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Is branding creating shareholder wealth for banks?

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Abstract

Purpose – The purpose of this article is to analyse, from a shareholder perspective, the link between branding and financial performance. The paper focuses, in the European context, on situations in which shareholder wealth is created or destroyed, and this is measured by using return on assets or market-to-book value as a performance benchmark.

Design/methodology/approach – The investigation is designed as a quantitative study and is based on responses obtained from 847 listed banks including 480 located in Europe. There is an analysis of the correlation between branding and shareholder value, by means of regression analysis. Deductions are made for key variables including capital structure, ownership and capital market ratios.

Findings – The regression analysis indicates that there are different strategic branding phases and there is correlation between branding and shareholder value. Each phase has its own strategic implications for shareholders, with value either being created or destroyed.

Research limitations/implications – The data deal with secondary accounting information submitted in annual reports and are based primarily on European or US-based banks, which mean that the conclusions and generalizations cannot necessarily be applied to other industries, products or on a global scale.

Originality/value – This is the most comprehensive quantitative study so far conducted in the field of branding and shareholder value in the banking sector, thus providing unique insight into the strategic branding phases with which banks have to contend. Academics and practitioners, including board members, are offered guidance and a conceptual framework for assessing whether branding activities are generating satisfactory financial results for their investors. Furthermore, it also documents that banks with the right balance between branding and overall operating expenditures can achieve a significantly higher return on assets, which can be a decisive factor in achieving a competitive edge in a crowded and competitive market place.

Keywords Brands, Economic sectors, Shareholder value analysis, Brand equity, Financial performance, Europe

Paper type Research paper

Introduction

Are bankers such skilled investors as they claim to be when dealing with their most important asset, their own brand? As an investment topic, branding and in particular brand equity, has received increasing general interest (Christodoulides *et al.*, 2006; Kumar and Blomqvist, 2004), but has historically played a less critical role in the banking world compared to other industries. Academics and practitioners have therefore been struggling to justify financial expenditures on branding, and to find any

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real economic validation for the increasingly significant expenditures reported by international banks. More importantly, seen from a shareholder perspective, an appropriate balance between branding expenditures and financial return has not yet been established. Admittedly, 76 per cent of mergers and acquisitions transactions in Europe are on a national level (Dermine, 2002), but increasing cross-border consolidation is forcing banks to assess whether to continue operating with several national brands or consolidate them into one regional or international brand, for which some compelling strategic cost advantages can be achieved. Similarly, national banks and local brands are increasingly coming under pressure from global financial brands such as Citibank, UBS, and HSBC. Some academics (Park, 1999; Quelch, 2003,) have presented the argumentation that global brands matter more now than in the past since they do provide economies of scale in advertising costs, lower administration complexity in managing a single global brand and more the headquarter can execute more power. This argumentation is, however, disputed by some older academic studies (Douglas and Wind, 1987; Levitt, 1983), who argue that, in the financial sector, consumers place greater trust in their local brands, due to closeness to the branch and familiarity with the staff.

Nevertheless, there is no doubt that the exceptional global financial turbulence experienced during 2008 has dramatically amplified the need for banking customers to have a trustworthy bank brand in which they can have faith. The consequence is that they will be significantly more discriminating in their future brand bank selection in order to obtain financial protection against bank defaults. This process may indirectly be leading to higher brand switching and further escalation of future branding expenditures in the financial sector. The debate is becoming fundamental, as indicated by this sample of almost 900 international banks and other banking studies (Nellis *et al.*, 2000). These show that the average international banking corporation has increased its branding expenditure significantly, up to 40 per cent over the last decade, and presently devotes on average approximately 3 per cent of its turnover to branding (source: Thomson Financial). This raises the obvious issue of whether, from a shareholder perspective, these significant expenditures generate any measurable financial impact and have the pivotal strategic role originally intended. In global terms, none of the players in the banking industry has a significant technological edge, since hardware and software platforms have generally been acquired from external vendors or outsourced (Moutinho *et al.* 1997; Quelch, 2003; Wright, 2002). Furthermore, consumers have experienced a move towards product convergence, as a result of which genuine product differentiation is declining and many new products, including financial services or innovations, may be copied within less than a year (Cohen *et al.*, 1996; Griffin, 2003). This is a particularly important challenge in the context of banking, in which quality standards and overhead costs are converging, due to similar business models, product offerings and IT solutions (Durkin and Howcroft, 2003). On top of this development, successful start-ups in the area of retail and investment banking have proven that a strong national retail branch work no longer constitutes an impervious barrier to entry for aggressive newcomers. Accordingly, branding might be one of the last remaining resources (Harris, 2002, Saunders and Watters, 1993) by which financial institutions can achieve a sustainable competitive advantage and a critical success factor. Nevertheless, the “twilight zone” between branding and technology is a potential minefield, since the offline world does not represent a guarantee of success in the Internet world (Bauer, 2000), but it remains an attractive

