aspects of messages attracted attention among the customers. Even though the model is typically employed with numerical data, we found it helpful in the interpretation of textual data. We uncovered that certain peripheral cues were so powerful that customers paid less attention to the actual contents of the message. Pictures, question-format in the messages, and use of sensitive self-referent information (e.g., mentioning the duration of one’s mortgage or balance of account) were easily attached to advertising (i.e. an attempt to sell something) instead of being perceived as informative customer service (i.e. providing added-value information to customers).

Overall, the attitudes towards the use of self-referent information in promotional messages were rather negative, and the irritation of seeing personal information in banner advertisements even prevented the participants from deliberating upon the messages in detail in some cases. Despite this, almost all participants stated that they would prefer targeted messages to more general approaches, but the self-referent information must not occupy a too prominent status in messages, but rather to be in the background (cf. discussion in White *et al.,* 2008). Since the provocative use of self-referent information clearly irritated the participants, self-referent personalization was tactfully applied only in one group in the subsequent field experiments.

Effectiveness of personalized promotions in online banks

According to typical information processing models, consumers go through attention, elaboration, and choice phases when exposed to persuasive messages (see e.g. Tam and Ho, 2005). With the click-stream data that we collected, there is merely partial knowledge regarding attention – since the number of customers who noticed the messages, but decided not to click the banner is not known. However, we used the click-through rate as an indicative measure of attention. The duration of session per page was a proxy of an elaboration measure. Choice was measured with the number of the products purchased by the time the experiment was over; and also calculated in relation to the total amount of customers in the respective group (pull-% of the group). Finally, the effectiveness of the personalized messages was measured (i.e. how much more often the personalized message was clicked compared with the default message). In addition, the pull-percentages of the field experiments were compared with comparable personalized direct-mail promotions that had been launched in temporal proximity of the field experiments.

During the three-month experiment period, 714, that is, 81.7 % of customers from the experimental groups visited the website at least once. Regarding the attention measures, the click-through rates were the highest for net bank statements (NBS), (0.8 %) and the lowest for the loan group (0.13 %). The click-throughs of unique sessions were 92, 12, and 19 (see Table 3).

Table 3. Attention, elaboration and choice measures

Attention measures	**NBS**	**Loan**	**X-card**
Click-through rate (personalized banner hits/total hits)	0.8 %	0.13 %	0.2 %
Click-through amount (no. of unique sessions that accessed the banner, basic usage was filtered out)	92	12	19
Elaboration measures	**NBS**	**Loan**	**X-card**
Avg. duration of visit in seconds / page (banner accessed)	32.1	19.8	26.7
Avg. duration of visit in seconds / page (banner not accessed)	27.2	20.4	23.1
Difference in duration of visits in seconds/page	4.9	-0.6	3.6
Choice measures	**NBS**	**Loan**	**X-card**
Purchases by participants (in number of products)	33	18	50
Pull-% of the personalized group (no. of products / no. of visitors from the experimental group)	19.2 %	6.3 %	19.4 %

We operationalized the concept of elaboration as the amount of time customers spent examining the banner. Table 3 depicts comparisons of the average durations of visits per page (in seconds) between those sessions that accessed the banner and those that did not access banner-generated pages.

Next, the choice behavior of consumers regarding the promoted offerings was examined. The pull-percentages included the number of customers who had applied or signed the contracts for the respective products or services. The pull-% was the highest for NBS and X-card (19 % for both), and the lowest for the loan group (6 %). Interestingly, the final purchases were higher than the click-throughs (measured as unique sessions) in the loan group (18 purchases vs. 12 unique click-through sessions) and X-card group (50 vs. 19).

We then compared the effectiveness of the personalized banner messages with the general pull-% of a default message (Table 4). The default data provided by the bank were interpreted as the control group data. The default banner was positioned at the same place on the website and was of equal size as the personalized banner, but the content of the message was not personalized to the recipient. The results show that the lift of a personalized banner compared to the default banner was about 120 for NBS, 12 for loans, and 57 for the X-card group. This figure has to be considered in the context of the level of banner exposure that websites currently experience, which is, in general, very low (below 0.1 %), and therefore this lift-measure may look too positive. However, it is still an indication of the way personalized banners are received by the customers.

The bank had previously conducted direct-mail campaigns with the same products and services promoted in the experiments. These had resulted in a general pull-% of 9.5–10 % for the NBS, 5 % for loan, and about 35 % for X-card. When we compared the pull-%'s of the personalized messages to the pull-%'s of comparable direct-mail marketing promotions, the results showed that the pull-%'s of personalized NBS and loan messages were higher than the pull-%'s of direct mail promotions.

Table 4. Effectiveness measurement

Measures of effectiveness	*NBS*	*Loan*	*X-card*
Lift compared to default (non-personalized) banner	120	12	57
Pull-% of the personalized group (no. of products / no. of visitors from the experimental group)	19%	6%	19%
Direct-mail marketing pull-% of comparable campaigns	9.5–10%	4.5–5%	35%

2.5 Conclusion: Viewpoints to personalization in online banking

The analysis of the focus group interviews showed that bank customers often regard the indelicate use of self-referent personalization as an invasion of their privacy. Privacy has again hit the headlines because of the intensified collecting and sales of user information by, for example, Facebook and Google. Even though users are happy with the search results of Google, for example, they nevertheless have negative feelings about personalized search results and targeted advertisements (Purcell *et al.,* 2012).

According to our qualitative data, customers prefer personalized messages to general messages in the financial services context. Who would like to see irrelevant messages anywhere, and especially in such a personal channel as the online bank? Yet, during the focus groups, the customers also expressed their concern that advertising is taking over all channels. Especially messages that use the self-referent information are often regarded as intruding and even frightening. Usually customers do not even think about the large quantities of information that banks collect on their customers. And until present days and the advancements in information and communication technology, banks have not been able to fully benefit from the customer information.

The results of our field experiments show that the click-through rates for the personalized banners are the highest in the net bank statement (NBS) group. This might be due to the fact that the NBS is a relatively simple offering that, as a digital service, also best matches the online bank's distribution channel. It seems that the type of service that is being promoted is important; messages that promote fairly simple services that are easy to apply and are linked to the context in which the promotion occurs are more efficient than messages that do not fulfill these criteria.

The pull-percentages of personalized banners were higher than those of the direct mail marketing promotions in two of the three experiment cases studied (particularly in the case of NBS). The results are thus promising, and we encourage further research that examines personalized marketing messages in online banks and similar self-service websites. When costs are included in the calculations, online personalized messages may fare even better.

Banners are sometimes regarded as an old-fashioned way of attracting the attention of customer in the electronic commerce context. However, in online bank, banners should be regarded as a channel within a channel offering personalized advice and guidance. For example, if there is a foreseeable risk of interest rate increases, banners could remind mortgage customers that there are instruments that protect mortgage owners from increase in interest costs. Customers might perceive the message as an added-value service. Thanks to the increased possibilities of information gathering and the ability to make meaningful inferences based on the information, banks could offer advice and suggestions suitable to the life situations of the customers.

Furthermore, the e-mail functionality (the possibility to send e-mails between the customer and the bank advisor on the online bank) could be used as a further, personalized channel. The advisors could answer questions and pro-actively give advice to customer with their own names and pictures. That could create the feeling of being personally in contact with the bank advisors – the very aspect that has diminished with the increased use of online banking (O'Loughlin and Szmigin, 2006; Joseph *et al.,* 2005).

Even in the goal-directed online bank environment, online personalized messages are noticed. In future research, the combination of click-stream behavior and demographic profiles would provide insights on the behavior of customers. The clustering of e-customers as suggested by Miceli et al. (2007) according to the value, knowledge, orientation, and relationship quality dimensions are worth further exploration. Banks should aim at designing and implementing a systematic way of conducting personalized marketing and service in their online bank. This will require streamlined processes, increased use of personalization technologies, and seamless integration of online and offline channels, thus posing multifaceted managerial challenges for the bank. The few personalization process frameworks presented in the literature (Adomavicius and Tuzhilin, 2005; Vesanen and Raulas, 2006; Miceli *et al.,* 2007) should provide useful guidance in this endeavor.

Regarding our research questions, we uncovered that the appreciated aspects of personalized promotional messages are services that suit the online environment (relatively simple digital services) and a delicate use of self-referent information. As to how effective personalized online messages are in comparison to non-personalized messages or to traditional direct mail, we found that personalized promotional messages in the online banking context were more effective than default promotional messages. Furthermore, the actual sales based on personalized messages were higher than sales following direct-mail promotions in two of the three experiment cases.

One limitation of our study is that, due to its exploratory nature, we did not employ a customer questionnaire on the website. A questionnaire would have provided some answers to our presumptions and better metrics for the analysis with regard to the attention variable in the information processing stages. Furthermore, we did not gather control group data during the experiments but relied on the average figures that the bank provided. We believe that these are fruitful issues to be addressed by further research on the subject.

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3 The Role of Banks in Promoting Young People's Financial Capabilities

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Abstract: Increased financial capability benefits both individuals and institutions in any circumstances. Financially competent people are vital for the success of societies, and interesting customers for banks and financial institutions. Increasing consumers' knowledge and skills benefits banks through more predictable loan repayments and higher savings and investments. In this chapter, we investigate the promotion of young people's financial capabilities, regarding financial services and their providers. Moreover, we discuss how young consumers perceive banks' role as providers of financial information.

Keywords: Capabilities, Young people, Banking, Financial services.

3.1 Introduction

Young people face many new economic challenges in the dawn of their independent life. The new issues relate with economic independence and include significant and risky decisions that may have long-lasting effects (e.g. Lusardi *et al.,* 2010.) After reaching adulthood, young people receive many rights but also important obligations concerning their private economic conditions. At minimum, they become more active in society in terms of financial contracts. In this process, young people encounter numerous financial products such as loans, credits, insurance contracts, savings, and investments. Despite the gravity of these responsibilities, their experience and competence in these issues, however, are limited.

At the same time, the role of media technologies is pivotal in young people's lives. Young people acquire an increasing share of their consumed goods and services through electronic channels. In addition, they search for information and increasingly take care of their financial matters and social relationships using online channels. Although they adopt new information and communication technologies faster and more effectively compared with more senior age groups, they do not necessarily manage well their financial commitments related to these tools (Borch and Sorebo, 2011). Furthermore, consumption is often a salient characteristic of a young person's lifestyle. The youth of today tend to consume goods and services rather than appreciate saving or investing. Given their outlook and lifestyle, credit is perceived as a natural part of life (see e.g., Chau and Ngai, 2010). To maintain social status and enjoy life as they define it, young people also tend to take financial risks (Heaney 2007, ref. Nga *et al.,* 2010).

To cope with the challenges related with managing their personal finances, young people must acquire myriad skills and capabilities. Prior research has demonstrated the relevance of gaining capabilities in financial behavior. Perry (2008) argued that a low level of financial knowledge is linked with overestimating credit ratings and decreased saving, budgeting, and investments. Financial incapability, in fact, may lead to financial problems that can affect one's whole life (Lusardi and Mitchell, 2007; Hoffman *et al.,* 2008). Although most would generally agree that financial competence is especially essential for young people, we must ask who should provide financial information and education to them. Because young consumers need practical skills and habits in the field of personal finances, banks are a natural actor in providing information and advice.

In this chapter, we investigate the role banks play in promoting young people's financial capabilities. Moreover, we discuss the ways banks can implement various strategies. We focus in particular on the financial information directed to the young and highlight the ways in which the young can apply this information to their lives. More precisely, we address the following issues:

- In what way does the material that a bank offers via the Internet meet areas of financial capability?
- How do young consumers perceive the role of banks' Internet material as a source of financial information?
- What kinds of opportunities and challenges does the promotion of young people's financial capabilities embody for the providers of financial services?

This chapter is organized as follows. We first define financial capability as it is used in the context of this chapter. Then, we describe the study underlying this chapter, and enumerate the study's findings. The chapter ends by discussing how banks can improve their services for young people in order to promote sound financial capabilities.

3.2 Defining financial capability

As a concept, financial capability is a complex concept; therefore, it has been defined in different ways. In fact, neither research studies nor financial authorities have explicitly defined the meaning of the concept. In the United States, the concept of financial capability is often replaced with the term financial literacy. Different actors have, however, set similar goals or criteria for becoming or being financially capable. For this chapter to be relevant, we need to understand the concept of financial capability in our context.

At the simplest, financial capability can be described as wisdom and prudence in using money (e.g. McCormick *et al.,* 2005). According to Atkinson et al. (2006), financial capability includes knowledge, understanding, skills, and responsibilities in four areas: 1) day-to-day money management, 2) planning ahead, 3) choosing products, and 4) staying informed (see also SEDI, 2004; Leskinen and Raijas, 2005). Dixon (2006) and Elliott et al. (2010) also emphasized the importance of financial behavior in financial capability; that is, financial capability not only requires knowledge, but also the ability to act according to that knowledge (see also Sherraden *et al.,* 2009). The services, tools, and programs that influence behavior, therefore, must also be factored into our definition. In financial markets, the importance of consumer financial capability is emphasized through the development of financial products (e.g. OECD, 2010).

Several studies have shown that in general, young people's financial capability is rather poor (e.g. Atkinson *et al.,* 2006; OECD, 2010). In Finland, for example, the continuous growth of financial defaults among young people has been given considerable attention (Suomen Asiakastieto, 2010). Some have suggested that this phenomenon indicates the inability of the younger generation to manage personal finances. An interesting question, therefore, is the effect of financial education on financial capability; wherein research results have been contradictory (see Sherraden *et al.,* 2009). A debate has also arisen about how to attract young people to become interested in financial management. There are very few studies, however, that are able to provide an overall understanding of financial competence.

3.3 Banks' role in financial education

The economic socialization of young people begins in childhood (e.g. Beutler and Dickson, 2010). In today's society, however, even parents may not have received the proper education to provide their children with such financial knowledge and skills. Admittedly, the knowledge and skills required to cope in today's complex economic and financial environments (e.g. Sherraden, 2010) differ from what they were for prior generations.

Schools play a central role in education because they influence children and youngsters the most. In Finland, for instance, every young person attends a secondary school, and thereafter they may choose a high school, vocational school, work, or unemployment. Economic and financial issues are taught in the school system as a part of consumer education. Such formal education, however, does not always follow a standard practice. For example, only certain information pertaining to financial products is presented in formal education (Peura-Kapanen and Lehtinen, 2011). So-called informal education, therefore, imparted by public sector actors, organizations, associations, the financial sector, and other private companies is needed. Furthermore, the media, as well as peer and reference groups play an important role in delivering information about economic issues and teaching financial skills.

Banks' involvement in consumer financial education takes various forms. In several countries, banks have collaborated with other actors in the field (see e.g. EBF, 2009; Johnson and Sherraden, 2007; WSBI, 2011). Banks have also organized large-scale financial education programs that have been implemented with school courses. The purpose of programs such as "I Can Save" or "Saver Plus" is to motivate pupils to manage their own money and savings (WSBI, 2009). Such education is rather neutral, as banks avoid highlighting and marketing their own businesses and products. Yet, financial products and services are linked to several areas of financial capability. As such, banks have also produced material and educational games, as well as organized competitions and exhibitions (see e.g. EBF, 2009) to promote financial knowledge and skills. Sherraden et al. (2009) emphasized that providing students with access to financial services along with financial education may develop their financial capability.

Banks' services indirectly include the elements of financial education (cf. WSBI, 2009). On their websites, financial companies aim to help consumers manage their personal finances and make financial decisions. Such advice is provided along with actual product and service descriptions and tools. One of the goals is that financial companies must ensure that consumers understand the products and services in which they may become involved (Sledge *et al.,* 2010; WSBI, 2009). Banks' websites, therefore, contain general financial information, calculators, and links to consumer education materials. In addition, banks indeed target special financial products at young people (accounts, cards, insurance) (see e.g. Elliott *et al.,* 2010). This activity is a natural part of the banks' business.

In Finnish banks, financial education for children and young people is currently minimal. One banking group (Sampo Bank) has produced a school program and material to the web, to aid in the financial education of youngsters 16 years of age and below. Specific material (www.talousosaaminen.fi) has also been developed for teachers. The financial companies in Finland, are also increasingly involved in financial education projects as a part of corporate social responsibility (CSR) activities. OP-Pohjola Group, for example, has included the task of providing expertise and assistance in financial education at schools and universities as a part of their CSR program. Likewise, Tapiola Group has published an extensive responsibility statement with the promise to promote financial literacy in society. Nordea, in turn, studies children's use of money and thereby aims to enhance knowledge in that area.

3.4 Data and methodology of the study undertaken

The study described in this chapter uses two data sets. First, in spring 2011, we thoroughly evaluated a financial company's website targeted at young people. Second, we use data from workshops and group interviews conducted in five Finnish high schools to illustrate the views, expectations, and wishes of young consumers concerning the role banks play in providing financial information and services. This second set of data was gathered in six workshops, with six participants in each session. These workshops took place in spring and autumn 2011. They covered a wide array of issues related to young people's views about the roles various actors play when they participate in financial education. Our particular interest is in the period when people move from youth to adulthood and begin to be responsible for their own decisions. Moreover, we especially utilize the portion of the data that pertains to the role of the banks and the website of a particular bank. This bank offers both banking and insurance services. Notably, the data is used as an illustration of general concepts rather than an exhaustive report of the study's findings.

When the website material of companies is evaluated, it is essential to investigate the material's usefulness and ease of access. Therefore, we first investigated the structure and construction of the websites. We examined how easy it was to find the financial information as well as the website's level of interactivity. Second, we studied the content of the material, that is, how the four areas of financial capability (day-to-day money management, planning ahead, choosing products, and staying informed) are presented. In the workshops, participants were asked to evaluate the website in terms of the usefulness, how easy it is to find the site, and the content of the site, including the areas of financial capability: day-to-day money management, planning ahead, choosing products and staying informed.

3.5 Findings

The bank's website has current information and sections named eServices, Banking Services, Insurance, Savings, and Investments. On the front page, there is a search function. All sections are further divided into sub-sites. The website walks the visitor through the main financial decisions in the young person's life. The site also introduces the products and services related to specific life situations.

Of note, the bank's website includes information related both to young people's financial capabilities and the concrete tools for managing their finances. It also highlights young people's responsibility for financial issues. At the same time, the bank attempts to depict financial products as easy tools to achieve one's aims in life, as well as manage one's daily use of money and one's economy as a whole.

Based on our observations, however, the young emphasize the need to obtain reliable information on financial products. Notably, it seems that the site does not necessarily reach young people. On the one hand, the site contains information that does not directly concern them yet (such as investment instruments); on the other hand, young people were not able to find all of the site's features (for example, tools for following finances). Usefulness and ease of finding the web site are required to entice the young to use the site.

The next sections evaluate the study's findings in terms of usefulness and accessibility of the information provided by the bank to its young customers.

Usefulness

Young people are typically interested in searching for specific information only when they urgently need it. Financial information has been found to work best when it is connected to a current and relevant life phase or situation (cf. Varcoe *et al.,* 2010; Sherraden, 2009). In young people's lives, these teachable moments occur when they need information and support to cope with the challenges in new life situations. For example, a young person may seek information when he or she is moving into a new home, starting studies, or launching a career.

The site we investigated is targeted at young people older than 18 years old. The bank emphasizes the responsibility to which the age commits: becoming an adult means that a young person must take over her or his life, which means being responsible for money management. The bank wants to support this life phase by giving instructions, such as “Becoming adult means independence and freedom”. Adulthood is also presented as a phase to acquire new and expensive goods such as a car.

The present study’s young participants considered the website useful if the information is available when they face an important life situation. The young under the age of 18 found the website in question uninteresting, but they said it would probably be useful later in their life. They expected that at the age of 18, they would become more responsible for their personal finances, insurance, and other financial decisions. The participants indicated that they were well aware of this effect, and they wished to be supported at that point in their lives. A recurring theme in the group discussions was the timing: information should be available at the right moment. The critical moments mentioned were the 18th birthday, moving in one’s own home, and beginning studies or work. One participant noted, “This site is about the youth and suitable at the very moment when one needs it”. When asked, “Do you find this site interesting?” one participant answered, “Yes, because I am right now in the life situation when I need this information”.

Easy access

The site directed to the young is divided into sub-sites with various themes. The themes were money management, the first home, studies, employment, travel and hobbies, and a car purchase. A car is highlighted as part of adulthood and fulfilling dreams. After all, the bank also wants to offer its products and services that are relevant to the students’ various life situations.

At first, the sub-sites briefly described the young person’s life situation. Some information is presented about social benefits and housing issues. On the one hand, the information is educational, emphasizing the young person’s own responsibility (“you have to think about how to pay your expenses”). On the other hand, it is clear that the marketing or product-oriented aspects are central (“you need insurance when you have your own home”). There is also a sub-site that deals with financial problems a person may encounter. This sub-set of information is intended for people of all ages, not only for young adults.

The workshop participants expressed that the website designed particularly to the young must be interesting and attractive. The young seem to appreciate information and sites that are customized or personalized for their age. The participants felt, however, that the information was difficult to find on the current site merely by surfing or using the Google search engine. Using the word ‘young’ in the search function did not lead to the section directed to the young, but to the sub-site directed to the young included in the section Life Situations. As a solution, the workshop participants suggested a separate bar indicating the route to the youngsters’ site.

Although the content and information on the bank’s site is useful, it does not benefit the young unless it is easy to find. An issue mentioned repeatedly in discussions was awareness of the sites. Not a single participant reported that he or she had previously used or even been aware of the site. However, many respondents believed that they would find this or a similar site through a search engine. One participant noted, “Somehow I believe that if you just put some search word in Google you always find some information”. Moreover, several participants suggested that the bank could advertise its site through other media (television, radio) channels. It was also stated that the financial companies’ websites could be discussed or introduced during school lessons.

In the following section, we discuss the specific areas of financial capability and present our observations on them.

The areas of financial capability

The observations discussed above are summarized in Table 5 as the main findings of our study. The table distinguishes between the bank's perspective and young people's views on the identified areas of financial capability.

Table 5. Main findings presented in this chapter

The area of financial capability	*The bank's perspective and message to young customers*	*Young people's views and observations*
Day-to-day money management	• The importance of controlling the use of money • The convenience of money management using products and tools the bank offers.	• The responsibilities are recognized, but the issues related to obligations are not discussed.
Planning ahead	• The products a bank offers as a means for future planning and a precautionary measure.	• The focus of planning is short-term changes in various life situation (e.g., moving away from home)
Choosing products	• A comprehensive set of information is provided. • The ease and convenience of obtaining various financial products.	• A distinction is made between information about a bank’s own products (selling) and impartial information.
Staying informed	• A bank and other actors help you with any problems.	• The young are aware of possible sources of support. • They prefer familiar sources.

Day-to-day money management

Money management means that the young learn to manage their daily finances. To make ends meet, the young must be aware of living costs and be able to balance available income with expenditures. Very often, the cornerstone in the young’s economy is adjusting scarce resources to available costs.

Day-to-day money management appears to be important from the bank's point of view as well. The bank emphasizes a young person’s own responsibility and control regarding how he or she uses money. The bank also encourages the young to reflect independently on his or her financial emergence. As a practical tool to address this concept, the bank urges young people to make a budget and follow how they use their money. The bank also offers interactive services such as an electronic account book for “simple, easy and convenient” financial management. However, the tools for financial management are not easy to find because there are no direct links to them from the front page. The bank also offers a package of services and a bank card with an account balance that is up-to-date.

Planning ahead

Another area of financial capability is that the young should understand the significance of future planning and be aware of financial risks. The present study shows that young people are not motivated to plan their economy in the long term, but their focus is extremely short term (see e.g., Elliott *et al.,* 2010). Precautionary activities for unexpected expenditures should also be addressed. There is a lot of public discussion of consumers' increasing responsibility to prepare for retirement at a young age (cf. OECD, 2010). For young people, it is often difficult to evaluate the consequences of future risks (FSA, 2005), and they have minor knowledge of how to prepare for future contingencies (CEA, 2011).

On the bank’s web pages, planning for the future and preparing for risks are included in themes such as studies, work, travelling, and housing. The approach is product-centered, however. For example, a study loan is presented as a way to concentrate on studies. Employment enables saving, expensive acquisitions for the future, and pension accumulation. No mention is made, however, about providing for unforeseen expenditures, such as a reserve fund or solutions to reject pay-day loans, even though this could be important information for young people.

