

JOURNAL OF INTERNATIONAL FINANCE STUDIES®

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A Welcome Note from the Managing Editor:

The evolving field of finance has fascinated many and also baffled many, including finance experts, government and regulators, especially after the sour tsunami kind of effect experienced in the last couple of years. It is natural that these phenomena would have offered vast opportunity to researchers for studying theoretical or application issues of policies, practices, regulations and their effectiveness, needs for new regulations, governance of the firms and many more. We, therefore, encourage researchers to capture the global nature of business enterprise through their creative conceptual and theoretical discoveries. We, welcome papers from all sectors: conceptual papers, application papers, meta-analysis, survey based papers or contemporary research topics, encompassing international flavor in the field of finance Studies.

In recognition for the need to offer increased high quality publishing opportunities in international finance Studies, we at the Academy of International Business Studies (AIBE) publish the **Journal of International Finance Studies (JIFS)**. The JIFS, a quality refereed journal, has the ISSN number (ISSN: 1945-2950) issued by the Library of Congress, Washington. The JIFS is listed in the Cabell's Directories 2007-2014 editions. The journal is also listed in the Ulrich's International Periodicals Directory since 2007. The JIFS will be available online from the Cengage/Gale Publishing for better dissemination of authors' work. JIFS is a publication of the International Academy of Business Studies (IABE) and AIBE. JIFS is a registered trademark of the IABE.

All work submitted to JIFS goes through a rigorous double blind review process of experts. Several such scholars offered their time and expertise to produce each issue of JIFS. To these colleagues we are indebted for their time, diligence and useful comments. Also, without the tireless work of our board members, who devote time for the cause of academics and research, a publication of this scale and scope would not be possible. We applaud our all of our colleagues' dedication and diligence. Similarly, we are equally indebted to all the authors who underwent a rigorous review process to have their work published in the JIFS Volume 11, Number 1.

Thank you for your continued readership and for considering JIFS as a quality outlet for your research findings.

Best Wishes,

Professor Bhavesh M. Patel, Ph.D.
Dean/Professor Cheick Wagué, Ph.D.

Managing Editors

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HOW THE BANKING CRISIS IN ICELAND AFFECTED THE IMAGE OF ITS BANKING SECTOR AND INDIVIDUAL BANKS

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ABSTRACT

In October 2008 the three biggest retail banks in Iceland collapsed. The result was a systemic crisis, the first in any advanced economy. This paper focuses on one aspect of the banking crisis, namely its effect on the image of the banking sector and individual banks. The research question is, "What effect does a banking crisis have on the image of a banking sector and individual banks?" The research is based on two surveys done in April 2008 and April 2009. The main results are that the banking crisis seems to have damaged the image of the banking sector as a whole along with the image of individual banks. Corruption seems to be the attribute most associated with the Icelandic banking sector. When looking at individual banks the image of Landsbankinn seems to have deteriorated the most.

Keywords: Image, Banking sector, Banking crisis, Perceptual maps.

1. INTRODUCTION

In October 2008 Iceland experienced the deepest and most rapid financial crisis recorded in peacetime history. In a matter of days three of the country's biggest retail banks (Glitnir, Kaupthing and Landsbankinn), representing about 85% of total banking assets, collapsed and passed into government hands.

Iceland is an isolated island located in the North Atlantic Ocean with a population of about 320.000. Throughout the 19th and the first decades of the 20th century, Iceland was one of the poorest countries in Europe but at the turn of the century it was one of the most prosperous countries in the world.

In 1995 the banking sectors' level of foreign debt was 6% of GDP. In 2004 that level was 138% and had grown to about ten times GDP by the end of 2007. At the time of the banks' collapse in October 2008, following serious liquidity problems, they had become too big for the Central Bank (or the government for that matter) to rescue.

This paper focuses on one aspect of the banking crisis, namely its effect on the image of the banking sector on one hand and the individual banks on the other. How did the image change both in absolute and relative terms? This is an interesting question because a banking sector's image can affect the level of investment in a country and thus economic growth and a bank's image can influence both whether consumers start doing business with the bank and how loyal they are. It is difficult to think of a single factor that might influence the image of the banking sector or individual banks more than a banking crisis.

2. LITERATURE REVIEW

Corporate image relates to the image associated with an organization's name (Hatch, Schulz, and Williamson, 2003). Several definitions of the concept are found in the literature. Howcroft (1991) defines it as "the sum total of impressions and expectations acquired by customers and non-customers alike over a period of time" and Fombrun (1996) as "the picture that an audience has of an organization through the accumulation of all received messages". Keller (1993) defines corporate image as "perceptions of a company reflected in the associations held in memory" and Worchester (1997) as the "net result of the interactions of all experiences, impressions, beliefs, feelings, and knowledge that people have about a company". The above-mentioned definitions are in line with many other authors' conceptualisations (see for example Dowling, 1988; Kazoleas, Kim and Moffit, 2001).