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low-cost mass sales and marketing channel. *De facto*, as a strategic tool, branding remains one of the last resorts, by means of which a bank can establish a unique competitive edge, since branding assists in building trust and minimizing perceived transaction risk between a consumer and a bank in an increasingly depersonalized world (Harris, 2002). Particularly investors in European banks should establish whether there is, in fact, an advantageous branding strategy in place. Over the last decade, the European market for financial services has been radically transformed, due to the emergence of new distribution channels, the impact of deregulation driven by the European Commission, intensified competition and increasing cross-border mergers & acquisitions (Lambkin and Muzellec, 2008; Schildbach, 2008).

Retail banking entails the marketing of intangible services rather than a physical product (Wright, 2002). Such acknowledgment can also have a decisive impact, since marketing activities were found to have the most significant impact in a study of 98 banks (Powers and Hahn, 2002) and their competitive methods. In the retail financial sector, branding also constitutes an inherent challenge, if a strategy of organic growth is pursued, since banking customers are remarkably loyal which increases the risk of having a market share inertia (Baumann *et al.* 2004; Wieringa and Verhoef, 2007). For example, in Denmark and other Nordic countries, less than 3 per cent of all consumers switch banks annually (source Danske Bank). During the 1990s, the strategic focus of many major European banks was on achieving a critical size, reducing unit costs by streamlining branch networks and back-office functions, and building a sustainable universal banking model. At the same time, senior banking executives began to focus increasingly on more structured approaches to branding. Part of the reason is that local and national banks have enjoyed a high degree of protection from foreign competitors, and thus had little incentive to become more efficient.

The deregulation of the industry in the 1990s, combined with the emergence of a European banking market over the last decade, has served to accelerate the need to focus on new strategic initiatives and rapid industry consolidation (Schildbach, 2008; Batiz-Lazo and Wood, 2003; Dermine, 2002). In parallel, the introduction of the European Market Program in Financial Services by the European Union and the successful launch of the Euro in 1999 have released new competitive forces, which have triggered a large scale consolidation process in which branding also plays a new and decisive role (Deutsche Bank Research). The above mentioned development has many similarities to what the USA banking industry went through in the 1980s and 1990s (Strahan, 2003). Nonetheless, the industry remains highly fragmented, despite a rapid consolidation processes in which the number of banks decreased by 28 per cent from 1997 down to 6,926 in 2006 (ECB, www.EuropeBanks.info) within 15 different nations. The new EU countries that joined in May 2004 are not included in this study. Clearly, the prevailing market conditions, even in an environment of economic turbulence and recession, offer the most powerful European bank brands exceptional growth potential, if their brand strategies are executed effectively.

Hence, we are, in many ways, on the brink of a new age in banking consumerism and led to the standardisation of many products. Not only will the international, but in particular the European banking industry, be faced with a number of competitive pressures, which will lead to a fundamental transformation in the overall industry (Nellis *et al.*, 2000). Branding therefore remains one of the few areas in which a bank *can* gain a competitive edge, and maintain a trustworthy relationship with its

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customer-base. This is of particular importance, since, for most consumers, money and particularly banking services, remain a high involvement and emotional product (Howcroft and Hewer, 2003) which cannot be catered for effectively through technology alone. Multiple distribution-channel banks with a strong virtual platform, which is combined with strong brand recognition, have performed significantly better than virtual bank retailers (Bauer, 2000). Strong local brands constitute a true barrier to entry when the international challenger has only one viable choice – to acquire it. But, can a local bank with a weak brand compete against powerful national or international brands? Should the bank become a branded house or a house of brands? Traditionally, for weaker players in the marketplace, a means of overcoming the branding dilemma has been to enter into co-branding agreements and arrangements, but it is not clear that this creates long-term value (Bliss, 1996). Simultaneously, larger banks have frequently been tempted to "line-extend" their brands into new business segments (as seen with UK and Nordic banks in the late 1990s). However, the results have also failed to live up to expectations (Harris, 2002).