The participants in the group interviews seemed to be aware of some of the issues that follow from moving into one’s own home. Study grants, study loans, and housing benefits were mentioned frequently as important areas when future planning is needed. The role of banks as an actor to deliver information about saving and investing split the participants along two opinions. Some participants felt that his or her “own” bank would be the best source to deliver information and advice, whereas others hesitated and doubted whether the banks can be trusted.

Choosing products

To make well-informed choices in financial markets as first-time buyers, young people need straightforward and easy-to-understand information about financial products (Atkinson and Kempson, 2004). In schools’ teaching materials, risk management and insurances are dealt with only to a minor extent (Peura-Kapanen and Lehtinen, 2011). Therefore, it is important that banks provide information on risks and insurance. According to several studies (e.g., Zapera, 2008), young people have difficulties understanding even basic terms such as interest. They also need information concerning the costs and risks of financial products.

The bank provides information about what financial products the young person needs in different life situations; for example, products for day-to-day money management, saving and investing, loans, and insurance are presented. Links on the site offer detailed descriptions of products, counters for evaluating products in one’s own situation, and ways to acquire them as well as some general information related to the theme. Product information is presented clearly.

In the group interviews, the banks' role was seen to "provide explicit information about their products so that the young can compare the different alternatives available". Many of the participants considered this opportunity as important. Moreover, the participants frequently mentioned that they would like to have impartial information and basic facts. Meanwhile, however, they saw that it is understandable that the bank informs website visitors about its own products. Young adults are obviously media literate, and the participants seem to distinguish between promotion or advertising vs. information provision.

The bank's website emphasizes the value of financial products and the convenient way they can be acquired. Credit is presented as a natural and positive part of a young person's life even though young Finns' attitudes toward credit are relatively conservative (FK, 2009). Credit risks, the signs of over-indebtedness, or indebtedness avoidance are not presented in detail. Insurance is connected to key issues in the young people's life, such as housing, travel, and car. Attention is also directed toward the ease and affordability of obtaining insurance and product packages for insurance are offered. The importance of insurance is not always justified adequately. Saving and investment products are presented briefly in the working life section. Among these products, funds are emphasized. However, there is a demand for understanding the fundamental prerequisites in fund investing, because only a small number of young people are aware of how to invest (FK, 2009).

Regarding saving and investing, many of the participants seemed to be familiar with saving accounts, but suspicious of investment products. It was mentioned several times that investment products are not appropriate for the young, with the reasons being that the young have scarce resources or because they risk "losing it all". Still, a moderate number of participants were familiar with investment products, primarily mutual funds.

Staying informed

A financially capable young person is also able to act in response to changes in his or her own economy or in the market. He or she should be aware of the factors that influence financial decision-making. This requires monitoring a variety of economic indicators, such as interest rates, and generally being up-to-date about financial matters. Furthermore, the ability to retrieve information about the financial problem is important. According to a study conducted in Finland (FK, 2009), young people consider knowing about banking and financial issues is at least "fairly important," but the majority of young people follow them generally at random.

An example of a dedicated service is one that is focused on problematic financial situations, in which the bank points out its responsibilities in terms of caring for its customers. In such situations, consumers are encouraged to contact the bank if they are having difficulties, for instance, in making payments. The non-repayment of credit and its consequences are highlighted. However, it may be difficult to find information related to the consequences of such problems, as it generally requires the website visitor's own initiative.

Hence, staying informed is a challenging task for young people. The group discussion participants proposed several thoughts concerning where to ask for advice and help with financial questions and problems. Parents, friends' parents, school teachers, public organizations (such as Kela in Finland), friends, and instructors of hobby groups were mentioned as possible sources of support for problematic issues. It would seem that the young seek confidence, familiarity, and security.

3.6 Conclusion: How can banks improve services to promote financial capability?

Based on the present study, we provide some guidelines for professionals working in developing new bank services directed to the young.

Understand the life situations and lifestyles of the young

It is important that banks understand the lives of young people and take their different life situations and life styles into account. Youngsters are not a homogenous group. From the bank's viewpoint, a young person's life is often seen as a chain, where studies are followed by a career. The diversity of situations in which a young person may find him- or herself (work, unemployment, studies) is not clearly delineated in the banks' websites. Indeed, heterogeneity among young people should be reflected. Therefore, the financial education of young people should be segmented according to life situations, knowledge, skills, and interests (cf. Nga *et al.*, 2010).

Financial problems and scarce resources are more a rule than an exception in the young life. It is important that banks acknowledge this and respond by providing assistance and education and appropriate services for the young. Interestingly, the young who would benefit most from improved financial capability typically do not prioritize financial matters (Elliott *et al.,* 2010). In particular, they reject educational messages. This requires creative and attractive solutions so that the young find financial education engaging (WSBI, 2009).

New products and tools

Banks can enhance consumers' financial capability by providing novel products and services that are designed to help in managing one's personal finances. When financial companies' products and services are very similar, companies must differentiate their offerings with additional services or by deepening the amount of information they offer. The products and services targeted especially for young people should be easy to find and use and offer real-time ways to manage daily finances, new savings products, an insurance package, and study loans. Such services should endow with feedback about behaviors, for example, to allow the youngster to visualize future scenarios related to certain behavior (Elliott *et al.*, 2010). New tools to monitor one's own economy or customized saving products could make financial management easy, convenient, and fun. Examples include bank accounts that provide immediate feedback such as an alarm related to various financial behaviors. This notice could be sent to an e-mail or as a SMS to help control the use of money and avoid overspending.

New channels to reach the young

The daily life activities of young people offer also new channels to reach the young. Their technology orientation (Internet and mobile phones with different functions), the way they use their time, and the importance of social media and social networking sites (Facebook, Twitter) in young people's lives (see e.g. Elliott *et al.,* 2010) offer opportunities to reach the young and provide a gateway to potential interventions. For example, products and services must be developed that are compatible with electronic channels (pc, mobile phone, iPad) and social media.

Elliott et al. (2010) refer to the importance of an appropriate person or channel when disseminating financial information. More and more often, young people learn about various practices through social media, not through their parents or teachers. Through social media, it is possible to strengthen and pass along relevant norms in the reference groups of young people. Furthermore, in the peer-to-peer environment, young people can teach things to one other.

New ways of promotion and communication

We suggest that banks can take advantage of the approach to developing financial capabilities presented here. The approach helps form a comprehensive picture of one’s own economy. It is important to understand young people’s economy as a whole so that individual and specific financial situations are understood better. Although a bank takes into account various life situations, the overall picture remains blurred if a life is seen from the viewpoint of various financial products. Banks should, for instance, not only give information regarding financial products and services available but emphasize day-to-day financial management and the importance of future planning. Banks can help the young react and adjust to financial behavior if any changes in their own life or economic environment occur. The website examined in this study provides, amongst other things, information about loans for housing, studying, and purchasing a car. Yet, it is not a responsible activity to describe loans merely as bringing convenience to the young life. At the same time, the young should be reminded of importance of planning and repayment.

In the future, young people will be required to engage in critical thinking and have the knowledge, skills, and experience to compare available options. This is a great challenge. For teenagers and young people, the future is very often an intangible and unpredictable entity. Economic topics must seem current in a young people’s life in order to interest them. Financial management services should be highlighted in a fresh and interesting way and directed especially to the practical situations a young person encounters. It should be noted that the mere existence of tools does not generally attract young people to follow their finances. Young people need to be shown concrete ways how an economy can remain in balance, how it is possible to save expenditures, or how they can reach their goals through saving.

The interactivity between the young and financial companies should increase. Banks could develop, for example, interactive learning networks targeted for the young. They could teach the young how to choose and use financial products and services. Interactivity and adventure inspire young people, as does the visual presentation of issues.

Towards collaborative relationships

National-level actors such as the Federation of Finnish Financial Services and Bank of Finland, who already work in the area of financial education, could also take an even more active role in facilitating collaboration among other actors.

One challenge for the banks is how to build trust with its young consumers. Several banks have adopted corporate social responsibility (CSR) programs; trust-building elements could be included in these. Young people understand the purpose of marketing and that banks aim to engage young people to become customers of the business. It is thus important to build a trusted relationship and confidence when a bank collects information about online consumers.

In conclusion, it is also in banks' interest to develop loyal customers. Financial institutions can play a key role in developing young people's financial capabilities because banks can provide financial education at the same time that young people begin to use the bank's products and services. Good service for young people can be competitive advantage for a bank, for example, leading to a long-term customer relationship. It is a bank's advantage that young people are financially capable as early as possible. Importantly, financial service providers need to coordinate the provision of financial information and education to the young to avoid fragmenting the messages young people receive. Consistent and sometimes educational messages are needed to achieve beneficial results from the communications.

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4 Employees, Social Media, and Corporate Reputation: What Can Financial Service Providers Learn from Other Sectors?

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Abstract: This chapter provides insights to the critical role of employees in building corporate reputation in social media environments. By illustrating and comparing empirical findings from case companies operating in both financial service and other sectors, we present several key opportunities and challenges for corporate reputation building. Our findings highlight that the investigated financial services company has relied on a more passive and cautious approach in social media as compared with the benchmark companies in other sectors. In this chapter we hope to direct attention to new promising approaches to managing employees, social media, and corporate reputation

Keywords: Employees, social media, reputation, corporate branding, banking sector

4.1 Introduction

Although many companies are currently keen on embracing social media such as Facebook or Twitter as a communication and marketing platform, very few seem willing to give their employees full access to social media at work. Instead, numerous examples of employee misbehavior online have frightened companies and led them to devise social media guidelines and rules to protect them from potential threats to their reputation. We are told that employee criticism of their employers in Facebook has even led to dismissals.

Interestingly, however, the most successful companies and brands online employ strategies where employees are increasingly given responsibility in supporting the company's brand image and presence online (Interbrand, 2011). Instead of totally restricting employees' presence in social media during working hours, many top brands actually consider every member of the organization to be a potential online brand ambassador.

The purpose of this chapter is to consider the critical role of employees in building corporate reputation in and through social media. In particular, we wish to offer new insights on the different strategies that companies can employ to encourage employees' online presence, yet in a controlled manner. The chapter begins with an introduction to corporate reputation that discusses the role of employees in reputation-building and identifies key challenges and opportunities regarding social media. Finally, we summarize the findings from companies in different business sectors, while highlighting and elucidating the particularities of the banking/financial sector. In doing so, the chapter seeks to answer the following questions:

- What is corporate reputation and how is it built in social media?
- How do employees build corporate reputation online?
- How can companies manage their employees as reputation-builders in social media?
- What can financial services companies learn in this respect from other sectors?

4.2 Corporate reputation

In uncertain times characterized by economic flux and crises, companies in financial services need to do everything possible to convince their customers of their good reputation. Academic research on corporate reputation has also gained momentum in recent years (e.g. Fombrun and van Riel, 1997; Barnett, Jermier and Lafferty, 2006). Reputation has been studied through various perspectives including economics, accounting, strategy, organizations and management, marketing, and sociology. However, the field of research on corporate reputation remains diverse and a unified understanding of the concept is lacking. In our research, we employ the definition of Gotsi and Wilson (2001a, p. 29), who depict corporate reputation as *"[…] a stakeholder's overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions, and/or a comparison with the actions of other leading rivals."*

Corporate reputation is closely linked with the notions of corporate image and identity, mainly because they are all based on the company's behavior, communication, and symbolism. Early research on the topic focused largely on corporate image and even today some scholars consider corporate image synonymous with corporate reputation. Although we conceive of the two terms as distinct entities, they are interrelated. We maintain that reputations are continuously influenced by all the ways in which a firm attempts to project its image. We also agree that corporate identity plays an important role in the formation of reputation. This means that corporate reputation is always tied to both the 'internal organizational identity' conceived and experienced by the employees and the 'externally communicated identity' that is central to the corporate branding process.

Bearing this in mind, we understand corporate reputation as a 'living' asset for the company. It spreads through various forms of stories, images, and experiences that touch the company. As there are many stakeholder groups, a company can also have a number of reputations simultaneously and they cannot be entirely controlled. In today's business environment, there is a major global trend toward coupling corporate reputation with the concept of 'corporate responsibility'. This means that companies are increasingly expected not only to be successful but also responsible (Aula and Mantere, 2005).

Prior research has shown that employees play a key role in building corporate reputation (Fombrun, 1996; Gotsi and Wilson, 2001b). For example, employee behavior has been identified as crucial in communicating brand values to customers and in delivering the brand promise in the customer-interface (Vallaster and de Chernatony, 2006). Hence, every employee who is in contact with the company's stakeholders should be considered important from the perspective of corporate reputation management. Today, the boundaries between a company's internal and external stakeholder groups are, however, increasingly vague. This is apparent especially in social media environments where people communicate simultaneously not only with their friends but also with colleagues, customers, clients, and partners.

Although companies increasingly seek additional business value by using social media as a platform of branding (advertising, public relations, content delivery), sales (e-commerce), customer service, or product development (Culnan, McHugh and Zubillaga, 2010), research exploring the implications of social media for corporate reputation and its management has been limited. Nevertheless, the possibilities of employees to exert both positive and negative influences on corporate reputation online have been identified. On the one hand, the Internet is a growing arena where employee criticism or sabotage of employers currently emerges, for instance in the form of resistance (Richards, 2008). On the other hand, social media tools have made it possible for companies to foster online dialogue and interaction with their customers. For instance, corporate blogs can be used to reach and promote a new sense of openness towards stakeholders (Lee, Hwang and Lee, 2006; Wyld, 2008). This suggests that companies should invest in exploring these new opportunities as a part of their corporate reputation management.

Several ways to control employee behavior in social media have also been identified. These include formal social media guidelines and rules (Wyld, 2008; Gallaugher and Ransbotham, 2010). In line with corporate branding principles (Hatch and Schultz 2003), it has also been suggested that companies should recruit employees who share company values and also persuade them to identify with the company through internal branding and HR practices. Such policies may help the company's reputation management – but of course, only to a certain degree.

4.3 Empirical study

To explore how companies seek to manage their reputation and employees in social media, we studied three Finnish companies across different business sectors. In the following, we report empirical findings that compare a case company from the banking/financial sector with two benchmark companies from other sectors, namely media and consumer product industries. Our research approach is qualitative and it aims to generate first-hand insights into this fairly new phenomenon by means of in-depth interviews and participant observation in the companies studied. The primary empirical materials consist of 25 recorded interviews carried out in 2010-2011. During this period, all three case companies had engaged in social media environments, either actively by using social media as a branding and reputation-building platform or passively by observing and analyzing electronic word-of-mouth data concerning the company. Our case companies are presented here under pseudonyms. We chose these companies to illustrate the different approaches companies currently employ in building their social media presence and activities.

A cautious and passive approach – Findings from financial services

Our case company BANK does not have a company presence in social media. However, our interviews indicate that current corporate discussions regarding social media are strongly characterized by the question of whether the company should actually create an "official presence" there.

The company insists that before a more active approach in social media can be taken, the possible benefits and costs of doing so need to be investigated in more detail. Yet, at the time of our fieldwork, social media projects were not a high priority on the company's agenda. Although BANK has identified several opportunities that social media can offer, top management is aware of the difficulty of controlling an online environment and is therefore skeptical. Maintaining an active social media presence and online customer dialogue requires both skills and time and therefore continuous resource investment.

> *"I think [social media] is a good thing. You can reach your target audience in some way. But if you engage in Facebook, you need to consider the big picture in advance – why you go out there, what you do there, who it's for, and how you are there. And how you're going to maintain a certain level of quality... when practically anyone can post there..." (Interviewee at BANK)*

Regarding corporate reputation, it is recognized that information spreads increasingly in social media and that people discuss and recommend banking services there, at least to some extent. From the perspective of reputation building, the worst scenario would be the spread of negative, false, or other harmful information regarding BANK. Hence, a "cautious approach" towards social media is stressed, as the CEO puts it. This is in part due to the nature of the financial services sector and the threats that are associated with it.

> *"Banks and insurance companies are not very much involved in social media at the moment. And this is probably based on the fact that everyone's thinking about security and image risks." (Interviewee at BANK)*

Our interviews with BANK emphasize that employees are seen as the most important factor contributing to their corporate reputation. However, when discussing the various reputation audiences, customers are regarded as the most important. Employees contribute to company reputation primarily through the customer-interface and during working hours, but not in social media. In fact, employees were not allowed to access social media at work as it was considered a private, non-work sphere. Moreover, the role of employees in all external communication was downplayed. This is because the company relied on a well-coordinated line of "high profile" communication led by top management:

"You need to have a high profile in communications, so that the message will get through… You cannot have too many voices."(Interviewee at BANK)

Based on our interviews, BANK's top management is very passive in social media. Although many executives have a private Facebook profile, participation is minimal or non-existent. Overall, all interviewees emphasized a passive and cautious approach towards any work-related commenting online because according to company policy, social media were essentially non-work territory.

"I am in Facebook but maybe I am sort of an 'old school' person in the sense that privacy issues are important to me. It is the main reason why I use Facebook so little. I've seen how people write there... it is a place where you can share your entire life with the rest of the world." (Interviewee at BANK)

Facebook is regarded as the single most important social media platform. Discussion forums were also identified as key arenas where bank-related discussions often take place. Customer comments receive more attention than employee activities in social media. However, according to our interviewees, only a few discussion threads or postings at online discussion forums seem to mention BANK by name. This is not considered a problem. Instead, our respondents seem to be content that there are few negative references. The company also has some experience with using a social media monitoring tool for a similar purpose. Still, the following was stressed:

"It is of course more important what kind of feeling the customer has after visiting our customer service office. And from there, it can pass on to his/her friends and their friends. So we think it is more important what happens during the official working hours." (Interviewee at BANK)

The distinction between work and leisure time was emphasized. BANK did not encourage employees to promote the company in social media. On the contrary, employees are asked to keep work and private matters separate, as stated in the company's personnel guidelines. In this sense, the management seems to trust employees. As one of our informants put it, management was of the opinion that "smart people don't need orders". There were practically no prior experiences of online employee sabotage or negative criticism.

"The way we treat and invest in our employees is a way of controlling. When we act right as an employer, that way, we build our good reputation." (Interviewee at BANK)

In particular, BANK valued day-to-day practices such as fair treatment of employees and open communication as the main ways to manage their corporate reputation. The objective was to align corporate reputation with communicated company values. For this reason it was considered crucial that all employees internalized these values and that every new employee became familiar with the company's 'way of working.'

"Our starting point is that we choose the type of people here who share similar values… We don't choose people who are different. People basically behave like they are as individuals. No one can change their work attitudes and values." (Interviewee at BANK)

An open and active approach – Findings from benchmark companies in other sectors

The social media approaches employed by our case companies from other industries differ significantly from BANK. The two benchmark companies we studied in the media and consumer products sector share a strong commitment in building their social media presence across various platforms, including Facebook, Twitter, YouTube, LinkedIn, and blogs. The companies regarded social media as a new and important channel for connecting with their customers, even on a more emotional level.

> *"I see [social media] as an opportunity for direct consumer interaction… This makes consumers more involved with our company." (Interviewee at BENCHMARK)*

Our interviews with the benchmark companies indicate that companies can no longer decide whether they want to be present in social media: people will talk about them online in any case. It is up to the company to decide whether they want to participate in the dialogue, or, if possible, try to facilitate and influence the ongoing discussions. Otherwise, as the managers in our benchmark companies argued, the corporate brand is destined to become "distant and less open in the consumers' minds". However, social media are not considered the only or even the most important channels for building reputation. Rather conventional, off-line encounters with customers or clients still seem to play a key role for the benchmark companies as well.

In contrast to BANK, the strategy of our benchmark companies is to embrace social media "openly and actively". This means that the management expects and encourages active participation from their employees in building corporate reputation, sometimes even via personal networks. In both cases, the use of social media at work is allowed. Employees who are frequent and avid users both during and after working hours could be identified. Such a strategy entails an emphasis on the role of employees in external communication. Employees act as "grass-roots level influencers" and brand ambassadors online, and in doing so, bring the company closer to different stakeholders by giving the company a human voice and face.

Corporate reputation is considered an important asset in all the companies we studied. The benchmark companies stressed that transparency is inevitable for their businesses; it should be fostered in every possible way. On the one hand, the companies point out that social media have made corporate reputations more vulnerable by allowing rapid, real-time diffusion of information and word-of-mouth. On the other hand, they have enabled companies to build a transparent corporate image in a dramatically new way:

> *"Our company brand is already so transparent that our clients can post on our wall that they were not satisfied with our work. So it plays a big role." (Interviewee at BENCHMARK)*

Interestingly, however, the open and active social media approach seems to underline that a positive tone is primarily expected from employees. This means that in practice, negative messages and postings by employees were not desired. At the same time, it is evident that the facilitation of favorable messages in social media entails several problems. The companies argue that balancing is constantly required to maintain an authentic and credible voice online. Messages that are "too pushy" and "too sales focused" can be considered a nuisance or out of place, and therefore harm an otherwise good reputation.

> *"If you tweet and broadcast too much about your company you become… it's kind of like you irritate people. So you have to be very sensitive about how you mix a self-promotion and company-promotion with a genuine, honest account of your life. And that's a craft, an art I think." (Interviewee at BENCHMARK)*

Like in the case of BANK, both benchmark companies demonstrated that employee well-being is one of the keys to reputation management. They work to make sure that employees internalize the company values, although in social media, a more personal style and heterogeneous voice is required. In fact, the companies argue that in these environments, it is no longer possible for a company to maintain a unified and stylized "corporate voice". This would build an inauthentic and impersonal image of the company. Instead, companies need to trust their employees, when adopting a more open social media approach.

> *"Facebook is an environment where you can't stick with an official corporate tone of voice. We have decided to adopt a more casual approach, resembling a style that people in Facebook commonly use in talking to their friends – however, with a touch of our brand." (Interviewee at BENCHMARK)*

The benchmark companies also manage their reputation and employees in several more formal ways. On the one hand, social media teams can be built to lead social media activities and to create training programs and guidelines for others. In addition, an effective strategy is to inspire and set an example from the top of the organization. Although internal or external blogs by CEOs may prove useful in this respect, to succeed they require considerable investment in time and excellent communicational skills.

4.4 Conclusion

There are several advantages and challenges for corporate reputation-building that underlie the social media strategies adopted by our case companies, as summarized in Table 6. It remains to be seen whether more open and active approaches will emerge in the banking sector. Several recent surveys are congruent with this observation in that the banking sector seems to lag behind in social media adoption (Culnan *et al.,* 2010; TheNextWeb, 2011). By means of our case study and comparisons, we hope to offer insights that can help companies in this sector to discover promising new approaches to social media. In the following, we point out our key findings and discuss the different ways in which companies can manage their reputation in social media.

Our cases depict some of the main reasons why companies in the banking sector have relied on a more cautions and passive approach in social media. In particular, security and regulatory issues – including those related to intimate and confidential customer information and company secrets – are used to justify a passive strategy. However, as our examples from the benchmark companies indicate, a passive strategy can in some cases lead customers to think that the company is not sufficiently transparent or responsible in its business practices. Hence, our study reveals that social media may offer new ways for companies to communicate their transparency more effectively and also make customers feel more involved with the company. Our study also shows that employees build company reputation in social media regardless of the company's official presence there. This is because boundaries between friends, customers, and clients are often blurred in social media networks.

Table 6. Opportunities and Challenges of Social Media in Reputation Building

	A cautious and passive approach	***An open and active approach***
Opportunities	• Playing it safe • Sense of control • High-profile communication • Independence of social media platforms	• Transparency • Real-time feedback • Interactive dialogue • Increasing online word-of-mouth • Employee empowerment
Challenges	• Lack of transparency • Brand distance • Limited ability to react to or influence online discussion	• Resourcing, communication skills • Authenticity, credibility • Heterogeneity of voices • Harnessing employees' work and private roles in reputation management

The social media approaches embraced by our benchmark companies are shaped by relative openness, participation, and transparency. In contrast to the passive approach, this strategy invites all employees to contribute to the online dialogue concerning the company and its products. It opens up opportunities for better customer service, interactive exchange of ideas with customers, and instant feedback on corporate actions. The main challenge is how to balance dualities – how to maintain a continuous social media presence that is both relevant to customers and credible and authentic. An active social media strategy that merely conveys marketing- and sales-oriented messages is bound to be unsuccessful and unattractive to customers.

