

Preface

The latest global recession has strong impacts on global economic activity and stock performance of international firms. The possible chain reaction of bank failures in advanced economies and sovereign defaults in Europe are still major concerns for investors in fragile capital markets as credit default swap spreads have been breaking new records high too. On the one hand, the latest policy steps by banking authorities in advanced economies seem to have negative effects on the performance of financial institutions. On the other hand, the fierce competition in financial markets with poor financial performance, plus the new withdrawal mechanism regulations in Europe for low performance banks resulted in poor growth rates for banks.

Volatile conditions in capital markets by the last quarter of 2008 affected the way businesses are organized and managed. It becomes a challenging issue for managers and stakeholders of profit organizations. Following the negative effects of the 2008–2009, global financial crisis on capital markets, investors now pay more attention to risk management and stock performance. The critical issue for top management in corporation centers is the stockholders' primary goal of value maximization. The competitiveness approach of top management as a strategic tool aligns managerial finance with successful corporate strategies for banks.

The main purpose of this book is to analyze the managerial issues in banking and finance from an interdisciplinary perspective. The fundamental approach of this publication brings together global issues in economics and finance, risk management and auditing, the competitive management strategies and custom finance, and models as well as unique approaches related to global finance in a reflective way.

The authors of the chapters in this publication have contributed to the success of our work by the inclusion of their respective studies. This book, consisting of 20 chapters, is divided into four parts: *Global Issues in Economics and Finance*, *Risk Management and Auditing*, *Competitiveness and Management in Financial Institutions*, and *Custom Finance in Theory and Practice*. In the first part of this book, the authors also assess the concept of globalization, bipolarity of risks in the E7 economies, social media strategies of banks in the globalized world economy, economic approach to consumption, and the changing role of central bank. In the second part, the authors discuss the issues related to risk management, hedge accounting, control mechanism, and auditing. In the third part, an innovative

approach to competitiveness and management in financial institutions is developed. Topics include game theory, competitive corporate governance strategies, price-based goods and services, reputation management, the impact of advertisement on financial performance, and the financial implications of corporate social responsibility for the banks. Consequently, in the last part of this book, the authors contribute to custom finance in theory and practice.

Chapter 1 evaluates the market prioritization methods for global firms. Advances in communication and information technologies, reduction in trade barriers, privatization, deregulation and opening of new markets have led to the expansion of trade and increased investment in new markets. One of the crucial decisions that global firms should take is the choice of markets to enter when there are many different alternatives present. The alternatives could be at the level of nations, regions, or even cities. To make informed decisions, critical macroeconomic, demographic, and cultural data elements must be available for analysis. The growth of global business in the last two to three decades has resulted in an explosion of data sources, both commercial and syndicated. Using these data sources and the product/service specific characteristics firms may use various algorithms to rank order markets for suitability of entry. This paper will try to outline the different methods for market prioritization utilizing the numerous global data sources available. Special considerations for global financial institutions will also be presented.

Chapter 2 analyses the performance of inward and outward U.S. Foreign Direct Investment (FDI) during recent financial crises. FDI plays an extraordinary and growing role in the global markets and represents an integral part of the U.S. economy. This research has descriptive character and focuses on the latest trends in inward and outward U.S. FDI illustrating the impact of the recent financial crises on FDI performance in the United States. The study analyzes the U.S. FDI stock contribution to the global FDI, performance of the inward and outward U.S. FDI flow and stock, the U.S. FDI flow and stock as a percentage of GDP, and geographical distribution of inward and outward U.S. FDI stock. The essential part of this research relates to inward and outward U.S. FDI employment and the structure of inward and outward US FDI financial performance, which includes equity, reinvested earnings, and intercompany debt.

Chapter 3 evaluates the globalization process and its implications on the state. In this chapter, it is aimed to present a thorough understanding of the process of globalization and analyze the current effects and changes of globalization.

Chapter 4 evaluates the globalization and social media strategies by financial institutions worldwide. The objective of this chapter is to investigate financial institutions on social media; their strategies and the ways they deal with customers in the light of globalization process. The research investigates how far the bank achieves the success online; the discourses between the bank and its customers on Facebook pages. Discourse analysis and semi logical analysis are applied to four categories—advertisements, feedback, surveys, and social activities on Facebook pages in four countries of an international bank within a three-month's period.

Chapter 5 develops an economic approach to consumption in the process of 2008–2009 global recession. The aim of this chapter is to illustrate the consumption of rich and poor populations in Turkey in the area of global crisis. This chapter illustrated that (i) income of consumer rises the share of necessary good's consumption as it decreases and the share of luxury and cultural good's consumption increases, (ii) the share of necessary good's consumption has decreased while the share of luxury and cultural good's consumption have increased since 2007.