Deregulation and the entry and emergence of international players such as UBS, Citibank, HSBC and ING have gradually changed industry behaviour. A process of consolidation is now taking place among the European players, particularly in Central Europe, the UK and the Nordic countries. Yet, the process is slow and the development of super-regional markets, especially in retail banking, depends significantly on cultural affinities (Nellis *et al.*, 2000). Even now, 29 of the top global banking players are European (The Banker, 2004) and several European banks have aspirations to become major global players. Each merger or acquisition requires a deliberate decision on brand selection and subsequently requires rebranding at a later stage, which would involve a considerable reputation-risk element (Lambkin and Muzellec, 2008). As an example, Nordea, which forms part of this study, is the industry leader in the Nordic countries, and a prime example of this "revolution". It is the result of a merger between Finnish, Swedish and Danish banks. In the past, these banks operated under such names as Unibank, Handelsbanken, and Merimetsa. In 2001, they decided to merge and operate under one new pan-European brand, Nordea. While in the short term, the process was a painful and costly one for all shareholders, it nonetheless provided a branding platform for future growth and economic scalability. Subsequently, it has been very efficient to use this branding platform in its expansion into new markets such as Switzerland, the Baltic States, Poland, and lately Russia (Ogresbank).

Hence, how should one, not only at Nordea, but from a general conceptual and strategic perspective be approaching the area of branding and shareholder performance? The sections below provide a detailed review of the conceptual cornerstones of defining and measuring branding and performance from a shareholder perspective, including a review of various contemporary branding studies. Subsequently, the research methodology, data and hypothesis are presented in sections. In the concluding section, key findings and limitations related to the link between financial performance and branding are summarized, as well as the implications of this research for both scholars and practitioners.

The concept of bank branding

Academic research linking financial performance and branding, both within and beyond the financial sector; has been rather limited (Kerin and Sethuraman, 1998).

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Furthermore, another prevailing challenge is that retail and investment banking entails the marketing of intangible services; rather than a physical product. Wright (2002) found that in the context of the expansion of the Dutch Postbank into France, Spain and Italy, brand recognition is necessary to compensate for a lack of physical presence. Such recognition can also have a decisive impact when consumers select a future retail bank: "marketing activities were found to have the most significant impact looking at such aspects as sales, IT, marketing, product offerings etc." (Powers and Hahn, 2002). In the retail financial sector, branding also entails an inherent challenge, since banking customers are not particularly price sensitive and consumer trial rates between various banks are exceptionally low (Baumann *et al.*, 2004). Yet, academics and practitioners alike are still struggling with the fundamental questions. Are we spending too much or too little on branding and what would constitute a relevant financial benchmark? This fundamental challenge is not only critical from a branding perspective, but also for the evolution of future business development and acquisition strategies. Retail clients are, to an increasing extent, interacting with web sites or software programs that are tailor-made to a specific customer need. Hence, at present, the level of brand awareness created by internet promotions frequently exceeds that from traditional mass media (Motameni and Shahrokhi, 1998). The foremost question is of course how branding can be defined and measured in a systematic manner.

Branding is a popular concept, and one which is generally and frequently used without any clear definition across all industry sectors, the banking industry being no exception. The literature offers numerous definitions of branding and brand equity (Keller, 1993, Aaker, 1991, etc.). This paper uses the following definition:

> brand equity represents the financial resources including general, direct and indirect marketing expenditures allocated to ensure the appropriateness of all aspects of the bank's combined efforts in representing and distributing its services to its constituency.

This definition takes account of all the input components in the branding process including, all marketing expenditures and, once comprehensively implemented; it can be measured as brand equity. This issue of definition is vital, since in the area of brand equity, the academic world has so far remained divided between two conceptual schools of thought:

(1) the brand perception school, based on consumer preferences (for example Cobb-Walgren *et al.*, 1995; Farquhar, 1994); and

(2) the economic school, based on objective financial and market share based criteria (e.g., Buzzell and Gale, 1987). By applying the approach of the latter school in this research paper as an academic anchor point, it is possible to address managerial concerns not yet revealed.

The fundamental issue is why banks fail to devote more resources to determining the actual value of their brand's equity and the impact on other financial results. It is a significant question, not only from a financial perspective, but also for the development of new branding strategies, co-branding initiatives and potential line extensions. This issue attracted some academic research interest in the mid 1980s, when the PIMS School focused extensively on the link between financial performance and business strategies in different industries, and touched peripherally on the financial sector. In addition, Doyle (1990) and Ohnemus and Jenster (2007) established that a unique brand

