Preface

The main purpose of this book is to discuss the current issues of competitiveness in the financial system from an interdisciplinary perspective. The unique approach of the publication brings solutions for financial competitiveness. Global and local strategies related to the financial system have also been discussed. The concept of Glocal refers to the simultaneity of both universalizing and localizing tendencies in the financial system. This book covers unique chapters related to banking and finance topics.

The authors of chapters have accepted inclusion of their respective manuscripts. The book, consisting of 28 chapters, is divided into 5 sections: “Global Financial System and Competitiveness,” “Competitive Banking and Micro-Finance Strategies,” “Stock Market and Portfolio Investment,” “Social and Behavioral Strategies in Finance,” and finally, “Local Issues and Strategies in Finance.”

In the first section, the contributors accepted the challenge of developing ideas about the global financial system and banking in terms of competitiveness. The authors discuss the issues related to the competitive financial system and the role of the banks in the competitive financial system.

In the second section, the authors investigated microfinance strategies as well as developing a competitive banking approach. The authors evaluated the efficiency of banking strategies throughout the microfinance credit scheme.

In the third section, a specific approach to modern finance theory and portfolio management was developed. Traditional and technical analyses in finance are also assessed.

In the fourth section, the authors discussed the issues related to the behavioral strategies in finance. The authors in this section have also created innovative ideas and solutions for the behavioral issues in financial institutions.

In the last section, a strategic approach to the financial crisis and asset management has been developed through assessing ideas in relation to the financial system. The authors have contributed to the success of this book by their unique approach to the economic growth, legal issues in banking, and financial control from a local perspective.

Chapter 1 highlights the importance of interaction between competitiveness and effective banking strategies in global financial system. In this chapter, the concept of strategic change in financial system has been assessed with various internal and external environmental elements. The effective company strategies determine the fate of companies in volatile market conditions. Companies in financial systems have to adopt new technologies and implement new strategies in order to achieve a competitive position in the marketplace. Developing competitive ideas and strategies relies on organizational change. It is shaped by internal and external factors, which mostly provide the formation of strategic change. In this regards market developments and the changing structure of demand are of vital importance. In this
Chapter, strategic approach to competitiveness in financial system has been developed. Moreover, the fundamentals of competitiveness on financial and economic system have been also evaluated as well as the interaction between financial development and global competitiveness has been assessed.

Chapter 2 assesses the role of statistical visualization tool application on global competitiveness data. Many global organizations provide valuable sources of country specific data to the general public. The data are a very good source of secondary information to the global firms making country entry decisions as well as providing input to the policy makers in the international organizations and the country governments. One such organization is the World Economic Forum, disseminating the results of a global competitiveness study every year. The Global Competitiveness Index (GCI) focuses on 12 variables which are deemed to be important for the country’s competitiveness and hence suitability for investment. The coverage of the GCI has been increasing over the years. The latest report (2012-2013) carries data on 144 countries. With the amount of data increasing, it becomes important to summarize the intrinsic elements with the use of visual tools. Multivariate statistical tools could summarize vast amounts of data while retaining the critical pieces of information and the interdependencies between the variables and the objects. This chapter demonstrates the use of two such techniques namely Cluster Analysis and Multidimensional Scaling (MDS) on the World Economic Forum 2012-2013 Global Competitiveness data.

Chapter 3 analyzes the efficiency of European Banks based on a DEA Based risk and profitability approach. Basic financial and profitability ratios such as net interest margin, return on assets and return on equity alone do not measure bank performances effectively as they lack the risks associated. Since the success of banks in managing performance is expected to be largely dependent on the correct pricing and management of risks, a proper measurement of efficiency should include the effects of risks. The purpose of this study is to benchmark risk profiles of European commercial banks and performance indicators during the 2006-2009. The research is implemented based on four models by Data Envelopment Analysis with data of 697 banks from 37 countries. The results suggest that there is an extensive inter- and intra-country risk efficiency of banks. Profitability increase is not always directly proportional to risk increase, and financial crisis substantially decreased the risk efficiency of banks, especially in 2008 in developed economies.

