Editorial

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Biographical notes: Claudia Girardone is a Senior Lecturer of Finance at the University of Essex, UK, where she teaches Modern Banking and Introduction to Finance. Her research focus is on modelling the efficiency of banks and financial management and the strategies of financial services firms. Her most recent works include a textbook entitled *Introduction to Banking* (2006, FT Prentice Hall) and articles on productivity change, the link between stock performance and bank efficiency and competition and market power in European and Latin American banking. She has published in the *Journal of Banking and Finance*, the *Journal of Business Finance and Accounting*, *The Manchester School* and *Applied Financial Economics*, among others. She is an Editorial Board member of the *Journal of Money, Investment and Banking* and the *International Journal of Banking, Accounting and Finance*.

Ana Lozano-Vivas is currently a Professor of Economic Analysis at the Universidad de Málaga, Spain. Her specialty fields are Banking, Production Economics and Efficiency. She was a Visiting Researcher during 1993–1994 at the Florida State University's Finance Department. She has jointly published several chapter books, two Economic Exercise books and over 40 articles in specialised journals, both national (*Revista de Finanzas y Contabilidad*, *Información Comercial Española*, *Papeles de Economía Española*, among others) and international (the *Journal of Money, Credit and Banking*, the *Journal of Banking and Finance*, the *Journal of Productivity Analysis*, *Applied Financial Economics*, the *Journal of Regulatory Economics*, the *Journal of Finance Services Research*, the *Journal of International Accounting, Auditing and Taxation, The Manchester School*, the *International Journal of the Economics of Business*, among others). She is an Associate Editor of the *International Journal of Banking, Accounting and Finance* and the Principal Researcher of several competitive projects (Spanish Ministry of Education and Science, BBVA Foundation), as well as projects for public institutions.

Philip Molyneux is the Head of Bangor Business School and a Professor of Banking and Finance at Bangor University, UK. His main area of research is on the structure and efficiency of banking markets. He has published widely in this area, including recent publications in the *Journal of Banking and Finance*, the *Journal of Money, Credit and Banking*, the *European Economic Review*, *Economica*, *Economics Letters*, the *Journal of International Money and Finance* and *European Financial Management.* He has acted as a Consultant to the New York Federal Reserve Bank, World Bank, European Commission, UK Treasury, Citibank Private Bank, Bermuda Commercial Bank, McKinsey & Co., Credit Suisse and various other international banks and consulting firms. He serves on the Editorial Boards of *European Financial Management* and the *European Journal of Finance* and he is an Associate Editor of the *International Journal of Banking, Accounting and Finance.*

1 Introduction

The global banking system has experienced major developments over the last decade with technological and financial innovations, together with regulatory reforms, transforming the financial landscape. In addition, the recent shock to the system brought-on by the summer 2007 credit crisis reveals that despite the improvements in the operational efficiency and performance of banks in many countries, risk management systems remain sub-optimal and the links between markets and banks are still not fully understood. The ongoing liquidity crisis, particularly in developed banking systems, and the move by many major banks to bolster their weakened capital positions via rights issues and other re-financings, highlights the fragile and leveraged nature of banking business. However, the credit crunch has not impacted on banks in all regions equally. US and Western European banks, the most active operators in the securitised debt markets have been hit the hardest whereas banks in many emerging markets (as in the energy rich Gulf states and the booming economies of Asia) are continuing to post record profits. Sovereign wealth funds from emerging markets are taking stakes in western banks providing a welcome source of fresh capital. In the light of the above, banks (as well as other financial firms) continue to strive to improve their operational performance by developing strategies that seek to boost efficiency (on both the costs and revenues side) that should ultimately feed through into improved profits and stock performance. As such, a major theme running through the articles in this Special Edition relates to the efficiency features of banks and other financial firms.

Fiordelisi empirically investigates the relationship between efficiency and bank shareholder returns in the French, German, Italian and UK banking systems between 1999 and 2002. Using both parametric and non-parametric approaches to estimate bank efficiencies these are then linked to bank shareholder value added. Overall, the main finding is that profit efficiency better explains variations in shareholder value than cost efficiency. Parametric (stochastic frontier) cost efficiency estimates also better explain variations in shareholder value creation than those derived from non-parametric DEA estimates. While cost and profit efficiency are found to be positively related to shareholder value, bank ownership differences across countries are found to be much more important in explaining shareholder value than bank efficiency.

The trend towards banks undertaking more off-balance sheet activity is the focus of the study of Lima and Soares de Pinho. Using a data sample from the Banco de Portugal's proprietary database they find that estimates of bank's cost and profit efficiency are strongly influenced depending on whether off-balance sheet activities are included as banking outputs in the modelling process. In particular, the exclusion of off-balance sheet outputs in frontier specifications leads to a significant overestimation of bank inefficiency scores. The biggest influence is found in the case of profit efficiency estimates and the authors state that any estimation of bank performance features should control for this type of activity.

A major feature of many bank's off-balance sheet activity relates to their role in securitisation activity. Liu and Skully examine the impact of securitisation, as well as structural developments in the Australian mortgage market, on bank pricing behaviour. The Australian mortgage business (like in other countries) has become more competitive over the last decade or so as a result of securitisation as well as new mortgage bank entrants into the market. As a consequence mortgage prices have fallen. The paper presents a model to explain potential factors that may explain changes in bank behaviour in mortgage market pricing. The study finds that lender yield spreads are significantly related to bank market share, existing and new loan concentration indexes, and the securitisation trend. The findings also reveal that reductions in concentration and increased competition have significantly caused lender spread changes. Overall, securitisation has had a positive influence in reducing mortgage prices.

The general move from bank-based to market-based financial systems has been another structural change that has occurred in many economies over the last decade or so. Velentza *et al*. investigate how these different types of financial structures influence the performance of banks with different ownership features (private, savings and cooperative banks). Using a large sample of banks operating in 21 OECD countries between 1998 and 2003 they find that banks' institutional settings and the structure of the financial system in which they operate play an important role in explaining observed differences in the efficiency of banking operations. The study also shows that there is limited evidence to support the view that private commercial banks have cost efficiency and profitability advantages over their mutual cooperative and savings bank counterparts. In market-based systems very large commercial banks tend to be more efficient and profitable than their smaller counterparts – this is probably due to the benefits that large banks accrue from their securitisation, trading and other off-balance sheet activity. Small banks seem to be better performers in bank-based systems. Also the study finds that more market-based financial structures are likely to result in greater cost efficiency.

The final paper by Zen and Baldan uses a non-parametric approach to investigate the efficiency and productivity features of a sample of Italian mutual banks between 2001 and 2005. The study uses a combination of approaches to identify the strategic positioning of the respective mutual banks. Perhaps unsurprisingly, the mutual banks tend to have a strong traditional intermediation focus which is not always reflected in high efficiency and (Luenberger) productivity scores. Overall the mutual banking sector under study appears to pursue rather conservative credit (as well as other) policies which the authors argue may not always be best suited to ensuring competitiveness in the credit market.