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position converts into significant and measurable financial results, with the leading brand yielding greater profitability.What is, therefore, an appropriate hypothesis with respect to branding and financial performance? The original hypothesis of this research is that there could be a relationship between branding and financial performance in the banking sector as well, and that it could take the form of an inverse U-curve. This assumption is based on the notion that there would be an optimum level of branding expenditures or activities for each financial institution, compared to its competitors at any one point in time. If this optimum level were exceeded at any given point in time, the bank would be faced with diminishing returns and experience a destruction of shareholder value. Based on the findings of Kerin and Sethuraman (1998), which demonstrated that "the functional form of the relationship is found to be concave with decreasing returns to scale", this starting point for a hypothesis was of particular interest. Over time, however, it became apparent that the initial hypothesis is too restrictive and would need to be modified. The final version became; banking executives working with a particular brand should, therefore, be able to establish an industry-determined ratio against which their bank can be benchmarked, in order to determine whether they are over or under investing in a brand compared to key competitors. If all other key variables are isolated and eliminated, the bank with the greatest and most consistent branding intensity would enjoy superior shareholder return over a given time period.

Branding intensity, method and research model

Branding intensity (or brand thrust) is defined as the total financial resources a company allocates to develop, build and maintain the values of its brand(s). It is including marketing activities and other features linked with its products or services and its combined efforts in representing and distributing its bundle of goods and services, over a defined period of time to its constituency. More specifically, the model is consisting of three elements as a proxy for branding intensity:

(1) *Client system.* This includes all direct marketing and advertising expenditures, postage and freight, public relations, and communication activities.

(2) *Overheads.* This includes not only the central marketing and sales staff, but also costs at affiliates.

(3) *Distribution element.* This encompasses all expenditures related to bringing the services to the bank customer.

Subsequently, actual branding intensity can be expressed in percentage of sales during a defined time period for a piecewise interval. By introducing a resource based view on branding and by applying the brand intensity concept one can measure the economic importance of branding. Access to relevant industry information and knowledge is a challenge but also prerequisite in order to develop an appropriate Ordinary Least Square (OLS) regression model.

How do shareholders or researchers overcome this lack of knowledge and test a particular relationship or hypothesis if they wish to establish the linkage between branding and financial performance? The way chosen for this research has been to develop a specific company or industry model to measure and benchmark branding expenditures and financial performance against key competitors. A special regression

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model is proposed consisting of 14 different variables, with financial performance expressed as follows;

Financial performance = f *(branding variables, other firm related and industry variables)*

Financial performance is measured as return on assets. As previously described, for the purposes of this study, branding is defined as all marketing expenditures, including sales-related general and administrative costs, distribution costs, together with direct and indirect marketing expenditures. Other firm-related variables measure such elements as firm size, market capitalization, investment intensity, ownership structure and stock market beta. Furthermore, other variables are also included, that is, measures of ownership, global market share, diversification, industry classification and capital structure by long-term debt to total assets. These variables have been used in other studies (Ohnemus and Jenster, 2007; Mathiesen, 2002) and delivered valid and satisfactory results.

Research methodology

The study was based on empirical research work conducted during 2003-2007, covering a range of key industries including the banking sector. The data was collected as a part of a general study assessing the link between branding and financial performance, viewed from a shareholder perspective. It was conducted with the help of Henrik Mathiesen, an expert on the collection of large-scale numbers and statistical analysis. The study was made possible through a generous research grant from Kunde & Co., a leading Northern European brand-consulting firm. The databases of Thomson Financial and Extel were used for the project including stock market development and financial information for branding intensity. For the first part of the work, a sample of more than 6,000 firms was selected. Subsequently, a separate sample consisting of 847 listed banks (460 being European and the rest primarily located in the USA) was selected and analysed. Statistical approximations were used for those banks that had not reported on their branding expenditures, either for the entire period or part thereof. Only listed banks were included in the study, since they are subject to stricter disclosure rules, reporting requirements, and generally provide more financial information about their branding activities than unlisted banks. Furthermore, it is estimated based on information from European Central Bank (ECB) that they cover more than 60 per cent of all assets in the European financial sector. The fundamental question in this context is whether there could be a direct correlation between the overall branding intensity developed by a particular bank and its ultimate financial performance. The purpose of this present research is, however, not to consider short-term fluctuations and campaigns, but to take a medium-term strategic view of branding. In this particular case, medium term refers to a one to three-year period. Short-term branding expenditures have a limited impact, are of a more tactical nature than strategic and would not provide shareholders with any particular insight into what would constitute the optimal long-term branding equilibrium. The study includes 847 banks, and the average bank has €2 billion of assets, devote 2.8 per cent of their turnover to branding and most of them are still biased towards domestic activities. The results of the regression analysis are shown in Table I – where the reported values are parameter estimates and all numbers in parentheses are the associated *t*-values.

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Table I.