Chapter 4 addresses the role of the World Bank in global development and financial stability. In global development it has been observed that the sources of the World Bank has been allocated on a limited scale by developed countries as not all countries have been included in the process in the same rate. The efforts of the World Bank to increase the development level of countries, which have resource allocation and structural problems, have contributed to obtain structural improvement in the world economy as well as necessary source of income from the world trade for each country. Depending on that, recovery targets with the tools and resources of the World Bank used for the purpose of expanding developing countries are set forth in this study.

Chapter 5 focuses on the central banking operations in the global economy. Global economic improvements with a new economic concept have been getting more and more competitive recently. The competitive transformation that comes as a result of active using the information in real sector market has started to show itself in finance sector.

Chapter 6 examines the association between Foreign Direct Investment (FDI) and efficiency of commercial banks in Turkey during the 2003-2010 period. First, the authors examine the technical efficiency of banks by applying the Data Envelopment Analysis (DEA) and financial ratio analysis following the relevant literature. Then, they attempt to shed light on the relationship between FDI and bank efficiency
applying a second stage regression analysis. The results indicate that banks that have received FDI are more efficient than others whilst there is no significant correlation among the FDI dummy and bank efficiency in Turkey. Moreover, the analysis of balance sheet ratios suggests that foreign investors target more profitable and larger banks in the sector to form partnerships. Thus, consistent with Berger et al. (2003), the authors propose that efficiency is a pre-condition rather than a result of FDI in the Turkish banking sector.

Chapter 7 tries to explore that the divergences in allocation of commercial bank credit over time may result in growing disparities in growth of incomes in the states of India. The study observes that there are diverging tendencies among the states during the post-reform period with respect to per-capita credit and aggregate credit. The study also reveals that the agriculture and industrial sectors are converging during the pre-reform phase but there are insignificant signs of divergences in the industrial and service sectors during the post-reform period.

Chapter 8 underlines causality between credit deposit ratio and credit share in major Indian States during 1972-2008. The banking sector reform was done under the intention to make more investible banking funds for real investment to raise credit-deposit ratio along with proper allocation of banking funds to all the states so that share of credit of each state is balanced. Literature shows the falling tendency of credit-deposit ratio in the immediate decade after the reform and the rising tendency of divergence in credit possession among the states. At the same time the states lacking in credit-deposit ratio are either with higher, lower or moderate shares of credits. This study, hence, tried to examine the direction of causalities between credit-deposit ratio and credit share for the major 16 states of India. Using the time series econometrics technique this study found four states where the causality works for the entire period and less than half of the state where causality works in either pre reform or post reform periods.

Chapter 9 questions the access to microfinance that reduces HIV prevalence among women. The study reviews some theoretical and empirical literature about poverty, HIV, and microfinance. The chapter establishes the fact that if microfinance can reduce poverty then it could also be used as a tool for preventing HIV infection. Policy recommendation that will enable microfinance institutions to contribute to the prevention of HIV and its related diseases are offered.

Chapter 10 illustrates the impact of the microfinance bank credit scheme. The purpose of this chapter is to examine impact of microfinance bank credit scheme on maize farmers in Gombe State, Nigeria, using data from 90 randomly sampled maize farmers in Gombe State. The study showed that majority of the respondents (53.33%) accessed amount of credit ranging between 30,000 and less than 50,000 Naira. Majority of the farmers (85.56%) used their credit for the purpose of farm production. Majority of respondents (58.89%) recorded in increase in maize output as result of the intervention of the microfinance credit scheme. Majority of the respondents (86.67%) repaid credit collected. The microfinance credit scheme intervention significantly improved the output and income of the respondents. Ineffective organizational structure of the credit institutions constituted the major constraint in accessing microfinance credits. Microfinance credit facilities extended to the farmers should be improved upon in both quantity and quality. The organizational structure of microfinance institutions should be reorganized to reduce bottlenecks in accessing credits.