Chapter 6 is based on the claim that the changing role of Central Bank of the Republic of Turkey and Its Financial Implications on Turkish Economy. This chapter notifies (i) central banks are extremely important institutions responsible from the coinage, monetary policy applications, and healthy operations of the economies, (ii) the policies applied by Central Banks and their ongoing corporate structures cannot be disassociated from the political, social, and the whole economic developments of the countries in which they are located, (iii) the concept of central bank which had been in development since twentieth century, first appeared in Turkey in 1930. In this chapter, the concept of Central Bank of Turkey and its financial implications have been examined by periods the monetary policies of the Central Bank and their effect on Turkish Economy are discussed.

Chapter 7 develops a theoretical framework for Financial Risk Management and Hedge Accounting for companies. This chapter clarifies that minimizing the losses in the investments which are made by enterprises or the financial risks that are taken in case of borrowing in an environment, which has intense competitive conditions has become an important necessity. One of the most basic ways to deal with these risks is the use of derivative instruments. It is well known that derivative instruments are the tools which are used by enterprises in order to reduce or cut the financial risks, which affect the financial structure of enterprises in a negative way. In the Chapter IAS 39 Financial Instruments: Cash accounting and Measuring Standard which are subject to derivative instruments have been examined, and this study includes also hedge accounting.

Chapter 8 evaluates the financial risk and contributes to the portfolio selection process. This chapter introduces the concept of portfolio as simply a basket of revenue generating assets. Besides money and capital market instruments, these revenue generating assets can also include derivative market instruments. The principle of risk diversification allows variety in portfolio investments. Changing investment instruments of portfolios might affect yields. Portfolio investment is mostly private equity securities and bonds, and debt securities exported by the state. Measurability of portfolio risk and variability of investment instruments might affect also the maturity of portfolio investment. Therefore, portfolio investments might fail in satisfying short-term expectations and lead to capital outflow. In this context, the study examines the theoretical framework related to the risks and investments in portfolio management.

Chapter 9 explores the control mechanisms of management processes in global operations. In this study, the aim is to draw the attention of enterprises active at a global scale to this important subject by emphasizing factors which must be taken

into consideration in order to establish an effective control mechanism, elements rendering operational control difficult, and the important of operational control in the international management process.

Chapter 10 underlines the importance of developing a proactive approach to organizational crisis in banking. This chapter underlines a broad perspective on the impacts of the crisis on business sustainability and performance, and states that there are major factors inside business architect, considered as key solutions for strategies out of global recession. In this context, proactive organizational culture also provides top managers with opportunities to implement strategies out of global recession while adopting competencies of forecasting and evaluating economic risk within an interdisciplinary approach. This chapter advocates that business organizations locating strategies out of global recessions firstly should evaluate inside resources such as skilled workers and managers. In this study, it is aimed to demonstrate the importance of proactive organizational culture in banking sector as a strategic kit for developing effective ways out of global recession

Chapter 11 builds on the Game Theory and its reflections on competitive strategies in the banking sector. This chapter centers on the game theory which pays attention to the behavior of people who put their money into the banks that offer the highest interest rates expecting a high income or the ones who expect a crisis try to draw their money before the due date. It is possible for a bank to go bankrupt in the financial system if it offers the highest interest rates compared with its rivals and has a relatively high funding resource cost. This study aims to find out the interaction between customer and competitors in the banking sector within the scope of the game theory.

Chapter 12 develops a comparative approach to competitive corporate governance implementation in the southeast Asia banking industry. This chapter analyses the implementation in three countries based on corporate governance rules and practices, enforcement, political and regulatory environment, IGAAP (accounting and auditing), and a corporate governance culture. A major implication of this chapter is that Singapore is the best country in good corporate governance implementation in its banking industry followed by Malaysia and Indonesia.

Chapter 13 addresses the competitive strategies for priced-based goods and services in the banking sector. To create awareness in a highly competitive environment, actors in the banking sector need to create diversity in the products and services they present to customers and thus provide a price advantage. Introducing various pricing techniques and analyses for the provided products and services is now a necessity. In this study, price analysis-based product and services of banking sector have been clarified in a competitive environment and the product and services, which affect the sales and customer behaviors have been also determined in detail.