Overall, our study highlights that social media have gained increasing attention from the perspective of reputation-building. However, our data show that other more conventional channels are still regarded more important by corporate decision-makers. Personal and direct encounters with customers are among the most powerful ways to influence impressions of the company. In addition, we found that employees who are committed to their company's values are also considered the basis for corporate reputation and its management in social media. Interestingly, all our case companies stress that satisfied employees who know and understand the values are the most potent reputation ambassadors. Fair treatment of employees and their consequent well-being results in 'favorable' word-of-mouth regarding the company. Other principal ways to manage corporate reputation in social media are summarized in Table 7.

Table 7. Main Tools for Managing Corporate Reputation in Social Media

Tool	***Description***
1. Employee well-being	Taking care of working conditions and employee satisfaction.
2. Recruitment	Recruiting people who share the company values and attitudes.
3. Internal branding	Establishing brand-related training programs and giving internal presentations on a continuous basis.
4. Social media teams	Creating social media teams to coordinate the planning and execution of social media activities.
5. Social media guidelines	Defining the different roles that employees can have online as well as the desired conduct and policy for company-related online discussions.
6. Brand policy	Defining the brand's social media policy, including presence and tone of voice.
7. Top management example	Using executive blogs as an effective way to communicate company visions and ways of doing things, both internally and externally.
8. Monitoring tools	Searching and identifying online discussions across different social media platforms with keywords such as brand names, competitors, and products.

Finally, it is clear that employees warrant a distinct role in social media for a number of reasons. First, our study suggests that they are not particularly keen on promoting their company in their private social media networks, although we could identify a number of exceptions. In this vein, employees regarded social media primarily as a private and non-work sphere. Nevertheless, companies may sometimes encourage social media activity even after regular working hours or in private online networks. Second, dictation or control by companies of what employees can say in social media requires constant and careful balancing. Our case companies agreed that it is "impossible to put words in people's mouths" and therefore a more personal style in social media communication needs to be fostered. Third, while focusing primarily on customers and clients, our case companies did not pay attention to employees as an important "audience" for corporate reputation. This aspect has gained attention in prior literature (Aula and Mantere, 2005); in reputation-building, employees are second only to customers in stakeholder importance. For these reasons, we anticipate that the role of employees in social media will remain an acute one in the future – and not the least from the perspective of corporate reputation-building in banking services.

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Part 2:
The Evolution of Banking Service Markets

5 Evolution of Banking Service Providers in Finland

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Abstract: This chapter investigates the evolution of the banking industry in Finland since the 1970s. The focus is on the industry-level drivers and enablers of retail banking and services for private customers. The analysis of seven cases describes how the scope of services has changed from traditional basic banking to multiple service offerings. In addition, the analysis shows how organizations from other industries have entered the banking industry. Our longitudinal analysis of the changes in the Finnish banking industry provides insights into the industry's business models and to the evolution of retail banking services. The identified changes have been driven by Europe-wide deregulation, harmonization, economic situation, and new technologies. Based on the findings, the chapter suggests some trends for the future to be considered in both the existing organizations and by the new entrants in the banking industry.

Keywords: Banking industry, banking services, evolution, Finland

5.1 Introduction

The Finnish banking industry is an excellent example of how business models and the services offered have radically changed in recent decades. The Nordic countries have been in the frontline of providing electronic services (e-services) for both organizational customers and consumers. Main drivers of change have been the automation of processes (DeYoung 2005) in the 1970s and 1980s and the spread of the Internet that boosted the development of new e-services in the 1990s. In this chapter, we use the term e-service to refer to Internet banking, online banking, and home banking. Today, a variety of banking services is, indeed, available through multiple channels for a heterogeneous set of customers. Another important trend behind the removal and transformation of manual and personal services and business models and their replacement with electronic ones has been the Europe-wide process of deregulation and harmonization.

To our knowledge, there are few extant studies focusing on the evolution of business models in the banking industry. A business model can be defined as an abstraction representing the business logic of a company. It is a description of the way in which a company makes money, what it offers, and to whom (Afuah and Tucci, 2001; Osterwalder and Pigneur, 2009; Bask *et al.,* 2011). Business models are often adjusted and renewed when existing business models become outdated because of changes in the business environment. A new business model can also be the consequence of a thoughtful decision to provide new types of service with a new earning logic (Yip, 2004).

One way to renew a business model or to develop a new business model altogether is to change or adjust one or more of the key components of an existing business model, such as the services, service modules, and their combinations (Amit and Zott, 2001). Moreover, a company can simultaneously have several business models with different earning logics, to serve different customer segments.

In this study, we explore the evolution of the banking industry in Finland and the key drivers and enablers behind the evolution since the 1970s, as well as provide scenarios for future trends in banking services. The focus is on retail banking and services for private customers. Through seven cases, we describe how business models and the scope of the services have changed from traditional, basic banking to multiple service offerings and how organizations from other industries have entered the banking industry. Our longitudinal overview of changes in the Finnish banking industry gives new insights to the evolution of business models and banking services. All these changes have been boosted by Europe-wide deregulation and harmonization, economic situation and by new technologies. The presented future trends provide new ideas to both existing organizations and new entrants in the banking industry, as well as to organizations in other industries, for the further development of their service offerings in competitive business environments.

This chapter is organized as follows. First, we discuss the evolution of the Finnish banking industry at the structural, service, and service channel level since the 1970s, and the trends and reasons behind the evolution. Then, we provide seven case studies of the changes in business models and banking services in Finland over time. Finally, we describe a set of future scenarios for the Finnish banking industry and draw several conclusions.

5.2 Evolution of the Finnish Banking Industry

The Finnish financial sector has experienced substantial and far-reaching changes since the 1970s. Therefore, the banking industry is an excellent example of how structural, service, and service channel changes have enabled the development of new innovative business models and service offerings. Next, we discuss two major factors behind the changes; structural changes featured by the economic situation and deregulation, and changes in the service channels and services, which are interrelated with the harmonization of rules and directives. Moreover, we discuss the adoption of automation and new technologies together with their impact on the Finnish banking industry.

Structural changes

The structural changes in banking are due to a multitude of factors, including continuous development of services and processes in addition to more drastic changes due to economic downswings. The deep domestic recession in Finland at the beginning of 1990s partly explains the reduction in the number of branch offices and the decrease in personnel in the banking industry. The number of personnel has been reduced from 54000 in 1990 to 24900 in 2010 (FFI, 2011d), and the number of branch offices from

3300 to 1606. The personnel reductions are largely facilitated by massive adoption of information technologies, such as ATMs and home banking.

The deregulation of the banking industry and the harmonization of rules and regulations within the EU have been essential drivers of change. The goal of deregulation was to increase competition in order to raise productivity and operational efficiency and, ultimately, to lower consumer prices. Harmonization, in turn, meant creating common EU-wide standards instead of country-specific rules and regulations. In Europe, the change process started in 1977 with the First Banking Coordination Directive that provided a platform for the harmonization of banking laws (Gruson and Nikowitz, 1988). The next step boosting harmonization was the Second Banking Directive in 1993 (Angelini and Cetorelli, 2003). One significant step has been the establishment of Single Euro Payments Area (SEPA) that has been gradually introduced since 2008 (FFI, 2010). SEPA aims at establishing a European, instead of a national, clearing system for payments (PSD, 2007).

The deregulation at the EU level has been a key driver of domestic and cross-border mergers within the EU, and of the expansion of operations to other European countries. Since the deregulation of the European banking industry, the Finnish banking industry has also been forced to transform its organizational structures to stay competitive. Many mergers, acquisitions, and partnerships between Finnish banking and insurance organizations have taken place. Deregulation and the opening up of the closed banking sector, together with advanced IT, has increased competition in the financial sector and allowed new actors to more easily enter the industry.

Consequently, the Finnish banking industry has also seen new entrants, mostly domestic niche players but also notable actors from other European countries that have entered the market through acquisitions and mergers. Nordic banks, in particular, have been very active in this internationalization process. There were 344 banks operating in Finland in the year 2000, 15 of which were international banks. This number had decreased slightly to 313 by 2010, with 14 being branches of foreign banks (FFI, 2011a). The three strongest actors in the banking industry in 2012 are Nordea Bank Finland Plc (Nordea), OP-Pohjola Group (OP-Pohjola) and Sampo Bank (FFI, 2011a).

It has been argued that the European banking industry has faced more intensive competition than that in many other developed countries such as the USA and Japan (Bikker and Haaf, 2002). Harmonization and deregulation together facilitate Europe-wide consumer services. How, when, and to what extent these will materialize in practice are still open questions.

Service channels and service changes

The banking industry in Finland and the other Nordic countries has been in the forefront of the adoption of automation and new technologies – especially Internet banking – since the 1970s. These two factors have been among the most important facilitators of service and service channel changes in the financial sector. Numerous new business, service, and e-service opportunities have emerged. Automation and new technologies have enabled the transformation of traditional face-to-face or phone services to electronic self-services – as well as the transformation of traditional operations, transactions, and documentation to their electronic equivalents (Metters and Vargas, 2000; Tinnilä, 2011).

For over a century, most banking services were provided as face-to-face services in numerous branch offices. However, service channels have diverged in several directions since the early 1970s. Face-to-face services have gradually been replaced by new services provided through electronic channels. Banking through personal computers (initially through e.g., dial-up connections at homes) was introduced in Finland before the mid-1980s (Suominen, 2001). Among the drivers of change have been growing labor costs, the need for increased efficiency in service offerings, and a better match of the channels and their service offerings with customer needs (Bask *et al.,* 2011). Labor costs form a significant part of operating costs, and this has been the main impetus for focusing on operational efficiency, automation, the adoption of digital channels and self-services. Electronic channels have allowed banks to implement new service channels, new business models, and new cooperation platforms for developing and testing new services (Bask *et al.,* 2011).

Two changes are especially illustrative. First, while traditional over-the-counter services for consumers still exist, their role has decreased as standard banking services have been transferred to e-service channels. The number of e-banking users has dramatically increased and customers rarely visit a branch office to manage their daily banking affairs. Hence, as seen in Figure 1, the number of branch offices radically decreased from 3,300 in 1990 to 1,606 in 2010. During the same period, the number of service personnel in commercial banks also decreased substantially from 54,000 to 24,900 (FFI, 2011d). Second, the 1990s was the "golden period" for cash ATMs (Automatic Teller Machines), which were the first notable step in the automation of daily banking for consumers. At that time, bill-payment ATMs were also introduced and their number peaked in 2000. Later on, Internet-based e-banking services – accessible to consumers both through computers or Internet stands at branch offices and through personal computers at homes – have rapidly replaced the bill-payment ATMs. Indeed, by 2011, many Finnish banks had replaced their bill-payment ATMs with Internet stands (see Figure 1 for details). In the future, the number of cash ATMs is likely to be further reduced. In addition, many banks have already restricted the office hours for handling cash in the branch offices, as well.

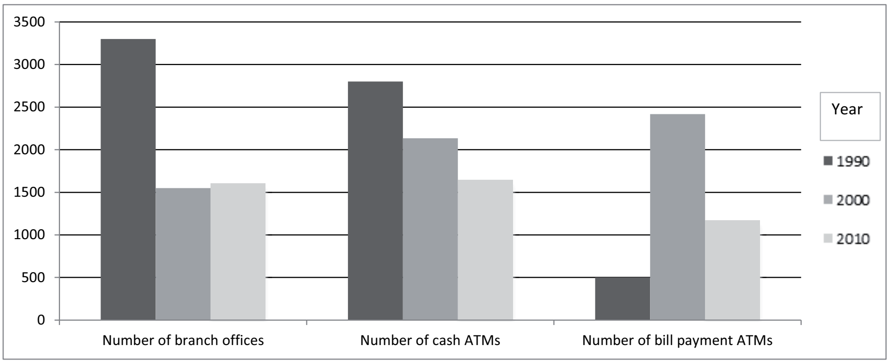

Figure 1. The number of branch offices and ATMs in Finland between 1990 and 2010 (Sources: FFI 2011b, 2011c, 2011d; The Finnish Bankers' Association, 2004)

Since 2000, technology-enabled electronic self-services have been widely adopted by Finnish consumers. By 2011, over 80% of households had Internet connections and 76 % of consumers used e-banking services (Statistics Finland, 2011). Bill-payment services are usually the first banking operations that consumers use on the Internet. Electronic invoices (e-invoices) have also been adopted by consumers in the 2000s. The main reason for e-invoice adoption in Denmark and Norway, the leading countries in this trend, has been the lower cost of e-invoicing or, more precisely, the high costs of paper invoicing. The use of e-invoicing will further raise the proportion of electronic payments and enable further automation and greater economies of scale. The use of debit and credit cards and the number of card payments also tripled between 2000 and 2010. Payments via check decreased drastically, although their number was never high in Finland. Consequently, the need to handle cash has diminished (The Finnish Bankers' Association, 2004). See Table 8 for details.

Table 8. Indicators of e-banking

Key Indicator	***Unit***	***1990***	***2000***	***2010***
E-banking use				
• user volume	% of adults	5	47	76
Payments				
• by check	€ billion	140	126	21
• via the Internet	million transactions	NA	2.8	23.1
• digitalized transfers	million transactions	150	750	1,600
Number of bank, debit and credit cards				
• bank/debit and credit cards	million cards	4.4	7	12,4
• usage of bank/debit and credit cards	million transactions	200	370	1116
• payments by cards	€ billion	NA	16.4	36.1

Table 8 describes the indicators of e-banking, which include: E-banking users, payments, and usage of bank, debit, and credit cards in Finland between 1990 and 2010. (Sources of data: FFI 2010, 2011a, 2011b, 2011c, 2011d; The Finnish Bankers' Association, 2004; Statistics Finland, 2011)

The variety of multi-channel services offered by financial organizations has for long been unique among service industries. E-services and automation have also resulted in increased efficiency. Many studies point out that the added value of e-banking is achieved through automation and the consequent economies of scale, as well as through the consumer learning effects (see e.g. Dahlberg *et al.,* 2008; Bask *et al.,* 2011). Yet, concurrently with e-service development and automation, the demand for personal banking service seems to be increasing again, as people are ageing and are not always willing or able to use new technologies and e-services.

5.3 Cases demonstrating the evolution

The evolution of the Finnish banking industry is discussed though seven small case studies, which are illustrative of typical changes in the industry since the 1970s. The organizations provide different types of services for their customers and they have applied different strategies and business models for competing in or entering the Finnish banking industry. The organizations are:

- Nordea Bank Finland Plc (Nordea) – originally a national commercial bank that has been transformed into an international actor through mergers and acquisitions
- Sampo Bank – the Finnish subsidiary of the Danish commercial bank Danske Bank, which entered the Finnish banking industry through the acquisition of the Finnish Sampo Pankki
- OP-Pohjola Group – a group of cooperative local banks that merged with the insurance company Pohjola
- Saving Banks Group – local and regional banks that form a partnership in order to offer banking and insurance services
- Tapiola Bank Ltd – a bank established by an insurance company to offer consumer e-banking services
- S-Bank Ltd – a bank established by a retail company that offers a limited set of services to consumers
- Itella Bank – a bank established by a logistics service provider at the beginning of 2012 that offers services related to its logistics solutions

The first four cases are organizations whose roots are more or less in the banking industry. The latter three cases are organizations that have entered the financial industry from other industries. The key figures of each organization are presented in Table 9. The table contains the figures for the six organizations in operation in 2011. Itella Bank is not included as it did not start operations until in 2012.

Table 9. Key figures of six banking organizations in Finland as of Dec 31, 2010 (FFI, 2011a; FFI, 2011b)

Key Figure	*Nordea*	*OP-Pohjola Group*	*Sampo Bank*	*Savings Banks Group*	*Tapiola Bank*	*S-Bank*
Original industry	Banking	Banking	Banking	Banking	Insurance	Retail
Listed in the stock market?	Yes (the Swedish mother company)	Yes (the central bank of the group)	Yes (the Danish mother company)	No	No	No
Actor type	Commercial full service	Commercial full service	Commercial full service	Commercial full service	Electronic banking only; bill payment service in cooperation with R-Kiosk chain	Daily banking, cards, and loans as personal and e-services
Number of banks	1	216 member cooperative banks	1	34 local savings banks	1	1
International	Yes	No	Northern Europe, Russia	No	No	Baltics, St. Petersburg
Branches (deposit banks)	327	554	121	214	63	1
Employees (group)	10,005	12,504	2,661	1,293	168	214
Total operating income (€ million)	2,449.0	2,172.0	623.3	206.4	50.3	61.1
Total assets (€ million)	286,086.0	83,969.0	26,158.0	7,316.0	1,620.7	2,687.6
Operating profit/loss (€ million)[1]	1,156.0	575.0	152.3	54.3	4.0	12.5

[1] The figures represent Finnish operations only.

From domestic banking to a full range of national/international financial services

Nordea. Nordea's roots in Finland lie in two commercial banks called Suomen Yhdyspankki (SYP) and Kansallis-Osake-Pankki (KOP). Arguably the most important merger in the Finnish banking industry took place in 1995, when these two banks were merged into Merita Bank – which later became Nordea – through further mergers and acquisitions across the Scandinavian borders. Prior to the merger, SYP and KOP were Finland's two largest commercial banks. Of its later mergers, the one with Sweden-based Nordbanken was the most significant, resulting in Nordea's headquarters being located in Stockholm.

Nordea is an example of a leading national actor that has had the resources to become international. It has transformed its business model from a strong Finnish bank to a leading Nordic and North European actor through a total of 250 mergers and acquisitions, first in Finland and then abroad. In addition to Europe (since the 1990s), Nordea nowadays operates in the US and Asia. Nordea's share is listed in the stock exchanges of Stockholm, Helsinki, and Copenhagen. The group offers a full range of financial services in banking, pensions, insurance, and asset management. It has also been a pioneer in developing e-banking services since the 1970s, and is today in the frontline in innovative mobile banking and wireless service development.

In 2010, Nordea became an associated company of the insurance group Sampo Plc. (www.nordea.fi, www.nordea.com), as Sampo had now acquired a stake of approximately 20 % of Nordea's common stock. Sampo had, interestingly enough, exited the banking industry just a couple of years earlier (2007) by selling its fully-owned Sampo Pankki to the Danish Danske Bank Group.

Sampo Bank is the second example of an international commercial bank with its roots in Finland. In this case, however, a Danish commercial bank, Danske Bank Group, entered the Finnish market through the acquisition of Sampo Bank in 2007 from the aforementioned Sampo insurance group. Sampo Bank had been an entirely Finnish bank, which started operations in 1887 as the Postal Savings Bank, and was renamed as Postipankki in 1970 and then Leonia in 1997. Later, it had merged with the Sampo insurance group and changed its name to Sampo Bank in 2001.

Nowadays Sampo Bank is, hence, a fully-owned subsidiary of Danske Bank A/S (FFI 2011a) and has no ownership relationship with Sampo insurance group, which in turn owns the stake in Nordea. The Danske Bank Group is one of the largest financial enterprises in the Nordic region. In its business model, Sampo Bank offers a full range of financial services to a large number of Finnish consumers and organizations. Sampo Bank and Nordea are today the most notable actors in the Finnish financial markets and the leaders in developing the sector. Competition between them is strong.

OP-Pohjola Group is the third big actor in the Finnish financial sector. It has its roots in local cooperative banking (known in Finnish as Osuuspankki, or OP), and today consists of 216 member cooperative banks and the OP-Pohjola Group Central Cooperative. Pohjola Bank plc (previously OKO-Bank) is the Central Cooperative's subsidiary and the central bank of the OP-Pohjola Group. The banking group became a commercial bank in 1970. OP-Pohjola has operated in Finland only, but in 2011 it has started to offer payment and cash management services for corporate customers in Estonia as well. It enlarged its service offering in 2006 by acquiring the Pohjola insurance company (from which comes the present name of the central bank) and now offers banking, insurance, and asset management services in Finland. The OP-Pohjola Group illustrates the development of business models from consumer banking services to asset management and insurance services. Building on its large customer base, the group has been able to grow by extending its service range. OP-Pohjola Group is also continuously developing new services and adopting new technologies. (www.OP-Pohjola.fi; www.pohjola.fi).

Savings Banks Group. The Savings Bank Group consists of 34 regional and independent savings banks in Finland. Customers are mainly households and SMEs. Insurance services have been offered in cooperation with an insurance company since 2006. Soon thereafter, a unit for asset management was established. The Savings Banks Group has evolved and, together with its partner network, now offers its customers a full range of financial services integrating a large customer base, a service network, and a range of expertise. This group also operates only in Finland. (www.saastopankki.fi).

From other industries to banking services

Tapiola Bank. Tapiola Bank has its origins in the Finnish insurance business, as the insurance company Tapiola Group extended its business models and established a bank in 2004. The objective was to offer banking services primarily to the company's insurance customers, but also to gain new customers and markets.

Tapiola Group also offers insurance, banking, and asset management services to mainly private consumers. The difference from other actors in consumer banking lies in its service channels. Tapiola Bank operates in Finland only and focuses on e-banking rather than offering banking services through branch offices. (www.tapiola.fi). However, in 2011, it started an innovative partnership with the R-Kiosk retail chain to offer bill-payment services to consumers. Bills can be paid over the counter in numerous R-kiosks and outlet stores with long opening hours, seven days a week. From the perspective of the R-kiosk chain, the cooperation has enlarged its business from fast-moving consumer goods, newspapers and magazines, and e.g. public transportation and event tickets to a whole new industry. (R-Kioski 2011a, 2011b).

S-Bank. S-Bank Ltd. is the first, and still today the only, in-store bank in Finland. It was established in 2007 by the S Group, the largest retail chain in Finland. The group consists of regional cooperatives that operate grocery stores and markets, department and convenience stores, service and fuel stations, hotels, and agricultural retail businesses. The banking services offered are limited, and consist of services for consumers' daily finances, cards, savings, and loans. The services are offered online, but also over the counter at its numerous service points (i.e., grocery stores and service stations). Thus, the group aims to grow by offering new banking services to its large number of grocery customers. The services are available solely in Finland. (www.s-pankki.fi).

Itella Bank. The newest entrant in the banking business is Itella Bank of Itella Corporation, which is originally the national Postal Service. Itella Bank was granted a Finnish deposit bank license at the beginning of 2012. The mother company Itella is nowadays a logistics service provider for consumers and companies in Finland, Northern, and Central Europe, and Russia. It previously offered invoicing and payment services through its subsidiary, Itella IPS Ltd (Itella Payment Services), but now, through Itella Bank, it will be able to offer new and more diversified banking services, first to companies and later also to consumers. The group will first offer invoice and payment services as an integral part of its other services to postal customers, thus combining payment and delivery of items. The mother company Itella has faced growing competition in Finland due to the deregulation of postal services. It aims to meet these challenges by developing new innovative services and improving efficiency. (www.itella.fi).

Summary of the evolution of the cases

The cases just described illustrate the widely differing development paths followed by the main actors in the Finnish banking industry. This evolution is depicted in Figure 2. There are also other minor domestic and foreign actors in the field, e.g. Ålandsbanken (Finland-based) and Handelsbanken (Sweden-based), which usually offer a more limited range of financial services for selected customer segments. Most of the organizations presented above, in turn, have started from one business model – be it banking, insurance, retail trade, or logistics services – and have ended up providing the numerous services of today.