Chapter 11 develops a competitive approach to financial issues. This chapter builds on the Efficient Market Hypothesis (EMH) in modern finance theory. The efficient market hypothesis states that it is impossible to make abnormal returns in financial markets because financial asset prices always reflect all available information. This chapter was undertaken in order to give a brief survey of modern finance
theory by mainly focusing on the efficient market hypothesis. We also discussed the empirical foundations of the efficient market hypothesis. Finally, the main challenges to the efficient market hypothesis were introduced in order to point out a perspective for the future research.

Chapter 12 develops an interdisciplinary approach to technical analysis in finance. A comparative hybrid analysis for stock selection process in banking sector has been developed. The decision-making process on the stock requires the comprehensive analysis of both the fundamental and technical methods for the professionals invested in capital markets. Timing is an important issue of investment to profit from the capital markets. Thus, technical analysis based on the behavior of the investors and the timing as well as fundamental analysis to select the right securities are considered by the majority for stock selection. The purpose of the study is to uncover the performance results of the stocks in the banking sector by the main technical analysis indicators with comparative ranking methods under fuzzy environment.

Chapter 13 examines the momentum effect in stock returns. The puzzling momentum strategies’ payoffs defied the rational financial theory asserting the stocks returns’ unpredictability. Moreover, the momentum effect persists the main stock returns’ anomaly escaping any risk-based explanation. The resilience of this phenomenon had favored the development of behavioral financial field, which breaks with the investor’s full rationality hypothesis. This chapter attempts to reconcile between the rational and behavioral financial theories, through the introduction of the progressive rationality concept. The authors argue that recognizing the temporary inappropriate investors’ reactions can resolve the puzzling momentum anomaly. To fulfill the objective, they identify the appropriate autoregressive level that captures the significant autocorrelations involved by the investors’ over and under reactions. Then, they explore the profitability of the 6/6 momentum strategy implemented on the adjusted stock returns. The adjusted momentum strategy is still profitable but no longer puzzling, since the related excess return is henceforth fully captured by a $\beta$ and a size effect.

Chapter 14 focuses on the impact of the volatility of macroeconomic variables on the volatility of stock market returns in Nigeria. This chapter investigates the relationship between volatility of macroeconomic variables and the volatility of Nigeria stock market returns using annual data, from 1985-2009. The macroeconomic variables used are: inflation rate, government expenditure, foreign exchange rate, index of manufacturing output, broad money supply, and minimum rediscount rate. In pursuance of this, the AR(1)-GARCH-X(1,1) model was used for the analysis. The findings of this study revealed that Nigeria’s current stock market return is positively influenced by previous returns. Volatility of Nigeria’s stock market returns was affected by past volatility less than by related news from the previous period. Also, the result shows that, there is a significantly positive relationship between the volatility of Nigeria’s stock market returns and the short run deviations of the macroeconomic variables(macroeconomic factors volatility) in the system. The results provide some insight to Investors, financial regulators and policymakers in the Nigeria’s stock market when structuring their portfolios and, formulating economic and financial policies.

Chapter 15 evaluates the globalization process of financial risks and common stocks. The stock market serves as a bridge between the economic activity and finance under favor of functions such as reducing the risk of investment and meets the capital needs for the companies. For this reason, the development of stock markets plays an improving role for the global economy and finance. Thus, the aim of this study is to introduce the financial risks and its kinds, and its effects on the common stocks.

Chapter 16 develops a market analysis approach to portfolio theories. This chapter shows that the performance of stock is affected by general economic conditions and has different directions and different severity. The various parameters affect different securities. Through diversification by making a
mixture of the securities, which are affected by different states, transactions increase the benefit of the investor, and this situation called portfolio management. Portfolio management is deciding when securities are removed and when securities will be added. Traditional portfolio theory ignores the relationship between mutual funds and also quantitative data. It gives place to the Modern Portfolio Theory, which uses mathematical and statistical methods. Undoubtedly, market analysis within the scope of this theory will provide great convenience to investors. Thus, the aim of this study is to express some basic concepts and to discuss both traditional and modern portfolio theories and their importance on the technical and fundamental analysis.