Corporate image is a multi-dimensional construct and can be formed by both functional and emotional attributes (Chen, Chang and Chang, 2005; O'Loughlin and Szmigin, 2005). For a recent review of that literature see Bravo, Montaner and Pina (2010). A research done by the same authors revealed that the dimensions of corporate image of banks are related to the services offered, location, corporate social responsibility, global impressions and personnel.

The corporate image of banks is positively related to perceptions of service quality (Chen, Chang and Chang, 2005). It can also affect the banks' customer loyalty (see for example Cengiz, Ayyildiz and Er, 2007; Cohen, Gan, Yong and Chong, 2007). It can be either related to the attributes of the products or the brands (Chen, Chang and Chang, 2005; O'Loughlin and Szmigin, 2005). It is debated in the literature however, whether a bank's image has a direct effect on loyalty (Nguyen and LeBlanc, 1998) or an indirect effect (Caruana, 2002; Arasli, Mehtap-Smadi and Katricioglu, 2005; Cengiz, Ayyildiz and Er, 2007) for example, through perceived quality or satisfaction. Image can also play a part in whether a customer starts doing business with a bank in the first place (Bravo, Montaner and Pina, 2009; Laroche, Rosenblatt and Manning, 1986); Laroche, Rosenblatt and Manning, 1986; Javalgi, Armaco and Hoseini, 1989; Keynak and Whiteley, 1999). The image of banks can therefore, at least, have an effect on their revenues. In the most comprehensive research ever done on the relationship between the image of banks and their profitability a positive and significant correlation was established (Ohnemus, 2009).

To the best of the authors' knowledge no research has been published in scholarly journals on neither the image of a banking sector (absolute change) nor individual banks (relative change) following a banking crisis. This paper starts to fill in that knowledge gap. The research question is "*What effect does a banking crisis have on the image of a banking sector and individual banks?*"

3. METHODOLOGY

The research is quantitative and based on two different surveys. In the following section the methodology will be discussed.

3.1. Population

The population of interest consisted of the banks' customers but a convenience sample was used. The findings are therefore only generalizable to the sample. The participants were students at the University of Iceland. The sample is fairly representative of the student population in terms of gender and fields of study. The authors therefore believe that the findings are a good indication of university students' attitudes. In addition the market share of the banks among the university students is in line with their market share among the general population.

3.2 Instrument

The image attributes used in the surveys were identified in an extensive exploratory study. It involved interviews with the banks' customers, their management and personnel, a thorough review of their websites and an analysis of their general media coverage. Both the surveys were structured in the same way. In the first part participants were asked to evaluate the banks based on a set of attributes. The attributes are; "Supports good causes", "Progressive", "Modern", "Corruption", "Old-fashioned", "Personal service", "Social responsibility", and "Trust". The participants evaluated each bank on each attribute using a nine point scale, where 1 = applies very badly to this bank and 9 = applies very well to this bank. The second part of the surveys contained demographic variables.

3.3 Execution and data analysis

The surveys were web-based and done in April 2008 (n=514) and April 2009 (n=566). The data were analysed in the same way. First the average attribute scores for the banking sector were calculated. Then to arrive at a bank's relative image the perceptual mapping software designed by Lilian and Rangaswamy (2003) was used. Each attribute's average score for each of the bank is calculated and the results shown in a perceptual map.

4. RESULTS

In this section the findings of the research will be detailed. First the average attribute scores for the banking sector will be reported followed by the interpretation of the perceptual maps.

4.1. The banking sector

Figure 1 shows a comparison of the average attribute scores for the banking sector as a whole for on the one hand April 2008 and the other April 2009. The average scores for all the positive attributes have fallen. The attributes "Trust" and "Social responsibility" have been the hardest hit. The only attribute score that is almost unchanged is the score for "Old-fashioned". That score goes up a little. The average score for the attribute "Corruption" goes up a lot. Judging by the average scores, a sector of the economy that before the banking crisis had an image of trust, was perceived as supporting good causes, showed social responsibility, provided personal service and was progressive and modern, is now first and foremost characterized as corrupt and untrustworthy.