Explanatory variables	Market to book Non-financial firms		Return on assets Non-financial firms		Market to book Financial firms only		Return on assets Financial firms only	
Advertising expend (0-2%)	−0.12585	(−5.17)	−6.59845	(−13.83)	−0.40611	(−5.84)	−1.51309	(−1.53)
Advertising expend (2-5%)	0.035091	(2.5)	0.928633	(3.36)	0.212236	(3.82)	4.644451	(5.76)
Advertising expend (5-10%)	0.09565	(10.16)	0.53721	(2.91)	−0.1402	(−3.43)	−3.20511	(−5.33)
Advertising expend (10-20%)	−0.06844	(−8.61)	−1.96788	(−12.55)	0.045381	(0.97)	0.313226	(0.47)
Advertising expend (10-95%)	0.015365	(3.37)	0.26619	(2.84)	−0.08353	(−1.01)	−0.90536	(−0.77)
Advertising dummy for substituted values	−0.18396	(−3.48)	−5.78079	(−5.52)	−0.12359	(−1.25)	0.463661	(0.32)
Approximated market share	−0.02573	(−24.45)	−0.07136	(−3.47)	−0.02595	(−7.55)	−0.15147	(−3.11)
Long-term debt to assets	−0.02073	(−18.5)	−0.16423	(−7.48)	0.030963	(9.59)	0.024832	(0.54)
Long-term debt to assets	0.000339	(18.05)	0.002167	(5.85)	−0.00022	(−4.3)	0.000301	(0.41)
LN of market capitalization	0.228546	(42.54)	0.672576	(6.45)	0.121864	(9.02)	−0.37571	(−2.03)
Stock market beta	0.124781	(11.06)	−2.15288	(−9.84)	0.087499	(2.77)	2.030259	(4.52)
Capital expenditure	0.007088	(17.34)	0.067002	(8.55)	−0.00043	(−1.00)	0.002395	(0.37)
Operating income to sales	0.006678	(16.97)	0.435133	(51.99)	0.005146	(4.91)	0.141798	(9.44)
R&D costs to sales	0.013997	(9.98)	−0.17573	(−6.39)	−0.00427	(−0.03)	−1.41725	(−0.61)
Advertising to total branding	−0.00235	(−2.46)	0.001472	(0.08)	−0.00203	(−1.42)	0.001309	(0.06)
Dummy for substituted branding values	0.137406	(−2.78)	1.017267		−0.18698	(−1.89)	0.131025	(0.09)
Number of firms, observations	6393		6072		847		816	
Number of employees (mill.)	57.56.		57.33.		3,515		3.59	
Adj. R^2	0.77974		0.60497		0.84005		0.60028	

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The results of the entire sample are included as a reference in columns 1 and 2 in order to provide a benchmark for the financial samples.

Selection of approximations, statistical methods and results

Based on previous research experience in this field, four different statistical methods were applied. These were numeric, numeric-weighted but not substituted numeric non-weighted but substituted, numeric-weighted and substituted. All were applied to each hypothesis. A set of mathematical deductions was made for a range of key variables, including ownership structure, capital expenditure, debt structure, and other industry variables. The model was also adapted to reflect such elements as advertising intensity and stock market beta. The research work provided the opportunity to test the incremental return obtained from increasing branding expenditures and to verify whether the law of incremental returns also applies to branding. For the purpose of this research, financial performance was measured by return on assets or market to book value, since other benchmarks, such as return on equity, would yield a distorted picture. The initial research demonstrated that corporations active in the financial sector achieve the highest return on assets when they invest in the 2 to 5 per cent range of their turnover in branding. Branding expenditures in the 0 to 2 per cent, 5 to 10 per cent or ≥30 per cent ranges lead to deteriorating shareholder performance. Banks spending 10 to 20 per cent yielded somewhere between a positive and a non-conclusive correlation. An interesting aspect is that financial institutions with an appropriate strategic branding level, should achieve a return of up to 3 per cent more than other companies in the same interval. As a first step, a comparison between branding expenditures and market to book value (used as a financial benchmark for shareholder performance) and the result yielded an exceptionally high 0.84. Subsequently, a separate test was conducted, using return on assets as a benchmark, which yielded a result of 0.6.

Plotting current branding expenditures against return on assets showed that 83 per cent of financial institutions devote 10 per cent or less of their overheads to branding-related activities. Initially, it was not obvious that it was necessary to establish a clear pattern from each valid observation. After considerable reflection and linking the observations to research conducted in other industries, the results were deemed to indicate that a special curve could be plotted with different and unique strategic phases. This regression analysis indicates that there are five unique branding phases which take the form of a simplified "W curve" as show and described below (see Figure 1).