Chapter 17 underlines the role of behavioral finance in portfolio management. This chapter shows that behavioural finance is a new approach in finance literature. The main idea is that investors are not as rational as they are assumed to be. Therefore, financial markets could be better understood by using models that capture the effects of both rational and irrational investors. The critics of Behavioural Finance could be grouped into two main categories: limits of arbitrage and psychological factors. This chapter also concentrates on the both challenges and possible contributions of behavioural finance theory to the Modern Finance theory, which is mainly based on rational expectations theory and efficient market hypothesis.

Chapter 18 examines the interaction between the racial differences in financial socialization and financial behaviors of the U.S. college students. This chapter focuses on the effect of race on financial socialization and financial behavior of college students. Data (N = 13,845) were collected from current college students age 18 and over via an online survey throughout the United States during spring and fall of 2008. Results from means comparisons showed significant differences on the financial socialization between Black and White college students. Logistic regression results suggest important relationships exist between race and financial behaviors. Black students were less likely to save and more likely to engage in risky credit card behavior than White students after controlling for the effects of all other variables.

Chapter 19 focuses on innovative work behaviors in the Turkish banking sector. In relation to globalization and its worldwide effects, the requirement for a high level of emotional intelligence competency, which both senior managers, junior administrative officers, and other employees should have, has gained importance for a successful decision making process. In addition, the significance of innovative management strategies and also employees who are open to innovations has started to be more of an issue for the companies since dynamic changes and developments in the field of technology owing to this fierce competition affect almost all sectors seriously. Taking all of these variables into consideration, this chapter aims to investigate the role and importance of innovative work behaviors in Turkish Banking Sector by using questionnaire technique as a data collection tool.

Chapter 20 evaluates the role of social media strategies in competitive banking operations worldwide. Social media has rapidly taken its place among important phenomenon of today. It has an important role in institutionalization and companies’ being financially effective in many fields. This chapter discusses concept, development of social media, investigations about social media in different continents, its relation with institutionalization, and its role in the banking sector in the process of globalization. In this study, social media strategies of a global bank in different continents are empirically analyzed. Obtained data sheds light on the relationship between social and economic capital in today’s world in an interdisciplinary platform.

Chapter 21 illustrates the innovative strategies devised by Indian microfinance institutions. This study presents a discussion on two strategies that can be used to reduce the operating and financing costs of Indian MFIs. Using interview method, the study elicits information on how these innovative strategies
have been effectively used by two efficient and sustainable Indian MFIs to reduce their costs. Thus, the
study disseminates information on the strategies that can effectively contribute towards the cost-efficiency
and OSS of Indian MFIs. Based on the discussions in this chapter, it is recommends that these strategies
are worthy of emulation for other Indian MFIs which aim to attain cost efficiency and OSS.

Chapter 22 evaluates the banking sector recapitalization for economic growth in Nigeria. The purpose
of this chapter is to assess the contribution of the banking sector’s recapitalization to economic growth.
Secondary data of all banks in Nigeria for 1980-2006 from Central Bank of Nigeria were used for the
study. The findings of the study revealed higher mean GDP (N86.229 trillion) at post-recapitalization
era compared to pre-recapitalization era (N56.860 trillion). Furthermore, 37% and 25% growth in GDP
were recorded at post- and pre-recapitalization era, respectively. Selected indicators (bank credit, asset,
saving deposit, and total loan) were all higher in the post recapitalization era. The result of t-test showed
that there was a significant difference in GDP at pre- and post-recapitalization era at 5% significance level
holding inflation constant. Bank assets had a significant effect on GDP in the post-recapitalization era.
Bank performance indicators could not fully account for growth and development in Nigeria’s economy
though growth was recorded. Under subsequent initiatives, bank asset and total loan increased massively,
while bank credit and saving deposits were increased via credit and savings incentives provisions for
greater impact on growth in Nigeria.