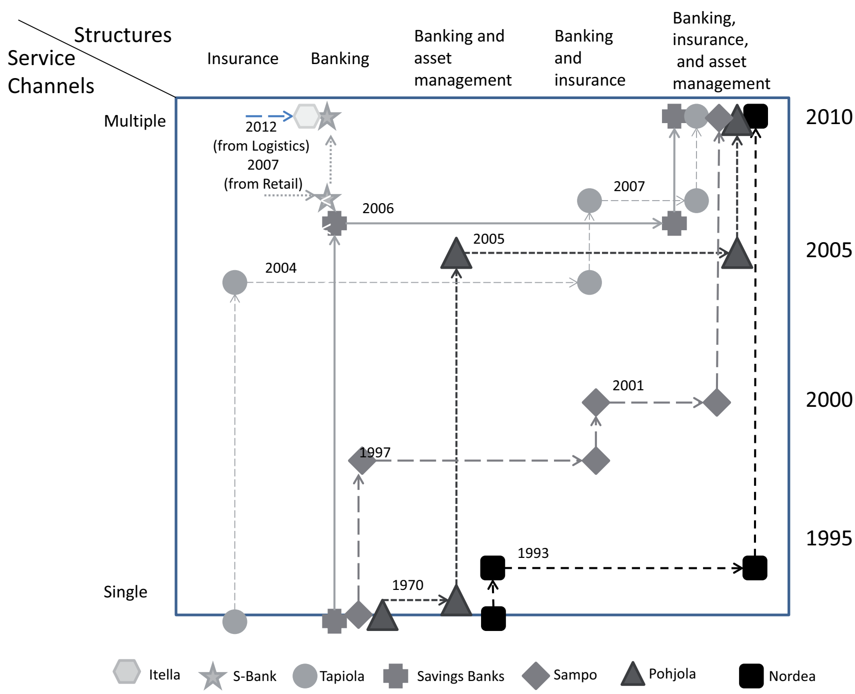

Figure 2. Evolution of service provision in the case organizations

The transformation of services and business models has been gradual. Since the 1970s, the banking industry has been completely transformed from a labor-intensive and personal service-intensive business into a prime example of an ICT-based service industry with a wide range of automated, electronic, and personal over-the-counter services. As previously mentioned, there were two major drivers and enablers of the change. On the one hand, Europe-wide deregulation and the harmonization of rules and regulations have opened up competition internationally, while also allowing Finnish banks to expand to other countries. On the other hand, new technologies and automation have been adopted mainly due to pressures to reduce rising labor costs and other costs in order to meet the international competition. Economic situation, competition and cost pressures have also been reflected in the many mergers and acquisitions in the banking industry. In turn, deregulation has widened the range of services to insurance, asset management, and other financial services.

At least two divergent trends can be found in the evolutionary paths of the cases presented. The first path relates to the traditional banking organizations. They have evolved from partly different starting points and followed partly different development routes, but have eventually nonetheless ended up having highly similar services offerings – typically akin to a “financial supermarket” with “one-stop-shopping” for consumer. These banks offer a wide assortment of services ranging from basic daily banking services to home insurance and asset management, and they offer their services through multiple channels to heterogeneous consumer segments. E-banking has also facilitated the provision of a wide range of self-services for consumers. Over-the-counter services focus more on specific services with expert consultation. Standard services are still offered in the branch offices, but their fees (e.g. for bill-payment), have been set relatively high so as to encourage customers to use e-services. The use of multiple channels facilitates both operational efficiency and good customer service. Multiple channels and a wide range of services can be regarded as a “must” in today’s financial market, in retaining and “locking in” the customers. Also, many customers actually want to centralize their banking, insurance, and asset management in one organization. This centralization of financial affairs may provide a win-win situation for both the financial organizations and the customers.

The second trend has been the entry of new actors into the banking industry from other industries, such as the insurance business, retail trade, or logistics services. The increased use of e-banking has also given these new organizations the opportunity to offer banking services – without establishing a large branch office network. Yet, some of the new entrants provide a limited (targeted) set of banking services utilizing their existing office networks or chains of supermarkets, retail stores, and kiosks, while others focus on e-banking services only to support the organization’s key processes. The cases demonstrate that these entrants are able to offer banking services to a large number of consumers drawn from their existing customer base. In contrast, relatively few banks from outside the Nordic region have established themselves in Finland. In addition, the few new entrants have not usually focused on the entire mass consumer market, but have instead offered only a limited number of services to limited customer segments.

To summarize, the transformation from traditional to electronic services has been the main trend in recent decades and Finland, among other Nordic countries, has been in the forefront of this development. One of the major advantages gained has been the de-coupling of service (front-office) and support (back-office) processes (Metters and Vargas 2000; Tinnilä 2011) that has facilitated both flexibility and economies of scale.

5.4 Future Trends in the Finnish Banking Industry

In this section, we provide some future scenarios of the further development of the banking industry in Finland and the drivers and enablers of these scenarios. We begin with organizational structures and continue with scenarios related to service channels and the actual services.

Structural trends

Due to the continuing process of Europe-wide deregulation and harmonization, more domestic and European mergers and acquisitions can be expected in the banking industry and financial sector in general. As many financial organizations are nowadays publicly listed, with shares available in the stock exchanges, ownership changes can easily occur and ownership regulation by the authorities is limited. The quest for greater economies of scale is driving banks toward larger units, even in the relatively small Finnish banking industry and financial sector. Therefore, the organizational structures of the Finnish and European financial sectors will further evolve through changes in ownership achieved by stock trading, or by mergers and acquisitions. Partnerships and close collaboration are often the first step towards more profound integration. Notably, collaboration and partnerships also allow small and medium-sized banking enterprises to provide enough breadth and depth of services at an affordable cost (Intuit, 2010).

So far, Finland has not been a very attractive market for foreign financial organizations due to the small number of potential customers. Consequently, the main reason for entering the Finnish market might also be to acquire knowledge of, for instance, electronic invoicing and mobile banking services, since the Finnish banking industry has been and still is in the forefront of developing e-services and adopting new technologies. Yet another reason might be the large pool of consumers in Finland that use e-banking services. Hence, it is easy to test new e-services even with smaller customer segments.

There is still much potential for new actors from outside the traditional banking industry to enter the banking industry, as well, with new innovative business models and services even in a global setting (Intuit, 2010). Possible candidates include retail chains, manufacturers, and service and credit card companies. All these organizations are interested in expanding their business into managing monetary flows of consumers, partly in order to increase customer loyalty. Large retail chains already have their own customer cards with credit facilities. Originally, the cards were only used to collect customer-related information and to grant loyalty bonuses. The cards are either managed by the retailers themselves or by credit card companies. Multinational credit card companies that today offer Europe and world-wide payment and credit services are also interested in expanding their share of the monetary affairs of consumers.

The division of actors into big “universal banks” and niche players is likely to continue (Hedley *et al.,* 2006). The strategy of large, often multinational organizations is to provide a wide service range for new customers, thus gaining economies of scale, lower service production costs, and higher profits. The strategy and business models of niche players, in turn, is to focus on market segments with little competition, on specific small consumer segments or niche services, as well as on recognizing and fulfilling the specific needs of specific consumer groups. It remains to be seen whether, when, and how large global actors will enter the Finnish financial sector. So far, the actors have been domestic, Nordic, and European. US-based credit card companies already have a share of the European consumer market, and the increasing importance of the Asian economy may have an impact on the Finnish banking industry in due course, as well.

Service channel and service trends

Next, we discuss some scenarios related to service channels and the actual services from the perspective of consumers and organizations.

Beyond e-services - mobile banking and Near Field Communication (NFC) technology
In recent decades, over-the-counter services at branch offices have made way for e-banking, and the continuous increase of e-services has been the main trend. The quest for a real-time 24/7 economy will promote the development and adoption of new innovative mobile and wireless services in the future. Many competitors, ranging from telephone operators to traditional banks, are interested in these new services. Many independent mobile payment solutions, such as payments for bus rides, car parking, and soft drinks in automatic vending machines, have been available for years.

Mobile banking (m-banking) applications are already available for mobile devices such as smart phones and tablets from three major Finnish banks (Nordea, OP-Pohjola Group, and Sampo Bank). The penetration of mobile devices is high in Finland, but the number of m-banking users is not yet very high. One of the most critical obstacles to be solved is the fast and easy recognition of users. Current recognition systems that rely on one-use codes provided by the banks on paper slips are not practical for mobile use. The small size of mobile phone displays and keyboards and the need to enter important financial information by using the phone’s keyboard or the soft keys of touch screens have not so far provided positive user experiences. Financial operations are also sensitive to privacy issues and the data entered must be correct. Hence, these usability problems of the m-banking user interface may be one reason for the so far rather low adoption of consumer m-banking in Finland. Another reason may be that most consumers have access to the Internet and they are used to managing their financial affairs through this service channel. Hence, the value-added of m-banking from the consumers’ perspective is still low.

It might be a surprise that African countries are nowadays in the forefront of developing and adopting m-banking services through mobile phones, while the European banking industry is only just taking the first steps in providing e-money and money transfers through mobile devices (Tekniikka & Talous, 2012c). The reason is obvious, however. In Africa, mobile networks and mobile phones are available to practically everyone (about

600 million connections, 63% of the total population in 2011; GSMA, Helsingin Sanomat, 2012), while fixed-line Internet connections are rare and unstable, and the few branch offices are too far away. Thus, for most people, m-banking is the only possible way to attend to their financial affairs, and e-money is the only possible type of cash and the only way to make money transfers (Helsingin Sanomat, 2012). For example, in Kenya, the M-PESA ("M" for mobile; "PESA" for the Swahili word for "money") is a mobile phone-based payments service offered by Safricom, Kenya's largest mobile phone company. Since its inauguration in 2007, M-PESA has evolved into Kenya's largest financial service, with 10 million customers (Intuit, 2010). In Kenya, the main users of mobile banking services are people with lower education levels, with consequent low abilities to read. As the use of mobile banking services is based on trust, they need to be secure. There seems to be a negative correlation between usage level and educational background. (Njenga, 2009).

As most European consumers have Internet connections available, there are far fewer incentives to use m-banking services than in developing countries. Consequently, only 1 % of consumers in Europe currently use mobile banking services. M-banking is typically used to check account balances and recent transactions, but is used far less for money transfers or invoice payments (Finextra, 2010). Concurrently with the further development of m-banking for mobile devices, new innovative platforms and technologies will be adopted. Near Field Communication (NFC) technology will probably be the driver of the next major revolution in the banking industry, providing huge possibilities to develop new innovative services for consumers. NFC is based on Radio-Frequency Identification (RFID) technology and it enables wireless non-contact data transfer between various NFC devices. An NFC device may have reading and writing as well as sending functionalities. NFC is already embedded in some smart phone models and credit cards through NFC chips and will probably be one of the main technologies for future e-banking and m-banking as well as for making payments (Tekniikka & Talous, 2012a; 2012b; 2012c). Consequently, an extensive set of services based on this technology will probably emerge as smart mobile phones become the prevailing technology and at least partly replace traditional PCs (Intuit, 2010). Hence, mobile commerce and transactions will dramatically increase in volume in the near future and smartphones or other mobile computers will probably replace desktop computing.

Today, consumers have a bunch of different cards in their wallet. For the consumer, one or at least a few cards only would be ideal. With NFC technology, it will be possible to combine debit and credit cards in a single card which can be simultaneously used as an electronic cash card or purse, as a public transport card, as a library card, and as a retail chain customer card – or even to provide all of these cards in a smart phone. Consumers would greet such a one-card system with great approval. Today, some NFC payment trials are ongoing in some retail stores, but, all in all, the process is still at a very early stage. The reason might be that banks are somewhat unwilling to move in directions where they might lose some of their business to new actors. Each actor typically wants to keep control of its own customers and, thus, will probably prevent or at least slow down this renewal.

Drivers of new service development – consumer needs or bank efficiency
According to Grönroos (2008), new services for consumers are actually often developed based on the internal needs of organizations. Regarding the banking industry, the primary drivers of new business models seem to be the needs of the banking actors to streamline their operations and extend their businesses, rather than merely a desire to meet consumer needs. Consequently, consumer needs and the service offerings do not always correspond. A good example is the above-mentioned wide variety of payment and customer cards that a typical consumer uses daily. It remains to be seen whether the numerous ideas for mobile and wireless applications will fulfill any real customer needs.

In an open competitive financial market, there will be more service providers and a wider range of services for consumers to choose from. Due to free competition, the costs of banking services are likely to be reduced as well. The options for consumers will further increase when cross-border banking services within the EU become available. Consequently, consumers will increasingly be able to choose how they manage their financial services. Hence, the customer's voice should become stronger in the future. If this occurs, the flexibility and personalization of services will increase.

At any rate, consumers are also heterogeneous and have different needs and requirements, which make it challenging for service providers to meet their needs. Yet, there are two especially important customer groups that must be taken into account when developing banking services: the elderly and the young. Elderly people often expect over-the-counter personalized services, while the young expect innovative, customer-oriented high-technology-based services. Another difference between these two groups is that elderly people are typically rather loyal in their banking relationships, while young people are more unpredictable and value-oriented, and thus seek the best deals for their service requirements (Hedley *et al.,* 2006). Young people also prefer easy and quick Internet and mobile self-services, including easily accessible customized options (Intuit, 2010). Hence, personal service will also be needed in the future to retain long-term loyal and elderly customers, whereas attractive e-services with excellent support will be necessary to attract the younger generations.

Future channels for banking services
The current service channels include traditional, labor-intensive, over-the-counter services, ATMs, and e-services. The shift from traditional services to e-services has been dramatic in recent decades and the shift from e-services to mobile and wireless services is in its early stages. Hence, multi-channel services and multiple business models are here to stay.

However, multiple channels may be unnecessary or even confusing for consumers and the management of multiple channels may be expensive for the banking companies. It remains to be seen how many and which channels will remain in future, and what the new innovative openings will be. The role of personal service is the most critical, as rising labor costs will necessitate high charges for this service. However, as the Finnish examples show, new service providers from outside the traditional banking industry are entering the market with over-the-counter services. These new actors may fill some of the gaps in the existing banking services, such as the reduced availability of personal service. The number of these new types of entrants will probably increase. International examples include retailers (e.g. Target and Tesco), car makers (e.g. Toyota and Volkswagen), and captive finance businesses (e.g. GE and Caterpillar) (Hedley *et al.,* 2006). Technology firms such as Google, Microsoft, Apple, and eBay as well as Nokia have also entered or are interested in entering the financial market (Intuit, 2010).

In recent decades, cash has largely been replaced by debit or credit cards. A completely cashless society does not seem realistic, however, and so the rising costs of cash management will be passed on to consumers. Banks already charge for paying bills with cash or from a bank account as well as for cash withdrawals, even from cash ATMs. Consumers that want to avoid the high service fees are being forced to adopt e-banking, debit/credit cards, and e-invoices. At the same time, banking fees might be restricted by new consumer protection laws, as they have been recently in the US. Hence, regulatory changes will also reshape business models in the future. Unfortunately, if the fees for some services are reduced, fees for other services and customer segments are likely to be increased to ensure operational profitability (Intuit, 2010).

5.5 Discussion and Conclusions

In this chapter, we have explored the evolution of the banking industry in Finland since the 1970s, including its drivers and enablers. We have also provided scenarios for future trends in banking services. Our focus has been on retail banking and services provided for private customers. Through seven case studies we have described how the scope of the services and business models has changed from traditional, basic banking service towards multiple service offerings. We have also shown how organizations from other industries have entered the banking industry with different business models and consumer services. Our longitudinal overview of changes in the Finnish banking industry provides new insights to the business model and banking services evolution. The changes in the banking industry have been boosted by economic situation, Europe-wide deregulation and harmonization, as well as by new technologies, that is, outside pressures. The presented future trends provide new ideas for both existing organizations and new entrants in the banking industry for the further development of their service offerings in competitive business environments.

Indeed, the Finnish financial sector and especially the banking industry have profoundly changed in recent decades and have been in the frontline of this evolution in Europe. The development parallels that of other countries, justifying the use of Finnish examples to draw conclusions on the evolution of banking services. Due to the decreased regulation and the increased harmonization of rules and regulations at the European level, the Finnish banking market is now open to all domestic and international actors. Our examples show how established banking and other financial organizations have transformed themselves into financial superstores. The resulting service portfolios and business models are surprisingly similar, as most of them offer the same type of service bundles to consumers. At the same time, organizations from other industries, such as retail trade and logistics, have entered consumer banking services, usually with limited niche services. This is in line with international trends. The examples of evolution show the potential development paths for organizations in other industries as well.

The drivers of changes are common to other services industries. Increased labor costs, automation, economic situation, and new technologies both drive and enable new business models and service offerings. The banking industry is a prime example of a service area where electronic self-services are today the dominant service mode for consumers. Currently, a multitude of new innovative technologies has emerged, enabling new innovative services and service channels. The possibilities and adoption of different types of cards, as well as wireless and mobile technologies are to be seen, and they may be the key success factors for the future. Technology is usually regarded as a driver and enabler of new services. However, it can also slow down the development and adoption of new technology-based services. In Finland and other developed countries, consumers regard the Internet as the main channel for managing banking issues, whereas in Africa, people have started to widely use m-banking due to the wide availability and inexpensiveness of mobile technology and phones, as compared to fixed-line Internet and PCs. This may result in developing countries following a different path in banking service development.

There have been substantial and fast changes in banking business models, services, and service channels. Yet, the development has, at least from time to time, been driven more by the needs of banking organizations than the needs of consumers. In the future, there is pressure to make the customers' voice more strongly heard. Thus, at the same time as service offerings and customer preferences are increasing in complexity, banking service development will become even more customer-driven or at least co-created, and services are likely to become even more flexible and personal. In the Intuit (2010) report, the future of financial services is seen as follows: "Imagine a world where the financial services industry provides customer-driven, personalized products and services that use predictive analytics to turn complex data that once seemed unmanageable into clear, action-oriented roadmaps that help customers make decisions". As consumers will have many alternative banking and payment services to choose from in the future, they will be able to pick those alternatives that best meet their own needs and preferences. Service developers need to bear this in mind in their work. Straightforward, technology-based development may be beneficial for banking efficiency, but may fail to gain consumer acceptance.

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6 Evolution of Service Markets – The Case of Mutual Funds in Finland

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Abstract: This chapter investigates the evolution of the mutual fund service markets as one of the submarkets of the banking industry. The analysis captures several interesting factors of the evolution. The factors include: Number and variety of product/service offerings, service quality, pricing, competition, and consumer behavior. Notably, the banking and mutual fund markets are an especially interesting case to study with regard to these issues. The empirical investigation encompasses the mutual funds market in Finland from the late 1990s until the end of the year 2010. The investigated period followed a wave of deregulation of the financial markets in general, and exhibited periodical industry and market-level booms and glooms. The chapter provides a discussion of the realized, past trends in this market's evolution, as well as their prospective extensions into the future.

Keywords: Market evolution, mutual funds, service quality, fund performance

6.1 Introduction

The evolution of markets and product-service offerings within a market are of "evergreen" interest to marketing and strategic management scholars, as well as economists. Marketing scholars typically pay attention to the life cycle of product markets in terms of the effectiveness of marketing actions (product innovation and development; imitation and borrowing; quality improvements; advertising and promotion; pricing; distribution) during different stages of the life cycle (e.g., Chandy *et al.,* 2001; Golder, Shacham, and Mitra, 2009; Horsky and Simon, 1983; Soberman and Gatignon, 2005), as well as to the gradual adoption (or "diffusion") of new products and services, or innovations, by consumers (e.g., Bass, 1969; Libai, Muller, and Peres, 2009; Peres *et al.,* 2010). Strategic management scholars also attend to the market evolution in terms of industry and technology life cycles: discontinuities, ferment, emergence of dominant designs, and maturation (e.g., Anderson and Tushman, 1990; Murman and Frenker, 2006), as well as to the entries and exists of firms to and from markets (e.g., Klepper and Graddy, 1990; Carroll 2012). Economists, in turn, are most interested in market-level matters of market evolution, such as the amount of competition and creative destruction that innovations bring about in existing markets (e.g., Aghion *et al.,* 2005).

Common to all these disciplines is, in any case, the general interest in how certain basic factors related to markets – such as the number and variety of products and firms in the market, the quality of products, pricing, competition, and consumer behavior – change as markets evolve over time, from nascence through growth to maturity or decline (Peltoniemi, 2011). To firms and marketers, these issues are interesting to understand as well, because of potential insights available to questions such as to how much the firm should invest in particular markets and when, as well as whether the firm should enter (or potentially exit) certain markets in the first place (Bowman and Gatignon, 1996). Indeed, it must be remembered that even for a firm in a given industry (e.g., banking & financial sector), it remains a question to decide, which specific product and service markets (e.g., cash & transaction services; loans and mortgages; investment funds; asset management services; insurance, etc.) the firm should be in, and in what ways. For consumers, as well, it is useful to understand market evolution, so that one is able to make better-informed decisions of whether one should be among the first ones (i.e., "early adopters") to buy a certain new innovative product, for instance, or whether one should rather wait and see (for improved and less expensive second-generation products).

Against this backdrop, the aim of this chapter is to study banking industry and especially one of its related (sub-) markets – mutual funds – regarding the aforementioned basic factors of market evolution (i.e., number and variety of products, product quality, pricing, competition, and consumer behavior). Notably, the banking and mutual fund markets are an especially interesting case to study with regard to these issues for three reasons. First, the mutual fund market is a rather unique case of a market because mutual funds are fully intangible service products with little physical features and highly transparent product profiles (i.e., mutual funds usually disclose their portfolio contents and investment strategies). Consequently, imitation barriers and costs are very low in mutual funds. Indeed, whereas in ordinary product markets, such as durable consumer goods (e.g., cars, consumer electronics, pharmaceuticals), it is costly and time-consuming to copy competitors' new products, in mutual funds, the fund management companies can very easily track and copy the profiles of rivaling funds.

Second, whereas imitation costs are low in mutual funds, the development costs of innovative new products are – somewhat paradoxically – low as well, because it takes only little effort to create an investment fund with novel features and profile. This makes the exploration of innovative, new-to-market products rather easy in the mutual funds market, compared to ordinary product markets, where companies typically consider the development of novel innovations to be costly and risky, relative to line extensions, product improvements, and me-too products (cf. Chandy and Tellis, 1998, Sorescu *et al.,* 2003, Sorescu and Spanjol, 2008).

Third, mutual funds market, *per se*, is a highly significant market, affecting firms as well as consumers' lives. Mutual funds are estimated to hold over $10 trillion of assets worldwide (Khorana *et al.,* 2005), providing significant business opportunities for existing and new firms. Mutual funds also have a great significance for ordinary people's lives, given that a large proportion of households in developed countries have part of their retirement and other savings allocated in mutual funds.

In the empirical analysis, we focus on the evolution of the mutual funds market in Finland. In Finland, this market was originally born in the late 1980s and early 1990s, following a wave of deregulation of the financial markets and new legislations making mutual funds service-provision feasible. The growth of the market was delayed by the economic downturn and declining stock prices in the early 1990s (Turtiainen, 2004). The market began to take off considerably in the late 1990s, which is also the starting period of our analysis: 1997-2010. In the empirical analysis of our study, we essentially analyze and interpret a set of basic market evolution factors (i.e., market size, number and variety of products, product quality, pricing, competition, and consumer behavior) with respect this market. Thereafter, we provide a discussion of the realized, past trends in this market's evolution, as well as their prospective extension into the future.

6.2 Data

We analyze a unique dataset concerning the Finnish mutual fund market. The base dataset is obtained from Mutual Fund Reports (1997-2010), which is a monthly document published by the Federation of Finnish Financial Services and produced by a Sijoitustutkimus Ltd. The report is a compilation of virtually all mutual fund products registered in Finland, although it is the responsibility of the firms to register their products to be listed in the report. Along with basic information, such as each fund product's name, fund type, and founding date, the report describes fund performance (return and risk), total net assets, and management, subscription, and redemption fees. We aggregated these data to the fund and firm levels to describe the basic market evolution factors of interest.

For the year-to-year measures, we collected data from September reports in each year. September represents a typical month in the industry whereas, for example, January and July are above- and below-average months in terms of new product development and investment activity. The data were systematically collected from the reports throughout the entire 14-year time period. In addition, we obtained a database of advertising spend by company in each year from TNS Gallup market research agency.

6.3 Analysis and Findings

Size of the market

We first analyze the evolution of the mutual funds market in terms of market size. In the mutual funds market, there are two main metrics for assessing the market size. Firstly, the total assets under management in all the mutual funds in the market can be calculated. This metric reflects the size of the market from the perspective of both (a) the fund service-provider firms and the (b) users or customers of the fund services, that is, investors. Namely, the business potential for the (a) firms is directly related to the volume of assets under management (AUM), as the firms typically charge management fees in proportion of AUM – meaning that their sales or turnover from the market is proportional to the AUM. From the (b) buyer perspective, the AUM represents the volume of money they have allocated to this particular market. It hence reflects, in a sense, their adoption of the service in monetary terms. An analogy to this metric, from another service market, would be estimate the market size for office-building maintenance services in terms of the overall value of office buildings in a country – or to estimate the market size for elevator maintenance services in terms of the overall value of elevators installed in a country.