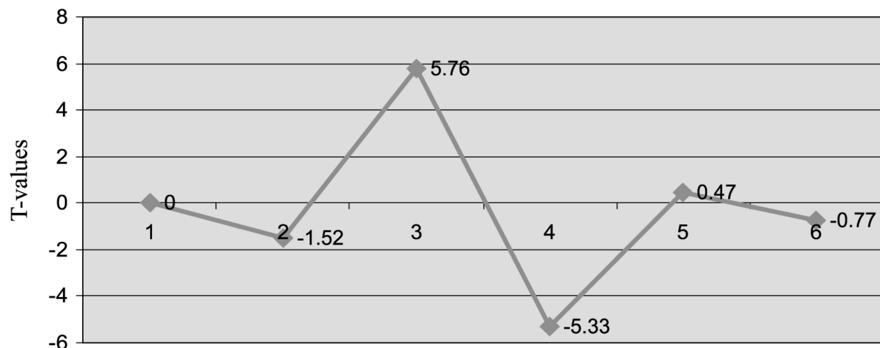

Figure 1.
W curve – the relationship between branding and financial performance (return on assets)

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The *t*-values are measured during five different piecewise intervals/phases which are described in the subsequent sections. How can these findings be explained, placed into an appropriate context and be linked to the strategic situation of a given bank or financial institution? The conditions and interpretation for each phase and their impact on shareholder value can be explained as follows:

(1) *Aspiration (0-2 per cent).* This group frequently consists of many smaller regional or national banks that neither achieve scale economies nor real shareholder value from their branding activities. Typically, each bank is rather narrow and restrictive in its branding activities and has, in most cases, only a limited number of customers compared to the larger players and limited branch network and business activities to which these costs can be allocated. Relative branding costs are high, and this is compounded by the fact that no real scalability for their branding expenditures can be achieved. The bank achieves a below-average return on its branding activities, since they are used ineffectively and have only a limited impact. This finding has been covered only peripherally in the literature, although several researchers (for example, Buzzell and Gale, 1987) have made similar observations and concluded that smaller or state-owned regional banks are not as effective in their branding activities as larger banks or financial institutions. In addition, their brands have limited attractiveness outside their regional coverage and restricted target group. Furthermore, there is in Europe a long tradition, especially among farmers, trade associations, particular geographical regions and unions to establish, manage, and control their own mutual savings institutions where many of them today are listed. These structures can be observed in Switzerland (Raiffeisen), Germany (Sparkasse), Austria, Spain (Cajas), and also in some of the Nordic countries. As with state-owned banks and savings institutions, branding has in the past played a minor role in the overall strategic direction and they are generally faced with precisely the same business challenges as the state-owned financial institutions. For various historical reasons, a large proportion of the European banking industry is directly or indirectly controlled either by a national government, regional authorities or other political players. This group also includes many postal and savings banks. Beginning in the early 1990s, many of these banks in the Northern European countries were privatised and have subsequently been acquired (Girobanken, BG banken, etc.) by some of their key competitors. The remaining state-owned banks are faced with a strategic dilemma: "Deregulation and privatisation increasingly induces competitive pressure on costs and margins, plus, in many cases, they (banks) are struggling to gain a critical size in an ever changing competitive landscape" (Gardener *et al.*, 1997). Historically, they have only focused on branding to a limited degree and their brands have generally been weak from seen from a shareholder perspective. This study confirmed this perception and that their shareholders frequently would benefit from a strategic branding shift.

(2) *Brand Focus (2 to 5 per cent).* Banks in this group have a dedicated and focused brand strategy, with, on average, 2 to 5 per cent of their turnover invested in branding. The typical bank in the Brand Focus group has a well-defined brand strategy and has a larger national or pan regional strong branch network. The bank puts substantial management resources behind these new activities.

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Additionally, it has a well-defined brand which is applied to a particular customer segment. The bank pursues a strategy of striving towards either national or regional dominance. Ownership is also different for this group, since it consists mainly of larger listed banks, and there is either no or limited state control. The result is a dramatic increase in financial performance seen from a shareholder perspective and their investments in branding are justified and provide on average a satisfactory return to the shareholders. Two examples in this group are SEB and Nordea. Also local private banks or niche players still play an important role and can, if well managed, achieve a cutting edge position within a given business segment. They often pursue a strategy of focusing on a particular geographical area or providing financial products to a particular consumer segment. Their branding activities may be significant and have, in many cases, been built up into strong premium brands.