Chapter 23 evaluates the emerging legal issues in banking operations. This chapter deals with the
legal issues in the banking activities, which have gained interest during the past decade. In particular, it
determines the place of legal issues related to banking activities, such as consumer loans, credit cards,
and electronic banking, which all have gained even more importance after the last global financial crisis.
The chapter focuses on the comparative analysis of current legal issues in Turkey and in the European
Union and the legal issues related to the risks in the sphere of electronic banking and suggests potential
strategies.

Chapter 24 discusses the impact of financial distress and bankruptcy costs. Since the crisis of the
1930 and the early work of writers such as Fitzpatrick, the problem of failure has become a field of
investigation of research in its own right. According to Franks and Sussman, a firm is defined as being
in distress once the local branch or regional credit manager decides to transfer a status report to the
monitoring unit of economic enterprises or responsible financial diagnosis. Such decisions may occur,
especially for SMEs, in the case of violations of certain terms (non-payment of interest exceeding the
overdraft limit ...), or following a poor assessment of the future of the firm by directors of credit (by
reference to indicators such as high debt and low profitability), the objective of this chapter suggests
analyzing the processes of the financial distress of companies and their impact.

Chapter 25 analyses the spatial price efficiency in rural and urban markets in Nigeria. The purpose
of this chapter is to analyse spatial price efficiency of food products in rural and urban markets in Benue
State, Nigeria. A weekly market survey was carried out for 40 weeks in rural and urban markets in Benue
State in order to generate data for the study. The study indicated that price association existed between
the base (urban) market and the supplying (rural) markets. There was great variability in the prices of
food commodities between the base market and the supplying markets. The result of the study also
showed that there was a marked price differential between the base market and the supplying markets.
Furthermore, interactions between the base market and the supplying markets were characterized by
marked imperfections and inefficiency in the marketing system. Price information, including its quality
and availability should be enhanced. Storage facilities and other social amenities should be provided for
farmers in the rural areas where agricultural activities are predominant.
Chapter 26 evaluates the currency and interest rate effect on financial ratios. The purpose of this study is to analyze the effects of currency and interest rates on selected financial ratios of technology firms. In a developing country, as an economic indicator, currency and interest rates have crucial impact on technology firms’ financial statements. The authors selected financial ratios from seven technology companies that were included in the technology index on Istanbul Stock Exchange (ISE) between the years 2001 and 2010. Findings suggest that Dollar and Euro-Turkish Lira currency affect the current ratio, Euro-Turkish Lira currency only affects the acid-test ratios and net working capital turnover, and Dollar currency and interest rates both have an effect on total asset turnover. Net profit margin ratio is only affected by interest rates changes. This analysis helps technology sector managers and shareholders to forecast the changing currency and interest rates in order to optimize their financial statements.

Chapter 27 underlines the importance of financial control and ratio analysis in local governments. This chapter advocates that the local governments have to use their sources in the most efficient way against increasing service demands. In this study, financial resources’ place in public management are analyzed, ratios related to these financial resources are included, and a suggestion for financial implementation for local governments is promoted.

The impacts of the 2008–2009 financial crisis on global economic activity and on capital markets have been examined in literature. However, the fluctuating nature of the capital markets pertaining to financial globalization has not been sufficiently connected to strategic issues in finance yet. Therefore, it is important to develop an innovative and strategic approach to issues in finance. In this regard, the effective strategies at global level and competitiveness have been assessed from an interdisciplinary perspective. The authors of these chapters in this book developed models and strategies for innovative solutions to local and global issues in finance by assessing critical case studies. Finally, this book includes colleagues and professionals from multicultural communities across the globe to design and implement innovative practices for the entire global society of banking and finance.

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