The second, metric, in turn, is the net volume of fund flows (per year), that is, the money that investor-customers put into the funds minus the money they take out from them. On one hand, this metric may even better reflect the *actual behavior of the fund customers* than the first metric, since unlike the first metric, AUM, fund flows are less sensitive to overall changes in the market value of the assets "on paper". In contrast, the paper value of AUM can increase significantly if or when the global asset values (in e.g., stock exchanges) go up – even if there was no new investor-buyers putting any new money to the mutual funds. Analogously: it is not necessarily wise to consider that the size of the office-building or elevator maintenance service market increases one-to-one, just because office property or elevator prices temporarily go up. In this sense, the net purchase vs. withdrawal volume (i.e., fund flow) reflects customer behavior better – as would the number of new elevator maintenance service contracts less the number of ended contracts. Yet, on the other hand, the second metric of fund flows reflects perhaps less well the size of the *business potential* of the market, as the firms still charge most of their fees based on the AUM, and not the net fund flows.

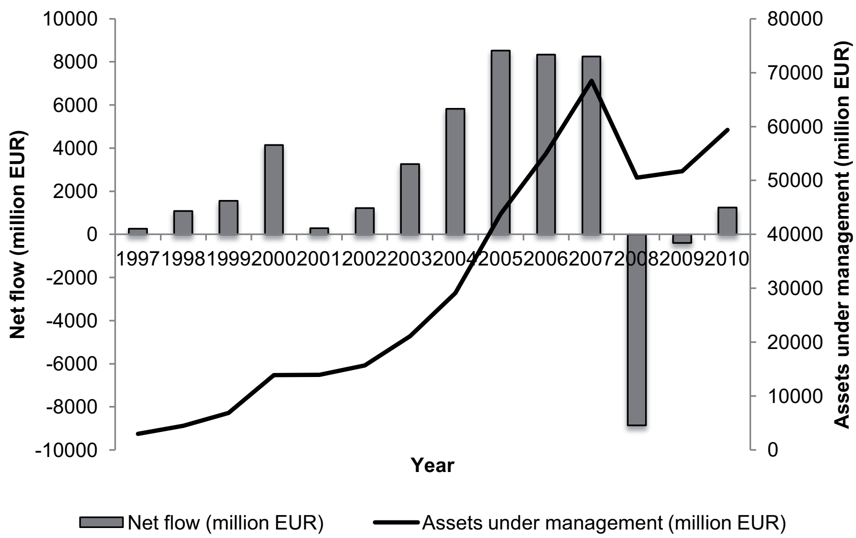

Figure 3. Evolution of the size of the Finnish mutual fund market[2]

[2] Net flows from 1997 through 2002 are estimated on the basis of change in AUM using univariate regression, due to missing direct data on yearly net flows those years. The parameters for the univariate regression model are estimated from the 2003 through 2010 data. During this time the correlation between yearly net flows and change in total assets under management is 0.96 (R-square 92 %).

Figure 3 shows the evolution of the mutual funds market size in Finland, regarding the aforementioned two metrics. What is notable in the Figure is, first of all, the pattern that the market size metric grew rapidly up until 2000, after which the growth rate temporarily slowed down, trending towards zero growth. Yet, market growth soon re-started in 2002, peaking in 2007. After that, however, the market growth rate has been close to zero.

The overall trends in net flows and AUM metrics of market growth and size indicate generic patterns usually found in market evolution (including product life cycles). In effect, after the emergence of a new product or service market, it often experiences a stage of high growth, after which the growth slows down and the sales and adoption of the product hits a plateau – in the maturity stage (Peltoniemi, 2011). In and after the maturity stage, in turn, the market size commonly stays constant, or begins to decline. Generically, these stages constitute an S-curve, typical to the evolution of most markets (Peres *et al.,* 2010).

Number of firms and variety of services

We next analyze the evolution of the mutual funds market in terms of the number and variety of funds offered in the market. Along with the volume and size of the market, the developing number of competing firms – and their products or services – is perhaps the most typical feature of market evolution. In fact, the number of service-providing firms and their services often follows a similar S-typed curve as the size of the market (Carroll, 2012; Klepper and Graddy, 1994). This is true in the case of the Finnish mutual funds as well. The two solid lines in Figure 4 show the development of the number of firms and funds in the market, and the dashed line shows the number of funds per firm, over time. The S-typed curves are clearly distinguishable in all these figures with 2000-2006 exhibiting the highest growth pace, which have since leveled off.

The number of funds per firm (dashed line) also brings us to the question of service variety within firm. This is an issue that the evolution of markets does not have so much of a generic pattern – as usually merely to number of competing firms in the market (and, therefore, the total number of products) is observed to follow an S-shaped pattern. For instance, the car industry and market followed for long time from the 1880–1930 a S-typed pattern of firms – but not necessarily S-typed pattern in firm-internal product numbers/variety (since for instance Ford famously had the policy to sell just one model (T Ford) to everyone). However, we can clearly observe an S-type shape in firms' internal fund variety as well, partially coinciding with the general S-development of the market. This special, S-typed firm-internal pattern may be due to the special nature of the mutual fund market, following from the nature of the products: the easy and non-costly development these services and, hence, of service variety. At the same time, it means that in a service market such as mutual funds, the intra-firm competitive dynamics between the firm's own products is an essential feature – in addition to the inter-firm competitive dynamics between different firms.

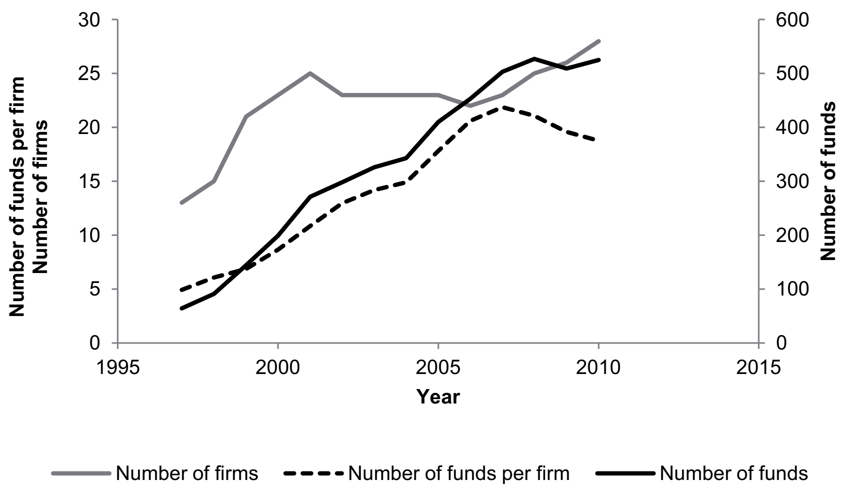

Figure 4. The evolution of the number of firms and variety of services in the Finnish mutual fund market

Service quality

Next, we turn to the issue of service quality. Even if less studied than the number and volume of firms and products/services in the market, both marketing researchers (Drucker, 1973; Kashan, Miller, and Clayton, 2000; Slater, 1997; Srinivasan *et al.,* 2009) and general management scientists and economists (Agarwal and Bayus, 2002; Amit and Zott, 2001; Schumpeter 1934, 1942) that with the increasing number of product and service introductions and competition in the market, the quality of the products and services as well as their value to customers goes up as well.

In investment services such as mutual fund, a simple and widely-used metric for service quality is the Sharpe index (Sharpe, 1966; see Murthi *et al.,* 1997), defined as the ratio of excess return of an investment vehicle or portfolio (over a risk-free investment return) to the risk of the returns (in the form of their standard deviation). This metric takes into account the value of the investment service in the form of the financial returns, adjusted with the financial risk. Figure 3 depicts the evolution of service quality, regarding this metric, for the Finnish mutual fund market, or firms. Notably, the Figure depicts separately the quality improvement by (i) diversified banking firms and insurance companies and (ii) specialized investment management and mutual fund companies[3].

[3] Even though many retail banks and insurance companies have an independent fund management or investment services firms that operate in the market, we coded the firm as diversified if it was part of a larger corporation that operates in multiple businesses.

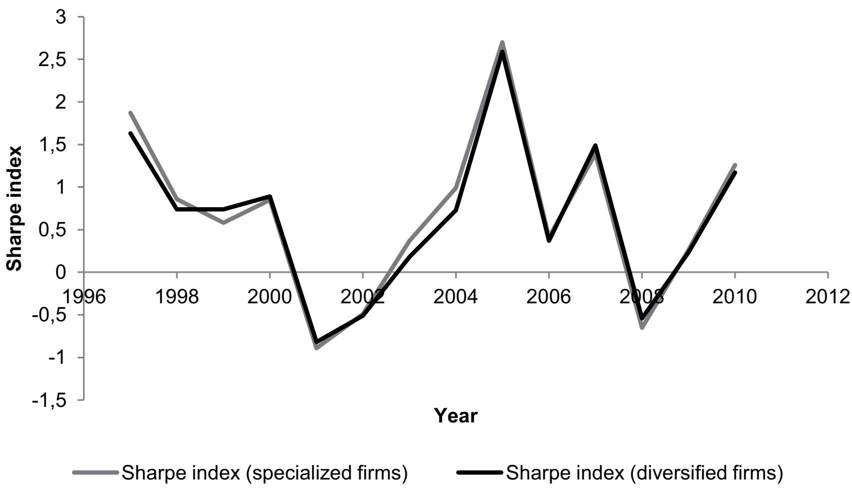

Figure 5. The evolution of the service quality in the Finnish mutual fund market

Two observations are especially visible in Figure 5. The first observation is that there is no clear trend over time regarding the development of quality. Most notably, the quality seems not to be increasing over time – even if the number of firms, services, and competition was increasing all the time (as depicted in Figure 4). This observation is interesting, and contrasts with the generic observation typically related to market evolution, that product quality should increase as the market evolves and matures (due to increasing competition). Theoretically, there may be several explanations for this. On one hand, (I) firms in the industry may not be highly willing or able to make investments in developing service quality in this market. This may be true (a) because of the especially easy imitability of new or improved funds and/or (b) because the market has not reached yet a point where there is incentive to try to fare better than competitors in terms of quality, as there is still few enough competitors and "room" in the market for even poorer service (cf. Tellis and Fornell 1988). The former cause would follow directly from the special nature of this service market (i.e., the easy imitability), while the latter would suggest that the market is still in a generic phase of ferment, where the competitive dynamics improving quality have not stroke in yet (cf. Agarwal and Bayus 2002).

On the other hand, (II) the lack of trend towards quality improvement may also be due to fundamental difficulties in improving service quality in funds, and/or the fact that external factors beyond the control of the competing firms are so strong drivers of the quality (or quality fluctuations), that the firms' development efforts play just a negligible role in their ability to affect the quality. This interpretation would actually be supported by second observation from Figure 3, suggesting that the peaks and troughs of the quality evolution coincide with peaks and troughs (or booms and busts) in the overall economy and stock market. These include, for instance, the previously-mentioned peak associated with the IT boom in 1999-2001 and the following trough in 2001-2003, as well as the next peak associated with the monetary expansion and global housing market boom in 2004-2007 and the following trough due to financial crisis. The interpretation that quality in this market is just overwhelmingly driven by external factors is also supported by the fact that the quality development of (i) diversified banking firms and (ii) specialized investment management companies go hand in hand: that is, the abundant resources and knowledge base of diversified banking firms do not lead to different quality developments for them than for (smaller) specialized investment companies. Indeed, according to our data, the diversified banking firms and specialized investment firms do not have significantly different fund performance throughout the evolution (mean difference = 0.07; $t = 1.21$; $p > .10$),

Finally, another hypothetical explanation for the pattern combines the two aforementioned (I and II). Namely, it may also be that the firms in the market are willing or incentivized to improve quality only or mostly just during economic booms. Some support for this conjecture might be found in the fact that new fund introductions by the firms have largely coincided with the aforementioned economic booms as well – as visible in Figure 4. Thus, it is not impossible that firms might have the strategic incentive to improve quality especially during booms, in case booms bring new customers to the market and their service choice decisions are presumably based on quality. This would mean a causal chain: *Overall economic boom leads to more customers to the market, which may foster the incentives to improve fund quality to attract customers which, in turn, increases service development and launches*.

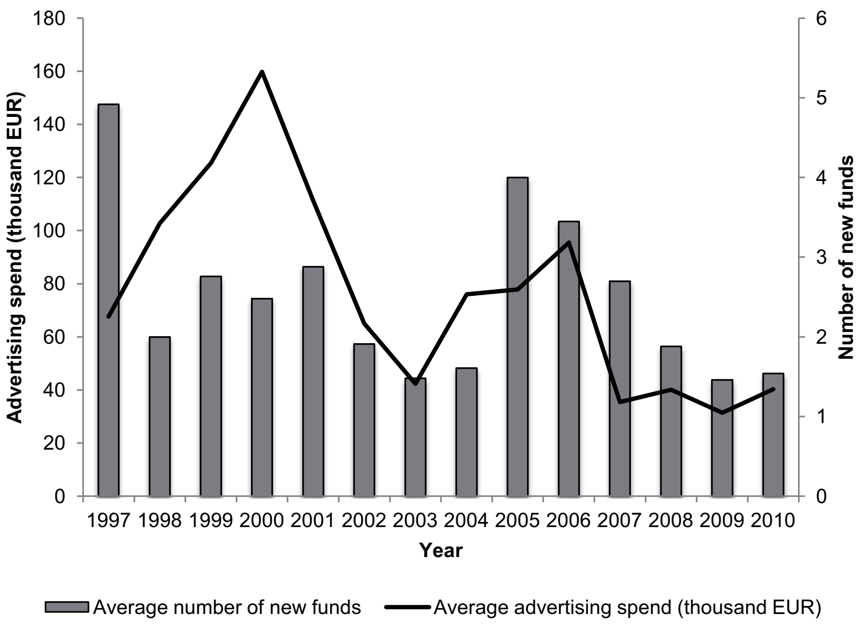

Figure 6. New products and advertising spend during the evolution of the Finnish mutual funds market

However, with respect to this observation, a much more likely causal explanation is actually the following chain of effects: *Overall economic boom increases the service quality in terms of fund returns, which leads to a better mood of customers to buy in to funds which, in turn, supports the incentives to exploit the mood by launching new products*. That is, as the overall economic boom drives the fund quality in terms of investment returns, it puts customers in the market into better mood, motivating them to buy fund shares. The firms, in turn, are likely to view this mood as a good opportunity to sell new funds to customers and, therefore, introduce more new products. This chain of causation is supported also by the fact that the overall economic booms and moods as well as the fund introductions co-incide with high levels of advertising by the firms, as is visible in Figure 6 as well.

Pricing

The final evolution factor that we analyze is pricing, or price levels of the fund services. Like quality, the price level of products and service is also something that generic "laws" of market evolution have a say on. Indeed, the notions and observations market economics (Agarwal and Bayus, 2002) generally suggest that in the course of the evolution of a market, price levels should drop. This is due to the fact that an increasing number of competitors – for the very reason of abnormally high profit, or price levels in the market – enter the market (Lippman and Rumelt, 1982). The new competitors, in turn, are progressively willing to accept slightly lower profits through decreasing price levels, which in effect creates a downward pressure to the price levels of the market as it matures.

In the Finnish mutual fund markets, we can observe a pricing trend that is rather consistent with this generic prediction (Figure 7). The management fees for the fund services have decreased from an average of about 1.5% at the end of the 1990s to close to 1.0% at the and of the 2000s. This is a visibly decreasing trend. Also, the price level of (large) diversified banking and insurance companies and (small) specialized investment management companies has decreased approximately in the same pace. The patterns are similar is despite the fact that the average pricing of the diversified banking and insurance companies has remained slightly above that of the specialized investment management companies (mean difference = 0.06 %-points; $t = 2.63$; $p < .01$) – probably due to the greater market power, stronger customer relationships, and prevalent sales and distribution channels of the former companies.

Nevertheless, while we can indeed say that the price level of the services has decreased for all firms on average, it is more difficult to judge whether the decrease has been substantial or economically significant. On one hand, proportionally, a drop from 1.5% fee to 1.0% is of course as much as 33%. This change is also of a similar order of magnitude as some other service markets have experienced. For instance, Karine et al. (2004) report that the price levels of cellular phone subscription services in Finland dropped about 30-40% in a 10-year growth phase of the market (from the beginning of the 1990s to the beginning of the 2000s).

Yet, on the other hand, in many other industries, price drops can be much larger as well. As a comparison, Karine et al. (2004) also report the price trend of cellular phones themselves. Compared to the drop of 30-40% in cell phone subscription services pricing, the drop in cell phones for the same period was about 80%. Moreover, it must be noted, as well, that the service development and provision of mutual fund services is much less capital-intensive than that of cell phone network services, for instance. From this perspective one should expect a greater, more substantial price drops for mutual funds than cell phone subscription services.

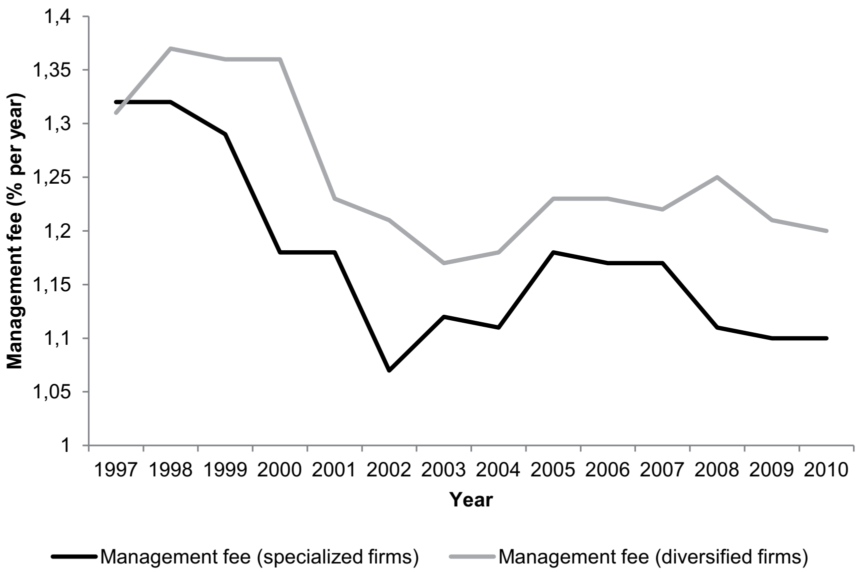

Figure 7. The development of service pricing during the evolution of the Finnish mutual funds market

6.4 Conclusion and future directions

Mutual fund services, as a sub-market of the greater banking and financial markets and industry, is in many ways similar, but in many ways also different from ordinary product and service markets. In addition to the customary product life cycle effects, our findings suggest that the overall economic conditions alter and pace the market evolution as follows:

- Service innovation and the use of promotion actions such as advertising, as well as market growth, mostly follow the generic product life cycle model in this market. But besides the S-shaped patterns of growth in the market size and number of products in the market and across the firms, this service market is also characterized by *within-firm*, S-shaped patterns in the development of firms' (within-firm) service variety over time.

- Trends in services pricing reflect generic product life cycle models of decreasing prices over time. However, service quality is not significantly changed over the life cycle, but follows changes in the economic conditions.
- Moreover, in addition to the generic market evolution and life cycle forces, the market evolution dynamics in this market are also essentially paced by overall "market moods" affecting the market participants (e.g., stock market booms and busts). In other words, there are smaller cycles of growth and decline within the overall product life cycle.

Indeed, the unusually low development costs and easy imitability seem to generally have driven the rapid growth of this market in terms of the number of firms entering the market and the number of fund services introduced (Argawal and Bayus, 2002). In addition to the ordinary S-shaped patterns in the introduction of new funds at the market level, however, the special features of mutual funds also give rise to an S-shaped pattern in within-firm fund introductions and variety. In any case – and paradoxically enough – the increasing intensity of both inter-firm and intra-firm competition does not necessarily lead to improving service quality (i.e. risk-adjusted returns of the funds) – as one would expect in ordinary markets. On the other hand, pricing levels seem to experience a downward trend in any case.

In terms of future development of the market, these trends are likely to culminate in further drops in the pricing levels of the funds, as well as some kind of crystallization in the within-firm service portfolios. In effect, the ever-increasing variety of fund services may lead toward an "ultimate variety-provision", in which individual investor-customers are offered individually customized fund products or services – that is, customized investment *solutions* instead of a pre-provided assortment of funds. Firms may also have a clear motivation to take the market to this direction because of the difficulty and uncertainty involved in trying to differentiate by improving the quality of the individual funds in terms of returns to investment. As a matter of fact, there are already signs of this kind of development, as banks and other fund providers have started to emphasize more their overall ability to help customers and to customize them savings/investment solutions. Such individually customized solutions may also enable the firms to charge higher prices for their services than the offering of standard assortment of funds. This may lead to further resistance against the downward pressure in pricing. At the same time, in basic standard fund products, the prices are likely to go further down. This is already seen in the index-tracking funds (such as ETFs), which are increasingly introduced by the firms and adopted by investor-customers.

Finally, the mutual funds market seems also to be unique in the sense that both buyer and seller behavior are strongly influenced by market moods (i.e., fluctuations in the overall economy and stock market) – in addition to traditional, S-shaped product life cycles in the overall market. From the perspective of a mutual fund company, market moods represent business opportunities that fast and flexible firms can try to exploit to foster growth. From the industry regulation perspective, market moods may, however, introduce delays and biases into the market selection mechanisms. Because market moods influence fund performance, it is difficult to tell the difference between good funds and bad ones, especially when market mood is good. This allows many funds and firms, which actually have poor asset management capabilities, to hitchhike over extended periods of time. However, it may also be that without these moods, the market would exert too strong selection pressures on the funds, not allowing them to accumulate assets that allow efficient and effective asset management. In any case, both firms and investor-customers should, in future, pay increasing attention to how the market moods shape their own and other market participants' behavior – and wisely adapt to it.

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7 Socially Responsible Investing: Recent Development and Future Trends

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Abstract: Socially Responsible Investing (SRI) has exhibited strong growth in the past years. Both institutions and individuals invest according to their own values in increasing amounts. Having taken on much greater prominence, the SRI is fast-tracking itself to a wider recognition – a trend that is only strengthened by the recent financial crises and a sense of urgency across the globe. The increasing amount of recognition that SRI is gaining should also be of interest to the marketers of financial services. Interestingly, an empirical analysis of the Finnish mutual fund market reveals that a relatively small number of funds is yet of SRI type. However, the unclear definition of SRI and how the market size is estimated might give an uninformed reader a biased estimate of the true market size.

Keywords: Social responsibility, mutual fund, responsible investing, fund performance, flow-performance relation

7.1 Introduction

Socially Responsible Investing (SRI) has aroused tremendous interest and publicity in the past few years. Investors have an important role to play here, by addressing sustainability issues with an investment rationale – but the trend is also due to increasing external and societal pressures.

SRI describes an investment strategy, which aims to account for both financial returns and social good through sustainable, socially conscious, and ethical allocation of financial resources. Corporate practices promoting environmental stewardship, consumer protection, human rights, and diversity are in general favored by socially responsible investing. Exclusion strategies hold off from investing in alcohol, tobacco, gambling, weapons, and military related businesses. The SRI industry recognizes three categories of factors (ESG) that contribute to the social good: environmental responsibility (E), social justice (S), and corporate governance (G).

The recent growth of the SRI market has been encouraging and many believe that the factors behind SRI investments will capture further recognition in the coming years. The implications include that business operations will need to further integrate socially and environmentally responsible practices, if they want to attract socially responsible investors (Eurosif, 2010). The SRI market size has experienced strong growth from 2002 as indicated by Figure 8, displaying recent growth in Europe.

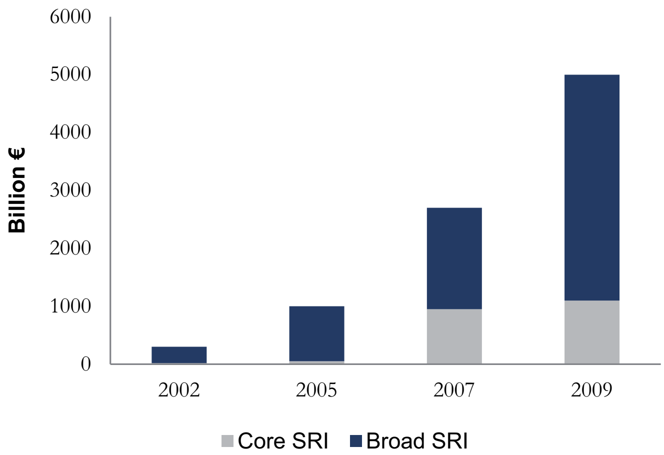

Figure 8. SRI market growth in Europe during 2002-2009 (Source: Eurosif European SRI survey, 2010)

The socially responsible investment strategies include so called *core strategies* and *broad strategies*. Core strategies are rooted in value-based decisions about investment selection and management. Of the core strategies, most popular are norms or value-based exclusions, which mean excluding from the universe of potential investment targets those companies which violate certain principles. The exclusion strategies amount up to € 868 billion total investment in Europe; yet, differences between countries are substantial.