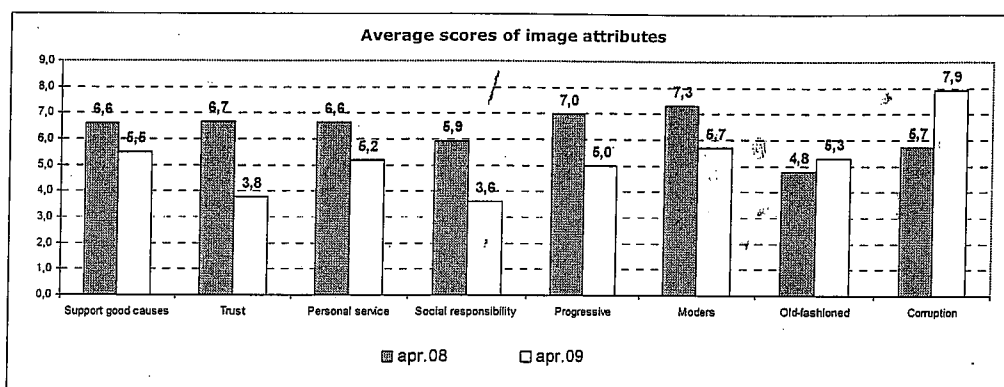


FIGURE 1: COMPARISON OF AVERAGE ATTRIBUTES SCORES BETWEEN SURVEYS

4.2. Individual banks

Perceptual maps show the attributes as vectors which should be read in both directions. The representation in Figure 2 indicates that the findings are robust since the attributes "Modern" and "Old-fashioned" have opposite directions.

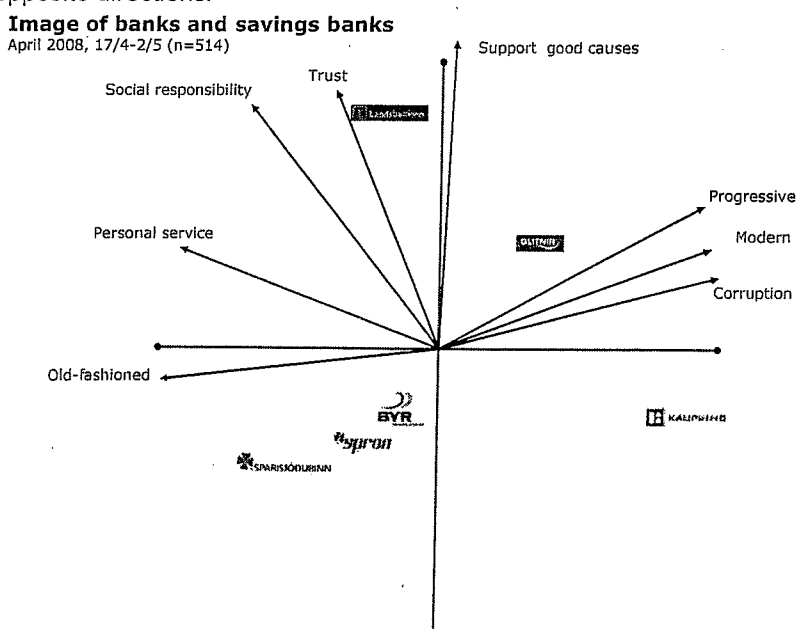


FIGURE 2: THE IMAGE OF THE RETAIL BANKS IN APRIL 2008

As can be seen in Figure 2 the savings & loans; Sparisjóðurinn, Spron and Byr, are all grouped together in the SW part of the map. Sparisjóðurinn is farthest from the center but Byr is closest to it. This indicates that the position of Sparisjóðurinn is more distinct in the participants' minds than the position of Byr. The savings&loans are most closely connected to the attribute, "Old-fashioned", but least connected to the attributes "Progressive", "Modern", and "Corruption". Kaupthing is located in the SE part of the map. Judging from its distance from the center and from other banks its position in the minds of the participants seems relatively distinct and clear. This is the bank most closely connected to the attribute „Corruption“, but it is also connected to the attributes „Modern“, and „Progressive“. Kaupthing is neither perceived to offer „Personal service“, nor show „Social responsibility“. Glitnir is located in the NE part of the map. Its position close to the center indicates that its positioning is not very decisive. It is most closely connected to the attribute "Progressive" but also connected to attributes such as "Modern", "Corruption" and "Supports good causes." The position of Landsbankinn seems to be both strong and distinct. The bank is situated in the NW part of the map and is far from its center. That indicates that the participants in the survey have a clear image of the bank. Landsbankinn is the bank most closely connected to the attributes "Trust", "Supports good causes", and is "Socially responsible". It has a very positive image since the attributes it is strongly connected to are in themselves positive. The conclusion therefore is that in April 2008 the corporate brand Landsbankinn had a strong, positive and unique image in Iceland.

In Figure 3 the positioning map for the April 2009 survey is shown. The representation indicates that the findings are robust since the attributes „Old-fashioned“ and „Modern“ have opposite directions.