Chapter 14 explores the importance of reputation management in global financial institutions. This chapter focuses on the most destructive effect of the crisis on global financial institutions, which has been the loss of reputation. It is

obvious that “large scale” factors such as disruptions in current financial structures, the fragile structure of global financial architecture, assessments of risk system, and requirements for new regulations have impact on reputation and its management. This chapter develops a comprehensive framework for reputation management which is a comprehensive approach which involves the anticipation of all variables available, and where different stakeholders and circumstances are taken into consideration. In this chapter, it has been illustrated that reputation of global financial institutions depends on the administrative processes of these institutions, that is, whether or not they are managed well.

Chapter 15 examines the impact of advertising on the financial performance in the era of global economic crisis. The aim of this study is to examine advertising and financial fields working for the same purpose but seemingly different, to examine theoretically the support of advertisement as seen as an abstract investment for the same purpose-the profitability of the business to the strengthening of the company’s financial performance can be seen clearly by becoming concrete with the help of some data and analysis. In this study, the focus is to encourage managers to analyze the company’s financial performance especially during a crisis.

Chapter 16 explores the financial implications of corporate social responsibility in the banking sector. This research aims to analyze corporate social responsibility activities of deposit banks, which operate on the Istanbul Stock Exchange based on various financial indicators. The main objective is to identify the importance banks place on institutionalization in their promotions and its consequences. This research observes that banks that do not place importance on promotional activities have lower profit margins; whereas, those that only focus on advertising and public relations hardly compensate their expenses; thus, the highest profit margin is achieved by banks that coordinately use both promotional methods.

Chapter 17 discusses the banking sector and the Islamic banking in the Middle Eastern and North African countries. The models of Islamic banking which emerged in the banking sector in a modern way did not remain exclusively limited to Muslim countries, but have also grown internationally. Islamic banks mostly operated in the MENA region in the past, but proliferated in the Muslim parts of Asia after the 1980s. This chapter focuses on the proliferation of Islamic banking which was particularly made possible by the fact that Islamic banks continued to operate successfully and holding a greater proportion of liquid assets than other banks made Islamic banks more resilient and successful during the crisis.

Chapter 18 takes a contrary view of the development of Islamic financial system in Turkey. Today, as Islamic banking and finance is expanding rapidly worldwide, its systemic importance for the stability of national, regional, and global financial system is also increasing rapidly. This study aims to explicate the short story of the Islamic Financial System (IFS) within the traditional financial system of Turkey as well as to reveal the implementation of Sukuk, which is recognized as one of the most important instruments of the IFS, and a model proposing for Turkey.

Chapter 19 focuses on the International competitiveness analysis of the Islamic financial services sector. Developing significantly in the recent years, the Islamic Financial Services industry has been constantly increasing its importance in the national economy. It is predicted that this progress in this industry will continue in the years ahead. Subjecting the industry to a global comparison is of great significance for the industry so that the level of this development, the basic variables and dynamics could be understood and contribution could be made to the sustainable competitive advantage of the industry and strategies could be developed. This study analyzes the international competitive level of the industry by employing Porter's diamond model. In line with the analysis, this study identified the competitive level of the industry and explained the basic characteristics of the competitive structure, and revealed macro level strategies required for its development to position itself in the regional and global competition.

Chapter 20 demonstrates ShamGen as a regional financial integration of Islamic countries. This chapter evaluates the project of ShamGen using SWOT analysis. In this chapter, it is advocated that once financial cooperation among the ShamGen countries is established, the trade and investment in the region would increase. Turkey as the seventeenth biggest economy in the world will be the leading economy in the group. Istanbul, as an international financial center, will be the center of finance for ShamGen. It is hoped that economic success of the process will bring peace and political stability to the region.

The roots of the 2008–2009 financial crisis and its reflections on capital markets have been prior to studies in literature. However, organizational competitiveness in banking and finance has not been sufficiently attached to managerial issues in finance yet. Therefore, it is important to develop an innovative and a strategic approach to managerial issues in banking and finance. In this regards, the impact of financial crisis investors' perceptions and institutional competitiveness has been assessed from an interdisciplinary perspective. The authors of the chapters in this book developed models for innovative solutions to managerial issues in banking and finance by assessing critical case studies. Finally, this book gathers colleagues and professionals across the globe from multicultural communities to design and implement innovative practices for the entire global society of banking and finance.

Ümit Hacıoğlu
Hasan Dincer

Managerial Issues in Finance and Banking

A Strategic Approach to Competitiveness

Hacioglu, Ü.; Dincer, H. (Eds.)

2014, XIII, 275 p. 10 illus., Hardcover

ISBN: 978-3-319-01386-2