Other core strategies include best-in-class[4] investments, amounting to €148 billion in Europe as well as thematic strategies (investment in funds with a theme related to SRI, such as wind power, health, and nutrition themes), adding up to €35 billion in Europe. Other positive screens (i.e., non-exclusion strategies, such as favoring companies advocating environmental issues) are estimated amount to €145 billion total investment in Europe (Eurosif, 2010).

Broad strategies, in turn, consist of three segments: simple exclusions, engagement, and integration. The strategies can be also combined. Simple exclusions mean investing with an exclusion containing no more than two negative screens (e.g., *not* alcohol *and* animal testing). Engagement employs shareholder power to influence corporate behavior through corporate communication, shareholder proposals, proxy voting policies, and divestments. Integration strategy means explicit inclusion of the ESG risk factors into traditional financial analysis by the fund managers (Eurosif, 2010).

Overall, it can be said that SRI style investing has exhibited strong growth in the past decade. The pool of assets in SRI strategies has grown more rapidly than the overall investment universe, despite the global financial crisis. The European and U.S. experts explain the growth by the following trends (Eurosif, 2010; US Investment Forum, 2010):

[4] Fund managers choose the top performing companies in a sector or category based on how they meet selected environmental, social and governance and ESG challenges.

- ESG considerations have been increasingly mainstreamed and integrated into traditional forms of investment analysis, decision-making, and portfolio construction.
- Institutions are incorporating ESG criteria in part because of governmental mandates, recommendations or guidelines on implementing SRI aspects.
- Several legislative and regulatory developments in 2009 and 2010 have set higher standards for corporate disclosure on ESG issues
- New products and fund types are driving growth in ESG investment vehicles.
- Environmentally themed investment products and services are rapidly emerging to meet a growing investor desire to manage environmental risks and seize opportunities in this sector.

Accordingly, most investors show an intention to increase their share of SRI. The main market drivers are: demand from institutional investors, international initiatives (e.g., the UN principles for responsible investments, UNPRI), and external pressures (non-governmental organizations [NGOs], media, etc.), as well as demand from retail investors.

In sum, the total SRI market worldwide is estimated to add up to approximately 7.6 trillion euro and the market is growing fast. The majority of investments are made by institutional investors, and geographically, the market is highly concentrated into Europe and the USA as indicated in Table 10. However, it should be noted that a caveat lurks in the interpretation of these numbers. Since the total market size is calculated by summing up all assets which fall under some definition of SRI, one needs to interpret the resulting total market size in the following way: It is the sum of market values of assets in different regions, earmarked as SRI under respective local definitions. Therefore, how the aggregate influence of SRI and its growth displays itself through these numbers might pass an upwards biased view for an uninformed investor/reader. We will discuss potential issues arising from these considerations in more detail in the next section, when we interpret the mutual fund market size and total SRI market size differently.

Table 10. The Presence of SRI globally

Region	***SRI Market Size***	***SRI Market Share[5]***	***% of Institutional Investors***
Europe	€ 4,986.0 bn ('09)	10%	92%
U.S.	€ 2,141.0 bn ('10)	12%	75%
Canada	€ 405.0 bn ('08)	19%	94%
Australia & NZ	€ 4.0 bn ('10)	10%	n/a
Japan	€ 4.0 bn ('09)	1%	10%

[5] The SRI market share means the proportion of SRI earmarked assets out of the total asset universe in the respective country.

Emerging markets have also seen significant growth in the SRI assets. Investments in emerging markets have increased to above € 210 billion in assets under management (2009). The top 5 country allocations are: Brazil, China, India, Mexico, and South Korea. Integration of ESG criteria is generally lower in emerging markets than in developed ones. However, firms operating in emerging markets are catching up in terms of ESG transparency and performance. The biggest challenge to investing in emerging markets is a lack of ESG disclosure, which is on average below the standards displayed in developed countries. But the level of disclosure is steadily improving. In general, emerging market companies support environmental commitments in the form of policies or statements. However, the implementation remains weak. Key drivers for improved ESG disclosure include development of national sustainability indices, ESG listing requirements, influences of global standards and norms. ESG standards for companies have also become more stringent, due to the pressure exerted by sustainability investors and other corporate stakeholders (Eurosif, 2010; IFC and Mercer, 2009; EMDP and EIRIS, 2009).

Next, we turn to our main research question of focus, the SRI market in Finland. Paying critical attention to what investments can be appropriately characterized as SRI, we provide multiple perspectives to the SRI market size in Finland – perspectives that may be insightful in assessing the SRI market size in other countries as well.

7.2 SRI Investments in Finland

Overview on the market

Total SRI market in Finland amounted to €89.4 billion in 2009, whilst in 2007, it was €67.4 billion according to Eurosif study in 2010. This represents a total growth of 33 % over 2 years. The Eurosif study is conducted via a survey study[6] and it classifies institutions as socially responsible if they follow the principles set by the United Nations (UN). For this reason, the total amount of SRI investments reported is much bigger than the actual, actively allocated SRI investments. This can be also seen in Figure 9, where fixed income investments represent almost half of all the assets. The issue is due to the fact that when an institutional investor is following the UN guidelines, its whole portfolio will be classified as SRI. Therefore the aggregate amount of €89.4 bn should be interpreted as a very loosely defined SRI market size in Finland and actually contains mostly investments made from other than SRI viewpoint.

[6] The SRI market data is collected through a survey including both the self-reporting of assets managers and self-managed assets

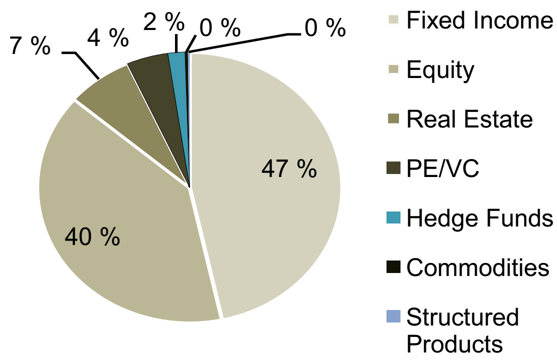

Figure 9. The SRI asset allocation by volume in Finland 2011

A better view on the true size of the Finnish market can be obtained by looking at the investments made through SRI mutual funds, especially the ones characterized with an SRI-related name. Since these funds are actually displayed as SRI funds to the investors, the total size of these funds represents more robustly the true appetite of investors for SRI. In contrast, as an example of an investment which has not been necessarily displayed as SRI at the time of purchase for the investor, a fixed income investment, for example, might have been characterized as SRI only after the fact (meaning that SRI criteria have not necessarily had any influence on the investor's original investment decision). Alternatively, an asset that has been characterized as SRI already before the investment decision, but not actively marketed as such, might have significant amount of funds coming from investors who never considered the SRI criteria in significant role when making the investment decision. We think that this is a critical assessment that should be made, especially since the fixed income investments and other investments that are not actively marketed (from the SRI viewpoint) comprise such a large portion of the total market.

In the light of above discussion, it is worth noting that only a fraction of the total SRI market in Finland is calculated under the more robust measure of SRI appetite. The Finnish SRI-style mutual funds have only some €2 billion of assets under management (AUM) (Rahastoraportti, 2011) – which is a small fraction of aforementioned €89.4 billion. Comparing to another reference point, the total size of the Finnish mutual fund market at € 56 billion, the total assets under management of SRI-type mutual funds is relatively small, too. Nevertheless, the SRI investments through mutual funds have also exhibited strong growth in the past years, namely 198 % from 2008 to 2011.

An additional consideration to the above discussion – which ultimately derives from the fact that the EURSIF survey is conducted with (excessively) broad classifications – is that institutional investors face external pressures from NGOs (e.g. the UN), in contrast to retail investors, who are not scrutinized by such entities. NGOs promote SRI actively and put pressure on institutional investors to allocate funds also to SRI. The institutional investors have incentives to comply with the guidelines, since otherwise they could be viewed in an unfavorable light.

The main non-governmental promoter of SRI in Finland is FINSIF (Finland's Sustainable Investment Forum) and its 18 establishing members, including all of the country's largest financial institutions and pensions funds. The members are committed to PRI (principles of responsible investing) (UNPRI, 2011). The principles consist of six requirements, which are related to incorporating ESG criteria into investment analysis, decision-making, ownership policies, and practices, as well as reporting[7]. The principles are at a rather general level and there are no quantitative factors so far, which is an area where the developers of the standards are likely put focus in future. At the same time, the lack of quantitative measures is rather natural, since putting strict numeric guidelines at this point when the market still rather young would be challenging and could potentially put constraints on growth. The members of FINSIF also mention that their primary focus is currently on trying to define SRI in a consistent way globally (FINSIF, 2011). This issue has been a focus of discussion since the establishment of FINSIF (FINSIF, 2010).

Performance of SRI mutual funds compared to conventional funds in Finland

We next look into SRI fund performance in Finland. This is an interesting comparison from the academic perspective, since most of the academic literature would predict worse performance for the SRI style funds. Additionally, the question that can be derived from this analysis, is whether SRI funds should or should not be sold at discount (or at premium) from a return perspective – which is an important consideration for the marketers of financial services.

	Feature	Volatility	Sharpe 1 Yr	Purchase fee	Redemption fee	Management and account fee	TER
SRI funds	Maximum	26.3%	1.0	Max 5%	1%	1.9%	2.4%
	Minimum	15.0%	-1.6	0	0%	0.6%	0.7%
	Average	18.7%	-0.6	-	-	1.4%	1.7%
Other funds	Maximum	22.0%	0.5	Max 5%	1%	1.6%	2.0%
	Minimum	11.1%	-0.6	0	0%	0.4%	0.5%
	Average	16.1%	-0.2	-	-	1.2%	1.5%

Figure 10. Comparison of SRI mutual funds with conventional funds in 2011
(Source: Rahastoraportti)

[7] The complete list of principles can be found from the UNPRI webpages at http://www.unpri.org/principles/

In brief, SRI-style investment funds registered in Finland have slightly underperformed other funds when returns during one, three, and five year period are assessed. The SRI-style investment funds have had a slightly better performance in the ten-year period. This is, however, due to the very good performance of three specific SRI-related funds. Additionally, the SRI funds have on average underperformed the MSCI World Index and therefore positive returns cannot explain the increased inflows of capital to the funds, but rather there must be an alternative investment rationale, which we discuss in more detail in the next section.

For a further analysis, we compare SRI thematic funds with other SRI funds operating in the Finnish market. As shown in Figure 10, thematic funds are more volatile compared to the other types of SRI funds, and Sharpe ratios indicate poorer risk-adjusted performance on average. However, most thematic funds are relatively new, established around 2007-2008 – meaning that the challenging overall market conditions in recent years may potentially account for a large part of their poor performance. Regarding fees, thematic funds have relatively higher management fees, account fees, and TER (total expense ratio).

7.3 Implications of SRI fund performance to the marketers of financial services

Academic research on SRI has also to a large extent dealt with the very question of whether SRI funds' risk-adjusted returns differ from the returns of their conventional counterparts. We want to further discuss this topic in the following, since a critical discussion can provide useful insights to marketers of financial services regarding how the funds should be positioned.

In general, the research topic in question has been typically motivated by portfolio optimization theories: Due to the fact that the socially responsible investment strategy often involves the exclusion of certain investment targets, the portfolio composition might not reflect a composition whereby the risk-return profile is optimized. The portfolio optimization theory would thus imply inferior performance for SRI funds. However, most studies have failed to find differences between the average performance of SRI funds and conventional funds (see e.g., Bauer, Koedijk and Otten, 2005; Cortez, Silva and Areal, 2009). Gil-Bazo, Ruiz-Verdi and Santos (2010), for instance, find that in the period 1997–2005, U.S. SRI funds had better before- and after-fee performance than conventional funds with similar characteristics. The differences, however, were driven exclusively by SRI funds run by management companies specialized in SRI. While these funds significantly outperformed conventional funds, SRI funds run by companies that were not specialized in SRI underperformed their matched conventional funds.

The Flow-Performance Relation of Socially Responsible Investment Funds

In contrast to the fund returns issue, academic research has paid less attention to actual investor behavior related to SRI as well as the SRI fund industry in general. In this regard, only two significant studies, described below, have been conducted – concerning the differences in the fund flow–performance relationship between SRI funds and conventional funds. The fund flow–performance relationship means the extent to which investors will withdraw or invest more in the fund, in case of its under- or outperformance, respectively. This is a key measure for the marketers and managers of the funds, as it determines how much the fund's return should be emphasized in the promotion of the fund, on one hand, and how much larger churn rate[8] should one expect in case the fund performs badly, on the other. Both of these measures might be different for traditional vs. SRI funds, which is why we are interested in the topic.

First of all, according to Benson and Humphrey (2008), SRI fund flows are generally less sensitive to returns than conventional fund flows. Their model also shows that SRI investors are more likely to invest in a fund they already own compared to conventional investors. Secondly, Bollen (2007) finds that the monthly volatility of cash flows is lower for SRI funds, which is interpreted as a signal of higher investor loyalty. Bollen (2007) also finds strong evidence that cash flows into SRI funds are more sensitive to lagged positive returns than cash flows into conventional funds, as well as weaker evidence that cash outflows from SRI funds are less sensitive to lagged negative returns. The results of both Bollen (2007) and Benson and Humphrey (2008) are hence consistent with the notion that SRI investors gain additional utility from a non-financial investment criterion in their investment activities.

A theory of a utility function which also includes a non-financial investment criterion has the implication that positive returns may attract larger inflows for SRI funds than for conventional funds, since investors may increase their investment in the SRI fund to consume their SRI utility attribute in addition to the financial utility attribute. The SRI criterion would also generate a smaller outflow of money when the fund begins to deliver inferior performance, as the investor is still able to obtain utility from the SRI attribute. This lower sensitivity towards past negative returns can also be motivated by potential higher search costs for SRI investors, which could result from the need to take both financial and SRI factors into account when searching for and selecting funds. Due to higher search costs, SRI investors may be less inclined to withdraw money from an SRI fund, should the fund begin to deliver inferior performance. Statman (2004) also presents an additional view on the non-financial attributes, when analyzing utilitarian benefits associated with investments. According to Statman (2004), regular mean-variance investors consider their portfolios as a whole, optimizing risk and return – whereas SRI investors may additionally consider SRI attributes in order to signal and demonstrate their social responsibility to themselves or others.

Results by Bollen (2007), indeed, indicate that SRI investors are more sensitive to positive past performance. The conclusion supports the hypothesis that SRI investors draw utility from a non-financial attribute. Benson and Humphrey (2008), in turn, do not find any significant evidence on differences in the flow-performance relation with

[8] By churn rate, we mean a ratio of investors exiting the fund compared to the total amount of investors in the fund. Churn rate is a possible indicator of customer dissatisfaction, cheaper or better offers from the competitors (or in this case, other funds also outside SRI), more successful sales or promotion by the competitors, or reasons pertaining to the customer life cycle.

regard to past negative returns. In any case, the study suggests that SRI investor behavior could partially be described by a multi-attribute utility function, since SRI investors indeed seem to derive utility from the SRI attribute, particularly when the fund is delivering superior abnormal performance. SRI investors are also found to be less sensitive to fund expense ratios, which could be an indication of higher search costs or alternatively, a smaller investment opportunity set.

7.4 Conclusion

Socially responsible investments form a growing sector of the financial markets. SRI has also recently been a hot topic in various forums and has received growing publicity. The largest proportion of the arguably SRI-allocated investments are, however, made by institutional investors, who are pressured publicly by various NGOs and other responsible entities to adhere to SRI-themes and, for example, to follow the UN guidelines on socially responsible investing. This, together with the fact that retail investors are investing much smaller proportions to the SRI-type of mutual funds, implies that the natural demand for SRI investment strategies might not be as large as recent attention and growth figures would indicate. For marketers of financial services, this means that before entering the niche segment, one should be careful when estimating the true investor appetite and market size. For example, the actively SRI-seeking investors are just a tiny proportion of the putative total market size as indicated by our analysis concerning the Finnish SRI market.

Finnish SRI funds have, on average, underperformed their peers. Based on international academic research, however, one cannot conclude that SRI funds would systematically under- or outperform other funds financially. Marketers of socially responsible investment services may use this fact for their advantage when positioning their funds to investors. The fund marketers cannot state that the SRI investments would produce better returns than investing in a passive index. However, they do not need to position the funds as “return discount” funds, since there seems to be no significant return trade-off for being socially responsible – at least not prior to fund management costs. Therefore, the funds can focus on additional attributes to advertise, especially for investors who demand to consume their SRI utility-related attributes.

Additionally, we critically assessed the effect of different SRI definitions on the interpretation of the estimated (true) market size and growth of SRI funds. According to our analysis, a large part of the recent growth of SRI might be attributable to increase of “SRI earmarks” in the data (i.e. certain investments being earmarked or claimed as SRI *a posteriori,* rather than being investments whereby the investor would originally had SRI attributes as an investment criterion). A more in-depth analysis to back-up this argument would make an interesting research question for future research. It would be interesting to see how much of the SRI growth is attributable to existing funds being earmarked as SRI, as distinguished from the growth coming from the launch of new funds that are actively promoted from the SRI perspective.

The main conclusion of this paper is that making the definition of SRI more coherent is the single most important challenge and next step for the industry. It is delighting that many SRI promoters actually consider this issue as their most important challenge already. An accelerated push towards a convergence of SRI definitions would make it easier to assess the importance of SRI to the banking and financial industry as well as investors or consumers. It will also be interesting to see what the SRI market growth figures would look like, if one were to index them under one single definition.

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8 Evolution of SEPA and its Diffusion in Finland – Towards a Single European Payments Market

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Abstract: Market- or industry-wide standards have two important effects: They create strong network effects benefiting service users and foster competition between service providers. In this chapter, we analyze a payment standardization initiative, SEPA (Single Euro Payments Area) from the single markets' point of view by discussing the evolution of SEPA and reviewing the current situation in one member country, Finland. Finland started the actual SEPA migration towards the end of 2010, but since the Finnish banks and users were highly committed, Finland was able to successfully complete the migration to SEPA credit transfers already before the end of 2011. Our conclusion is that the readiness to adopt common standard solutions and multi-bank standards were the most significant reasons for the smooth and swift migration. As a result, the companies' increased potential for consolidation of bank accounts and liquidity pooling intensify competition among banks. In addition, we argue that SEPA should be seen as a platform paving the way for value-added services, such as fully automated accounting and improved cash-flow forecasting tools.

Keywords: SEPA, payment, credit transfer, direct debit, standardization, single market.

8.1 Introduction

In this paper, we examine the payments industry and the recent developments in the euro area drawing on SEPA (Single Euro Payments Area). Even though SEPA is much more than a simple standardization initiative regarding credit transfers and direct debits, in this paper we consider SEPA essentially from the specific perspective of a standardization move to XML and ISO 20022. In addition to harmonized standards, a harmonized legal framework is necessary in order to establish SEPA. We also briefly touch upon the relevant legal initiatives. Our objective is, thus, to consider SEPA from the standardization perspective, describe its evolution, and review the current situation in and lessons learned from Finland. This evolution could pave the way for a single European payments market.

Information technology-based interorganizational linkages (IT-based IOL) have remained a significant research topic in the area of information systems (IS) since the 1980s, mainly because of the potential of these linkages to create processing cost savings for the trading partners (Premkumar and Ramamurthy, 1995; Teo *et al.,* 2003). Other benefits of IT-based IOL include improved transparency into billing systems, better control of transactions, and a possibility to move to paperless processes. Recent developments in technology have enabled industries to move to IOL that are based on open standards, are less partner-specific, and are built on XML (eXtensible Markup Language) (Zhu *et al.,* 2006).

The chapter is organized as follows. First, we go through the literature on standardization focusing on interorganizational linkages. Second, we discuss the evolution of SEPA from the single market perspective and, consider the effects of SEPA on competition. We also analyze the impact of SEPA for different stakeholders and present ideas for further enhancements of processes in enterprises and authorities utilizing the possibilities of the new standards. Third, we review the current situation in Finland when it comes to SEPA and, present some new Finnish initiatives based on SEPA standards. Finally, we draw conclusions and suggest avenues for further research.

8.2 Standardization and xml-based interorganizational linkages

Standards play an important role in the evolution of information and communication technologies (ICT). Standards enable compatible and interoperable processes between business entities by harmonizing the communication protocols used for transmission. The underlying mechanism driving the benefits of standards is based on network effects. The network effects mean that the more users a particular standard attracts, the more value the users harness from that particular standard. Standards have been researched from the point of view of network effects by, for example, Rohlfs (1974), Zhu et al. (2006), and Weitzel et al. (2006).

Besides creating strong network effects for the users, standards have another important effect: fostering competition. A common view is that incompatibility restricts competition and that standardization can tackle incompatibility issues by creating common content and delivery platforms. As a result, one of the main strengths of standardization is that it lowers the users' fears of committing to a wrong technology.

Standards foster competition on two fronts. First, when competing products are compatible, they tend to compete more on price and less on design (Farrell and Saloner, 1986). This results in a commodity type of a market where price competition is enhanced. Second, standardization lowers the barriers of entry to a specific industry. When a large part of the processes are standardized, it is easier for an entrant to enter the market and create offerings to the customers who do not have to worry about committing to a wrong standard by taking up the entrant's offering.

SEPA as a standardization initiative

The purpose of Single Euro Payments Area (SEPA) is to make all electronic payments domestic in SEPA, removing differences between national and intra-European cross border payments. SEPA aims to improve the efficiency of cross border payments and turn the fragmented national markets for euro payments into a single domestic one: SEPA will enable customers to make cashless euro payments to anyone located anywhere in the area, using a single bank account and a single set of payment instruments.

The main objectives of SEPA are (1) standardization of euro payments: equal standards, equal time limits, equal fraud-risk levels, equal processes, and all-electronic straight through processing, and (2) fostering of competition in respect to higher number of competitors as well as fewer niches, special fields, and incompatibilities through standardization.

8.3 Evolution of SEPA from single market perspective

Towards a single market for payments

A single market for goods and services also needs a well-functioning payments market. The payments market can be divided into segments depending on the payment instrument used; for example, cash, cheques, credit transfer, direct debits, and cards. There are also different kinds of payment systems for different payment instruments and different kinds of payments. Time critical large-value payments are often settled in RTGS-systems (Real-Time Gross Settlement Systems), such as TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System), an interbank payment system for the real-time processing of time-critical national and cross-border transfers throughout the European Union. Retail or small value payments are, however, often processed in net-settlement systems.

The first step towards an integrated payments market in EU was the establishment of TARGET, the EU-wide real-time gross settlement system operated by the EU central banks. The system was a precondition for establishing European Monetary Union, for Eurosystem monetary policy operations, and for an integrated homogeneous money market in the euro area. TARGET went live at the start of the Monetary Union at the beginning of 1999. The starting point for establishing TARGET was the linking of the national RTGS systems of the EU countries to each other. In order to do that, common standards, procedures, and a common communication network had to be agreed upon as well as implemented.

The first version of TARGET was a system with minimum harmonization. The national RTGS-systems still had many national features and there were also differences in the payment and communication standards used at the national level. Rather soon after TARGET went live, the discussion started on the need for a fully harmonized new system. After several years, it was finally agreed that the decentralized system needed to be replaced with one centralized and fully harmonized new system. The new system was called TARGET2 and it replaced the old system gradually between November 2007 and May 2008.

The creation of SEPA

The vision of SEPA was first set out by the EU governments in the Lisbon Agenda in March 2000. The discussion on requiring faster and cheaper retail payments in EU had started soon after the introduction of the euro in 1999. The aim was to create an EU-wide internal market for payments which would make Europe more dynamic and competitive.

The first legal step towards SEPA was the regulation (EC 2001) in December 2001, stating that banks are not permitted to impose different charges for domestic and cross-border payments or cash withdrawals within the European Union. This regulation enhanced the cooperation between banks in the EU. In June 2002 the European banking industry established The European Payments Council (EPC) as the decision-making and coordination body of the European banking industry in relation to payments. EPC's purpose is to support and promote the creation of SEPA. Today, EPC consists of 74 members, composed of banks and banking associations from 32 countries and representing all sizes and sectors of credit institutions within the European market.