(3) *Stuck in the Middle (5 to 10 per cent)*. banks in this range are "stuck in the middle", due to their market position. Their home market provides only limited growth opportunities, since further acquisitions in the domestic market would not be permitted by the local or European competition authorities. Furthermore, organic growth is costly and time consuming. In an attempt to accelerate growth, the bank spreads out and "attack" many new markets or segments. The ultimate result is that branding expenditures exceed 10 per cent of turnover. The high investment, combined with the weak strategic situation, leads to deteriorating financial performance. In terms of market capitalization, Danske Bank is the second largest group in the Nordic countries. Over the last decade, it has systematically acquired banks in Sweden, Norway, Poland, and Ireland. The Danske Bank is pursuing almost the opposite branding strategy to that of Nordea. It uses different local and national brands (BG, Foreningssparbank, Realkredit Danmark, etc.) to build up a strong local market presence. This has also been applied by another company in the sample group, NatWest, which has subsequently been acquired by the Royal Bank of Scotland. While there might be tactical reasons for this branding approach, it is not the most beneficial strategy from a shareholder perspective, since the bank might end up stuck in the middle or over-branding in order to match its competitors.

(4) *Brand "Heaven" (10 to 20 per cent)*. As the bank reaches an optimal scale with its branding activities in the different markets or segments, it gains international synergy through its branding activities, achieves a stronger strategic position and returns again increase. In this particular segment, it gains a competitive edge which translates into a premium position which provides shareholders with an above market return. Well-known and successful European examples are UBS and ING (admittedly these results were collected before the sub-prime crisis and subsequent impact on share prices). This group consists of large, privately held or listed banks, many of which clearly have pan-European or truly international ambitions (UBS, HSBC, ING, etc.). Through a combination of organic growth and mergers, this group has expanded from a leading position in their respective national market, to expansion into neighbouring markets. Barriers are becoming lower, markets are converging and competition is intensifying, with the result that the banks focus increasingly on branding (Harris, 2002) in order to build a unique platform in

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a crowded market. As a general rule, they apply increasingly similar branding strategies and techniques to those used by consumer-goods companies in their rapidly evolving markets. UBS has pursued a challenging strategy of building its name into a truly global brand. It is a balancing act, in which the traditional Swiss value has had to be redefined, partly to ensure that it appeals not only to a European, but also to a global clientele.

(5) *Over-Branding (20 per cent).* The group in this investigation is rather small, with less than 20 observations, but it appears that banks in this group have a strategic imbalance (such as excessive and inappropriate global ambitions, investing disproportionally in new business ventures including internet platforms or new niche activities) which again leads to higher expenditures and a decline in financial performance. Alternatively, the bank has achieved a given size by international standards, and starts expanding into different new activities or it vigorously defends a strong niche position, thereby incurring additional costs and ultimately jeopardising its financial performance. These views are more of descriptive nature than based on statistically evidence or exclamation since the sample size of Over-Branding is too small for making any conclusive valid findings.

It is important to note that the branding position of a banking corporation is by no means static over time. Some banks maintained their status quo over time, but there also samples in the research database of banks which moved downwards or upwards. Hence, it is essential that branding be analysed within a dynamic perspective, and that academics and practitioners have a performance and time-driven reference model for branding. Banks have established either formal or informal norms for marketing expenditures, expressed, for example, as a percentage of turnover, of assets under management, of overhead expenses or measured as actual cost per client. Industry impact, timing and competitive forces are all elements that would require considerable future research in order to establish a clearer causation pattern. Historically, many companies tend to cut back on marketing expenditures during recessionary periods (as observed by Keller, 1993). Furthermore, one could also argue that, possibly among banks, there could be a reverse causation pattern. In theory, strong economic results make it easier for managers to justify significant branding increases.

Implications

This study has demonstrated that branding can play a decisive role in either creating or destroying shareholder wealth in the financial sector and that *economic equilibrium does exist* at a given point in time. If a bank operates beyond the economic equilibrium, shareholder value will be destroyed, gradually undermining the strategic position and eventually creating potential for a hostile takeover. The concept of the simplified W curve provides important guidance on how strategic branding initiatives should be applied in a world in which different financial products and services are largely standardised and there has been a rapid convergence of offerings within the banking industry. As a general rule, a bank should endorse a monolithic brand strategy, which is particularly important in the prevailing environment in which mortgage institutions operate increasingly as banks, banks provide insurance and mortgage products, and insurance companies provide private banking and wealth-management services. In a