Image of banks and savings banks

April 2009 7/4-17/4 (n=566)

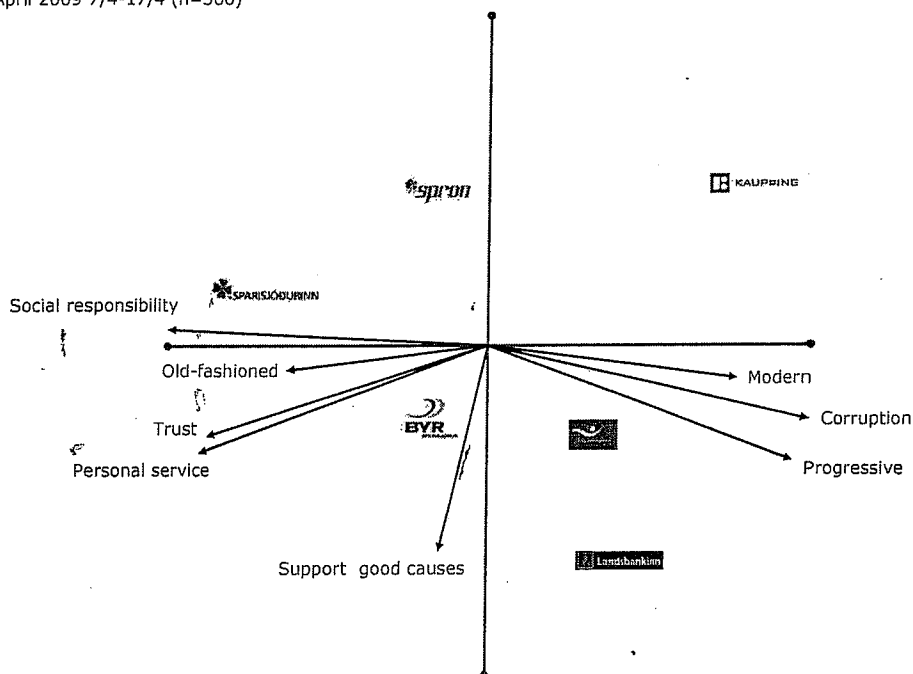


FIGURE 3: THE IMAGE OF THE RETAIL BANKS IN APRIL 2009

The savings&loans differentiate themselves from each other just like in the earlier survey but even more decisively. Sparisjóðurinn is closely connected to the attribute "Social responsibility", but is considered "Old-fashioned". Spron has moved somewhat away from the positive attributes "Social responsibility", "Trust" and "Personal service" which indicates that its image has gotten weaker. Byr is located close to the center of the map which indicates that it has an unclear position in the participants' minds. Still it is in the positive part of the map and is connected to the attributes "Trust", "Personal service", "Social responsibility" and "Supports good causes" but is considered "Old-fashioned." Kaupthing is located in the NE part of the map and is strongly connected to the opposite attributes of "Trust", and "Personal service".

The bank is located on the "Corruption", part of the map and is not considered likely to "Support good causes". Still Kaupthing is perceived to be "Modern", and "Progressive". Islandsbanki, which changed its name from Glitnir after the survey was done in April 2008, is located close to the center of the map like before, which indicates that the participants have an unclear image of the bank. It is most connected to the attributes "Progressive", "Corruption" and "Modern" and least to the attributes "Trust", "Personal service" and "Social responsibility". The position of Islandsbanki is therefore much the same as the position of Glitnir was before. Landsbankinn is situated in the SE part of the map. It is closely connected to the attribute "Supports good causes" but has moved away from the positive attributes it was closely connected to before, i.e. "Trust", "Social responsibility" and "Personal service" towards the attributes, "Progressive", "Corruption" and "Modern."

5. DISCUSSION

The effect of the banking crisis on the image of the banking sector has been profound. The positive attributes which were previously connected to the retail banks get a much lower average score now. The attributes „Trust“, and „Social responsibility“ are especially hard hit. The attribute „Corruption“, gets a much higher average score on the other hand.

The results indicate that the image of Landsbankinn has been the most affected. Consumers, who previously had the perception that the bank was trustworthy and showed social responsibility, now seems to be most strongly associated with corruption. The findings also indicate that consumers connect Kaupthing less to corruption than before the banking crisis. It is more likely though that the reason is not that consumers think Kaupthing is less corrupt than before but that the explanation has more to do with the perceptual mapping methodology used were a change in Landsbankinn's position can have an effect on Kaupthings relative position.

Islandsbanki (formerly Glitnir) has almost the same relative position it had before the banking crisis. The same can be said of the position of the savings&loans except that their differentiation is a bit clearer than before because they are farther from the center of the perceptual map. The brand Sparisjodurinn now seems to have the same enviable position that Landsbankinn had before the crisis. The findings suggest that the image problem following the banking crisis in Iceland is to a large extent an (absolute) image problem for the banking sector as a whole but to a smaller extent a (relative) image problem for the individual banks. Even though the banking sector has taken a beating the banks are still differentiated, in much the same way as before, in the minds of their customers.

The research reported here only focuses on one of the issues connected to the banking crisis, i.e. the image of the banking sector and individual banks. In the same surveys data on customer loyalty was also gathered. How customer loyalty was affected as a result of the change in the banks' image is a topic for a different paper.

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