Standardization is a challenging and time consuming process. Finally, in April 2005, the EPC announced that it will deliver two new Pan-Euro Payment Schemes: one for electronic credit transfer and one for direct debits. In addition, the EPC was going to design a Cards Framework to define a single market for cards. However, it took some more years before the standards, rulebooks, and implementation guidelines for the first SEPA payment instruments to be launched.

The integration of the euro payments market and the establishment of SEPA would be possible only within a common legal environment that would harmonize the rules and remove the local differences. The Payment Service Directive (PSD 2007) approved in 2007 was vital for establishing SEPA. After the implementation of the PSD, cross-border payments within the EU should be as easy, efficient, and secure as national payments within a Member State. In addition to harmonizing the legal framework, the PSD defined a new kind of service provider, the Payment Institution. The purpose was to improve competition by opening up payment markets to new entrants, thus fostering greater efficiency and cost-reduction.

Migration to SEPA payment instruments

The first SEPA payment instrument, the SEPA Credit Transfer (SCT), was launched successfully in January 2008. The launch of the SEPA Direct Debit Scheme (SDD) was more problematic, and took place only gradually. The first banks went live with SEPA SDD in November 2009. Most banks, however, joined only in November 2010, when it became mandatory according to a second regulation (EC 2009a) stating that every bank in the euro area reachable for domestic direct debits also has to be available for cross-border SDD Core Scheme transactions. In addition to the SEPA SDD Core Scheme, the EPC has also developed a SDD Business to Business Scheme (B2B). It is, however, optional for banks to offer services based on that scheme.

The full benefits from SEPA can be harnessed only when migration has been completed. Although banks had joined the SCT and SDD schemes, the number of SEPA-transactions started to grow extremely slowly. According to the initial timetable, the migration should have been completed by end 2010, but soon it became evident that would not happen. In order to complete the process, the regulators started preparing legislation, which would enforce the migration to SEPA Credit Transfer and Direct Debit and realize the Single Euro Payments Area in broad. The regulatory process has been completed, and the regulation, which sets definitive end-dates for the migration to SEPA, came into force on 31 March 2012 (EC 2009b).

Concerning the third SEPA-payment instrument, the payment card, the progress has been much slower. The objective of the SEPA Cards Framework was that cardholders and merchants can make use of cards to make and receive payments and withdraw cash in the whole area with the same ease and convenience they do it in their home countries. In order to increase the efficiency and competition in the card market, standardization is needed. The work on standardization has, however, been slow. The EPC work to harmonize functional and security requirements for card services started in 2009, and is still in progress. The final goal should be harmonized standards and implementation guides for the whole card processing chain. Only then the payment card processors will be able to compete with each other and offer their services throughout the euro area, making the market for the processing of card payments more competitive, reliable, and cost-efficient.

SEPA standards in customer-to-bank and bank-to-customer space

When establishing the SEPA Schemes, the EPC was only able to agree that the use of SEPA standards would be mandatory for the exchange of SEPA payments between banks. No agreement was reached on the use of the standards in the customer-to-bank and bank-to-customer communication. That was only a recommendation by the EPC. In order to ensure full migration to SEPA in the coming years, the "end-date" regulation also enforces the use of SEPA standards in the customer-to-bank and bank-to-customer space, when transactions are bundled together for transmission. The introduction of harmonized message standards in the customer-to-bank space as well, enables customers to choose any bank in SEPA, thus allowing for broader competition and cost savings. With harmonized standards, there is no need to maintain several payment platforms and banking relationships in different SEPA countries; one platform can be used for the whole area. Harmonized standards also in the customer-to-bank and bank-to-customer space are crucial, not only from the competition perspective, but also in order to broaden the scope of further services, which can be developed based on the new standards.

A precondition for competition and enhanced efficiency is, however, that the standards are implemented in a harmonized and consistent way. Although the SEPA standards are based on ISO 20022 standards, the implementation has proven challenging, especially in the customer-to-bank and bank-to-customer space. The EPC implementation guidelines are not unambiguous. Implementation of ISO 20022 standards has also been challenging globally. In order to solve the problem, a number of global banks, SWIFT, corporate and vendors came together in 2009 and established a "Common Global Implementation (CGI)" for the ISO 20022 messages. The work has progressed well, and last year CGI published implementation guidelines covering payments and reporting based on the ISO 20022 message standards. These guidelines should be the bases also in SEPA-context.

Benefits of SEPA

Over the years, there have been several studies on the benefits of SEPA. According to Capgemini's study (CapGemini, 2007) commissioned by the European Commission in 2007, "SEPA holds a market potential of up to 123 billion euros in benefits (cumulative over 6 years) with a significant upside for all demand side stakeholders while allowing banks to retain current margins." Other studies show similar results. The European Commission's Impact Assessment (EC 2010) published in December 2010 contains detailed information on benefits for the different SEPA stakeholders.

The ECB (2007) carried out a study based on the quantitative and qualitative expectations of major pan-European banks. The study shows that the overall financial impact for the banking industry varies according to different scenarios of the SEPA project. The coexistence of national and SEPA retail payment schemes is expected to lead to initial investments borne by the banks. In the longer term, banks expect to benefit from improved cost efficiency and economies of scale and scope. Furthermore, banks are expected to face downward pressure on their revenues as competition will increase across borders and as a result of new market entrants. The findings of the study confirm the view that a dual SEPA implementation phase should be as short as possible. In fact, a longer migration period would give rise to higher costs than a shorter period. Furthermore, it can be concluded that those institutions that embrace new technological developments, create new businesses, and provide innovative services, are likely to gain most from SEPA.

Companies can respond to the SEPA challenges with different strategies. The "minimum" approach is to invest only in what is absolutely needed in order to be able to send and receive SEPA payments. In some cases, especially for small businesses, a converter might be the best solution, at least in the short term. Large and especially multi-country enterprises can benefit from reviewing not only their payment processes, but also the financial accounting and cash management processes before deciding on how to implement the migration to SEPA. With harmonized standards, the centralization of cash management activities, the implementation of payment factories, and the use of international payment service-providers could be the best solution for them. Companies could also consider the consolidation of various IT systems in shared-service centers that would cover different European markets. There are several opportunities to benefit from improved economies of scale and better capacity utilization.

Indeed, there are benefits for everyone to be gained from SEPA. Bank customers will be able to reach all accounts SEPA-wide from one account quickly and at the same price. There will be no difference between payments to national accounts and to accounts in other SEPA-countries. Payments cards will be accepted more widely, replacing cash and thus improving customer safety and security. With harmonized standards, multi-country companies can concentrate their payment processing in the SEPA area on one platform and to one single bank. Banks can attract new customers in the whole SEPA market and develop innovative new products for the entire market. Also, software suppliers will have opportunities to develop new products and services for the whole SEPA market. To summarize, competition will increase which will reduce costs.

8.4 Situation in Finland, roadmap towards end-date for migration to SEPA

SEPA migration in Finland

The banking community in Finland started early on the preparations for migration to SEPA. Representatives from the major banks operating in Finland participated in the work of the EPC from the beginning. The first Finnish SEPA-migration plan was published in May 2007. All banks adhered to the SEPA SCT (Credit Transfer) Scheme from the beginning, but they joined the SEPA Core DD (Core Direct Debit Scheme) only when it became mandatory. The Core DD allows a creditor (biller) to collect funds from a debtor's (payer's) account, provided that a signed mandate has been granted by the payer to the biller.

Although the Finnish banks were able to send and receive SEPA SCTs already in January 2008, the number of transactions processed was marginal at the beginning. As around 98 % of all transactions are transmitted electronically to the banks, the migration to SCT took off only when the banks' SEPA-compliant customer interfaces were ready. The banks' implementation timetables varied to some extent, and as most large and medium sized companies use several banks, they waited until their last bank was ready before migrating to SEPA.

Banks were not planning to provide conversion services to customers. Companies themselves had to make changes to their internal systems in order to be able to send SCTs to the banks. Strong support from banking software providers, integrator service providers, and ERP (enterprise resource planning) providers was crucial to help the companies to migrate in time. Taken together, these factors explain the slow start as well as the steep growth when the migration finally took off (see Figure 11).

Although the actual migration started towards the end of 2010, Finland was the first country to complete its migration to SCT. By the end of October 2011, the legacy credit transfer was replaced by the SCT and legacy payment file standards were replaced by the SEPA standard (ISO 20022). In the end, some banks decided to offer conversion services to clients for a transitional period. Altogether 90 % of companies were able to complete their migration successfully. Only 10 % used the temporary conversion facilities offered.

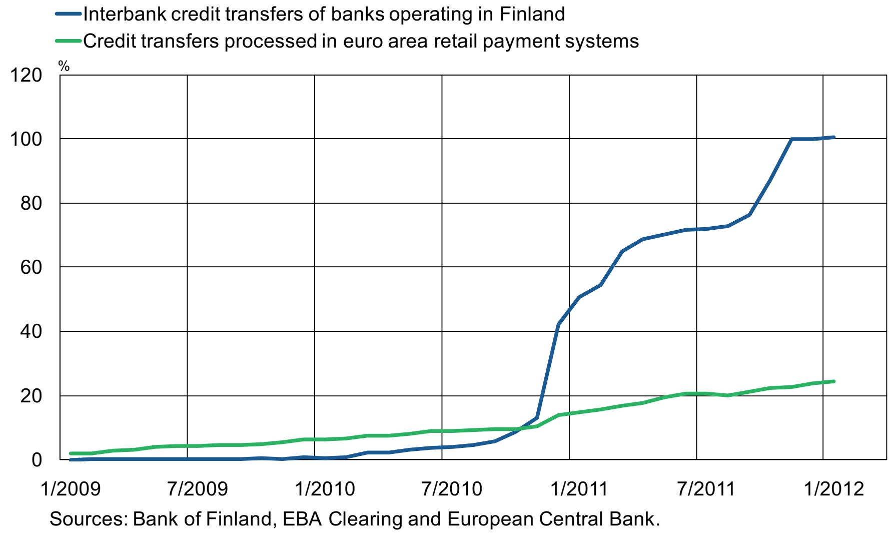
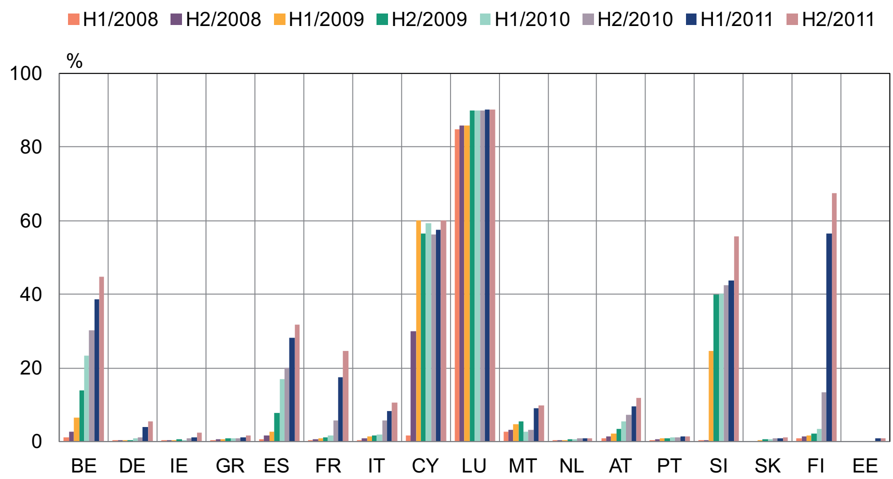


Figure 11. SEPA Credit transfers as a percentage of total credit transfers

The broader coordinated work preparing the migration to SEPA started when the SEPA stakeholder Forum and its Core Group was established in early 2009. The Core Group has played a central role in the migration to SEPA in Finland. One crucial issue raised and thoroughly discussed in the group, was related to the differences in banks' implementation of SEPA standards. EPC's guidelines were not unambiguous and banks had interpreted and implemented some things differently. If this problem was not solved, it would create a lot of further challenges and require additional work in software companies and enterprises using several banks. The banks agreed to solve the problem. A similar discussion is now going on about the implementation of reporting messages. Here the work of the CGI will be a good basis for solving the problem.

Finland's readiness to common standard solutions and multi-bank standards was one of the key factors behind the successful migration to the SEPA Credit Transfer. Benefits that could be achieved by adopting global standards were regarded by many to balance the cost-side of investing in the change. Many corporations also thoroughly redesigned their processes when implementing the SEPA changes, thus reaching a wider range of benefits.

The SEPA migration in the other Euro area countries varies considerably as can be seen in Figure 12. In some countries, the migration to SCT was extensive already early on (e.g., Cyprus and Luxembourg), whereas in some other countries the migration has been growing steadily (e.g., Belgium and Spain). In most countries, there is still much work to be done and probably most countries will not complete their migration until the mandatory end-date.



Source: European Central Bank.

Figure 12. Indicators of the usage of SCT as a percentage of all CT transactions per country (Euro area countries)

8.5 Radically new initiatives building on SEPA standards in Finland

Already some years ago, banks in Finland launched a new payment product for consumers based on e-invoicing. The consumer can check the invoice information and confirm the payment using online banking. The e-invoice can also be linked to automatic payment. For online banking users, e-invoicing triggering SEPA credit transfers will probably replace most legacy direct debits by the end of the migration period.

In addition, SEPA provides the key stakeholders with ways to utilize structured data from the business documents to automate accounting and cash flow estimates of small and medium sized enterprises (SMEs). Structured information from business transactions forms the platform for this development.

The new VAT directive (approved in July 2010) contains a recommendation that enterprises with less than 2 million Euros in turnover can use cash-based accounting. Taken together with e-invoicing, electronic bank account statements, and definition of periodical financial items (like salaries), this means that accounting can be automated entirely for small organizations. Transferring the enriched SEPA bank statement for the bookkeeping requires evaluation of the current accounting systems to ensure the further possibilities to utilize the model by small organizations and accounting firms serving the sector.

In addition to automated accounting, SEPA offers possibilities for enhanced cash flow forecasting tools. Straight through processing of payments eliminates manual intervention and automates cash inflows and outflows. Taken together with other business transaction documents such as e-invoices, this creates a platform that can be used to making more precise cash flow forecasting models.

8.6 Conclusion

In this paper, we set out to explore SEPA from the point of view of standardization and single markets. We discussed the evolution of SEPA and reviewed the current situation in Finland. We also highlighted the potential further benefits to be drawn from SEPA standards. Finland started its actual SEPA migration late in 2010 and was able to complete the migration rapidly. By the end of 2011, all credit transfers were in SEPA-format.

As emphasized in the conclusions of ECOFIN (The Economic and Financial Affairs Council, which is one of the oldest configurations of the Council of the European Union) in 2009, the full benefits of SEPA "can only be obtained through the full migration of existing national euro payments transactions." This highlights the networks effects of standards. For those who have already migrated, some benefits from SEPA can, however, already be gained now. When migration is completed, banks and companies can dispose of the legacy solutions and streamline their processes. They can concentrate on new challenges to enhance their internal processes using the possibilities which the use of ISO20022 standards gives.

Especially large multi-country companies can benefit from the harmonized standards and increased competition. They can centralize their payments to one bank and enhance their liquidity and cash management services. In addition, efficiency can be improved and costs reduced by automation of companies' internal processes. One major source for improvements is full-scale adoption of e-invoicing. According to Capgemini's study mentioned above, the potential maximum cost savings on invoicing related processes could arise to 0.8 % of the GDP per year on the demand side. The estimated extra revenue flow from e-invoicing for banks is estimated between 0.4 and 3.4 billion Euros per year. If SEPA could be used as a platform for e-invoicing, this could produce a potential net benefit to the market of 238 billion Euros over the same period.

Furthermore, standardization initiatives such as SEPA, should be seen as platforms that pave the way for value-added services. There are already development initiatives, based on SEPA, that are aimed at increasing the efficiency of book-keeping for small and medium sized enterprises. This can be done by marrying the SEPA electronic bank statements with the information on outgoing and incoming electronic invoices. Another development area is cash-flow forecasting tools. The structured data from financial administration should be used as input to more accurate cash-flow forecasting tools. These developments give rise to numerous possibilities for banks to develop new services to their corporate customers. Banks should aim at harnessing all potential benefits of SEPA and not see it as just another standardization effort.

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9 Towards Sustainable Banking: The Nordea Case

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Abstract: Recent research has acknowledged the key role of information technology (IT) in building sustainable organizations. Organizations have implemented green strategies. However, there is limited understanding of how the sustainability process unfolds. We apply sustainability literature and Green IT literature to develop a theoretical model that explains the processes to successfully institutionalize a sustainable banking business. We found that sustainability process may be driven by bottom-up engagement with top-management support with relatively small changes and initiatives which together created a sustainable organisation. Data were collected from a case bank (Nordea) during a period of 11 months. On the basis of these observations, we conclude that sustainable banking should be considered a process focusing on the available Green IT solutions, sustainability goals, and the organizations different stages of development.

Keywords: Sustainability, Green business, Greening process, Corporate social responsibility, Banking

9.1 Introduction

During the recent years, companies have increasingly received both internal and external pressure to consider ways to make their business more environmentally and socially sustainable. External forces include customers demanding and rewarding companies that act in environmentally sustainable ways, in combination with governmental authorities seeking to regulate behavior to develop more sustainable businesses. Internally, as well, employees and shareholders are demanding not only fiscal responsibility but also social and environmental responsibility from their companies.

Thus, a firm’s ability to conduct sustainable business practices is increasingly recognized as a prerequisite to be in business and part of core strategy as well as an ongoing, lifelong task (Chen *et al.,* 2008; Markus and Fremeth, 2009). However, despite the widely acknowledged importance of running a sustainable business, and the fact that the adoption of sustainability projects is on the increase (Chen *et al.,* 2010), only 30% of companies reported having actually implemented a “Green IT“ strategy (Symantec, 2009) – that is, a strategy to create and maintain sustainable practices in their utilization of information technology (IT), in particular. The rare cases concerning the utilization of IT as a sustainability tool indicate that IT utilization is generally driven by short-sighted efficiency goals (Molla *et al.,* 2009; Corbett 2010), such as goals to reduce power, cooling, and real estate costs (Molla and Cooper, 2010). In other words, even if managers and professionals may attempt to reduce the direct environmental impacts of

IT by making data centers and end user devices more energy efficient (Dedrick, 2010), they are not necessarily considering the role of IT as a part of a long-term, greener strategy.

In banking sector, especially, the utilization of IT is a necessity and core factor of production in doing business and serving customers. IT is also generally the second largest target of corporate investments and expenditure – only after labor costs – as well as a factor integrated with the corporate strategy (cf. El Sawy, 2004). As such, IT holds the potential of being a key vehicle in making banking more sustainable.

Past research has asserted that organizational sustainability requires change and innovation, and that as the outcome, (1) economic, (2) social, and (3) environmental consequences are expected (Ambec and Lanoie, 2008; Marcus and Fremeth, 2009). Ecologically sustainable organizations require a level of balance among these realms. However, such balance is not easily accomplished. Organizations need to navigate between and make progress among different initiatives related to environmental pressure, stakeholder acceptance, and management directives in order to become (or remain) effective and increase their sustainability.

Extant literature, indeed, presents much research on whether the economic benefits of becoming environmentally sustainable outweigh the costs incurred (Ambec and Lanoie, 2008) as well as on what green management (Marcus and Fremeth, 2009), cost management (Ambec and Lanoie, 2008), stakeholder involvement, and institutional factors related to change initiatives (Chen *et al.,* 2008) are generally like. However, literature examining the specific process and events that surround an organization's greening process is so far sparse. More so, whether and how sustainability relates to organizational effectiveness is rather unclear. Against this shortcoming in the existing literature, we investigated the organizational greening process – and the role of IT in this process – through a case study of a major banking company, Nordea, over the last decade.

To understand this process, we apply a grounded approach inspired by Strauss and Corbin (1997), and develop a model of a bank organization's sustainability process. We explain the underlying processes and the factors that enable an organization to become ecologically sustainable. In other words, we present a descriptive case story that highlights the process of creating a sustainable banking service.

9.2 Method of empirical inquiry

The purpose of the study was to develop insights into the how firms become greener. Interviews were the primary method of data collection. Initial interviews were based on a broad framework, including strategic, organizational, managerial, and technological aspects related to Green IT. The purpose was to identify relevant initial conditions, states, events, and transformations in the case organization's Green IT development process. The interviews started in March 2010 with the Green IT manager to get an overview of the development process. After initial interviews, it was jointly decided with the case company's representatives how to expand the study. Table 11 presents the full list of interviews. The subjects included both line managers and IT executives at senior and middle levels of management. Interviews were wide-ranging and conversational to facilitate the collection of information, with the aim to contribute to both theory development and future data collection. External and internal documentation, including annual reports from 2005-2010, corporate social responsibility (CSR) reports from 2009-2010, project plans for Green IT projects, workshop documentation, project proposals, and cost-benefit analyses, were used to complement the interviews and to triangulate research findings.

Nordea had one requirement of the collaboration, namely that the interviews did not contribute to the CO2 emissions. Consequently, we did most of the interviews over the phone, except for those that were local to the interviewers. The interviews were recorded and transcribed.

Table 11. Interviews

Position/role	***Interview date***	***Interview type***
Green IT manager and project manager for Live meeting	2010-03-19	Face-to-face
	2010-05-19	Face-to-face
	2010-08-09	Phone
	2010-10-08	Face-to-face
Project co-worker, Video conferencing	2010-07-01	Face-to-face
Active user and idea creator	2010-07-01	Phone
Project co-worker, conferencing	2010-07-14	Face-to-face
Group IT Communication	2010-07-22	Phone
CSR manager	2010-09-07	Live meeting
Premises manager and Ecological footprint manager	2010-09-07	Phone
	2010-10-25	Phone
Project leader of Power off	2010-09-14	Phone
IT developer of Power off	2010-09-14	Phone
Chairman Green IT committee	2010-09-14	Phone
Group IT Communication	2010-09-20	Phone
CIO	2011-02-25	Phone

9.3 Nordea's Greening Process

With its 11 million customers, 34,000 employees and 1,400 branch offices in 2010, Nordea is one of the largest financial institutions in the northern part of Europe. The bank is in good financial condition, indicated by an operative profit of just above €3,6 billion during 2010.

Only two decades ago, the banks that today constitute Nordea were independent financial organizations. In the early 1990s, the Nordic countries experienced a profound financial crisis that challenged the existence of many financial institutions. In the years following the crisis, four Nordic banks (Merita Bank [Finland], Nordbanken [Sweden], Unibank [Denmark], and Christiania Bank of Kreditkasse [Norway]) merged and joined under the label Nordea. The traditional focus of the bank was on performance and profitability. The CEO was Lars G. Nordström and his keywords were "focus, speed, performance". After finalizing the mergers and the consolidation process, Christian Clausen became the new CEO in 2006. The appointment was part of a strategic process to reposition Nordea. The new CEO altered the management style to include discussion and consensus among employees and initiated a revision of the corporate values. The new corporate values became; "It's all about people", "One Nordea team", and "Excellence of customer experiences".

Green initiatives at Nordea

1997-2006

Green initiatives started before the merger of the four banks. For instance, in the late 1990s, the Finnish part of Nordea began to systematically improve its premises and facility management. The premises manager describes Nordea's early work on sustainability:

> *"Even as early as 2001, we received an award in Finland for our eco-friendly building methods. The environment and sustainability have been our priority well before the latest boom in interest of eco-friendly building. For instance, in 2002, we participated in the Global Sustainability Congress in Oslo." (Premises manager)*

The premises manager initiated several other projects to enhance Nordea's operational performance and to reduce its environmental impact. One project involved the use of IT for improving the utilization of office space. Another project focused on having all corporate buildings (new and old) become LEED certified[9].

At about the same time, in Sweden, another initiative was taken to reduce power consumption, but in this case, it was an initiative of the IT Department. They had been working on reducing power consumption in the server halls. This was achieved through the consolidation of server halls and the virtualization of servers. The virtualization of servers has a large impact on energy consumption and CO_2 emission. It is essential for all green projects to show both bottom line impact as well as environmental impact. Another example of bottom line savings comes from TG (a lead user) at British subsidiary, where they were up-grading servers:

> *"The IT Department needed to replace certain equipment, and of course, they bought greener equipment. In particular, they had to replace the UPS [Uninterruptible Power*

[9] LEED certification is a recognition that a construction project or building can attain by utilizing environmentally friendly building practices during construction or remodeling. LEED is the acronym that stands for Leadership in Energy and Environmental Design and is the Green Building Rating System developed by the U.S. Green Building Council.