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balanced and targeted form, branding can lower the cost of opening new distribution channels and provide customers efficiently with new financial products or services. The downside of focusing on branding is that customer loyalty might decline, if banks move from a personal relationship to a technology-driven customer model. This is critical, since there is perhaps no other industry, apart from health care, in which trust between the customer and client is a vital as in the banking industry. Trustworthy branding is essential, since it establishes strong emotional links and connotations between the consumer and the financial institution. It also sends a signal about perceived stability, which consumers seek in order to reduce financial risk. Numerous banks went bankrupt at the turn of the twentieth century, during the great depression 30 years later, and again in the mid-1980s. Still today, in the shadow of the sub-prime crisis and North Rock scandal, many consumers either consciously or subconsciously seek protection against a repetition of history, and they do so through a search for brands which are perceived as the strongest. Branding therefore remains one of the few areas in which a bank *can* gain a competitive edge and maintain a trustworthy relationship with its customer-base. In addition, for most consumers, money and particularly banking services remain a high-involvement and emotional product which cannot be catered for effectively through technology alone. Multiple distribution-channel banks with a strong virtual platform, combined with strong brand recognition, have performed significantly better than virtual bank retailers (Bauer, 2000). The present study provides further evidence of this reality.

Hence, the implications of this study is that, in many ways, we are at the brink of a new age in banking consumerism which can translate into superior shareholder return (Schildbach, 2008) if properly managed, and will force many European banks either to redefine or revitalize their branding strategy in the coming years. These observations are in line with other studies which find, for example, that "the European banking industry will be faced with a number of competitive pressures, which will lead to a fundamental transformation in the overall industry" (Nellis *et al.*, 2000). Equally important is the issue of whether one universal brand or several local ones should be applied on a European or global scale. Strong local brands can constitute a true barrier to entry, such that an international challenger has only one viable choice – to acquire a local bank (brand). But, can a local bank with a weak brand ever compete against powerful national or international brands? Traditionally, for weaker players in the marketplace, a means of overcoming the branding dilemma has been to enter into co-branding agreements and arrangements, but it is not clear whether this creates long-term value and this study did not yield any successful examples which might indicate such a development. Simultaneously, larger banks have frequently been tempted to "line-extend" their brands into new business segments outside the banking sector (as seen in the context of the UK and Nordic banks in the late 1990s) and occasionally, the results have also failed to live up to expectations (Harris, 2002) or even proven disastrous.

Presently, none of the abovementioned players commands more than a 5 per cent market share in Europe (Schildbach, 2008), which means that the race for ultimate European market share leadership has only just begun. The consolidation process has also started in Southern Europe, Central Europe, and the UK. Some of the more prominent examples include: Banesto entering the UK banking scene, HVB acquiring a majority share stake in Bank Austria, and Dutch banks (ING, ABN-Amro) "attacking"

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some southern European markets. At this point in time, their future branding strategy has not been expressed explicitly; one could expect it to be as diverse as has been observed among Nordic banks. Yet, the process is slow and the development of super regional brands, especially in retail banking, depends significantly on cultural affinities and strategic persistence (Nellis *et al.* 2000).

Conclusions

As demonstrated and documented in this study, the managers of a particular banking brand should be able to establish a given ratio that can benchmark whether the bank is over or under-investing in a brand, compared to key competitors. Through isolating and eliminating all other key variables, the bank with the highest and most consistent branding intensity would presumably achieve industry dominance over a given time period. One might convincingly argue that, in the banking industry, it is all a question of size and cost control. The present paper has demonstrated that is not the case after all. Banking customers do not select a particular bank or its products due only to size or price, but also according to brand strength and associated brand values. The brand strategy applied by each individual bank is clearly contingent on the current strategic circumstances and future business objectives. Based on an investigation with a sample size of more than 840 banks, this paper has highlighted and confirmed that there is a significant and robust correlation between branding and financial performance in the financial sector. The analysis also reveals that, in the present strategic environment, branding remains one of the few, if not the only way that a bank can establish a truly competitive edge. It is also evident that it is among, if not even the leading asset, that banks have in an increasingly depersonalized internet world and where many customers are deeply concerned about the long term survival perspective of the banks. The results from the study also show that branding and financial performance can be described by analyzing five distinctive strategic branding phases. Another implication of this study is that the strategic branding position of a bank must be analysed and managed dynamically over time, since, from a shareholder perspective, it can lead either to value creation or value destruction. Furthermore, the research also indicates that banks with a balanced branding strategy, which is applied strategically, yields up to 3 per cent greater returns to their shareholders than their competitors. It is therefore becoming increasingly imperative for European banking executives and their boards of directors to undertake a constant and critical review of their branding expenditures and to link them to financial performance, if they wish to be true industry leaders and not to find themselves in the invidious position of potential takeover targets.

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