Source], which was very old, becoming unreliable and had high costs, and of course, also had huge power consumption. Later, someone said how wonderful it was that they reduced the power consumption by nearly 30%." (a lead user and idea creator)

However, the underlying rationale of these early initiatives was mostly measured in terms of cost savings – not environmental impact. Furthermore, the initiatives were not initiated by strategic decisions; rather it was individual managers who tried to reduce their operational costs and be more productive.

2006-2008

In the process of developing new values, Corporate Social Responsibility (CSR) emerged as a key concern among Nordea's employees as well as customers. This occurred at a time when CO2 emissions and global warming were on many politicians' agendas. Additionally, competing banks began to publish Green budgets, and the Swedish state (at that time Nordea's biggest shareholder) was putting pressure on firms to be more sustainable.

CSR was aligned with the new strategy, and in late 2007, it was decided that a new position would be created that was responsible for CSR. This position was filled in early 2008. The link to top management was rather symbolic, but it influenced people's thinking and perceptions of sustainable work. The CSR manager explains the role of CSR and its relationship to the corporate values:

"In order to practice CSR and to be sustainable, it has to be a natural part of all activities that the bank does. Based on the three values: "It's all about people", "One Nordea team", and "Great customer experiences", we think that doing responsible business is a prerequisite for staying in business. That's why these values and the thinking tie the story together. All Nordea employees need to understand what work must be done and what their responsibilities are." (CSR manager)

The importance of the new values is explicated by the CIO – who gives an example of projects that weren't possible before the new values:

"… we have this sleeping service [automatic shut down when not in use] for work stations that probably would not have started before these structures came into place. And there is information provided on finding ways to reduce travelling, and so on. I don't believe that those would have been so high on the execution list without having clear linkage to the new values." (Chief Information Officer)

The guiding principle for the new CSR work was "to have the house in order". This means that Nordea perceived that their customers, employees, and other stakeholders expected Nordea to practice a socially and environmentally responsible business. Not having the house in order could severely damage the company. This would influence all business activities – from lending to investments.

Besides the internal focus, Nordea now sought to influence its suppliers through codes of ethical and sustainable conduct. For instance, suppliers would have to be compliant with the overall CRS guidelines; this initiative has been running since 2008. The IT infrastructure manager describes the role of the CSR Guidelines:

"All of our IT suppliers need to be compliant with Nordea's CSR guidelines. We don't have any formal clauses in our contracts with our suppliers specifying CSR compliance, but the suppliers are checked so that they don't break our policies. This can be CO2, child labor or any misuse in the production of any inputs that we need for our business." (IT infrastructure manager)

Nordea also engaged in more general attempts to influence the business society at large. The CSR manager describes Nordea's participation and work in the "Carbon disclosure project", for instance:

"It challenges corporations around the world to disclose their carbon footprints and strategies. We as a banking and investment community put pressure on these companies by telling them that their footprint numbers make a difference in our view." (CSR manager)

Furthermore, the CSR manager points out new pressure from external actors, such as the government and potential employees:

"An interesting new pressure on Nordea arose during 2008, when new employees and potential candidates asked about our environmental program." (CSR manager)

Aside from clients and potential employees, the fact that the Swedish state is one of the largest owners puts pressure on Nordea to set a good example. Eventually, any actions by Nordea that are seen as unethical or irresponsible will strike back on the politicians that are sensitive to public opinion. According to Group Communication, a company like Nordea has to live with closer investigation from media than its competitors, due to the ownership situation.

"I think a contributing part – albeit not the whole explanation – is that we are owned largely by the government and the government has, of course, an obligation to be environmentally-friendly. I think part of it comes from this fact. If you have a public owner, you have to manage your business in an ethical and environmentally sound manner." (Group communications manager)

During the collective phase, the sustainability work changed from a performance-driven to an ecological-driven focus, rooted in the new corporate values. Furthermore, this phase is the starting point in the formalization of CSR.

2008-2010

The appointment of the CSR manager was the starting point of a formalization process. The role of the CSR manager was to facilitate, organize, and structure green initiatives. Furthermore, the CSR manager was responsible for producing the green annual report and participating in external groups. Another example of how Nordea tried to influence its environment was their ongoing work to reduce paper use. The premises manager describes this project:

"Then we have established two paper groups, one for external papers and one for internal paper consumption. There is a great deal of money in this area. Mandatory documents are required by law to be printed. Our teams are working on how to influence practices and legislations. Some legislation is local while other legislation is enforced by EU law." (Premises manager)

The CSR manager, premises manager, and the soon-to-be-appointed Green IT manager were close internal collaborators. During this period, an "Eco-footprint" project was established. It was an umbrella project organizing eight projects (internal paper, external paper, internal logistics, waste management, water usage, energy consumption, and Green IT). The Eco-footprint project does not only have environmental goals, such as the reduction of CO2 emissions, but also some very tangible operational goals, such as reducing paper consumption by 50% by 2016, and cutting electricity consumption down 15% by 2015.

Most of the Eco-footprint ideas would come from internal workshops and individual's suggestions. During this period, people at the IT department had started to reflect upon their work and life even more generally. In particular, some managers questioned the countless hours they spent in airport lounges – from a cost, environmental, and work-balance perspective. One of these managers was appointed in 2008 as the Green IT manager. The CIO explains the important role of individuals in the green process:

> *"When it comes to Green IT, it was more or less the project manager for Live meeting who was driving this initially. He was inspired by new thinking and started to look at how we in IT could use Green IT. When he came to me, we went over his ideas in this area. He made a very good presentation and was able to link business activities to CSR and our role on the globe and the impact we have on the environment." (Chief Information Officer)*

The establishment of a Green IT manager led to several new projects. The two most important projects were the Power-off and Facility management systems. The main idea of the Power-off project was to turn off computers when not in use. A control software was implemented at the cost of €80,000 for the first year, and then €36,000 as annual running costs. When the Power-off was fully implemented, 20,000 to 26,000 computers were shut down every night. The Moreover, facility management systems provided information about how the organization consumes resources, energy, water, and waste. The Premises manager explains the role of the system:

> *"We have IT software, which we are using for allocating space usage and costs for the whole Nordea… We have 60,000 workplaces in these drawings. This allows us to calculate a specific work unit's eco-footprint, and we are adding travel information and energy usage of the building, depending upon how much space the units are using. So, we press the work units to reduce the space usage; in this way their impact on the environment is less." (Premises manager).*

In addition, the system had unanticipated consequences, as the premises manager explains:

> *"I think one of our eye-openers has been our ability to monitor our electricity consumption. We noticed that our buildings consume equal amounts of energy when people are not there as when they are there. It's great when IT systems can provide us with this information. So, I think information is the key – we have to measure and compare the trends and act thereafter." (Premises manager)*

One of the issues discovered by the CSR manager was an inherent conflict between environmental and economic goals:

> *"It is really challenging. Of course, what is measured first is the business goal of the employee, but I am sad to hear if they (employees) don't get any feedback about their sustainable behavior. It should not be like that. I understand that there are not many people who have individual targets that are directly related to sustainability. When it comes to the normal bank advisor in a branch office, it may be harsh to say, but I don't think it is in their daily targets. There is more of a focus on the service towards the customers." (CSR manager).*

2010-on-going

By 2010, the CSR organization was in place at Nordea, and most employees were aware of the sustainability work. What is most important and very clear is that the whole mindset of the employees changed during 2009. However, new issues have also emerged since. One of them is the shortcoming of people with experience and knowledge of sustainability. The premises manager expresses his concerns with experienced manpower:

> *"I think here at Nordea, there are many 'green thinking' people, who have the mindset, but many times they do not have the right experiences to complete the task. Finding a person that could coach and follow-up on all of these things [i.e., sustainability work] is difficult. We have external consultants doing that, but it should be someone from inside Nordea – someone who is very active in helping the teams and guides the work and activities to the right areas." (Premises manager)*

In other parts of Nordea, the most ambitious project is under way since 2010. Building upon the success of previous Green IT projects (Power-off and Facility management system), the Green IT manager turned Nordea's focus on to video conferencing, in order to reduce both cost and environmental impact. Accordingly, Nordea has acquired several video conferencing systems, from a low-end system (such as Live Meeting in Microsoft Communicator) to a high-end system directly connecting meeting rooms of Nordea offices. The intended usage of Live Meeting is for everyday use, to support internal interaction and to complement and enhance phone calls, instant messages, and e-mails. The Live Meeting project started in winter of 2010, when Nordea realized that Live Meeting had been installed on all Nordea computers for over two years, but was rarely used. The main goals were to get the system up and running in practice, and get more employees to use it. The project leader's first task was to become familiarized with the system and to understand how it was used and why it was not used more often. Meanwhile, in other parts of Nordea, for instance one of the co-workers at the IT department said that they adopted the system very quickly:

> *"It was introduced to me by a former colleague who is also a 'gadget freak'. She was working as assistant to a manager, and she immediately became hooked on the service attributes of 'Live meeting', and defined it as the new way of doing meetings in Nordea." (IT worker)*

Based on this initial knowledge, the system was more proactively promoted in combination with increased emphasis on training for the support group. One of the issues described by the project manager was that the support group did not even know how the program worked.

"I mean, how can they support other people if they don't know the system themselves. Trying to support the issues that appeared with a program like that was difficult. All training initiatives started in April and May, 2010." (Project manager)

The vision of how Live Meeting may influence Nordea's activities is dual. Cutting the amount of traveling is one part of it, but also enriching communication, which had otherwise been mediated by phone calls. Video conferencing as a means to replace traveling received a boost when air travel was suspended during the ash cloud's presence over Europe in 2010. Top management, led by the CEO, is also trying to set a good example with the use of video conferencing to replace some of their physical meetings. However, challenges still remain.

For the future of the Live Meeting project, the project group is discussing how to reach a wider base of users. In doing so, the interaction with actual and potential users has changed from reactive to proactive. One reason for doing this is to present stories about benefits on the Internet. One example comes from the infrastructure manager:

"One of the areas where we can make a difference is related to traveling, particularly when it comes to air-travel. My department travels more than most within Nordea, and spent €1.3 million on it in 2008. Now we are down to € 500,000 in 2010. We now just have one physical meeting per month instead of every other week. So, we have reduced the travel budget by more than 50%. Aside from the financial savings, we now have a better quality of life. So, by reducing the amount of traveling, Nordea saves money, the employees get a better work-life balance, which leads to higher efficiency in work, and we are reducing our impact on the environment. When you have these three benefits, it is a no brainer." (Infrastructure manager)

The Green IT projects have also become a symbolic gesture of intentions to make Nordea greener. These projects are acknowledged by top management and offer a clear signal to Nordea employees, as illustrated by one British co-worker:

"Well, to some extent it is symbolic, it's a marketing of visions for Nordea… but to me Green IT is principally also about power consumption. There are also other consumables too: paper, toner, and ink. The working office consumes a lot of those." (An employee)

The symbolic value also influences what working in green projects is perceived to be like. For instance, the IT infrastructure manager gives an account of this:

"To work with Green IT is perceived differently internally. It is not like working with an upgrade or replacing the entire network – the heavy task. It is more high profile, it is viewed as innovative thinking and for those who prefer this type of work, but it is not yet part of the core business." (IT infrastructure manager).

Indeed, Green IT projects are in some ways similar to the type of projects that Nordea normally runs at IT Infrastructure, but there are also relevant differences. The infrastructure manager explains:

"The only big difference between Green IT projects and our normal projects is benefits realization. The benefits, we don't always see, since they emerge in other units. For instance, we don't see the energy savings from the power-off project in our accounts. Instead, the

gains are at Premises, where our facilities are managed. To solve this issue we have mutually decided to split the benefits internally between the Premises and IT Infrastructure. Another example is when we come up with an idea that lowers the energy consumption in our server halls. This benefit is only seen in the balance sheet of Nordic Processor – not Nordea." (IT infrastructure manager).

So, according to the Green IT manager, for instance, the current travelling behavior requires a new set of measurements:

"Every day Nordea employees make 500 trips by plane. Of these, 400 are for meetings, workshops, and for other internal reasons. Only about 100 are to meet with customers. The 100 externally motivated flights might be a bit hard to reduce, but the 400 internal trips can to a large extent be substituted by technology-enhanced meetings." (Green IT manager).

However, at present there are no green Key Performance Indicators (KPIs), except for those employees working directly with green projects. Consequently, there is limited impact at the individual or office level. There is on-going discussion about new KPIs that includes green measures, but this is a delicate process explained by the Green IT Manager.

"We are thinking about different ways to do this, including KPIs on office and/or employee level related to sustainability. But we couldn't have done this initially. We had to reach a level of trust both for the CSR in general, but also for the specific Green IT initiatives. Now that we have reached this stage where management and employees see that what we have done works and has a positive impact on the organization… now it's possible for us to suggest more profound changes. The KPI thing wouldn't have been possible before we reached this stage of trust." (Green IT manager)

But as new KPIs are enforced, they will have a large impact, as the IT infrastructure manager puts it:

"There are no specific KPIs for this yet, but we are heading there. The people involved are very self-motivated and the work with Green IT makes them feel good, and when 34,000 co-workers are working towards the same end, it makes a difference." (IT infrastructure manager).

9.4 Findings and discussion

Overview

The process of transforming a bank such as Nordea into a greener organization is a delicate one that will take time and needs to be handled with care. Even though green activities have been steadily on-going since the late 1900s, it is a sensitive process that involves many small steps. The changes are rarely radical and sudden; rather, the process has moved forward in small, incremental steps, starting in facility management and in IT. Those first steps are hardly noticeable in every-day work practice, from an employee or customer perspective. If they interfere with banking activities, it could lead to backlashes internally, since the general perception is that the case organization is fundamentally a bank and should behave as a bank. Moreover, the early initiatives were, and still are, driven by local champions and motivated by cost savings for running facilities and IT. It is only during the last few years that CO_2 and other environmental aspects have been used to motivate such projects.

The greening process, as we understand it, is not a transformation that is forced upon the organization from the top management. On the contrary, it is a smooth and soft process led by champions and supported by the management team. The transformation has roots in top-management actions and decisions, but these actions and decisions also result from ideas and suggestions from the organization's employees. We see top-management decisions thus far as a combination of enabling bottom-up forces and a driving force itself. What has created momentum in the transformation process is interference between soft forces from many different origins. In Figure 13, we outline some of the interaction between different levels of the case organization in the transformation process.

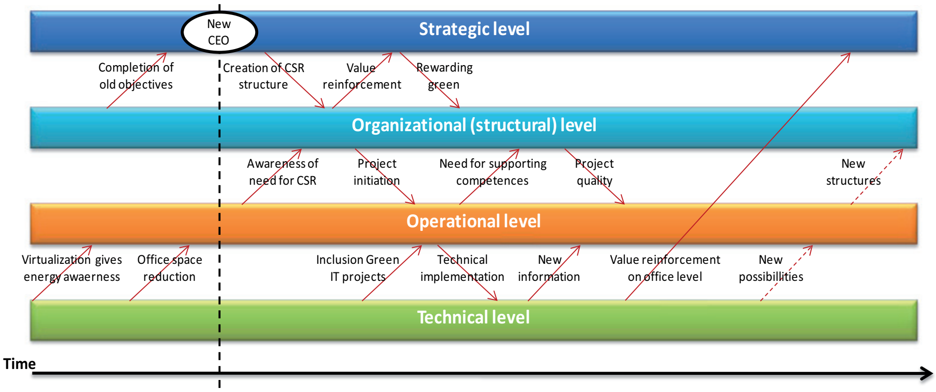

Figure 13. Level interaction in the greening process of Nordea

Most importantly, Figure 13 conveys the interaction between different layers of the case organization, which have carried the greening process forward. One top-down flow corresponds roughly to what is depicted in Figure 1: Starting from the upper-left corner with creation of a CSR structure, this leads to project initiation, which in turn leads to technical implementation of Green IT. However, the figure shows that this straightforward view is only a limited part of the overall picture. Green IT implementations have enabled new ways of working at the operational level, and serve as a visible gesture at the case organization's various offices, signaling the importance of sustainable business and thus manifesting corporate norms and values.

In outlining the interplay between multiple organizational levels in the greening process, the model in Figure 13 highlights the inappropriateness of considering Green IT initiatives in isolation from other parts of the organizational greening initiatives. An isolated view has been frequent both in the scientific literature (e.g. Ambec and Lanoie, 2008; Pfeffer, 2010) and among business practices (Molla *et al.,* 2009; Corbett, 2010). Our primary contribution to the existing literature on Green IT is the conclusion that by only focusing on single Green IT initiatives, it is hard to make sense of the mechanisms that make Green IT initiatives take off, and how they extend into further greening initiatives as a continuous process.

Top-down and bottom up interface

Upon glancing at our four stage process model, which we intended to use as material for discussion, the Green IT manager made an immediate remark:

> *"In some sense one can say that we have gone through these stages… but actually, in my view it was not a straightforward top-down process. What is unique with the work in CSR and in particular with Green IT is that it originates from several different sources. There is certainly the CSR drive from management, but it attaches to aspirations that come from several different individuals and groups within Nordea. The process certainly goes both ways. It's also a bottom-up initiative." (Green IT manager).*

This comment highlights our second contribution to the literature on Green IT. The story of the case organization's greening process suggest that Green IT initiatives will only become part of a continuous greening process in case they are launched in the interface between top-down and bottom-up pressure. One of the two is not likely to be enough. On the one hand, in lack of bottom-up pressure, the people who sit close to the problems and opportunities for applying Green IT will not make the effort of pushing their ideas forward. On the other hand, in case the top management fails to recognize the new structures which are created and which can further facilitate greening initiatives, the Green IT initiatives will become isolated anecdotes in the corporate history rather than integrated events in a continuous greening process. Based on our analysis of Green IT in Nordea, we suggest that it is only in the interface between top-down and bottom-up pressures that Green IT initiatives will form part of a larger organizational greening process. This suggestion reveals a problem with the Green IT activities normally undertaken by companies (c.f. Molla, *et al.,* 2009; Corbett, 2010) and calls for more research on the institutional factors that underlie Green IT initiatives (c.f. Chen *et al.,* 2008).

Transformation sensitivity

The described transformation process in the case organization has emerged over the past decade, picking up pace with the appointment of a new CEO. His way of developing new corporate values based on consensus and discussion within the top management team was a change in management style. This way of getting ideas established is similar to how Green IT and Eco-Footprint has evolved.

Organizational and behavioral change is never easy – it is a delicate process that requires thought and heart. This is true of Nordea's greening process, which was a relatively gentle and smooth transition with limited top management governance or interference with the normal banking business. Instead, there were champions, supported by the top management who initiated and managed the process relying on the corporate values as guiding principles. From the individuals working with the greening of the case organization, we learned that in a banking context, it is necessary to manage activities that fall outside the core banking initiatives in a sensitive way.

Otherwise, one runs the risk of setting back the greening process by several years. To describe this process, we might compare it with the game of curling, in which a single grain of sand may stop the curling stone from reaching the nest. Rather than bumping into barriers and seeking to overcome them with brute force, the greening champions ensure that barriers are taken down before launching green initiatives. All grains of sand need to be swept away. Quite often this means that initiatives are put on hold, and one must wait for the organization to arrive at a position where the change may occur naturally.

This sensitive view of the greening process, calling for a soft and careful touch is in contrast with much of the literature of Green IT and organizational transformation. This body of literature generally talks about the “radical transformation” and “paradigmatic change”. Our analysis indicates that a relatively effective management approach bringing about the greening change takes the form of an agenda of facilitation and empowerment, rather than a pushed, radical redesign or reengineering that normally is associated significant organizational change. In the following two sections, we still further highlight the sensitivity of the greening process and the sweeping actions taken to create an even more robust environment for the greening process in future.

Future prospects

Sensitivity

The process of transforming the case organization – or equivalent banks or other organizations – into even greener companies is a delicate one that takes time and needs to be curled. Even though green activities have been steadily increasing since the late 1900s, it is a sensitive process – one that moves forward in small, incremental steps, starting in facility management and in IT, for instance. Those first steps may be hardly noticeable in everyday work practice, from an employee or customer perspective. If they interfere negatively with banking service activities, they could lead to backlashes internally or among customers, since the general perception is that banks should behave as banks and not engage in too radical moves distracting the banking activities. The early initiatives have been, therefore, driven by champions and motivated by cost savings for running facilities and IT. It is only during the last few years that CO2 and other environmental aspects have been used to explicitly motivate such projects.

One such gentle step is the virtualization of servers, which is a typical Green IT project that does not affect any banking activities, but has a large impact on energy consumption and CO2 emissions. This kind of project is later used to build trust and recognition within and outside the organization for the greening activities, as well as to give return on investment. It is, hence, beneficial for all green projects to show both bottom-line impact as well as environmental impact. Later, the virtualization project will be expanded to desktop computing, by the introduction of thin computers.

The second example project is the Power-off project. In the case organization, the project had some minor impact on employees’ work – mostly limited to bending oneself down to turn on the computer or being irritated when coming to a video conference room in the morning and realizing that it takes a few minutes to start up the computer.

To sweep away these small "grains of sand", some computers can be excluded from the power-off projects. Likewise, individual computers can be excluded from the power-off project if employees request it. This project uses IT to reduce energy consumption. Interestingly, this project was made possible in the case organization after it began to measure and follow up on the energy consumption in a systematic manner and found that it was using the same amount of energy at night as during the daytime.

Similar small and gentle steps can be taken in initiatives like the Live meeting project, which may potentially have a huge impact on travel behavior. Notably, in the case organization, the software was first installed on all computers with no impact on employees' work. Gradually, however, a few units began to use the videoconference system of the software, creating an internal push. Later, the top management team began to use videoconference systems to reduce travel as well. Such an action has a strong symbolic value and cannot be neglected. In other similar cases, evaluation projects could be initiated to understand why videoconference systems or other systems are not used even if they are available -- and formal training programs started to promote the system. Likewise, a number of initiatives can be taken by the group like the Eco-footprint, to reduce the consumption of resources, including energy, paper, waste, transportation, etc.

Increasing robustness

To make all these initiatives not only sustainable but also sustained, the case organization was creating structural arrangements to make the initiatives more robust. The first and most important one is the change of corporate values that can be used to relate to all green projects. The corporate values are explicitly expressed in the annual report, and they communicate an important message to the organization and its stakeholders. But more importantly, the processes of creating the new corporate values lead to the creation and formalization of the new role of CSR manager.

The creation of the position of as CSR manager is also a powerful symbolic act that influences people's thinking and perception of greening and the environment. One of the first and most important tasks is creating the annual CSR report. The process of producing the report requires the systematic collection of internal data on energy consumption, which also leads to reflection in the process of writing the report. The CSR report has both internal and external readers. The link to the Carbon Disclosure Projects is important, whereby the case organization, for instance, attempts to influence other companies in reporting on their environmental impact. Furthermore, the CSR manager functions as a central node in decision-making and control of various green initiatives.

Finally, formalization is one of the strongest ways to inscribe robustness of CSR and ecological initiatives within an organization. A further step in this direction would be formal KPI's related to ecological issues for some, or all, of the company's employees. Similarly, for IT projects, ecological sustainability could be a parameter in project methodologies. Project methodologies explicitly or implicitly model development projects, following a set of parameters that are considered as successful project outcomes. Including ecological sustainability in these is a way to ensure that internal development projects take ecological issues into consideration in the future.

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Over the past years, financial deregulation, internationalization, and digitalization have drastically shaped the landscape of banking and financial services. In addition, the global service business revolution has increasingly encouraged the banking industry to pay attention to consumer behavior and users' service experiences. This edited volume provides a broad, academic research-based perspective to these issues. The book includes eight insightful scientific essays authored by academic scholars – as well as an interesting special report on a research project concerning consumers' point of view to future banking. In sum, the chapters provide both a fresh look at the consumption of banking services, and a broader view on the evolution of banking service markets. The chapters are authored by scholars from the fields of marketing, information systems, and finance. Nevertheless, the contents are maintained at a level that is practical and understandable to business managers and even to consumers.

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